

**Annual Board Report  
Of  
Middle East Specialized Cables Co. (MESC)  
for the year 2015**

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In the Name of Allah, the Most Gracious, the Most Merciful

## **The Ninth Board Report for the year 2015**

### **Preamble**

The Board of Directors of Middle East Specialized Cables Co. (MESC) has the pleasure to submit to you the ninth annual report, which contains an account of the business and results of the company, its performance and financial position for the fiscal year ended on 31/12/2015. This report has been prepared in line with the Saudi Companies Law as well as the Articles of Association of the Company, Corporate Governance Regulation requirements, and registration and listing rules issued by the Capital Market Authority.

This report reflects the different activities and the company's actual participation in the local market and external markets, its contribution to pushing the economy cycle of the Country. Thanks to the combined efforts of the company's personnel and your uninterrupted support, MESC has become one of the leading companies in the manufacture of all types of cabling, and meeting the requirements of project contractors both within and outside the Kingdom.

Our Valued Shareholders...This report contains an all-inclusive summary of the company's business, developments and results during the year 2015, and the Board of Directors is fully prepared to respond to any queries on the information contained in this report or any further queries during the next general assembly meeting the date of which will be announced later.

Respectfully Yours,

Board of Directors

## CEO's Message

Peace and Mercy of Allah be upon you

You're absolutely aware that the fiscal year 2015 was a critical one for the company, as the company incurred losses in the amount of SAR 103.7 million, and the key reason for these incurred losses had resulted from the losses incurred by our subsidiaries in the Hashemite Kingdom of Jordan; namely, MESC-Jordan (specialized in producing low voltage power cables) as well as MV-HV MESC Company, as the share of Saudi MESC Company in these losses amounted to about SAR 76.2 million. This is attributable the fierce competition in cabling industry given the increase in the supply quantities as compared to the required quantities of power cables, and also for recording a provision for machinery value decrease in the amount of SAR 61 million. We'd like to make it clear for the shareholders that the losses of Saudi MESC and UAE MESC amounted to SAR 27.3 million, and the key reason of these losses is attributed to recording provisions for doubtful debts and inventory provisions.

These factors have imposed on the company several challenges in response to which the company has taken several important steps which would help improve the results and performance. These factors are outlined as follows:

1. Reducing costs at all levels, foremost of which costs of production and hiring consultants with experience in upgrading performance and flexibility, along with the reduction of production costs.
2. Reconsidering the applicable procedures for inventory management and adopting more effective and cost-effective procedures.
3. Reconsidering the collection policies to improve collection operations and reduce receivables ratio due to their positive impact on reducing the finance cost.
4. Reconsidering the marketing policy and client access methods to cover a larger segment in the local and regional market.

Yours Respectfully,

Eng. Ayman Bin Ibrahim Al-Masry  
CEO of the Group

## Description of the Group's Key Business

### MESC Company

Middle East Specialized Cables Co. (MESC) was established as a Saudi Limited Liability Company registered in Riyadh under the commercial register No. 1010102402 dated 10/05/1413 AH, corresponding to 04/11/1992, and His Excellency Minister of Commerce and Industry approved under the ministerial resolution No. 195 dated 21/07/1428 AH (corresponding to 04/08/2007) the conversion of the company into a Saudi joint-stock company. The company's capital amounts to SAR 600 riyal divided into 60 million shares, the nominal value per share is SAR 10.

The company's key business is to produce and sale the specialized (industrial) cables, flexible electrical cables, coaxial cables, rubber cables, nylon-coated electrical cables, telephone cables for internal extensions, computer cables, anti-fire cables, information transfer and control cables, low voltage cables and building cables.

### Subsidiaries of MESC

S.N	Name of Company	Key Business	Headquarters	Capital	Country of establishment and operations	Establishment Date	Shareholding (%)
1	MESC Jordan (LV)	Producing low voltage cables and power distribution cables	Amman, Jordan	JD 38,889,210	Jordan	1992	49%
2	MV-HV MESC	Producing medium voltage and high voltage cables	Amman, Jordan	JD 35 million	Jordan	2007	57.5% directly, 11.64% indirectly
3	MESC - RAK	Producing low voltage information transfer and control cables	Ras Al Khaimah, UAE	AED 50 million	UAE	2009	100%

1. The capital of MESC Jordan Company is JD 38,889,210 (equivalent to SAR 205,846,421), divided into 38,889,210 shares.
2. The capital of MV-HV MESC Company is JD 32 million (equivalent to SAR 185,224,227), divided into 35 million shares.
3. The capital of MESC - RAK AED 50 million (equivalent to SAR 51,053,133).

### Products of the Company and its Subsidiaries

MESC Company and its subsidiaries produce a wide variety of cables of different specifications, as the number of sub-categories of products manufactured by the company at present exceeds five thousand types. In general, these products can be classified in four key groups as follows:

#### 1. Industrial Specialized Cables

These cables are used in the industries of petrochemicals, oil, gas, power, heavy duty industrial projects, and this category is considered the largest category of cables produced by the company at its factories in both KSA and UAE.

#### 2. Building Management System (B.M.S)

These cables are used for the transmission of audio and video signals, monitoring and alarm. Moreover, the applications of these cables include using them in anti-fire alarm devices, local networks and telephones. Thus, they are largely used at commercial centers, hotels, hospitals, markets and commercial buildings, and are produced at the company's factories in both KSA and UAE.

#### 3. LV Cables

These cables are usually used in low voltage home extensions, irrigation and power transmission work, besides their use in home equipment. Their industrial uses also include using them in the mobile machinery which require multiple folding. MESC produces these cables in multiple specifications according to the settings in which they are used by its subsidiaries in Jordan by MESC Jordan.

