

A photograph of an industrial building at night, showing large windows and structural elements, partially obscured by a white diagonal graphic element.

CORPORATE  
GOVERNANCE,  
INTERNAL AUDIT  
COMMITTEE &  
INTERNAL  
CONTROL SYSTEM  
REVIEW  
REPORTS

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## Dear Shareholders of the Company,

It's our pleasure to present the Corporate Governance Report for the fiscal year ended 31 December 2016, which includes the following:

### Board of Directors

The Board of Directors of Al Kout Industrial Projects Company were elected on 21 April 2014. The Board of Directors are:

Name / Designation	Member classification (Executive/non-executive / independent) Secretary of the Board	Date of election/ Secretary of the Board
Fahed Yacoub Al Jouan Chairman	non-executive	21 April 2014
Mohammed Bader Al Sayer Deputy Chairman	non-executive	21 April 2014
Hamad Abdelaziz Alsaqer Board Member	non-executive	21 April 2014
Othman Zahim Al Zahim Board Member	independent	21 April 2014
* Bader Musaed Bader Al Sayer Board Member	non-executive	21 April 2014
Salah Nasser Al Saqabi Board Member	non-executive	21 April 2014
Mohammad Ahmed Shamesaldain Board Member	non-executive	21 April 2014
Ali Abdel Aziz Behbehani	Secretary of the Board	21 April 2014

\* Jiblah Holding Company, represented by Mr. Bader Musaed Bader Al Sayer in the Board of Directors, announced their willingness to sell its stake in Al Kout. In order to prevent conflicts of interests, Mr. Bader Musaed Bader Al-Sayer submitted his resignation from the Board of Directors. The Board decided to accept his resignation in meeting No. 4/2016 dated 21/7/2016. That was disclosed to the Capital Markets Authority on July 25, 2016; and the reserve Board member who apologized for the participation and the seat became vacant until the next election by the end of the fiscal year 2016.

## QUALIFICATIONS AND EXPERIENCE OF THE BOARD MEMBERS OF AL KOUT INDUSTRIAL PROJECTS COMPANY:

### **Mr. Fahed Yacoub Al Jouan - Chairman**

Mr. Fahed Al Jouan has been a member of the Board of Directors since 2001 and has been Chairman of the Board since 2006 till date and currently holds the membership of the Nomination and Remuneration committee.

He holds a Bachelor's degree in Business Administration from University Eastern Washington- USA and holds an accounting diploma from the Institute of Commercial of Business Studies. He is currently Vice Chairman of Al Dorra Petroleum Services Company, Board Member of the Financial Center Company, and Board Member of the National Petroleum Services Company (NAPESCO).

He is a member of Kuwait Chamber of Commerce and Industry since 2014 till date.

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### **Mr. Mohammed Bader Mused Al Sayer - Vice Chairman.**

Mr. Mohammed Al Sayer has been the Vice Chairman of the Board since 2015 and currently holds the Chairmanship of Risk Management Committee and membership of Audit committee.

He holds a Bachelor of Science in Mechanical Engineering and Economics from Polytechnic Ren University – USA

He worked for the world's leading banks such as Morgan Stanley, JP Morgan Chase.

Worked at National Bank of Kuwait for five years.

Founder and Chairman of MS Holding and MS Retail since 2004 till date.

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### **Mr. Hamad Abdel Aziz Al Saqer- Board Member**

Mr. Hamad Al Saqer is a member of the Board of Directors of Al Kout Industrial Projects Company since 2003. He holds Bachelor of Economics from Ireland.

He is a member of the Board of Directors of the National Bank of Kuwait Group from 1975 to 1976 and from 1983 till date, He is also the member of the Credit and Governance Committees of the Board of Directors of Kuwait National Bank.

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### **Mr. Othman Zahim Al Zahim - Board Member**

Mr. Othman Al Zahim is a member of the Board of Directors of Al Kout Industrial Projects Company since 2006 and currently holding the membership of Risk Management Committee, Nomination and Remuneration committee and Audit committee.

