

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

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
AND INDEPENDENT AUDITORS' REPORT**

THE SAUDI ARABIAN AMIANTIT COMPANY AND SUBSIDIARIES
(A Saudi Joint Stock Company)
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

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INDEPENDENT AUDITORS' REPORT

February 6, 2014

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

Scope of audit

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, 2013 and the related consolidated statements of income, cash flows and changes in shareholders' equity 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 Article 123 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.

Unqualified 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, 2013 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 By-laws with respect to the preparation and presentation of consolidated financial statements.

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THE SAUDI ARABIAN AMIANTIT COMPANY AND SUBSIDIARIES
(A Saudi Joint Stock Company)
Consolidated balance sheet
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	As at December 31,	
		2013	2012
Assets			
Current assets			
Cash and cash equivalents	5	149,347	127,347
Short-term bank deposits	6	-	47
Accounts receivable	7	1,831,079	2,023,106
Inventories	8	1,243,877	1,481,940
Prepayments and other receivables		136,138	127,286
Non-current assets held for sale	1	96,684	-
		3,457,125	3,759,726
Non-current assets			
Investment in associates	9	94,477	204,762
Property, plant and equipment	10,13	792,369	811,826
Intangible assets	11	12,760	12,734
Deferred income tax assets	15	10,778	9,848
Other non-current assets	18	43,846	23,610
		954,230	1,062,780
Total assets		4,411,355	4,822,506
Liabilities			
Current liabilities			
Short-term borrowings	12	1,588,840	1,633,139
Current maturity of long-term borrowings	13	93,007	96,378
Accounts payable		514,217	663,846
Accrued and other liabilities	14	219,685	292,258
Zakat and taxes payable	15	92,508	109,343
		2,508,257	2,794,964
Non-current liabilities			
Long-term borrowings	13	97,108	170,397
Employee termination benefits	16	80,278	92,303
Warranty provisions	17	22,801	52,763
Other non-current liabilities		12,123	11,672
		212,310	327,135
Total liabilities		2,720,567	3,122,099
Equity			
Equity attributable to shareholders of the Company:			
Share capital	19	1,155,000	1,155,000
Statutory reserve	20	171,073	159,812
Retained earnings		284,401	303,021
Employees shares program and reserve	16	(33,660)	(37,448)
Currency translation adjustments		(12,454)	(12,474)
Total shareholders' equity		1,564,360	1,567,911
Non-controlling interests		126,428	132,496
Total equity		1,690,788	1,700,407
Total liabilities and equity		4,411,355	4,822,506
Contingencies and commitments	27		

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

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

	Note	Year ended December 31,	
		2013	2012
Sales	4,18	3,130,672	3,454,795
Cost of sales	18	(2,660,667)	(2,898,211)
Gross profit		470,005	556,584
Operating expenses			
Selling and marketing	21	(80,981)	(77,192)
General and administrative	22	(161,562)	(216,082)
Income from operations		227,462	263,310
Other (expenses) income			
Share in net loss of associates	9	(5,978)	(39,329)
Financial charges, net	6,12,13	(86,533)	(85,988)
Other, net	23	2,475	2,133
Income before foreign income taxes, zakat and non-controlling interests		137,426	140,126
Foreign income taxes	15	(8,655)	(9,661)
Zakat	15	(35,581)	(35,139)
Income before non-controlling interests		93,190	95,326
Non-controlling interests		19,424	16,012
Net income for the year		112,614	111,338
Earnings per share (Saudi Riyals):			
• Operating income	25	2.01	2.33
• Net income for the year		1.00	0.99

