



شركة الخزف السعودية
Saudi Ceramic Company

ANNUAL REPORT
2015

الرجل
الرجل
الرجل

LOCATIONS



Head Office:

Riyadh, King Fahad Road

P.O. Box 3893

Riyadh 11481, Saudi Arabia

Tel.: 4644244 Fax: 4627569

Sales Management:

Tel.: 4644244

Fax: 4652124

Marketing Department:

Tel.: 4644244

Fax: 4610147

Central Region:

Regional Sales Department:

Tel.: 4644244 Ext. 1720

Fax: 4652124

Olaya Showroom: 4644244

Takhassusi Showroom: 4880395

Malaz Showroom: 4770715

Rawdah Showroom: 2784360

Badeha Showroom: 2674507

Kharj Road Showroom: 2133518

Al Sahafa Showroom: 4151546

Al Narjess Showroom: 0503499031

Al Rayah Showroom: 4644244

Western Region:

Regional Sales Department:

Tel.: 6586565 Fax: 6058842

Altahlaya Showroom: 6690055

Al Hameen Showroom: 6586565

Taif Showroom: 7376092

Al Hawya Showroom: 7376092

Makkah Showroom: 5485588

Medinah Showroom: 8488844

Eastern Region:

Regional Sales Department:

Tel.: 8340670 Fax: 8331764

Dammam Showroom: 8340670

Dammam Showroom(2): 8228267

Al Khobar Showroom: 8962644

Al Ahsa Showroom1: 5307624

Al Ahsa Showroom 2: 5804968

Jubail Showroom: 3411200

Southern Region:

Regional Sales Department:

Tel.: 2216311 Fax: 2216291

Asir Showroom: 2216311

Jazan Showroom: 3231191

Najran Showroom: 5235455

Ahad Rafidah Showroom: 2506315

Qassim & North Region:

Regional Sales Department:

Tel.: 3819009 Fax: 3814872

Buraidah Showroom: 3819009

Unaiza Showroom: 3655005

Rass Showroom: 3511399

Hail Showroom: 5340068

Tabuk Showroom: 4238965

Sakaka Office: 6261556

Export Sales:

Tel.: (01) 4644244 Ext. 1610

Fax: (01) 2177672

Dubai Sales Office:

Tel.: 00 971 4 2666584

Fax: 00 971 4 2666594

Sanitary Ware Plant

Tel: 4981030

Fax : 4981832

Ceramic Tile Plant

Tel: 2650265 Ext. 2112

Fax: 2650265 Ext. 3180

Water Heater Plant

Tel: 2650265 Ext. 3015

Fax: 2650265 3046

E-mail: info@saudiceramics.com

Website: www.saudiceramics.com

عضو اللجنة الوطنية للشركات المساهمة السعودية



Custodian of the Two Holy Mosques
King Salman Bin Abdulaziz Al-Saud



His Royal Highness
Prince Mohammed Bin Naif Bin Abdulaziz Al-Saud
Crown Prince, Deputy Prime Minister And
Minister of Interior



His Royal Highness
Prince Mohammed Bin Salman Bin Abdulaziz Al-Saud
Deputy Crown Prince, Second Deputy Prime
Minister And Minister of Defense





Board of Directors

- ① **Saad Ibrahim Al-Moajel**
Chairman
- ② **Khalid Saleh Al-Rajhi**
Board Member
Chairman of Executive Committee
- ③ **Ali Saeed Al-Khuraimi**
Board Member
Executive Committee Member
- ④ **Abdullaziz Abdul Karim Al-Khereiji**
Board Member
- ⑤ **Abdullah Mohammad Joligem**
(Public Investment Fund)
Board Member
Executive Committee Member
- ⑥ **Sami Ibrahim Alessa**
(General Organization for Social Insurance)
Board Member
- ⑦ **Abdul Mohsin Abdul Rahman Al-Sweilem**
Board Member

Acting Chief Executive Officer

- ⑧ **Mr. Ali Saleh Al-Naim**





Chairman's Speech

Sirs / Shareholders of Saudi Ceramic Company

Greetings,

I welcome you to the thirty-ninth regular Assembly, and I am glad to put in your hands the annual report of Saudi Ceramic Company for the financial year finished on 31/12/2015,

Despite the general downturn conditions and in particular regional circumstances, which have led to a decline in export sales in 2015 compared to 2014, overall sales revenue in 2015 increased by 2.26% with an increase in gross profit of 3%. However, due to lower miscellaneous income compared to 2014 of only SAR 21.7 million, net profit for 2015 decreased.

The Company's manufacturing units worked at full operational available capacities according to the market needs. Sanitary ware production output increase by 2%, electrical water heaters increased 6.5% and total production of tiles accounted for 86.6% of 2014 production, again in line with market requirements.

The Company continues to take a leading role in the rationalization of water and electricity consumption of its products, with most of its range of WC's modified to operate efficiently using only 3 liters of water. The Company is now working on the conversion of the remainder of its WC range to use only 3 liters. The Company also continues its production of 'SMART' and solar energy electric water heaters designed with energy saving features.

As planned, the Company is now in the commissioning and early production stages of its 2nd Factory electrical water heater plan expansion, new red brick plant and 2nd new sanitary-ware plant. The Company continues to invest and use state-of-the-art global equipment and manufacturing technology to maintain quality and performance of its production processes.

In the area of labor, Saudization and training remain a priority, and the Company has continued its efforts, in coordination and cooperation with the Human Resources Fund, to attract national labor and localize jobs. The number of Saudi employees in 2015 reached 1,067 accounting for 26% of the total Company workforce. The company continues to invest in employee training programs and during the year appointed two batches of new trainees totaling 78 people. The Company also sent some 767 employees on various training courses, of which 653 were trained in-house in the Company's training center and the remaining 114 in other Kingdom-wide training centers.

In relation to employment of Saudi women, the Company now employs 33 females in various roles across the business and the Company has provided all the requirements necessary to ensure their privacy and respect in accordance with the teachings of Islamic law and Saudi Arabia regulations.

In conclusion, this event provided an opportunity to appreciate and thank the Custodian of the Two Holy Mosques, the Crown Prince, the Deputy Crown Prince and our government for the support and assistance provided to our Company over the last 12 months. I would also like to thank the Company's customers inside and outside of the Kingdom for their continued trust in the Company and its products.

With Best Wishes,

Saad Ibrahim Al-Mojel

Chairman, Board of Directors

Board of Directors' Report

This report for the Ordinary General Assembly to be held on Tuesday 5th Rajab, 1437H (12th April 2015) at 7:00 P.M. – at King Salman Hall, Sheraton Hotel, Riyadh.

Dear Shareholders,

The Board of Directors is pleased to welcome and thank you for accepting its invitation to attend the 39th Ordinary General Assembly providing us an opportunity to present to you the annual report of Saudi Ceramics for 2015. This report includes, together with the financial statements, the Company's financial position as at 31 December 2015, as well as relevant income & cash flow statements, changes in shareholders equities and explanatory notes to the year end.

The Company Activity:

The Company's activity is the manufacture and sale of various types of ceramic products (ceramic tiles, porcelain tiles, sanitary ware and accessories), electrical water heaters, various components, imported equipment, machines and complementary materials. The net income for the ceramic products and sanitary ware in 2015 represents some 81.7% of the Company's operational profit and water heaters 18.3% of these profits.

The Company Products Results:

The tables below shows the increase in net profit for the year compared to 2014, which increased marginally, share dividend and revenue percentages by geographic area:

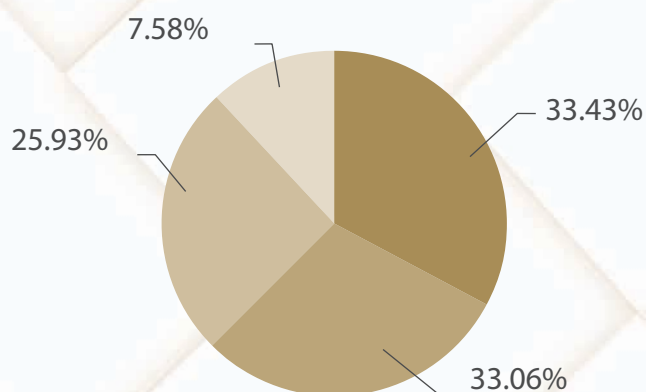
	2014'000 SR	2015'000 SR
Gross profit	563,964	581,980
Operating profits	280,709	286,072
Net profit	310,222	283,817
Shared dividend	6.20	5.68

- The main reason for the increase in gross profit and operating profit for the year 2015 compared to last year 2014 is the increase in sales for the year 2015.
- The main reason for the drop in net profit for 2015 compared to last year 2014 is the lower miscellaneous income and increase Zakat for 2015 compared to 2014.

Geographic Analysis of the Company's Revenue:

- Riyadh revenues represent 33.43% of the company's sales
- Makkah and Madina and Taif revenues are 33.06% of the company's sales
- The revenues of the other regions within the Kingdom of Saudi Arabia are 25.94%
- Export revenues are 7.58% of the company's sales.