He holds a Bachelor of Business Administration - Marketing - in 1991 from University of Miami - USA

He is the Chairman of Petra Food Industries Company since 2008 till date

He served as General Manager of Petra Food Company from 1991 to 2012.

He is the member of the Board of Directors of National Company for Pharmaceutical Industries - 3 years

He was the member of the Board of Directors of the Metal Distribution Company.

He was the member of the board of the Real Estate Climate Company for a period of 3 years.

He has been an active member of a number of public benefit organizations such as the Federation of Food Suppliers and Producers from 1994 to 1996 and the Kuwait Industries Federation from 1999 to 2008.

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### **Mr. Salah Nasser Al Saqabi - Board Member**

Mr. Salah Al Saqabi is a member of the Board of Directors of Al-Kout Industrial Projects Company since 2010 and currently holding the Chairmanship of the Nominations and Remuneration Committee of the Company.

He holds a Bachelor of Engineering degree (1988) from University of Miami - USA

He is currently the Chief Executive Officer of Afkar Holding since 2010.

He is the member of the Board of Directors of Al Dorra Petroleum Company since 2015 and Chairman of the Internal Audit Committee

Member of the Board of Directors of the Soft Food Company since 2008.

He has served as Assistant Director of Projects Management at the Industrial Bank from 1989 until 2007.

He is the member of the Board of Directors of Al-Difaa Real Estate Company since 2007

He is the Vice Chairman of Gulf Industrial Development Company in Saudi Arabia since 2007

He is the member of the Board of Directors of the Al Fayez-Baytak Fund in Kuala Lumpur, Malaysia since 2008.

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### **Mr. Mohammad Ahmed Shamesaldain - Board Member**

Mr. Mohammad Shamesaldain is a member of the Board of Directors of Al Kout Industrial Projects Company since 2015 and currently holding the Chairmanship of Audit committee, and membership of Risk Management Committee.

He holds a Bachelor's degree from the University of Reserve Western Case - USA

He holds a Master's degree in Business Administration from INSEAD University in Paris.

He is an Investment Manager at Boubyan Petrochemical Company - responsible for the company's external investments

He has worked with Boubyan Bank in Investment Management.

He has worked with Ernst & Young in the Advisory Services.

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### **Mr. Ali Abdulaziz Behbehani - Secretary of the Board**

Mr. Ali Behbehani joined the company in 2001 in the position of Finance & Administration Manager and currently holds the position of Vice President for HR & Administrative Affairs and Secretary of the Board of Directors and the company committees.

He holds a bachelor's degree in accounting from Kuwait University (1971) and became an Assistant Teacher at the University of Kuwait.

He received his master's degree in accounting in 1974 from the University of Arizona - USA

He served as Deputy General Manager of the Real Estate Investment Consortium from 1975 to 1980 and as General Manager of the Kuwaiti-Bahraini Investment Consortium from 1981 to 1989.

He served as General Manager of Boubyan Aqua Culture Company from 1993 to 1999.

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## Attendance of Board Members

The Board of Directors of Al Kout Industrial Projects Company held five meetings during 2016. The table below shows the number of meetings attended by each member

Member Name	Meeting No. 1 Dated	Meeting No. 2 Dated	Meeting No. 3 Dated	Meeting No. 4 Dated	Meeting No. 5 Dated
	23/3/2016	10/4/2016	16/5/2016	21/7/2016	14/11/2016
Fahd Yacoub Al Jouan Chairman	✓	✓	✓	✓	✓
Mohammed Bader Al Sayer Deputy Chairman	✓	✓	✓	✓	✓
Hamad Abdelaziz Al Saqer Board Member	-----	-----	✓	✓	✓
Othman Zahim Al Zahim Board Member	✓	✓	✓	✓	✓
Bader Musaed Bader Al Sayer Board Member	✓	✓	✓	-----	-----
Salah Nasser Al Saqabi Board Member	✓	✓	-----	✓	✓
Mohammed Ahmed ShamsAldin Board Member	✓	✓	✓	✓	✓

