

**THE SAUDI ARABIAN AMIANTIT COMPANY AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008

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**INDEPENDENT AUDITORS' REPORT**

February 15, 2009

To the Shareholders of The Saudi Arabian Amiantit Company:

We have audited the accompanying consolidated balance sheet of The Saudi Arabian Amiantit Company (the "Company") and Subsidiaries (collectively the "Group") as of December 31, 2008 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended, and the notes which form an integral part of the consolidated financial statements. These consolidated financial statements, which were prepared by the Company to comply with applicable articles of the Regulations for Companies and presented to us with all information and explanations which we required, are the responsibility of the Group's management. 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 Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.


In our opinion, such consolidated financial statements taken as a whole:

- Present fairly, in all material respects, the financial position of the Group as of December 31, 2008 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in Saudi Arabia appropriate to the circumstances of the Group; and
- Comply, in all material respects, with the requirements of the Regulations for Companies and the Company's Articles of Association with respect to the preparation and presentation of consolidated financial statements.

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**THE SAUDI ARABIAN AMIANTIT COMPANY AND SUBSIDIARIES**  
**Consolidated balance sheet**  
(All amounts in Saudi riyals thousands unless otherwise stated)

	Note	As at December 31,	
		2008	2007
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	5	329,139	201,595
Accounts receivable	6	1,689,994	1,543,296
Inventories	7	1,092,947	838,910
Prepayments and other receivables		69,030	63,973
Non-current assets held-for-sale	8	-	52,500
		<b>3,181,110</b>	<b>2,700,274</b>
<b>Non-current assets</b>			
Investment in associates	9	306,513	313,000
Property, plant and equipment	10	960,346	923,371
Intangible assets	11	27,047	60,106
Deferred income tax assets	17	15,921	26,625
Other non-current assets		12,862	37,080
		<b>1,322,689</b>	<b>1,360,182</b>
<b>Total assets</b>		<b>4,503,799</b>	<b>4,060,456</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Short-term borrowings	12	1,439,666	1,303,453
Current maturity of long-term borrowings	13	46,846	69,121
Current maturity of liabilities against capital leases	14	12,188	10,312
Accounts payable	15	423,549	503,874
Accrued and other liabilities	16	461,121	275,185
Zakat and taxes payable	17	116,371	66,584
		<b>2,499,741</b>	<b>2,228,529</b>
<b>Non-current liabilities</b>			
Long-term borrowings	13	74,234	143,808
Liabilities against capital leases	14	36,562	-
Employee termination benefits	18	98,165	93,197
Other non-current liabilities		31,249	36,552
		<b>240,210</b>	<b>273,557</b>
<b>Total liabilities</b>		<b>2,739,951</b>	<b>2,502,086</b>
<b>Equity</b>			
Equity attributable to shareholders of the Company:			
Share capital	20	1,155,000	1,155,000
Statutory reserve	21	96,795	73,263
Retained earnings		233,367	21,578
Currency translation differences		1,573	70,325
<b>Total shareholders' equity</b>		<b>1,486,735</b>	<b>1,320,166</b>
Minority interest		277,113	238,204
<b>Total equity</b>		<b>1,763,848</b>	<b>1,558,370</b>
<b>Total equity and liabilities</b>		<b>4,503,799</b>	<b>4,060,456</b>
<b>Contingencies and commitments</b>	27		

The notes on pages 7 to 26 form an integral part of these consolidated financial statements.

**THE SAUDI ARABIAN AMIANTIT COMPANY AND SUBSIDIARIES**  
**Consolidated income statement**  
(All amounts in Saudi riyals thousands unless otherwise stated)

		<b>Year ended December 31,</b>	
	<b>Note</b>	<b>2008</b>	<b>2007</b>
Sales	4,19	<b>4,026,437</b>	3,101,752
Cost of sales	19	<b>(3,098,890)</b>	(2,416,917)
Gross profit		<b>927,547</b>	684,835
<b>Operating expenses</b>			
Selling and marketing	22	<b>(95,509)</b>	(91,058)
General and administrative	23	<b>(375,953)</b>	(277,690)
Income from operations		<b>456,085</b>	316,087
<b>Other income (expenses)</b>			
Share in net income of associates	9	<b>55,635</b>	51,981
Financial charges - net	12,13,14,26	<b>(156,375)</b>	(120,625)
Other - net	24	<b>30,919</b>	(71,222)
Income before foreign income taxes, zakat and minority interest		<b>386,264</b>	176,221
Income taxes related to foreign subsidiaries	17	<b>(39,598)</b>	(43,563)
Zakat	17	<b>(36,512)</b>	(18,000)
Income before minority interest		<b>310,154</b>	114,658
Minority interest		<b>(74,833)</b>	(50,556)
<b>Net income for the year</b>		<b>235,321</b>	64,102
<b>Earnings (loss) per share (Saudi riyals):</b>	25		
• Income from operations		<b>3.95</b>	2.74
• Non-operating loss		<b>(1.91)</b>	(2.19)
• Net income for the year		<b>2.04</b>	0.55

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**THE SAUDI ARABIAN AMIANTIT COMPANY AND SUBSIDIARIES**  
**Consolidated statement of changes in shareholders' equity**  
(All amounts in Saudi riyals thousands unless otherwise stated)

	Share capital	Statutory reserve	Retained earnings/ (Accumulated deficit)	Currency translation differences	Total
January 1, 2008	1,155,000	73,263	21,578	70,325	<b>1,320,166</b>
Net income for the year	-	-	235,321	-	<b>235,321</b>
Transfer to statutory reserve	-	23,532	(23,532)	-	-
Adjustments	-	-	-	(68,752)	<b>(68,752)</b>
December 31, 2008	<b>1,155,000</b>	<b>96,795</b>	<b>233,367</b>	<b>1,573</b>	<b>1,486,735</b>
January 1, 2007	1,155,000	70,865	(40,126)	9,764	1,195,503
Net income for the year	-	-	64,102	-	64,102
Transfer to statutory reserve	-	2,398	(2,398)	-	-
Adjustments	-	-	-	60,561	60,561
December 31, 2007	<b>1,155,000</b>	<b>73,263</b>	<b>21,578</b>	<b>70,325</b>	<b>1,320,166</b>

The notes on pages 7 to 26 form an integral part of these consolidated financial statements.