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

	Note	Year ended December 31,	
		2013	2012
Cash flow from operating activities			
Net income for the year		112,614	111,338
<u>Adjustments for non-cash items</u>			
Share in net loss of associates	9	5,978	39,329
Depreciation, impairment, amortization and provisions		69,000	113,872
Deferred income tax (credits) charges	15	(1,768)	3,254
Loss applicable to non-controlling interests		(19,424)	(16,012)
<u>Changes in working capital</u>			
Accounts receivable		153,651	(277,327)
Inventories		214,975	(438,600)
Prepayments and other receivables		(43,311)	(403)
Accounts payable		(124,702)	75,132
Accrued and other liabilities		(24,154)	(38,232)
Employee termination benefits		(1,514)	2,125
Net cash generated from (utilized in) operating activities		341,345	(425,524)
Cash flow from investing activities			
Short-term bank deposits	6	(49)	1,283
Investments	1	(6,400)	(13,725)
Proceeds from disposal of investments	1	20,063	-
Purchase of property, plant and equipment		(129,401)	(115,285)
Intangible assets and other		(23,344)	30,666
Net cash utilized in investing activities		(139,131)	(97,061)
Cash flow from financing activities			
Changes in short-term borrowings		(9,515)	496,399
Proceeds from long-term borrowings		24,815	225,397
Repayments of long-term borrowings		(90,483)	(260,193)
Repayments of liabilities against capital leases		-	(12,186)
Dividends paid	24	(112,984)	(140,566)
Dividends paid by subsidiaries to non-controlling interests		(951)	(3,818)
Board of Directors' fee paid		(1,800)	(1,800)
Purchase of shares for employees shares program	16	-	(41,758)
Changes in non-controlling interests and other		10,704	(2,219)
Net cash (utilized in) generated from financing activities		(180,214)	259,256
Net change in cash and cash equivalents			
		22,000	(263,329)
Cash and cash equivalents at beginning of the year		127,347	390,676
Cash and cash equivalents at end of the year	5	149,347	127,347

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

THE SAUDI ARABIAN AMIANTIT COMPANY AND SUBSIDIARIES
(A Saudi Joint Stock Company)
Consolidated statement of changes in shareholders' equity
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	Share capital	Statutory reserve	Retained earnings	Employees shares program and reserve	Currency translation adjustments	Total
January 1, 2013		1,155,000	159,812	303,021	(37,448)	(12,474)	1,567,911
Net income for the year		-	-	112,614	-	-	112,614
Transfer to statutory reserve	20	-	11,261	(11,261)	-	-	-
Dividends	24	-	-	(115,500)	-	-	(115,500)
Board of Directors' fee		-	-	(1,800)	-	-	(1,800)
Loss on acquisition of non-controlling interest	1	-	-	(2,673)	-	-	(2,673)
Charge for employees shares program	16	-	-	-	3,788	-	3,788
Currency translation adjustments		-	-	-	-	20	20
December 31, 2013		1,155,000	171,073	284,401	(33,660)	(12,454)	1,564,360
January 1, 2012		1,155,000	148,678	348,992	-	(17,178)	1,635,492
Net income for the year		-	-	111,338	-	-	111,338
Transfer to statutory reserve	20	-	11,134	(11,134)	-	-	-
Dividends	24	-	-	(144,375)	-	-	(144,375)
Board of Directors' fee		-	-	(1,800)	-	-	(1,800)
Purchase of shares for employees shares program	16	-	-	-	(41,758)	-	(41,758)
Charge for employees shares program	16	-	-	-	4,310	-	4,310
Currency translation adjustments		-	-	-	-	4,704	4,704
December 31, 2012		1,155,000	159,812	303,021	(37,448)	(12,474)	1,567,911

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

THE SAUDI ARABIAN AMIANTIT COMPANY AND SUBSIDIARIES**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended December 31, 2013**

(All amounts in Saudi Riyals thousands unless otherwise stated)

1 General information

The Saudi Arabian Amiantit Company (the "Company" or "SAAC") and 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 water management services including related consultancy, engineering and operations.

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

Subsidiary	Country of incorporation	Effective ownership percentage at December 31,	
		2013	2012
Amiantit Fiberglass Industries Limited (AFIL)	Saudi Arabia	100	100
Saudi Arabian Ductile Iron Pipe Company Limited (SADIP)	Saudi Arabia	100	100
International Infrastructure Management and Operations Company Limited (AMIWATER)	Saudi Arabia	100	100
Amiantit Rubber Industries Limited (ARIL)	Saudi Arabia	80	80
Ameron Saudi Arabia Ltd. (ASAL)	Saudi Arabia	69.70	69.70
Bondstrand Limited (BSL)	Saudi Arabia	60	60
Saudi Arabia Concrete Products Limited (SACOP)	Saudi Arabia	58.80	58.80
Fiberglass Pipes Company Ltd. (FPC)	Saudi Arabia	100	51
Flowtite Technology Bahrain WLL	Bahrain	100	100
Amitech Germany GmbH	Germany	100	100
Jos Hansen & Soehne GmbH (JHS)	Germany	-	70.25
JR International Bau GmbH	Germany	-	70.25
PWT Wasser- und Abwassertechnik GmbH	Germany	80	80
Flowtite Technology A.S.	Norway	100	100
Subor Boru San. Tic. A.S.	Turkey	50	50
Amitech Poland Sp.z o.o.	Poland	100	100
Amitech Spain S.A.	Spain	100	100
Amitech Industrial Spain S.A.	Spain	100	100
Amiantit Fiberglass Industries (India) Pvt. Ltd. (AFIIL - India)	India	-	70
Amitech Astana LLC	Kazakhstan	51	51
APS France S.A.S.	France	100	100
APS Romania SRL	Romania	50	100
APS Norway A.S.	Norway	100	100

