

**THE SAUDI ARABIAN AMIANTIT COMPANY  
AND ITS SUBSIDIARIES  
(A Saudi Joint Stock Company)**

UNAUDITED INTERIM CONSOLIDATED FINANCIAL  
STATEMENTS FOR THE THREE-MONTH PERIOD  
AND YEAR ENDED 31 DECEMBER 2016  
AND LIMITED REVIEW REPORT

**THE SAUDI ARABIAN AMIANTIT COMPANY AND ITS SUBSIDIARIES**  
**(A Saudi Joint Stock Company)**  
**UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE-MONTH PERIOD AND YEAR ENDED 31 DECEMBER 2016**

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### **LIMITED REVIEW REPORT**

To the Shareholders of The Saudi Arabian Amiantit Company  
(A Saudi Joint Stock Company)

#### **Scope of review**

We have reviewed the accompanying interim consolidated balance sheet of The Saudi Arabian Amiantit Company (the "Company") and its subsidiaries (collectively referred to as the "Group") as at 31 December 2016 along with the interim consolidated income statement for the three-month period and year ended 31 December 2017, the interim consolidated cash flows statement for the year then ended, and the related notes which form an integral part of these interim consolidated financial statements. These interim consolidated financial statements are the responsibility of the Group's management and have been prepared by them and submitted to us together with all the information and explanations which we required.

We conducted our limited review in accordance with the standard on Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants. A limited review consists principally of applying analytical procedures to financial data and information and making inquiries of persons responsible for financial and accounting matters. The scope of such limited review is substantially less than an audit conducted in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

#### **Limited review conclusion**

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

#### **Emphasis of matter**

We draw attention to note 6-b to the accompanying interim consolidated financial statements. As stated therein, one of the wholly owned subsidiaries of the Company is defending a claim filed by one of its sub-contractors on a project in Iraq. In January 2016, the Iraqi court ruled in favor of the plaintiff. The subsidiary appealed the court ruling at the Iraqi court of appellate which, in March 2016, upheld the previous court ruling. The subsidiary appealed the later ruling at the Iraqi court of cassation which, in April 2016, ruled to accept the appeal and referred the case back to the court of appellate for reassessment. In January 2017, the Iraqi court of appellate ruled in favor of the subsidiary and declared all previous rulings in the case null and void. After that date and up to the date of this report, there were no significant developments in the case. Based on the conservative estimates of the Group's own experts and lawyers, the Group's management believes that they have recorded an adequate provision for this claim and the ultimate outcome of the litigation process would not result in any additional financial impact on the accompanying interim consolidated financial statements.

**BAKER TILLY MKM & CO.**  
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Ayad Obeyan Alseraihi  
License No. 405

19 Rabi' Al-Thani, 1438  
January 17, 2017



**THE SAUDI ARABIAN AMIANTIT COMPANY AND ITS SUBSIDIARIES**  
**(A Saudi Joint Stock Company)**  
**Interim consolidated balance sheet**  
**As at 31 December 2016**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

	2016 (Unaudited)	2015 (Audited)
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	122,522	166,501
Accounts receivable	1,171,593	1,228,965
Inventories	918,383	1,276,130
Prepayments and other receivables	203,971	256,647
	<b>2,416,469</b>	<b>2,928,243</b>
<b>Non-current assets</b>		
Non-current receivables	565,529	824,950
Investments in associates	122,540	127,923
Property, plant and equipment	696,706	728,308
Intangible assets	8,995	13,251
Deferred income tax assets	7,952	8,067
Other non-current assets	14,647	13,766
	<b>1,416,369</b>	<b>1,716,265</b>
<b>Total assets</b>	<b>3,832,838</b>	<b>4,644,508</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Short-term borrowings	1,160,387	1,618,177
Current maturity of long-term borrowings	164,414	18,560
Accounts payable	350,260	528,844
Accrued expenses and other liabilities	271,982	320,899
Zakat and income tax provision	96,376	90,889
	<b>2,043,419</b>	<b>2,577,369</b>
<b>Non-current liabilities</b>		
Long-term borrowings	520,637	426,728
Employee terminal benefits	72,718	78,743
Warranty provisions	13,906	13,338
Other non-current liabilities	20,014	19,966
	<b>627,275</b>	<b>538,775</b>
<b>Total liabilities</b>	<b>2,670,694</b>	<b>3,116,144</b>
<b>Shareholders' equity</b>		
Share capital	1,155,000	1,155,000
Statutory reserve	189,472	189,472
Retained earnings	21,800	332,190
Employees shares program and reserve	(31,914)	(31,914)
Change in fair value of interest rate swap	(2,143)	-
Currency translation differences	(212,041)	(181,349)
<b>Equity attributable to the shareholders of the Company</b>	<b>1,120,174</b>	<b>1,463,399</b>
Non-controlling interests	41,970	64,965
<b>Total equity</b>	<b>1,162,144</b>	<b>1,528,364</b>
<b>Total liabilities and equity</b>	<b>3,832,838</b>	<b>4,644,508</b>