**THE SAUDI ARABIAN AMIANTIT COMPANY AND SUBSIDIARIES**  
**Consolidated cash flow statement**  
(All amounts in Saudi riyals thousands unless otherwise stated)

	<b>Year ended December 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>Cash flow from operating activities</b>		
Net income for the year	235,321	64,102
<u>Adjustments for non-cash items</u>		
Depreciation, amortization and provisions	313,157	182,318
Share in net income of associates	(55,635)	(51,981)
Gain from disposal of investments	(87,030)	(12,480)
Deferred income tax charges	7,676	10,280
Income applicable to minority interest	74,833	50,556
<u>Changes in working capital</u>		
Accounts receivable	(239,355)	(217,399)
Inventories	(288,216)	(206,592)
Prepayments and other receivables	(5,057)	40,337
Accounts payable	(95,325)	(11,949)
Accrued and other current liabilities	167,623	36,132
Employee termination benefits	4,968	12,433
Net cash generated from (utilized in) operating activities	32,960	(104,243)
<b>Cash flow from investing activities</b>		
Proceeds from disposal of non-current assets held for sale	52,500	-
Investments	(17,550)	(649)
Proceeds from disposal of investments	168,705	25,276
Dividends received from associates	5,558	12,973
Purchase of property, plant and equipment - net	(179,358)	(72,752)
Intangible assets and other	(7,281)	2,909
Net cash generated from (utilized in) investing activities	22,574	(32,243)
<b>Cash flow from financing activities</b>		
Increase in short-term borrowings	136,213	281,313
Proceeds from long-term borrowings	61,644	65,776
Repayments of long-term borrowings	(143,607)	(44,837)
Proceeds from sale and leaseback of assets	48,750	-
Repayments of liabilities against capital leases	(10,312)	(14,063)
Dividends paid by subsidiaries to minority interests	(12,352)	(9,503)
Changes in minority interests and other	(8,326)	(11,154)
Net cash generated from financing activities	72,010	267,532
<b>Net increase in cash and cash equivalents</b>	127,544	131,046
Cash and cash equivalents at beginning of year	201,595	70,549
<b>Cash and cash equivalents at end of year</b>	329,139	201,595

The notes on pages 7 to 26 form an integral part of these consolidated financial statements.

**THE SAUDI ARABIAN AMIANTIT COMPANY AND SUBSIDIARIES**  
**Notes to the consolidated financial statements for the year ended December 31, 2008**  
(All amounts in Saudi riyals thousands unless otherwise stated)

**1 General information**

The Saudi Arabian Amiantit Company (the "Company" or "SAAC") and its subsidiaries (collectively 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 supply of pipe manufacturing machines, and water management services including related consultancy, engineering and operations.

The Company is a joint stock company, registered in the Kingdom of Saudi Arabia and operating under Commercial Registration No. 2050002103 issued in Dammam on 17 Rabi'l 1388 AH (June 13, 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 subsidiaries included in the Group:

Subsidiary	Country of incorporation	Effective ownership at December 31,	
		2008	2007
Amiantit Fiberglass Industries Limited (AFIL)	Saudi Arabia	100%	100%
Amiantit Rubber Industries Limited (ARIL)	Saudi Arabia	80%	80%
Saudi Arabian Ductile Iron Pipe Co. Ltd. (SADIP)	Saudi Arabia	75%	75%
Ameron Saudi Arabia Ltd. (ASAL)	Saudi Arabia	69.70%	69.70%
Bondstrand Limited (BSL)	Saudi Arabia	60%	60%
Saudi Arabia Concrete Products Ltd. (SACOP)	Saudi Arabia	58.80%	58.80%
Fiberglass Pipes Company Ltd. (FPC)	Saudi Arabia	51%	51%
International Infrastructure Management and Operations Company Limited (AMIWATER)	Saudi Arabia	100%	100%
Alalamiah Water Works and Services Company Ltd. (AWWS)	Saudi Arabia	75%	75%
Composite Pipes Industries LLC	Oman	51%	51%
Amiantit International Holding Company WLL	Bahrain	100%	100%
Amiantit Technology Company WLL (ATL)	Bahrain	100%	100%
Amipox International Company WLL (Amipox)	Bahrain	100%	100%
Flowtite Technology Bahrain WLL (Ftech)	Bahrain	100%	100%
Amitech Germany GmbH	Germany	100%	100%
Amiantit Services GmbH	Germany	100%	100%
Jos Hansen & Soehne GmbH (Jos)	Germany	70.25%	57.46%
JR International Bau GmbH (JRI)	Germany	70.25%	57.46%
PWT Wasser- und Abwassertechnik GmbH (PWT)	Germany	80%	80%
Amiantit Technology Services GmbH	Austria	100%	100%
Flowtite Technology A.S.	Norway	100%	100%
Amitech South Africa (Pty) Ltd.	South Africa	100%	100%
Amitech Industrial South Africa (Pty) Ltd.	South Africa	100%	100%
Subor Boru San. Tic. A.S.	Turkey	50%	50%
Amitech USA Ltd.	USA	100%	100%
Amitech Poland Sp.z o.o.	Poland	93.80%	93.80%
Amitech Spain S.A.	Spain	100%	100%
Amitech Industrial Spain S.A.	Spain	100%	100%
Amiantit Fiberglass Industries (India) Pvt. Ltd.	India	70%	70%
Amitech Astana LLC	Kazakhstan	51%	51%
APS France S.A.S.	France	100%	100%
APS Norway A.S.	Norway	100%	100%



**THE SAUDI ARABIAN AMIANTIT COMPANY AND SUBSIDIARIES**  
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The ownership interests in the subsidiaries are generally registered in the name of SAAC or in the name of certain intermediate holding companies within the Group. Ownership interests in certain subsidiaries are registered in the name of trustees, who hold the interests on behalf of SAAC or an intermediate holding company. Such interests are included in the above effective ownership percentage.

