

CORPORATE GOVERNANCE REPORT FOR YEAR 2016

Scope of Governance:

Year 2016 has witnessed remarkable development in the implementing the governance system effectively within the scope of the State's plan of promoting the principles of corporate governance, transparency and integrity at various institutions and bodies. Kuwait Cement Company, in turn, is keen on abiding by and complying with the rules, standards and guidelines of corporate governance which have been adopted by the Capital Markets Authority, as they encompass the methods through which the Company could achieve its goals, realize anticipated return, monitor its performance, communicate with and service the community, and face the challenges and risks arising from the rapid business fluctuations, thus allow the Company to benefit from better planning of its activities and proper execution thereof. As such, the Company, represented by its Board of Directors, Executive Management and all staff members, has assumed the responsibility of ensuring the implementation of the governance scope during the course of its regular business as well as its daily operations. The Board of Directors is taking charge of determining the general executive strategies and policies at its own level and that of the Executive Management, while the latter takes charge of ensuring implementation of corporate governance through robust system of policies and procedures. Meanwhile, the staff is also committed to adopt and implement corporate governance requirements in the daily business operations.

The Board of Directors and The Company's Organizational Structure:

The Board of Directors assumes the responsibility of developing and adopting the organizational structure of the Company, through which the strategic goals, risks determinants and governance standards are drafted. In addition to the effective participation in organizing the Company's business, bearing all responsibilities related to Company's financial safety, and preserving the interests of the shareholders and stakeholders. The current Board of Directors comprises ten members, who are:

| Members Name | Capacity | Category | Elected/ Appointed |
|-----------------------------|---------------|----------------------|-----------------------|
| Rashed Abdulaziz Al-Rashed | Chairman | Non-Executive Member | (Elected) |
| Sulaiman Khaled Al-Ghunaim | Vice Chairman | Non-Executive Member | (Elected) |
| Basil Saad Al-Rashed | Board Member | Non-Executive Member | (Appointed) |
| Jamal Yousef Al-Babtain | Board Member | Non-Executive Member | (Appointed) |
| Khaled Abdullah Al-Rabea | Board Member | Non-Executive Member | (Appointed) |
| Rasha Abdulrahman Al-Melhem | Board Member | Non-Executive Member | (Appointed) |
| Rasha Fahad Al-Ameer | Board Member | Non-Executive Member | (Appointed) |
| Abdullah Mohammed Al-Saad | Board Member | Non-Executive Member | (Elected) |
| Yacoub Yousef Al-Saqer | Board Member | Non-Executive Member | (Appointed) |
| Yousef Bader Al-Kharafi | Board Member | Independent Member | (Elected) |

As on 28/12/2015, Mr. Abdulmutaleb Ismael Behbehani was appointed as chief executive officer and secretary of the Board of Directors, and Mr. Mishal Abdulmohsin Al-Rashed was appointed as deputy chief executive officer.

Board of Directors Meetings:

The Board of Directors has held six (6) meetings during year 2016 as follows:

- 1st meeting: 17th February 2016
- 2nd meeting: 21st March 2016
- 3rd meeting: 2nd May 2016
- 4th meeting: 15th May 2016
- 5th meeting: 25th July 2016
- 6th meeting: 9th November 2016

The minutes of meetings have been recorded together with all the discussions and resolutions undertaken during each meeting separately. Such minutes of meetings are signed by Board's members and secretary in a special register.

Committees Emerging from the Board of Directors:

Pursuant to the Board of Directors' Decision No. 1214/2016 dated 15/05/2016, three specialized committees were formulated from the Board of Directors. Moreover, the Board has endorsed the tasks and responsibilities of each of such committees. These committees are:

| Committee | Member's Name | Capacity |
|---------------------------------------|-----------------------------|-----------------------|
| Audit Committee | Yacoub Yousef Al-Saqer | Head of the Committee |
| | Sulaiman Khaled Al-Ghunaim | Member |
| | Rasha Abdulrahman Al-Melhem | Member |
| | Yousef Bader Al-Kharafi | Member |
| Risk Management Committee | Yousef Bader Al-Kharafi | Head of the Committee |
| | Basel Saad Al-Rashed | Member |
| | Jamal Yousef Al-Babtain | Member |
| | Khaled Abdullah Al-Rabea | Member |
| Nomination and Remuneration Committee | Rashed Abdulaziz Al-Rashed | Head of the Committee |
| | Rasha Fahad Al-Amir | Member |
| | Abdullah Mohammed Al-Saad | Member |
| | Yousef Bader Al-Kharafi | Member |