The notes from 1 to 7 form an integral part of these interim consolidated financial statements.



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**THE SAUDI ARABIAN AMIANTIT COMPANY AND ITS SUBSIDIARIES**  
**(A Saudi Joint Stock Company)**  
**Interim consolidated income statement**  
**For the three-month period and year ended 31 December 2016**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

	<b>Three-month period ended 31 December</b>		<b>Year ended 31 December</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Audited)</i>
Sales	426,353	743,507	2,140,177	2,908,627
Cost of sales	(447,125)	(638,595)	(1,874,310)	(2,428,440)
Gross (loss) profit	(20,772)	104,912	265,867	480,187
<b>Operating expenses</b>				
General and administrative	(39,710)	(21,385)	(169,339)	(145,001)
Selling and marketing	(24,199)	(22,803)	(90,046)	(87,007)
Provision for doubtful debts	(39,436)	(14,525)	(77,596)	(27,229)
(Loss) income from main operations	(124,117)	46,199	(71,114)	220,950
<b>Other income (expenses)</b>				
Share in net income of associates	807	6,548	5,729	5,667
Financial charges, net	(27,217)	(20,169)	(111,259)	(85,804)
Impairment of non-current assets	(26,698)	(2,673)	(26,790)	(5,025)
Others, net	(6,397)	445	6,138	(21,370)
<b>(Loss) income before non-controlling interests, income tax and zakat</b>	<b>(183,622)</b>	<b>30,350</b>	<b>(197,296)</b>	<b>114,418</b>
Non-controlling interests	4,744	4,102	(4,506)	26,117
<b>(Loss) income before income tax and zakat</b>	<b>(178,878)</b>	<b>34,452</b>	<b>(201,802)</b>	<b>140,535</b>
Income tax	(279)	(2,980)	(8,993)	(4,661)
Zakat	(14,750)	(9,000)	(40,000)	(34,500)
<b>Net (loss) income for the period</b>	<b>(193,907)</b>	<b>22,472</b>	<b>(250,795)</b>	<b>101,374</b>
<b>(Loss) earnings per share (Saudi Riyals):</b>				
* From main operations	(1.71)	0.20	(2.21)	0.89
* From net (loss) income for the period	(1.09)	0.41	(0.63)	1.95

The accompanying notes from 1 to 7 form an integral part of these interim consolidated financial statements.



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**THE SAUDI ARABIAN AMIANTIT COMPANY AND ITS SUBSIDIARIES**  
**(A Saudi Joint Stock Company)**  
**Interim consolidated cash flows statement**  
**For the year ended 31 December 2016**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