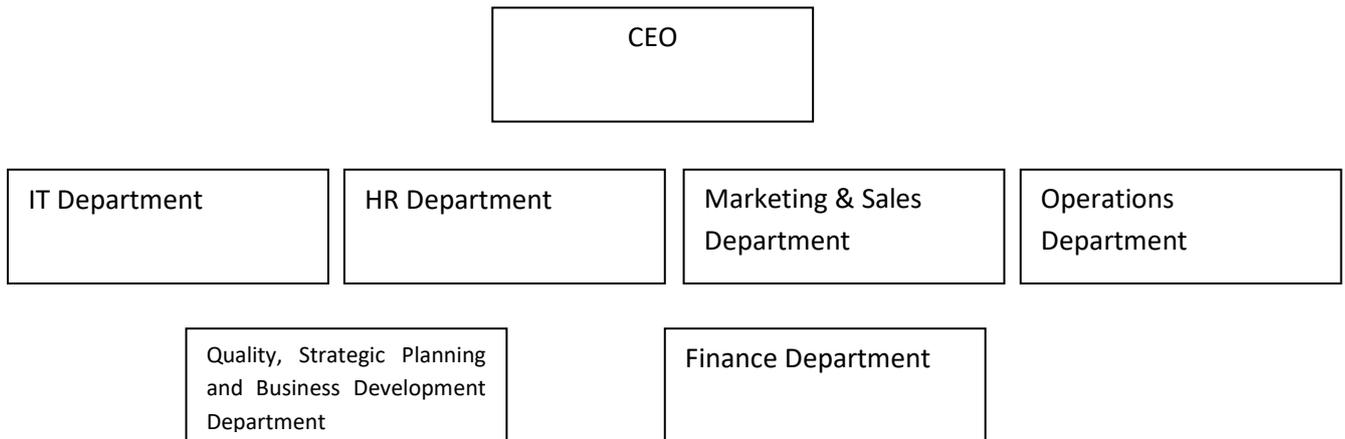
#### 4. MV & HV Cables

These cables are used by the different electricity companies in the region besides the projects that require high voltage, and these cables are produced by MV-HV MESC.

### Local and Regional Presence of the Group

Through the different expansions in its industrial facilities over the past years, MESC has been able to consolidate its standing in both local and regional market as a leading company in producing a wide variety of cables of all types in the region. MESC also has the largest cables base in the Kingdom of Saudi Arabia. Besides, MESC's knowledge of that market has enabled it to develop a robust reputation, as clearly evident the fact of its being accredited by the largest companies which carry out huge projects in Saudi Arabia and all over the world. MESC Group also sought to prepare any competition in the future to maximize the industrial cable sales of MESC to the GCC states and MENA, and pursue its regional sales of low voltage as well as medium voltage and high voltage cables through its subsidiaries in Jordan; a matter which MESC to enter the developing and neighboring markets, and it intends to pursue that strategy towards further expansion, especially in the field of specialized cables for maximizing the volume of its sales.

## Organizational Structure of MESC Company



### 1. Operations Department

This Department includes the largest and highest number of departments; i.e. Manufacturing Department, and involves the following Departments and divisions: Planning and Control Division, Production Department in Saudi Arabia and United Arab Emirates, Maintenance Division, Quality Control Division, PVC Factory Department, Security and Safety Division.

Planning and Control Division: it develops the monthly and annual plan for production operations according to the operation orders received from the sales division after coordination with the Materials Division to ensure availability of raw materials required for operation order production processes based on the productive capacity of the factory and delivery date for the client.

#### Production Division:

The Production Division implements and follow up this program through production engineers and supervisors all day long. The production process takes place in multiple phases; i.e. withdrawal, twisting, isolation, assembly and final isolation in full compliance each standard specifications required for each manufacturing operation.

Maintenance Division: It is responsible for continuation of production through the periodic mechanical, electrical maintenance of machinery and malfunction repair, and carrying out the maintenance work for production supporting services; e.g. cooling and forklifts.

Quality Control Division: It application and assurance of quality standards conforming to required specifications through examining the coming raw materials (pre manufacturing), and then examination during the manufacturing process (quality control), and then final examination of the product (after manufacturing).

MESC PVC Factory Management: It is responsible for providing the factories with the plastic materials required for manufacturing process based on the monthly plan. It also contains a lab for applying quality standards and a maintenance division.

Security and Safety Department: It maintains the readiness of the company's facilities to prevent the occurrence of incidents through applying safety systems. It also undertakes management of the security at the company and ensures compliance with professional health and safety instructions from all stakeholders.

## 2. Marketing and Sales Department

It is rated among the important department of the company for serving as a point of contact between the company and its clients, and aims to maximize efficiency and competence of all operations related to the company's clients; e.g. contractors of large projects, government bodies, companies and institutions. The company also contains a number of marketing and sales offices, including local ones e.g. (Central Province, Eastern Province, Western Province) and regional offices in the United Arab Emirates and Jordan to cover the gulf and north Africa region. It also has agents and representatives in Korea, Japan, GCC States, Iraq and Egypt). The Department includes the following departments:

1. Marketing Department
2. Sales Department in Saudi Arabia
3. Sales Department in the UAE
4. Technical Department
5. Quality Department

## 3. HR Department

HR Department contributes mainly to providing qualified manpower from both within and outside the Country, while focusing on recruitment and qualifying of the national elements for the sake of achieving the company's interest and securing the needs of the company and its factories for administrative and technical staff. The company has taken wide steps by way of Saudization of several technical and administrative jobs, as the Saudization rate reached 32%, thus qualifying the company to reach the green zone in Nitaqat Program.

## 4. IT Technology

IT Department has developed phase one of Oracle updating program in line with the requirements of cable industry and latest releases, so that it enables users to enter all data that are required and influential in the manufacturing process. Product pricing process has

been completed to become direct through entering the manufacturing information of cable and addressing the design department through the systems by notices.

This shortens the time by entering the manufacturing orders to become direct for all manufacturing phases through the system with no need to manually enter them with all required options, issuance of work order cards and reel cards through the system to be filled out and entered on an updated model for entering the data accompanying the production process with all details, including employee name and actual working hours.