Here below is a summary of the main tasks and responsibilities of these committees:

Audit Committee:

This committee performs its monitoring role which is lending assistance and support to the Board of Directors in conducting its responsibilities towards the shareholders with respect to the correctness and integrity of the financial statements, supervising and auditing the Company's accounts and financial details, ensuring the independence and integrity of the external auditor, effectiveness of the internal audit systems through the audit operations carried out by the Company's internal audit unit. In addition to ensuring the Company's compliance with the relevant laws, policies, systems and directives.

Risk Management Committee:

This committee assumes the responsibility of assisting the Board of Directors in its tasks of managing risk by devising and reviewing the strategies and policies of risk management prior to being endorsed by the Board, as well as ensuring the implementation of such strategies and policies and that they are consistent with the nature and size of the Company's business. In addition to evaluating the systems and mechanisms of determining, measuring and monitoring the types of risks which the Company could be exposed to, as well as identifying

and rectifying the shortcomings therein in order to avoid any losses that may occur, and presenting them to the Board of Directors.

It is worth mentioning that the Company has sought assistance from one of the consultancy offices approved by the Capital Markets Authority in order to help in identifying the types and nature of the risks which the Company could be exposed to, preparing a record thereto and submitting semi-annual reports on those risks in order to preserve the Company's assets, and ensuring the continuity of conducting its activity positively. Moreover, this Committee has endorsed the work guidelines of the Risk Management Unit furnished by the consultancy office.

Nomination and Remuneration Committee:

This committee assumes the responsibility of assisting the Board of Directors in its tasks of nominating and remunerating the Board's members and the executive management, reviewing the scope and plan of remuneration applicable at the Company, preparing an separate annual report on all remunerations granted to the Board members and the executive management whether in cash, benefits or privileges. Moreover, the committee assumes the responsibility of ensuring autonomy of the independent Board member.

-On 15/05/2016, the Board of Directors introduced, in the same session, two new units into the organizational structure of the Company, namely Risk Management and Internal Audit which are affiliated administratively with the Executive Management and technically with the Risk Management Committee and the Internal Audit Committee respectively. The Board has endorsed the powers and responsibilities of these two units. Moreover, a director for each unit was appointed, and also a compliance and commitment officer as on 20th June, 2016 to pursue full compliance with all requirements of the Capital Markets Authority.

-Among of the decisions undertaken by the Board of Directors signifying compliance with the rules of governance, it has adopted a decision on 15th November 2016 ordering some regulations and policies that are already applied at the Company, which are:

- Rules and ethics of professional conduct.
- A policy on the relation with and rights of shareholders and stakeholders.
- Procurement policy.
- Social responsibility policy of the Company.
- Disclosure and transparency policy.
- List of the Board of Directors' jurisdictions.
- A policy on the framework of evaluating the performance of the Board of Directors and the Executive Management.
- Remuneration Policy.

Integrity of the Financial Reports

In line with the requirements of corporate governance, the Executive Management has submitted a declaration and undertaking on its responsibility towards the Board of Directors with respect to presenting the annual financial statements and reports, as well as the correctness, accuracy and inclusiveness of the information and data contained therein and also its attachments, and that such financial statements and reports are presented in a correct and fair manner according to the international accounting standards.

After discussing and endorsing the financial statements, the Board of Directors in turn presented a declaration and undertaking on the financial reports as well as its responsibility for the correctness and integrity of all annual financial statements and reports of the Company.