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

During the year ended December 31, 2013:

- The Group's effective ownership in FPC was increased from 51% to 100% through an acquisition of 49% equity interest from the non-controlling shareholders of the subsidiary for an amount of Saudi Riyals 6.4 million resulting in a net loss Saudi Riyals 2.7 million recorded directly in the retained earnings;

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- On July 7, 2013, SAAC announced that the board of directors of AFIL - India, unanimously resolved to file a reference to the Board for Industrial and Financial Reconstruction ("BIFR") - India, in accordance with the provisions of the Sick Industrial Company (Special Provision) Act 1985 in India declaring AFIL - India a sick industrial company. Such decision was made considering the decline in AFIL - India's financial performance over the past few years and the accumulated losses exceeding the share capital as at March 31, 2013.

On August 8, 2013, the Corporation Bank (the "Bank") in India, being the major lender to AFIL - India, exercised its rights under the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act (Act 3 of 2002) in India and took possession of AFIL - India's land parcels, buildings and certain of its production facilities and inventories, having total net book values of approximately Saudi Riyals 33.7 million. This action will likely be followed by auction of the assets by the Bank, ultimately leading to the liquidation of AFIL - India.

During September 2013, the BIFR accepted AFIL - India's filing, which is supposed to be followed by an assessment on the viability of any rehabilitation plans for AFIL - India. However the Group's management expects that this BIFR process will be terminated due to the above-described actions taken by the Bank.

The Group has stopped consolidating the accounts of AFIL - India with effect from May 31, 2013 and has recorded impairment losses of Saudi Riyals 8.2 million during 2013 to bring the net investment in AFIL - India to Nil. The Group has no obligation to provide any additional financial support or to absorb any further future losses. Further, these developments will not have any impact on the Saudi Arabian and other international operations of the Group;

- The Group sold its ownership in JHS for an amount of Saudi Riyals 19.8 million which resulted in no significant gain or loss; and
- The Group has decided to sell its 5.4975% equity interest in one of its associates, Chongqing Polycomp International Corporation ("CPIC"), a limited liability company in China, considering the recent results of operations of CPIC and to improve the liquidity position of the Group to create value for its shareholders. The Group has appointed an investment bank to identify prospective buyers and the sale is expected to be occurred within 2014. The investment in CPIC is carried at the Group's share of its net assets based on the latest available audited financial statements of CPIC for the year ended December 31, 2012. Pursuant to this decision of sale, the investment in CPIC has been classified as non-current assets held for sale in the accompanying 2013 consolidated balance sheet.

Certain subsidiaries consolidated in the accompanying consolidated financial statements are dependent on financial support from the Group. The Group management intends to provide adequate financial support to such subsidiaries enabling them to continue their operations and believes that these subsidiaries will generate positive cash flows in the future. Property, plant and equipment - net of these subsidiaries amounted to Saudi Riyals 86.0 million as at December 31, 2013 (2012: Saudi Riyals 98.3 million).

The accompanying consolidated financial statements were authorized for issue by the Board of Directors on February 6, 2014.

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.

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(All amounts in Saudi Riyals thousands unless otherwise stated)

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 sales 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. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, 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 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.

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.

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Notes to the consolidated financial statements for the year ended December 31, 2013

(All amounts in Saudi Riyals thousands unless otherwise stated)

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.

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

2.6 Cash and cash equivalents and short-term deposits

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. Short-term deposits represent time deposits with commercial banks with maturities of more than three months and less than one year.

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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 an 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 the costs of the related assets 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.

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.

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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 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 income statement. Impairment losses recognized on goodwill are not reversible.

2.14 Borrowings

Borrowings are recognized at the proceeds received. 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 Accounts payable and accruals

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

2.16 Provisions

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

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.

2.17 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 non-controlling interests. 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.

Deferred income taxes 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 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.

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2.18 Employee benefits

(i) 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 significant funded or unfunded benefit plans established by the foreign subsidiaries, except for APS Norway A.S and Flowtite Technology A.S., which fund a defined benefit plan through an outside insurance company.