**Organizational Structure of the Board of Directors and Committees Emanating from it:**

S.R	Name	Capacity	Executive Committee	Nomination and Remuneration Committee	Audit Committee
1	Abdulaziz M. Al-Namlah	Board chairman	chairman	–	–
2	Abdullah Bin Abdulrahman Al Obaikan	Deputy Board Chairman	Member	–	–
3	Yahya bin Ibrahim Alguenibt	Board Member	–	–	chairman
4	Saad Bin Saleh Al Azwari	Board Member		Chairman	–
5	Abdul Raouf Waleed Al Bitar	Board Member	Member	Member	–
6	Suleiman bin Mohammed Al-namlah	Board Member	–	Member	Member
7	Zaid bin Abdulrahman Gwaiz	Board Member		Member	–
8	Mohammed bin Oweidh Al-jaid	Board Member	–	–	Member
9	Mohammed bin Abdulaziz Al-Namlah	Board Member	Member	–	–

**The Board of Directors of the Middle East Specialized Cables Company (MESCC)**

• **Formation and Classification of Board Members**

Article (XVI) of the articles of association of (MESCC) Company provides that the number of board members shall be nine members, a number which is compatible with clause (A) of Article 12 of Saudi corporate governance regulations issued by the Capital Market Authority under its resolution No.1\_212\_2006 on 21/10/1427 AH, regarding the number of members according to the corporate governance practices.

S.N	Name	Membership of other Boards	Classification of member
1	Abdulaziz M. Al-Namlah Board chairman and Chairman of the Executive Committee	Saudi Advanced Industries Company, natural gas distribution company(closed) and Abdulaziz M. Al-Namlah company(closed)	Non Executive
2	Abdul Raouf Waleed Al-Bitar Board Member, member of Executive Committee and Nomination &	Al -Hassan Ghazi Shaker company, Gulf Insulation Group Company(closed)and district	Non Executive

	Remuneration Committee	cooling company(closed).	
3	Suleiman bin Mohammed Al-namlah Board Member and a member of Audit Committee and Nomination & Remuneration Committee	None	Non Executive
4	Abdullah Bin Abdulrahman Al Obaikan Deputy Board Chairman and a member of Executive Committee	Obeikan Investment Group (closed) and Arabian shield insurance company	Independent
5	Yahya bin Ibrahim Alguenibt Board Member and the chairman of Audit Committee	None	Non Executive
6	Mohammed bin Abdulaziz Al-Namlah Board Member and a member of Executive Committee	Haven Insurance Group, Abdulaziz M. Al-Namlah company(closed), Gulf insulation Group (closed) and Emirates insulated Pipes Industries (closed) L.t.d	Non Executive
7	Saad Bin Saleh Al Azwari Board Member and the chairman of Nomination & Remuneration Committee	Saudi Printing & Packaging Company and Abdulaziz M. Al-Namlah company(closed)	Independent
8	Zaid bin Abdulrahman Gwaiz Board Member and a member of Nomination & Remuneration Committee	Bupa Arabia for Cooperative Insurance Co.	Independent
9	Mohammed bin Oweidh Aljaid Board Member and Audit Committee member	Saudi Advanced Industries Company	Independent

- **Board Meetings:**

- **Total board meetings were (5) meetings as per the below statement:**

S.R	Name	First meeting 24/2/2015	Second meeting 15/6/2015	third meeting 19/10/2015	Fourth meeting 25/10/2015	Fifth meeting 23/12/2015	Total
1	Abdulaziz M. Al-Namlah	✓	✓	✓	✓	✓	5
2	Abdullah Bin Abdulrahman Al Obaikan	✓	✓	✓	✓	✓	5
3	Yahya bin Ibrahim Alguenibt	✓	✓	✓	✓	✓	5
4	Suleiman bin Mohammed Al- namlah	✓	✓	✓	✓	✓	5
5	Abdul Raouf Waleed Al Bitar	☒	☒	✓	☒	☒	1
6	Zaid bin Abdulrahman	✓	✓	☒	✓	Resigned	3

	Al-Gwaiz						
7	Saad Bin Saleh Al Azwari	✓	☒	✓	✓	✓	4
8	Mohammed bin Abdulaziz Al-Namlah	✓	✓	✓	✓	✓	5
9	Mohammed bin Oweidh Aljaid	☒	✓	☒	✓	✓	3

- Board Member Zaid bin Abdulrahman Al-Gwaiz resigned from the Board of Directors as of 01/11/2015.
- **Corporate Governance:**

The company applies obligatory and guide provisions contained in the regulation Corporate Governance issued by the Capital Market Authority on 21/10/1427AH dated on 12/11/2016 AD, and in line with the articles of association and companies law issued by the Ministry of commerce, particularly which regard to shareholders' equity and complying with the procedures related to optimally applying all disclosure and transparency standards, except for the below Article below the consideration of which will be completed by the company to be approved and implemented in the next session of the board. The company issued a corporate governance regulation in line with the requirements of the Capital Market Authority and in accordance with the best practices in corporate governance. This regulation was approved by the general assembly of shareholders at its fourth meeting. A series of regulations and policies that promote the application of this governance were prepared.

