



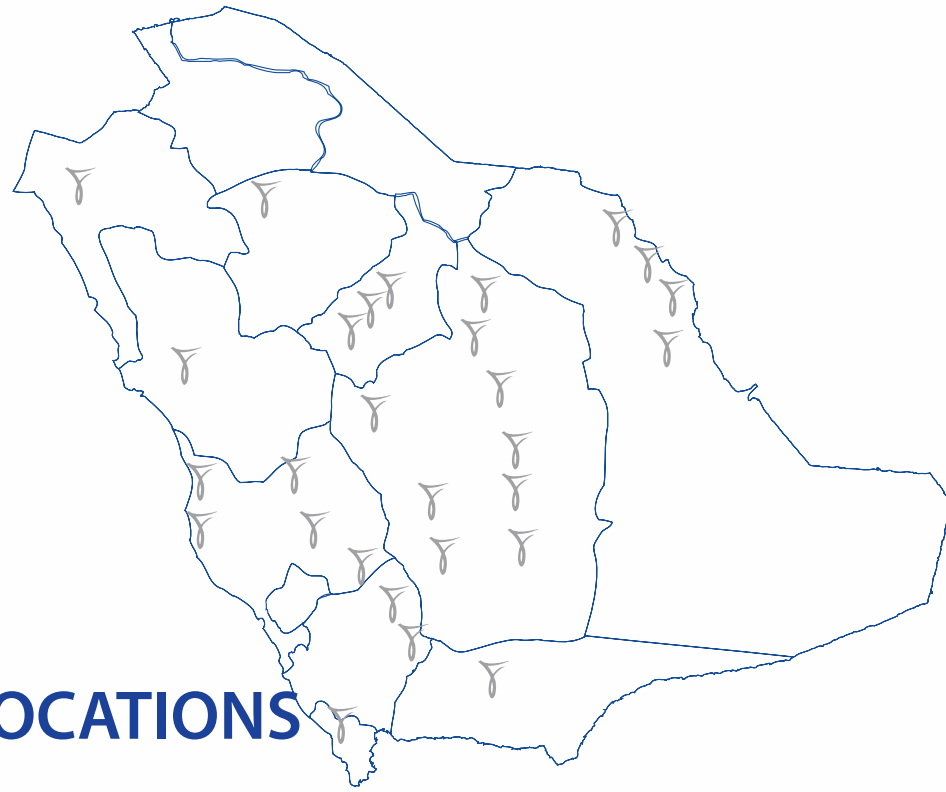
شركة الخزف السعودية
Saudi Ceramic Company

ANNUAL REPORT 2016

الرجاء
الرجاء
الرجاء



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. 1705
Fax: 4652124
Olaya Showroom: 4644244
Ext. 1622
Takhassusi Showroom: 4880395
Malaz Showroom: 4770715
Rawdah Showroom: 2784360
Badeha Showroom: 2674507
Khaj Road Showroom: 2133518
Al Sahafa Showroom: 4151546
Al Narjess Showroom: 4644244
Ext. 8171 & 8172
Al Rayah Showroom: 4644244
Ext. 8163 & 8164

Western Region:

Regional Sales Department:

Tel.: 6292424 Fax: 6299202
Altahlaya Showroom: 6690055
Al Hameen Showroom: 6292424
Taif Showroom: 7376092
Al Hawya Showroom: 7290056
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: 3655008
Rass Showroom: 3511399
Hail Showroom: 5340068
Tabuk Showroom: 4238965

Export Sales:

Tel.: (01) 4644244 Ext. 1200
Fax: (01) 2177672

Dubai Sales Office:

Tel.: 00 971 44 537303
Fax: 00 971 44 537315

Sanitary Ware Plant

Tel: 4981030
Fax : 4983970

Ceramic Tile Plant

Tel: 2650265 Ext. 2112
Fax: 2650265 Ext. 3180

Water Heater Plant

Tel: 2650265 Ext. 3015
Fax: 2650265

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







Abdulkarim Bin Ibrahim AL-Nafie
(General Organization for Social Insurance)
Chairman



Saad Bin Ibrahim Al-Moajel
Board Member



Abdulaziz Bin Abdulkarim Al-Khereiji
Deputy Chairman



Abdullah Bin Mohammed Joligem
(Public Investment Fund)
Board Member



Sami Bin Ibrahim Al-Essa
(General Organization for Social Insurance)
Board Member