## Recording and coordinating minutes of Board meetings

The Secretary of the Board of Directors prepares a special register for the minutes of the approved Board meetings and documents the minutes of the approved Audit and Risk Management Committees and of the Nomination and Remuneration committees. Each minutes shall include information on the agenda, date and place and time of the meeting. The Secretary sends the agenda to the members of the Board with sufficient time frame with all documents related to the agenda. At each meeting, board of directors shall follow up on the decisions taken at the previous meeting and then discuss the previous minutes. In case of addition or amendment to the minutes, it shall be deliberated, agreed upon, approved and signed by those present. In the case of minutes of the board meeting are held bypassing the board meeting, all board members have to sign the minutes. The secretary of the Board of directors shall then coordinate and distribute information among Board members and other stakeholders.

## Policies of the Board of Directors:

The Board of Directors directly supervises the activities of Al-Kout Industrial Projects Company, where it adopts the organizational structure of the company, by laying down the company strategic objectives, the application of internal control systems, the development of the risk strategy and the standards of the governance. The Board of Directors are responsible for directly supervising the work of the executive management and ensuring that they are working within the plans and objectives set by the Executive Management Commitment to the board and the Company's by-laws, regulations and policies.

## Achievements of the Board of Directors during 2016:

The Board of Directors of Al Kout Industrial Projects Company held five meetings during 2016, as it was focused to apply the criteria of corporate governance within the company. The most important achievements are the appointment of the Internal Audit and Risk Management Committee, and the Nominations and Remuneration Committee; Committees are complementary to the work of the Board of Directors. The Board also approved the appointment of the Internal Auditor, where the task was assigned to an independent office for the development of internal control systems. The board has approved an another independent office to review and evaluate the performance of the internal control system, as well as another independent office to prepare reports on the determining and measuring the company risks to which the company may be exposed to. The board has also made important decisions during 2016 regarding the company's investments, developments, monitoring and evaluation of the performance of the executive management.

### Board of Directors committees:

#### (1) Internal Audit and Risk Management Committee

After obtaining the approval of the Capital Markets Authority, the Internal Audit Committee and the Risk Management Committee were merged into one committee the committee's duties and responsibilities, in line with the Company's risk appetite and the preparation of periodic reports on the nature of these risks to which the Company may be exposed. This is to consolidate the commitment culture within the company by ensuring the integrity of the company's financial reports and verifying the adequacy and effectiveness of the internal control system and reviewing the auditor's observations. The Board of Directors at its meeting No. 20162 dated 10 April 2016 formed the Internal Audit and Risk Management Committee as follows:

Chairman of Risk Management Committee	Mr. Mohammad Bader Al Sayer Deputy Chairman of Al Kout Industrial Projects Company /Non-Executive
Chairman of the Internal Audit Committee	Mr. Mohammad Ahmed Shamesaldain Board Member of Al Kout Industrial Projects / Non-Executive
Member of Risk Management and Internal Audit Committee	Mr. Ali Abdul Aziz Behbehani - Vice President / HR & Admin.
Member of Risk Management and Internal Audit Committee	Mr. Othman Zahim Al Zahim - Board Member of Al Kout Industrial Projects / Independent
Secretary of the Risk Management and Internal Audit Committee	Mr. Ali Abdul Aziz Behbehani - Vice President / HR & Admin.

The Internal Audit and Risk Management Committee held two meetings during 2016 and highlight its achievements:

#### Approve the proposed annual audit plan for 2016.

Recommend to the Board of Directors to appoint an independent office (KPMG) to establish internal

control systems and to appoint an independent office (Al Bziea RSM) to prepare these reports on the nature of risks to which the Company may be exposed.