Article	Text of Article	Reasons for not application
Article VI, paragraph (b)	Does the articles of association show that the method of voting on election of board members' clause in the General Assembly is the cumulative voting?	The articles of association do not provide for the cumulative voting method.
Article VI, paragraph (d)	Investors with legal personality who act on behalf of others; e.g. investment funds, shall disclose their policies on voting and actual voting in their annual reports, and also disclose how to deal with any material conflict of interest that is likely to affect the exercise of fundamental rights related to their investments.	Does not apply to the company
Article XII, paragraph (I)	The legal person who is entitled to appointee his representatives in the Board of the director may not vote on the election of other members in the Board of Directors	Does not apply to the company

**Description of any interest of board members, their spouses and minors in the shares or debt instruments of the company or any of its subsidiaries**

Name	Beginning of the year		End of the year		Net change	Change Ratio
	Number of Shares	Debt instruments	Number of Shares	Debt instruments		
Abdulaziz M. Al-Namlah	973,743	–	864,691	–	109,025	11%
Abdul Raouf Waleed Al Bitar	316,250	–	316,250	–	–	–
Yahya bin Ibrahim Alguenibt	1879	–	1879	–	–	–
Suleiman bin Mohammed Al-namlah	575,000	–	575,000	–	–	–
Abdullah Bin Abdulrahman Al Obaikan	10000	–	10000	–	–	–
Zaid bin Abdulrahman Gwaiz	1500	–	1500	–	–	–
Saad Bin Saleh Al Azwari	1100	–	1100	–	–	–
Mohammed bin Abdulaziz Al-Namlah	2,216,136	–	2,216,136	–	–	–
Mohammed bin Oweidh Aljaid	1000	–	1,000	–	–	–

**Description of any interest of senior executives, their spouses and minors in the shares or debt instruments of the company or any of its subsidiaries**

Name	Beginning of the year		End of the year		Net change	Change Ratio
	Number of Shares	Debt instruments	Number of Shares	Debt instruments		
Ayman Ibrahim Al-masri	None				–	–
Tamer Salama Said Ibrahim	None				–	–
Jamil Reda Jamil Rafik	None				–	–
Abdul Aziz bin Mohammed Al-Aqeel	None				–	–
Farhan Khalil Ahmed Khalil	None				–	–

• **Ownership of major shareholders in the company in 2015**

Name	No. of shares	Ratio of	No. of shares	Ratio of ownership	Percentage
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	at the beginning of the year	ownership at the beginning of the year	at the end of the year	at the end of the year	change during the year
Abdullah bin Mohammed Al-namlah	3,133,711	5,22%	2,427,011	4,05%	23%
Mansour Abdulaziz AL-Kaki	3,843,750	6,41%	3,843,750	6,41%	–

- **Remunerations and fees of the Board of Directors and the senior executives (five), including the CEO and CFO:**

Description	Board Members			Senior Executives
	Executive	Non Executive	Independent	
Salaries	–	–	–	2,856,030
allowances	–	135,000	78,000	950,362
regular annual bonuses	–	–	–	862,903
Allowances for participation in committees	–	750,000	575,000	–
Any compensation or benefits paid on monthly or yearly basis	–	–	–	–
Total	–	885,000	653,000	4,669,295

**\* Senior executives are (5), including the CEO and CFO**

- **Committees stemming from the board of directories:**

Nomination and Remuneration Committee:

Nomination and remuneration committee consists of three members :

Engineer Saad Bin Saleh Al Azwari (chairman of the committee), Engineer Abdul Raouf Waleed Al Bitar, Mr. Zaid bin Abdulrahman Gwaiz, Engineer Suleiman bin Mohammed Al-namlah, the committee shall take over the following tasks:

- Recommending to the board of directors nomination of board members in compliance with approved policies and standards, taking into account not to nominate any person who was previously convicted to a crime involving moral turpitude or breach of trust.
- Annually consider the required needs of the appropriate skills for the membership of the board of directors and preparing a description of the capabilities and qualifications required for the membership of the board of directors including setting the time to be devoted by the board member for the activities of the board.
- Reviewing the structure of the Board of Directors and make recommendations regarding the changes that can be made.
- Identifying weaknesses and strengths in the Board of Directors, and recommending how to be dealt with in line with the company's interest.
- Ensuring on an annual basis of the independence of the board members and the absence of conflict of interest if the member is a board member of another company.
- Developing clear policies for the compensations and remunerations of the board members and senior executives, taking into account using criteria linked to performance when setting these policies.

Nominations and remunerations committee held (2) meetings during the year 2015, the table below shows the attendance of members of these meetings:

Name of Member	First meeting 24/02/2015	Second meeting 23/12/2015	total
Saad Bin Saleh Al Azwari	✓	✓	2
Abdul Raouf Waleed Al Bitar	☒	☒	0
Zaid bin Abdulrahman Gwaiz	✓	resigned	1
Suleiman bin Mohammed Al-namlah*	-	✓	1

\*Engineer Suleiman Al-namlah was appointed instead of Mr. Zaid Gwaiz.

Audit Committee:

The Audit committee consists of three members: Mr. Yahya bin Ibrahim Alguenibt ( chairman of committee), Engineer Suleiman bin Mohammed Al-namlah and Engineer Mohammed Aljaid, the committee shall take over the following tasks:

- Supervising the internal audit department of the company in order to ensure its effectiveness in implementation of the works and tasks assigned to it by the board.
- Examining the internal control system and developing a written report on its view and recommendations concerning it.
- Studying internal audit reports and following up the implementation of the corrective actions for the notes contained therein.
- Recommending to the Board of directors the appointment, dismissal and determination of the fees of Chartered Accountants taking into account ensuring their independence when recommending their appointment.
- Monitoring the work of chartered accountants and adopting any work outside the scope of audit works assigned to them during their audit work.
- Studying the audit plan with the chartered accountant and submitting its comments thereon.
- Studying the Notes of chartered accountant on the financial statements and following up what was accomplished in its regard.
- Studying primary and secondary financial statements before being submitted to the Board of Directors along with expressing its recommendation and opinion in this matter.
- Studying the accounting policies and expressing its opinion and recommendation to the Board of Directors in the matter.