(ii) Employee share ownership plan

The Company operates share based plan under which the employees' service cost of share options granted to them is measured as fair value of the options 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 options that will ultimately vest. The charge for a period recorded in the income statement represents the movement in cumulative expense recognized as at the beginning and end of that period.

2.19 Employees share option shares

Shares purchased by SAAC for employee share ownership plan are recorded at cost and presented as a deduction from equity as adjusted for any transaction costs, dividends and gains or losses on sale of such shares. Subsequent to the purchase, these shares are carried at the amount equal to the consideration paid.

These shares are acquired by the SAAC with the approval of the Capital Market Authority ("CMA") in Saudi Arabia, primarily for discharging its obligation under its employee share ownership plan.

2.20 Revenues

Revenues are recognized upon delivery of products or on the performance of services. Revenues are shown net of expenses primarily related to discounts, 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.

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.

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2.24 Operating leases

Rental expense under operating leases is 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 accompanying 2012 financial statements have been reclassified to conform with 2013 presentation.

3 Financial instruments and risk management

Financial instruments carried on the balance sheet include cash and cash equivalents, short-term deposits, accounts and other receivables, non-current assets held for sale, investments, short-term and long-term borrowings, 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 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 currency risk, fair value and cash flow interest rate risks and credit risk.

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 and 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 forward exchange contracts or other currency hedging instruments outstanding at December 31, 2013 and 2012.

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 the short-term deposits and bank borrowings, which are at floating rate of interest and are subject to re-pricing on a regular basis. Management monitors the changes in interest rates and 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 through committed credit facilities to meet any future commitments.

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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, except for derivative financial instruments which are carried at fair values, differences can arise between the book values and fair value estimates. Management believes that the fair values of the Group's financial assets and liabilities are not materially different from their carrying values.

4 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 of December 31 and for the years then ended, summarized by the above business segments, was as follows:

	Pipe manufacturing	Water management	Total
<u>2013</u>			
Sales	2,780,187	350,485	3,130,672
Net income	118,071	(5,457)	112,614
Financial charges	(76,635)	(9,898)	(86,533)
Depreciation, amortization and impairment	(75,547)	(2,958)	(78,505)
Property, plant and equipment	771,980	20,389	792,369
Total assets	3,921,318	490,037	4,411,355
<u>2012</u>			
Sales	3,097,680	357,115	3,454,795
Net income	120,469	(9,131)	111,338
Financial charges	(78,090)	(7,898)	(85,988)
Depreciation, amortization and impairment	(86,130)	(3,136)	(89,266)
Property, plant and equipment	774,657	37,169	811,826
Total assets	4,469,518	352,988	4,822,506

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

	Saudi Arabia	Europe and other countries	Total
<u>2013</u>			
Sales	2,021,213	1,109,459	3,130,672
Non-current assets:			
• Property, plant and equipment	538,966	253,403	792,369
• Other non-current assets	95,255	66,606	161,861
•			
<u>2012</u>			
Sales	2,347,627	1,107,168	3,454,795
Non-current assets:			
• Property, plant and equipment	523,168	288,658	811,826
• Other non-current assets	180,169	70,785	250,954

5 Cash and cash equivalents

	2013	2012
Cash in hand	2,454	2,314
Cash at bank	135,865	116,573
Time deposits	11,028	8,460
	<u>149,347</u>	<u>127,347</u>

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

6 Short-term bank deposits

Balance at December 31, 2012 represents deposits held with a commercial bank and yield financial income at prevailing market rates.

7 Accounts Receivable

	2013	2012
Trade	1,870,869	2,073,224
Related parties	51,950	62,973
	<u>1,922,819</u>	<u>2,136,197</u>
Less: provision for doubtful debts	(91,740)	(113,091)
	<u>1,831,079</u>	<u>2,023,106</u>

At December 31, 2013, trade accounts receivable includes retention receivable amounting to Saudi Riyals 55.4 million (2012: Saudi Riyals 36.9 million) principally related to Saudi Arabian subsidiaries which are collectable upon completion of certain contractual milestones and presentation of final zakat and income tax certificates for certain years by the Saudi Arabian subsidiaries.

At December 31, 2013 trade accounts receivable amounting to Saudi Riyals 44.8 million (2012: Saudi Riyals 32.7 million) were collateralized against the bank borrowings.

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Movement in provision for doubtful debts is as follows:

	2013	2012
January 1	113,091	113,053
(Reversals) additions	(1,904)	5,091
Adjustments	(9,703)	2,416
Write-offs	(9,547)	(8,013)
Currency translation adjustments	(197)	544
December 31	<u>91,740</u>	<u>113,091</u>

Adjustments during 2013 represent balance related to the deconsolidated subsidiaries. See Note 1.