Abdullah Bin Turki Al-Sedairy
Board Member



Abdulrahman Bin Abdulgadir Bajunaid
Board Member



Hamad Bin Abdulaziz Al-Sheikh
CEO



Chairman Message

Dear Esteemed Shareholders,

Peace and Allah's mercy and blessings be upon you

I would like to welcome you, and thank you, for attending the Extraordinary General Assembly. I have the pleasure to introduce to you the Saudi Ceramic Company Annual Report for the fiscal year ended December 31, 2016.

Despite the tough conditions experienced by the domestic markets and the national economy, the company has maintained its position in the domestic market, and even increased its sales and market share. The company continued development and establishment for the future and beyond the current stage, and enhanced its role in achieving the Kingdom vision 2030, which will provide the national industry with a lot of opportunities, and the company is seeking to take advantage of them through the development of its products and services.

The year 2016 had witnessed a significant decline in the local markets in general due to lower government spending and stoppage or delay of a lot of public and private projects, and the lack of liquidity on the part of contractors, as well as many sectors were affected due to rationalization of government spending, resulting in lower demand on building materials including the company's products, in addition to the continuation of dumping the local markets from Chinese, Indian and Spanish companies, particularly in tile market. In addition to the decrease of some European currency prices had led to a negative impact on the competitiveness of the company's water heaters in both the international and European markets. In these circumstances, which is expected to continue through 2017, the Company has practiced the policy of maintaining its market share which has led to a decline in profit margin resulting in significant recession in the company's results during 2016 compared to the year 2015.

To maintain its market share, distribution channels and to enhance its competitive position for the coming stage, the Company's factories have worked at maximum capacity, according to the needs of the market, where the production capacity of tiles and porcelain factories has reached 94% of 2015 production, and water heaters have reached 96% of 2015 production, while the production of sanitary ware factories had increased by 3% compared to 2015.

In late 2016, the red brick factory began marketing its production of high-quality red brick, which received considerable acceptance despite the drop in the markets and the severe competition in the local market. The total production of red brick during 2016,

has reached 136,000 tons. The Company's continued to have access to new brick markets and develop the products to fulfill the needs of different projects.

The Company continues its efforts to rationalize water and energy consumption and keeping its leadership in this field through the various products. The company is adhere to develop its water heaters according to the highest levels for using less electric energy, as well as to develop and increase its production of solar-powered water heaters, and smart electric water heaters.

In order to reduce costs and use alternative energy sources, with the expectation of the increase in domestic energy prices, the Company has signed a contract with an international company specialized in energy recycling for the re-use of heat resulting from some tile factories kilns instead of using natural gas, which will reduce the cost of energy in those operations by 15% and contribute to the preservation of the environment.

As the manpower is the Company's most valuable asset, the Company is carrying out practical and systematic plans for the Saudization of jobs and attract more Saudis to meet the Company's need in coordination and cooperation with the Human Resources Fund. The number of Saudi employees has reached (1,067) by the end of 2016. During 2016 the Company has carried out (110) training courses benefited (1,562) trainees of which (78) of these courses have been organized in the training center of the Company and benefited (1,401) trainees. The rest of training courses were held in other locations inside or outside the Kingdom of Saudi Arabia. Moreover, the Company is seeking to increase the number of Saudi women in various Company operations, where necessary steps have been taken to guarantee suitable places for work. By end of 2016, the number of Saudi's women reached (35) employees, working in various fields of the Company.

As we look forward to the bright future of the Company with the efforts made by the Government to develop the industry and promote local products in projects and support export, I extend on your behalf and on behalf of the employees of the Company, with great thanks and gratitude to the Custodian of the Two Holy Mosques and HRH the Crown Prince and the Deputy Crown Prince and our government for supporting and backing the national industry. Our gratitude is also extended to the Company's customers inside and outside the kingdom for their continuous confidence and support. The Company also expresses its gratitude to the management and its personnel for their honest efforts, and pray Almighty God to guide all to what pleases Him.