Promoting Professional Conduct and Ethical Values

The Board of Directors has endorsed the codes and ethics of professional conduct in line with the regulatory requirements to limit the incidences of conflict of interest. For this purpose, the Board is keen on implementing the highest standards and values that provide integrity to the Company as whole, the Executive Management and the staff, as they indicate the codes of conduct and ethical standards to be followed by the various stakeholders in the course of executing the Company's business. The Board of Directors also assumes the task of monitoring and managing any potential conflict of interest which the Company may encounter, including the exploitation of the Company's resources and the misuse of jurisdictions and powers.

Dealings with Affiliated Parties:

The policy of dealings with affiliated parties explains the guiding principles on how to execute and manage dealings with the affiliated parties, whether such dealings are between the Company and the Board members, or with its subsidiaries, affiliated parties, Executive management or staff. Such policy abides by the regulatory standards as well as the international accounting standards for financial reporting.

Transparency and Disclosure of Information:

The Company is committed to provide accurate, complete and updated information to the shareholders, in line with the legislative and regulatory requirements within the framework of transparency. The Company guarantees implementing integrated practices and procedures on disclosure of substantial information, and the possibility of providing the public with the announced information instantly and accurately.

For this purpose, the Company has adopted a policy on transparency and disclosure of substantial information, which reflects all disclosure requirements (financial, non-financial and regulatory disclosures).

Stakeholders Rights:

The Company continued implementing well-defined procedures on managing open dialogue and communication with its stakeholders, as well as adopting transparency in communicating with them, and the level and extent of information to be disclosed.

Company's Social Responsibility:

Among the other similar companies, Kuwait Cement Company has been the pioneer in lending attention to social responsibility, where the Company is seriously striving to abide to by developing and deepening its role in the society, and by realizing social development as one of the key aspects of its mission and objectives. Among the key achievements of the Company, for example but not limited to, are the following:

Project on utilizing the used tires as source of conventional fuel in the kilns for Clinker production:

Kuwait Cement Company has succeeded in utilizing the used tires as a source for conventional fuel without causing environmental or operational changes, through an experiment

considered the first of its kind to be carried out by an industrial company in Kuwait, thus it was the pioneer in doing that.

This accomplishment was realized through a training program held in the Company's plant at Shuaiba area, with participation from the Public Authority for Environment and the Public Authority for Industry, and under the supervision of "Fraunhofer" Institute for Environment, Safety and Energy Technology which is the largest organization of applied research in Europe, based in Germany.



A part of the training course was held at the headquarters of the Environment Public Authority under the supervision of the Fraunhofer Institute for Environment, Safety and Energy Technology, Germany.



A group photo of the first training program in Kuwait for the burning of used tires in cement factory in Shuaiba industrial area.

Considering that Kuwait is one of the largest sites of accumulation of used tires in the world, as reports indicate that there are more than 20 million used tires on lands of high-value in the Arhiya district, and this number is increasing daily at a rate of three thousand tires, hence, Kuwait Cement Company is contributing effectively to dispose of the accumulation of these tires and its harmful impact on safety, public health and environment in the State of Kuwait.

Company's attainment of the quality mark and ISO 9001: 2008 certificate

Kuwait Cement is the only national company that manufactures the cement product as complete in the State of Kuwait, hence, it shoulders the responsibility of meeting the needs of all citizens, government projects and others. As such, the Company has been striving to continue providing a product of global efficiency and quality.

In order to enhance confidence and ensure standard specifications for quality control, the Company has attained the Quality Mark from the Public Authority for Industry for its cement products. Moreover, in year 2012, it attained the ISO 9001:2008 certificate for Quality Control, which is based on using the latest means of technology as well as the best and finest raw materials required for the manufacture of cement. Therefore, our cement products are distinct as being of high quality, strength and stability in terms of specifications, and also granted such products the merit of excellence and leadership throughout the past forty eight years under the theme "Quality means ... Kuwaiti Cement", in addition to the accreditation of the Public Authority for Housing Welfare and the Ministry of Public Works for its cement products as national product.

