



# Alujain Corporation

Saudi Joint Stock Company



## **Board of Directors' Report 2016**

## **BOARD OF DIRECTORS**

**Eng. KHALID A.Y. ZAINAL ALIREZA (CHAIRMAN)**

**Dr. ABDALLAH SADIQ DAHLAN**

**Eng. ABDULLAH M. N. REHAIMI**

**Eng. OMAR HASHIM KHALIFATI**

**Mr. MOHAMMAD ALI AL-NAKI**

**Eng. KHALID IBRAHIM ZAGZOOG**

**Eng. MATOUQ HASSAN JANNAH**

**Mr. ADNAN KAMEL SALAH**

**Mr. ALI ABDULLA KANOO**

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## **BOARD OF DIRECTORS' REPORT FOR THE YEAR 2016**

### **I. EXECUTIVE SUMMARY**

The Board of Directors of Alujain Corporation (Alujain) is pleased to present the Company's annual report, a brief on major developments and achievements during the year and audited consolidated financial statements for the year ended December 31, 2016, with the grace of God and efforts of its employees under the guidance and continued monitoring by the Board of Directors and the Chairman.

Alujain was established in 1991 with a view to adding value to Saudi Arabia's natural hydrocarbon and mineral resources. It is a listed Saudi joint stock company with a paid up capital of 692 MSR (185 mill\$) with its head office at P.O. Box 50575, Jeddah 21533, Saudi Arabia. The company was founded by a group of prominent Saudi and GCC businessmen.

Alujain's main objective is to identify, evaluate, promote, develop and invest/operate major industrial projects in the petrochemicals, mining, metals, energy sectors and other projects, with a commitment to creating shareholder value and utilizing local strengths and talents, also setting the highest standards of national, social and environmental responsibility. Pursuant to these objectives, the Company owns majority equity (57.4%) in National Petrochemical Industrial Company (NATPET) which operates a 400,000 tons per year Propylene & Polypropylene Complex (PP Complex) in Yanbu Industrial City, using Oleflex and Spheripol technologies. Alujain, Xenel and General Organization for Social Insurance (GOSI) are the major shareholders in NATPET.

During 2016, Alujain reported Earnings per Share of SR 1.63 as compared to SR 1.54 during 2015, an increase of 5.8% year on year (YOY) basis. Number of shares outstanding remained 69.2 million during 2016 (69.2 million for 2015). The book value per share increased by 11.34% from SR 14.99 (2015) to SR 16.70 (2016). The net profit was SR112.73 million, as compared to a net profit of SR106.39 million during 2015. The net profit increased during current year mainly due to lower financial charges and lower share of losses from subsidiary's joint ventures, although the gross profit is marginally lower during current period.

The Net Profit of NATPET for the fiscal year 2016 was SR211.05 million, as compared to Net Profit of SR207.99 million during 2015, an increase of 1.47%. This increase in net profit is mainly due to the explanation provided in the above paragraph. The production during 2016 was 372K metric tons of polypropylene which is 93% of design capacity, as compared to 340K metric tons during 2015 which was 85% of the design capacity. The sales during 2016 was SR1,443.44 million (386K metric tons) as compared to sales of SR1,460.50 million (333K metric tons) during 2015. In compliance with the standards issued by the Saudi Organization of Certified Public Accountants (SOCPA), the financial statements of Alujain are consolidated to include NATPET as a subsidiary.

Alujain is a major shareholder in Zain Industries Company Ltd. (Zain). Zain owns and operates its plant in Jubail Industrial City. Zain's main business includes production and marketing of Fast Moving Consumer Goods (FMCG), as well as insecticides, pesticides, fungicides etc. The sales for 2016 was SR30.87 million as compared to SR30.45 million during 2015, with a net profit of SR2.19 million, as compared to a net profit of SR2.05 million during 2015.

### **II. FUTURE PLANS**

- A. Alujain is planning to increase its effective ownership in Zain from 49.38% to 98.75% during 1<sup>st</sup> quarter of 2017. In the event of completing this transaction Alujain will have control over Zain, therefore, will start consolidating Zain's financial results.

- B. NATPET Board recommended to its Shareholders to approve a cash dividend of SR 1.34 per share (13.4% of face value), which amounts to SR 143.2 million. The eligibility for dividends shall be for the shareholders registered in NATPET shareholders' register at end of the day of its general assembly meeting. The dividend distribution date will be announced later. (Alujain owns 57.4% of NATPET).
- C. Natpet Schulman Specialty Plastic Compounds (NSSPC) is a 50:50 joint venture between Natpet and A. Schulman Europe International B.V., an affiliate of A. Schulman, Inc., one of the leading global suppliers of high performance engineering plastics, specialty resins and master batches.

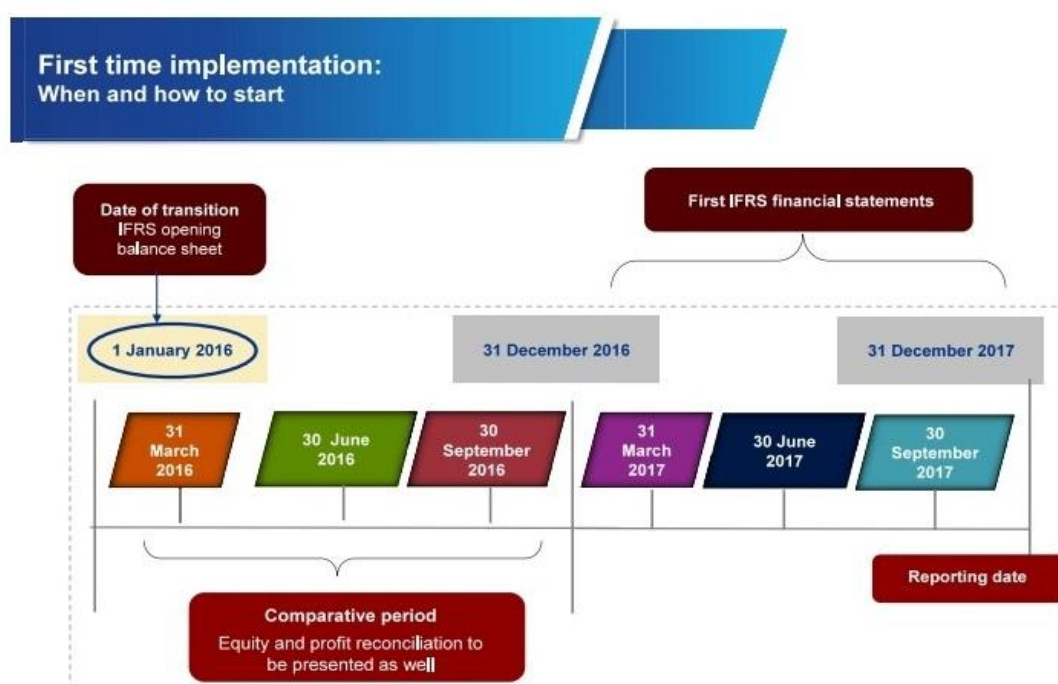
The JV is building a state-of-the-art manufacturing facility in Yanbu to produce customer preferred polypropylene compounds for use in automotive, home appliances, electrical & electronics and construction applications. Building is in the final stage of construction. Equipment shipments have started arriving at plant site in Yanbu. Commercial production is expected on schedule in third quarter of 2017.