	2016 (unaudited)	2015 (audited)
<b>Operating activities</b>		
Net (loss) income for the year	(250,795)	101,374
<u>Adjustments for non-cash items</u>		
Depreciation, amortization and impairment	91,104	129,967
Share in net income of associates	(5,729)	(5,667)
Provisions	115,930	-
Deferred income tax credits	(116)	(172)
Provision for zakat and income tax	40,000	-
Income (loss) attributable to non-controlling interests	4,506	(26,117)
<u>Changes in working capital</u>		
Accounts receivable	216,961	(212,535)
Inventories	329,347	(159,768)
Prepayments and other receivables	52,676	(79,946)
Accounts payable	(178,584)	96,307
Accrued expenses and other current liabilities	(46,761)	19,004
Employee terminal benefits, net	(6,025)	687
Zakat and income tax paid	(34,513)	-
<b>Net cash generated from (utilized in) operating activities</b>	<b>328,001</b>	<b>(136,866)</b>
<b>Investing activities</b>		
Investment proceeds	-	62,789
Dividends received from an associated company	977	-
Purchase of property, plant and equipment	(69,971)	(61,333)
Net change in intangibles and other non-current assets	2,976	(352)
<b>Net cash (utilized in) generated from investing activities</b>	<b>(66,018)</b>	<b>1,104</b>
<b>Financing activities</b>		
Decrease in short-term borrowings	(447,372)	(198,858)
Proceeds from long-term borrowings	274,028	405,364
Repayments of long-term borrowings	(34,057)	(8,354)
Dividends paid	(75,075)	-
Board of directors' remunerations paid	(1,800)	-
Dividends paid by subsidiaries to non-controlling interests	(400)	(18,856)
Net change in other non-current liabilities	(15,319)	24,942
<b>Net cash (utilized in) generated from financing activities</b>	<b>(299,995)</b>	<b>204,238</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(38,012)</b>	<b>68,476</b>
Cash and cash equivalents at 1 January	166,501	105,768
Foreign currency translation adjustments	(5,967)	(7,743)
<b>Cash and cash equivalents at 31 December</b>	<b>122,522</b>	<b>166,501</b>

**Non-cash transaction:**

The acquisition of shares in two subsidiaries from a non-controlling partner on 15 June 2016, as referred to in note 1, has not been reflected in the above figures as the transaction did not include any exchange of cash or cash equivalents.

The accompanying notes from 1 to 7 form an integral part of these interim consolidated financial statements.



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## THE SAUDI ARABIAN AMIANTIT COMPANY AND ITS SUBSIDIARIES

(A Saudi Joint Stock Company)

Notes to the unaudited interim consolidated financial statements

For the year ended 31 December 2016

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

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

On 15 June 2016, the Company executed a share purchase agreement with the U.S. based corporation Ameron Inc. ("AI") whereby the Group acquires from AI the minority shares of the concrete pipe companies of the Group, namely Ameron Saudi Arabia Limited ("ASAL") and Saudi Arabia Concrete Products Limited ("SACOP"). The Company purchased 30.3% of the shares of ASAL and 17.4% of the shares of SACOP, thereby becoming the sole partner of both companies, for a total consideration of SR 1.9 million. The legal formalities for these transactions have been completed. The consideration paid was less than the carrying amount of non-controlling interests acquired by SR 17.3 million. This difference was recognized directly as an increase in retained earnings.

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

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

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

The MOU is valid until 31 July 2017. The execution of the MOU is subject to many conditions including, inter alia, the following:

- Signing a joint venture agreement.
- The approval of the competent merger control authorities in the European Union.
- Restructuring the ownership of certain subsidiaries.
- Transfer of technology use rights.

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

The accompanying interim consolidated financial statements were authorized for issue by the Company's board of directors on 17 January 2017.

**THE SAUDI ARABIAN AMIANTIT COMPANY AND ITS SUBSIDIARIES**  
**(A Saudi Joint Stock Company)**  
**Notes to the unaudited interim consolidated financial statements (continued)**  
**For the year ended 31 December 2016**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

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**2 Summary of significant accounting policies**

These interim consolidated financial statements have been prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia. The significant accounting policies adopted are as follows:

**2.1 Accounting convention**

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

**2.2 Results of interim period**

The accompanying interim consolidated financial statements include all adjustments comprising mainly of normal recurring accruals considered necessary by the Group's management to present a fair statement of the financial position, results of operations and cash flows. The interim results of operations may not represent a proper indication for the annual results of operations. These interim consolidated financial statements and notes should be read in conjunction with the annual audited consolidated financial statements and the related notes for the year ended 31 December 2015.

**2.3 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. Although these estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management makes estimates and assumptions concerning the future which, by definition, seldom equal the related actual results.