Quality Mark Logo



ISO 9001:2008 Logo



Review Report on Internal Control Systems (ICR)

Emanating from Kuwait Cement Company's keenness to comply with the requirements of corporate governance - 15th Edition - Articles 6 - 9, an independent consultancy office approved by the Capital Markets Authority was commissioned to review the Company's Internal Control Systems (ICR).

In addition to the aforesaid, a special section concerned with the rules of companies' governance was set up on the electronic website of Kuwait Cement Company.

A handwritten signature in blue ink, appearing to read "Rashed Abdulaziz Al-Rashed".

Rashed Abdulaziz Al-Rashed
Chairman

Policy of Scope of Granting Remuneration & Declarations Thereof:

- Board's Members Remuneration:

By virtue of Article No. (198) of the Companies Law and Article No. (29) of Kuwait Cement Company's Articles of Association, the total remuneration of the Board's members may not exceed 10% (Ten Percent) of the Company's net profit after deducting depreciation, reserves and profit distribution of at least 5% (Five Percent) of capital to the shareholders. The independent Board member may be excluded from the maximum limit of remuneration upon decision from the Ordinary General Assembly. The members of the Company's Board have been earning remuneration for attending the Board's sessions and for their membership in the committees emanating from the Board, which has been less than the specified limit as they used to earn nearly 5% (Five Percent) for many years. Taking into account the Board's efforts and scope of work, including the number of meetings to be attended, the remuneration granted to the Board's members shall in all cases be subject to the Companies Law in the State of Kuwait. The total remuneration of the Board members for the fiscal year ended on 31/12/2016 amounted to KD. 665,000, of which KD. 190,000 is for their membership on the Board of Directors, and KD. 120,000 for their membership in the committees emanating from the Board of Directors, and the remaining balance of KD. 355,000 constitutes other privileges for the Board of Directors.

- Remuneration of the Executive Management and Financial Manager:

The remuneration policy prevailing at the Company is consistent with the specified strategic objectives, which aims at attracting, maintaining and encouraging all its staff and chiefly those with educational and professional competence and also skills and knowledge, thus reflecting on the enhancement of risk management and constant profitability, in accordance with the performance standards and annual assessment being applied.

The table below shows the remuneration details in Kuwaiti Dinar:

| Staff Categories | Number of Staff | Salaries & Privileges | Annual Remuneration |
|--|-----------------|-----------------------|---------------------|
| Executive Management & Financial Manager | 8 | 354,491 | 246,000 |

