

Saudi Arabian Amiantit Company
The Annual Report of the Board of Directors

2017

Date 28/06/1439 H
16/03/2018 G

The annual report of the Board of Directors to the Ordinary General Assembly Meeting on the Fiscal Year of 2017

*M/s Shareholders of Saudi Arabian Amiantit Company,
Dear Shareholders,*

Introduction:

The Board of Directors herewith presents its annual activity report for the year 2017 and the progress of the operations of the Company and its affiliates, including the production, marketing, and administrative performance of the Group. The report also covers the consolidated financial statements for the years ending 31st December of 2017 & 2016.

During the fiscal year 2017, the Saudi Arabian Amiantit Company, a Saudi joint stock company, referred to hereinafter as “the Company” and its international and local affiliate companies, referred to hereinafter as the “Group”, has managed to achieve net sales of SAR 820.6 million, showing a decrease of SAR 543.4 million or 39.8% compared to the net sales of 2016. The year ended with a net loss of SAR 89.9 million compared to SAR 232.9 million loss in 2016. The net loss per share amounted to SAR (0.79) compared to a loss of SAR (2.05) per share for the year 2016.

The current ratio as of December 31, 2017 amounts to 0.98 compared to 1.12 in 2016, and the debt-to-equity ratio amounts 2.19 compared to 2.38 in 2016.

1. Company and Group Profile:

The Company was established in 1388H (1968) in Dammam, Kingdom of Saudi Arabia. It is a joint stock Company with a paid up capital of SAR 1.155 Billion, listed on the Saudi Stock Exchange (Tadawul). The Company is headquartered in Dammam (Saudi Arabia).

The Company’s main activities consist of the establishment and management of industrial projects especially the design, manufacturing, marketing, and sales of pipes and water treatment installations, as well as the management of water projects. The Group also owns and licenses several pipe-manufacturing technologies.

The Group operates 22 pipe and related products, such as tanks, fittings, flanges, rubber, and manholes, manufacturing facilities around the world, either fully owned or through joint ventures with local partners. As of December 31, 2017. This includes 11 plants in Saudi Arabia, the other premises mostly being located in Western Europe, Turkey, Qatar, North Africa and Kazakhstan. It is also offers pipe design and installation services through one of its Saudi subsidiaries, Infra-Structure Engineering and Construction Company (ISECC).

The company’s research and development activities are carried by its R&D centers in the Dhahran Techno-Valley, Dhahran, Saudi Arabia, and Sandefjord, Norway. It is also involved in Engineering, Procurement, Commissioning (EPC) of water treatment facilities through its fully owned German

subsidiary (PWT- Abwassertechnik), and operates water management activities through a 50% joint-venture in Saudi Arabia, the International Water Distribution Company (Tawzea).

1.1 Manufacturing & Sale of Pipes & Associated Technologies

The Group designs and manufactures standard or tailor-made pipes, tanks, fittings, and industrial valves, for transmission of water, covering all applications, such as potable water, irrigation, industrial water, sewage, sea water intakes, storm water, drainage, fire-fighting, among others. It also offers to its customers design and installation advisory and services through. This segment represents the core business of the Group and the main source of its sales and profits.

Table 1: Group Product Families

Product Family	Consolidated Percentage of Sale 2017
Glass-reinforced pipes, tanks and fittings, in Polyester and Epoxy (GRP and GRE)	50.88%
Ductile iron pipes and fittings (DI)	31.55%
Concrete pipes and fittings (CP)	3.85%
Others	2.40%
Design and Installation services	11.32%
	100.00%

The Group owns and continuously develops associated technologies, covering the following aspects:

- Technical Support,
- Product Development,
- Raw Material testing and qualification, and
- Optimization of Processing & Manufacturing methods.

The Group Technology organization operates two Research and Development centers. One located in Dhahran Techno-Valley Company (DTVC) located in King Fahad University for Petroleum & Minerals, Dhahran, Saudi Arabia. And the other one located in Sandefjord (Norway). The centers employ a total of 123 research personnel and operates sophisticated research and testing equipment with a total value of SAR 56.4 million. The R&D spending of the Group reached SAR 39.8 Million in 2017 (2016: SAR 51.4 Million). The Technology Centers are primarily focused around the GRP and GRE activities. They perform research activities that aim to improve product design, broaden applications, optimize production processes, among other activities.

Table 2: Key figures for Manufacturing & Sales of pipes & Associated Technologies Segment (SAR'000)

Manufacturing & sales of pipes & associated technologies	Net Sales	Profit (loss)	Total Assets
2017	662,386	(28,134)	2,187,988
2016	1,187,369	(123,112)	2,552,684

1.2 Water Management Activities

1.2.1 EPC of Water Treatment Stations

The Group fully owns PWT Wasser-und Abwassertechnik GmbH (PWT), a German Company headquartered near Frankfurt, Germany, and primarily specialized in the engineering, procurement, construction, and operation & maintenance of desalination plants, water treatment plants, wastewater treatment plants for urban areas and industrial clients, as well as, providing water treatment solutions. Furthermore, PWT operates groundwater treatment plants and develops and implements electro-technical and automation systems for the water sector.

This Company is presently working actively in Central and South Eastern Europe, the Caspian Region, Turkey, and the GCC via a major project in Iraq, where it is building a water treatment plant and installing the related pipe network in Samawa (southern region of Iraq). In addition to the maintenance, since 2016, the company has been developing new markets in the MENA region and in the GCC, focusing on Saudi Arabia.

1.2.2 Water Management

Amiantit through its 100% owned subsidiary International Infrastructure Management & Operation Co. Ltd. (Amiwater) owns 50% of The International Water Distribution Company Ltd. (Tawzea). Tawzea is principally engaged in offering services related to construction, operation, and maintenance of public water & sewage services.

Tawzea is engaged in providing potable and wastewater services to industrial cities under concession from the Saudi Industrial Property Authority (MODON). Tawzea specializes in water management of industrial cities, operation & maintenance of water and waste water facilities in several industrial cities across the Kingdom. Tawzea is one of the pioneer companies that have been successful in the privatization of the water sector in the Kingdom of Saudi Arabia and PPP projects.

During 2017, Tawzea signed contracts for operations & maintenance, and customer services in the industrial cities of Sudair, Al-Kharj and Madinah, among others. Moreover, Tawzea's started a joint venture with an international company in Portugal, Aquapor, for a concession for managing wet utilities for Jeddah Industrial Cities 2 and 3 by January 2017, this also contributed to revenue of current year. Tawzea now is looking to expand its activities and to have a key role in Saudi Arabia's vision 2030 by sharing their experience in Public- Private-Partnerships (PPP) of water & wastewater projects.

Figure 1: Tawzea Volumes Trends over 5 years in cubic meters (SAR M).

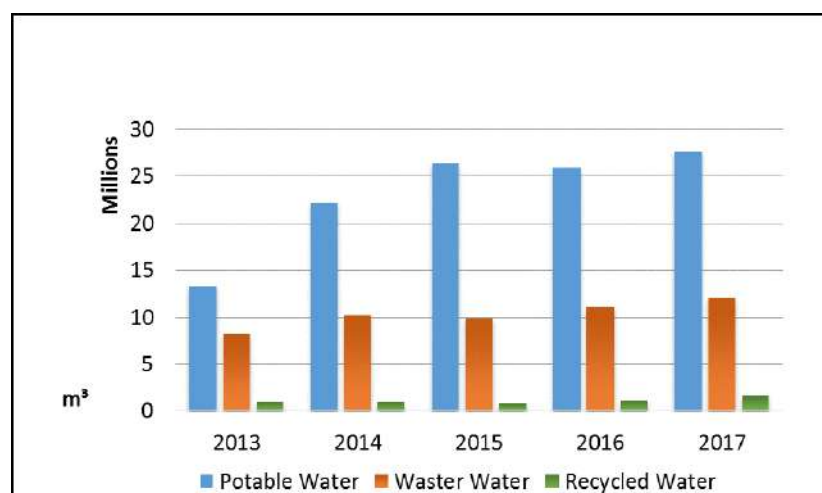


Table 3: Key figures for water management (SAR '000)

Year	Net Sales	Profit (loss)	Total Assets
2017	158,206	(63,412)	990,918
2016	176,645	(102,319)	858,578

2. Significant Decisions & Plans

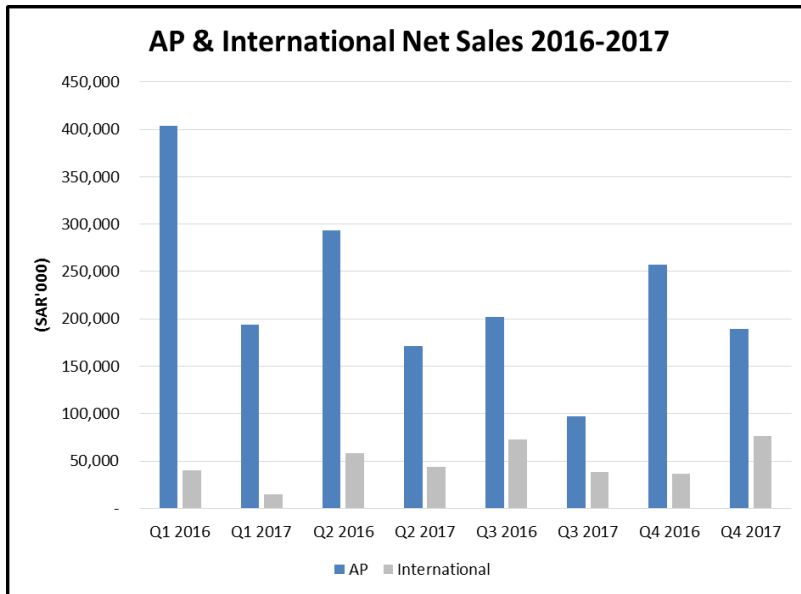
2.1. Decrease of the Demand in AP

Starting the second quarter 2016, sales in the Saudi Arabian Peninsula have decreased dramatically compared to the previous year. During the 2017 fiscal year, this negative trend continued. In management's view the continued drop in sales for the group cab be mainly attributed to the following:

This trend is attributable to

- the postponement and sometimes downsizing or cancellation of projects on the domestic market;
- lower sales prices observed on the market as a consequence of the situation explained above;
- the fact that several contractors were not in a position to execute payments to their suppliers, thereby compelling our Group to put the deliveries on hold;
- The political developments in the GCC region.

Figure 2: AP & International Net Sales (SAR'000).

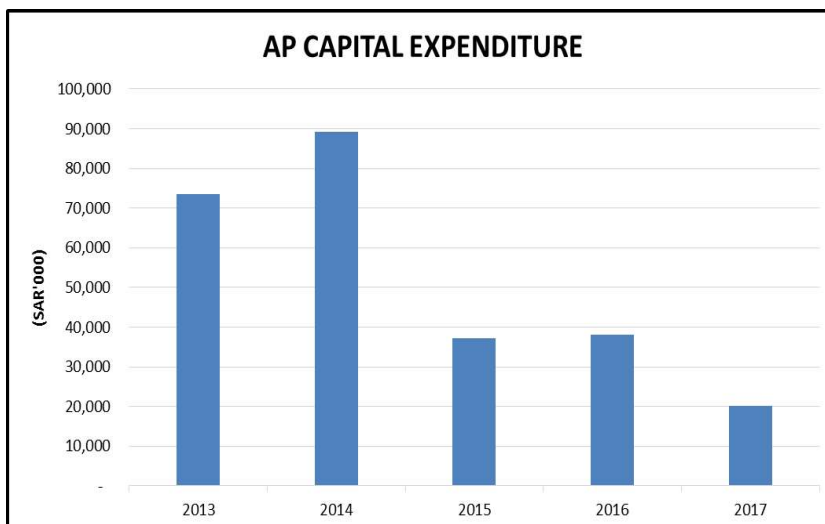


As a result, the Group implemented a cost-cutting program in 2016, essentially consisting in the following steps:

- Decrease of the number of contracted labor and to a certain extent own employees as further explained under point 6.2.
- Decrease of the capital expenditure program in the AP Region compared to previous years, as illustrated in the graph below.

During 2017, the group began to gradually realize the benefits of this program. The total realized cost savings reached about SAR 118.9 million by the end of the year.

Figure 3: Capital Expenditures Trend over the Last Five Years (SAR'000).



2.2. Merger of the European Activities with Hobas.

On 15 December 2016, the Group publicly announced that they have signed a Memorandum of Understanding (MOU) with the Austrian holding WIG Wietersdorfer Holding GmbH (WIG) regarding a merger of its European pipe manufacturing and sales companies and its Flowtite technology (the "Disposal Group") with the Hobas AG group of companies. Furthermore, on 6 February 2017, the Company signed a joint venture agreement with WIG whereby its Disposal Group will be merged with the Hobas AG group of companies in Europe under a new joint-venture ("Amiblu") of which Amiantit Group now owns 50% equity. On 28 August 2017, most of the legal formalities necessary for the closure of the merger and the foundation of Amiblu have been completed.

Management believes that this merger will result in significant improvements in the competitiveness of the product offerings and sales of GRP pipes in Europe considering the existing market share of the two original entities. Specifically, the new joint-venture, Amiblu, will enjoy greater synergies and cost savings resulting from the rationalizations of shared services and overhead costs of the two merged entities on a stand-alone basis. In addition, Amiblu, will be in stronger position to increase its market share in Europe by converting more customers in to non-metallic pipe systems and solutions it offers.

The Disposal Group comprises of the following entities:

Company Name	Country of Incorporation	Direct Ownership Percentage as at	
		31-Dec	31-Dec
		2017	2016
Amiantit Germany GmbH	Germany	5.50%	100%
Flowtite Technology A.S.	Norway	-	100%
Amitech Poland Sp.z o.o.	Poland	-	100%
Amiantit Spain	Spain	-	100%
Amitech France	France	-	100%
Amiantit Norway AS	Norway	-	100%

On 28 August 2017, the operations of the Disposal Group were deconsolidated and were presented as discontinued operations on the quarterly financial statements of the Group. The business of the Disposal Group represented part of the Group's European operating segment (geographical segment) until 28 August 2017. With these entities being classified as discontinued operations, their respective operation is no longer presented as part of the European segment in the segment information note in the financial statements for the year 2017.