8 Inventories

	2013	2012
Raw materials	605,939	698,636
Work in process	209,839	110,697
Spare parts and supplies, held not for sale	103,798	96,873
Finished products	381,834	558,320
Goods in transit	10,599	87,707
	<u>1,312,009</u>	<u>1,552,233</u>
Less: provision for inventory obsolescence	(68,132)	(70,293)
	<u>1,243,877</u>	<u>1,481,940</u>

Inventories at December 31, 2013 have been written-down by approximately Saudi Riyals 5.2 million (2012: Saudi Riyals 5.7 million) to their net realizable value.

Inventories at December 31, 2013 amounting to Saudi Riyals 36.1 million (2012: Saudi Riyals 52.9 million) were pledged against the bank borrowings.

Movement in provision for inventory obsolescence is as follows:

	2013	2012
January 1	70,293	72,984
Additions (reversals)	3,247	(2,454)
Adjustments	(5,378)	-
Write-offs	-	(228)
Currency translation adjustments	(30)	(9)
December 31	<u>68,132</u>	<u>70,293</u>

Adjustments during 2013 represent balance related to the deconsolidated subsidiaries. See Note 1.

9 Investment in associates

	2013	2012
Amiantit Fiberglass Egypt Co. (AFEC)	34,352	42,805
Chongqing Polycom Int'l Corporation (CPIC)	-	93,364
Ameron Egypt (AE)	30,680	33,185
Amitech Maroc (AM)	7,995	5,977
Amiantit Qatar Pipe Co. Ltd. (AQAP)	21,574	20,089
International Water Distribution Company (TAWZEA)	21,840	26,351
Other	44,108	48,243
	<u>160,549</u>	<u>270,014</u>
Accumulated impairment losses	(66,072)	(65,252)
	<u>94,477</u>	<u>204,762</u>

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Movement in investment in associates is as follows:

	Note	2013	2012
January 1		204,762	228,717
Additions		-	13,725
Disposals		-	(551)
Adjustments		(3,910)	7,791
Share in net loss		(5,978)	(39,329)
Transfer to non-current assets held for sale	1	(96,684)	-
Currency translation adjustments		(2,893)	(3,803)
Impairment losses recognized during the year		(820)	(1,788)
December 31		<u>94,477</u>	<u>204,762</u>

During 2013 and 2012, management recognized impairment losses due to expected decline in their economic performance of certain associates resulting in their carrying values being higher than recoverable amounts.

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

Name	County of incorporation	Assets	Liabilities	Revenues	Net income (loss)	Group's ownership interest
<u>2013</u>						
AFEC	Egypt	148,018	90,086	35,037	(8,319)	50%
AE	Egypt	54,166	31,825	2,131	(3,563)	49%
AM	Morocco	184,957	168,964	62,378	(90)	50%
AQAP	Qatar	180,117	110,098	76,645	2,448	40%
TAWZEA	Saudi Arabia	268,967	225,285	110,057	(9,020)	50%
<u>2012</u>						
AFEC	Egypt	161,033	88,705	55,749	(11,010)	50%
CPIC	China	4,923,983	3,164,487	1,827,788	(194,592)	5.4975%
AE	Egypt	63,262	34,886	1,592	(5,551)	49%
AM	Morocco	165,527	149,834	132,031	(5,871)	50%
AQAP	Qatar	179,903	129,311	92,909	(3,423)	40%
TAWZEA	Saudi Arabia	238,743	186,041	60,759	(24,051)	50%

The Group has made certain adjustments to the above financial information for the intervening period to December 31, 2013 and 2012 to account for its equity share for the year ended December 31, 2013 and 2012, respectively.

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10 Property, plant and equipment