Riyadh Revenues
Makkah, Madina and Taif Revenues
Other Regions Revenues
Export Revenues



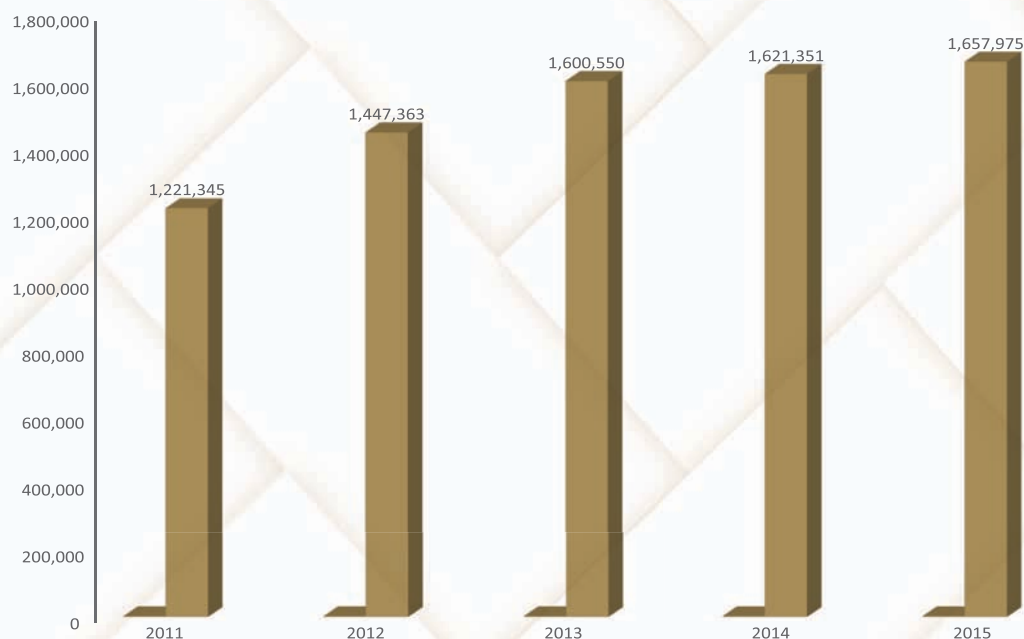
Sales Comparisons with 2014:

Despite the decline in export sales during 2015, to 7.58% of the total sales compared to 11.93% in 2014 was due to regional conditions. However, the company's total sales increased in 2015 by 2.26% compared to sales in 2014 and achieved a new record of SAR 1,658 million. The following is a statement of the company sales for the last five years, which shows an average annual growth rate of 6.3%.

Year	Sales '000 SR
2011	1,221,345
2012	1,447,363
2013	1,600,550
2014	1,621,351
2015	1,657,975



The company sales for the last five years '000SR:



Saudi Ceramics continue to sell through a network of 30 showrooms distributed in most cities across Saudi Arabia. During the year, work was completed on a new showroom in Narjas, Riyadh. In addition, sales continued to grow through our wide network of distributors and wholesalers across the Kingdom as well as to various international markets. The company continues to export its sales to new international markets and in 2015 the sales reached to Haiti state and export revenues reached SAR 136 million.

Company's Factories:

During 2015, the Company's manufacturing facilities operated at almost full production capacity with no exceptional breakdowns or disruptions. Tile plant production achieved 86.4% for ceramic and porcelain products compared to the last year, whilst electrical water heaters increased 6.5% and sanitary wares 2%, respectively compared to 2014.

Rationalization of Water and Energy Consumption:

The Company continues to take a leading role in a national trend towards water and energy reduction with the re-design, conversion and manufacture of sanitary-ware WC's with water flushing volumes of only 3 liters. These works developed according to Ministry of Water and Electricity approval. Currently, Saudi Ceramics is working on the conversion of the remainder of its WC designs. In addition, Saudi Ceramics continues to promote energy saving electronic (SMART) water heater as well as solar water heater products.



Factory Expansions:

- The company has completed most of the stages of the second plant of sanitary ware project and the remaining equipment is under commissioning. The company expects to start manufacturing before the end of the first quarter of 2016.
- The fundamental stages of the expansion of the second electrical water heater plant designed to increase production capacity by 20% was completed in 2015 and the company expects to reach the full capacity of the project by the end of the first quarter of 2016.
- The company successfully completed the pilot operation of the red brick factory project at the end of January 2016 and the plants output is being systematically increased to reach full capacity by the end of the second quarter of 2016.
- In all its projects, the Company continues its policy of investing in state-of-the-art manufacturing technologies and in addition to its expansion plans and growth in production output, continues to focus on, and give the priority to the quality.

Risks Management:

Due to its commercial activity, Saudi Ceramics continues to face certain economic and operational risks such as deficiencies in skilled manpower, stoppage of natural gas supply, power failure and volatility in key raw material prices. Such risks are faced by all manufacturing businesses, and although relatively rare for Saudi Ceramics, the Company mitigates these risks by proactive management to avoid, or minimize, their impact on business performance. The practice of "dumping" by competitors, by some foreign countries, whether in local or regional markets, is also a commercial risk, which we must take into consideration.

The risks arising from financial operations such as the risks of currency fluctuation, interest on loans, bank facilities, the provision of liquidity risk and credit risk presented

to customers, the company's management believes that not all of the above risks are critical and important, but are proactive in monitoring their impact. The company has monitored the potential fluctuations in interest rates by conducting agreements with banks to fix interest rates, the agreement value was amounted with SAR 470 Million on 31/12/2015, and this agreement will last until 06/07/2017. The company's management is working to ensure that sufficient funds are available to meet any due obligations by providing bank facilities and an alignment between periods of the customers balance collection and supplier's balances repayment periods. The company avoids the credit risk by depositing its money in financial banks of high reputation and the company's management does not expect the presence of significant credit risk may result from it. The company has a broad base of customers and is keen on obtaining sufficient collateral from clients, monitor and follow up the movement of their accounts. The company also monitors the prices changes, currency fluctuations and takes the protective actions by fixing the foreign currency rates.

Manpower, Saudization & Training

The Company continues to cooperate fully with the Human Resources Fund, within the framework of the Saudization scheme, to attract more nationals into the workforce. Throughout 2015 the Company entered into 2 Agreements with the Human Resource Fund to recruit 34 jobs, and they are already appointed as at the 31 December 2015. The Company has also signed a vocational training in internal recruitment department for 44 trainees for three month. 767 employees have been trained through the various training courses, where 653 trainees have been trained at the training center of the company and 114 trainees received the training at the training centers within The Kingdom of Saudi Arabia in and 81 of them have been trained through the cooperative training.

The numbers of nationals employed by the Company are 1067 an increment of 3% more than at the beginning of 2015 and represent a 26% Saudization level.

In the area of employment of Saudi women, the Company fulfills all the requirements necessary to ensure the privacy and respect for women in accordance with the principles of Islam and applicable Saudi Arabia laws. At present, 33 women are working in various Company departments by (14%) higher than at the beginning of 2015.

Accounting Policies Used by the Company:

Saudi Ceramics applies accounting policies that are conforming to accounting standards issued by the Saudi Commission for Legal Accountants and the Saudi Organization for Certified Public Accountants.

The Transition to the Application of International Accounting Standards and Stages Plan

Based on the resolution of Capital Market Authority No. S/01/383/16, dated on 03/04/1437 H corresponding to 13/01/2016 AD, containing the need to include the report of the Board of Directors for the fiscal years 2015 and 2016 with the details of the application of international accounting standards on the financial statements prepared for the financial periods beginning on 1/1/2017.

The following show the stages of implementation of the plan:

1. May, 2015 : Specialist consulting office was selected to assist in the transition to the application of international accounting adopted by the Saudi Organization for Certified Public Accountants standards.
2. June, 2015: Consulting office began to examine the financial statements of the company and its accounts.
3. October, 2015: Train the employees of Finance Department on international standards through specialized courses.
4. March, 2016: Preparation of first definitive financial statements for 2015 for the company to follow the international standards adopted by the Saudi Organization for Certified Public Accountants for internal purposes.
5. As of April, 2016: Preparation of interim financial statements of the company and in accordance with international standards adopted by the Saudi Organization for Certified Public Accountants for the quarters of 2016 for internal purposes.
6. March, 2017 : Preparation of the final financial statements for the year 2016 according to international standards adopted by the Saudi Organization for Certified Public Accountants for internal purposes.
7. During 2017: The issuance of interim financial statements for the quarterly periods and the final of 2017, according to International Accounting Standards adopted by the Saudi Organization for Certified Public Accountants.

Associate Companies and Main Activity

1. Natural Gas Distribution Company - a Saudi joint venture company, with its main activity is purchasing and distribution of natural gas to factories in the 2nd Industrial City in Riyadh.
2. Ceramic Pipes Company - a Saudi joint venture company with its main activity in the manufacture of ceramic vitrified pipes with a factory in the 2nd Industrial City in Riyadh.
3. Ceramic Investment Company - a Saudi limited liability company established in Riyadh in collaboration with Ceramic Pipes Company (Affiliate Company) with a fully paid up capital of SAR 500,000. Its main activity is import, export, marketing services, wholesale and retail trading.

Shares & Debt Instruments Issued by Associate Companies

1. The capital of Natural Gas Distribution Company (NGDC) is SAR 25 million as the value of 2.5 million shares, the value of each share is SAR 10 . Ceramic pipes Company owns 396,667 shares with value of SAR 3,966,670 by 15.87% of the company capital. NGC didn't issue any debt instruments.
2. The capital of Ceramic Pipes Company (CPC) is SAR 193 million. The value of 2.5 million shares, the value of each share is SAR 10 . Ceramic Company owns 9,65 million shares with value of 96.5 million SR by 50% of the company capital . Ceramic pipes Company did not issue any dept credits any debt instruments.

Ceramic Pipes Company experienced liabilities because of delays in commercial production and the lack of technical expertise, where production capacity did not reach

to the targeted capacity and these challenges still exists. Saudi Ceramic Company has losses of SAR 23.9 million during 2015 as its share of liabilities of Saudi Ceramic Company.

On the 29 December 2014 the Board of Directors of Saudi Ceramics recommended to acquire the remaining shareholding of CPC after the preparation of the required memorandum of understanding for the General Assembly, and in the case of consent from all parties, to determine a fair value. During the meeting of the Board of Directors of Saudi Ceramics on 18/05/2015 decided to cancel this recommendation due to the failure to reach to agreement. The Board of Directors approved the application and request of the Board of Directors of Ceramics Pipes Company that Saudi Ceramics Company provides the administrative support for Ceramics Pipes Company and this will not impact financially on the results of Saudi Ceramics Company.