Audit committee held (6) meetings in 2015, the table below shows the attendance of members of these meetings:

Name	First meeting 21/01/2015	Second meeting 24/02/2015	Third meeting 21/04/2015	Fourth meeting 02/08/2015	Fifth meeting 21/10/2015	Sixth meeting 22/12/2015	total
Yahya bin Ibrahim Alguenibt	✓	✓	✓	✓	✓	✓	6
Suleiman bin Mohammed Al-namlah	✓	✓	☒	✓	✓	✓	5
Mohammed bin Oweidh Aljaid	☒	☒	✓	☒	✓	✓	3

The Executive Committee:

executive committee consists of four members: Engineer Abdulaziz M. Al-Namlah, Engineer Abdul Raouf Waleed Al Bitar, Engineer Abdullah Bin Abdulrahman Al Obaikan

and Engineer Mohammed bin Abdulaziz Al-Namlah, the committee shall take over the following tasks:

- Reviewing the plans and strategies of the executive management of the company and its subsidiaries and raise the appropriate recommendations to the board of directors.
- Ensuring that the company's strategic plans has been translated into behaviours and real actions aimed at achieving the objectives of the company.
- Discussing and reviewing the reports submitted from the Executive management.

Executive committee held (6) meetings in 2015, the table below shows the attendance of members of these meetings:

Name	First meeting 16/02/2015	Second meeting 14/06/2015	Third meeting 29/06/2015	Fourth meeting 05/10/2015	Fifth meeting 30/11/2015	Sixth meeting 14/12/2015	total
Abdulaziz M. Al-Namlah	✓	✓	☒	✓	✓	✓	5
Abdullah Bin Abdulrahman Al Obaikan	✓	✓	✓	✓	✓	✓	6
Abdul Raouf Waleed Al Bitar	✓	☒	☒	✓	☒	☒	2
Mohammed bin Abdulaziz Al-Namlah	✓	✓	✓	✓	✓	✓	6

**Results of annual audit of the effectiveness of the company's internal control procedures:**

The Audit Committee adopts the annual plan for the management of internal audit in the company. This plan includes the company's processes to be assessed by the internal audit management of the level of the company and subsidiaries. The development of this plan is based on the results of evaluating the inseparable risks for all operational processes of the company to prioritize the work of the internal audit Department during the year, Moreover, the action plan includes other operations that the audit committee like to assessed so as to ensure the effectiveness of the internal control system in protecting the assets of the company, efficiency and effectiveness of the company's operations, compliance with the applicable laws and regulations and the accuracy and reliability of financial and management reports of the company.

Based on the work of internal audit plan for the year (2015), the internal audit department has developed reports on the results of the audit of many operations operational processes,

both in Saudi (MESCC) or its subsidiaries in the UAE and Jordan. Reports for following-up the notes in previous reports also were developed.

The Audit Committee studied the periodic reports prepared by the internal audit department of the company, discussed the notes reached, ensured developing corrective measures by the concerned departments and the time plan of these corrective measures, followed up those steps and provided summaries of the work of the Committee of the Board of Directors.

The external auditor assesses the internal control system within his job of revising the company's final financial statements, however the referred audits didn't indicate an essential or effective vulnerability in the internal control system of the company.

- Risk management:

The company's management adopts a clear methodology to continuously handle the risks in the company. This methodology aims to identify the various risks faced by the company, the impact of these risks on its operations and the likelihood of being achieved either were these risks related to the company's operations or related to the market.

through the foregoing, risks are arranged according to their importance in order to determine the priorities to deal with it and the means to be followed to reach an acceptable level of risk, The main risks for the company summarized in:

- Fluctuations in prices of raw materials.
- Risk of equipment and operational costs and the risk of work disruption.
- Credit risks.
- Reliance on key clients.
- Financing risks
- Dependence on key suppliers
- Risks related to licenses and permits.
- Reliance on key raw materials

- Future prospects of Company's Business:

Middle East Specialized Cables Co. (MESCC) is seeking to achieve growth in sales and profits through working to improve the performance and productivity and exploit the opportunities in the domestic market, markets of the Middle East and other markets targeted for export. Projections indicate the continuing growth of the energy and telecommunications sector and the continuation of infrastructure and transport growth on the same previous levels.

Accordingly, we seek to make the most of the steady growth opportunities through:

- Hard work to develop the productive performance and the supply chain because of its impact on meeting the project requirements rapidly while maintaining the same high quality of Middle East Specialized Cables Co. (MESCC) .
- Working on The development of new products in order to meet the needs of transport and communications sectors, which confirms the status of Middle East Specialized Cables Co. (MESCC) as a leading and unique company in product development.

- Adopting a policy of flexible performance and high productivity in all the company's operations to reach a higher quality, greater productivity and stronger competitiveness.
- Working on the expansion of the client base in the domestic market and other markets by following sophisticated strategies to target markets, current and future mega projects.
- Hard work to reduce costs in line with the current challenges facing the region's markets.
- Working on the development of strategies to create export opportunities for the company's products.
- In line with of our wise government objectives of the nationalization of jobs and create suitable job opportunities, we seek and we will remain behind targeting and recruiting Saudi Arabia competencies of different grades and provide appropriate climate for work and creativity.

### **Social Responsibility:**

MESC company is keen to serve Saudi society through a number of programs foremost of which are:

- Participation in the annual care of Disabled Children's Association.
- Participation in the care of Charitable Health Society For Patients Care (ENAYAH).
- Participation in the care of Kafeef Association.