The results of the Disposal Group for the period are presented below:

	For the period from 1 January 2017 to 28 August 2017	For the year ended 31 December 2016
	(SR'000)	(SR'000)
Revenue	257,850	467,931
Expenses	(264,189)	(452,401)
Operating income	(6,339)	15,530
Finance costs	(561)	(2,515)
Other income (expense)	(1,355)	(738)
Profit/(loss) before tax from discontinued operations	(8,255)	12,277
Taxes	(119)	(5,274)
(Loss)/profit for the period from ordinary activities	(8,374)	7,003
Gain on disposal of the Disposal Group	63,596	-
Profit after tax for the period from discontinued operations	55,222	7,003
Earnings per share from discontinued operations:		
Basic (SR)	0.49	0.06
Diluted (SR)	0.49	0.06

The major classes of assets and liabilities of the Disposal Group as at 28 August 2017 are as follows:

	As at 28 August 2017
	(SR'000)
Assets	
Cash and short-term deposits	21,191
Debtors	161,855
Inventories	80,978
Property, plant and equipment	117,967
Intangible assets	442
Assets of the Disposal Group	382,433
Liabilities	
Creditors	116,244
Interest-bearing liabilities	51,310
Liabilities directly associated with assets of the Disposal Group	167,554
Carrying amount of net assets directly associated with the Disposal Group	214,879

The net cash flows incurred by the Disposal Group are as follows:

	For the period from 1 January 2017 to 28 August 2017	For the 12 month period ended 31 December 2016
	(SR'000)	(SR'000)
Operating	10,901	58,585
Investing	(8,782)	(13,233)
Financing	(23,633)	(27,085)
Net cash (outflow)/inflow	(21,514)	18,267

As a result of the acquisition of a 50% share in Amiblu and the disposal of the Company's European pipe operations, the Group recognized a gain on the deal in the amount of SR 63.6 million and reported the gain under profit from discontinued operations. The reported gain is the result of the difference between the net book value of contributed net assets from Saudi Arabian Amiantit (SAR 230.4 million) and the fair-value of the 50% share of ownership acquired in the newly formed joint-venture, Amiblu, (SAR 294.0 million), (including a payment received of SAR 4.4 million). The gain was calculated as follows:

Cash proceeds	4,421
Fair value of 50% share in Amiblu	289,600
Fair value of consideration received	<u>294,021</u>
Less:	
Carrying amount of net assets directly associated with the Disposal Group	214,879
Realization of the foreign currency translation reserve directly associated with the Disposal Group	15,546
	<u>230,425</u>
Gain on the deal	<u>63,596</u>

The fair value of the 50% share in Amiblu was calculated by independent valuation experts using the Discounted Cash Flows method. The significant unobservable valuation inputs are provided below:

Discount rate	9.1% - 10.1%
Growth rate used in the calculation of terminal value	1% - 2%

Furthermore, the share of results from Amiblu for the period from 29 August 2017 to 31 December 2017 amounting to **SR 15.3** million loss was recorded in the statement of profit or loss under Share of result of associates and joint ventures.

2.3. Significant Accounting Developments

The financial statements of the year 2017, represent the first full year financial statements for the group prepared under International Financial Reporting Standards (IFRS). The company has successfully converted all of its internal and technical reporting systems to align all of its financial accounting and reporting practices with the new standards, and prepared its financial statements to include all the required applicable disclosures. This realignment process resulted in total provisions adjusted and booked during the prior year 2016 totaling SAR (148.0) million. No additional material adjustments were required during this year.

2.4. Significant Expansion Plans & Capital Expenditure

During the year 2017, the group finalized the execution of a carefully selected expansion plan initiated during the former years as follows:

2.4.1. Enhancement Plans in Amiantit Fiberglass Industries Ltd. (AFIL)

The objective of this program is to upgrade the manufacturing equipment of this company to enable an increase in speed and productivity as well as a decrease in raw material consumption. This program is a joint effort between the company and the technology department.

The total cost of the program is SAR 82 million invested over a period of 3 prior years. At the year-end 2017 the status is that all the 6 AFIL winders have been fully upgraded, with only SAR 2 million spent over 2017, which was remaining work of the project.

Unfortunately, the unexpected and strong decrease of the demand of GRP during 2016 and 2017 did not enable the Company to materialize the return on such investment to its full extent, as the capacity utilization went low while one of the major advantages of the program was to increase machine speed. However, the Group is now ready to accommodate additional volumes during a future pick-up of the market. Further, the enhancement enabled to increase productivity and thus decrease labor costs during these times of low demand.

2.4.2. Industrial Valves Manufacturing

Amicon, a 100% owned subsidiary of SAAC, enlarged its product range by including a facility to manufacture ductile iron valves. This facility is located in Dammam second industrial area. To that effect, an agreement has been signed to share the technology of Armacon GmbH, a Germany Ductile Iron valves producer. The investment amounted to SAR 4.2 million, and the plant is has been in production since early 2017.

2.4.3. Development of ISECC

In 2014 the Group started the activities of a new company, Infra-Structure Engineering and Construction Company (ISECC) offering engineering services (pipe and tank design, drawings, stress and surge analysis, technical support, and inspections, among others), as well as installation services (installation of pipes and tanks, site consulting, site supervision, maintenance, shut-down, and specialized training, among others) in the industrial sector. The company sales reached SAR 105.7 million in 2016 and SAR 83.0 million in 2017. Its budgeted sales for 2018 are SAR 131.7 million. In addition, it has established branches and subsidiaries in several GCC cities to serve the GCC market, including Dubai, Abu Dhabi, Qatar, Kuwait, and Oman.

2.5. Litigation with a Sub-Contractor of PWT in Iraq

PWT Wasser-und Abwassertechnik GmbH (“PWT”), a wholly owned subsidiary of the Company, engaged in EPC contracting for water and sewage treatment plants, faced certain issues in a project in Iraq. PWT terminated the contract with one of its sub-contractors due to non-performance of its obligations under the contract. The sub-contractor has filed a claim against PWT with the competent court in Iraq for compensation of costs incurred prior to its termination as well as for lost profits. After a lengthy litigation process, the Iraqi Appellate Court ruled, on 10 January 2017, in favor of PWT and dismissed all claims raised by the sub-contractor. The sub-contractor appealed against the latest ruling, and the Iraqi Court of Cassation, on 6 February 2017, dismissed their appeal and put an end to this case. In its basis for the ruling,

the Appellate Court relied on a specialists' report which concluded that the value of work accomplished by the sub-contractor was less than the amounts they received and accordingly, the sub-contractor owes PWT a net amount of Iraqi dinars 16.7 billion (SR 54.8 million).

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

2.6. Modifications to Consolidation Scope

The consolidation scope changed significantly in 2017 compared to 2016 mainly due to the disposal and merger of all European pipe manufacturing activities and technology entities with Hobas to create the new joint-venture, Amiblu. As Amiantit owns 50% interest in Amiblu shares, the control on the entity on an equal basis with the other partner (a third party), all the assets, and liabilities associated with the European operations and technology entities have been deconsolidated from the Group's financial statements this year as defined under IFRS standards.

2.7. Industrial Lands

The Group owns two parcels of industrial land in Dammam since 1971 on which several plants of the Group are built. The two parcels are recorded in the Group's accounting records for SAR 1.4 million. While the ownership of the parcels is properly supported by official title deeds, management of the Group does not have any historical documentation to support the value for which these parcels have been accounted for in its records but has decided to keep the current book value for these lands as an estimate of the historical acquisition cost. The fair value of these parcels at December 31, 2016 was SAR 312 million.

Further, the Group owns a parcel of industrial land in Jeddah from 2009 onwards, through the acquisition, from a related party, of a subsidiary that owns this land. This land is recorded at a nil value in the accounting records of the subsidiary and the consolidated balance sheet of the Group as the ownership of the parcel is legally challenged by third parties. As at 31 December 2017, the Group has property, plant and equipment with a carrying amount of SAR 67.3 Million constructed on this parcel of land. Management of the Group believes that the outcome of the litigation process will not affect the carrying amounts or useful lives of property, plant and equipment constructed on this parcel of land nor will it result in any liabilities. The deemed acquisition value of this parcel amounts to SAR 150 million.

3. Risk Management:

3.1.1 Macroeconomic Risks

The pipes sold by the Company are used to transport liquids such as drinking water, raw water, sewage and other effluents. It is also involved in the execution of water related projects. Such products and services are closely linked with infrastructure projects, which may be affected by different financial and political factors, usually falling out of control of the Group. The water and sewage projects in which the Group is active are often considered as strategic by their owners, who are usually governments or government related. Therefore, the timing or the size of the projects put for execution may be modified by the owners during the execution, for instance due to financial, political, or operating considerations. Such modifications may impact the scope of the sales of goods and services provided by the Group and

thus its profits from one year to another. The very significant decrease in sales to Saudi customers in 2016 and 2017 as a result of the curtailment of the government spending is a good illustration of this risk.

3.1.2 Financial Risks

Competition also plays an important role on the profitability of the Company. Especially since the 2007/08 global financial crisis, competition has increased both on domestic and international markets. To defend its market shares on its different territories, the Group had to reduce its prices while maintaining its production capacities. In more recent years, the overall increase of credit rating risk of banks for companies operating in the contractual and capital goods industries, has led to banks to increase their lending premiums for the group as it is directly subject to macro-economic risks the industry as a whole is exposed to. The group has followed and is maintaining a very healthy relationship with all its lending financial institutions and has managed to keep or replace all its credit facilities based on the business requirements. The overall increase in interest rate premiums charged by banks has resulted in a net increase in financial charges for the year of SAR 7.8 million.

Other financial risk factors specific to the business include the following:

- Delayed collection of receivables due to delayed execution of projects or delayed payment of contractors by project owners (and associated increase of financial charges);
- Increase in interest rates;
- Foreign currencies exchange rates fluctuations, which may impact the values at which foreign businesses are incorporated into the consolidation of the Group, as well as generate foreign currency gains / losses due to sales / purchases made in currencies other than the reporting currency of the Company;
- Fluctuation of purchase prices of raw materials (glass, resins, pig iron, steel, and steel scrap ...etc.).
- Availability of certain imported raw materials in periods of shortage (e.g. glass fiber, and pig iron)
- Political instability on certain external markets (for instance Egypt, Libya, Syria, and Iraq).
- Modifications in the budgeted spending by the Governments of the states in which the Group operates (for instance Saudi Arabia, Spain).

3.1.3 Operational Risks

The group is facing operational risk factors include the following:

- Single source of supplier affects the availability of raw materials, consumable and equipment needed for production. On the other hand, Procurement Team sourcing out new suppliers for both local and international market, to avoid any shortage of raw materials, consumable and equipment. The company also signed contracts with vendors to ensure the steady supply of goods with fixed price or less movement in the price;
- Older machines have less obsolete spare parts available in the market. However, the company hiring highly skilled employees in fabrication to fabricate the required parts in-house. In addition, with continues research and development now the company looking to implement the 3D printing technology which can produce spare parts that are obsolete in the market;
- Natural disaster such as fire incident, and flood which can cause irreversible damage to goods and equipment. The operations have strictly complied with Civil Defense requirements and improved

both firefighting and drainage system in and out of the Plants. Also, taking in consideration to take premium insurance for all assets of the company;

- Quality and standards in substandard products may result in losing the client and waste more raw material reduce the margin for the company profit. On the other hand, the company ensures that all products are produced based on the standards and as the customer specification. Central QA and QC Team work closely in the production to ensure that each product produced accordingly.

As the Group is developing its activities in the Water Management segment, its German subsidiary PWT GmbH (active in E.P.C. of water treatment stations) is involved in large contracts in Iraq, Turkmenistan, Azerbaijan, and Turkey. Risk factors associated to this segment are the following:

- While PWT is a renowned company with adequate technology and know-how, risks of not achieving the required performances of the installations are never to be totally excluded as many factors come into play;
- Further, the owners of the projects, usually government related, are not always complying to the originally agreed payment conditions;
- Change orders often generate modification in scopes which may influence the margin and profitability of the projects;
- Claims may be issued against or by sub-contractors who are executing the civil engineering work;
- The company may be exposed to foreign exchange risks as the parts imported to the project may have to be purchased in another currency than the billing currency.

3.2 Risk Management Practices

The group performs an annual risk assessment exercise that identifies all risks that can be transferred to third parties, i.e. insurable risks. For example, operational risks causing possible manufacturing plants closure, delays, casualties, shortages, etc. are all assessed and insured to applicable and acceptable tolerance levels on a regular basis.

Table 4: Some of the Ensured risk Exposures for the Company (SAR'000)

#	Company Name	Total Material Damage	Business Interruption	Total Insured 2017-2018
1	Saudi Arabian Amiantit Co. Dammam	72,244	-	72,244
2	Saudi Arabian Amiantit Co. Riyadh	1,299	-	1,299
3	Saudi Arabian Amiantit Co. Jeddah	4,277	-	4,277
4	Amiantit Epoxy Pipe Production Plant(AMIPOX)-Dammam	77,209	34,014	111,223
5	Bondstrand Ltd (BSL)-Dammam	150,577	56,046	206,623
6	Amintit Fiberglass Industries Ltd (AFIL)-Dammam	381,538	65,290	446,828
7	Infra-Structure Engineering and Construction -Dammam	7,086	-	7,086
8	Amiantit Rubber Industries (ARIL)-Dammam	53,708	10,972	64,680
9	Saudi Arabian Plastic Products (AMIPLAS)-Dammam	28,575	3,658	32,233
10	Ameron Saudi Arabia (ASAL)-Dammam	153,073	13,088	166,161
11	Saudi Arabian Ductile Iron Pipes (SADIP)-Dammam	927,297	228,637	1,155,934
12	Fiberglass Pipe company (FPC)-Dammam	12,864	8,137	21,001
13	Amiantit Fiberglass Industries Ltd(AFIL)-Jeddah	20,516	-	20,516

14	Amiantit Technology Services (ATS)-Dammam	210,283	65,290	275,573
15	Amiantit Polyolefin Piping System (APPSCO)-Jeddah	85,299	-	85,299
16	Saudi Arabian Concrete Pipes (SACOP)- Jeddah	106,750	6,909	113,659
	Total	2,292,596	492,041	2,784,636

The company's management also monitors macroeconomic and financial risks on a regular basis and determines the best courses of action to treat (i.e. mitigate) such risks through changing business strategies. For instance, in the 2017 management charted a strategy to focus on industrial projects and customers with low-risk projects and favorable payment terms towards Amiantit. This results in a higher concentration of sales with a sub-group of more financially and operationally stable clients. Examples of such clients include (e.g. Saudi Aramco, Hyundai, Samson, Flour, etc.).

During 2017, management also faced the risks associated with the shifting political environment in the GCC and the impact of such changes on the Group's sales. Management has altered resources and marketing strategies to penetrate new markets in the region that cover lost sales as a result of the GCC trade stoppage with certain states.

4. Summary of Financial Data:

4.1. Financial data:

The consolidated figures and statements for the year 2017 cover the following business segments of the Group:

- Manufacturing and sales of pipes and associated technology.
- Water management.