The project cost of SAR 272 million is funded by share capital, SIDF loan, and commercial facilities from Samba.

Currently, Alujain does not have any active projects other than those mentioned above and is not planning to restructure or discontinue any of its activities.

### III. CONVERGENCE TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Saudi Organization for Certified Public Accountants (SOCPA) approved an IFRS convergence plan by which all listed entities other than banks and insurance companies would be required to report under International Financial Reporting Standards starting from January 01, 2017. SOCPA intends to modify IFRS as issued by the International Accounting Standards Board (IASB) to make them suitable to Saudi environment. The convergence plan is expected to cover all accounting standards effective December 31, 2017. To comply with this requirement, Alujain hired one of the big four accounting firms to assist in implementation of the IFRS and preparing its financial statements for the years 2017 and 2016. The 2016 financial statements are required to be presented for comparison purposes with 2017 financial statements, starting from 1st quarter 2017. The IFRS implementation plan is shown below:



#### Status update:

During the year ended 31 December 2016, the joint team of Alujain and the external consultant successfully completed the gap and impact assessment phases of the IFRS convergence project. Moreover, the Group has finalized its significant accounting policies under IFRS as well as the financial statement template and expects to successfully meet the statutory deadline for issuance of its first condensed consolidated IFRS financial statements for the quarter ending 31 March 2017.

#### IV. MAJOR EVENTS OF 2016

1. NATPET has distributed to its shareholders a cash dividend of SR0.50 per share (5% of face value), which amounts to SR53.5 million in 2016. Alujain owns 57.4% of NATPET.
2. Bonar-Natpet is a joint venture (JV) between NATPET and Low & Bonar PLC (listed on London Stock Exchange) of the United Kingdom, to produce geotextile products for the fast growing civil engineering infrastructure markets in the Middle East and the Indian subcontinent. The plant has a capacity of 17,300 tons/year of staple fiber and 9,600 tons/year of nonwoven geotextiles. NATPET owns 50% stake in the JV while the remaining is held by the other partner. The JV is a Limited Liability Company, having its registered office and plant in Yanbu Industrial City adjacent to NATPET Polypropylene Complex, with a paid up capital of SR64 million, comprised of 6.4 million shares of SR10 per share as at December 31, 2016. The JV signed agreements with SIDF for an amount of SR76.6 million, secured against mortgage of Bonar-Natpet assets and corporate guarantees from both the partners.

During 2016, Bonar-Natpet sold 3,100 tons of Nonwoven and 10,650 tons of Fiber and reported sales of SR83 million, up from SR71 million in 2015. This is 43% increase for Fiber sales volume and 24% for Geotextiles volume. Sales comprise of SR23.4 million for Nonwoven and SR59.6 million for Fiber. It reported a net loss of SR 13.4 million, down from SR21 million in 2015 and NATPET recorded 50% being its share. As the JV's accumulated losses are more than 50% of its share capital, in compliance with Article 180 of the Companies' Law, the shareholders have absorbed SR13.4 million, where NATPET absorbed SR 6.7 million being its share of losses.