During 2008 the Group:

- shareholding in Jos and JRI was increased to 70.25%; and
- decided to liquidate ATL and Amipox after transferring all their assets, liabilities and operations to Ftech. At December 31, 2008, ATL and Amipox were under liquidation process expected to be completed during 2009.

The accompanying consolidated financial statements were authorized for issue by the Board of Directors on February 15, 2009.

## **2 Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented.

### **2.1 Basis of preparation**

The accompanying consolidated financial statements have been prepared under the historical cost convention on the accrual basis of accounting, as modified by revaluation of derivative financial instruments to fair value, and in compliance with accounting standards promulgated by Saudi Organization for Certified Public Accountants.

### **2.2 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. Estimates and judgments 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.

### **2.3 Investments**

#### **(a) Subsidiaries**

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies to obtain economic benefit generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up or liabilities incurred or assumed at the date of acquisition, plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. Goodwill arising from acquisition of subsidiaries is reported under "Intangible assets" in the balance sheet. Goodwill is tested annually for impairment and carried at cost, net of impairment losses.

Inter-company transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated.

#### **(b) 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.

**THE SAUDI ARABIAN AMIANTIT COMPANY AND SUBSIDIARIES**  
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The Group's share of its associates' post-acquisition income or losses is recognized in the income statement, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Dilution gains and losses arising in investments in associates are recognized in the income statement.

## **2.4 Segment reporting**

### **(a) Business segment**

A business segment is group of assets, operations or entities:

- (i) engaged in revenue producing activities;
- (ii) results of its operations are continuously analyzed by management in order to make decisions related to resource allocation and performance assessment; and
- (iii) 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.

## **2.5 Foreign currencies**

### **(a) Reporting currency**

The consolidated financial statements of the Company 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 at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies other than Saudi riyals are recognized in the income statement.

### **(c) Group companies**

The results and financial position of the foreign subsidiaries and associates having reporting currency other than Saudi riyals are translated into Saudi riyals as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates; and
- (iii) components of the equity accounts are translated at the exchange rates in effect at the dates of the related items originated.

Cumulative adjustments resulting from the translations of the financial statements of the foreign subsidiaries and associates 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 and related currency translation differences are realized in the income statement.

When investment in foreign subsidiaries and associates is disposed off or sold, currency translation differences that were recorded in equity are recognized in the income statement as part of gain or loss on disposal or sale.

**THE SAUDI ARABIAN AMIANTIT COMPANY AND SUBSIDIARIES**  
**Notes to the consolidated financial statements for the year ended December 31, 2008**  
(All amounts in Saudi riyals thousands unless otherwise stated)

**2.6 Cash and cash equivalents**

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

**2.7 Accounts receivable**

Accounts receivable are carried at original invoice amount less provision for doubtful debts. A provision against 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. Such provisions are charged to the income statement and reported under "General and administrative expenses". When account receivable is uncollectible, it is written-off against the provision for doubtful debts. Any subsequent recoveries of amounts previously written-off are credited against "General and administrative expenses" in the income statement.

**2.8 Inventories**

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

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

**2.9 Non current assets held for sale**

Non-current assets held for sale are classified as assets held for sale and are stated at the lower of carrying amount and fair values less cost to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

**2.10 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 income statement, using the straight-line method, to allocate their costs to their residual values over the following estimated useful lives:

	Number of years
• Buildings and land improvements	3 - 35
• Plant, machinery and equipment	4 - 20
• Furniture, fixtures and office equipment	3 - 8

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

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

**2.11 Deferred charges**

Costs that are not of benefit beyond the current period are charged to the income statement, while costs that will benefit future periods are capitalized. Deferred charges, reported under "Intangible assets" in the balance sheet, include certain indirect construction costs and pre-operating expenses which are amortized over periods which do not exceed seven years.

**2.12 Patents, trademarks and licenses**

Expenditure to acquire patents, trademarks and licenses is capitalized and amortized using the straight-line method over their useful lives, but not exceeding twenty years. Patents, trademarks and licenses are carried at costs less accumulated amortization.

**THE SAUDI ARABIAN AMIANTIT COMPANY AND SUBSIDIARIES**  
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**2.13 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 intangible assets 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 as income immediately in the income statement. Impairment losses recognized on intangible assets are not reversible.

**2.14 Borrowings**

Borrowings are recognized at the proceeds received, net of transaction costs incurred. 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 income statement.

**2.15 Capital leases**

The Group accounts for property, plant and equipment acquired under capital leases by recording the assets and the related liabilities. These amounts are determined on the basis of the present value of minimum lease payments. Financial charges are allocated to the lease term in a manner so as to provide a constant periodic rate of charge on the outstanding liability. Depreciation on assets under capital leases is charged to the income statement by applying the straight-line method at the rates applicable to the related assets.

**2.16 Accounts payable and accruals**

Liabilities are recognized for amounts to be paid for goods and services received, whether or not billed to the Group.

**2.17 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 are charged to "Cost of sales" in the income statement.

Onerous contracts - Provision against onerous contracts are recognized when the Group 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 income statement.