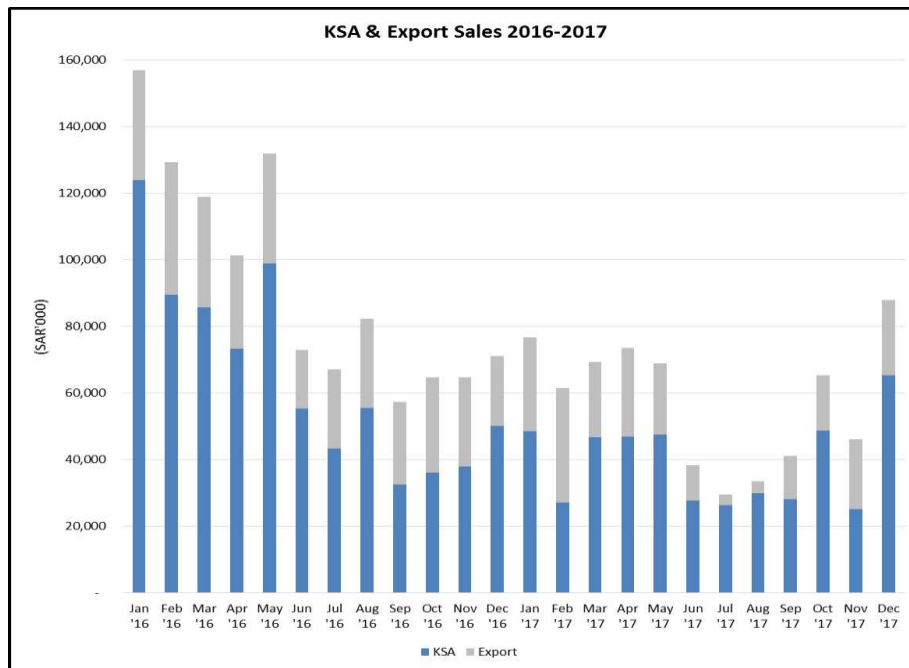
Table 5: Key Financial Highlights for Last Five Years 2013-2017 (SAR '000)

Year	2017	2016	2015	2014	2013
Net Sales	820,592	1,364,014	2,908,627	2,725,787	3,130,672
Gross Margin percentage	13.52%	8.39%	17.20%	15.60%	15.00%
Operating expenses	133,397	221,391	278,693	253,571	242,543
Net Profit (loss)	(91,546)	(225,431)	101,374	82,618	112,614
Cash Flow from Operations	251,027	437,565	(136,866)	58,054	341,345
Capital Expenditure	21,454	56,330	61,333	106,943	129,401
Total Assets	3,178,906	3,411,262	4,644,508	4,412,128	4,411,355
Total Liabilities	2,180,876	2,400,844	3,116,144	2,893,467	2,720,567
Total Equity	998,030	1,010,418	1,528,364	1,518,661	1,690,788
Paid Dividends	-	75,075	-	112,984	112,984

Note: from 2016 to 2017 European entities were considered discontinued operation.

4.2. Comments on Long-Term Trends

- 1- During last year, 2016, the Group was deeply impacted by the dramatic slow-down in infrastructure spending in the GCC, and especially in Saudi Arabia. Many projects, of several sizes, were put on hold, downsized or even cancelled. In addition, deliveries to contractors had often to be stopped or delayed as the customers were not in a position to issue the necessary letters of credit or pay the advance-payments. This resulted in the Group recording total losses of SAR 225.4 million during 2016, SAR 22.7 million of which is attributable to IFRS and one-time related provisions. Unfortunately, during 2017 the same trend in the overall market conditions continued in Saudi Arabia with some marginal improvement. In fact, the overall demand for the Group's products still suffered a 39.8% drop compared to last year as a result of these negative market conditions. This slowdown is illustrated by the following graph comparing sales in the GCC (KSA and exports) over 2016 and 2017:



- 2- Following the same strategy of 2016, and anticipating the continuation of the down-turn, the Group focused on the cash flow, in order to reduce the loans from banks proportionally to the anticipated decrease in the business volumes. Accordingly,
- Credit policy to customers was tightened, enlarging the requirement for Letter of Credits, promissory notes or advance payments,
 - A significant effort was made on boosting collections with a restructuring in the collection department, hiring of new collectors, and an important involvement of the Corporate Legal Department,
 - Payment terms with suppliers were renegotiated.

As a result, the cash flow from operations continued to be largely positive in 2017 to the reaching SAR 251.0 million and the bank loans were reduced by a net amount of SAR 137.5 million over the year.

- 3- The Group also developed new product lines, such as:
- Housing and Industrial tanks.
 - Epoxy high-flow lines and threaded-joint pipes.
 - Pipes for deep wells.
 - Ductile iron valves and fittings.
 - Design and installation services.
 - Water treatment projects.

Note: Detailed comments over the 2017 performance are addressed under point 6.2.

5. Geographical Analysis of Gross Sales

Table 6: Distribution of Gross Sales by Geographic Region (SAR '000):

Net Sales	2017		2016	
	Amount	Percentage	Amount	Percentage
Saudi Arabia				
West	54,301	6.62%	202,983	14.88%
Central	116,390	14.18%	149,205	10.94%
East	130,984	15.96%	303,029	22.22%
Industrial	141,933	17.30%	157,243	11.53%
Exports from KSA	203,490	24.80%	338,714	24.83%
Total Saudi Arabia	647,098	78.86%	1,151,174	84.40%
Europe and Turkey	128,622	15.67%	56,717	4.16%
North Africa	24,727	3.01%	125,606	9.21%
Other countries	20,145	2.46%	30,517	2.24%
TOTAL	820,592	100.00%	1,364,014	100.00%

Note: sales to our customers for Aramco projects

The share of domestic sales during 2017 was 78.86% of total sales compared with 84.40% in 2016. Pipe sector sales reached 70.61% of the total sales, compared to 79.46% in 2016, the water management sector sales reached SAR 158.2 Million compared to SAR 174.5 Million in 2016 and the services sector sales reached SAR 83.0 Million compared to SAR 105.7 Million in 2016.

6. Explanation of Material Changes in the Operating Results Compared to Prior Year

6.1. Summary results

Table 7: Financial Results Summary (SAR '000)

	2017	2016	Difference	Percentage
Sales	820,592	1,364,014	-543,422	-39.84%
Cost of sales	(709,614)	(1,249,607)	539,993	-43.21%
Gross profit	110,978	114,407	-3,429	-3.00%
Selling and marketing	(133,397)	(221,391)	87,994	-39.75%
Other income and expenses	6,815	19,952	-13,137	-65.84%
Operating loss	(15,604)	(87,032)	71,428	-82.07%

Share of net income in associates	923	(1,841)	2,764	150.14%
Financial charges, net	(108,946)	(101,096)	-7,850	7.76%
Loss before zakat & foreign income tax	(123,627)	(189,969)	66,342	-34.92%
Foreign income tax and Zakat	(23,141)	(42,465)	19,324	-45.51%
Profit after tax from discontinued operations	55,222	7,003	48,219	688.55%
Net loss for the year	(91,546)	(225,431)	133,885	-59.39%

6.2 Explanation of Changes

Net Sales

- Over the year, sales decreased by SAR 543 million or 39.84% as follows:

Table 8: Segments Net Sales (SAR'000)

	Sales 2016	Sales 2017	Increase (Decrease)	Percent
Pipe sales – GCC	1,050,583	564,114	(486,469)	-46.30%
Pipe sales – Other regions	33,263	15,288	(17,975)	-54.04%
Total Pipe Sales	1,083,846	579,402	(504,444)	-46.54%
Services	105,700	82,984	(22,716)	-21.49%
Water management	174,468	158,206	(16,262)	-9.32%
TOTAL Group	1,364,014	820,592	(543,422)	-39.84%

- Pipe sales in the Arabian Peninsula decreased by SAR 486.5 million or 46.30% as follows:

Table 9: GCC Pipe Sales (SAR'000)

	Sales 2016	Sales 2017	Increase (Decrease)	Percent
Ductile iron	460,646	231,306	(229,340)	-49.79%
Glass reinforced Polyester	306,605	186,976	(119,629)	-39.02%
Epoxy	180,901	100,592	(80,309)	-44.39%
Others	102,431	45,240	(57,191)	-55.83%
TOTAL	1,050,583	564,114	(486,469)	-46.30%

Cost of Sales

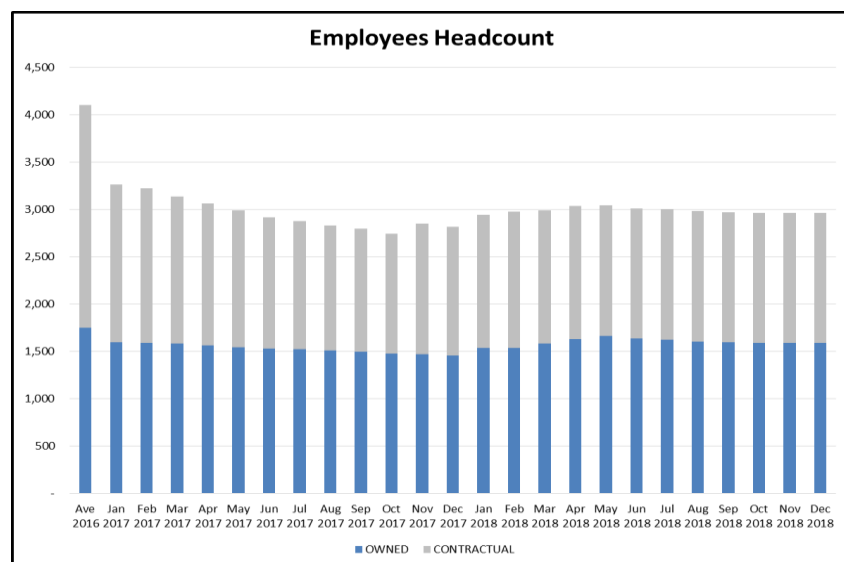
- The decrease in cost of sales comes as a natural result of the drop in sales volumes during the year as described above. However, the Cost of sales also included the impact of several adjustments as follows:

	2017	2016
Adjustments and impairments on inventories	9.2	32.3
Adjustment on revenue recognition on long-term EPC contracts	-	33.3
Total	9.2	65.6

Starting 2016 to date, the Company started a cost reduction program in the domestic entities, whereby 1,593 contracted labor and 363 employees left over the years. During 2017, the cost cutting program

continued and some cost benefits began to materialize. Over the year the estimated cost savings achieved as a result of this program reached about SAR 118.9 million.

The program is also planned to continue over 2018 by reducing expats and contractual personnel, the Company plans to hire 178 Saudi employees in 2018.



Operating Expenses

The net operating expenses for the year decreased by 39.75%. This is mostly caused by the decreased in provision for doubtful debts, salaries, wages and benefits. Over the year, the group decreased its bad debt expenses from SAR 77.5 million in 2016 to SAR 1.0 million in 2017.

Share in Net Income of Associates

The net income from affiliates were higher compared with last year, increase in share in net income has been noted for the investments with Subor, Amensouss, East Gas, and Tawzea while losses were incurred on the investments with Amiblu & Amitech Morocco for 2017.

Financial Charges

- Financial charges increased by 7.76% mostly due to the increasing borrowing rates in Saudi Arabia. Indeed, most of the loans of the company are based on SIBOR 6 months. The net interest cost on end services indemnity liability.

Impairment of Non-Current Assets

- The impairment charges of non-current assets amounted to SAR 5.0 million in 2017 (2016: SAR 28.1 million)

	2017	2016
Discontinued production lines (1)	-	18.2
Impairment on Egyptian joint-ventures (2)	-	9.9
CGU Impairment (3)	5.0	-

- (1) Several production lines were discontinued due to low utilization especially in the Concrete and the Polyethylene segments. Impairment charges were booked on the related equipment.
- (2) Due to the decision of the Egyptian authorities to let the pound float, our joint-ventures in Egypt had to recognize important exchange and translation losses and as a result are now in a negative equity position. Therefore, these investments have been fully impaired.
- (3) As part of the annual impairment test required by IFRS standards the Group tested all applicable Cash Generating Units (CGUs) for impairment. As a result, one of its plant was found to have a marginal impairment of SAR 5.0 million.

Foreign Income Taxes and Zakat

The decrease is explained by the following:

- Adjusting the Zakat provisions due to adjustments on prior year balances as a result of final assessments from the GAZT
- Lower foreign income taxes relating to Astana, FTECH Bahrain, and PWT.

6. Accounting Standards

6.2. Departure from IFRS Accounting Standards

The Group did not deviate from mandatory IFRS standards adopted by SOCPA.

6.3. IFRS Implementation

6.3.1.1. Introduction

In 2013, SOCPA announced that all listed companies will have to transition to International Financial Reporting Standards (IFRS) on January 1, 2017. Therefore, the Saudi Arabian Amiantit Company and Subsidiaries (Amiantit or "the Company") will be required to prepare financial statements in accordance with IFRS effective for its year ending 31 December, 2017 with comparative information presented for 31 December, 2016. In addition, an opening IFRS balance sheet will be required as at 1 January, 2016 (the 'transition date') in order to transition to IFRS.

2017 interim financials will also need to be prepared according to IFRS with comparative balance sheets and income statements. The Group designed a transition plan in 2015 which was implemented over 2015 and 2016 with the results that the IFRS accounting policies were approved by the Board of Directors on December 9, 2016.

After approval of the IFRS accounting policies by the Board of Directors on December 9, 2016, the Company, together with its consultants and auditors, has estimated the major impacts of the adoption of IFRS on the consolidated equity of the Company (all amounts in SAR millions) - Increase (decrease) of equity:

Table 10: IFRS Transition Financial Impact on Equity & Income (SAR millions)

Description	Impact on January 1, 2016 equity	Impact on 2016 IFRS Restated Income Statement	Impact on December 31, 2016 Equity
A-Deconsolidation of foreign entity	(2.5)	(0.0)	(2.6)
B- Retentions receivable	(7.4)	0.8	(6.6)
C- Investment property reclassification	-	-	-
D-Employees end of service benefits	9.7	(7.0)	2.7
E- Discounting of long term receivables	(114.7)	(1.3)	(116.0)
F-Work-in-Process Impairment Differential	(61.1)	30.1	(31.0)
TOTAL IMPACT	(176.0)	22.6	(153.4)

Explanations:

A. Basis of consolidation

Under Local GAAP, the Group consolidated a subsidiary when it owned the majority of its equity. Under IFRS, the Group consolidates a subsidiary when it obtains 'control' over the subsidiary. As a result, the Group deconsolidated a subsidiary in Europe ("the deconsolidated company") from the date of transition and accounted for its interest in the deconsolidated subsidiary as an investment in an associate.