Peace, mercy and blessings of Allah,

Abdulkarim Bin Ibrahim Al-Nafie

Chairman of the Board of Directors

Board of Directors' Report:

To the Extraordinary General Assembly to be held on Monday, 22 Rajab 1438 H (according to Hijri Year) corresponding to April 19, 2017, 8:00 P.M at Bin Turki hall, Sheraton Hotel, Riyadh.

Dear Esteemed Shareholders,

It is the Board of Directors pleasure to welcome you and thank you for accepting its invitation to attend the Extraordinary General Assembly giving an opportunity to present to you the annual report 2016. This report includes, together with the financial statements, the Company's balance sheet as at 31/12/2016, as well as income statement, cash flows, changes in shareholders equities and notes to the financial statements.

The company's Activity

The main activity of the Saudi Ceramic Company (the Company) is manufacture and selling various types of ceramic products (ceramic tiles, porcelain tiles, sanitary ware and accessories), as well as electric water heaters and its components, red bricks, plastic products complementary to the company's products, extract and process raw materials. Furthermore, the Company import equipment, machinery, raw materials and complementary materials needed for its activity.

Sectorial Information:

The Net profit of ceramic tile, sanitary ware sector (and sanitary accessories), red brick and other sectors (except water heaters) amounted to 39 million Riyals. The net profit of water heaters sector amounted to 34.8 million Riyals, whereas the share of the Company losses as a result of the losses of associate company (Ceramic Pipes Company) reached 49.3 million Riyal.

Results of the Company's Operations:

The following table shows the company's operations results in 2016 compared to 2015:

	2016 ('000 Riyals)	2015 ('000 Riyals)
Gross profit	360,500	581,980
Operating profit	89,667	286,072
Net profit	24,541	283,817
Dividends per share (Riyals)	0.49 Riyal/share	5.68 Riyal/share

- The main reason for the decrease in gross profit and operating profit in 2016 compared to previous year 2015, is the sales decline of 21% as a result of lower demand which affected by general economic situation in the Kingdom, and due to the decline of public and private projects. The decline in currency prices in Europe also affected negatively on the competitive position of the Company in the international markets, in addition to the continuation of dumping in the domestic market, resulting in lower sales price as the Company seeks to maintain its market share, which led to a

decline in profit margin. The decline in 2016 results is also attributed to higher cost of funds, decrease of other income and the higher provision of Zakat. On the other hand, the sales and marketing expenses and general and administrative expenses were decreased compared to previous year 2015.

Drop of oil prices:

The region's economy was affected by the drop in oil prices, which reflected on the local markets directly or indirectly. The National Transformation Program of the Saudi Government to rationalize government spending has also led some government agencies to delay the approval or implementation of their projects and reduce spending. In addition, some local real estate development projects were also affected.

Affects on Construction sector:

A large number of government projects contractors were affected by the delays in government payments, or project postponement or project extensions, which affected the Company's sales to such contractors. This also affected prices of the Company's products because of the desire of some contractors to reduce their spending in the current period.

Change in buying behavior:

The Company's consumer-oriented markets have been affected by allowances amendments of some government employees due to Government plan to rationalize government spending. The adjustments made to the fees and prices of some products and services affect the liquidity and spending level of construction materials and reduced the company's sales of certain categories as some people tend to buy products of lower price.

Dumping the Saudi Market:

The Saudi market faces systematic dumping by Indian, Chinese and Spanish companies. This happens because there is no protection to the Saudi markets from the utilization of these companies to the domestic market. These foreign companies export their products in large quantities, which enabled it to capture a significant share of the Saudi



market with its low products prices at rates less than the selling price in other countries, or sometimes less than the cost of manufacture and shipment. Then they merchandize their products in the Saudi market, which has affected the Company and the Saudi ceramic industry in general. Despite the decline in the Saudi market in 2016, but according to the General Authority for Statistics, the imports still flow into the Kingdom. The Indian products gained a large proportion of growth in 2016.

The Company makes, individually or in collaboration with other Saudi ceramic companies, unremitting efforts to persuade concerned government agencies to provide fair opportunities to Saudi companies in the local market through developing solutions that limit the penetration of foreign companies and suppliers due to lack of government systems and action that protect the Saudi market and the Saudi ceramic industry. Dumping the products of these companies into Saudi market has greatly influenced the Saudi industry and consumer. The Company and other companies call for applying the local, regional and international regulations that prevent from the phenomenon of dumping.