**2.18 Zakat and taxes**

The Company is subject to zakat in accordance with the regulations of the Department of Zakat and Income Taxes (the "DZIT"). Foreign shareholders in the consolidated Saudi Arabian subsidiaries are subject to income taxes. Income tax provisions related to the foreign shareholders in such subsidiaries are charged to the minority interest. Provision for zakat for the Company and zakat related to the Company's ownership in the Saudi Arabian subsidiaries is charged to the 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 taxes 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 Law.

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

**THE SAUDI ARABIAN AMIANTIT COMPANY AND SUBSIDIARIES**  
**Notes to the consolidated financial statements for the year ended December 31, 2008**  
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Deferred income tax assets are recognized on carry-forward tax losses and all major temporary differences between financial income and taxable income to the extent that it is probable that future taxable income will be available against which such carry-forward tax losses and the temporary differences can be utilized. Deferred income tax liabilities are recognized on significant temporary differences expected to result in an income tax liability in future periods. Deferred income taxes are determined using tax rates which have been enacted at 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.

**2.19 Employee termination benefits**

Employee termination benefits required by the Saudi Labor and Workman Law are accrued by the Company and its Saudi Arabian subsidiaries and charged to the income statement. The liability is calculated, as the current value of the vested benefits to which the employee is entitled, should the employee leave at the balance sheet date. Termination payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the labor law of Saudi Arabia.

The foreign subsidiaries provide for employee termination and other benefits as required under the laws of their respective countries of domicile. There are no funded or unfunded benefit plans established by the foreign subsidiaries except for APS Norway A.S. which fund a defined benefit plan, through an outside insurance company and Jos which funds a defined benefit pension plan.

**2.20 Revenues**

Sales are recognized upon delivery of products and customer acceptance, if any, or on the performance of services. Revenues are shown net of expenses, and after eliminating sales within the Group.

Revenues on long-term contracts are recognized on the percentage of completion basis. Percentage of completion is determined by comparison of contract costs incurred to date with estimated total costs. Changes in cost estimates and provisions for estimated losses on uncompleted contracts, if any, are recognized in the period they are determined.

Financial income is recognized on a time-proportion basis using the applicable market rates.

Royalty income is recognized on accrual basis in accordance with the terms of the relevant agreements.

**2.21 Selling, marketing and general and administrative expenses**

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

**2.22 Dividends**

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

**2.23 Derivative financial instruments**

Derivative financial instruments are initially recorded at cost, if any, 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 income statement as they arise and the resulting positive and negative fair values are reported under current assets and liabilities, respectively, in the balance sheet.

**2.24 Operating leases**

Rental expenses under operating leases are charged to the 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.

**2.25 Reclassifications**

Certain amounts in the comparative 2007 consolidated financial statements have been reclassified to conform with 2008 presentation.

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**3 Financial instruments and risk management**

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

Financial asset and liability is offset and net amounts are reported in the consolidated financial statements, when the Group has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and liability simultaneously.

Risk management is carried out by senior management. The most important types of risks are credit risk, currency risk and fair value and cash flow interest rate risks.

**3.1 Currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's transactions are principally in Saudi riyals, US dollars and Euros.

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. The Group also has investments in foreign subsidiaries and associates whose net assets are exposed to currency translation risk. Currently, such exposures are mainly related to exchange rate movements between Saudi riyals against Euros, Egyptian pounds and certain other currencies. Such exposures are recorded as a separate component of shareholders' equity in the accompanying consolidated financial statements. The Group's management monitors such exposures and considers the use of forward exchange contracts and borrowings denominated in the relevant foreign currency to hedge the foreign currency exposures. However, there were no significant forward exchange contracts or other hedging instruments outstanding at December 31, 2008.

**3.2 Fair value and cash flow interest rate risks**

Fair value and cash flow 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 positions and cash flows. The Group's interest rate risks arise mainly from its bank borrowings, which are at floating rate of interest and are subject to re-pricing on a regular basis. The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group raises borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts. Management monitors the changes in interest rates and believes that fair value and cash flow interest rate risks to the Group are not significant.

**3.3 Price risk**

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 financial instruments are not exposed to price risk.

**3.4 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 provision for doubtful accounts.

**3.5 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, including committed credit facilities, to meet the Group's obligations as they become due.

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**3.6 Fair value**

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 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 Group financial instruments are not materially different from their carrying values.

**4 Segment information**

The Group operates principally in the following business segments:

- (i) Manufacturing and selling various types of pipes;
- (ii) Development and licensing of technologies related to production of various types of pipes, construction and supply of related pipe manufacturing machines; and
- (iii) Water management and related consultancy, engineering and operations.

Selected financial information as of December 31, 2008 and 2007 and for the years then ended summarized by the above business segments, was as follows:

	<b>Pipe manufacturing</b>	<b>Technology</b>	<b>Water management</b>	<b>Total</b>
<b>2008</b>				
Sales	<b>3,604,991</b>	<b>94,412</b>	<b>327,034</b>	<b>4,026,437</b>
Net income (loss)	<b>233,723</b>	<b>4,761</b>	<b>(3,163)</b>	<b>235,321</b>
Financial (charges) income	<b>(155,379)</b>	<b>(1,308)</b>	<b>312</b>	<b>(156,375)</b>
Depreciation, amortization and impairment	<b>(130,957)</b>	<b>(1,510)</b>	<b>(3,303)</b>	<b>(135,770)</b>
Property, plant and equipment	<b>931,086</b>	<b>3,380</b>	<b>25,880</b>	<b>960,346</b>
Total assets	<b>4,033,150</b>	<b>153,724</b>	<b>316,925</b>	<b>4,503,799</b>
<b>2007</b>				
Sales	2,750,051	81,611	270,090	3,101,752
Net income	50,332	9,972	3,798	64,102
Financial charges	(115,071)	(3,698)	(1,856)	(120,625)
Depreciation, amortization and impairment	(98,385)	(2,493)	(3,327)	(104,205)
Property, plant and equipment	891,530	4,948	26,893	923,371
Total assets	3,566,672	265,497	228,287	4,060,456