Review the internal auditor's report on the internal departments of the company and request the executive management to work on the observations. Review the Quarter and annual financial statements of the company and discuss with the external auditor. Prepare the annual report of the internal control procedures and presentation to the shareholders at the AGM.

## (2) Nomination and Remuneration Committee

The purpose of this committee is to prepare a recommendation on nominations for the positions of directors and executive management, policies and regulations governing the awarding of compensation and remuneration to the Board, bonuses to the Executive Management, and to assist the Board in evaluating the performance of the Executive Management and coordinating the periodic evaluation process of the Board.

The Board of Directors approved the formation of the Nomination and Remuneration Committee at the meeting no. 2/2016 on 12 April 2016, as it defined its missions & responsibilities.

<b>Chairman of the Committee</b>	Mr. Salah Nasser Al-Saqabi Board Member of Al-Kout Industrial Projects / Non-Executive
<b>Committee member</b>	Mr. Othman Zahim Al-Zahim Board Member of Al Kout Industrial Projects / Independent
<b>Committee member</b>	Mr. Fahed Yacoub Al Jouan Chairman Al Kout Industrial Projects / Non-Executive
<b>Secretary of the Committee</b>	Mr. Ali Abdul Aziz Behbehani Vice President – Administration & HR

The Committee held one meeting during 2016 and highlights its achievements:

Review the policy of rewards and promotions in the company

Review of the Nomination Policy for Board Membership and Executive Management.

Review the training and development procedures of the company's employees.

Preparation of the annual report of all bonuses granted within the company to the members of the Board of Directors, the Executive Management and the employees.

The mechanism for timely access of members of the Board of Directors to information and data:

The company provided the tools that allow the board members to obtain the required information and data in a timely manner through direct contact with the CEO, the secretary of the Board of Directors and the Board of Directors, as well as providing reports and discussion topics for Board meetings well in advance for discussion and decision-making.

## Report on bonuses awarded at Al Kout Industrial Projects

The remuneration policy adopted by the Board of Directors reflects the desire to retain competencies within the Board of Directors, the Executive Management and the various departments of the Company as well as being an attractive element for joining the Company. The Nomination and Remuneration Committee operates under this policy, recommending bonuses to Board members, Executive Management and other segments of the staff.



### **Disclosure of the granted remuneration:**

The Nomination and Remuneration Committee shall prepare a detailed report of all the remunerations, benefits and allowances granted to the Chairman of the Board of Directors, the members of the Board of Directors, the members of the Committees as well as the Executive Management of the Company and the remaining segments of the employees according to the performance reports submitted by the Company's management. The remuneration report shall be informed to the general Assembly by the Board of Directors and Executive Management during May 2017.

### **Undertaking for the Soundness and integrity of the prepared financial statements:**

The Executive Management provides written assurance to the Board of Directors of the Company's limited report integrity. It covers all financial aspects of operating data and results and is prepared in accordance with International Accounting Standards. The Board of Directors also provides the Company's shareholders with a guarantee of integrity of the financial statements. The Internal Audit Committee is entitled to review all data, information and reports from the Company's reports and submit its report to the Board of Directors.

### **Independent and impartial auditor:**

On 25 April 2016, the Ordinary General Assembly of the Company approved the appointment of the External Auditor, Price Waterhouse Coopers (Al Shatti & Co.) and the External Auditor, Al Waha Audit Office, both of whom are registered in the special register with the Capital Market Authority and are fully independent from the Company and its Board of Directors

### **Code of Conduct and Ethical Values:**

Integrity comes first in the values of the company and serves as a goal that guides its employees in everything they do. This behaviour supports the decisions that management relies on when serving customers. Company Policies and Procedures means to reduce Conflicts of Interest as part of the corporate governance system, the Board of Directors and its committees are responsible for following individual methods and procedures to reduce any or similar behaviours that overlap the personal interests of the Board of Directors, Executive Management and other employees of the Company.