The VP of Financial & Administrative Affairs has been appointed to act on behalf of the resigned CEO.

The company announced on 19/4/2015 that the management has accepted the resignation of the CEO, Mr. Abdul-Karim Ibrahim Alnafie as of 01/07/2015 due to the resolution of the Board of the Saudi Industrial Development Fund to appoint him as the Director General of the Fund. With affect from 30 of June the Board of Directors has decided to assign the VP of Financial & Administrative Affairs, Mr. Ali Saleh Al-Naim as Acting CEO of the company from 01/07/2015, until the appointment of full time CEO. Mr. Ali Al-Naim has previously held several positions in SCC for more than 20 years.

Dividend Policy

Net profits of the Company are distributed after all expenses and charges are deducted as follows:

1. Retaining provision for Zakat.
2. Retaining 10% net profits as a statutory reserve. The General Assembly may cease this when the reserve reaches half the capital value.
3. From the remaining profit, 5% of the paid up capital is distributed as a shareholders dividend.
4. Then 7.5% of the remaining quantum is allocated as awards for the Board of Directors according to applicable regulations, which is consistent of 17,3 million SR in (2015) compared to 1.4 million SR. with a maximum bonus of SAR 200,000 per member.
5. Based on a recommendation from the Board of Directors, the General Assembly may decide to distribute a part of the remaining profits to the shareholders as an additional dividend.
6. When determining the portion of share in the net profit, the General Assembly may choose to create other reserves by an amount that will ensure sustainability or the distribution of fixed profits to shareholders, as far as possible.

Ownership of Major Shares Holding According to Article (30) of Registration & Listing Rules

There is no major shareholder having the right to vote who notified the Company during 2015 of such rights in accordance with Article 30 of Registration & Listing Rules and the Company did not receive any such notification during 2015.

Board of Directors:

According to the Company's Articles of Association, the Board of Director members are appointed by the General Assembly of shareholders for a period of three (3) years. The current members were appointed by the General Assembly meeting on 01/04/2013 for terms of three (3) years through a majority voting method.

The following shows the names of members of the Board of Directors and their shares, as well as the change in their ownership during 2015.

No.	Member Name	Shares		No. of shares (Wife & Dependent Children)	
		31/12/2015	31/12/2014	31/12/2015	31/12/2014
1	Mr. Saad Ibrahim Al-Moajel	301,333	226,000	5,000	3,750
2	GOSI	8,099,029	6,074,272	—	—
3	General Investments Fund	2,700,249	2,025,187	—	—
4	Mr. Khalid Saleh Al-Rajhi	60,245	1,000	—	—
5	Mr. Abdullah Mohsin Abdul Rahman Al-Sweilem	2,000	1,500	—	—
6	Mr. Abdulaziz Abdulkarim Al- Khereiji	10,000	7,500	—	—
7	Mr. Ali Saeed Al-Khuraimi	1,333	1,000	—	—

Senior Executives' Shares:

No.	Member Name	Shares No.		Shares No. (Wife & Dependent children)	
		31/12/2015	31/12/2014	31/12/2015	31/12/2014
1	Mr. Ali Saleh Al Naim	2,000	1,500	1,000	750
2	Mr. Ibrahim Al-Haidary	—	—	—	—
3	Mr. Mohammed Abdullah Al-Megbel	—	—	—	—
4	Mr. Mohammed Abdul Rahman Al-Kaoud	—	—	—	—
5	Mr. Eid Abdullah Al-Anazi	—	—	—	—

Saudi Industrial Development Fund Loans:

The Company obtained loans from the Saudi Industrial Development Fund under the terms of a unified long-term contract to finance expansion projects in the areas of tiles, sanitary-ware, water heaters and red bricks through the granting and mortgaging all fixed assets for these plants for the benefit of the Fund. The repayments of these loans are semi-annual installments of unequal value.

The Movement of Fund loans account during the year 2015 as follows:

SAR ('000)	
201,591	Value of loans balance on 01/01/2015
64,165	Amount received during 2015
60,720	Amount paid during 2015
205,036	Balance at the end of 2015

The credit of unused fund facilities from Saudi Industrial Development Fund (SIDF) on 31 December 2015 was SAR 56 million. The value of the due installments to the fund during 2016 shall be SAR 54.61 million .

The Board would like to take this opportunity to express its gratitude to the SIDF, and to those in charge of it, for supporting the Company projects.

Local Bank Loans (long and short-term)

Saudi Ceramics obtained bank loan facilities (short and long-term) from local banks for financing Murabahas granted to the Company and secured against promissory notes in favor of the banks with the value equal to these loans.

The Movement of Fund loans account during the year 2015 as follows:

SAR ('000)	
664,933	Balance of the bank loans as 01/01/2015
300,000	Amounts received from loans during 2015
223,688	The deducted amount of the loans during 2015
741,250	The balance at the end of 2015

The value of the due installments to the fund during 2016 shall be SAR 222.5 million . These loans don't include any short term loan.

Debt Instruments, Option Rights, Transfer Rights

The Company has no transfer or subscription rights under transferable debt instruments for stocks or rights option, or subscription right notes, or similar rights issued or granted by the Company during 2015. The Company does not have any recovery, purchase, or cancellations made by it for any recoverable debt instruments.

The Board of Directors Meetings during 2015:

No.	Member Name	18/2	18/5	5/10	1/12	28/12	Total	Attendance rate
1	Mr. Saad Ibrahim Al-Moajel	✓	✓	✓	✓	✓	5	100%
2	GOSI Represented by Mr. Sami Ibrahim Al-Essa	✓	✓	✓	✓	✓	5	100%
3	Public Investments Fund (represented by Mr. Abdullah M. Al-Joligem)	✓	✓	✓	✓	✓	5	100%
4	Mr. Khalid Saleh Al-Rajhi	×	✓	✓	✓	✓	4	80%
5	Mr. Abdul Mohsin Abdulrahman Al-Sweilim	✓	✓	✓	✓	✓	5	100%
6	Mr. Ali Saeed Al-Khuraimi	✓	✓	✓	✓	✓	5	100%
7	Mr. Abdulaziz Abdulkaraim AlKhraiji	✓	×	✓	✓	✓	4	80%
Total		6	6	7	7	7	33	94.3%

- The Board of Directors held its 5 meetings and the attendance rate reaches to 94.3%
- The board members mentioned above were elected by the General Assembly held on 01/04/2013 for the current session and duration of three years.

Conflict of Interests

- There is no material (direct or indirect) conflict of interest for any of the Board members, CEO or Finance Manager for any business or contracts made to the benefit of the Company during 2015 with the following exceptions:
- Company within its normal business deals with its related parties to buy gas from the natural gas distribution company (associate investor), also dealing with a porcelain company for pipes (associate investor). Note that Saudi Ceramics is dealing on the same commercial terms as other parties. The following are details of the assets and transactions with related parties during 2015:
- Natural gas distribution company Saudi Ceramic Company in its Board of Directors Mr. Abdul-Karim Ibrahim Al-Nafie, who occupied the post of CEO of Saudi Ceramics until 30/06/2015. Despite his resignation, with effect from 01/07/2015, he still represents the company in the Board of Directors of the Natural gas distribution company. Total purchases of natural gas during the fiscal year 2015 amounted to SAR 21 million and Saudi Ceramics still owes a balance of SAR 1.8 million.

- Ceramic Pipes Company and the trading during the financial year 2015 amounted to SAR 35 million, and the balance owed at the end of the year 2015 amounting to SAR 40.5 million.

The following members are the parties with a relationship to the Ceramics Pipes Company:

1- GOSI

2- Eng. Saad Ibrahim Al-Moagel

3- Eng. Khalid Saleh Al-Rajhi

- Consent for all above mentioned was taken by the Board of Directors and included in the Board's minutes of meetings and will be submitted to the General Assembly for approval.
- The Company did not offer any cash loans of any kind to any of the Directors, nor did it guarantee any loans made by any of the Board's members.
- The Company is committed to apply the regulations on the Conflict of Interests previously endorsed by the Board according to sub-section (1) clause (b) of Article 10 of the Corporate Governance Regulations.

Assignment Arrangements or Agreement

There are no assignment agreements or arrangements by which any of the Board members, CEO or Senior Executive's assign any compensations or salaries. There are also no assignment agreements or arrangements by which any of the shareholders may assign any of its profit rights.

Due Regular Payments:

- The Company submitted its annual Zakat declarations up to 2014 and obtained a final Zakat certificate for the year of 2014 and paid SAR 15.7 million.
- Zakat provision charged to the income statement for 2015 amounts to SAR 15,9 million and the balance of this provision at 31/12/2015 was SAR 15,3 million.
- Payments to GOSI against employee subscriptions for 2015 totaled SAR 18 million as of 31 December 2015.
- The Company has obtained facilities from local banks in the form of insurance letters



and documents of credit amounting to SAR 62 million as of 31 December 2015, some of which was re credited and pertaining to capital associated with factory expansions, Equipment and machinery supply contracts valued at SAR 21 million.

- The Company guarantees part of the SIDF loan granted to the Ceramic Pipe Co. (affiliate) of SAR 43 million, a proportion equal to its capital contribution (Associated Company).

Investments and Other Reserves established in favour of Company employees

Currently, there are no investments or reserves established in the interest of the Company employees.