The following is a summary of the deconsolidated company's financial position as at 1 January 2016 and 31 December 2016:

	December 31, 2016 (SR'000)	January 1, 2016 (SR'000)
Assets		
Current assets	245,661	250,231
Non-current assets	34,954	41,985
Total assets	280,615	292,216
Liabilities and net assets		
Current liabilities	(202,506)	(273,343)
Non-current liabilities	(71,352)	(13,152)
Total liabilities	(273,858)	(286,495)
Net assets	6,757	5,721

The following is a summary of the deconsolidated company's profit or loss for the six-month period ended 30 June 2016 and the year ended 31 December 2016:

	Year ended 31 December 2016 (SR'000)
Sales	306,901
Gross profit	51,759
Net profit for the period / year	3,857

B. Trade & Retentions Receivable

Previously, trade and retentions receivables were presented at their nominal amounts as current assets. Under IFRS, trade and retentions receivable which are expected to be collected beyond twelve months from the date of the consolidated statement of financial position are presented at their net present values as non-current assets. IAS 39 require financial assets of long-term nature to be discounted and recognized at their net present values using a reasonable discount rate. The difference between the nominal amounts and net present values of trade and retentions receivable as at 1 January 2016 amounted to SR 116.1 million and was charged to retained earnings.

C. Investment Properties

As per IAS 40 requirements, land valued at SR 8.25 million owned by the Group and not currently or expected to be used in operations was reclassified as investment property. Therefore, there is no impact on equity as a result of this change.

D. Defined Benefit Obligation

Under Local GAAP, the Group recognized costs related to its employees' terminal benefits by calculating the obligation using current salary levels and assuming all contracts are terminated by the Group. Under

IFRS, terminal benefits are recognized using the projected unit credit method. The required obligation under IFRS as at 1 January 2016 was less by SR 9.1 million and the difference has been recognized against retained earnings. The difference of SR 2.6 as at 31 December 2016 has been recognized in the statement of profit or loss and the re-measurement differences as at 31 December 2016 of SR 90 thousands has been recognized in retained earnings through OCI.

E. Loss on Onerous Contracts

This adjustment relates to the effect of re-measuring the provision related to future losses to be recognized on certain projects with negative margins in Iraq and Turkey. Under Local GAAP, the Group used to measure such provisions using the most likely scenario for future possible outcomes. However, under IAS 37, the Group revised its assumptions taking a weighted average calculation of the various scenarios and their probabilities to reach the expected value of the outcome. As at 1 January 2016, the Group recognized an additional provision for SR 61.1 million.

F. Board of Directors' Remuneration

This adjustment relates to the effect of classifying board of directors' remuneration as selling, general and administrative expenses under IFRS. Under Local GAAP, the Group used to recognize such expenditure as a direct deduction from retained earnings. Accordingly, directors' remuneration for the year ended 31 December 2016 amounting to SR 1.8 million has been recognized in the consolidated statement of profit or loss.

7. Corporate Structure:

7.2. Branches:

Branches of the mother Company (by industrial license or branch commercial registration certificate or both of them) are 100 % owned. The branches do not represent separate legal entities.

Table 11: List of Group Branches

#	Company	Activity	Country	Establishment Place	Amiantit Share
1	Saudi Arabian Amiantit Co.	Riyadh Marketing Office	KSA	Riyadh-KSA	100%
2	Saudi Arabian Amiantit Co.	Jeddah Marketing Office	KSA	Jeddah-KSA	100%
3	Amiantit Polyolefin Piping System Factory	Polyolefin Piping	KSA	Jeddah-KSA	100%
4	Yacoat Amiantit	Pipe painting, import of pipes, & building materials	KSA	Dammam-KSA	100%
5	Amiantit Polymer Co.	Trade in Polymers	KSA	Dammam-KSA	100%
6	Amiantit Plastic Products Co.	Plastic production	KSA	Dammam-KSA	100%
7	Epoxy Pipe Co. (Amipox)	Epoxy pipes	KSA	Dammam-KSA	100%
8	Amiantit Research & Development Center	Research & Development	KSA	Dhahran-KSA	100%
9	Saudi Arabian Amiantit Construction, Maintenance and operation Co.	General Contracting & Industrial Maintenance	KSA	Dammam-KSA	100%
10	Factory of Amiantit Fiberglass Industries Co. / Branch of Amiantit Fiberglass Industries Co. Ltd (AFIL)	Pipes production	KSA	Jeddah-KSA	100%
11	Factory of Amiantit Fiberglass Industries Co. / Branch of Amiantit Fiberglass Industries Co. Ltd (AFIL)	Pipes Production	KSA	Dammam-KSA	100%
12	Amiantit Fiberglass Industries Co. LTD/ Brach of Amiantit Fiberglass Industries Co. Ltd. (AFIL)	Contracting	KSA	Dammam-KSA	100%
13	Factory of Saudi Arabian Ductile Iron Pipes Co. Ltd/ Brach of Saudi Arabian Ductile Iron Pipes Co. Ltd	Pipes production	KSA	Dammam-KSA	100%
14	Branch of Saudi Arabian Ductile Iron Pipes Co. Ltd	Contracting	KSA	Dammam-KSA	100%
15	Ameron Saudi Arabia Ltd. Co. / Branch	Pipes Production	KSA	Jubail-KSA	100%
16	Infrastructure Engineering Contracting Co. Ltd. (ISECC Kuwait)	Design and Installation services	Kuwait	Kuwait	100%
17	Infrastructure Engineering Contracting Co. Ltd. (ISEEC Dubai)	Design and Installation services	Dubai	UAE	100%
18	Infrastructure Engineering Contracting Co. Ltd. (ISECC Qatar)	Design and Installation services	Qatar	Qatar	100%

Note: Branches do not have capital, and they do not issue financial statements.

7.3. Fully or Partially-owned Subsidiaries

Table 12: List of fully or Partially-owned Subsidiaries

#	Company	Activity	Establishment	Capital	SAAC Share
1	Amiantit Fiberglass Industries Co. Ltd “AFIL”	Marketing the company product	Dammam, KSA	SAR 180 million	100%
2	Amiantit Rubber Industries Ltd. Co.	Rubber gaskets & pipe fittings	Dammam, KSA	SAR 8.75 million	100%
3	Saudi Arabian Ductile Iron Pipes Co. Ltd	Marketing of Company products	Dammam, KSA	SAR 180 million	100%
4	Ameron Saudi Arabia Ltd. Co.	Pipes production	Dammam, KSA	SAR 76.5 million	100%
5	Factory of Bondstrand Co. Ltd	Pipes production	Dammam, KSA	SAR 20 million	60%
6	Saudi Arabia Concrete Products Co. (SACOP)	Pipes production	Jeddah, KSA	SAR 12.250 million	100%
7	Saudi Amicon Co. Ltd.	Pipes and Valves production	Dammam, KSA	SAR 15 million	100%
8	International Infrastructure Management and Operation Co. Ltd.	Management of water projects and plants and sub-Holding of companies operating in the same field	Dammam, KSA	SAR 100 million	100%
9	Amiantit International Holding Co. WLL	Holding Company	Manama, Bahrain	US\$ 32 million	100%
10	Ductile Technology Co. W.L.L.	Selling, buying, and rental of Real Estate	Manama, Bahrain	BD 20,000	100%
11	Flowtite Technology Bahrain W.L.L.(under liquidation)	Acquisition of technology rights (sale of pipes & equipment)	Manama, Bahrain	US\$3.0 million	100%
12	Aquamundo GmbH	Water Management	Germany	Euro 3 million	100%
13	P.W.T Wasser und- Abwassertechnik GmbH	EPC of Water Treatment Plants	Germany	Euro 3 million	100%
14	Amiantit Malta Holding Ltd.	Holding	Malta	Euro 49.03 million	100%
15	LLP Amitech Astana	Production of pipes	Kazakhstan	KZT 403 million	51%
16	Amitech Cyprus Holding Ltd.(under liquidation)	Holding	Cyprus	Euro 2,000	100%
17	Amitech Switzerland AG	Holding	Switzerland	CHF 10.5 million	100%
18	Flowtite Engineering GmbH (under liquidation)	Consulting / technology	Germany	Euro 30,000	100%
19	Saudi PWT Ltd.	Water Management	Dammam, KSA	SAR 500,000	100%
20	Arabian PWT	PWT Water Management Branch	Dammam, KSA	SAR 500,000	100%
21	PWT SUW OOO Turkmenistan	Water Management	Turkmenistan	USD 250,000	100%
22	Infrastructure Engineering Contracting Co. Ltd.	Design and Installation services	Dammam, KSA	SAR 500,000	100%
23	Saudi Arabian Amiantit Management Co. Ltd.	Management	Dammam, KSA	SAR 10,000	100%
24	Al Arabia for Trade	Trading	Dammam, KSA	SAR 2 million	100%

7.4. Affiliated Companies:

Table 13: List of Affiliated Companies

#	Company	Activity	Establishment Place	Capital	Amiantit Share%
1	Amiantit Fiberglass Egypt S.A.E.	Pipe production	Egypt	EP 50 million	50%
2	Ameron Egypt S.A.E.	Pipe production	Egypt	EP 19.3 million	49%
3	SPA Amitech Algerie	Pipe production	Algeria	Alg. Dinar 262.8 million	50%
4	Amitech Maroc	Pipe production	Morocco	MAD 122 million	50%
5	Amiantit Qatar Pipes Co. W.L.L.	Pipe production	Qatar	QR 37.2 million	40%
6	Eastern Gas	Gas distribution	Dammam, KSA	SAR 40 million	13%
7	Sarplast S.A.	Pipes production	Switzerland	Euro 1.6 million	23.7%
8	Amitech Libya	Pipes production	Libya	Din 1.0 million	40%
9	Sarplast Qatar W.L.L	Pipes production	Qatar	QR 200,000	20.4%
10	Subor Boru Sanayi Ve Ticaret AS	Production of pipes	Turkey	TRY 48.3 million	50%
11	Subor Gap Sanayi Ve Ticaret AS	Production of pipes	Turkey	TRY 21.7 million	40%
12	Amitech Pipe Systems SRL	Trading of Pipes	Romania	RON 327,620	50%
13	Amitech Pipes Romania SA (Under liquidation)	Dormant	Romania	RON 116,000	50%
14	Amiblu Holding GmbH	Production of pipes	Austria	EUR 5.950 million	50%
15	International Water Distribution Company Ltd (Tawzea).	Water Distribution	Jeddah, KSA	SAR 101 million	50%
16	Amensouss S.A.	Water Distribution	Morocco	MAD 100 million	15%

In addition to the above, the Company has several commercial representation offices inside Saudi Arabia and abroad.

8. Details of Issued Shares & Debt Instruments of Subsidiaries

The issued shares of the subsidiaries are as follows:

Table 14: List of Issued Shares of the Subsidiaries

Subsidiary	Issued shares	Shareholders
Amiantit Fiberglass Industries Ltd.	180,000 ordinary shares of each SAR 1,000 per share	1. Amiantit 100%
Saudi Arabian Ductile Iron Pipe Co. Ltd.	180,000 ordinary shares of each SAR 1,000 per share	1. Amiantit 100%
Bondstrand Ltd.	20,000 ordinary shares of each SAR 1,000 per share	1. Amiantit 60% 2. Ameron B.V. Holland 40%
Ameron Saudi Arabia Ltd.	76,500 ordinary shares of each SAR 1,000 per share	1. Amiantit 100%
Amiantit Rubber Industries Ltd.	8,750 ordinary shares of each SAR 1,000 per share	1. Amiantit 100%
Saudi Arabia Concrete Products Ltd.	24,500 ordinary shares of each SAR 500 per share	1. Amiantit 100%
Saudi Amicon Co. Ltd.	15,000 ordinary shares of each SAR 1,000 per share	1. Amiantit 100%
LLP Amitech Astana	Charter Capital of KZT 403 Million- Limited Liability Partnership	1. Amiantit International Holding Co. 51% 2. Abykayev M 34% 3. Gavrilov V 10% 4. Listopadney G 5%
Amiantit International Holding Co. WLL	32,000 ordinary shares of each USD 1,000 per share	1. Amiantit 99.94% 2. Amiantit Fiberglass Ind. Ltd .06%
Amitech Cyprus Holding Ltd.	2,000 ordinary shares of each EUR 1 per share	1. Amiantit International Holding Co. 100%
Amitech Switzerland AG	112 ordinary shares of each CHF 1,000 per share	1. Amiantit international Holding 10.71% 2. Amiantit Malta Holding Ltd. 89.29%
Amiantit Malta Holding Ltd.	49,025 ordinary shares of each EUR 1,000 per share	1. Amiantit International Holding Co. 100%
Flowtite Technology Bahrain W.L.L.	11,375 ordinary shares of each BHD 100 per share	1. Amiantit International Holding Co. 99% 2. Amiantit Fiberglass Industries Ltd 1%
Ductile Technology Co. W.L.L.	200 ordinary shares of each BHD 100 per share	1. Amiantit 75% 2. Amiantit International Holding 25%
Flowtite Engineering GmbH	1 ordinary share of EUR 30,000	1. Amitech Switzerland A. G. 100%
Arabian PWT	500 ordinary shares of each SAR 1,000 per share	1. P.W.T Wasser Co. 100%
Aquamundo GmbH	10 ordinary shares of each EUR 300,000 per share	1. P.W.T Wasser Co. 100%
P.W.T Wasser und- Abwassertechnik GmbH	10 ordinary shares of each EUR 300,000 per share	1. Amiwater 100%
PWT Saudi Arabia Co.	500 ordinary shares of each SAR 1,000 per share	1. P.W.T Wasser Co. 51% 2. Amiwater 49%
PWT SUW OOO Turkmenistan	1 ordinary shares of each USD 250,000 per share	1. P.W.T Wasser Co. 99% 2. Aquamundo Co. Ltd. 1%
International Infrastructure Management and Operation Co. Ltd.	100,000 ordinary shares of each SAR 1,000 per share	1. Amiantit 80 % 2. Amiantit Fiberglass Industries Ltd. 20%
Infrastructure Engineering Contracting Co. Ltd.	500 ordinary shares of each SAR 1,000 per share	1. Amiantit 100%

Saudi Arabian Amiantit Management Co. Ltd.	10 ordinary shares of each SAR 1,000	1. Amiantit 90% 2. Amiwater 10%
Al Arabia for Trade	2000 ordinary shares of each SAR 1,000	1. Amiantit 100%

Notes:

- *The Subsidiaries have not issued marketable debt instruments. The only external financial debts of the subsidiaries are represented by bank loans, which are covered under section 12.*
- *The entities under liquidation are mostly dormant entities, and the liquidation process will not have any material impact on the financial statements of the Group.*

9. Dividends Policy:

The Company distributes the profits according to the following policy:

The Company's net profits after deduction of general expenses and other costs shall be distributed as follows:

- 1- A ten percent (10%) of net profits shall be allocated aside as a statutory reserve. However, the general assembly may stop this allocation if the statutory reserve reached half of the capital.
- 2- Upon recommendation of the board of directors, the general assembly may allocate a certain percentage of the net profit each year to form an agreement reserve to be spent as determined by the General Assembly.
- 3- The General Assembly may decide on formation of other reserves to the extent necessary to achieve the interests of the company or ensure the distribution of fixed profits, as much as possible to the shareholders. The General Assembly may deduct from the net profits a certain amount to establish social institutions for the company's employees or to help existing such institutions.
- 4- Following the above, an amount representing 5% of paid up capital shall be distributed to the shareholders of the company.
- 5- The balance shall be distributed as additional dividends to the shareholders.