	January 1, 2013	Additions	Disposals / transfers	Currency translation adjustments	December 31, 2013
2013					
Cost					
Land	98,503	6,828	(10,888)	(645)	93,798
Buildings and land improvements	483,347	32,771	(29,320)	(11,150)	475,648
Plant, machinery and equipment	1,471,443	49,140	(74,781)	(11,667)	1,434,135
Furniture, fixtures and office equipment	125,374	7,804	(7,020)	(580)	125,578
Construction in progress	45,808	72,248	(29,445)	(1)	88,610
	<u>2,224,475</u>	<u>168,791</u>	<u>(151,454)</u>	<u>(24,043)</u>	<u>2,217,769</u>
Accumulated depreciation and impairment					
Buildings and land improvements	(249,394)	(18,791)	9,489	3,246	(255,450)
Plant, machinery and equipment	(1,065,797)	(62,515)	51,327	7,136	(1,069,849)
Furniture, fixtures and office equipment	(97,458)	(8,246)	5,314	289	(100,101)
	<u>(1,412,649)</u>	<u>(89,552)</u>	<u>66,130</u>	<u>10,671</u>	<u>(1,425,400)</u>
	<u>811,826</u>				<u>792,369</u>
	January 1, 2012	Additions	Disposals / transfers	Currency translation adjustments	December 31, 2012
2012					
Cost					
Land	84,613	13,286	-	604	98,503
Buildings and land improvements	460,306	18,247	(70)	4,864	483,347
Plant, machinery and equipment	1,425,123	63,867	(27,130)	9,583	1,471,443
Furniture, fixtures and office equipment	116,949	9,522	(2,699)	1,602	125,374
Construction in progress	30,846	60,507	(45,632)	87	45,808
	<u>2,117,837</u>	<u>165,429</u>	<u>(75,531)</u>	<u>16,740</u>	<u>2,224,475</u>
Accumulated depreciation and impairment					
Buildings and land improvements	(230,053)	(17,619)	69	(1,791)	(249,394)
Plant, machinery and equipment	(1,012,783)	(69,263)	23,168	(6,919)	(1,065,797)
Furniture, fixtures and office equipment	(90,299)	(8,229)	2,149	(1,079)	(97,458)
	<u>(1,333,135)</u>	<u>(95,111)</u>	<u>25,386</u>	<u>(9,789)</u>	<u>(1,412,649)</u>
	<u>784,702</u>				<u>811,826</u>

Disposals during 2013 include cost and accumulated depreciation of Saudi Riyals 80.6 million and Saudi Riyals 42.0 million, respectively, related to property plant and equipment of deconsolidated subsidiaries. See Note 1.

Buildings and plant, machinery and equipment of the Company and certain of its Saudi Arabian subsidiaries are constructed on land parcels leased under various operating lease agreements at nominal annual rents from the Saudi Arabian government under renewable operating leases.

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11 Intangible assets

	Goodwill	Patents, trademarks and licenses	Other deferred charges and pre-operating costs	Total
January 1, 2013	9,815	157	2,762	12,734
Additions	-	-	811	811
Amortization	-	(157)	(264)	(421)
Currency translation adjustments	(364)	-	-	(364)
December 31, 2013	9,451	-	3,309	12,760
January 1, 2012	9,707	314	852	10,873
Additions	-	-	2,153	2,153
Amortization	-	(157)	(243)	(400)
Currency translation adjustments	108	-	-	108
December 31, 2012	9,815	157	2,762	12,734

12 Short-term borrowings

	2013	2012
Bank overdrafts	38,702	26,494
Short-term bank loans	1,550,138	1,606,645
	1,588,840	1,633,139

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

Total unused short-term bank credit facilities available to the Group at December 31, 2013 were approximately Saudi Riyals 0.945 billion (2012: Saudi Riyals 1.1 billion).

At December 31, 2013 approximately 5.1% (2012: 5.2%) of the short-term bank borrowings were collateralized by assignment of trade accounts receivable and pledge of inventories.

12.1 Currency denomination

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

	2013	2012
Saudi Riyals	1,455,870	1,511,150
Euros	49,861	26,145
US dollars	-	14,944
Indian rupees	-	19,435
Other	83,109	61,465
	1,588,840	1,633,139

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13 Long-term borrowings

	Note	2013	2012
Saudi Industrial Development Fund ("SIDF") loans	13.1	9,000	13,400
Commercial bank loans	13.2	173,033	243,584
Loans from non-controlling interest	13.3	8,082	9,791
		<u>190,115</u>	<u>266,775</u>
Current maturity shown under current liabilities		<u>(93,007)</u>	<u>(96,378)</u>
		<u>97,108</u>	<u>170,397</u>

13.1 SIDF loans

These represent loans obtained by a Saudi Arabian subsidiary from SIDF. The covenants of the loans agreements require the subsidiary to maintain certain levels of financial condition, place limitations on dividends distributions and on annual capital and rental expenditures. These loans do not bear financial charges and are secured by a mortgage on property, plant and equipment of the subsidiary.

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 and Indian rupees. These loans generally bear financial charges based on prevailing market rates. The aggregate maturities of the loans outstanding at December 31, 2013, based on their respective repayment schedules, are spread in 2014 through 2033. Certain of these loans amounting to Saudi Riyals 133.9 million are secured by mortgage on the property, plant and equipment, collateralized against trade accounts receivable and pledged against inventory.