Confirmations Made by The Board of Directors:

The Board confirms and ensures the following:

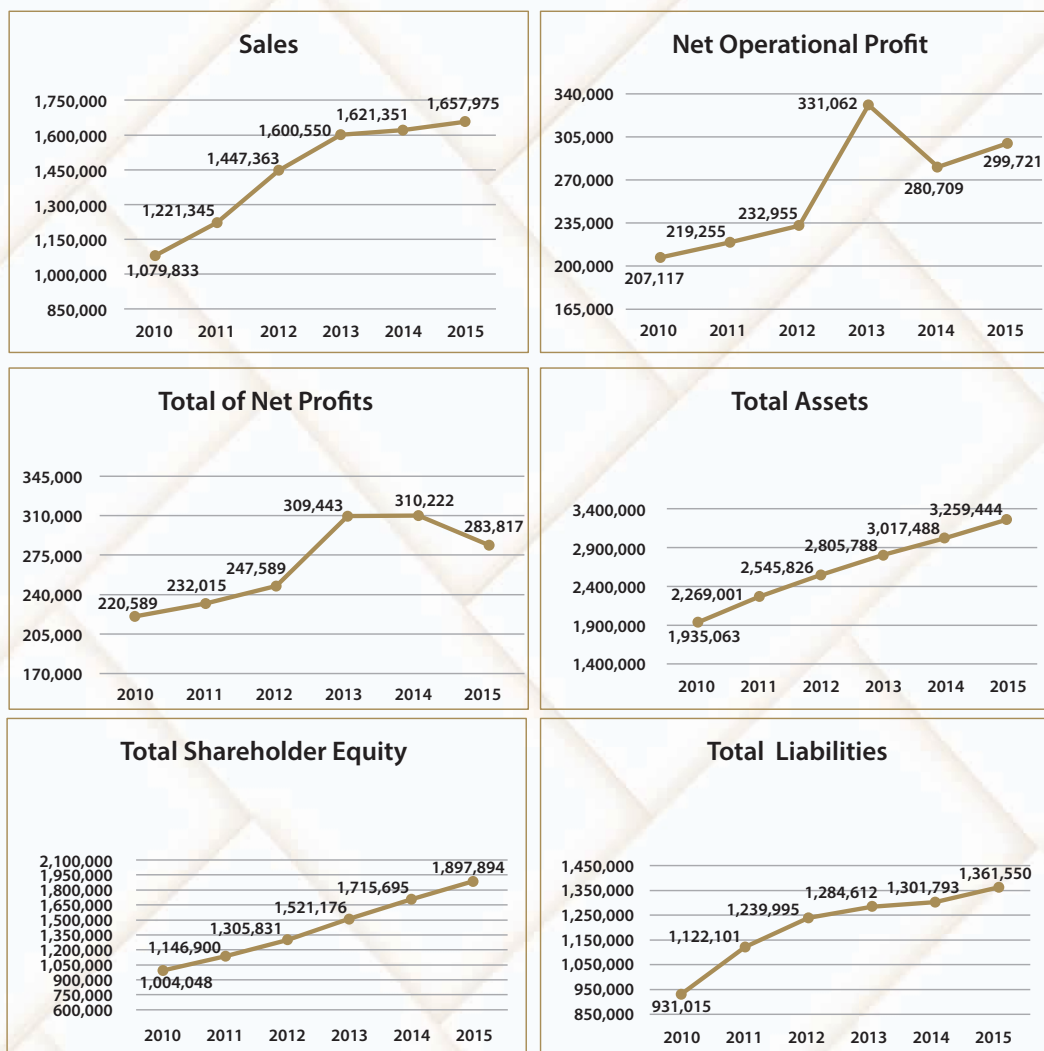
1. The accounting records have been prepared in accordance with Accounting Policies.
2. The internal control systems have been prepared on a professional basis and are operating effectively.
3. There is no doubt regarding the Company's sustainability and ability to continue to pursue its activities.

Capital Increase:

The Extraordinary General Assembly held on 27/04/2015 approved the recommendation of the board of directors to increase the corporate capital from SAR 375 million to SAR 500 million by issuing 12,5 million shares whose value is SAR 125 million by granting 1 free share for each 3 existing shares owned by shareholders listed on shareholders register as at the end of the day the Extraordinary General Assembly was held, provided that the amount of this increase of the capital shall be paid from retained profits. As a result, the number of shares will increase from 37,500,000 to 50,000,000 shares, And according to that the articles of association has been modified.



Review of the company activities during the past six years (value in thousands of riyals):



Some other financial indicators:

Financial Year	2015	2014	2013	2012	2011	2010
Net of profit to Assets	8.7%	10.3%	11.0%	9.7%	10.2%	11.4%
Net profits to Shareholders Equity	15.0%	18.1%	20.3%	19.0%	20.2%	22.0%
Total profit ratio to sales	35.1%	34.8%	36.2%	32.8%	36.6%	36.5%
Net profit ratio to sales	17.1%	19.1%	19.3%	17.1%	19.0%	20.4%
Net operational profit ratios to sales	18.1%	17.3%	19.4%	16.1%	18.0%	19.2%
Net profit share in SAR	5.68	6.20	8.25	6.60	9.28	8.82
Capital " in Million SAR"	500	500	375	375	250	250

Corporate Governance:

The Board of Directors has prepared a governance system for the Company with the Board supervising this system and monitoring its efficiency and amending it when necessary.

The Company applies in general all rules of the Corporate Governance Regulations, taking note of the following:

1. Section (d) of article (6) concerning disclosure from the persons of legal capacity acting on behalf of others (such as investment funds) by disclosing their policies for voting and their actual voting in their annual reports. The Company has not received such disclosure from any party.
2. Section (i) of article (12) concerning persons having legal capacity whom, as per the Company's Articles of Association, have the right to appoint their representatives to the Board of Directors, bearing in mind that the Company's statutes does not give this right to anyone.

Participation of the Board members in Boards of other Joint Stock Companies:

Sr.	Member name	Other shareholding companies names
1	Mr. Saad Ibrahim Al-mojel	Eastern Area Cement Company (Listed) The Arabic Company for Pipes (listed) Al Yamama for Steel industries (listed)
2	Mr. Sami Ibrahim Al-essa (GOSI)	None
3	Mr. Abdullah Mohamemd Joligem (Public Investment Fund Representative)	None
4	Mr. Khalid Saleh Al-Rajhi	None
5	Mr. Abdul Mohsin Abdulrahman Al-Sweilem	Falcom for financial services (unlisted) packaging materials manufacturing company (FIBCO-listed) Inventories and supporting services company (Unlisted) Al-Nayfat for finance (Unlisted)
6	Mr. Abdulaziz Abdulkaraim Al-Khereiji	ACE insurance Company (Listed)
7	Mr. Ali Saeed Al-Khuraimi	Ceramic Pipes Company (Unlisted)

Board of Directors Composition:

The Board of Directors is composed of the members listed below:

Sr.	Member Name	Classification
1	Mr. Saad Ibrahim Al-mojel	Non –Executive Director
2	GOSI Represented by Mr. Sami Ibrahim Al-Essa	Non –Executive Director
3	Public Investments Fund (represented by Mr. Abdullah M. Al-Joligem)	Non –Executive Director
4	Mr. Khalid Saleh Al-Rajhi	Non –Executive Director
5	Mr. Abdul Mohsin Abdulrahman Al-Sweilim	Independent
6	Mr. Abdulaziz Abdulkaraim AlKhraiji	Independent
7	Mr. Ali Saeed Al-Khuraimi	Non –Executive Director

The Board of Directors' Committees:

1. The Executive Committee:

The Executive Committee is composed of three Board members elected by the Board of Directors. Their membership in the Committee expires at a date determined by the Board of Directors, but they may be re-appointed to the Committee for a similar term.

The Executive Committee's responsibilities include the implementation of the Company's policies, monitoring its performance, approving projects & expenses within the terms of reference, limits of authority and responsibilities as defined by the Board of Directors. The Executive Committee must regularly provide minutes of meetings signed by the Committee's members and presented to the Board of Directors at its next Board meeting.

Current Executive Committee Members:

- | | |
|----------------------------------|----------|
| 1. Mr. Khalid Saleh AL-Rajhi | Chairman |
| 2. Mr. Abdullah Mohammad Joligem | Member |
| 3. Mr. Ali Saeed Al-Khuraimi | Member |

The Executive Committee held nine meetings during 2015 with an attendance rate of 100%.

2. Audit Committee:

The Audit Committee is composed of three members appointed by the Board of Directors for a term not exceeding three (3) years and not less than 1 year. They too may be re-appointed for a similar term. Membership of the Committee ends on the expiry dates of the membership of the Board of Directors. At least one of the Audit Committee members must be specialized in financial and accounting affairs as per the Audit Committee election rules approved by the Ordinary General Assembly held on 17/04/1994 and the Ordinary General Assembly held on 1/4/2007.

The main duties of the Audit Committee are to ensure the adequacy and efficiency of the internal control procedures, Integrity of financial statements and their validity as well as the recommendation and selection of the external auditors according to specific criteria, auditing of the quarterly and annual financial statements before publication. Other duties include review and comment on reports submitted by the internal and external auditors, approval of any work not included in their routine scope of work or entrusted to them. In addition, they are expected to express an opinion and provide recommendations regarding the interim and annual financial statements to be presented to the Board of Directors.

The Board of Directors appointed the current Audit Committee on 01/04/2013 as follows:

- | | |
|-----------------------------|----------|
| ■ Mr. Aiman Saleh AL-Ghamdi | Chairman |
| ■ Mr. Sami Ibrahim AL-Essa | Member |
| ■ Mr. Abdurrahman AL-Hammad | Member |

During 2015 the Audit Committee held six meetings with an attendance rate of 100%.

3. Nomination & Remuneration Committee

The Nominations and Remuneration Committee contains not less than three members appointed by the Board for a period not more than three years and not less than one year. The members may be re-appointed for a similar period, but their membership ends with that of the Board.