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The Group's operations are conducted in Saudi Arabia, Europe and certain other geographical areas. Selected financial information as of December 31, 2008 and 2007 and for the years then ended summarized by geographic area, was as follows:

	<b>Saudi Arabia</b>	<b>Europe</b>	<b>Other countries</b>	<b>Total</b>
<b>2008</b>				
Sales	<b>2,145,021</b>	<b>1,448,500</b>	<b>432,916</b>	<b>4,026,437</b>
Non-current assets:				
Property, plant and equipment	<b>575,526</b>	<b>248,886</b>	<b>135,934</b>	<b>960,346</b>
Other	<b>224,263</b>	<b>52,517</b>	<b>85,563</b>	<b>362,343</b>
<b>2007</b>				
Sales	1,456,202	1,240,123	405,427	3,101,752
Non-current assets:				
Property, plant and equipment	556,159	233,344	133,868	923,371
Other	276,567	60,272	99,972	436,811

**5 Cash and cash equivalents**

	<b>2008</b>	<b>2007</b>
Cash in hand	<b>12,455</b>	9,919
Cash at bank	<b>198,269</b>	191,676
Time deposits	<b>118,415</b>	-
	<b>329,139</b>	201,595

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

**6 Accounts receivable**

	<b>2008</b>	<b>2007</b>
Trade	<b>1,625,686</b>	1,402,062
Other	<b>123,658</b>	133,389
Related parties	<b>36,272</b>	62,664
	<b>1,785,616</b>	1,598,115
Less: provision for doubtful debts	<b>(95,622)</b>	(54,819)
	<b>1,689,994</b>	1,543,296

Approximately 17% of trade accounts receivable as at December 31, 2008 (2007: 18%) (representing approximately 18% and 26% of total domestic trade accounts receivable for 2008 and 2007, respectively) were related to government projects.



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Movement in provision for doubtful debts is as follows:

	2008	2007
January 1	54,819	36,447
Additions	57,280	20,932
Write-offs	(14,403)	(4,022)
Currency translation differences	(2,074)	1,462
December 31	95,622	54,819

**7 Inventories**

	2008	2007
Raw materials	541,472	296,690
Work in process	117,909	105,628
Spare parts and supplies, not held for sale	71,256	62,981
Finished products	404,284	335,286
Goods in transit	3,162	49,703
	1,138,083	850,288
Less: provision for inventory obsolescence	(45,136)	(11,378)
	1,092,947	838,910

Inventories amounting to Saudi riyals 73.2 million at December 31, 2008 (2007: Saudi riyals 51.5 million) were pledged as security against bank borrowings.

Movement in provision for inventory obsolescence is as follows:

	2008	2007
January 1	11,378	7,956
Additions	34,179	3,625
Write-offs	(49)	(759)
Currency translation differences	(372)	556
December 31	45,136	11,378

**8 Non-current assets held-for-sale**

The Group entered into an agreement with a third party for sale of property, plant and equipment, intangible assets and inventories of Amitech USA Ltd. during 2007. Consequent to the agreement, such assets have been classified as held for sale as follow:

	2008	2007
Property, plant and equipment, net of accumulated depreciation and impairment provisions of Saudi riyals 72.6 million	-	40,537
Inventories, net of provisions for net realizable value of Saudi riyals 2.5 million	-	11,250
Intangible assets, net of accumulated amortization of Saudi riyals 0.9 million	-	713
	-	52,500

The sale transaction was completed effective January 1, 2008.

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**9 Investment in associates**

	<b>2008</b>	<b>2007</b>
Amiantit Fiberglass Egypt Co. (AFEC)	<b>54,680</b>	35,504
Chongqing Polycom Int'l Corporation (CPIC)	<b>89,454</b>	141,484
Dubai Pipe Factory Company LLC (DPF)	<b>26,605</b>	18,497
Ameron Egypt (AE)	<b>42,962</b>	37,818
Amitech Maroc (AM)	<b>24,588</b>	19,518
Amiantit Qatar Pipe Co. Ltd. (AQAP)	<b>16,675</b>	15,333
International Water Distribution Company (TAWZEA)	<b>5,930</b>	4,598
Amitech Argentina (AA)	<b>9,089</b>	8,145
Other	<b>54,900</b>	34,633
	<b>324,883</b>	315,530
Accumulated impairment	<b>(18,370)</b>	(2,530)
	<b>306,513</b>	313,000

Movement in investment in associates is as follows:

	<b>2008</b>	<b>2007</b>
January 1	<b>313,000</b>	259,173
Additions	<b>17,550</b>	649
Disposals	<b>(85,134)</b>	(2,623)
Adjustments	<b>16,206</b>	7,893
Share in net income	<b>55,635</b>	51,981
Dividends received	<b>(5,558)</b>	(12,973)
Currency translation differences	<b>10,654</b>	11,150
Impairment provisions	<b>(15,840)</b>	(2,250)
	<b>306,513</b>	313,000

Investments in associates at December 31, 2008 and 2007 include goodwill of Saudi riyals 26.6 million.