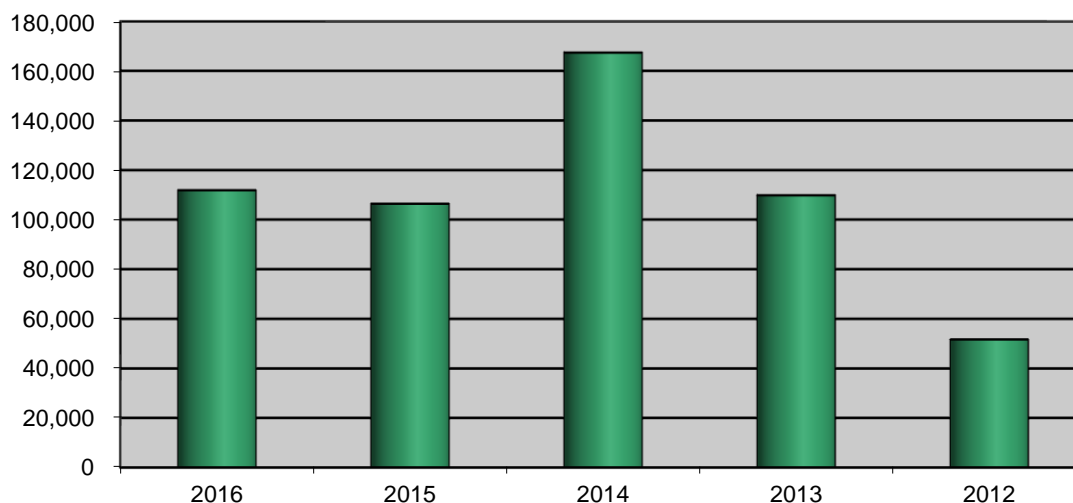
#### V. FINANCIAL HIGHLIGHTS

##### A. FIVE-YEARS PROFIT OR (LOSS) SUMMARY

	Year ended December 31				
	2016 (SR '000)	2015 (SR '000)	2014 (SR '000)	2013 (SR '000)	2012 (SR '000)
Sales	1,443,444	1,460,503	2,132,699	1,876,203	2,111,941
Cost of sales	(1,076,372)	(1,087,003)	(1,698,541)	(1,532,349)	(1,819,521)
<b>Gross profit</b>	<b>367,072</b>	<b>373,500</b>	<b>434,158</b>	<b>343,854</b>	<b>292,420</b>
Operating expenses	(78,962)	(77,687)	(78,164)	(84,166)	(77,406)
<b>Net operating income (loss)</b>	<b>288,110</b>	<b>295,813</b>	<b>355,994</b>	<b>259,688</b>	<b>215,014</b>
Insurance compensation	0	0	51,079	50,229	0
Financial charges	(49,209)	(60,002)	(69,546)	(79,977)	(100,163)
Net other income (expenses)	(20,884)	(28,501)	(22,987)	(22,684)	(15,200)
<b>Profit (Loss) before Zakat</b>	<b>218,017</b>	<b>207,310</b>	<b>314,540</b>	<b>207,256</b>	<b>99,651</b>
Zakat	(14,644)	(12,322)	(14,953)	(8,703)	(1,564)
<b>Profit (Loss) Before Minority Interest</b>	<b>203,373</b>	<b>194,988</b>	<b>299,587</b>	<b>198,553</b>	<b>98,087</b>
Minority Interest*	(90,646)	(88,602)	(132,206)	(88,734)	(46,409)
<b>Net Profit (Loss)</b>	<b>112,727</b>	<b>106,386</b>	<b>167,381</b>	<b>109,819</b>	<b>51,678</b>

\* Minority interest represents 42.6% share of other shareholders in NATPET.

**Five-Year Net Profit / (Loss) Chart**  
(Amounts in SR '000)



#### **B. MAJOR DIFFERENCE IN OPERATING RESULTS COMPARED TO LAST YEAR**

The current year's consolidated statement of income reflects sales of SR1,443.44 million (386 K metric tons of polypropylene), a gross profit of SR367.07 million and a net profit of SR112.73 million, as compared to sales of SR1,460.50 million (333K metric tons), gross profit of SR373.50 million and a net profit of SR106.39 million in 2015. The 2016 net income before Zakat and minority interest is SR218.02 million as compared to SR207.31 million during 2015. The net profit increased during 2016 as compared to 2015 mainly due to higher sales quantities, supported by lower financial charges and lower share of losses from subsidiary's joint venture, although the gross profit is marginally lower during current period. The General & Administrative and Sales & Marketing expenses are slightly higher than the comparative period. The net profit of SAR 112.73 million for fiscal year 2016 increased by 5.1 percent year-on-year (YoY).

#### *Two years comparative consolidated operating results*

	Year ended on December 31		
	2016 (SR '000)	2015 (SR '000)	Net Changes (SR '000)
Sales	1,443,444	1,460,503	(17,059)
Cost of sales	(1,076,372)	(1,087,003)	10,631
<b>Gross profit</b>	<b>367,072</b>	<b>373,500</b>	<b>(6,428)</b>
Operating expenses	(78,962)	(77,687)	(1,275)
<b>Net operating income (loss)</b>	<b>288,110</b>	<b>295,813</b>	<b>(7,703)</b>
Financial charges	(49,209)	(60,002)	10,793
Net other income (expenses)	(20,884)	(28,501)	7,617
<b>Profit (Loss) before Zakat</b>	<b>218,017</b>	<b>207,310</b>	<b>10,707</b>
Zakat	(14,644)	(12,322)	(2,322)
<b>Profit (Loss) Before Minority</b>	<b>203,373</b>	<b>194,988</b>	<b>8,385</b>
Minority Interest*	(90,646)	(88,602)	(2,044)
<b>Net Profit (Loss)</b>	<b>112,727</b>	<b>106,386</b>	<b>6,341</b>

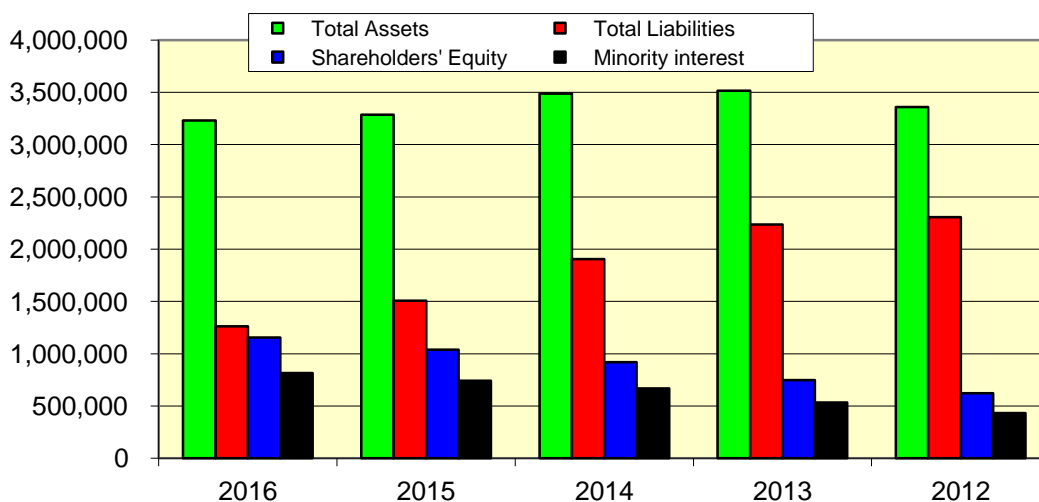
\* Minority interest represents 42.6% share of other shareholders in NATPET.