The main duties and responsibilities of the Nominations and Remunerations Committee are to recommend nominations to the membership of the Board of Directors in accordance with the policies, standards and procedures required for nomination to the membership, which were approved by the General Assembly on 1 April 2013. They are also required to prepare descriptions of the competencies and qualifications required for the membership of the Board, points of strength and weaknesses in the Board of Directors, potential conflicts of interest and proposals to address them. The Nomination and Remunerations Committee prepare policies regarding the compensation and remuneration of the Company Directors and Senior Executives.

The Board of Directors appointed the current Nominations and Remuneration Committee as follows:

- Mr. Abdul Mohsin Al-Sweilem Chairman
- Mr. Sami Alessa Member
- Mr. Abdullaziz Al Khereiiji Member

During 2015, the Nominations and Remuneration Committee held four meetings with 100% attendance rate.

Remunerations, salaries and allowances:

Statement	Executive Board Members '000 SAR	Non-Executive Board Members '000 SAR	Five of the senior executives who received remunerations and compensation including the CEO & Finance Manager '000 SAR
Salaries and compensations	-	-	3,060
Allowances	-	524	1,071
Periodical & Annual Remunerations	-	1,400	1,480
Incentive Plans	-	-	583
Other benefits	-	-	-
Total	-	1,924	6,194

Penalties:

During 2015, Capital Market Authority imposed two fines with total of 40,000 SAR on the company for delay in disclosure to the Tadawel on the recommendation of the Board of Directors of the General Assembly regarding the increase of the capital and for breaching the registration rules and paragraph No. (8) of the special instructions related to the company's announce for its financial results due to the unclear declaration of the company for the fourth quarter of 2013.

Establish portfolio:

The Board of Directors decided on 29/12/2014 set up an investment portfolio for contributing to the IPO's raised in the Saudi capital market in order to diversify the sources of income of the company in accordance with the regulations issued by the Capital Market Authority and to be self-financing of these IPOs. The company did not participate in any activity in this portfolio as of 31/12/2015.

The financial impact of increased energy and water prices

The company already announced on **Tadawul** website on 29/12/2015 and 07/01/2016 that the expected financial impact due to the adjustment of power and water prices, aimed at raising the efficiency of government support system is to increase the total operating expenses in the range of 4% . The impact of this increase will be reflected in the financial results of the company from the first quarter of 2016. The company will make efforts to deal with these changes to minimize their impact on the financial results of the company.

Social responsibility and environmental preservation

Because of the Company's efforts to attract qualified national Saudis and in cooperation with the Human Resource Fund and relevant governmental authorities, the percentage of number of nationals employed by Saudi Ceramics in 2015 increased to 1067, which represents 26% of the total workforce. The company also provided all requirements that ensure the privacy of the woman according to Islamic religion, according to that, the employed women percentage increased to 14%.

The Company also contributed and participated in social projects such as the erection of mosques, places of worship and Quranic Schools with the supply of required products, in collaboration with the Mosques Care Committee. The Company made several notable charity donations as well as sponsoring social development committees in various regions. In the area of education, the Company sponsored the International Education Exhibition & Forum in Riyadh. The Company actively looks to preserve and maintain a clean working environment and invests in advanced technologies it considers environmentally friendly for re-cycling and transfer of raw materials within the factories through modern technologies under the ground. The company also established a Milling Plant for the raw materials in the desert away from the residential areas.

Annual Audit Results and Internal Control Effectiveness

A professional internal control system has been developed and its efficiency and effectiveness reinforced through the following means:

1. Establishment of a specialized department called the "Internal Audit Department"
2. Appointment of an Audit Committee reporting to the Board of Directors
3. The Internal Audit department provides the Audit Committee with periodic reports, which in turn forward them to the Board of Directors. The Internal Audit department reviews and assesses the extent of efficiency and effectiveness of existing Internal Control Systems, which are also periodically reviewed by the external auditors. The Audit Committee is confident that this cycle ensures the effectiveness of the internal control measures of the Company and there are no major observations requiring attention.

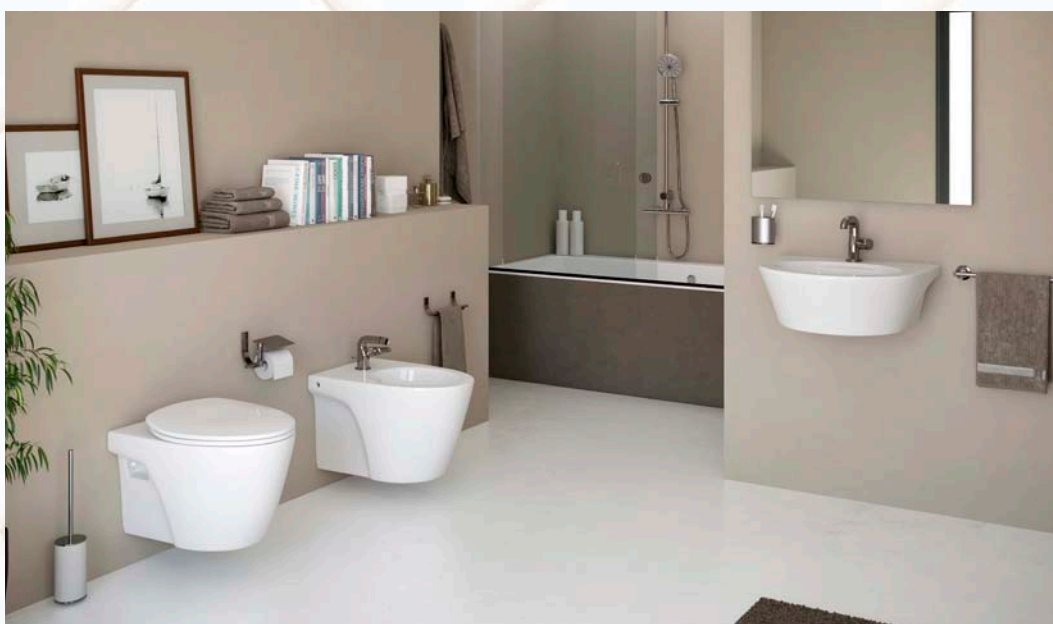
The External Auditor

Based on a recommendation from the Audit Committee, the General Assembly of Shareholders of the Company, held on 27/4/2015 has appointed Dr. Mohamed Alomari & Co. to audit the Company's 2015 accounts.

Dividend Distribution 2015

The Company's net profits for the year 2015 amounted to SAR 283,817,000 which the Board suggests to be distributed as follows:

Thousand SR	
283,817	Net Profit after Zakat
28,382	less: the transferred as statutorily reserves 10%
255,435	
25,000	Less: initial shareholder stake or 5% of the paid in capital (half Rial per share)
230,435	
1,400	Less: Board of Directors remuneration
229,035	
1,026,222	Plus: profits carried forward from 2014 after deduct the transferred to increase the capital with amount of 125 million SAR.
1,255,257	
75,000	Less: addition shareholder dividend equal to 15% of the paid up capital by SAR 1.5 per share
1,180,257	Carried forward Balance



The Board of Directors Propose the following

1. Approval of the Board of Directors' Report for 2015.
2. Ratification of the Financial Statements of the Company for 2015.
3. Approval of the proposed dividend distribution to shareholders equivalent to 20% of paid up capital at a rate of two Riyal per share. Entitlement of dividends will be to shareholders as at the close of business of the Annual General Assembly.
4. Discharge the Board of Director from their responsibilities for managing the Company during 2015.
5. Approve the deal with the Natural Gas Distribution for 2016, noting there are no special conditions despite the fact the Company has share capital in NGDC.
6. Approve the deal with Ceramic Pipe Co. noting there are no special conditions despite the fact the Company has share capital in CPC.
7. Appoint an External Auditor from those nominated by the Audit Committee to audit the financial statements for the fiscal year 2016, and the quarterly financial statements as well as determination of its professional fees.
8. Approve payment of SAR 1.4 million as remuneration to the Board of Directors at two hundred thousand Riyals (SAR 200,000) for each Board of Director member for 2015.

The Board of Directors would like to take this opportunity to thank you for attending this meeting. It also extends its sincere thanks to the Custodian of The Two Holly Mosques, Crown Prince and Deputy Crown Prince for their support and encouragement.

The Board of Directors also expresses its gratitude to the Company's Management and its personnel for their efforts that led to the achievement of these strong results. Our gratitude is also extended to the Company's customers for their continuous confidence and support.

Peace and Blessing of Allah be upon you,,

The Board of Directors

Saudi Ceramic Company

(A Saudi Joint Stock Company)

FINANCIAL STATEMENTS FOR THE
YEAR ENDED DECEMBER 31, 2015
AND INDEPENDENT AUDITOR'S REPORT

SAUDI CERAMIC COMPANY

(A Saudi Joint Stock Company)

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Dr. Mohamed Al-Amri & Co.
Accountants & Consultants

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INDEPENDENT AUDITOR'S REPORT

To: **THE SHAREHOLDERS OF
SAUDI CERAMIC COMPANY**
Riyadh, Saudi Arabia

Scope of Audit:

We have audited the accompanying balance sheet of **Saudi Ceramic Company**, "a Saudi Joint Stock Company" as of December 31, 2015 and the related statements of income, cash flows and changes in shareholders' equity for the year then ended including the related notes from 1 to 22. These financial statements are the responsibility of the Company's management and have been prepared by them in accordance with the provisions of the Regulations for Companies and presented to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion:

In our opinion, the accompanying financial statements, taken as a whole:

- present fairly, in all material respects, the financial position of **Saudi Ceramic Company** as of December 31, 2015 and the results of its operations, cash flows and changes in shareholders' equity for the year then ended in conformity with generally accepted accounting principles in the Kingdom of Saudi Arabia.
- comply with the requirements of the Regulations for Companies and the Company's Articles of Association with respect to the preparation and presentation of financial statements.

For Dr. Mohamed Al-Amri & Co.