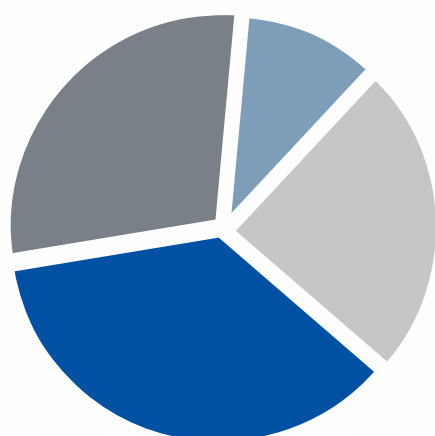
Housing projects:

Saudi Government is implementing a huge program to provide housing for citizens in all regions of the Kingdom. The Ministry of Housing has started signing contracts with real estate developers. The Company is working to provide products needed for housing projects, as the local product is low in cost and can be quickly delivered to the projects. The housing projects, when implemented, will increase the Company's sales, particularly in the final stages of those projects that are using the company's products.

Geographical analysis of the company's revenues in 2016:

Riyadh Revenues	28.83%
Makkah, Madina, and Taif Revenues	35.95%
Other Regions Revenues	24.43%
Export Revenues	10.79%

100.00%



Riyadh Revenues 28.83%

**Makkah, Madina, and
Taif Revenues 35.95%**

Other Regions Revenues 24.43%

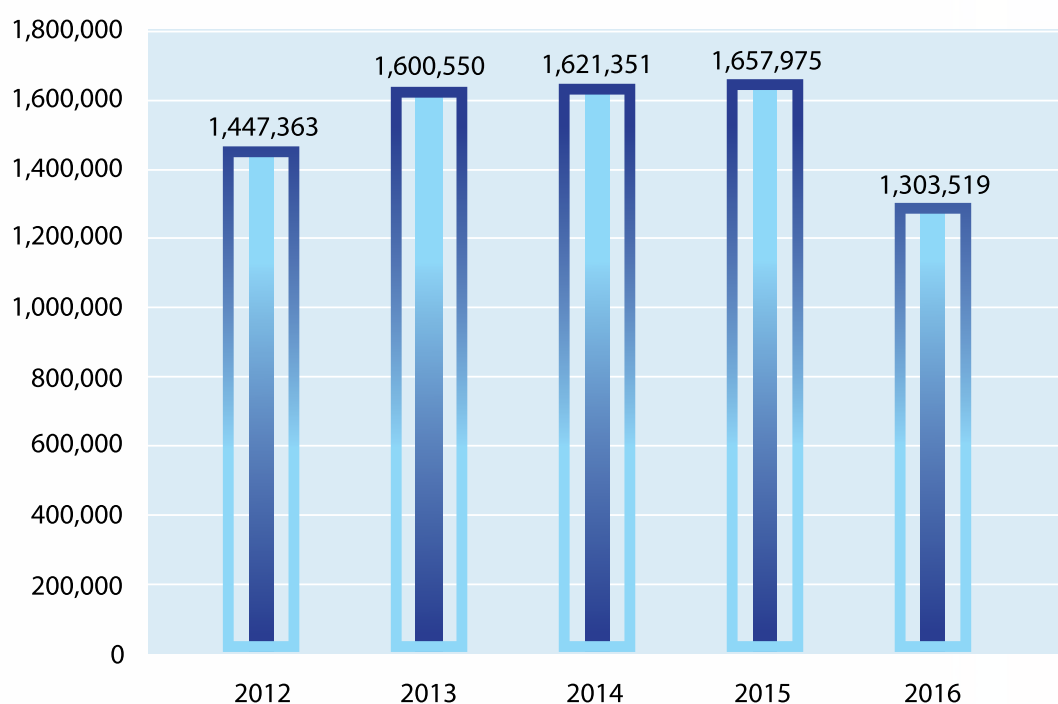
Export Revenues 10.79%

Sales:

The Company's sales declined in 2016 by 21% compared to 2015. That is due to the large decline in government and private projects. Continuation of dumping in the Saudi market, especially in ceramic products, reduced the prices of the Company's products in order to maintain the Company's share in the local market and to provide adequate liquidity for its operations, resulting in lower profit margins.