Distribution of Phase Dividends:

According to the rules and regulations of the Saudi Capital Market Authority, the company may distribute phases dividends to its shareholders on biannual or quarterly basis after satisfaction of the following requirements:

- 1) The ordinary General Assembly authorizes the board of director to distribute phase dividends by a decision issued annually.
- 2) The company shall have regular good profits.
- 3) The company shall have reasonable liquidity according to which the company may expect the level of its profits.
- 4) The company shall have distributable dividends according to the last audited financial statements sufficient to cover the proposed dividends after deduction, capitalization and distributed profits after the date of the financial statements.

The shareholder deserves a share of profits according to the decision of the General Assembly issued in this regard. The decision shall determine the accrual and distribution dates. The entitlement of profits shall be for the shareholders recorded in the Shareholders' Register at the end day of the date of profit entitlement.

Distribution of Preferred Shares' Dividends:

If no profits were distributed in any fiscal year, it is not allowed to distribute profits during the following years unless after payment of the certain percentage determined in Article (114) of the Companies' Laws for the preferred shareholders for that year. If the company failed to pay the percentage determined in Article (114) of the Companies' Law, for three consecutive years, the General Assembly of the preferred shareholders concluded in terms of Article (89) of the Companies' Law, shall decide either their attendance of the General Assembly meeting and participate in voting, or appointment of their

representatives in the board of directors according to their proportion of ownership in the Company's capital, until the company is able to pay all priority profits allocated for the holders of these shares for the previous years.

10. Major External Shareholders

As per Tadawul records, as on 31-12-2017, the major owners who own 5% and more of the capital are:

Shareholder	Percentage
HH Prince Khalid Bin Abdullah Bin Abdulrahman Al-Saud	7.47 %
Abdullah Saleh Abdullah Al-Bassam	5.08%

11. Major Internal Shareholders

11.2. Ownership by Board of Directors members, wives, and minor children in the shares of Saudi Arabian Amiantit Company:

Table 15: List of Board of Directors Members Ownership.

No	Member Name	Number of Shares of Board member at Year- Start	%	Number of Shares of Board Member at Year- End	% of Change	% at Year-End	Number of Shares of wife & Minor Children at Beginning of the year	%	Number of Shares of wife & Minor Children at End of the year	Change of Shares of Wife & Minor Children
1	Prince Ahmed Bin Khalid Al-Saud	1,502,624	1.30	1,502,624	0.28	1.30	No	No	No	No
2	Prince Turki Bin Mohammed Al-Saud*	11,000	0.0095	11,000	0	0.0095	50,000	0.0432	50,000	0
3	Dr. Khalil A. Kordi	3,365	0.0029	3,365	0	0.0029	No	No	No	No
4	Dr. Abdulaziz Al Jarbou*	97425	0.0843	97,425	0	0.0843	No	No	No	No
5	Shaik Sulaiman A. Al Suhaimi*	320,570	0.2775	320,570	0	0.2775	No	No	No	No
6	Mr. Sulaiman A. Al Amro	1,570	0.0013	1,570	0	0.0013	No	No	No	No
7	Mr. Bader A. Al Suwaidan*	23,085	0.0199	23,058	0	0.0199	No	No	No	No
8	Mr. Abdulaziz Ali Abu Al Saud*	1,000	0.0008	1,000	0	0.0008	No	No	No	No
9	Dr. Solaiman A Al Twaijri	1,000	0.0008	1,000	0	0.0008	No	No	No	No

* These board members resigned or left the board at the end of its term during 2017.

11.3. Ownership of Senior Executives of the Company and wives and minor children in the shares of Saudi Arabian Amiantit Company:

Table 16: List of Senior Executives Ownership.

No	Executive Name	Number of Shares of Senior Executive at Year Beginning	%	Number of Shares of Senior Executive at Year End	Change %	No of Shares of Wife & Minor Children at Year Beginning	%	No of Shares of Wife & Minor Children at Year End	Change of Shares of Wife & Minor Children
1	Dr. Solaiman A Al Twaijri	1,000	0.0008	1,000	0	No	No	No	No
2	Dr. Ammr K. Kurdi	0	0	No	No	No	No	No	No
3	Mr. Osama J. Al-Onaize	100	0	100	No	No	No	No	No
2	Mr. Waleed Abu Kishk	7,000	0.0060	7,000	No	No	No	No	No
3	Mohammad Sabahat Khan	0	0	No	No	No	No	No	No
4	Mohammad Al-Shamrani	0	0	No	No	No	No	No	No
5	Houssam Ramadan	0	0	No	No	No	No	No	No
6	Ms. Mraya Al-Subaie	0	0	No	No	No	No	No	No

The Company declares that there are no other interests in shares, subscription rights, debt instruments by any Board Members or Senior Executives and their wives and minor children in shares or debt instruments in the Company or any of its affiliated companies and any change in these rights during the year 2017 excluding what has been mentioned in item (22) of this report.

12. Borrowings

The Borrowings of the Company were as such as of December 31, 2016 and 2017:

12.2. Long term Loans

Table 17: Borrowings of the issuer (SAR'000).

Borrower	Bank	Nature of lines	Original Amount of Loan	Date Acquired	Repayment date	Amount Due as of December 31, 2016	New Borrowings	Repayments	Deconsolidation	Reclassification to ST loan (ST part of LT)	CTA	Amount due as of December 31, 2017
SAAC	Al-Inma Bank	Long-term	400,000	Aug-16 to Sep-16	2019-2020	300,000	-	-	-	(100,000)	-	200,000
SAAC	NCB	Long-term	247,200	Jan 31 2016	2019-2020	139,025	-	-	-	(61,759)	-	77,266
SAAC	Bank Al-Jazeera	Long-term	75,000	Jan 1 st 2016	2019-2021	-	99,346	-	-	(62,453)	-	36,893
SAAC	Riyadh Bank	Long-term	25,000	Apr 23 2016	2019	-	25,000	-	-	(18,750)	-	6,250
Amitech Astana	Mr. Abykayev	Minority Partners Loan	9,942	2005-2009	2018	9,492	-	-	-	(9,978)	486	-
Amiantit Spain	Banco Popular	Long-term	3,200	21-Mar-95	2019-2020	380	-	-	(425)	-	45	-
Amiantit Germany	Sachsen Bank and Sparkasse Leipzig	Long-term	-	-	2019-2021	3,039	-	-	(3,402)	-	363	-
Ftech AS	Danske Bank	Long-term	17,900	02-Dec-2013	2019-2033	13,627	-	-	(14,742)	-	1,115	-
	Total					465,563	124,346	-	(18,569)	(252,940)	2,009	320,409

The Borrowings of the Company were as such as of December 31, 2016 and 2017:

12.2.1. Current Maturity of Long-Term Loans

Table 18: Current Maturity of Long-Term Loans (SAR'000).

Borrower	Bank	Nature of lines	Repayment Date	Amount Due as of December 31, 2016	New Borrowings	Repayments	Deconsolidation	Reclassification to ST loan (ST part of LT)	CTA	Amount due as of December 31, 2017
SAAC	Al-Inma Bank	Loan	2018	100,000	-	(100,000)	-	100,000	-	100,000
SAAC	NCB	Loan	2018	61,349	-	(61,296)	-	61,759	-	61,812
SAAC	Bank Al-Jazeera	Loan	2018	-	-	(44,300)	-	62,453	-	18,153
SAAC	Riyadh Bank	Loan	2018	-	-	(6,250)	-	18,750	-	12,500
Amitech Astana	Mr. Abykayev	Minority Partners Loan	2018	-	-	-	-	9,978	-	9,978
Amiantit Spain	Banco Popular	Loan	2018	318	-	(168)	(188)	-	38	-
Amiantit Germany	Sachsen Bank & Sparkasse Leipzig	Loan	2018	1,757	-	(983)	(984)	-	210	-

Ftech AS	Danske Bank	Loan	2018	890	-	(464)	(498)	-	72	-
	Total			164,315	-	(213,461)	(1,670)	252,940	320	202,443

12.3. Short Term Loans

Table 19: Short Term Loans (SAR'000)

Borrower	Bank	Nature of lines	Amount Due as of December 31, 2016	New borrowings	Repayments	Deconsolidation	CTA	Amount due as of December 31, 2017
SAAC	Riyad Bank	Short-term	25,000	25,000	(50,000)	-	-	-
SAAC	Gulf Investment Bank	Short-term	35,000	17,901	(52,901)	-	-	-
SAAC	National Commercial Bank	Short-term	20,589	36,000	(38,589)	-	-	18,000
SAAC	Arab Banking Corporation	Short-term	99,375	106,500	(179,625)	-	-	26,250
SAAC	Bank Al-Jazeera	Short-term	104,502	28,671	(133,174)	-	-	-
SAAC	Al-Bilad Bank	Short-term	97,382	269,916	(185,703)	-	-	181,595
SAAC	Al-Inma Bank	Short-term	252,897	432,297	(409,690)	-	-	275,504
SAAC	Bank of Bahrain & Kuwait	Short-term	31,875	159,375	(166,875)	-	-	24,375
SAAC	Al-Baraka Islamic Bank	Short-term	37,500	150,000	(150,000)	-	-	37,500
SAAC	Al-Bilad Bank	Short-term	-	84,746	-	-	-	84,746
AFIL	Riyad Bank	Short-term	35,000	121,875	(115,625)	-	-	41,250
AFIL	Gulf Investment Bank	Short-term	-	139,582	(118,749)	-	-	20,833
AFIL	National Commercial Bank	Short-term	48,904	122,366	(122,918)	-	-	48,352
AFIL	Samba Bank	Short-term	30,000	150,000	(150,000)	-	-	30,000
SADIP	Gulf Investment Bank	Short-term	-	255,198	(226,033)	-	-	29,165
SADIP	National Commercial	Short-term	173,850	243,000	(240,850)	-	-	176,000
SADIP	Saudi Bristish Bank	Short-term	47,397	210,000	(227,397)	-	-	30,000
SADIP	Samba Bank	Short-term	50,009	155,000	(185,009)	-	-	20,000
BSL	National Commercial Bank	Short-term	19,576	19,215	(19,576)	-	-	19,215
BSL	Samba Bank	Short-term	30,000	120,000	(150,000)	-	-	-
Amiantit Spain	Banco Popular	Short-term	-	22	-	(22)	-	-
Amiantit Germany	Sachsen Bank & Sparkasse Leipzig	Overdraft	1,010	-	(594)	(537)	121	-
Ftech AS	Danske Bank	Overdraft	2,065	677	(1,333)	(1,578)	169	-
PWT Germany	Bank Asya	Short-term	-	4	(4)	-	-	-
PWT Germany	Bank Asya	Overdraft	-	1,952	(1,952)	-	-	-

	Total		1,141,930	2,849,297	(2,926,596)	(2,137)	290	1,062,785
--	--------------	--	------------------	------------------	--------------------	----------------	------------	------------------

Most of the short-term loans are used to finance receivables and stock of raw materials, since these receivables amount to SAR 1.3 Billion at the end of the year (SAR 1.5 Billion in 2016) while the total inventory value reached SAR 0.7 Billion at the end of the year compared with SAR 0.9 Billion in 2016.

12.4. Long-term Loans: maturity profile & Creditors' of the Group:

Table 20: Maturity of Long-term loans (in SAR '000)

Borrower	Bank	2018	2019	2020	2021	2022	2023 onwards	Total
SAAC	Al-Inma Bank	(100,000)	(100,000)	(100,000)	-	-	-	(300,000)
SAAC	NCB	(61,812)	(61,812)	(15,454)	-	-	-	(139,078)
SAAC	Bank Al-Jazeera	(18,153)	(16,597)	(15,073)	(5,223)	-	-	(55,046)
SAAC	Riyadh Bank	(12,500)	(6,250)	-	-	-	-	(18,750)
Amitech Astana	Minority Partners Loan	(9,978)						(9,978)
	Total	(202,443)	(184,659)	(130,527)	(5,223)	-	-	(522,852)

The Group has paid back long terms loans of SR 284.4 million during 2017. The Group has obtained new long term loans with a value of SR 146.9 Million during 2017. The current ratio as of December 31, 2017 amounts to 0.98 compared to 1.12 in 2016, and the debt-to-equity ratio amounts 2.19 Compared to 2.38 in 2016.

13. Hedging Instruments

The Company subscribed to an IRS (interest rate Swap) to cover the financial costs associated to a Medium-Term Loan. The characteristic of that instrument as of December 31, 2017 are:

Notional Amount	137,874,350
Schedule Trade Date	31.05.2016
Schedule Maturity Date	30.01.2020
Interest Swap Market value as of December 31, 2017	SAR -1,506,143 (USD -401,638)

The instrument was accounted for as a hedging instrument on the NCB long term loan.

14. Conversion or Subscription Rights

The Company did not issue conversion or subscription rights during 2017.

15. Redeemable Debts

The Company does not owe or possess redeemable debts during 2017.

17. Board of Directors Composition & Committees

17.1. Board of Directors composition

The Board of Directors is composed of (9) members:

Table 21: Board of Directors List

Name	Title	Executive	Non-Executive	Independent
Prince Ahmad Bin Khalid Abdullah Al-Saud	Chairman	No	Yes	No
Prince Turki Bin Mohammed Bin Fahad Al-Saud*	Vice Chairman	No	Yes	No
Dr. Khalil A. Kordi	Member	No	Yes	No
Dr. Abdulaziz Al Jarbou*	Member	No	Yes	No
Shaik Sulaiman A. Al Suhaimi*	Member	No	Yes	Yes
Mr. Sulaiman A. Al Amro	Member	No	Yes	No
Mr. Bader A. Al Suwaidan*	Member	No	Yes	Yes
Mr. Abdulaziz Ali Abu Al Saud*	Member	No	Yes	Yes
Dr. Solaiman A Al Twaijri*	CEO	Yes	No	No

Note: on 23/12/1438H (14/09/2017) Prince Turki Bin Mohammed Bin Fahad Al-Saud has resigned from the Board membership, and members marked with an () are no longer part of the board of directors in its new formation at the beginning of 2018.*

17.2. Board of Directors meetings during 2017:

The nine-member Board of Directors has convened two meetings during the year of 2017 as follows:

Table 22: Attendance Record of the meeting of the Board of Directors 2017

Board member name	First Meeting 14/02/2017	Second Meeting 08/12/2017	Total
Prince Ahmed Bin Khalid Abdullah Al-Saud	Attended	Attended	2
Prince Turki Bin Mohammed Bin Fahad Al-Saud	Attended	Attended	2
Dr. Khalil A. Kordi	Attended	Attended	2
Dr. Abdulaziz Al Jarbou	Attended	Attended	2
Shaik Sulaiman A. Al Suhaimi	Attended	Attended	2
Mr. Sulaiman A. Al Amro	Attended	Attended	2
Mr. Bader A. Al Suwaidan	Attended	Attended	2
Mr. Abdulaziz Ali Abu Al- Saud	Attended	Attended	2
Dr. Solaiman A Al Twaijri	Attended	Attended	2

The Board of Directors has adopted 5 resolutions by correspondence related to the approval of the interim results.