M. A. Al-Amri

Dr. Mohamed Al-Amri
Certified Public Accountant
Registration No. 60



Jumada Al-Ola 13,1437H
February 22, 2016 G

Partners: Dr. Mohamed Al-Amri (60), Jamal M. Al-Amri (331), Gihad M. Al-Amri (362)
● Jeddah: Tel. 012 6394477, Fax: 012 6394058 ● Dammam: Tel. 013 8344311, Fax: 013 8338553, www.alamri.com
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SAUDI CERAMIC COMPANY

(A Saudi Joint Stock Company)

BALANCE SHEET

		As of December 31,	
ASSETS	Notes	2015 SR'000	2014 SR'000
Current assets			
Cash and cash equivalents	3	185,556	70,443
Accounts receivable, net	4	171,546	179,760
Inventories, net	5	737,513	668,949
Prepayments and other receivables	6	138,202	112,613
Loan to associated company		30,476	-
Total current assets		1,263,293	1,031,765
Non-current assets			
Investments and financial assets	7	81,812	105,774
Projects under construction	8	506,508	471,078
Property, plant and equipment, net	9	1,407,831	1,408,871
Total non-current assets		1,996,151	1,985,723
Total assets		3,259,444	3,017,488
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Short term loans	10	-	20,000
Current portions of long term loans	13	277,110	299,408
Accounts payable		242,652	248,535
Accruals and other liabilities	11	83,747	79,743
Provision for zakat	12	15,345	15,145
Total current liabilities		618,854	662,831
Non-current liabilities			
Long term loans	13	669,176	567,121
Employees' end of service benefits		73,520	71,841
Total non-current liabilities		742,696	638,962
Total liabilities		1,361,550	1,301,793
Shareholders' equity			
Share capital	1	500,000	375,000
Statutory reserve		215,882	187,500
Retained earnings		1,180,257	1,151,222
Unrealized gain from available-for-sale securities		1,636	2,748
Net changes in fair value of cash flow hedges		119	(775)
Total shareholders' equity		1,897,894	1,715,695
Total liabilities and shareholders' equity		3,259,444	3,017,488

The accompanying notes 1 through 22 form an integral part of these financial statements

SAUDI CERAMIC COMPANY

(A Saudi Joint Stock Company)

STATEMENT OF INCOME

	Notes	For the Year Ended December 31,	
		2015 SR'000	2014 SR'000
Net sales		1,657,975	1,621,351
Cost of sales		(1,075,995)	(1,057,387)
Gross Income		581,980	563,964
Selling and marketing expenses	14	(207,129)	(200,873)
General and administrative expenses	15	(88,779)	(82,382)
Income from main operations		286,072	280,709
Finance costs		(8,128)	(8,688)
Other revenues, net	16	21,739	46,430
Net income before Zakat		299,683	318,451
Zakat provision	12	(15,866)	(8,229)
Net income		283,817	310,222
Earnings (loss) per share in Saudi Riyal from:			
Main operations		5.72	5.61
Other operations		(0.04)	0.59
Net income		5.68	6.20

The accompanying notes 1 through 22 form an integral part of these financial statements



SAUDI CERAMIC COMPANY

(A Saudi Joint Stock Company)

STATEMENT OF CASH FLOWS

	For the Year Ended December 31,	
	2015 SR'000	2014 SR'000
Cash flows from operating activities:		
Net income before Zakat	299,683	318,451
Adjustments to reconcile net income before zakat to net cash provided by operating activities:		
Provision for doubtful debts, net	351	6,238
Provision for slow moving and obsolete items	5,400	1,300
Loss from associated companies	22,850	6,862
Depreciation	166,928	160,121
Gain from sale of property, plant and equipment	(116)	(25,944)
Employees' end of service benefit provision	16,346	15,657
(Increase) Decrease in operating assets:		
Accounts receivable	7,863	(31,650)
Inventories	(54,914)	(54,096)
Release of provision for slow moving and obsolete items	(19,050)	(6,803)
Prepayments and other receivables	(33,619)	19,231
Increase (Decrease) in operating liabilities:		
Accounts payable	(5,883)	(11,151)
Accruals and other liabilities	4,898	2,679
Cash from operations	410,737	400,895
Employees' end of service benefits paid	(14,667)	(4,089)
Zakat paid	(15,666)	(7,512)
Net cash provided by operating activities	380,404	389,294
Cash flows from investing activities:		
Dividends received from associate company	-	793
Additions to investments and financial assets	-	(37,500)
Additions to property, plant, equipment and projects	(201,462)	(238,589)
Proceeds from sale of property, plant and equipment	8,290	14,755
Net cash used in investing activities	(193,172)	(260,541)
Cash flows from financing activities:		
Net repayments of short-term loans	(20,000)	(195,000)
Net proceeds of long-term loans	79,757	207,681
Loan to associated company	(30,476)	-
Dividends and board of directors remuneration paid	(101,400)	(113,110)
Net cash used in financing activities	(72,119)	(100,429)
Net increase in cash and cash equivalents	115,113	28,324
Cash and cash equivalents at the beginning of the year	70,443	42,119
Cash and cash equivalents at the end of the year	185,556	70,443
Non-cash transactions:		
Loss from revaluation of available for sale securities	1,112	1,906
Dividends unpaid	-	792
Net changes in fair value of cash flow hedges	(894)	(103)
Project under construction and spare parts inventory transferred to property	136,668	172,589
Uncollected portion from sale of property	7,280	15,310
Transferred from Retained Earnings for increasing the capital	125,000	-

The accompanying notes 1 through 22 form an integral part of these financial statements

SAUDI CERAMIC COMPANY

(A Saudi Joint Stock Company)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share Capital SR'000	Statutory Reserve SR'000	Retained Earnings SR'000	Unrealized Gains SR'000	Fair Value Of Cash Flow Hedges SR'000	Total SR'000
For the year ended December 31, 2015						
Balance January 1, 2015	375,000	187,500	1,151,222	2,748	(775)	1,715,695
Dividends for 2014	-	-	(100,000)	-	-	(100,000)
Stock dividends for 2014	125,000	-	(125,000)	-	-	-
Board of directors remuneration for 2014	-	-	(1,400)	-	-	(1,400)
Net income for the year	-	-	283,817	-	-	283,817
Transferred to statutory reserve	-	28,382	(28,382)	-	-	-
Unrealized loss from available for-sale securities	-	-	-	(1,112)	-	(1,112)
Net changes in fair value of cash flow hedges	-	-	-	-	894	894
Balance at December 31, 2015	500,000	215,882	1,180,257	1,636	119	1,897,894
For the year ended December 31, 2014						
Balance 1, January 2014	375,000	180,703	961,697	4,654	(878)	1,521,176
Dividends for 2013	-	-	(112,500)	-	-	(112,500)
Board of directors remuneration for 2013	-	-	(1,400)	-	-	(1,400)
Net income for the year	-	-	310,222	-	-	310,222
Transferred to statutory reserve	-	6,797	(6,797)	-	-	-
Unrealized loss from available for-sale securities	-	-	-	(1,906)	-	(1,906)
Net changes in fair value of cash flow hedges	-	-	-	-	103	103
Balance at December 31, 2014	375,000	187,500	1,151,222	2,748	(775)	1,715,695

The accompanying notes 1 through 22 form an integral part of these financial statements

SAUDI CERAMIC COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015

1. ORGANIZATION AND ACTIVITY

Saudi Ceramic Company, ("the Company") is a Saudi Joint Stock Company established by Royal Decree No. (M/16) on Rabi Thani 25, 1397H (corresponding to April 14, 1977G), registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010014590 issued in Riyadh on Safar 15, 1398H (corresponding to January 24, 1978G).

The Company is engaged in the production and sale of ceramic products, water heaters and their components, The Company is also involved in the import of related machinery, equipment and other accessories.

These financial statements include the assets, liabilities and the financial results of the Company and its branch (Desert Mines) under Commercial Registration No. 1010277510 issued in Riyadh on Dhul Hijjah 21, 1430H (Corresponding to December 8, 2009G) which is engaged in the production of silica sand, zircon powder, dolomite, feldspar and other materials, which are raw materials for the Company's production.

The authorized and fully paid-up capital of the Company is SR 500 million, divided into 50 million shares of SR 10 each. The extraordinary general assembly in its meeting dated 27/04/2015 approved increasing the capital from SR 375 million to SR 500 million by issuing 12.5 million shares amounting to SR 125 million by issuing one share for each 3 outstanding shares, transferred from retained earnings.

The financial year of the Company commences on January 1 and ends on December 31 of each calendar year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared under the historical cost convention (except for investments in associates and investments in available for-sale securities which are recorded as per the accounting policies noted below) on the accruals basis of accounting, in accordance with generally accepted accounting principles applicable in the Kingdom of Saudi Arabia. Significant accounting policies adopted in the preparation of these financial statements are summarized below:

Accounting Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of estimates and judgments which might affect the valuation of recorded assets, liabilities and the disclosure of contingencies at the balance sheet date. Although these estimates are based on the best information available to management at the date of issuing these financial statements, the actual end results might differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, balances and deposits with banks, and other highly liquid investments with maturities of 90 days or less from their purchase date.

Accounts Receivable

Accounts receivable is stated net of provisions. Provision is made for accounts receivable where recovery is considered doubtful based on the Company's approved policy.

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined on a weighted average cost basis. Cost of finished goods and work in process includes cost of materials, labor and an appropriate proportion of indirect overheads. Provisions for slow-moving and obsolete inventory are estimated according to company's approved policy.

Inventory items that are considered an integral part of the machinery and equipment, such as strategic and stand-by spare parts are included in property, plant and equipment.