**2.4 Investments**

**(a) Subsidiaries**

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies to obtain economic benefits 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. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. 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 interim consolidated balance sheet. Goodwill is tested annually for impairment and carried at cost, net of impairment losses, if any.

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



## **2 Summary of significant accounting policies (continued)**

### **a.5 Segment reporting**

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

A business segment is a 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 a 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.

### **a.6 Foreign currencies**

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

These interim consolidated financial statements are presented in Saudi Riyals which is the reporting currency of the Company.

#### **(b) Transactions and balances**

Foreign currency transactions are translated into Saudi Riyals using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the period-end exchange rates are recognized in the income statement.

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

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

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

## **2.7 Derivative Financial Instruments**

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

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

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

**THE SAUDI ARABIAN AMIANTIT COMPANY AND ITS SUBSIDIARIES**  
**(A Saudi Joint Stock Company)**  
**Notes to the unaudited interim consolidated financial statements (continued)**  
**For the year ended 31 December 2016**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

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**2 Summary of significant accounting policies (continued)**

**2.8 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.

**2.9 Accounts receivable**

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

**2.10 Inventories**

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

**2.11 Property, plant and equipment**

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

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

**2.12 Deferred charges**

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

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

**2.14 Borrowings**

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

**2.15 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 Summary of significant accounting policies (continued)**

### **2.16 Provisions**

- a) Warranty provisions: the Group offers warranties for its products. Management estimates the related provision for future warranty claims based on historical warranty claim information, as well as recent trends that might suggest that past cost information may differ from future claims. Warranty provisions and reversals are charged to cost of sales in the interim consolidated income statement. Adjustments are made to the warranty provision considering the changes in recent trends, technological improvements and legal and constructive obligations of the Group.
- b) Onerous contracts: provision against onerous contracts is 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 interim consolidated income statement.

### **2.17 Zakat and tax**

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

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

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

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

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

### **2.18 Employees' terminal benefits**

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

### **2.19 Employees' share ownership plan**

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

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

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

**THE SAUDI ARABIAN AMIANTIT COMPANY AND ITS SUBSIDIARIES**  
**(A Saudi Joint Stock Company)**  
**Notes to the unaudited interim consolidated financial statements (continued)**  
**For the year ended 31 December 2016**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

**2 Summary of significant accounting policies (continued)**

**2.20 Revenues**

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

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

Selling and marketing expenses are those that specifically relate to salesmen, promotional activities as well as provision for doubtful debts. All other expenses, other than direct costs, manufacturing overhead and financial charges are classified as general and administrative expenses. 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 as a liability in the interim consolidated balance sheet in the period in which they are approved by the shareholders of the Company.

**2.23 Operating leases**

Rental expense under operating leases is charged to the interim consolidated income statement over the period of the respective lease.

**2.24 Statutory reserve**

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

**2.25 Earnings per share**

Earnings per share for the three-month period and year ended 31 December 2016 and 31 December 2015 have been computed by dividing the operating income and net income for the periods by the weighted average number of 113,564,309 shares outstanding during these periods.

**3 Segment information**

The Group operates principally in the following business segments:

- (i) Manufacturing and selling various types of pipes and development and licensing of related technologies; and;
- (ii) Water management and related consultancy, engineering and operations.

Selected financial information as at 31 December 2016 and 2015 and for the year then ended, summarized by the above business segments, was as follows:

	<b>Pipe manufacturing</b>	<b>Water management</b>	<b>Total</b>
<b><u>2016</u></b>			
Sales	1,963,532	176,645	2,140,177
Net income (loss)	(154,427)	(96,368)	(250,795)
Total assets	2,962,349	870,489	3,832,838
<b><u>2015</u></b>			
Sales	2,584,388	324,239	2,908,627
Net income (loss)	127,026	(25,652)	101,374
Total assets	4,286,468	358,040	4,644,508

**THE SAUDI ARABIAN AMIANTIT COMPANY AND ITS SUBSIDIARIES**  
**(A Saudi Joint Stock Company)**  
**Notes to the unaudited interim consolidated financial statements (continued)**  
**For the year ended 31 December 2016**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