The Company's sales also affected in the international markets, particularly water heaters, due to the decline of some international currencies that led to reduce the Company's products competitiveness in international markets, which has always been a key market for the electric water heaters.

Sales '000 SR



Comparison of sales Values (Five Years):

Year	Sales '000 SR
2012	1,447,363
2013	1,600,550
2014	1,621,351
2015	1,657,975
2016	1,303,519

The Company's Factories:

During 2016, the Company's factories operated at its available production capacity according to the needs of the market. The production capacity of tiles and porcelain factories have achieved a rate of 94% of the production achieved in 2015, while Water heaters factories have achieved 96%, compared to 2015, where as the production of sanitary ware factories increased by 3% compared to 2015. The previous year, thanks God, did not record any breakdowns that lead to affect production lines significantly.

Rationalization of Water and Energy Consumption:

The Company plays a major role in the field of water and energy rationalization in the Kingdom of Saudi Arabia. To contribute in the national trend towards water and energy conservation and to ensure good share in its market, the Company has succeeded in developing and manufacturing toilet seats that operate very efficiently using only three liters of water complying with specifications issued by Saudi Standards, Metrology and Quality Organization (SASO). The number of water savings toilet seats types developed by the Company are (35 types of toilet seats) saving annually millions of cubic meters of water consumption in various usage. The Company continues to develop more types, in addition to providing water-saving flushing mechanism, water- saving mixers for washbasins and showers.

On the other hand, the Company has established a plant for red brick to manufacture high quality, energy-saving products, whether in residential or commercial buildings. This brick is 45% isolated compared to cement or glass bricks.

Regarding the use of energy in its operations, the Company is working to reduce the consumption of the various types of energy to reduce production costs. In the fourth quarter of 2016, the Company has signed a contract with a leading international company in the field of energy recycling, allowing the Company to reuse the heat generated by some tile factories kilns in the production processes instead of using the fuel, which will reduce the Company's consumption of natural gas and reduces cost by at least 15%. It is the third project regarding recycling energy, where the Company has already completed a similar project at the tiles factory No. (4), as well as another one in the red brick factory. This is a part of a long-term plan to reduce energy costs for the factories and recycling the heat generated by kilns and reused it in other production processes. Recycling heat project will contribute also, when completed, in improving the environmental atmosphere in the factories and the surrounding environment and achieve international standards to reduce pollution, where the Company obtained the environmental compliance certificate from the General Authority for Meteorology and Environmental Protection due to its commitment to all environmental standards in all of its operations.

The Company's efforts to rationalize the use of energy and water in its products and projects aligned with the government plan adopted by the Ministry of Energy, Industry & Mineral Resources to increase reliance on alternative sources of energy.

Factories Expansion:

The Company has completed, import, install and operation experiments of all expansions that have been done in its factories, namely:

1. The project of the second sanitary ware factory.



2. The project of expanding the second factory of water heaters.
3. The project of red brick factory.

In addition, the Company works on expanding its production capacity in the production of water-saving sanitary ware water closets, as well as expanding its capacity in the production of porcelain tiles, polished and squared ceramic tiles that produced in the current product lines.

Risk Management

Since the Company operates its industrial and commercial activities, it faces certain economic risks, such as: high rate of turnover among Saudi's labor, lack of skilled manpower, inability to obtain fuel, possibility of stoppage of natural gas supply, power failure, or raw material price fluctuation. Such risks are possible in the operation of factories, but it is relatively rare for the Company. However, the Company mitigates these risks by proactive management. It is necessary to take into consideration the non-fair competition rising from products dumping the Saudi market, which are sold in the Saudi market at prices lower than its cost or less than its price in other countries, as a result of not protecting the Saudi markets against dumping or poor quality products, despite the continuous effort the Company takes, at various levels, to draw the attention of authorities about such dumping.

The risks arising from the financial operations are: high interest rate on loans, bank facilities, provision of liquidity, credit presented to the company's customers and fluctuation of foreign exchange rates. All these risks to be taken into consideration by the Company, and are classified as inessential. The Company has signed agreements with banks to fix the interest rates, where the value of these agreements at 31/12/2016 amounted to 38 million Riyals and valid until 06/07/2017.