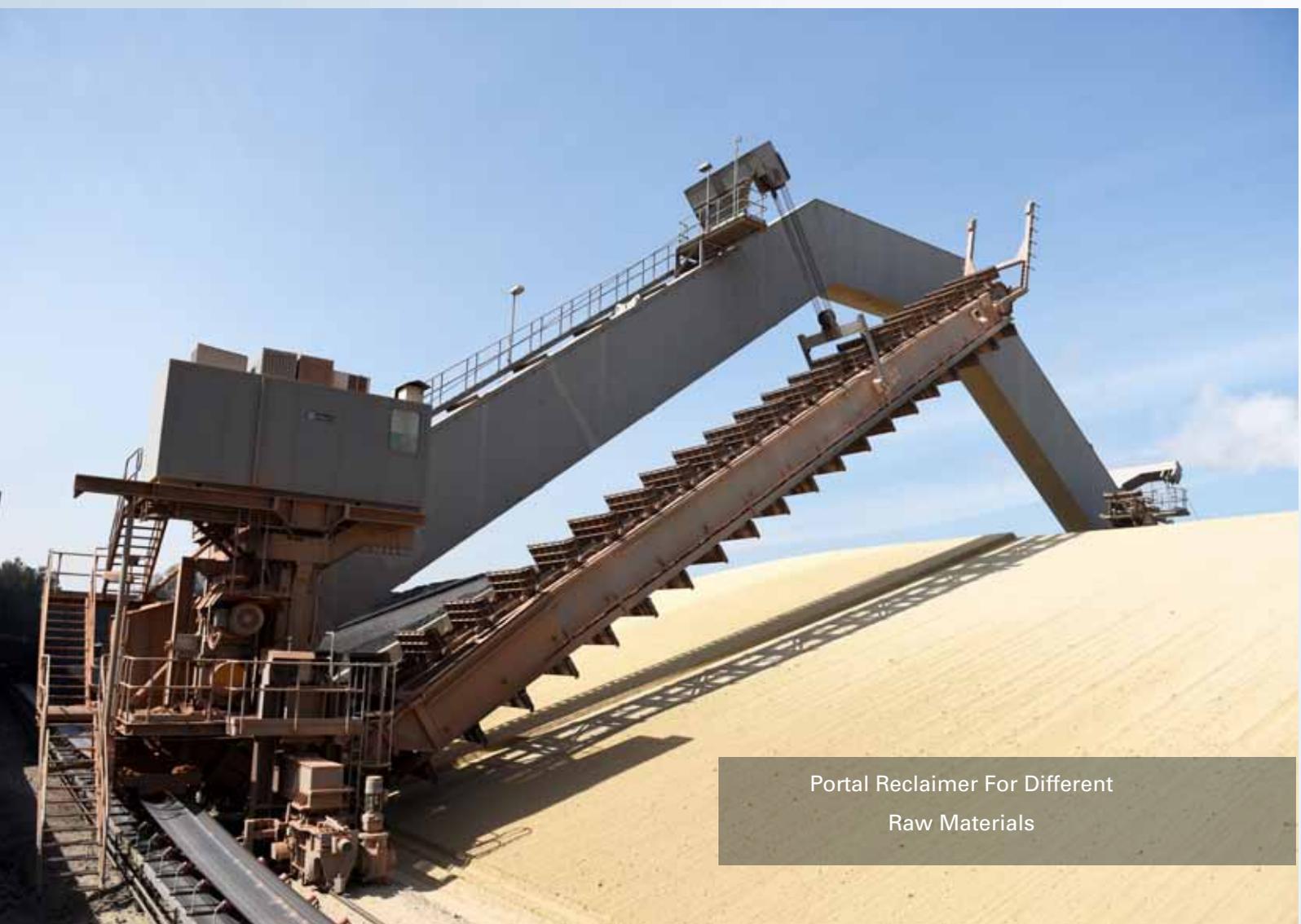
These remunerations are subject to the approval of the Shareholders' General Assembly.

14 March 2017

Nominations & Remunerations Committee
Kuwait Cement Company K.P.S.C.



Deep Pan Conveyor Transporting Clinker
From Cooler to Clinker Silos



Portal Reclaimer For Different
Raw Materials

Board of Directors Declaration and Acknowledgment Concerning

The Consolidated Financial Statements
of Kuwait Cement Company for Year 2016

The Board of Directors of Kuwait Cement Company K.S.C.P., declares its responsibility for the reliability and integrity of all consolidated annual financial reports and statements, which include the consolidated financial position, consolidated income statement, consolidated comprehensive income, consolidated statement of changes in equity, consolidated cash flow statement, and notes to the consolidated financial statements as of 31 December 2016, and that they have been prepared according to the international accounting standards approved by the Capital Markets Authority, and that the company keeps the accounting records and documents appropriately. Also, its responsibility for providing an effective control system in the company, and that the board members bear the responsibility if any of the company's consolidated financial reports and statements fail to honestly reflect its actual consolidated financial position as well as the results of its business and its consolidated cash flow.

Moreover, the Board of Directors declares that the Executive Management has made available for the auditors all the reports, records, documents and information necessary to conduct the audit on the company's consolidated financial statements, and enable them to examine all the papers and documents, and also made available all the information the auditors deemed necessary to carry out their task. They also declare that the company's consolidated financial statements reflect honestly and clearly the actual consolidated financial position of the company, as well as the results of its business and its consolidated cash flow.

Furthermore, the company's Board of Directors acknowledges the correctness, accuracy and completeness of the information and reports revealed in the company's consolidated financial reports and statements as well as its attachments, and that they were presented properly and fairly, and that they are considered in accordance with the international accounting standards approved by the Capital Markets Authority.



Rashed Abdulaziz Al-Rashed
Chairman