SAUDI CERAMIC COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015

Investments in Associates

Investments in associates where the Company has significant influence over the investee's financial and operation policies, or where the Company has a long-term investment between 20% and 50% of the equity, is accounted for using the equity method. Under the equity method, the investment is stated initially at cost and adjusted thereafter for the post-acquisition changes in the net assets of the associate. The Company's share of profit in the associate company is recognized in the statement of income.

Investments in Financial Instruments

Investments in available for sale securities, which are neither held to maturity nor for trading (which are represented in stakes in other companies' capitals and investment funds), are valued at fair value and are classified as non-current assets, unless the intention is to sell them in the following year. Unrealized profit or loss resulting from changes in the fair value of available for sale securities are taken to shareholders' equity as a separate item. Permanent impairment, if any, of such investment is recognized directly in the statement of income. Revenues from such investments are recognized when declared. Fair value is determined by reference to the market value when an active trading market is available; if no active market is available, cost is considered the best substitute to fair value. Realized profit or loss resulting from sale of available for sale securities are recognized in the period incurred in addition to reconciliation of any unrealized profit or loss previously recognized. Cash dividends resulting from these securities are recognized in the statement of income when approved.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Expenditure on maintenance and repairs is expensed, while expenditure for betterment is capitalized. Depreciation is provided over the estimated useful lives of the applicable assets using the straight line method. Leasehold improvements are amortized over the shorter of the estimated useful life or the remaining term of the lease. Assets sold or otherwise disposed of and the related accumulated depreciation are removed from the accounts at the time of disposal and the related gain or loss is recognized in the statement of income. The estimated operational useful lives are as follows:

	Years
Buildings	10 - 33.33
Machinery, equipment and spare parts	10 - 12.5
Vehicles and transportation equipment	4 - 6.66
Furniture and fixtures	6.66 - 10
Leasehold improvements	4 or the remaining term of the lease, if less

Capitalization of Financing Costs

The net financing cost of the Company's borrowings is capitalized on qualified projects which require a substantial period of time to construct. Finance costs are computed by applying the capitalization rate to the average amounts spent on the projects during the period.

Employees' End of Service Benefits

Employees' end of service benefits are provided for based on Saudi Arabian Labour Law and according to the employees' service duration.

Zakat

Zakat is accrued for and payable in accordance with the regulations of the Department of Zakat and Income Tax in Kingdom of Saudi Arabia. Adjustments arising from final zakat assessments, if any, are recorded in the year in which such assessments are made.

SAUDI CERAMIC COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015

Revenue Recognition

Revenues from sales are recorded when goods are delivered and invoiced.

Expenses

Sales and marketing expenses represent salaries and wages of the sales and distribution employees, marketing campaigns, sales costs and similar expenses. All other expenses not related to production or sales are classified as general and administrative expenses. Shared expenses are allocated between selling and general expenses using a consistent basis.

Statutory Reserve

In accordance with the Regulations for Companies and the Company's Articles of Association, the Company has established a statutory reserve by the appropriation of 10% of annual net income. This reserve is not available for dividend distribution.

Impairment of Non-Current Assets

At each balance sheet date, the carrying amounts of non-current assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment loss is recognized as an expense in the statement of income immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount does not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the statement of income.

Derivative Financial Instruments

The derivative financial instruments are used when exposed to interest rate and foreign exchange rate risk, including the futures and interest rate of currencies exchange. The derivative financial instruments are recognized at fair value. All financial derivatives are carried at fair value and classified as assets when the fair value is positive, and as liabilities when the fair value is negative. When using derivative financial instruments to hedge risks of cash flows related to certain obligations or expected transactions, the effective portion of gains or losses arising from the derivative financial instruments is directly taken to shareholders' equity, and the ineffective portion of gains or losses is taken to the income statement. Any gains or losses that may arise after the recognition of the financial instrument value are being recognized. If the hedging instrument expired and hedged transactions are still probable to occur, gains and losses are retained in the shareholder's equity, and recognized in accordance with the above policy when the hedging transaction occurs. If such transaction is not probable, accumulated gains or losses, which are already recognized in shareholders' equity, are taken to the income statement.

Foreign Currency Translation

The Company maintains its accounts in Saudi Riyals. Foreign currency transactions are translated into Saudi Riyals at the rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Saudi Riyals at the exchange rates prevailing at that date. Gains and losses from settlement and translation of foreign currency transactions are included in the statement of income.

Earnings per Share

Earnings per share is calculated using the weighted average number of shares outstanding during the period. All shares of the Company are ordinary shares.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015

	As of December 31,	
	2015 SR'000	2014 SR'000
3. CASH AND CASH EQUIVALENTS		
Cash at banks	85,823	68,430
Bank deposit	98,000	-
Cash on hand	1,733	2,013
	185,556	70,443
4. ACCOUNTS RECEIVABLE, NET		
Trade accounts receivable (covered)	127,887	133,802
Trade accounts receivable (uncovered)	46,515	48,463
	174,402	182,265
Provision for doubtful debts	(2,856)	(2,505)
	171,546	179,760
Movement in provision for doubtful debts is summarized as follows:		
Balance at beginning of the year	2,505	3,067
Additions for the year	351	58
Disposal for the year	--	(620)
	2,856	2,505
5. INVENTORIES, NET		
Finished goods	315,018	326,231
Work in process	60,293	50,239
Raw materials	250,799	200,464
Purchased goods for resale	33,464	27,933
Spare parts	88,236	88,029
	747,810	692,896
Provision for slow moving and obsolete items	(10,297)	(23,947)
	737,513	668,949
Movement in provision for slow moving and obsolete items is summarized as follows:		
Balance at beginning of the year	23,947	29,450
Additions for the year	5,400	1,300
Disposal for the year	(19,050)	(6,803)
	10,297	23,947

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	As of December 31,	
	2015 SR'000	2014 SR'000
6. PREPAYMENTS AND OTHER RECEIVABLE		
Prepaid expenses	14,720	13,467
Refundable deposits	32,528	28,023
Employees' advances	2,151	1,710
Advance payments to suppliers	108,731	81,687
Others	391	145
	158,521	125,032
Provision for doubtful debts	(20,319)	(12,419)
	138,202	112,613
7. INVESTMENTS AND FINANCIAL ASSETS		
Investments in Associates		
Natural Gas Distribution Company (7A)	9,436	8,367
Ceramic Pipes Company (7B)	65,335	89,254
Ceramic Investment Company (7C)	475	475
	75,246	98,096
Investments in Available for Sale Securities		
Gulf Real Estate Company	4,200	4,200
Yanbu National Petrochemical (YANSAB)	2,366	3,478
	6,566	7,678
	81,812	105,774

Investments in Associates

7A. The Company holds 15.87% of the share capital of Natural Gas Distribution Company, "a Closed Joint stock Company" amounted to SR 25 million. The main activity of the associate is to purchase and distribute gas to the factories in the Second Industrial City in Riyadh. The investment is accounted for using the equity method since the Company has significant influence over the investee by major representation on the board of directors.

7B. The Company holds 50% of the share capital of Ceramic Pipes Company, "a Closed Joint Stock Company". The main activity of the associate is manufacturing of clay pipes. The authorized and fully subscribed share capital of Ceramic Pipes Company is SR 193 million (2014: SR 193 million). The investment is accounted for according to the equity method.

7C. During 2011, Ceramic Investment Company was established as a limited liability company in association with Ceramic Pipes Company (associate company). The paid up capital amounted to SR 500,000. The Company's share is SR 475,000 (95%) paid in full. It is engaged in the services of import, export, marketing to others, wholesale and retail in pipes and construction materials. The investment is accounted for according to the equity method since it did not start its operations since inception until to date.

8. PROJECTS UNDER CONSTRUCTION		
Tiles plant expansion	40,129	98,041
Sanitary ware plant expansion	196,367	151,989
Red Bricks project	173,773	129,217
Water heaters plant expansion	61,619	27,785
Desert Mines Project	821	17,122
Others	33,799	46,924
	506,508	471,078

Financing costs capitalized on projects under construction (PUC) during the year amounted to SR 10.7 Million (2014: SR 11.3 Million).

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9. PROPERTY, PLANT AND EQUIPMENT, NET

	Land SR'000	Buildings SR'000	Machinery, Equip- ment and Spare parts SR'000	Furni- ture and Fixtures SR'000	Vehicle & Transpor- tation Equipment SR'000	Leasehold Improve- ments SR'000	Total SR'000
Cost							
At January 1, 2015	159,884	750,268	1,707,665	70,679	87,173	17,687	2,793,356
Additions	5,735	518	6,299	4,675	12,580	-	29,807
Transferred from PUC	-	36,469	97,550	1,509	-	898	136,426
Disposals	-	-	(202)	-	(718)	-	(920)
At December 31, 2015	165,619	787,255	1,811,312	76,863	99,035	18,585	2,958,669
Accumulated Depreciation							
At January 1, 2015	-	(403,316)	(853,639)	(49,794)	(62,223)	(15,513)	(1,384,485)
Charge for the year	-	(30,478)	(116,224)	(8,524)	(11,429)	(273)	(166,928)
Disposals	-	-	-	-	575	-	575
At December 31, 2015	-	(433,794)	(969,863)	(58,318)	(73,077)	(15,786)	(1,550,838)
Net Book Value							
December 31, 2015	165,619	353,461	841,449	18,545	25,958	2,799	1,407,831
December 31, 2014	159,884	346,952	854,026	20,885	24,950	2,174	1,408,871

All plant assets are pledged to the Saudi Industrial Development Fund (SIDF) against the loan provided to the Company. Certain buildings owned by the Company are built on land leased from the Government for a period between 10 to 30 years at nominal values and are renewable for similar periods.

10. SHORT TERM LOANS

Short term loans represent the Islamic Murabaha loans offered to the Company by local commercial banks in accordance with agreed rates guaranteed by promissory notes in favour of the banks for the loan values.