## C. SUMMARY OF FINANCIAL POSITION

	As at December 31				
	2016 (SR '000)	2015 (SR '000)	2014 (SR '000)	2013 (SR '000)	2012 (SR '000)
<b>ASSETS</b>					
Current assets	980,779	856,843	1,106,122	987,956	678,542
Non-current assets	2,250,920	2,429,913	2,382,891	2,528,427	2,681,252
<b>Total Assets</b>	<b>3,231,699</b>	<b>3,286,756</b>	<b>3,489,013</b>	<b>3,516,383</b>	<b>3,359,794</b>
<b>LIABILITIES AND EQUITY</b>					
Current liabilities	516,752	525,245	646,636	747,157	611,030
Non-current liabilities	744,683	981,404	1,258,154	1,488,736	1,696,095
<b>Total Liabilities</b>	<b>1,261,435</b>	<b>1,506,649</b>	<b>1,904,790</b>	<b>2,235,893</b>	<b>2,307,125</b>
Shareholders' Equity	1,155,705	1,037,482	917,499	747,739	621,120
Minority interest *	814,559	742,625	666,724	532,751	431,549
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>3,231,699</b>	<b>3,286,756</b>	<b>3,489,013</b>	<b>3,516,383</b>	<b>3,359,794</b>

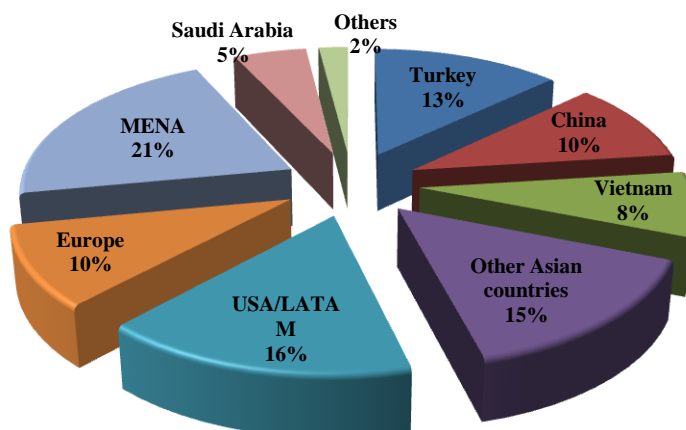
*M*  
minority interest represents 42.6% share of other shareholders in NATPET.

**Five-Year Balance Sheet Chart**  
(Amounts in SR '000)



## VI. GEOGRAPHICAL ANALYSIS OF CONSOLIDATED SALES

Essentially, the Company's revenue comes from its subsidiary selling its products in and out of Saudi Arabia, as presented in the chart.





## VII. ZAKAT AND OTHER AMOUNTS ACCRUED/PAID TO THE GOVERNMENT

### ZAKAT STATUS

On a standalone basis, Alujain made total provision of SR1.35 million in 2016 estimated Zakat expenses. The accrued Zakat balance is SR1.78 million. The other issues are summarized below:

- The Company obtained the final Zakat certificates for the years ended December 31, 2002. The Zakat returns for 2003 through 2015 have been filed with the General Authority of Zakat and Tax (GAZT) and obtained the respective restricted Zakat certificates.
- The Company filed appeals against the GAZT's assessments for the years 2003 thru 2012. The assessed additional zakat liability is SR 28.97 million. The Company lodged bank guarantees for SR28.97 million for the assessed additional liabilities for the years 2003 thru 2012 in accordance with the relevant regulations. The lodged bank guarantees will be returned once a decision is issued in Company's favor. The additional liability is not payable until the time appeal procedures are completed.

The additional liability is mainly arising from GAZT's not allowing deduction for amounts invested in the local and offshore entities. This matter is currently under debate at various levels of the appeal. In accordance with the Company's accounting policy mentioned in the note 3 to the audited financial statements, additional liability payable, if any, at the finalization of assessments is accounted for when such amounts are determined. As mentioned above, the additional liability is not payable until the time appeal procedures are completed.

### AMOUNTS PAID TO THE GOVERNMENT

On a standalone basis, following is a summary of amounts paid and accrued by Alujain to the Government:

	<b>Paid (SR '000)</b>	<b>Accrued (SR '000)</b>
Zakat	810	1,783
General Organization for Social Insurance	272	-
Tadawul	424	9
Registration, visas and other expenses	13	-
Total amounts paid to the Government	1,528	1,792

## VIII. SUBSIDIARY COMPANY

### **National Petrochemical Industrial Company (NATPET):**

NATPET is a closed joint stock company incorporated in the Kingdom of Saudi Arabia with its head office in Jeddah and Polypropylene Complex in Yanbu Industrial City to produce Polypropylene and its derivatives, having a name plate production capacity of 400,000 tons per year of polypropylene. The authorized and paid up capital comprised 107 million shares of SR10 per share as at 31 December 2016.

NATPET's downstream manufacturing interests are comprised of a non-woven geotextiles joint venture in collaboration with Low & Bonar based in Netherland and an under construction joint venture to produce Polypropylene compounds in collaboration with A. Schulman Inc. based in Netherland.

Alujain currently holds 57.4% of the total equity of NATPET.

### NATPET's Major Achievements

1. RC 14001:2015 Responsible Care Management System Certification from ABS USA. (first company in globe to achieve recognition on 2015 revised standard)

2. ISO 9001:2015 Quality Management System certification (successful surveillance)
3. ISO 14001:2015 Environment Management System (successfully upgraded on revised standard 2015)
4. ISO 22000:2005 Food safety management system for food grade PP resin (successful surveillance)
5. ISO 17025:2005 Laboratory Accreditation Certificate (successful surveillance)
6. OHSAS 18001:2007 Health & Safety Management System (successful surveillance)
7. Active Participation in Responsible care conference at GPCA and presented NATPET best practices.
8. Active participation in the development of university graduates by sponsoring best students in GPCA conferences and seminars
9. Established process to provide awareness to university graduates (KFUPM) on Quality, Environment, Health and Safety and Security (QEHSS)
10. Performed seven (7) in-house training sessions at Plant & Head office and around 125 employees were trained on QEHSS