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The summarized financial information of the principal associates is as follows:

<b>Associate</b>	<b>County of incorporation</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Sales</b>	<b>Net income (loss)</b>	<b>%interest</b>
<b>2008</b>						
AFEC	Egypt	252,081	154,869	206,532	39,081	50%
CPIC	China	4,188,698	2,562,262	1,541,775	250,901	5.5%
DPF	United Arab Emirates	188,789	70,545	260,769	52,833	22.5%
AE	Egypt	86,451	45,506	73,080	10,851	49%
AM	Morocco	143,781	94,605	43,701	13,695	50%
AQAP	Qatar	103,780	62,092	45,853	3,356	40%
TAWZEA	Saudi Arabia	12,337	477	-	(1,800)	50%
AA	Argentina	133,640	103,343	94,381	3,138	30%
<b>2007</b>						
AFEC	Egypt	178,699	115,582	91,967	17,802	50%
CPIC	China	2,698,770	1,411,381	974,005	199,690	10.99%
DPF	United Arab Emirates	114,917	32,708	123,381	34,462	22.5%
AE	Egypt	67,951	37,590	87,571	13,796	49%
AM	Morocco	140,197	101,160	41,719	5,154	50%
AQAP	Qatar	55,559	17,227	-	(233)	40%
TAWZEA	Saudi Arabia	9,773	577	-	(804)	50%
AA	Argentina	85,015	57,850	66,673	10,394	30%

During 2008, the Group sold half of its 10.99% equity interest in Chongqing Polycom Int'l Corporation - China to a third party. The net book value of the shares sold was Saudi riyals 85.1 million and the sale was made against a consideration of Saudi riyals 168.8 million resulting in a gross profit on the sale of Saudi riyals 83.7 million. Considering transaction costs and historical appreciations of the investment due to currency translation, the deal generated a total gain of Saudi riyals 87.0 million. Also see Note 24.

During 2008, management recognized impairment provisions of approximately Saudi riyals 15.8 million against certain associates due to uncertainties regarding the economic performance resulting in their carrying values being higher than recoverable amounts.

During 2007, the Group sold 70% of its equity interests in Latin American entities for a consideration of Saudi riyals 35.3 million resulting in a gain of Saudi riyals 9.9 million. Also see Note 24.

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**10 Property, plant and equipment**

	January 1, 2008	Additions	Disposals / transfers	Currency translation differences	December 31, 2008
<b>2008</b>					
<b>Cost</b>					
Land	79,236	2,081	-	(283)	<b>81,034</b>
Buildings and land improvements	502,180	20,867	(71)	(45,249)	<b>477,727</b>
Plant, machinery and equipment	1,374,165	108,600	(8,198)	(32,292)	<b>1,442,275</b>
Furniture, fixtures and office equipment	131,961	8,912	(3,448)	(4,680)	<b>132,745</b>
Construction in progress	62,855	103,632	(52,191)	(6,913)	<b>107,383</b>
	<u>2,150,397</u>	<u>244,092</u>	<u>(63,908)</u>	<u>(89,417)</u>	<u><b>2,241,164</b></u>
<b>Accumulated depreciation and impairment</b>					
Buildings and land improvements	(269,836)	(23,216)	1,620	15,003	<b>(276,429)</b>
Plant, machinery and equipment	(855,904)	(72,665)	10,292	17,488	<b>(900,789)</b>
Furniture, fixtures and office equipment	(101,286)	(10,034)	2,262	5,458	<b>(103,600)</b>
	<u>(1,227,026)</u>	<u>(105,915)</u>	<u>14,174</u>	<u>37,949</u>	<u><b>(1,280,818)</b></u>
	<u>923,371</u>				<u><b>960,346</b></u>
	January 1, 2008	Additions	Disposals / transfers	Currency translation differences	December 31, 2007
<b>2007</b>					
<b>Cost</b>					
Land	80,155	4,008	(5,263)	336	79,236
Buildings and land improvements	534,022	18,422	(91,496)	41,232	502,180
Plant, machinery and equipment	1,384,484	69,239	(101,222)	21,664	1,374,165
Furniture, fixtures and office equipment	120,020	15,813	(8,863)	4,991	131,961
Construction in progress	64,001	73,071	(74,754)	537	62,855
	<u>2,182,682</u>	<u>180,553</u>	<u>(281,598)</u>	<u>68,760</u>	<u>2,150,397</u>
<b>Accumulated depreciation and impairment</b>					
Buildings and land improvements	(250,907)	(86,274)	78,968	(11,623)	(269,836)
Plant, machinery and equipment	(821,071)	(69,229)	42,164	(7,768)	(855,904)
Furniture, fixtures and office equipment	(91,267)	(10,087)	8,700	(8,632)	(101,286)
	<u>(1,163,245)</u>	<u>(165,590)</u>	<u>129,832</u>	<u>(28,023)</u>	<u>(1,227,026)</u>
	<u>1,019,437</u>				<u>923,371</u>

Buildings and machinery and equipment of the Company and certain of its Saudi Arabian subsidiaries are located on land which is leased from the Saudi Arabian government at nominal annual rent for 25 Hijra years under renewable operating leases.

Disposals / transfers during 2007 also include approximately Saudi riyals 65.2 million and Saudi riyals 18.7 of costs and accumulated depreciation and impairment related to Amitech USA Ltd. classified as held for sales. Also see Note 8.

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Additions in construction in progress during 2008 include assets of Saudi riyals 27.2 million acquired under a sale and leaseback arrangement.

