Reason for increase (decrease) for quarter compared with same quarter last year

Due to the following: The gross profit increased by SR 44.4m or 52.1 % from the third quarter of last year as sales increased by SR 53.6m or 8.6 % . Due to the timing of execution of several projects, sales of this year were weaker than last year in the second quarter, but stronger in the third quarter. The good third quarter sales of this year allowed a better absorption of the fixed manufacturing costs causing the gross profit to improve. At the same time, the Group is also harvesting on its efforts to reduce its manufacturing costs while staying firm on sales prices. As a result, the gross profit percentage for the quarter reaches 19.2% as opposed to 13.7% in the third quarter 2014.

Last year third quarter sales were also negatively impacted by a lower performance in the Water Management segment due to a temporary suspension of one important contract in Iraq.

The income from operations increased by SR 49.6 m (or 230.6%) , mostly from the higher gross profit as explained above, but also due to a reduction of the selling and administrative expenses by SR 5.3 m (or 8.3 %). This reduction comes from the decrease of the Euro, Turkish Lira and Norwegian Krone vis a vis the Saudi Riyal (as the expenses booked by our foreign subsidiaries are translated at a lower exchange rate) and also a cost reduction program in our Turkish venture, Subor.

The income from affiliates of SR 3.5m comes mostly from a good quarterly performance in Morocco and in Qatar as well as in Tawzea, a Saudi affiliated Company active in Water Management.

Other income (expenses) caption for the quarter includes for a total of SR 19.5m foreign exchange translation losses mostly from Subor, the Turkish joint-venture, due to the devaluation of the Turkish Lira against other the US Dollar, and Amitech Astana, a joint-venture in Kazakhstan, due to the devaluation of the Kazak Tenge. Last year income mainly consisted of a capital and exchange gain of SR 21.1 m relating to the completion of the sale of the 5.4975 % investment in CPIC, a Chine glass fiber producer.

The financial charges have increased by SR 3.4m (or 16.4 %) due to higher level of borrowing, as the increasing volumes of sales require higher levels of working capital. In this respect, in order to strengthen its balance sheet, the group succeeded in obtaining a new long-term loan facility of SR 400 m which was used to repay part of its short term loans.

Because of the above elements, the net income for the quarter has improved by SR 9.5m or 54.0 % over the same quarter last year.

Reason for increase (Decrease) for the period compared with the same period last year

Due to the following:
Year-to-date September sales are substantially equal to last figure, while the gross profit improved by SR 41.9 m (or 13.8 %)

The gross profit percentage to sale increased from 14.9% last year at 16.9% due to improving sales prices and product/diameter mix as well as lower manufacturing costs due to several enhancements made in specific plants.

The income from operations increased by SR 59.6 m (or 51.8 %) , mostly due to the following:

- higher gross profit as explained above
- lower Selling and Administrative expenses, caused by the decrease of the Euro, Turkish Lira and Norwegian Krone vis a vis the Saudi Riyal (as the expenses booked by our foreign subsidiaries are translated at a lower exchange rate) and a cost reduction program in our Turkish venture, Subor.

The loss from affiliates of SR 0.9 m is the net amount of the losses from the Egyptian joint ventures, still faced with a very low sales volumes, and profits out of our Moroccan ventures, which are catching up on sales after a poor first half year due to due to bad weather conditions. As well Tawzea, a Saudi affiliated Company active in Water Management, is now showing recurring profits having passed its break-even point.

As explained above, the financial charges increased due to additional net financing required for working capital.

The other income and expenses of SR -24.2 m mostly represents foreign exchange translation and transaction losses while last year income mainly consisted of a capital and exchange gain of SR 21.1 m relating to the completion of the sale of the 5.4975 % investment in CPIC, a Chine glass fiber producer.

As a result of the above variations, the net income for the nine months period improved from SR 62.7m to SR 78.9m, or an increase of 25.8 %

Reason for increase (Decrease) for the period compared with previous quarter

Due to the following: Sales are slightly above the second quarter. Sales in the Arabian Peninsula were negatively impacted by the low activity season (due to Ramadan, Eid, vacations) but this was offset by excellent sales in Europe. The Gross Profit continues to increase at 19.2% of the net sales vs. 15.6% in the second quarter, due to good mix of diameters and volumes, good sales prices and the efforts to reduce manufacturing costs by enhancing the manufacturing equipment. As a result, the gross profit increased over the last quarter by SR 24.5 m or 23.3 %.

The total selling and administrative expenses remained in line with previous quarter.

Because of these variations, the income from operations increased by SR 25.1 m (or 54.5 %) compared to previous quarter.

The share in income of associates of the quarter mostly comes from the Moroccan joint ventures and Tawzea as explained above

Other income (expenses) caption for the quarter includes for a total of SR 19.5 m foreign exchange translation losses mostly from Subor, the Turkish joint-venture, due to the devaluation of the Turkish Lira against other the US Dollar, and Amitech Astana, a joint-venture in Kazakhstan, due to the devaluation of the Kazak Tenge. Over the second quarter the net result of the foreign currency fluctuations was a gain of SR 6.7 m.

The positive foreign income tax of the second quarter represented the reversal of an income tax provision booked on the capital gain recorded on the sales of CPIC last year, as the Chinese tax authorities have advised that Amiantit could benefit from a tax exemption on the same. The tax expense of the third quarter represents the normal withholdings on royalties and income tax of the profit making foreign subsidiaries.

Because of these variations, offsetting each other, the net income for the quarter is almost similar to the net income from the second quarter.

Other notes

Earnings per share for the three-month and nine months periods ended September 30, 2015 and 2014 has been computed by dividing the operating income and net income for the period by the weighted average number of 113,564,309 (2014 : 112,984,309) shares outstanding during such periods.

The negative currency translation adjustment booked as a caption of the equity of the Group is explained by the lower Euro exchange rate vs the Saudi Riyal, effectively decreasing the value at which the net assets from foreign subsidiaries are consolidated in the balance sheet.