### **Disclosure and transparency**

The Company has committed itself to the required instructions for the disclosure of the essential information and the mechanism for advertising through the Kuwait Stock Exchange website and also to address the Capital Markets Authority. As well as providing information on the company's website. The Company maintains a special record that contains all required disclosures for the Board of Directors and the Executive Management.

### **Investor Affairs**

The Company is committed to informing current and prospective investors about investment decisions where information and reports are available. The Company is committed to informing current and potential investors about the investment decisions, as it provides information and information through conventional means of disclosure.



## Information technology infrastructure

The Company has updated its website and through this website, the Company provides all information about the Company and its subsidiaries and associates. Their projects and also provide information and financial data and keep them up to date.

## General rights of shareholders

All shareholders of the Company enjoy clear rights in terms of ownership of the shares, transfer of ownership, receipt of profits, annual reports, participation in meetings of the General Assembly of Shareholders and their right to nominate and participate in the election of the Board of Directors. A special register of the Company shall be kept with the Kuwait Clearing Company, in which the names of all shareholders and the number of shares they own, each share holder has the right to ask about the stock data he owns.

## General Assembly Meeting

The Company is keen to organize ordinary and extraordinary meetings of the General Assembly at the times set by the Ministry of Commerce and Industry. The Company is committed to submit its financial statements, the General Assembly's agenda and all requirements to the Ministry of Commerce and Industry, the Capital Markets Authority and the Kuwait Stock Exchange during the three months following the financial year. The AGM's agenda and information are provided in sufficient time to allow shareholders to participate effectively in the General Assembly meetings and the Company is keen to exercise all the right to vote without prejudice.

## Rights of stakeholders

The Company provides the information required of stakeholders and allows them to obtain compensation in case of violation of any of their rights.

## Training Programs and courses

The Company is keen to hold training courses for all members of the Board of Directors, the Executive Management and for the Company's employees in order to achieve a better level of efficiency in the work.

## Employees values

The company is committed to creating values for employees that reflect the company's reputation by adhering to the highest ethical standards. The company has prepared a manual for employees to demonstrate their rights and duties.

## Social responsibility

The Company is committed to its continued commitment to the employees through initiatives to improve the living conditions of employees and their families. The company is also committed to social responsibility towards society and has participated in environmental activities and participation in exhibitions and contribution to some educational and environmental institutions inside Kuwait.



**Fahed Yacoub Al Jouan**  
Chairman



الكويت للمشاريع الصناعية ش.م.ك.ع.  
al kout industrial projects k.p.s.c.

## Report of the Internal Audit Committee

### Dear Shareholders

I am pleased to present the Internal Audit Committee report for the fiscal year ended 31 December 2016. The Internal Audit and Risk Management Committee were formed during meeting of the Board of Directors of Al-Kout Industrial Projects Company No. 2/2016 held on 10 April 2016. Committee members elected are:

- 1) Mohammed Bader Al-Sayer Vice-Chairman, non executive.
- 2) Othman Zahem Al-Zahem Independent Board member, non executive.
- 3) Mohamed Ahmed Shamesaldain Board member, non executive

To take into account the duties and responsibilities assigned to each committee in accordance with the provisions of Article 15 (Corporate Governance) of the Executive Regulations of Law No. 7 of 2010 with regards to the establishment of the Capital Market Authority and the regulation of securities activity and its amendments. Mr. Mohammed Bader Al Sayer- Vice Chairman has been appointed as Chairman of the Risk Management Committee and Mr. Mohammed Shamesaldain as Chairman of the Internal Audit Committee, provided each committee will meet separately.