**11 Intangible assets**

	<b>Goodwill</b>	<b>Patents, trademarks and licenses</b>	<b>Other deferred charges and pre-operating costs</b>	<b>Total</b>
January 1, 2008	46,273	3,817	10,016	60,106
Additions	-	598	781	1,379
Amortization	-	(2,424)	(3,697)	(6,121)
Impairment provisions	(23,734)	-	-	(23,734)
Currency translation differences	(1,580)	(11)	(788)	(2,379)
Other adjustments	-	3,488	(5,692)	(2,204)
December 31, 2008	<b>20,959</b>	<b>5,468</b>	<b>620</b>	<b>27,047</b>
January 1, 2007	44,570	5,423	23,834	73,827
Additions	-	492	1,436	1,928
Amortization	-	(1,385)	(15,343)	(16,728)
Adjustments	-	(713)	-	(713)
Currency translation differences	1,703	-	89	1,792
December 31, 2007	46,273	3,817	10,016	60,106

**12 Short-term borrowings**

	<b>2008</b>	<b>2007</b>
Bank overdrafts	<b>28,860</b>	58,181
Short-term bank loans	<b>1,410,806</b>	1,245,272
	<b>1,439,666</b>	1,303,453

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

Total unused short-term bank credit facilities available to the Group at December 31, 2008 were approximately Saudi riyals 613.3 million.

Saudi riyals 191.8 million of short-term bank loans at December 31, 2008 were collateralized by assignment of trade accounts receivable. Certain of the short-term bank loans of the subsidiaries were guaranteed by SAAC.

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

	<b>2008</b>	<b>2007</b>
Saudi riyals	<b>1,338,913</b>	1,220,939
Euros	<b>40,937</b>	37,410
Indian rupees	<b>19,657</b>	21,661
Other	<b>40,159</b>	23,443
	<b>1,439,666</b>	1,303,453

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**13 Long-term borrowings**

	<b>Note</b>	<b>2008</b>	<b>2007</b>
Saudi Industrial Development Fund ("SIDF") loans	13.1	<b>19,355</b>	36,155
Commercial bank loans	13.2	<b>98,857</b>	169,119
Loans from minority shareholders	13.3	<b>2,868</b>	7,655
		<b>121,080</b>	212,929
Current maturity shown under current liabilities		<b>(46,846)</b>	(69,121)
		<b>74,234</b>	143,808

**13.1 SIDF loans**

These represent loans obtained by SAAC from SIDF. The covenants in the loan agreements require the borrowers to maintain certain levels of financial condition, place limitations on dividend distributions and on annual capital and rental expenditures. These loans bear no financial charges and are secured by a mortgage on property, plant and equipment of SAAC.

**13.2 Commercial bank loans**

The Company and certain subsidiaries have obtained loan facilities from various commercial banks. These loans are mainly denominated in Saudi riyals, US dollars, Euros, South African rands and Indian rupees. These loans generally bear financial charges based on prevailing market rates. The aggregate maturities of these loans, based on their respective repayment schedules, are spread in 2009 through 2014. These loans are principally secured by mortgage on the property, plant and equipment.

The covenants of some 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.

**13.3 Loan from minority shareholders**

At December 31, 2008, FPC and AWWWS had loans from their minority shareholders of approximately Saudi riyals 2.8 million and Saudi riyals 0.1 million respectively. These loans did not bear any financial charges and have no specific repayment dates.

**13.4 Currency denomination**

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

	<b>2008</b>	<b>2007</b>
Saudi riyals	<b>22,223</b>	138,782
Euros	<b>55,309</b>	19,758
US dollars	<b>18,344</b>	16,855
South African rands	<b>8,710</b>	11,096
Indian rupees	<b>16,272</b>	26,288
Other	<b>222</b>	150
	<b>121,080</b>	212,929

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**13.5 Maturity profile of long-term borrowings**

**Years ending December 31:**

	<b>2008</b>	<b>2007</b>
2008	-	69,121
2009	<b>46,846</b>	111,384
2010	<b>27,775</b>	11,788
2011	<b>18,189</b>	5,423
2012	<b>11,430</b>	531
2013	<b>4,820</b>	-
Thereafter	<b>12,020</b>	14,682
	<b>121,080</b>	212,929

**14 Liabilities against capital leases**

The Group has entered into sale and leaseback transactions related to certain machinery and equipment under capital lease agreements with financial institutions. The present values of minimum lease payments are discounted at effective interest rates ranging 4.4% to 4.9% per annum.

Repairs and insurance costs related to the leased machinery and equipment are to be borne by the Group. The Group intends to exercise its option to purchase the leased assets at the termination of the lease periods at nominal values provided in the lease agreements.

The lease payments are due in semi-annual installments under the lease agreements. The amounts of future payments under the leases at December 31, were as follows:

	<b>2008</b>	<b>2007</b>
Minimum lease payments	<b>54,188</b>	10,784
Less: financial charges not yet due	<b>(5,438)</b>	(472)
	<b>48,750</b>	10,312
Current maturity shown under current liabilities	<b>(12,188)</b>	(10,312)
	<b>36,562</b>	-

**14.1 Maturity profile**

Minimum lease payments falling due during years ending December 31:

	<b>2008</b>	<b>2007</b>
2008	-	10,784
2009	<b>14,452</b>	-
2010	<b>13,848</b>	-
2011	<b>13,243</b>	-
2012	<b>12,645</b>	-
	<b>54,188</b>	10,784

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**15 Accounts payable**

	<b>2008</b>	<b>2007</b>
Trade	<b>410,187</b>	485,331
Related parties	<b>13,362</b>	18,543
	<b>423,549</b>	503,874

**16 Accrued and other liabilities**

	<b>Note</b>	<b>2008</b>	<b>2007</b>
Salaries, wages and benefits		<b>57,190</b>	44,025
Dividends payable		<b>1,180</b>	6,348
Advances from customers		<b>178,725</b>	78,539
Provision against claims, warranties and onerous contracts		<b>64,955</b>	5,189
Derivative financial instruments	26	<b>14,352</b>	-
Sales agency fees		<b>4,753</b>	5,121
Financial charges		<b>21,079</b>	7,463
Accrued expenses and other		<b>118,887</b>	128,500
		<b>461,121</b>	275,185

Dividends are payable to minority shareholders of certain subsidiaries.