#### 11. Other Industrial Safety - ISD achievements:

- International Safety Award from British Safety Council
- Safety Achievement Award (silver) from RosPA
- Perfect Record Award from National Safety Council, USA
- Corporate Hazard recognition award from National Safety Council, USA
- Million Hours Award from National Safety Council, USA
- 6.76 Million Safe Man Hours since last Lost time incident (LTI)
- Completion of 1426 days away from LTI
- Recorded zero LTI and zero lost time incident rate (LTIR)
- Recorded Zero Medical Treatment Case and Zero Total Recordable Injury Rate-TRIR (first time in the history of NATPET)

## IX. ASSOCIATE COMPANY

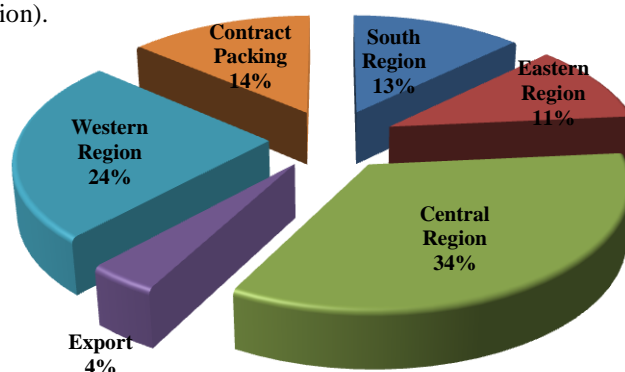
### Zain Industries Company Ltd (Zain):

Zain is a Saudi Limited Liability Company incorporated in the Kingdom of Saudi Arabia with its head office in Jeddah and plant in Jubail Industrial City, with a paid up capital of SR60 million, comprised of 6,000 shares of SR10,000 per share as at 31 December 2016. Its main objective is to produce homecare products (spray starch, air-fresheners, anti-static spray, bleach, fabric softener, oven cleaner, furniture polish, stainless steel polish etc.), insecticides and agricultural pesticides, herbicides, fungicides etc. of all kinds and forms, beside general health products. Alujain holds 49.38% ownership in Zain.

Zain's sales during 2016 is SR30.87 million as compared to SR30.45 million during 2015, with a net profit of SR2.19 million (2015 profit was SR2.05 million).

#### *Geographical Analysis of Sales:*

Zain sold its products in and out of Saudi Arabia, as shown in this chart.



## X. SUMMARY OF LOANS

The Company does not have any loans from lenders except the loans taken by its subsidiary NATPET as detailed below:

(all amounts are in thousand Saudi Riyals):

Description of loan	Terms of loans	Original loans	Loan repayments		Outstanding balances
			Prior years	Current year	
Islamic Commercial/Bridge Banks	Bridge Loan, 10 Yrs.	1,232,841	1,232,841	-	-
Islamic Facility Agreement/ Commercial Banks (Re-financing)	Term loan, 8 Yrs.	1,000,000	222,041	145,180	632,779
Public Investment Fund loan	Term loan, 10 Yrs.	750,000	375,000	75,000	300,000
Saudi Industrial Development Fund (SIDF)	Upfront Fees, 10 Yrs.	400,000	360,000	40,000	0
Others	No fixed repayment period	21,645	-	-	21,645
<b>Total</b>		<b>3,404,486</b>	<b>2,189,882</b>	<b>260,180</b>	<b>954,424</b>

The SIDF loan was secured by a mortgage over the fixed assets of the PP Complex and corporate guarantees from its shareholders wherein Alujain's guarantee is 57.4%.

## XI. INDEPENDENT AUDITORS' REPORT

Alujain received an unqualified opinion from its independent auditors Ernst & Young (EY) for the year ended on December 31, 2016 and the report states that the consolidated financial statements taken as a whole:

- i) present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016 and the consolidated results of its operations and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.
- ii) comply with the requirements of the Regulations for Companies and the Company Bylaws in so far as they effect the preparation and presentation of the consolidated financial statements.

## XII. BOARD OF DIRECTORS

### A. CONSTITUTION OF THE BOARD OF DIRECTORS

During 2016 the Board of Directors consisted of nine members as per below table, which also lists their directorships in other joint stock Companies.

Names	Membership	Directorships in other joint stock companies
Khalid A. Y. Zainal Alireza	<b>Executive</b>	Saudi Cable Company
Matouq Hassan Jannah	<b>Non-executive</b>	
Khalid Ibrahim Zagzoog	<b>Executive</b>	
Abdallah Sadiq Dahlan	<b>Independent</b>	
Ali Abdulla Kanoo	<b>Independent</b>	
Adnan Kamel Salah	<b>Independent</b>	
Omar Hashim Khalifati	<b>Independent</b>	
Mohammad Ali Al-Naki	<b>Independent</b>	
Abdullah Mohammed N. Rehaimi	<b>Independent</b>	The Savola Group & Saudi Cable Company

## B. MEETINGS

During 2016 the Board of Directors held 5 meetings as follows:

Directors	Mtg# 91		Mtg# 92		Mtg# 93		Mtg# 94		Mtg# 95		Total Present	Total Proxy	Attendance Percentage
	16/02/16		18/04/16		20/10/16		12/11/16		22/12/16				
	Present	Proxy	Present	Proxy	Present	Proxy	Present	Proxy	Present	Proxy			
Khalid A.Y. Zainal Alireza	✓		✓		✓		✓		✓		5		100%
Matouq Hassan Jannah	✓		-	✓	✓		✓		✓		4	1	80%
Khalid Ibrahim Zagzoog	✓		✓		✓		✓		✓		5		100%
Abdallah Sadiq Dahlan	✓		-	✓	-	✓	-	✓	-	✓	1	4	20%
Ali Abdulla Kanoo	✓		✓		✓		-	✓	-	✓	3	2	60%
Adnan Kamel Salah	✓		✓		✓		✓		✓		5		100%
Omar Hashim Khalifati	✓		✓		✓		✓		✓		5		100%
Mohammad Ali Al-Naki	✓		-	✓	✓		-	✓	✓		3	2	60%
Abdullah M. N. Rehaimi	-	✓	✓		✓		-	✓	-	✓	2	3	40%

## C. BOARD COMMITTEES

### 1. Audit Committee:

The current Committee comprises of four members and had held four meetings during the year 2016. The last addition to the Committee was Mr. Ashraf Tumbi as financial/accounting expert by a Board Resolution (MA-89/4) dated 19 October 2015.