11. ACCRUALS AND OTHER LIABILITIES

	As of December 31,	
	2015 SR'000	2014 SR'000
Employee accruals	40,307	40,167
Accrued expenses	20,354	17,062
Customer advances	18,868	17,382
Dividends payable	4,099	4,357
Provision for changes in fair value of cash flow hedges	119	775
	83,747	79,743

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015

	For the Year Ended December 31,	
	2015 SR'000	2014 SR'000

12. ZAKAT PROVISION

Zakat base comprises the following:

Shareholders' equity	1,493,606	1,410,607
Net adjusted income	299,683	318,451
Additions	925,495	971,740
Deductions	(2,075,012)	(2,078,752)
	643,772	622,046

Changes in Zakat provision are as follows:

Balance at the beginning of the year	15,145	14,428
Payments made during the year	(15,666)	(7,512)
Provision for the year	15,866	8,229
Balance at the end of the year	15,345	15,145

Zakat Status

The Company has submitted its zakat returns and financial statements and paid the zakat due and obtained the zakat certificate for the year 2014.

	As of December 31,	
	2015 SR'000	2014 SR'000

13. LONG TERM LOANS

Loans from Saudi Industrial Development Fund (13a)	205,036	201,591
Loans from local banks (13b)	741,250	664,938
Total loans	946,286	866,529

Less: current portion

Loans from Saudi Industrial Development Fund	(54,610)	(60,720)
Loans from local banks	(222,500)	(238,688)
Total current portion	(277,110)	(299,408)
Total non-current portion	669,176	567,121

13a) Saudi Industrial Development Fund (SIDF) Loans

The Company obtained loans from SIDF to finance its expansions in ceramic and porcelain tiles, sanitary ware, electrical water heaters plants, and red bricks project, pledging all those plants' fixed assets. The agreements with SIDF include terms related to financial ratios.

The loans are payable in unequal semi annual instalments commencing on Rabi Thani 15, 1433 H, corresponding to March 8, 2012 G, and ending on Rabi Thani 15, 1444 H, corresponding to November 9, 2022.

The SIDF un-utilized facility as at December 31, 2015 amounted to SR 56 million. The due date for utilizing these amounts is 29/12/1437 H, corresponding to 30/09/2016 G.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015

The movements in SIDF loans during the year ended December 31, were as follows:

	2015 SR'000	2014 SR'000
Balance at the beginning of the year	201,591	184,340
Loans received during the year	64,165	69,571
Settlements made during the year	(60,720)	(52,320)
Balance at the end of the year	205,036	201,591

13b) Local Banks Loans

The Company obtained long-term Islamic Murabaha loan facilities from local commercial banks for a total amount of SR 791 million for the purpose of financing the expansion of its plants. The bank facilities are guaranteed by promissory notes in favour of the banks. The loans charges are determined based on the Murabaha agreement and the loans repayments will be made on unequal semi annual instalments which commenced 30/04/2013 and will end on 01/10/2018.

The movements in local banks loans during the year ended December 31, were as follows:

	2015 SR'000	2014 SR'000
Balance at the beginning of the year	664,938	474,508
Loans received during the year	300,000	400,000
Settlements made during the year	(223,688)	(209,570)
Balance at the end of the year	741,250	664,938

	For the Year Ended December 31,	
	2015 SR'000	2014 SR'000

14. SELLING AND MARKETING EXPENSES

Salaries, wages and related costs	79,662	75,300
Freight and transportation charges	82,482	85,078
Advertising	9,222	10,006
Depreciation	12,178	11,143
Rent	10,302	9,007
Repairs and maintenance	3,010	2,909
Communications and fees	6,746	4,930
Insurance and travel	2,569	1,968
Others	958	532
Total	207,129	200,873

15. GENERAL AND ADMINISTRATIVE EXPENSES

Salaries, wages and related costs	58,470	59,676
Depreciation	7,173	7,828
Repairs and maintenance	9,608	7,915
Consumable materials and supplies	7,164	2,528
Insurance and travel	1,265	1,111
Bank charges	2,632	1,800
Others	2,467	1,524
Total	88,779	82,382

The expenses and meetings' attendance allowances for the board of directors and other committees of the board amounted to SR 710 thousand during the year (2014: SR 721 thousand).

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015

	For the Year Ended December 31,	
	2015 SR'000	2014 SR'000
16. OTHER REVENUES, NET		
Loss from associates, net	(22,850)	(6,570)
Inventory provision reduction	13,649	-
Currency differences	9,815	2,687
Gain from property sales	116	25,944
Revenues from scrap sales	10,459	17,743
Rent	2,938	2,938
Others, net	7,612	3,688
	21,739	46,430

17. RELATED PARTIES

The Company in its ordinary course of business deals with some of its related parties. The Company purchases gas from its associate company, Natural Gas Distribution Co, and sell its products to Ceramic Pipes Company. Transactions with related parties are executed with terms similar to those who are not related. The details of transactions and balances of related parties during 2015 were as follows:

	Transaction Type	Balance 1/1/2015 SR'000	Transaction Value SR'000	Payments and Receipts SR'000	Balance 31/12/2015 SR'000
Natural Gas Company	Purchases	1,935	20,926	(21,054)	1,807
Ceramic Pipes Company	Various	(7,388)	(35,091)	1,978	(40,501)

18. CONTINGENT LIABILITIES AND COMMITMENTS

The Company has obtained bank facilities in the form of letters of guarantee and letters of credit from local banks amounting to SR 62 million as of 31 December 2015 (2014: SR 78 million). The letters of credit include an amount of SR 21 million (2014: SR 33 million) relating to capital commitments for the supply of machinery and equipment for the plants expansion projects.

The Company has guaranteed a portion of the Saudi Industrial Development Fund loan to Ceramic Pipes Company (associate company) equivalent to its portion in the share capital of that company for the amount of SR 40 million (2014: SR 41 million). Additionally, the Company guarantees portion of the Saudi Investment Bank loan to the associate company equivalent to its portion in the share capital of that company for the amount of SR 43 million (2014: SR 50 million).

19. SEGMENTAL INFORMATION

A segment is a major component of a business that sells/provides certain services (business segment) or sells/provides services in a particular economic environment (geographical segment) and its profits and losses are different from those of other business segments. The Company follows the business segment as a base for reporting its segment information which is consistent with its internal reporting purposes. The Company is developing a system which will provide detailed segment activity information.

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The main segments of the Company are ceramic tiles and sanitary ware, and water heaters. Since the Desert Mines (Company's branch) segment is immaterial, it is considered as a part of the ceramic tiles and sanitary ware segment. Information related to each segment is as follows:

	Ceramic Tiles And Sanitary Ware SR'000	Water Heaters SR'000	Total SR'000
For the year ended December 31, 2015:			
Total assets	2,949,252	310,192	3,259,444
Total liabilities	1,248,458	113,092	1,361,550
Net Sales	1,324,726	333,249	1,657,975
Gross income	483,918	98,062	581,980
Net income	231,953	51,864	283,817
For the year ended December 31, 2014:			
Total assets	2,724,999	292,489	3,017,488
Total liabilities	1,213,125	88,668	1,301,793
Net Sales	1,289,815	331,536	1,621,351
Gross income	474,373	89,591	563,964
Net income	269,521	40,701	310,222

20. FINANCIAL INSTRUMENTS AND RISKS MANAGEMENT

Commission rate risks

Commission rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing commission rates on the Company's financial position and cash flows. The Company is subject to the risk of fluctuating commission rates on its liabilities bank loans and facilities that carry commission. The Company is working on minimizing the risks on commission rates through monitoring the expected fluctuations in the commission rates and takes safety measures when needed, it participates in short-term agreements with one of the local commercial banks to fix commission rates (the outstanding agreement at the date of these financial statements is SR 470 million, valid until June 7, 2017). The management believes the risks associated with commission rates fluctuations are immaterial.

Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from the inability to sell a financial asset quickly at an amount close to its fair value.

The Company's liquidity risk arises from the short-term loans, the current part of long-term loans, accounts payable, notes payable, and other liabilities. The Company limits liquidity risks through having bank facilities available and ensuring settlement of payable and receivables on due date.

Credit risk

Credit risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. For the Company, financial assets that are subject to this risk include cash in banks and customers' balances. The Company deposits its funds in banks with a high grade of confidence and high credit. The management does not expect any risk from the banks' deposits. For the accounts receivable the management does not expect high risks from these balances as the Company has a wide base of customers who belong to several commercial and industrial sectors. The management also receives adequate guarantee from its customers and regularly monitors and evaluates its outstanding.

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Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Management does not expect any risk in the US Dollar operations since the exchange rate of the US Dollar is fixed against the Saudi Riyal. The management monitors fluctuations in foreign currency exchange rates and believes that the Company is not significantly vulnerable to exchange rate changes.

Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The financial assets of the Company consist of cash and cash equivalents, accounts receivable and other assets while the financial liabilities are consist of loans, accounts payable, notes payable and other liabilities. Management does not believe that the fair values of the Company's financial instruments differ materially from their carrying values.

21. PROPOSED DIVIDENDS

The extraordinary general assembly in its meeting dated 27/04/2015G approved increasing the capital from SR 375 million to SR 500 million by issuing 12.5 million shares amounting to SR 125 million by issuing one share for each 3 shares, transferred from retained earnings. The general assembly, in the meeting held on 27/4/2015G, approved cash dividends to the shareholders for the year 2014 amounting to SR 100 million, which is SR 2 for each share (including share dividends) and SR 1.4 million as remuneration for board of directors.

The board of directors, in their meeting on December 28, 2015, proposed cash dividends to the shareholders for the year 2015 amounting to SR 100 million which is SR 2 for each share as representing 20% of share par value.

22. APPROVAL OF FINANCIAL STATEMENTS

The board of directors approved these financial statements on February 22, 2016G.





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