The Board of Directors confirmed that the Company maintained proper accounting records and the internal control system was sound and is effectively executed. There are no remarks on the Company going concern position.

17.3. Board of Directors and Nomination and Compensation Committee.

This Nomination and compensation Committee covers salaries, wages, and annual bonus related to performance and incentive plans (schemes) or any other benefits in kind. The policies and mechanisms for determining the remuneration of the Board Members are the following:

BOD fees

In accordance with the By-Laws of the company & governance policy, after year end, Board Members are paid a fixed fee of SAR 200,000 on a yearly basis.

Committee fees

The Committee fees and attendance fees are approved by the Board of Directors upon proposal of the Compensation Committee. The Committee fees amount to 100 000 SAR per year per member. Attendance fees amount to SAR 3,000 per attended meeting (3000 USD if the meeting is held outside KSA/Bahrain). When applicable, travel expenses are refunded. Members sitting on several committees only receive fees for one committee. If several meetings are handled the same day, attendance fees are only paid once for the day.

Remuneration of Board members with executive powers

The Remuneration of the Board Members with executive powers is approved by the Chairman of the Board of Directors.

The total compensation and remuneration of the Board of Directors and the 5 senior executives for the year 2017, is as follows:

Table 23: Total Remuneration and Compensation.

	Total Remuneration & Compensation (SAR)
Board of Directors *	3,029,183
Five Senior Executives **	5,805,593

* Includes the board fees of the Managing Director, Dr. Solaiman A Al Twaijri.

** Includes the compensation and board fees of the Chief Executive Officer, Dr. Solaiman A Al Twaijri, and the Group Chief Financial Officer, Dr. Ammr K. Kurdi.

17.4. Directors Mandates of Members of the Board of Directors:

Board Member Name	Name of Stock Company	Listed(Not listed)
Prince Ahmed Bin Khalid Abdullah Bin Abdulrahman Al-Saud	1- Chairman of Saudi Chemical Co.	<u>Listed</u>
	2- Chairman, Saudi Arabian Cooperative Insurance Co. (SAICO)	<u>Listed</u>
	3- American Express	<u>Not Listed</u>
	4- Amiantit Fiberglass Industries Ltd.	<u>Not Listed</u>
	5- Amiantit Rubber Industries Ltd.	<u>Not Listed</u>
	6- Ameron Saudi Arabia Ltd.	<u>Not Listed</u>
	7- Bondstrand Ltd.	<u>Not Listed</u>
	8- Saudi Arabian Ductile Iron Pipes Co. Ltd.	<u>Not Listed</u>
	9- Saudi Arabian Concrete Products (SACOP) Ltd.	<u>Not Listed</u>
	10- Saudi Amicon	<u>Not Listed</u>
	11- International Infrastructure Development Management Operation Company Ltd. (AMIWATER)	<u>Not Listed</u>
Prince Turki Bin Mohammed Bin Fahad Al-Saud	1- Chairman of Eastern Province Cement Co.	<u>Listed</u>

Dr. Khalil A. Kordi	<ul style="list-style-type: none"> 1- Aoudah Capital Co. 2- Saudi Telecom Co. 3- Amiantit Fiberglass Industries Ltd. 4- Amiantit Rubber Industries Ltd. 5- Ameron Saudi Arabia Ltd. 6- Bondstrand Ltd. 7- Saudi Arabian Ductile Iron Pipes Co. Ltd. 8- Saudi Arabian Concrete Products (SACOP) Ltd. 9- Saudi Amicon 10- International Infrastructure Development Management Operation Company Ltd. (AMIWATER) 	<u>Not listed</u> <u>Listed</u> <u>Not listed</u> <u>Not listed</u> <u>Not listed</u> <u>Not listed</u> <u>Not listed</u> <u>Not listed</u> <u>Not listed</u> <u>Not listed</u>
Dr. Abdulaziz Al-Jarbou	<ul style="list-style-type: none"> 1- Saudi Papers Co. 2- Riyadh Bank 3- Gulf Chemical & Industrial Oils Co. 4- United companies for Greasing 5- Amiantit Fiberglass Industries Ltd. 6- Amiantit Rubber Industries Ltd. 7- Ameron Saudi Arabia Ltd. 8- Bondstrand Ltd. 9- Saudi Arabian Ductile Iron Pipes Co. Ltd. 10- Saudi Arabian Concrete Products (SACOP) Ltd. 11- Saudi Amicon 12- International Infrastructure Development Management Operation Company Ltd. (AMIWATER) 	<u>Listed</u> <u>Listed</u> <u>Not listed</u> <u>Not listed</u> <u>Not listed</u> <u>Not listed</u> <u>Not listed</u> <u>Not listed</u> <u>Not listed</u> <u>Not listed</u> <u>Not listed</u> <u>Not listed</u>
Shaik Sulaiman A. Al Suhaimi	<ul style="list-style-type: none"> 1- Suhaimi Holding Co. 	<u>Not listed</u>
Mr. Sulaiman A. Al Amro	<ul style="list-style-type: none"> 1- Nama Chemical Co. 2- Stores & Transport Services Co. 3- Amthal Finance & Rent Co. 4- Amiantit Fiberglass Industries Ltd. 5- Amiantit Rubber Industries Ltd. 6- Saudi Arabian Ductile Iron Pipes Co. Ltd. 7- International Infrastructure Development Management Operation Company Ltd. (AMIWATER) 	<u>Listed</u> <u>Not listed</u> <u>Not listed</u> <u>Not listed</u> <u>Not listed</u> <u>Not listed</u> <u>Not listed</u>
Mr. Bader A. Al Suwaidan	<ul style="list-style-type: none"> 1- Albilad Arabia Co. Ltd. 2- Baas International Group Ltd. 3- Control Risks Co.Ltd. 	<u>Not listed</u> <u>Not listed</u> <u>Not listed</u>
Mr. Abdulaziz Ali Abu Al Saud	<ul style="list-style-type: none"> 1- Saudi Arabian Cooperative Insurance Co (SAICO) 	<u>Listed</u>
Dr. Solaiman A Al Twaijri	<ul style="list-style-type: none"> 1- Wala Insurance Co. 2- Chemical Development 3- Takwin Industrial Development 4- Mulkiya Co. 5- Amiantit Fiberglass Industries Ltd. 6- Amiantit Rubber Industries Ltd. 7- Ameron Saudi Arabia Ltd. 8- Bondstrand Ltd. 9- Saudi Arabian Ductile Iron Pipes Co. Ltd. 10- Saudi Arabian Concrete Products (SACOP) Ltd. 11- Saudi Amicon 12- International Infrastructure Development Management Operation Company Ltd. (AMIWATER) 13- PWT – KSA 14- Infrastructure Engineering Contracting Co. 15- Saudi Arabian Amiantit Management 	<u>Listed</u> <u>Not listed</u> <u>Listed</u> <u>Not listed</u> <u>Not listed</u> <u>Not listed</u> <u>Not listed</u> <u>Not listed</u> <u>Not listed</u> <u>Not listed</u> <u>Not listed</u> <u>Not listed</u> <u>Not listed</u> <u>Not listed</u> <u>Not listed</u>

18. Transactions with Related Parties

Related Party Transactions

The table below shows the Group transactions with their respective non-consolidated affiliated companies in terms of sales and purchases

Company	Year	Sales to related parties	Purchases from / payments made to related parties
Amiantit Fiberglass Egypt	2017	-	-
	2016	-	4
Amiantit Qatar	2017	11,244	-
	2016	14,761	12,607
Amensouss	2017	2,358	-
	2016	-	-
Amiblu Entities	2017	897	-
	2016	-	-
Amitech Morocco	2017	4	-
	2016	1,705	93
Subor & Subor Gap	2017	-	6,056
	2016	-	-

Table 24: Cash advances & Loans to Affiliated Companies (SR'000).

Borrower	Nature of Loan	Amount Due as of December 31, 2016	Additions	(Repayments)	Deconsolidated	CTA	Amount due as of December 31, 2017
Amiantit Qatar	Know-how Fees & Others Receivable	2,098	11,347	(244)	-	41	13,242
Sarplast Qatar	LT Loan	1,702	75		-	-	1,777
Amitech Morocco	LT Loan	23,585	346		-	1,433	25,364
Amensouss	Dividends Receivable	-	2,358		-	-	2,358
Jos Hansen & Soehne	Other receivable	-	29		-	-	29
APS & Amitech Romania	LT Loan	3,642	79	(159)	-	60	3,622
Subor & Subor Gap	Trade Receivable	10,385	101	(6,015)	-	(165)	4,306
Amiantit Spain	LT Loan & Other Receivable	-	367		29,837	324	30,528
Amiantit Germany	LT Loan & Other Receivable	-	-	(47)	2,037	(208)	1,782
Flowtite Technology AS	Other receivable	-	-	(643)	1,323	(172)	508
Amiantit Service	Other receivable	-	-	-	1,272	205	1,477
TOTAL		41,412	14,702	(7,108)	34,469	1,518	84,994

Note: Impairment provisions have been booked on such amounts due to the financial condition of these companies.

The issuer and the Group do not have any specific related party transaction to report which could cause a conflict of interest between the issuer or any of its subsidiaries and affiliates, on the one hand, and board members or members of the Management on the other hand.

19. Businesses or Contracts with Chief Executive Officer, Chief Finance Officer or Related Individuals:

The Board of Directors assures that there is no business or contracts between the Company or the Group and the CEO or CFO or any related party during 2017.

20. Waiver of Salary or Compensation by Directors or Senior Executives:

The Company declares that there were no waivers, arrangements, assignment or other modifications by any Board Member or Senior Executives of any salary or compensation rights or any profit rights in 2017.

21. Waiver by any Shareholder of Rights to Dividends:

No shareholders of the issuer have waived any right to dividend.

22. Amounts due by the Group to Zakat, Tax Authorities, & other Legal Fees

Table 25: Zakat & Tax Payment (SAR '000)

Particular	Amounts due as of December 31, 2017	Reason
Zakat	101,587	According to zakat & income law
Income Taxes due to Saudi Authorities	848	As per income tax on foreigners
Income Taxes due to Foreign Authorities	2,828	As per foreign income tax rules, on foreign consolidated subsidiaries
Zakat & Income Tax Payable	105,263	
GOSI Contribution	661	According social insurance regulation
Total	105,924	

Note: SAR 30.0 million is the estimated amount due and to be paid in 2018.

23. Employee Share-Option Funds

In an effort to motivate employees and enhance their loyalty to the Company, while letting them benefit from the Company performance, the Company requested from the Saudi Capital Market Authority to approve a share-plan attributing numbers of shares to the employees.

Pursuant to the Capital Market Authority, the Company purchased 2,515,691 shares at an acquisition cost of SAR 16.60 per share. The shares are managed by a fund. The purchased shares were registered in the name of the employees during 2011 and a first three-years program was started beginning 2012, according to which a total of 593,000 Shares were distributed to the employees and to the management over 2015.

There is currently no active incentive program linked to the remaining 1,922,691 shares.

24. Declarations

24.1. Books of Accounts

The Directors declare that proper books of account have been maintained.

24.2. System of Internal Control

The Directors declare that the system of internal control is sound in design and has been effectively implemented.

24.3 Going-Concern

The Directors declare that there are no significant doubts concerning the company's ability to continue as a going concern.

25. Corporate Governance

During the year 2009, the General Assembly of the Company has approved the Governance Regulations of the Saudi Arabian Amiantit Company “Internal Governance Regulations”. Accordingly, the Company laid down the following rules and mechanism for establishing the main Committees of the Board of Directors and their duties as follows:

25.1. Committees

25.1.1. Executive Committee

Duties & Authorities:

- The Executive Committee shall exercise all authorities and play the role of the Board of Directors during the intervals between two Board of Directors meetings.
- The Committee shall discuss and adopt the decisions in relation to subjects requiring top urgent decisions on emergency matters.
- The responsibilities of the Committee include adopting the routine decisions relating to regular Company work.

Regarding the Company strategy and targets, the Executive Committee shall do the following:

1. Check the strategic plans of the Company in cooperation with the Managing Director and the Chief Executive Officer.
2. Confirm that the strategic plans are actually put to execution and actual work to achieve the Company’s objectives
3. Check the recommendations of the Managing Director and Chief Executive Officer regarding the allocation of the Company resources aimed at harmoniously balancing the strategic plans with the long terms operational goals.
4. Periodical check the strategic plans and the operational goals of the Company and its affiliates to ensure their concurrence with the goals and mission of the Company.

Regarding the operational priorities of the Company, the Executive Committee shall check and prepare the required recommendations for the Board of Directors regarding the strategic plan and Company’s operational priorities including the expansion in or retrenchment from into or new markets or new countries

Regarding the financial planning of the Company and profit distribution policy the Executive Committee shall:

- Prepare and check the recommendations to the Board of Directors regarding the long term annual financial strategies and related performance indicators.
- Check the important financial matters of the Company and its affiliates such as the matters related to the capital, credit classification, cash flow, borrowings, investment deposits, in coordination with the Company management and the Audit Committee.
- Check and prepare the recommendations to be submitted to the Board of Directors on distribution of profits polices and how to implement them.
- Periodical and regular verification of the actual capital expenditure and their pre-approved budgets.

Regarding the productivity of the Company in the long-term and the effectiveness of its operational process, the Committee shall check and prepare the required recommendation to the Board of Directors regarding the strategic decisions on the possibilities for the Company to improve the quality of its products and services.

Duties:

- Requests the documents, reports, clarifications and other information from Company officials and executives.
- Invites the Company officials, executives and employees to attend its meetings for questioning them or hear to their clarifications.
- Seek assistance of outside experts and consultants.
- Presents any other services required by the Board of Directors within the jurisdiction of the Executive Committee.
- The Committee will annually check and evaluate its operating regulations to ensure smooth functioning in its work and completion of duties and raise any necessary revisions for the consideration of the Board of Directors.
- The Committee shall present a periodical report to the Board of Directors at least once every six months.
- In addition, the Executive Committee members shall do the following:
 - 1- Participate in the activities of the Committee and attend its meetings.
 - 2- Keep full awareness of all developments of the operating environment of the Company
 - 3- Keep all information obtained by the members as a result of being Committee member as confidential.
 - 4- Inform the Board of Directors of any conflict of interest that may arise as a result of any decision adopted by the Company.
 - 5- Perform annual preparation, checking and evaluation of the Committee activities and their members including the checking of the Company's compliance to the above implementation Rules.