**3 Segment information (continued)**

The Group's operations are conducted in Saudi Arabia, Europe and certain other geographical areas. Selected financial information as at 31 December 2016 and 2015 and for the year then ended, summarized by geographic area, was as follows:

	<b>Saudi Arabia</b>	<b>Europe</b>	<b>Elsewhere</b>	<b>Total</b>
<b>2016</b>				
<b>Sales</b>	<b>1,138,830</b>	<b>971,117</b>	<b>30,230</b>	<b>2,140,177</b>
<b>Non-current assets:</b>				
<b>Property, plant and equipment</b>	<b>537,774</b>	<b>145,404</b>	<b>13,528</b>	<b>696,706</b>
<b>Other non-current assets</b>	<b>662,185</b>	<b>30,360</b>	<b>27,118</b>	<b>719,663</b>
<b>2015</b>				
<b>Sales</b>	<b>1,803,346</b>	<b>1,086,697</b>	<b>18,584</b>	<b>2,908,627</b>
<b>Non-current assets:</b>				
<b>Property, plant and equipment</b>	<b>561,954</b>	<b>152,042</b>	<b>14,312</b>	<b>728,308</b>
<b>Other non-current assets</b>	<b>920,455</b>	<b>30,301</b>	<b>37,201</b>	<b>987,957</b>

**4 Dividends**

In April 2016, the Company's general assembly approved dividends amounting to SR 75.1 million (2015: Nil).

**5 Interest Rate Swap Contract**

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

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

**6 Contingencies and commitments**

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

## THE SAUDI ARABIAN AMIANTIT COMPANY AND ITS SUBSIDIARIES

(A Saudi Joint Stock Company)

Notes to the unaudited interim consolidated financial statements (continued)

For the year ended 31 December 2016

(All amounts in Saudi Riyals thousands unless otherwise stated)

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### 6 Contingencies and commitments (continued)

- b) PWT Wasser- und Abwassertechnik GmbH ("PWT"), a wholly owned subsidiary of the Company, engaged in Engineering, Procurement and Construction (EPC) contracting for water and sewage treatment plants, faced certain issues in its project in Iraq. PWT terminated the contract with one of its sub-contractors due to non-performance of its obligations under the contract. The sub-contractor has filed a claim against PWT with the competent court in Iraq for compensation of costs incurred prior to its termination as well as lost profit. In January 2016, the court in Iraq ruled in favor of the sub-contractor for a compensation amounting to Iraqi dinars 31.5 billion (SR 104.4 million). PWT has filed an appeal against the court ruling at the Iraqi Court of Appellate. In March 2016, the Iraqi court of Appellate upheld the previous court ruling. PWT appealed the ruling of the Court of Appellate at the Iraqi Court of Cassation. In April 2016, the Court of Cassation ruled to accept the appeal and referred the case back to the Appellate Court for reassessment.

On 10 January 2017, the Appellate Court ruled in favor of PWT and all previous rulings in the case were declared null and void. In its basis for the ruling, the Appellate Court relied on a specialists report which concluded that the value of work accomplished by the sub-contractor was less than the amounts they received and accordingly, the sub-contractor owes PWT a net amount of Iraqi dinars 16.7 billion (SR 54.8 million). The latest ruling in the case can be appealed at the Iraqi Court of Cassation within 30 days. After that date and up to the date of these interim consolidated financial statements were authorized for issuance, there were no significant developments in the case.

The total provision against this claim as at 31 December 2016 amounted to Saudi Riyals 48 million (31 December 2015: SR 27 million). The latest ruling on 10 January 2017 gives PWT the possibility to claim back SR 54.8 million from the sub-contractor. Nevertheless, the Group's management decided to keep the provision as the ruling can still be appealed by the sub-contractor and PWT needs to start a new legal process to claim back part of the advances paid to the sub-contractor. Based on the conservative estimates of the Group's own experts and lawyers, the Group's management believes that they have recorded an adequate provision for this claim and the ultimate outcome of the litigation process would not result in any additional financial impact on the accompanying interim consolidated financial statements.

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

### 7 Comparative figures

Certain prior period amounts have been reclassified to conform to the presentation in the current period.