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 Loans from non-controlling interest

These represent US dollars denominated loans from non-controlling interest of a foreign subsidiary. Such loans do not carry any financial charges and are payable in unequal quarterly installments ending in 2017.

13.4 Currency denomination

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

	2013	2012
Saudi Riyals	140,250	219,650
Euros	17,543	24,899
US dollars	-	10,582
Other	32,322	11,644
	<u>190,115</u>	<u>266,775</u>

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13.5 Maturity profile of long-term borrowings

	2013	2012
Years ending December 31:		
2013	-	96,378
2014	93,007	89,880
2015	64,732	63,935
2016	7,269	6,647
2017	5,272	7,841
2018	1,641	2,094
Thereafter	18,194	-
	<u>190,115</u>	<u>266,775</u>

14 Accrued and other liabilities

	Note	2013	2012
Salaries, wages and benefits		33,171	45,653
Advances from customers		84,551	96,594
Provisions against claims and onerous contracts		3,448	18,601
Derivative financial instruments (negative fair values)	26	-	434
Sales agency fees		20,410	17,231
Financial charges		12,520	16,960
Accrued expenses and other		65,585	96,785
		<u>219,685</u>	<u>292,258</u>

15 Zakat and taxes matter

15.1 Components of zakat base

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

15.2 Provision for zakat and taxes at December 31

	2013	2012
Zakat for SAAC	29,307	35,995
Zakat and income taxes for Saudi Arabian subsidiaries	47,498	52,457
Income taxes and other taxes for foreign subsidiaries	15,703	20,891
	<u>92,508</u>	<u>109,343</u>

15.3 Income taxes related to foreign subsidiaries charged to the income statement

	2013	2012
Current income tax charges	10,423	6,407
Deferred income tax (credits) charges	(1,768)	3,254
	<u>8,655</u>	<u>9,661</u>

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

	2013	2012
January 1	9,848	11,686
Credits (charges)	1,768	(3,254)
Adjustments	(910)	-
Currency translation adjustments	72	1,416
December 31	<u>10,778</u>	<u>9,848</u>

Adjustments during 2013 represent deferred income taxes related to the deconsolidated subsidiaries. See Note 1.

15.4 Provision for zakat charged to the income statement

	2013	2012
Zakat for SAAC	13,980	10,486
Share of SAAC in zakat of subsidiaries	21,601	24,653
	<u>35,581</u>	<u>35,139</u>

15.5 Status of assessments

The Company and the Saudi Arabian subsidiaries have received final or restricted zakat and income tax certificates for the years through 2012.

16 Employee benefits**16.1 Employee termination benefits**

	2013	2012
January 1	92,303	89,903
Provisions	10,957	12,150
Payments	(12,168)	(10,019)
Adjustments	(10,369)	-
Currency translation adjustments	(445)	269
December 31	<u>80,278</u>	<u>92,303</u>

Adjustments during 2013 represent balance related to the deconsolidated subsidiaries. See Note 1.

16.2 Employee share ownership plan and reserve

The Company has implemented an Employee Share Ownership Plan ("ESOP"), which provides an award for 3 year service to certain levels of employees effective January 1, 2012. These employees, subject to their subscription to ESOP, completing employment with the Group for a period of three years and maintaining required level of performance, will be given the Company's shares at no cost.

The fair value of such options is measured on the basis of the market-price of the Company's shares on the date of grant (Saudi Riyals 15.75 per share). The Company has recorded expense amounting to Saudi Riyals 3.8 million (2012: Saudi Riyals 4.3 million) related to such options.

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

	2013	2012
Outstanding at January 1	821,000	-
Subscribed during the year	-	881,500
Forfeited during the year	(99,500)	(60,500)
Outstanding at December 31	<u>721,500</u>	<u>821,000</u>

The remaining contractual life of these options at December 31, 2013 is 1 year. The options outstanding at December 31, 2013 will contractually mature on January 1, 2015.