The plan of The transition and conformity with international accounting standards:

Based on the decision of the Board of the Saudi Organization for Certified Public Accountants administration to apply the international accounting standards and once on the menus prepared for financial periods beginning on 01/01/2017 or thereafter for joint stock companies, the company has invited a number of certified accounting offices and discussed them about the mechanism of the transaction from current accounting standards to international standards in order to benefit from their expertise In this field. Accordingly, the Company has developed the application of international standards plan as follows:

1. Diagnosing of the differences between the currently applicable Saudi Arabia standards and international standards: The objective of the diagnostic process is to know the additional accounting differences and financial clarifications which will appear as a result of the transition to the application of international standards and the assessment of the expected impacts (such as the impact on the information system, the flow of operations ...). It is expected that this phase will take about five weeks.
2. updating the accounting policies and processes to conform with international standards. This phase also includes training the staff on applying the international standards, according to their job requirements. It is expected that this phase will take about seven weeks.
3. Preparation of financial statements according to the international standards: This phase includes the following:

A. Preparation of financial statements for the first quarter of 2017, according to the international standards, the financial statements for the first quarter of the 2017 shall include the financial statements for the first quarter 2017, financial statements for the first quarter 2016 and opening balances for 2016; all of them shall be prepared in conformity with the international standards. moreover, the financial statements for the first quarter of 2017 shall include the further clarification required according to International Accounting Standard (IFRS1) for financial statements prepared according to international standards for the first time.

B. Preparation of financial statements for the year ended 31/12/2017, according to the international standards, these financial statements shall include the financial statements for the year ended 31/12/2017, financial statements for the year ended 31/12/2016 and opening balances for 2016; all of them shall be prepared in conformity with the international standards. moreover, these financial statements shall include the further clarification required according to International Accounting Standard (IFRS1) for financial statements prepared according to international standards for the first time.

This phase take place during the regular duration of the announcement and publication of financial statements of listed shareholding companies as instructed by the Capital Market Authority. furthermore, the company's plan includes preparation of financial statements for the second quarter of 2016 and beyond Based on two criteria:

1. the current standards required for the preparation and publication of financial statements until the end of 2016.
2. International standards.

The goal is to compare the financial statements for ensuring its validity and proper application of international standards before starting the mandatory application process.

Geographical Distribution of MESC company and its subsidiaries:

The table below illustrates the geographical division of the company activities between: kingdom of Saudi Arabia through the parent company "MESC" and the Hashemite Kingdom of Jordan through both of Middle East Specialized Cables Co. (MESC) -Jordan and MV-HV MESC Company, the United Arab Emirates through Middle East Specialized Cables - Ras Al Khaimah.

	Kingdom of Saudi Arabia SAR	Jordan SAR	Emirates SAR	Exclusions SAR	Total SAR
31 December 2015 (audited)					
Sales	654,485,868	191,908,886	217,045,185	(175,851,908)	887,687,031
Gross profit	67,624,212	(3,234,521)	16,345,938	-	80,735,629
Net profit \ loss before	(27,812,991)	(125,725,079)	311,758	-	(153,226,312)

non-controlling equity					
Total assets	756,306,462	321,082,153	340,963,543	(282,098,504)	1,136,253,654
Total liabilities	382,313,844	446,792,493	137,116,059	(140,648,070)	825,574,326
31 December 2014 (audit)					
Sales	786,277,321	179,478,875	164,236,138	(271,515,189)	858,477,145
Gross profit	84,290,645	7,364,331	14,796,163	-	106,451,139
Net profit \ loss before non-controlling equity	(27,812,991)	(125,725,079)	311,758	-	(41,026,775)
Total assets	939,188,163	404,242,369	400,812,188	(415,247,818)	1,328,994,902
Total liabilities	458,271,123	392,492,111	131,261,452	(117,327,773)	864,696,913

Diagrams in Pages 23, 24, 25 and 26 are not capable of being copied

Their titles are:

Sales by Geographic Distribution

Total assets

Gross Profit

Total Loans

Total Liabilities

Total Equity

### **Financial Performance:**

The audited financial results for the year ended on 31/12/2015 resulted in what follows:

- Net loss amounted to SAR 103.7 million as compared to a net loss of SAR 23.1 million for the past year, marking an increase of 349.51%.
- Loss per share amounted to SAR 1.73 as compared to SAR 0.38 for the past year.
- Gross profit amounted to SAR 80.7 as compared to SAR 106.5 million for the past year, marking a decrease of 24.16%.
- Operating loss amounted to SAR 119.6 million as compared to SAR 2.4 million for the past year.
- The reasons for the increase in net loss of the current year as compared to the past year are recording some additional provisions for inventory and doubtful debts, and the provision for depreciation of machines and the equipment of subsidiaries in Jordan during the current year as a result of geopolitical circumstances, which led to a difference between the book value and market value of them according to the requirements of accounting standards.
- There was a re-sorting of certain comparative figures of the past year to conform with the presentation for the current year.
- The reason for the high annual losses compared to the initial results is attributable to recognizing some additional provisions for doubtful debts owed by Tecnimont Company for its project based in Kuwait, along with inventory provision.

- Table showing the financial performance:

The Fiscal year ended on 31 December					
(Million SAR)	2015	2014	2013	2012	2011
Performance of operations					
Gross sales	887,7	858,5	930,7	990,6	1,139,4
Sales cost	(807,0)	(752,0)	(784,8)	(829,4)	(1,043,8)
Gross Profits	80,7	106,5	145,9	161,2	95,6
Operating Profits (losses)	(119,6)	2,4	49,6	53,5	(20,4)
Income (loss) before zakat, foreign income taxes and minority stake	(149,7)	(31,1)	23,7	6,1	(160,8)
Net profit (loss)	(103,7)	(23,1)	30,4	31,1	(120,1)
Total assets	1,136,3	1,329,0	1,400,5	1,354,3	1,382,3
Total liabilities	825,6	864,7	865,3	1,058,8	1,103,4
Total loans	599,0	651,3	675,0	862,1	895,9
Shareholders' equity	374,0	480,9	503,9	281,5	242,5
Return on shareholders' equity (ROE)	-27,7%	-4,8%	6%	11%	-49,5%
Return on Assets(ROA)	-9,1%	-1,7%	2,2%	2,3%	-8,7%
Gross margin	9,1%	12,4%	15,7%	16,3%	8,4%
Net profit margin	-11,68%	-2,69%	3,27%	3,14%	-10,54%
The trading rate (one time)	1,54	1,51	1,80	1,19	0,86
Total liabilities to total assets	72,7%	65,1%	63,9%	78,2%	79,8%
Revenue growth rate	3,4%	-7,8%	-6%	-13,1%	10,7%