The Internal Audit Committee held two meetings during 2016, during which it discussed the general policies and procedures of the internal control and audit systems and followed up the reports submitted to the Committee by the Internal Audit Office that was appointed to conduct the internal audit and discuss the results with the company's management. In addition to that the internal audit office will review the External Auditor's reports on the quarterly financial statements. An independent external audit office was also appointed to review and evaluate the internal control systems (ICR) for the year ended 31 December 2016. During the first quarter of 2017, the Internal Audit Committee met and reviewed the financial statements for the year ended 31 December 2016 and discussed with The External Auditor their observations and recommendation to the Board of Directors for approval

The Committee also recommended the reappointment of Price water house Coopers Shatti & Co. as the Company's auditor for the financial year ended 31 December 2017. The Board approved this recommendation to the General Assembly to be held later.

The Committee and the Board of Directors are committed to provide written commitments to the validity and integrity of the annual financial statements relating to the Company's activities covering all financial aspects and operating results, which are prepared in accordance with International Accounting Standards.

The Committee believes that the audit, supervision and audit of internal and external auditors' reports indicate that Al Kout Industrial Projects Company enjoys good internal control systems and that the company's management follows and complies with the laws and regulations issued by the supervisory authorities in the State of Kuwait.

Chairman Internal Audit Committee  
Mohamed Ahmed Shamesaldain



## Independent Auditor's Report

### On the review and evaluation of Internal Control Systems of the company

M/s. Board of Directors  
 Al Kout Industrial Projects Company K.P.S.C.  
 Kuwait

Souq Al-Kabeer Building  
 Block A - 9th Floor  
 P.O.BOX 2986 Safat 13030  
 State Of Kuwait  
 T : +965-2244-3900/9  
 F : +965-2242-5676  
 www.gtkuwait.com

In accordance with the terms of our engagement letter dated 22 January 2017, we have examined and evaluated the internal control systems at your company which were applied during the year ended 31 December 2016 with regard to all the following major business and operational activities of your company:

- Finance & Information Technology Department.
- Operations, Maintenance & Projects Department.
- Engineering & Maintenance Section.
- Materials Section
- Information Technology Section.
- Administration & HR Department.
- Sales & Marketing Department.
- Production Section.
- Inspection & Corrosion, HSE, and Quality Control Sections
- Projects Management Section

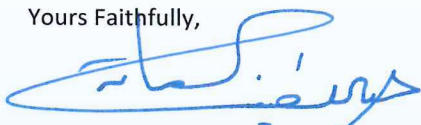
The examination was conducted in accordance with the guidelines published by the Kuwait Capital Markets Authority, Fifth Rule: Implementation of Sound Systems of Risk Management and Internal Control, of Sixth Part of Chapter Fifteen "Corporate Governances" of the Executive Regulations issued under decision number 72 for year 2015 of the law number 7 for year 2013.

As members of the Board of Directors of Al Kout Industrial Projects Company (KPSC), you are responsible for establishing and maintaining adequate internal control systems. In fulfilling that responsibility, estimates and judgments must be made to assess the expected benefits and related costs of such control elements. The objective is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, risks are evaluated and monitored, that transactions are executed in accordance with established authorization procedures and are recorded properly, and to enable you to conduct the business in a prudent and efficient manner.

Because of inherent limitations in any internal control system, errors or irregularities may nevertheless occur and not be detected. Also projection of any evaluation of the systems to future periods is subject to the risk that management information and control procedures may become inadequate because of changes in conditions or that the degree of compliance with those procedures may deteriorate.

In our opinion, having regard to the nature and scale of the company's business during the year ended 31 December 2016, the internal control systems examined by us were established and maintained in accordance with the requirements of corporate governance published by Kuwait Capital Markets Authority within the Executive Regulations issued under decision number 72 for year 2015 of the law number 7 for year 2013.

Yours Faithfully,



Abdullatif M. Al-Aiban (CPA)  
 (License No. 94-A)  
 of Grant Thornton – Al-Qatami, Al-Aiban & Partners  
 Kuwait

28 March 2017