#### i) Mandate:

The duties and responsibilities of the Audit Committee include the following:

- To supervise the Company's internal audit department to ensure its effectiveness in executing the activities and duties specified by the Board of Directors.
- To review the internal audit procedure and prepare a written report on such audit and its recommendations with respect to it.
- To review the internal audit reports and pursue the implementation of the corrective measures in respect of the comments included in them.
- To recommend to the Board of Directors the appointment, dismissal and the remuneration of external auditors; upon any such recommendation, regard must be made to their independence.
- To supervise the activities of the external auditors and approve any activity beyond the scope of the audit work assigned to them during the performance of their duties.
- To review together with the external auditor the audit plan and make any comments thereon.
- To review the external auditor's comments on the financial statements and follow up the actions taken about them.
- To review the interim and annual financial statements prior to presentation to the Board of Directors and to give opinion and recommendations with respect thereto.
- To review the accounting policies in force and advise the Board of Directors of any recommendation regarding them.

#### ii) The Results of the annual review of the effectiveness of Internal Audit procedures:

During the year 2016, the Audit Committee dedicated significant time to fulfilling its key oversight responsibilities: reviewing the design and implementation of the Company's systems of risk management and internal control; monitoring the integrity of the Company's financial reporting; and assessing the effectiveness of both the internal and external audit work. This involved engaging regularly with management,

internal auditor and the external auditors to ensure that the information the Committee receives is timely, accurate and complete, in order to arrive at proper conclusions and recommendations.

The Committee has reviewed both the financial and non-financial information contained in the Board of Directors' Report and is satisfied that the report presents a fair, balanced and understandable assessment of the Company's financial prospects and provides the information necessary to assess the Company's business strategy and performance.

In execution of its duties, the Audit Committee:

- a. reviewed with the management and the internal and external auditors, the Company's general policies and procedures to reasonably assure the adequacy of the accounting principles/standards and financial practices applied by the Company.
- b. supervised the effectiveness of the internal controls, internal audits and systems for managing risks in relation to accounting records, financial reporting and control systems.
- c. periodically reviewed the risk management systems, so that the principal risks are properly identified/assessed, managed and disclosed.
- d. reviewed the scope of work to be undertaken by the external auditors and reviewed with them their findings and conclusions.
- e. reviewed and approved the annual risk based internal audit plan submitted by the internal auditor.
- f. received and reviewed regular reports on audit results submitted by the internal auditor and acted upon to make sure the audit recommendations are adequately considered and adopted by the management for making corrective measures.
- g. reviewed interim and annual financial results, submitted by the external auditors of the Company to ensure compliance with the legal requirements and the proper application of generally accepted accounting principles, standards and recommended to the Board of Directors for their approval.

iii) *Audit Committee Members:*

<b>Members</b>	<b>Executive/ Non-executive/ Expert</b>	<b>Shareholder</b>	<b>Position</b>
Omar Hashim Khalifati	Non-executive	✓	Chairman
Ali Abdulla Kanoo	Non-executive	✓	Member
Adnan Kamel Salah	Non-executive	✓	Member
Mohammed Ashraf Tumbi	Finance Expert	-	Member

iv) *Meetings:*

The Committee held 4 meetings during 2016 as follows:

	Mtg # 62	Mtg # 63	Mtg # 64	Mtg # 65	Total Attendance	Attendance Percentage
	17/01/16	16/02/16	18/04/16	17/10/16		
Omar Hashim Khalifati	✓	✓	✓	✓	4	100%
Ali Abdulla Kanoo	✓	✓	✓	-	3	75%
Adnan Kamel Salah	✓	✓	✓	✓	4	100%
Muhammad Ashraf Tumbi	✓	✓	✓	✓	4	100%

## 2. *Nomination and Remuneration Committee:*

The current Committee consists of three members, two of them are board members and one an expert in human resources. The Committee held two meetings during 2016.

### i) *Summary of functions and responsibilities:*

The duties and responsibilities of the Nomination and Remuneration Committee include the following:

- a) Recommend to the Board of Directors appointments to membership of the Board in accordance with the approved policies and standards; the Committee shall ensure that no person who has been previously convicted of any offense affecting honor or honesty is nominated for such membership.
- b) Annual review of the requirement of suitable skills for membership of the Board of Directors and the preparation of a description of the required capabilities and qualifications for such membership, including, inter alia, the time that a Board member should reserve for the activities of the Board.
- c) Review the structure of the Board of Directors and recommend changes.
- d) Determine the points of strength and weakness in the Board of Directors and recommend remedies that are compatible with the Company's interest.
- e) Ensure on an annual basis the independence of the independent members and the absence of any conflict of interest in case a Board member also acts as a member of the Board of Directors of another company.
- f) Draw clear policies regarding the indemnities and remunerations of the Board members and top executives; in laying down such policies, the standards related to performance shall be followed.

### ii) *The Nomination and Remuneration Committee Members:*

Members	Executive/Non-executive/ Expert	Position
Khalid Ibrahim Zagzoog	Executive	Chairman
Ahmed Saad Gabbani	HR Expert	Member
Matouq Hassan Jannah	Non-Executive	Member

### iii) *Meetings:*

The Committee had 2 meetings during the year 2016 as per the following attendance. There is no remuneration paid to any of the Committee members including its Chairman.