- Company's loans

1. Short- term loans and Murabaha

Short-Term Loans	Saudi Riyals (SAR)		
	2015	2014	2013
Housing Bank	59,231,089	34,631,659	43,470,220
Jordan Commercial Bank	0	0	2,494,147
United Arab Bank	4,401,269	8,435,887	15,357,783
Emirates NBD	28,091,474	40,526,160	25,746,087
The Total of short-term loans	91,723,832	83,593,706	87,068,237
short-term Murabaha			
Saudi Hollandi Bank	49,500,000	75,000,000	440,085,367
The total of short-term Murabaha	49,500,000	75,000,000	440,085,367
The total of loans and short-term Murabaha and loans	141,223,832	185,593,706	131,153,613

2. Long-Term Loans and Murabaha

	2015	2014	2013
Loans from local commercial banks (A)	426,041,326	446,073,345	484,615,734

Saudi Industrial Development Fund's Loan (B)	31,773,000	46,651,000	59,274,000
	457,814,326	492,724,345	543,889,734
Less :current portion	(160,880,703)	(157,475,923)	(105,229,533)
	296,933,623	335,248,422	438,660,201

**Table showing the details of long-term bank loans:**

	loan principal	Loan term(years)	Paid up to 31/12/2015	Paid during 2015	The outstanding balance as on 31/12/2015
Saudi Hollandi Bank - loan(A)	260,000,000	6	179,760,695	26,746,435	80,239,305
Saudi Hollandi Bank- loan (B)	61,588,798	5	-	-	61,588,798
Jordan Kuwait Bank	48,131,419	8	-	-	48,131,419
Capital Bank of Jordan	152,073,114	8	-	-	152,073,114
Jordan Commercial Bank	152,073,114	8	-	-	152,073,114
Housing Bank for Trade and Finance	71,452,460	8	-	-	71,452,460
Total	605,802,021		179,760,695	26,746,435	426,041,326

**Table showing the loan of Saudi Industrial Development Fund:**

	loan principal	Loan term(years)	Paid up to 31/12/2015	Paid during 2015	The outstanding balance as on 31/12/2015
The sixth expandability loan	15,300,000	7	15,300,000	3,000,000	-
The Seventh expandability loan	28,300,000	7	24,277,000	6,878,000	4,023,000
The eighth expandability loan	18,750,000	6	8,000,000	3,500,000	10,750,000
The ninth expandability loan	19,500,000	6	2,500,000	1,500,000	17,000,000
Total	81,850,000		50,077,000	14,878,000	31,773,000

**Related Party Transactions:**

The engineers, Abdulaziz M. Al-Namlah (Board Chairman) and Abdul Raouf Waleed Al Bitar (Board Member) have transactions with the company( purchase and sale), being purchase

orders that are renewed annually under a license by General Assembly of the Company are as follows:

Company name	type of Transactions	Related Mamber	Nature of Relationship	Amount (SAR)
Middle East Fiber Cable Manufacturing Co. Ltd.(MEFC)	Buying ready-made merchandise	Abdulaziz M. Al-Namlah	Partially owned by the Chairman of the Board	2,893,069
Middle East Fiber Cable Manufacturing Co. Ltd.(MEFC)	Providing services and business	Abdulaziz M. Al-Namlah	Partially owned by the Chairman of the Board	125,792
Al-Manhal Water Factory Co., Ltd.	Supplying drinking water	Abdul Raouf Waleed Al Bitar	Partially owned by a member of the Board of Directors	5,784
Middle East Mold & Plastic Factory Co., Ltd	Buying molds and plastic	Abdul Raouf Waleed Al Bitar	Partially owned by a member of the Board of Directors	63,439

• **Statement of the value of statutory payments due with a brief description of them and reasons:**

Statement	2015	2014	2013	2012	2011	Description	Reason
Zakat	8,928,513	3,224,132	1,257,195	1,599,918	5,413,822	Amounts paid in accordance with the provisions and rules of Zakat and instructions of Dept of Zakat & Income Tax in the UK	statutory requirement
Foreign income tax	-	-	-	-	-	Amounts paid by the subsidiary companies in accordance with instructions of the IRS in the Hashemite Kingdom of Jordan	statutory requirement
Social Security	5,049,780	4,115,472	3,320,337	3,727,984	2,647,684	Amounts paid under the provisions of and rules of the General Organization for Social Insurance in the UK	statutory requirement
Customs fees	4,882,488	3,511,095	3,777,134	6,625,568	3,666,264	The government fees and costs of the company in exchange for commercial services, license fees and frequency spectrum	statutory requirement

- **Dividend Payout Policy:**

In case that the company generates profits, the payout of dividends is based on the Board of Directors' recommendation to the General Assembly according to the profits earned during the year, in addition to studying the status of cash flows and future obligations so as to achieve the objectives of the company and the aspirations of its shareholders.

Article (41) of the Articles of Association of the company provides for distributing the profits as follows:

- Setting aside 10% of net profits to form a statutory reserve.
- Setting aside 5% of the net profit to form a voluntary reserve upon the proposal of the board of directors.
- The remaining amount shall be paid out as initial dividend to shareholders equal to 5% of the paid-up capital.
- 10% of the remaining amount be allocated as remunerations to board members, while the remaining amount after that shall be paid out to shareholders as additional dividend.

- **Disclosures:**

1. No arrangement or compromise under which a member of the Board of Directors or a senior Executives waived any salary or remuneration.
2. The company did not report any change in shareholders' equity, except for the board members and senior executives during the last fiscal year.
3. There is no arrangement or agreement under which a company's shareholder waived his share in the profits.
4. There are no other investments or reserves have been created for the interest of the company's employees.
5. A fine of (10,000) ten thousands RIYALS was imposed on the company by the Capital Market Authority for violating paragraph (A) of Article (34) of the Listing Rules and the instructions provided in the electronic disclosure form number (5), which was approved under the Authority's Board Resolution No. (1-39-2012) on 23/12/2012, for the company's non-disclosure in the electronic disclosure form No. (5) of the property details of one of the members of its board.