Names of Committee Members:

- (1) HH Prince Ahmed Bin Khalid Bin Abdullah Bin Abdulrahman Al-Saud, Executive Committee President
- (2) HRH Prince Turki Bin Mohammed Bin Fahad Bin Abdulaziz Al-Saud.
- (3) Dr. Khalil Abdul Fatah Kordi, Member.
- (4) Dr. Abdulaziz Saleh Al Jarbou, Member.
- (5) Dr. Solaiman Abdulaziz Al Twaijri, Member.
- (6) Dr. Ammr K. Kurdi, Secretary

Note: on 23/12/1438H (14/09/2017G) Prince Turki Bin Mohammed Bin Fahad Bin Abdulaziz Al Saud resigned from Executive Committee membership.

Number of Meetings: 2 (two) meetings attended by all members.

Term: Three years starting 1st January 2015 ended 31st December, 2017. The members of the executive Committee have attended all the meetings held by the Committee.

25.1.2. Audit Committee:

Duties & Responsibilities:

The Audit Committee shall be responsible for supervising the company's activities and verifying the effectiveness and adequacy of the internal control systems in the company as well and making an opinion and providing the necessary relevant recommendations. However, particularly the committee's responsibilities include the following:

1) Financial Reporting:

- 1- The audit committee shall review the interim and annual financial statements before being submitted to the board of director and provide the board with its judgment on these statement to ensure their accuracy and integrity.
- 2- Provides the board, upon its request, the required technical opinion on the board of directors reports and the financial statements, on whether, taken as a whole, fair, balanced and understandable and provides the information necessary for the shareholders & investors (stakeholders) to assess the company's performance, business model and strategy.
- 3- Looking into any significant or unusual transactions contained in the financial statements.
- 4- Looking significantly for any important issues raised by the financial manager of the company or his authorized representative, the commitment officer or the auditor of the company.
- 5- The committee shall check the accounting estimates on material issues in the financial reporting.
- 6- Studying the accounting policies adopted by the company and advise the board of directors thereon.
- 7- Providing assurance that financial accounts and reports are prepared in accordance with applicable generally accepted accounting standards and polices followed by the company that result in information transparency of reported information.
- 8- Preparing recommendations for the Board of Directors pertaining to the annual report of the company before it is approved by the Board.

2) Internal Control System:

- 1- The committee shall verify whether the internal audit function of the company is effective and adequate and preparing a written report containing the committee's recommendation and opinion on the adequacy of internal control system and the work performed by the committee within the scope of its mandate. The board of directors shall deposit a copy of this report in the company's head office at least ten (10) days before the general assembly meeting of the company to provide interesting shareholders copy of which during the general meeting.
- 2- Studying the policies and procedures draft regulations and to express its opinion thereon in the light of its oversight role before being approved by the Board of Directors
- 3- Reviewing policies and regulations of the board of directors and board committees and advising the board on the matters in connection with the regulatory aspects before being approved by the board.

- 4- Reviewing the executive regulations of the board on the internal audit system and its various components and advice the board of directors of any recommendations thereon.
- 5- Studying any matter referred to the committee by the board of directors for necessary advice and recommendation in light of its oversight role in the company.
- 6- Studying and reviewing the internal control and financial systems and risk management of the company.
- 7- Studying the internal control reports and follow up implementation of corrective procedures for the notes contained therein.
- 8- Supervising and reviewing the performance and activities of the internal auditor and the internal audit department in the company, if any, to ascertain the existence of the necessary resources and their effectiveness in performing the tasks and duties assigned to them. In the absence of an internal auditor in the company, the Committee shall submit its recommendations to the Board on the need for its appointment and suggesting its remunerations.
- 9- Recommending to the Board of Directors the appointment of an internal audit unit or department or internal auditor.
- 10- Preparing recommendations necessary to improve the control environment in the company.

3) Group Subsidiaries & Affiliates

- 1- Ensuring the effectiveness of procedures for forming the performance of audit committees in subsidiaries in accordance with the company's agreements.
- 2- Ensuring the efficiency of the internal audit department in the investee companies by reviewing the annual evaluation of the quality of the internal audit of companies wholly owned or controlled by or as permitted by the partner agreements and to submit to the Board of Directors what it deems appropriate in this regard.
- 3- Ensuring that the nomination mechanism and the appointment of the external auditor of companies wholly owned or controlled by them or as permitted by the partners' agreements are referred to the Board of Directors as they see fit.
- 4- Obtaining the necessary and appropriate assurance from the audit committees of the subsidiaries regarding the effectiveness and integrity of the internal control system in accordance with the applicable regulations and partner agreements.
- 5- Approving the general framework and the audit protocol between the company's internal audit department, the audit committee and the internal audit department of the companies that are fully invested or controlled by parent company or as permitted by the partners' agreement.
- 6- Examining the proposed audit proposals of the internal audit department of the company to be applied to the subsidiaries and coordinating with the audit committees of the investee companies wholly owned or controlled by them or as permitted by the partners' agreements.

4) Independent External Audit:

- 1- Recommending to the Board of Directors as to nomination or dismissal of the company auditors and suggesting their fees and evaluation of their performance after ensuring of their independence and reviewing the scope of their work and the terms of their contract.
- 2- Checking the independence, objectivity, fairness, and effectiveness of the company's accounts auditor, taking into account all relevant rules and standards.
- 3- Reviewing the plan of the company's auditor and its business and verifying that the auditor does not submit any technical or administrative work outside the scope of the audit function assigned to him and the committee shall, in such a case issues its recommendations and views thereon.
- 4- Answer to all inquiries submitted by the company's auditor.
- 5- Studying the auditor's report and its notes on the financial statements and following up what was taken on them.
- 6- Working to resolve any conflicts the external auditor may face in performing his duties including any difficulties faced pertaining to the goals of the audit program or in accessing needed information.
- 7- Holding meetings with the external auditor to discuss issues raised by the committee or the external auditor and ensure that the external auditor has the ability to access the chairman of the committee.
- 8- Preparing the necessary recommendations pertaining to the policies of the company related to the period necessary for the change of the company's external auditor.

5) Internal Audit:

- 1- Preparing the necessary recommendations for the formation of the internal audit department and the budget allocated to it, and the choice of its manager, in addition to their level of independence.
- 2- Preparing a performance evaluation of the internal audit department and its auditors, such that it includes the goals, authorities, and reports prepared by the department and its audit plan for the following year and the conclusions reached during the year, as well as, the recommendations raised for improvement.
- 3- Discussing the variances and errors in the internal audit monthly reports and ensuring that the department is taking the necessary steps for corrective actions.

6) Compliance:

- 1- Reviewing the results of the reports of the regulatory bodies and verify that the company has taken the necessary procedures thereon.
- 2- Checking the company's compliance with relevant regulations, regulations, policies and instructions.
- 3- Ensuring the presence of procedures for the review of grievances related to internal audit procedures and the preparation of financial statements.

- 4- Ensuring the presence of procedures the enable employees to submit complaints in a confidential manner, in addition to the review of disclosure process variances or violations of the department or any employee of the company.

7) Powers of the Committee:

The Audit Committee, in order to discharge its functions and responsibilities, shall have the following powers:

- 1- The right to access any record in the company.
- 2- Request any clarification or statement from the members of the Board of Directors or the executive management of the company.
- 3- Requesting the board of directors to invite the general assembly to convene if the board obstructs its work or if the company is exposed to damage or serious financial losses.
- 4- Approves the guidelines of nomination of the company's accounts auditor.
- 5- Approves the internal auditing regulations.
- 6- Approves the annual auditing plan and budget of the internal audit department.
- 7- Approves the organization structure of the internal audit department in the company.
- 8- Recommends the board of directors to appoint the internal auditor of the company whether in case of resignation of internal auditor or, disability or dismissal and approves his monthly salary, allowances and other benefits.
- 9- Approves the annual evaluation of performance of the of internal auditing manager, remunerations and increments.
- 10- The Audit Committee shall have the right to seek, contract or direct awarding of consultants or consulting firms from inside or outside the company to carry out its duties assigned to the committee provided that the company shall undertake such studies or consultations and shall include in its report the names of consultants / consulting firms and its relationship with the company or the executive management.

8) Obligations of Audit Committee Members:

- 1- Attending in the meetings of the committee regularly and actively participating in its work. In case of absence of any committee meeting, the committee member shall inform the chairman of the committee or the reasons of absence.
- 2- The committee chairman or his authorized representative of the members of the committee shall attend the general assembly meeting to answer the shareholders' questions.
- 3- The committee members shall maintain the secrets of the company, so he shall never disclose to the shareholders other than in the general assembly meeting, or any other third party any of the company's secrets which he became aware of as a result of performance of his work otherwise the he will be relieved as well as will be liable for any resulting consequences.
- 4- The committee member shall not practice any executive work for the company.

- 5- The committee member shall give due diligence to his work professionally and keep abreast of the recent developments related to the company's business.
- 6- The committee member shall be fair, equitable, honest, objective and impartial, and shall be free from personal interests so that he judgment shall not be under influence of any other person.
- 7- A member of the Committee shall not engage directly or indirectly in any activity that harms honor or honesty.
- 8- The member of the committee shall not accept anything of significant value from any employee, client or supplier or who has a business relationship with the company, which may lead to the weakening of his independence in form and object or affects or is supposed to affect the decisions reached.
- 9- The member of the committee shall disclose to the board of directors the operations carried out between him and the company and the nature of that relationship, as well as the relationship between him and the board of directors and executive management of the company, as required by the company's code of conduct.
- 10- Performing any tasks assigned to them by the Board of Directors within the limits of their authority.
- 11- The committee shall conduct an annual assessment of its charter and raise recommendations, if necessary, to the Board of Directors to modify it.
- 12- The committee shall prepare its reports for the Board of Directors on a periodic basis and as deemed necessary.

9) Names of Audit Committee Members:

- 1- Dr. Khalil Abdul Fatah Kordi, Chairman
- 2- Mr. Sulaiman Abdullah Al Amro, Member
- 3- Dr. Sulaiman Abdullah Al Sakran, Member
- 4- Ms. Mraya Lafi Al Subaei, Secretary

Number of Meetings: five (5) meetings.

During 2017 the Audit Committee has studied the interim & annual financial statements, and has raised them to the Board of Directors for ratification.

Term: Three years starting 1st January 2015 ended 31st December, 2017. The members of the Audit Committee have attended all the meeting held by the Committee.

In addition, the Chairman is Dr. Khalil Abdul Fatah Kordi, and Ms. Mraya Al-Subaie as Secretary of the committee.

On 23-5-2017, the General Assembly has appointed the following as Audit Committee members as of 23-5-2017 until 1-1-2018. Subsequently, the General Assembly has reappointed them for 3 years as of 1-1-2018 until 31-12-2020.

- 1- Dr. Khalil Abdul-Fatah Kordi – Chairman
- 2- Dr. Sulaiman Abdullah Al Sakran – Member
- 3- Mr. Sulaiman Abdullah Al Amro – Member
- 4- Ms. Mraya Lafi Al Subaei, Secretary

25.1.3. Nomination and Compensation Committee

Duties:

Regarding the nomination of Board of Directors members, executive managers, the Committee shall be responsible with the following:

- Annual review of the competency requirements for Board of Directors membership and description of abilities and qualifications needed for the board membership including the time to be allocated by each member for the board work.
- Check the composition of Board of Directors and submit the necessary recommendations on the required amendments.
- Assess weaknesses and strengths of the Board of Directors and suggest solutions in the interest of the Company.
- Define the necessary criteria determining the independence of the board members, confirm of independence of the board members on annual basis and lay down the necessary mechanism to inform the shareholders of any circumstance likely to impair the independency of any member, and ensure that no conflict of interest would arise if a member occupies a seat in any other Company.
- Prepare the necessary directives and instruction programs for any new independent non-executive board members about the nature of work of the Company and provide a detailed description of their duties as board members.
- Prepare recommendations to the Board of Directors on defining certain criteria to select the person who will assume the position of Managing Director, Chief Executive Officer or head a major department in the Company.
- Prepare initial evaluation of persons nominated for Managing Director, Chief Executive Officer or heads of department and section in the Company
- Prepare a job description of positions, contractual terms for each of the Chief Executive Officer and the department managers in the Company.
- Lay down of suitable standards and procedures to evaluate the performance of the Chief Executive Officer and the department managers in the Company.
- Prepare regular evaluation of the performance of the Chief Executive Officer and department managers in the Company.

- Conduct training programs for the Executive Directors on governance of the Company, ethical behavior, and draft policies on continuous improvement of performance of the employees at the top management level.

Regarding the compensation of Board of Directors and Executive Directors, the Committee shall:

- Lay down the reward and bonuses policy for board members and executive directors in the Company aiming at increasing the Company value and optimize the personal efforts for each Board Member and Executive Director in executing the strategic goals of the Company. The Committee shall evaluate the personal performance against the goals set by the Board of Directors.
- Regarding the compensation of the Board's Members, the Committee shall draft the required criteria for compensation, and check them regularly, enabling the Company to achieve excellent performance without affecting the member's independence
- Regarding the compensation of the Managing Director, Executive Directors or Department Managers in the Company, the Committee shall draft the required criteria for compensation to be checked regularly and applied on the annual fixed salaries, as increments, based on evaluation of the financial and non-financial performance, and draft special criteria for the long term incentives and bonuses aimed at aligning the directors' and managers interests with the interest of the shareholders.
- Continuously ensure the adequacy of the incentive criteria considering the performance of the Company, its financial position, and the main trends on the employment market.
- Follow up on the decisions adopted by the General Assembly of the Company on the compensation of the Board of Directors' members and the disclosure of these remunerations in the annual report.

Duties:

- Request the documents, reports, clarifications and other information from Company officials and executives.
- Invite the Company officials, executives and employees to attend its meeting for questioning them or hear to their clarifications.
- Take help of outside experts and consultants.
- Perform the duties assigned to the Committee by the Board of Directors within the jurisdiction of the Committee.
- The Committee shall make an annual revision and evaluate its regulations to ensure smooth functioning of its work and adequacy of its duties and raise any necessary amendments to the Board of Directors for approval.

Committee Members & Meetings

The members of Nomination and Compensation Committee are:

- 1- HRH Prince Turki Bin Mohammed Bin Fahad Bin Abdulaziz Al Saudi, Chairman.
- 2- Shaikh Sulaiman Al Suhaimi, Member
- 3- Mr. Badr Abdullah Al Suwaidan, Member
- 4- Mr. Abdulaziz Ali Abu Al Saud, Member
- 5- Mr. Waleed Abu-Kishk, Secretary

Note: on 23/12/1438H (14/09/2017G) Prince Turki Bin Mohammed Bin Fahad Bin Abdulaziz Al Saud resigned from the Nomination and Compensation Committee membership.