**17 Zakat and taxes**

**17.1 Components of zakat base**

The Group's Saudi Arabian subsidiaries file separate zakat and income tax declarations which are filed on unconsolidated basis. The significant components of the zakat base of each company is comprised of shareholders' equity, provisions at the beginning of year, long-term borrowings and adjusted net income, less deductions for the net book value of property, plant and equipment, investments and certain other items.

**17.2 Provision for zakat and taxes at December 31**

	<b>2008</b>	<b>2007</b>
Zakat for SAAC	<b>21,097</b>	5,769
Zakat and income taxes for Saudi Arabian subsidiaries	<b>41,377</b>	27,679
Taxes for foreign subsidiaries	<b>53,897</b>	33,136
	<b>116,371</b>	66,584

**17.3 Income taxes related to foreign subsidiaries charged to the income statement**

	<b>2008</b>	<b>2007</b>
Current income tax charges	<b>31,922</b>	33,283
Deferred income tax charges	<b>7,676</b>	10,280
	<b>39,598</b>	43,563



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Movements in deferred income tax assets for the years ended December 31, were as follows:

	2008	2007
January 1	26,625	40,645
Charges	(7,676)	(10,280)
Currency translation differences	(3,028)	(3,740)
December 31	15,921	26,625

**17.4 Provision for zakat charged to the income statement**

	2008	2007
Zakat for SAAC	14,107	4,063
Share of SAAC in zakat of subsidiaries	22,405	13,937
	36,512	18,000

**17.5 Status of final assessments**

The Company and the Saudi Arabian subsidiaries have received zakat and income tax certificates for the years through 2007. SAAC has not yet received the final assessments for the years through 2002. The DZIT has not yet finalized the assessments for certain Saudi Arabian subsidiaries for various years. Also see Note 27 for zakat and income tax contingencies.

**18 Employee termination benefits**

	2008	2007
January 1	93,197	80,764
Provisions	15,256	16,032
Payments	(10,288)	(3,599)
December 31	98,165	93,197

**19 Related party matters**

The Group's subsidiaries have transactions with their respective minority shareholders, other companies affiliated with such shareholders and other associates (collectively the "related parties").

Significant transactions with related parties are summarized below:

	2008	2007
Sales	52,571	22,840
Purchases	125,817	61,200
Costs and expenses charged	910	1,500

**20 Share capital**

The share capital of the Company as of December 31, 2008 and 2007 was comprised of 115.5 million ordinary shares stated at Saudi riyals 10 per share.

**21 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 50% of share capital. The statutory reserve in the consolidated financial statements is the statutory reserve of the Company. This reserve currently is not available for distribution to the shareholders of the Company.

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**22 Selling and marketing expenses**

	<b>2008</b>	<b>2007</b>
Salaries, wages and benefits	<b>49,628</b>	47,974
Traveling	<b>11,941</b>	20,201
Sales promotion	<b>20,000</b>	13,035
Information technology and communications	<b>1,831</b>	2,254
Depreciation	<b>1,167</b>	1,227
Other	<b>10,942</b>	6,367
	<b>95,509</b>	91,058

**23 General and administrative expenses**

	<b>2008</b>	<b>2007</b>
Salaries, wages and benefits	<b>186,282</b>	167,612
Depreciation and amortization	<b>21,325</b>	15,533
Provision for doubtful debts	<b>57,280</b>	20,932
Maintenance	<b>3,389</b>	4,660
Traveling	<b>19,232</b>	16,954
Professional services	<b>31,112</b>	20,910
Information technology and communications	<b>13,527</b>	9,923
Other	<b>43,806</b>	21,166
	<b>375,953</b>	277,690

**24 Other income (expenses)**

	<b>Note</b>	<b>2008</b>	<b>2007</b>
Impairment provisions against investments, plant and equipment and inventories	8,9,10	<b>(39,574)</b>	(73,986)
Gain on sale of investments	9	<b>87,030</b>	12,480
Provision for settlement of claims against subsidiaries		<b>(13,779)</b>	(5,189)
Foreign exchange loss		<b>(194)</b>	(5,549)
Other - net		<b>(2,564)</b>	1,022
		<b>30,919</b>	(71,222)

**25 Earnings per share**

Earnings per share for the years ended December 31, 2008 and 2007 has been computed by dividing the operating income, non-operating loss and net income for each years by weighted average number of 115,500,000 shares outstanding during such years.

**26 Derivative financial instruments**

At December 31, 2008, the Company had outstanding interest rate swap agreements with a commercial bank with negative fair values of Saudi riyals 14.3 million which have been recorded in the income statement and included in "Financial charges - net" with a corresponding liability recorded under "Accrued and other liabilities". The interest rate swap arrangements will mature during 2011 to 2013.

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**27 Contingencies and commitments**

- (i) The Group was contingently liable for bank guarantees issued on behalf of the Group in the normal course of the business amounting Saudi riyals 535.9 million at December 31, 2008 (2007: Saudi riyals 461.1 million).
- (ii) SAAC and certain Saudi Arabian subsidiaries have received additional zakat and income taxes assessments for various years totaling approximately Saudi riyals 5.7 million. SAAC and these subsidiaries have appealed the assessments and Group management believes that no material liability will arise upon the ultimate resolution of these assessments. Accordingly, no provision for such assessments has been made in the accompanying consolidated financial statements.
- (iii) The Company's certain foreign subsidiaries have outstanding assessments related to income taxes and other local taxes in their respective countries of domicile. Such assessments are in various stages of appeal process. Group management believes that no material gain or loss will arise upon the ultimate resolution of these matters. Certain foreign subsidiaries also have contingent carry over tax benefits.
- (iv) The capital expenditure contracted by the Group but not yet incurred till December 31, 2008 was approximately Saudi riyals 33.3 million.