Members	Mtg # 9 Thursday 16/04/2016	Mtg # 10 Sunday 18/09/2016	Total Attendance	Percentage
Khalid Ibrahim Zagzoog	✓	✓	2	100%
Ahmed Saad Gabbani	✓	✓	2	100%
Matouq Hassan Jannah	✓	✓	2	100%

## D. **MOVEMENT OF SHARES OWNED BY DIRECTORS & THEIR IMMEDIATE FAMILY MEMBERS**

The following table includes a description of any interest related to the members of the Board of Directors, including their wives and minor children, in the stocks or credit instruments of the Company:

Name	At start of the year		Net changes		At end of the year	
	Quantity	%	Quantity	%	Quantity	%
Khalid A.Y. Zainal Alireza	957,216	1.383%	-	-	957,216	1.383%
Matouq Hassan Jannah	1,200	0.002%	-	-	1,200	0.002%
Khalid Ibrahim Zagzoog	2,900	0.004%	-	-	2,900	0.004%
Abdallah Sadiq Dahlan	1,000	0.001%	-	-	1,000	0.001%
Ali Abdulla Kanoo	4,520	0.007%	-	-	4,520	0.007%
Adnan Kamel Salah	2,000	0.003%	-	-	2,000	0.003%
Omar Hashim Khalifati	22,060	0.032%	-	-	22,060	0.032%
Mohammad Ali Al-Naki	1,000	0.001%	-	-	1,000	0.001%
Abdullah M. N. Rehaimi	3,700	0.005%	-	-	3,700	0.005%

**E. MOVEMENT OF SHARES OWNED BY SENIOR EXECUTIVES & THEIR IMMEDIATE FAMILY MEMBERS**

The following table includes a description of any interest related to the members of the Senior Executives, including their wives and minor children, in the stocks or credit instruments of the Company:

Name	At start of the year		Net changes		At end of the year	
	Quantity	%	Quantity	%	Quantity	%
Marwan N. Nusair President & COO	2,775	0.004%	3000	0.004%	5,400	0.008%
Rajiv Thakur VP – Business Development	Nil	Nil	Nil	Nil	Nil	Nil
Saleem Akhtar VP – Finance	Nil	Nil	Nil	Nil	Nil	Nil

**XIII. REMUNERATION/COMPENSATION OF CHAIRMAN, BOARD OF DIRECTORS, AND TOP EXECUTIVES**

	Board Members		Highest paid senior executives including COO & VP-Finance*
	Executive (2 persons)	Non-executive/ Independent (7 persons)	
Salaries and compensation	720,000	-	1,409,500
Allowances	30,000	69,000	493,536
Periodic and annual bonuses	-	-	275,000
Incentive plans	-	-	-
Other Compensations	-	200,000	333,391
Total	750,000	269,000	2,511,427

\* Remuneration for 3 executives including COO, VP – Finance and VP – Business Development. Alujain has less than 5 executives.

**Remuneration of Audit Committee**

Position	Meeting Fees
Chairman	24,000
Members	22,000
Total	46,000

#### **XIV. TRANSACTIONS WITH RELATED PARTIES**

A portion of the Company's general and administrative expenses and shared services including project-related costs are charged by affiliates by way of sharing the cost of some common services. Prices and terms of payment are approved by management.

(a) Summary and nature of transactions:

<b>Party</b>	<b>Board Member</b>	<b>Contract Period</b>	<b>Nature of dealing</b>	<b>Amount (SR '000)</b>
Hidada Company Limited	Khalid A.Y. Zainal Alireza	One year (perpetual)	Joint expenses charged by the group	11
Saudi Cable Company	Khalid A.Y. Zainal Alireza Abdullah M.N. Rehaime	One year (perpetual)	Joint expenses charged to the group	321
Xenel Industries Ltd.	Khalid A.Y. Zainal Alireza	One year (perpetual)	Shared services charged to the group	6,779
Safra Company Limited	Khalid A.Y. Zainal Alireza Khalid Ibrahim Zagzoog	One year (perpetual)	Purchase of material by the group	4,204
			Joint expenses charged to the group	51
		One time transaction	Advance against purchase of Zain shares	9,052
Saudi Bulk Transport limited	Khalid A.Y. Zainal Alireza	One year (perpetual)	Joint expenses charged to the group	10,556

(b) There were no transactions between the Company and its senior executives except as presented in section XIII & XIV above during 2016.

#### **XV. PROFIT DISTRIBUTION POLICY**

The annual net profits achieved – after deducting all general expenses & other costs – shall be distributed as follows:

- 10% of the net profits shall be set aside to form a statutory reserve, and the ordinary general assembly may stop such a procedure when the said reserve amounts to half of the Company capital.
- From the balance, a first payment not less than 5% of the paid capital, shall be distributed as dividends to the shareholders.
- A percent of not more than 10% of the net profits shall be allocated, after that, as a remuneration for the members of the board of directors, provided, however, that the member remuneration shall not exceed the amount determined by the instructions issued by the Ministry of Commerce to this effect.
- Then, the balance shall be distributed among the shareholders as an additional share of the profits, or it may be carried forward to the following years, in the way agreed upon by the general assembly.

The dividends to be distributed among shareholders shall be paid in the place and at the time determined by the board of directors, taking into consideration the instructions issued by the Ministry of Commerce in this regards.

#### **XVI. DIVIDENDS**

There are no dividends paid to the shareholders during the year 2016, however a dividend of SR 1.0 per share for the year 2016 is recommended by the Board of Directors to Alujain shareholders for their approval and will be payable in 2017 as detailed below:

- 1) On 23 October 2016, corresponding to 22 Muharam 1438 H, the Board of Directors of the Company recommended cash dividends to shareholders of SR 0.5 per share for the year ended 31 December 2016 amounting to SR 34.6 million, which represents 5% of total paid up capital.



- 2) On 12 November 2016 corresponding to 12 Safar 1438 H, the Board of Directors of the Company agreed to increase the cash dividends recommended on 23 October 2016 from SR 0.5 per share to SR 1 per share for the year ended 31 December 2016 to have total amount of proposed cash dividends SR 69.2 million, which represents 10% of total paid up capital.

## **XVII. POTENTIAL BUSINESS RISKS**

The Group's activities expose it to a variety of potential business risks, market risks, financial risks (including currency risk, fair value and cash flow interest rate risks and price risk), credit risk, and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures. The risk management is carried out by senior management under policies approved by the board of directors.