The Company's management is keen to ensure that sufficient funds are available to

meet any due obligations by providing banking facilities and making matching between customer balances collection periods and supplier's balances repayment periods.

The Company avoids credit risk by depositing its money in highly reputed banks, and it does not expect any significant credit risk from this depositing. The Company has a broad base of customer and is keen on obtaining sufficient collateral from clients, and monitoring and following-up their accounts. The Company is also monitoring the currency exchange fluctuations and hedging when it is needed by fixing foreign currency rates.

Manpower, Saudization and training

The Company's policy is based on attracting Saudi labor and saudization of jobs on specific scientific and methodological foundations according to the Company's needs of the workforce mentioned in the budget, and determining the job description of each function using various means and sources of major search according to qualifications and experience required. During 2016, the Company has signed (3) agreements with the Human Resources Development Fund to recruit (61) jobs, (54) people has been employed.

During 2016, the Company held (110) training courses benefited by 1.562 trainees. Those training courses consist of (78) courses held in the Company's training center, where the number of beneficiaries reached 1.401 trainees and the rest of the courses were held in training centers inside and outside the Kingdom.

On 31/12/2016, the number of Saudi manpower reached 1,067 employees representing 25% of the total workforce of the Company. Regarding the Saudi women employment, the Company has provided all requirements that ensure women's privacy and respectfulness in accordance with the Islamic Sharia law and the Saudi's regulations. The number of Saudi women employees in 31/12/2016 reached (35), working in various suitable departments.

The Company aims to double the number of Saudi labor in various locations through several programs including : increase the attraction of graduates of universities and institutes to spend their practical training period in the Company so as to attract them after graduation, carrying on training programs for graduates of public education to prepare and train them to work in the Company, where the Company has established an advanced training center to carry these programs, in addition to cooperation with the Human Resources Development Fund to attract more Saudi, and develop work environment that will help them to stay in the Company.

The Company seeks also to employ more Saudi women in suitable jobs, particularly in administrative and some production operations. The Company works with other companies to urge concerned authorities to link the second and third Industrial City in Riyadh with public transportation and metro lines to make it easier for the Saudis to join Saudi factories.

Accounting policies used by the Company

In 2016, the Company applied accounting policies that are consistent with accounting standards issued by the Saudi Organization for Certified Public Accountants. The Company is working on to complete its transformation to international accounting standards on stages accredited by Capital Market Authority.

Company's plan for applying International Accounting Standards and its Stages:

Further to what was explained in the Board's report about the results of 2015, the Board is pleased to clarify below the actual application of the International Accounting Standards on the financial statements prepared for financial periods beginning on 01.01.2017:

1. The International Accounting Standards were applied on the opening balances as of January 2016, and the financial statements for each of the first, second and third quarter of 2016.
2. There was no any material impact on the financial statements of the Company due to the application of the International Accounting Standards.
3. The Company did not face any obstacles affecting its ability to prepare its financial statements in accordance with international accounting standards except what has been explained in the Company's announcement published on 08.30.2016, regarding the lack of financial statements that are compliant with international accounting standards among associates as closed joint-stock companies, which need to issue their financial statements following international accounting standards as of 01/01/2018. Currently. The company is doing what is necessary to overcome these difficulties.
4. The Company is ready to prepare its financial statements for the first quarter of 2017, in accordance with international accounting standards during the regular period specified.

Associate Companies and its Main Activity:

1. Natural Gas Distribution Company- a Saudi joint venture limited company. Its main activity is purchasing and distributing natural gas to factories in the Second Industrial City in Riyadh.
2. Ceramic Pipes Company - a Saudi joint venture limited company. Its main activity is manufacturing and selling clay pipes. Its factory is located in Riyadh.
3. Ceramic Investment Company - a limited liability company. The company has been established in Riyadh in partnership with Ceramic Pipes Company (fully associate company), with a capital of five hundred thousand riyals paid in full. Its main activity is import, export, marketing and retail services.