During 2012, the Company has purchased 2.5 million of its shares, through a financial institution, for the purpose of ESOP which have been recorded under "Employees shares program and reserve" in the statement of changes in shareholders' equity in the accompanying consolidated financial statements. Employees shares program and reserve included cost of shares purchased and proportionate fair value of the options granted during 2013 and 2012 and outstanding at December 31 as follow:

	2013	2012
January 1	37,448	-
Cost of the share purchases for employees share program	-	41,758
Employees shares option program reserve	(3,788)	(4,310)
December 31	<u>33,660</u>	<u>37,448</u>

17 Warranty provisions

	2013	2012
January 1	52,763	48,578
(Reversals) additions, net	(29,435)	5,529
Utilizations and adjustments	(675)	(1,476)
Currency translation adjustments	148	132
December 31	<u>22,801</u>	<u>52,763</u>

These represent long-term warranty provisions for expected future claims against warranties provided primarily by the pipe manufacturing segment of the Group. Management has recorded reversals of Saudi Riyals 28.4 million during 2013 which have been credited to the "Cost of sales" in the accompanying consolidated income statement. These reversals have been made mainly considering the history of claims, improved product quality due to recent technological enhancements adopted by the Group and the expiry periods of open warranties as at December 31, 2013.

Utilizations and adjustments during 2013 include balance of Saudi Riyals 1.3 million related to the deconsolidated subsidiaries. See Note 1.

18 Related party matters

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

THE SAUDI ARABIAN AMIANTIT COMPANY AND SUBSIDIARIES**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended December 31, 2013**

(All amounts in Saudi Riyals thousands unless otherwise stated)

18.1 Related party transactions

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

	2013	2012
Sales	5,386	10,171
Purchases	-	11,372
Costs and expenses charged	750	703

18.2 Loans to associates

Loans to associates at December 31, 2013 and 2012 have been included in "Other non-current assets" in the accompanying 2013 and 2012 balance sheets.

	2013	2012
AM	13,166	8,613
Amitech Algeria	1,832	2,211
TAWZEA	22,500	308
	<u>37,498</u>	<u>11,132</u>

19 Share capital

The share capital of the Company as of December 31, 2013 and 2012 was comprised of 115.5 million ordinary shares stated at Saudi Riyals 10.0 per share.

20 Statutory reserve

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia, the Company transfers 10% of the net income for the year to a statutory reserve until such reserve equals 50% of its share capital. The statutory reserve in the accompanying consolidated financial statements is the statutory reserve of the Company. This reserve is currently not available for distribution to the shareholders of the Company.

21 Selling and marketing expenses

	2013	2012
Salaries and benefits	45,934	43,700
Traveling	12,550	11,085
Sales promotion	9,603	11,445
Information technology and communication	1,405	1,456
Depreciation	553	466
Other	10,936	9,040
	<u>80,981</u>	<u>77,192</u>

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22 General and administrative expenses

	2013	2012
Salaries, wages and benefits	92,851	119,881
(Reversals) provision for doubtful debts	(1,904)	5,091
Maintenance	1,263	2,274
Traveling	8,430	9,947
Professional services	25,835	27,251
Depreciation and amortization	8,071	8,780
Information technology and communication	21,028	16,880
Other	5,988	25,978
	<u>161,562</u>	<u>216,082</u>

23 Other income (expenses)

	Note	2013	2012
Impairment losses against investments, plant and machinery and intangible assets	9,10,11	(12,227)	(2,919)
Reversal of provision for settlement of claims		14,977	-
Foreign exchange differences		(4,322)	177
Miscellaneous income		4,047	4,875
		<u>2,475</u>	<u>2,133</u>

24 Dividends

The shareholders of the Company approved dividends of Saudi Riyals 1.0 per share for the year 2012, amounting to Saudi Riyals 115.5 million, during their annual General Assembly meeting held on March 9, 2013. Such dividends were fully paid during the year.

25 Earnings per share

Earnings per share for the years ended December 31, 2013 and 2012 have been computed by dividing the operating income and net income for each year by weighted average number of 112,984,309 shares outstanding during such years, after considering the effect of purchase of shares as mentioned in Note 16.

26 Derivative financial instruments

As at December 31, 2012, the Company had interest rate swap agreements with a commercial bank amounting to Saudi Riyals 0.4 million which were settled during 2013.

27 Contingencies and commitments

- (i) The Group was contingently liable for bank guarantees issued in the normal course of the business amounting to Saudi Riyals 674.9 million at December 31, 2013 (2012: Saudi Riyals 694.4 million). SAAC, collectively with other shareholder of an associate, is also contingently liable for a corporate guarantee amounting to Saudi Riyals 241.1 million (2012: Saudi Riyals 291.5 million) in relation to borrowing facilities of the associate.
- (ii) The capital expenditure contracted by the Group but not yet incurred till December 31, 2013 was approximately Saudi Riyals 54.5 million (2012: Saudi Riyals 21.3 million).