- **The company's announcements on Tadawul Website in 2015 (Company's Code 2370):**

S.N	Date of announcement	Details of Announcement
1	21/01/2015	Middle East Specialized Cables Co. (MESC) announces its initial financial results for the period ended on 31/12/2014 (twelve months).
2	21/01/2015	Ancillary announcement by the Middle East Specialized Cables Co. (MESC) regarding the initial financial results for the period which ended on 31/12/2014 (twelve months). Further to company announcement published on Tadawul website on 21/01/2015 regarding the initial financial results for the period

		which ended 31/12/2014 (twelve months), Middle East Specialized Cables Co. (MESC) would like to make it clear that one of the reasons for the drop in net profit during the current quarter compared to the previous quarter, in addition to what was mentioned, is the rise of sales during the current quarter.
3	24/02/2015	Middle East Specialized Cables Co. (MESC) announces annual financial results for the period which ended on 31/12/2014.
4	21/04/2015	Middle East Specialized Cables Co. (MESC) announces initial financial results for the period which ended on 31/3/2015 (three months).
5	03/05/2015	Middle East Specialized Cables Co. (MESC) invites its shareholders to attend the Ordinary General Meeting (the first meeting).
6	11/06/2015	Middle East Specialized Cables Co. (MESC) invites its shareholders to attend the Ordinary General Meeting (the first meeting) (reminding announcement).
7	16/06/2015	Middle East Specialized Cables Co. (MESC) announces the failure to hold the Ordinary General Meeting of the company (first meeting).
8	18/06/2015	Middle East Specialized Cables Co. (MESC) invites its shareholders to attend the Ordinary General Meeting (second meeting).
9	30/06/2015	Middle East Specialized Cables Co. (MESC) announces the results of its Ordinary General Meeting.
10	02/08/2015	Middle East Specialized Cables Co. (MESC) announces initial financial results for the period which ended on 30/06/2015 (six months).
11	21/10/2015	Middle East Specialized Cables Co. (MESC) announces initial financial results for the period which ended on 30/09/2015 (nine months).
12	25/10/2015	Middle East Specialized Cables Co. (MESC) announces the resignation of board member Mr. Zaid bin Abdulrahman Gwaiz starting from 01/11/2015.
13	24/12/2015	Middle East Specialized Cables Co. (MESC) announces that its Board of Directors approved the following: 1. The appointment of Mr. Ayman Ibrahim al-Masri as chief executive of the company, starting from 23/12/2015 Engineer Ayman began his experience in Seimens Saudi Arabia Company as a test engineer then he included in the positions until he became the vice president of the sectors of low voltage and medium voltage. engineer Ayman holds a Bachelor of Electrical Engineering from King Fahd University of Petroleum and Minerals (KFUPM) 2- Ending the assignment of Engineer Abdulaziz M. Al-Namlah as a managing director of the company starting from 23/12/2015.
14	29/12/2015	Middle East Specialized Cables Co. (MESC) announces that as a result of the issuance of the Cabinet's resolution, on Monday, 17 Rabi Al-Awwal of the year 1437 AH corresponding to 28 December of the year 2015, on increasing the tariff of energy prices that the company is in the process of calculating the financial impact knowing that in the case of the existence of a financial impact, the results for the fiscal year 2016 will be shown and will be

		announced later.
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- **Board Recommendations:**

The Board of Directors of the Middle East Specialized Cables Company (MESCC) recommends the following to your esteemed assembly:

1. Approving the Board of Directors' report for the fiscal year ended on 31/12/2015.
2. Approving the Company's financial statements and auditors' report for the fiscal year ended on 31/12/2015.
3. Approving the selection of the company's accounts auditors among the nominees by the audit committee to audit of the financial statements of the fiscal 2016 and determining their fees.
4. Approving the discharge of the board members of their responsibilities for the year 2015.
5. Approving the transactions of buying and selling (specialized cables, fiber optic cable), which took place between the company and *Middle East Fiber Cable Manufacturing Co. (MEFC)*, whose board of directors is headed by Engineer Abdulaziz M. Al-Namlah who heads the Board of Directors of the Middle East Specialized Cables Company (MESCC) as well, for a total of SAR 3,018,861 and licensing its renewal for another year.
6. Approving the purchase transactions between the company, Middle East Mold & Plastic Factory Co., Ltd and Al-Manhal Water Factory Co., Ltd. (purchasing plastic required for cables manufacturing, purchasing mineral water) whose membership was assumed by Engineer Abdul Raouf Waleed Al Bitar who is a member of the Board of Directors of the Middle East Specialized Cables Company (MESCC), for a total of SAR 69,861.
7. Approving the election of the board members in its new session which starts on 02/07/2016 for three years by normal voting according to the company's Articles of Association.

- **Board Assurances:**

1. The accounting books and registers were prepared properly.
2. The internal control system was prepared on a sound basis and implemented effectively.
3. There are no little doubt as to the company's ability to pursue its business activities.

**The conclusion**

The Board of Directors has the pleasure to extend sincerest appreciation and gratitude to the Custodian of the Two Holy Mosques King Salman bin Abdul Aziz Al Saud and the Crown Prince and the Crown Heir Apparent for their uninterrupted support provided to the economy of this country and encouraging the private sector to make more effort and contribution. The Board also extends thanks and appreciation to all staff members and shareholders of the company's for their permanent dedication, faithfulness and support provided to the company. The board is looking forward to more achievements and excellence in 2016.

Peace and Mercy of Allah be upon you

The Board of Directors