Number of Meetings: (1) Meeting per year.

Term of Committee: Three Years starting January 1st, 2015 ended 31st December, 2017. The meeting of the Committee was attended by all members.

25.2. Compliance to Governance Regulations:

25.2.1. The Following rules of Governance Policy have been Implemented:

25.2.1.1. Shareholders' & General Assembly Rights:

The Bylaws and internal rules and policies of the Company has affirmed the general rights of the shareholders including all share rights particularly on cashing dividends distributed by the Company, right to obtain a portion of Company assets when the Company is liquidated, the right of attending General Assembly meetings, participate in deliberations, voting, right of disposing of his shares, right of monitoring the Board of Directors work, filing of responsibility action on Board Members, right to inquiry, right of obtaining information not affecting the interest of the Company in a manner not to violate the Capital Market Regulations and its Implementation Rules.

25.2.1.2 Facilitate practicing of rights by the shareholders & obtaining the required information:

- a) The internal policies of the Company have affirmed the procedures and precautions necessary for all shareholders to practice their legal rights.
- b) Provision of all information for all shareholders to enable them practices their rights properly. The required information shall be clear and sufficient and updated regularly in the due timing.
- c) The Company shall be keen to present all required information regular according to the disclosure standards by preparing and publishing the annual reports in Tadawul and website of the Company, visual and reading media accurately.
- d) The Company shall confirm the provision of information to the shareholders properly without any discrimination.

25.2.1.3 Shareholders Rights Regarding the General Assembly Meetings:

The Company held one General Assembly meeting:

The above meeting call had one invitation: for a meeting on 23/05/2017 with the below agenda:

A-Agenda of the General Assembly

- 1- To vote on the Board of Directors Report for the financial year ending 31-12-2016.

- 2- To vote on the consolidated Financial Statements for the Financial Year ending 31-12-2016.
- 3- To vote on the External Auditor's Report for the Financial Year ending 31-12-2016.
- 4- To vote on discharging the Board of Directors from the responsibilities for the year ending 31-12-2016.
- 5- To vote on the proposal of the Board of Directors related to the Company's External Auditor from those auditors nominated by the Audit Committee for the year 2017 & Quarterly Financial Statements and fixing its fees.
- 6- To vote on the forming of Audit Committee & fix its policy for the period starting from the date of General Assembly meeting and ending 31-12-2017. The nominees are:-
 1. Dr. Khalil Kordi - Chairman
 2. Mr. Sulaiman Al-Amro – Member
 3. Dr. Sulaiman Al-Sakran – Member
1. To vote on the amendment of the Company's By-Law to adopt the new Companies' Law.
2. To vote on the amendment of the Article (3) Purpose of the Company.
3. To vote on the amendment of the Article (16): The management of the company.
4. To vote on the amendment of the Article (19): The Powers of the Board of Directors.
5. To vote on the amendment of the Article (20): The remuneration of Board of Directors.
6. To vote on the amendment of the Article (21): The powers of the Chairman, CEO and Managing Director, and the Secretary of the Board.
7. To vote on the amendment of the Article (22): Meeting of the Board.
8. To vote on the amendment of the Article (30): The quorum of the ordinary general assembly meeting.
9. To vote on the amendment of the Article (31): Quorum of Extra- Ordinary general assembly meeting.

However, the first meeting was not held due to the lack of a legal quorum, then in accordance with the new Companies' law the second meeting has been conducted after 1 hour from the time of first meeting.

1. A- invitation for "The General Assembly Meeting" (23/05/2017)
 Al Sharq, issue No. 1970 dated 29/07/1438H corresponding to 26/04/2017 page no. 14. The Company published the invitation in its website on 02/05/2017.
 - a) The shareholders were briefed about the rules governing the General Assembly meeting and voting procedures by distribution of the written procedures during the meeting and the chance was availed for the shareholder to participate effectively in the meeting of the General Assembly.

- b) The Company facilitated the attendance of the maximum number of shareholders to attend the General Assembly, by choosing the Company head quarter in Dammam, and selecting the time of the meeting as 6:30 PM.
- c) The shareholders owning 5% of the capital or more did not request addition of any other issue to the agenda of the General Assembly meeting so no topic was added to the agenda of the meeting by shareholders owning 5% of shares or more.
- d) The shareholders were enabled /to practice their rights in discussing the topics of the agenda and direct their questions to the Board Members and the legal auditor but the auditor recited his report without receiving any question.
- e) All topics tabled before the General Assembly meeting were supported by sufficient information enabling the shareholders to adopt the decision.
- f) The shareholders were enabled to review the minutes of the General Assembly meeting by consultation of the minutes of the meeting as posted on the website. The Saudi Capital Market Authority has been informed with the results of the meeting just after the end of the meeting. The Capital Market Authority was informed accordingly and provided with a copy of the Minutes of the Meeting of the first meeting on 23/05/2017, and Capital Market Authority was informed accordingly and provided with a copy of the Minutes of the Meeting of the second meeting on 23/05/2017.

25.2.1.4. Voting Rights:

- a) The Company confirmed that no obstacles prevented the shareholders to exercise their voting rights and the Company made all efforts to facilitate this possibility.
- b) In the meeting of the General Assembly (04/04/2016), the Company did not use the accumulated voting system, as there are no items on the agenda of that General Assembly regarding the selection of Board Members. In addition, the by-laws of the Company does not endorse the adoption of this system.
- c) The Company confirmed that all power of attorney by the shareholder to attend the meeting were submitted in writing for persons other than board member or Company employees.
- d) It is not of the Company policy to review the annual report of investors from legal entities who dispose on behalf of others, of such investment, since the Company considers that this procedure relates to the investors themselves and do not form part of the Company responsibility. In addition, the Company is considered as one of the largest companies in terms of free shares.

25.2.1.5 Shareholders Rights in Dividends:

The Company reviewed the profit distribution policy provided for in Article (10) which was reviewed by the Board of Directors and approved it. This will be referred annually in the Board of Directors report.

25.2.2. The following rules of Governance policy have not been implement.

The following table shows the items which adopted the Governance Policy & the items which did not adopt the Governance Policy:

#	Adoption	Non-Adoption	Reason in Case of Non-adoption
1	Confirmation on the general Rights of the shareholders including all shares rights including dividends & obtain a portion of the Company's assets in case of liquidation.	No items have been added to the Agenda of the GA by the shareholders who own 5% above the share capital	No request from the shareholders.
2	Allowing the GA meetings participate in its deliberation, voting,	The company did not apply the accumulative voting	No BOD election, which dictates the same.
3	Dispose of shareholders shares	The corporate shareholders did not vote for non has nominees	<ul style="list-style-type: none"> - No elections - No clause in the company's By-Law.
4	Monitor the BOD activities & filing case against them	-	-
5	Right of shareholders to inquire & obtain information not effecting company interests.	-	-
6	Voting rights	-	-
7	Make available all information to the shareholders.	-	-
8	Addressing the invitation to the GA, venue & Agenda 25 days prior the meeting date	-	-
9	The shareholders have been informed about the norms of the GA meetings.	-	-
10	The company make all facilities to allow a big number of the shareholders in the GA meetings.	-	-
11	The shareholders are allowed to address any question during the GA meeting to BOD, & External auditors.	-	-
12	All information of the GA meeting are combined with sufficient documents which allow the shareholders to take decision.	-	-
13	The shareholders were able to pass the minutes of meeting of the GA.	-	-
14	No obstacles during the GA meetings.	-	-

15	The company verified the proxies of the shareholders during the GA meeting.	-	-
----	---	---	---

25.3 Policies Related to the Disclosure

The General assembly has adopted policies and procedures related to the disclosure which are still in practice

25.4. Results of Annual Auditing for Effective Internal Control:

The Board of Directors has been assigned the responsibility to ensure that management maintains an effective system of internal controls, which provides reasonable assurance in all material respects of efficient and effective operation of controls.

25.4.1 Independence & Authority

The overall objective of the Internal Audit department is to provide at all levels of Management and the Board of Directors with an independent assessment of the quality of the Company's internal controls and administrative procedures and make recommendations for continuous improvement. The Internal Audit department is not subject to any influence from the executive management and has the required unrestricted access to all records (manual or electronic), Company assets and employees, required for performing its duties.

25.4.2 Responsibility

The responsibilities of the Internal Audit department encompass the following:

- 1- Preparing the annual risk based audit plan
- 2- Executing the audit work according to the annual plan
- 3- Presenting its reports on the result of audit work performed
- 4- Assessing the financial and operational risks and coordinating with management to provide the necessary means at suitable cost to mitigate the identified risks.
- 5- Coordinating with different departments of the Company and external parties such as external auditors.
- 6- Developing the policies and procedures for executing the audit work in accordance with the best practices
- 7- Using the available resources according to the approved internal audit budget

25.4.3 Scope of Work

The Internal Audit department has adopted a well-organized approach to evaluate and recommend improvements for the efficiency of the internal controls in a manner that will enable the Company to achieve its objectives and protect its assets.

The scope of internal auditing covers examining the sufficiency and efficiency of internal control system in the Company and quality of management in order to verify whether the internal policies & procedures provide a reasonable confirmation to achieve the Company objectives.

25.4.4 Annual Results of Internal Audits

The Internal Audit Department completed audit engagements in accordance with its approved Audit Plan and provided management with value added recommendations to assist in initiating improvements to operations and to strengthen internal controls. Audit Engagements have been planned and performed so as to obtain sufficient information and explanation considered necessary to provide evidence to give reasonable assurance that the internal control system is operating effectively.

As a result of the Audit Engagements carried out, the Internal Audit department produced reasonable assurance that the overall system of internal controls was sound and no major deficiencies were noted during the year. The observations/ recommendations were also discussed with the concerned management and an action plan was agreed to address the issues. Areas concerning the system of internal controls, requiring timely cognizance of the management, were immediately communicated to the appropriate level. Quarterly reports over the progress of Internal Audit Activities were presented to the Audit Committee for their review and discussion in the periodic meetings.

Recommendations were issued in the following areas:

Recommendations	Result of the Recommendations
Controls over effective procurement of major raw materials to maintain adequate stock levels	Inventory levels have been reviewed and re-ordering levels updated to take into account the drop in volume resulting in a decrease of 28 % of the consolidated inventories Pig Iron Inventory Count has been done through In-house arrangement, monitored by Internal Audit.
Data cleansing and correction of inventory database	Inventory databases were cleansed and updated
Effective deployment of manpower resources	The Company reallocated resources and reduced the FTE employees and contracted labor by 1476 over the year 2016
Enhancing access controls in the procurement function to assure legitimacy of transactions	The management has investigated the observed instances and corrected the noted weaknesses. The management also implemented controls in the system to block conflicting access rights.
Improvement in the strategies devised for collections from customers	Regional as well as Top Management has taken serious steps to remove the weaknesses and to enhance the collections. Number of collectors have been decreased who are acting on the instructions of Marketing departments. Reconciliation process has also been geared up by

	inducting new accountant. Mustakhlash are followed-up on regular basis and only confirmed mustakhlash are considered as security for payment. Cash sales account has been blocked
Security controls over shipment of finished products	Management has accepted the observations and reasonable justifications were given to explain the mentioned issues.
Controls over payroll processing Function	Management corrected the identified mistakes and the action plan is under review to cope with the risks related to Invalid ID's and Employees having conflicting user access rights.

Further,

- 1- The Internal Control Department has adopted all procedures necessary to ensure that management has adequately addressed the risks identified in the auditing report. Action plans relating to most of the audit findings have already been implemented.
- 2- The internal auditing work was directed towards the high risk activities and positions and to increase the efficiency and profitability of the Company.
- 3- The Internal Audit Department has completely coordinated its work with the external auditor satisfactorily.

26. Emphasis of a Matter by the Auditors:

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

- I. Note 16 to the consolidated financial statements which indicates that these consolidated financial statements put the Group in breach of some of the financial covenants stated in the credit facility agreements with commercial banks. Management of the Group believes that the breach will not affect the maturity profile of its debt or the availability of credit.
- II. Note 5 to the consolidated financial statements which describes the uncertainty related to the estimation of impairment loss on trade receivables. The current provision for impairment of trade receivable of SR 224.5 million relates to the Group's exposure to credit risk on trade receivables. Management estimates the impairment of trade receivables for each account balance and takes into consideration the following factors: The Group's possession of documentary evidence to support the existence of the balance and the solvency of the customer.
- III. Notes 14 and 32 to the consolidated financial statements which describes the dispute over the Group's ownership of a parcel of industrial land in Jeddah. which was acquired in 2009 through the acquisition, from a related party, of a subsidiary that owns this land. The ownership of the parcel is being contested in the Saudi Arabian judicial system. The gross value of this parcel of land, before deducting any impairment provision, as at 31 December 2017 and 2016 was SR 150 million and management of the Group has made an impairment provision for the full value of the parcel at the acquisition date.

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

27. Changes in External Auditors:

The company acknowledge that there are no changes in the external auditors.

28. Imposition of Penalty on the Company by the Capital Market Authority:

During 2017 the Capital Market Authority has not imposed any penalty on the company.

29. Employees

Management & Training:

1,820 Employees compared with 2,979 employees in 2016 are distributed as follows:

Table 26: Company Headcount.

Particulars	2017	2016	Increases/ (decrease)
Local sector	1,458	1,643	-185
International sector	362	1,336	-974
Total employees	1,820	2,979	-1,159
Saudi employees	398	426	-28
Saudization Rate	27.30%	25.93%	1.37%

Over 2017 the following trainings were delivered:

Table 27: List of Company Training Courses.

Training	Participants
Administering Microsoft SQL Server Databases 2014	8
Collection Skills	18
Diploma in Strategic Human Resource Management	5
First Aid	36
GCC VAT Compliance Diploma	2
Malti Axial Process	26
New Implementation System	19
Microsoft Excel Course	78
Microsoft Outlook Course	44
Microsoft Project Course	7
SAP MM LMS	25
SAP SD LMS	17
Speed Typing Course	13

English Language Course	154
Total	452

30. Safety & Security:

The Company factories continued their high level of safety and security thanks to the regular training and qualification programs and training courses in all factories for all employees. The Company continued to approve new standards to maintain the safety and linked the incentive given to employees by achieving high safety level in their place of work. The safety efforts made by the Company have reflected in the drop of work incidents remarkably over the years. The company invests heavily to comply with local environmental standard & obtained the presidency of metrology and environment (PME) permits for all plants.

31. Recommendation on Results of Year 2017:

The Board of Directors suggests allocation of results of 2017 as follows:

Particular	(SAR'000)
Balance accumulated losses, as at 31 December 2016	(126,720)
Loss for the Year	(89,923)
Add (Deduct): Other comprehensive income	
Actuarial gain (loss)	(1,298)
Balance accumulated losses, as at 31 December 2017	(217,941)

*Best Regards,
Board of Directors*