<b>Risk</b>	<b>Probable Impact</b>	<b>How it is handled/mitigated</b>
<b>Currency risk</b>	Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is subject to fluctuations in foreign exchange rates in the normal course of its business.	The Group does not undertake significant transactions in currencies other than Saudi Riyals, US Dollars and to a lesser extent Euros. Management monitors such exposures on a regular basis. However, there were no significant foreign exchange contracts outstanding at December 31, 2016.
<b>Fair value and cash flows interest rate risk</b>	Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of the financial instruments. The Group is subject to interest rate risk on its interest bearing assets and liabilities including security deposits, long term loans and derivative financial instrument.	The management limits the Group's interest rate variation risk through interest rate swaps, in which the Group agrees to exchange, at specified interval, the difference between fixed and variable interest rates. The interest amounts are calculated by reference to an agreed-upon notional principal amount.
<b>Price risk</b>	The risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.	The Group is not exposed to equity securities price risk because of investments held by the Group and classified on the balance sheet as available for sale investment and investments in Murabaha Funds. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio
<b>Credit risk</b>	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 largest receivable balance (one off-taker) accounts for 49% of outstanding trade accounts receivable at December 31, 2016 (2015: 48%)	Cash is placed with banks with sound credit ratings.  Credit risk is managed by monitoring the off-taker balance and ensuring timely collection of the due balance. All other trade receivables are secured via one of the following methods: advance payments, letter of credits through recognized banks, credit insurance.
<b>Liquidity risk</b>	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.

<b>Fair value</b>	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 Group's financial instruments are compiled under the historical cost convention, except for derivative financial instruments, and available for sale investment, differences can arise between the book values and fair value estimates. Management believes that the fair values of the Group's financial assets and liabilities are not materially different from their carrying values.
<b>Raw material price variation</b>	The Raw material prices may vary adversely, which are related to international gas and petroleum derivative prices.	The prices are beyond the control of the Group.
<b>Economic Risk</b>	The finished product is sold in international market and any global or regional recession may impact the financial performance.	The Group sales activities are not restricted to any particular region, but are spread across the globe. So any fluctuation in prices is beyond the control of the Group.
<b>Operational risk</b>	The Group's activities expose it to a variety of operational risks at the plants operated by its subsidiaries/associate companies, which are defined as "any circumstances or situation when equipment failure poses a threat to (1) Health & Environment and (2) production loss & repair cost".	These risks are managed based on a "template decision making matrix", to minimize potential adverse effects on the Group's operational performance. The Group also consults its vendor, licensor & third party experts, if needed.
<b>Legal risks</b>	Being subjected to legal issues such as imposition of anti-dumping tax or anti-trust laws by countries where the subsidiaries' products are sold could affect the Group sales.	The Group develops its strategies based on the changing global market conditions and remains vigilant to initiate appropriate measures to overcome such situations.

## **XVIII. CORPORATE GOVERNANCE**

The Company is committed to apply all rules listed in Corporate Governance Regulations. It is following all the provisions of Corporate Governance regulations except as detailed below:

<b>Corporate Governance Rules</b>	<b>Reasons</b>
<b>Article: 6</b> Voting Rights	Implemented, except the sections mentioned below:
<b>Article 6 - b1)</b> In voting in the General Assembly for the nomination to the board members, the accumulative voting method shall be applied.	The Company is abiding by its bylaws and proposed to amend it in upcoming EGA to introduce the accumulative voting method with other changes.
<b>Article 6 - d)</b> Investors who are judicial persons and who act on behalf of others - e.g. investment funds - shall disclose in their annual reports their voting policies, actual voting, and ways of dealing with any material conflict of interests that may affect the practice of the fundamental rights in relation to their investments.	No judicial persons or representatives of investment funds attended the last Ordinary General Assembly and hence no reports or updates.

## **XIX. BOARD DECLARATIONS**

1. The Company's financial statements were prepared in accordance with the accounting principles generally accepted in the Kingdom of Saudi Arabia and such accounting principles are applied on consistent basis.

2. The board declares that:
  - a. Proper books of account have been maintained.
  - b. The system of internal control is sound in design and has been effectively implemented; and
  - c. There are no significant doubts concerning the issuer's ability to continue as a going concern.
3. The external auditors have given an unqualified opinion on the financial statements for the period ended on December 31, 2016, hence no reservations shown in audit report issued by the external auditors.
4. There were no penalties or preventive restrictions imposed on the company during 2016.
5. Neither the Company nor its subsidiary has issued or redeemed any debt or financial instruments such as stock options or stock rights that may be converted into shares.
6. There were no material contracts awarded to any related parties including the CEO, COO and CFO or any person related to any of them during the year. The details of all issued shares and debt instruments, including the subsidiary are detailed in relevant sections of this report.
7. There were no outstanding loans during the year, except the loans taken by the subsidiary, as mentioned in section X.
8. There were no loans given to any of its directors.
9. The Company has not made any deals relating to its own stocks.
10. There were no share dealings entered by the Company with any of its directors or immediate members of their families.
11. No waiver of rights has been received from any shareholder.
12. The Company has not made any investments or created reserves for its employees, except for, as is required by Saudi Labor Law and Company policies.

## **XX. BOARD OF DIRECTORS' RECOMMENDATIONS TO THE SHAREHOLDERS**

1. Vote on the Board of Directors' Report for 2016.
2. Vote on the 2016 year-end financial statements and external auditors' report.
3. Vote on the appointment of external auditors for the year 2017 from amongst the firms recommended by the Audit Committee.
4. Vote on SR 1.00 per share dividend as recommended by the Board in their respective meetings dated October 23<sup>rd</sup> and November 12<sup>th</sup> 2016 as detailed above.
5. Vote on absolving the Board of Directors of their responsibilities for the financial year ended 31/12/2016.
6. Vote on the businesses and agreements made between the company and related parties contained in Section XIV and to authorize the management to continue with similar transactions for 2017.

The Chairman and the Board of Directors express their appreciation and gratitude to the Custodian of the Two Holy Mosques King Salman Bin Abdul-Aziz Al-Saud; HRH Crown Prince Muhammad bin Naif bin Abdul-Aziz Al-Saud, Deputy Prime Minister & Minister of Interior; HRH Deputy Crown Prince Mohammad bin Salman bin Abdul-Aziz Al-Saud, Second Deputy Prime Minister & Minister of Defense for their continued cooperation and support.

Thanks also to the Shareholders for their continued support, and the Executive Management and Staff of the Company for their great efforts, which helped to achieve the Company's goals in 2016.

**BOARD OF DIRECTORS**