Shares & debt instruments issued by associates:

1. The subscribed capital of Natural Gas Distribution Company is 50 million Riyals, as value of 5 million shares, each worth ten Riyals, paid five Riyals. The Saudi Ceramic Company owns 793,333 shares valued at 3,966,670 Riyals, which is 15.87% of the capital of the Natural Gas Distribution Company. The Natural Gas Distribution Company did not issue any debt instruments.
2. The capital of Ceramic Pipes Company is 193 million Riyals value of 19.3 million shares, each worth ten Riyals. The Saudi Ceramic Company owns 50% shares (9.65 million shares) valued at 96.5 million Riyals. Ceramic Pipe Company did not issue any debt instruments.

Ceramic Pipe Company suffers losses resulting from commercial production delay and lack of technical expertise, where the production capacity did not reach the targeted design capacity. These challenges remain. The Board of Ceramic Pipe Company is working day and night to come up with solutions to the problems facing the company, and cooperation with partners to find out effective solutions to the company's problems that contribute to its success and to protect partner's rights.

During the 2016, the Company has experienced its share of losses because of Ceramic Pipe Company losses that amounted to 24.3 million Riyals. During the third quarter of 2016, Ceramic Pipe Company re-evaluated its fixed assets and the result showed a decrease in the value of those assets in the amount of fifty million Saudi Riyals. The Board of Directors decided to allocate 25 million Riyals to cope with that decline with Saudi Ceramic Company share in the capital of Ceramic Pipe Company. The Board also discussed, at its meetings, all possible alternatives that guarantee protection to the Company's rights in Ceramic Pipe Company and develop those rights.

Naming CEO:

As a reference to the company's statement dated 30/06/2015 regarding naming Chief Executive Officer of the company, the Board of Directors has decided on 02/10/2016, to name Mr. Hamad bin Abdulaziz Al-Sheikh as a Chief Executive Officer of the Company as of 03/10/2016. Mr. Hamad bin Abdulaziz Al-Sheikh holds a master's degree in business administration. He previously worked at the Institute of Public Administration and at Saudi Ceramic Company and served as Vice Chairman of the General Authority for Tourism and National Heritage for marketing and programs.

Dividend Policy:

The annual net profit of the Company is distributed as follows:

1. 10% of net profit transferred as statutory reserves. The Ordinary General Assembly has the right to stop this when the statutory reserves reached half of the company's paid-up capital.
2. The Ordinary General Assembly, when determining net profit per share, has the right to allocate other reserves to the extent that bring prosperity to the Company or that ensure distributing steady profits as much as possible to shareholders.
3. From the remaining of the net profit, 5% of the paid up capital will be distributed to shareholders.
4. Taking into consideration the provisions established in the Article of Association and Article No. (74) of the Companies Law, Nomination & Remuneration Committee recommends the deserved reward to the members of the Board of Directors provided that not to exceed in any case, the upper limit of a system, and not to be inconsistent with the regulations and directives in force.

Ownership of major shares holding under Article (30) of Registration & Listing Rules:

There is no major shareholder having the right to vote who notified the Company during 2016 of such rights in accordance with Article 30 of Registration & Listing Rules and the Company did not receive any such notification during 2016.

Board of Directors:

In accordance with the company's Article of Association, the Ordinary General Assembly nominates the Board of Director members for a period of three years. The current members have been nominated by the General Assembly held on February 22, 2016 for a period of three years as of 01/04/2016 through cumulative voting. The following table shows the names of members of the current Board of Directors and their shares, as well as the changes in their share during 2016.

No.	Member's name	No. of shares		No. of shares (wife & dependent children)	
		31/12/2015	31/12/2016	31/12/2015	31/12/2016
1	Mr. Saad Bin Ibrahim Al-Moajel	301,333	301,333	5,000	5,000
2	GOSI represented by: Sami Bin Ibrahim Al-Essa	8,099,029	8,099,029	—	—
3	And (Abdulkarim Bin Ibrahim Al-Nafie	—	—	—	—
4	Public Investment Fund (represented by: Abdullah Bin Mohammed Joligem	2,700,249	2,700,249	—	—
5	Abdulaziz Bin Abdulkarim Al-Khereiji	10,000	10,000	—	—
6	Abdullah Bin Turki Al- Sedairy	1,000	—	—	—
7	Abdulrahman Bin Abdulgadir Bajnaid	1,000	—	—	—

Senior Executive's Shares:

No.	Executive's name	No. of shares		No. of shares (wife & dependent children)	
		31/12/2015	31/12/2016	31/12/2015	31/12/2016
1	Hamad Bin Abdulaziz Al-Sheikh	—	—	—	—
2	Ali Bin Saleh Al-Naim	2,000	2,000	1,000	1,000
3	Ibrahim Bin Mohammed Al-Haidary	—	—	—	—
4	Mohammed Bin Abdullah Al-Megbel	—	—	—	—
5	Mohammed Bin Abdulrah- man Al-Qauod.	—	—	—	—

Saudi Industrial Development Fund loans

The Company obtained a long-term loan from the Saudi Industrial Development Fund to finance expansions in ceramic tiles, porcelain tiles, sanitary ware, electric water heaters and red brick factories projects by mortgaging all fixed assets of those factories. The movement of the Fund's account during the year 2016 is as follows:

Riyals ('000)

205,036	The balance of the Industrial Development Fund loans on 01/01/2016
16,625	Amount received during 2016
54,610	Amount paid during 2016

167,051**Balance at the end of 2016**

The balance of unused facilities of the Fund's loans in 31/12/2016 amounted to 57.3 million Riyals, note that the expired date of withdrawal of those loans is 29/12/1438 H, corresponding to 09/20/2017. The due installments to the Fund in 2017 amounted to 25.87 million Riyals.

The Board would like to take this opportunity to express its thanks and gratitude to the Saudi Industrial Development Fund and to those in charge of it, for supporting the Company's projects.

Local banks loans (long and short term):

The Company obtained loans facilities (short and long-term) from local commercial banks according to Islamic Murabaha amounted to 994 million Riyals to finance expansion in the factories, granted by bonds for banks. The repayments of loans are based on semi-annual unequal value installments, and will end on 16/9/2021. The following table shows the local bank loans movement during 2016:

Riyals ('000)

741,250	balance of banks loans on 01/01/2016
253,000	Amount received during 2016
266,250	Amount paid during 2016

728,000**Balance at the end of 2016, as follows:****Riyals ('000)**

203,000	Short term bank loans
525,000	Long term bank loans

728,000

The due installments of these loans during 2017, will amount to 464.7 million Riyals.

Debt Instruments, Option Rights, Transfer Rights:

The Company does not have any transfer or subscription rights under transferable debt instruments for shares or option rights, or subscription right notes, or similar rights issued or granted by the Company during 2012. Nor is there any recovery or purchase or cancellation made by the Company for any refundable debt instruments.

Board of Director Meetings during 2016:

No.	Name	22/2	06/04	25/05	26/06	12/10	28/12	Total	% Attendance
1	Saad Bin Ibrahim Al-Moajel	✓	x	✓	✓	✓	x	4	67%
2	GOSI, represented by:								
	2/1- Sami Bin Ibrahim Al-Essa	✓	✓	✓	✓	✓	✓	6	100%
	2/2- Abdulkarim Bin Ibrahim Al-Nafie	x	✓	✓	✓	✓	✓	5	100%
4	Public Investment Fund represented by: Abdullah Bin Mohammed Joligem	✓	✓	✓	✓	✓	✓	6	100%
5	Abdulaziz Bin Abdulkarim Al-Khereiji	✓	✓	✓	✓	✓	✓	6	100%
6	Abdullah Bin Turki Al-Sedairy	x	✓	✓	✓	✓	✓	5	100%
7	Abdulrahman Bin Abdulgadir Bajnaid	x	✓	✓	✓	x	x	3	66%
8	Khalid Bin Saleh Al-Rajhi	✓						1	100%
9	Abdulmohsin Bin Abdulrhman Al-Sweillim	✓						1	100%
10	Ali Bin Saeed Al-Khuraimi	✓							100%
Total		7	6	7	7	6	5	38	90.5%



Note:

- The membership of the following members has expired, as of 02/31/2016:
- Khalid Bin Saleh Al-Rajhi, Abdulmohsin Bin Abdulrhman Al-Sweillim, Ali Bin Saeed Al-Khuraimi as of 31/3/2016.

Conflict of interest:

Members of the Board of Directors, CEO or CFO have no any material interest (direct or indirect) in the company's business or contracts during 2016, except as described below:

- The Company, as part of its normal commercial operations, deals with related parties. The company buys gas from Natural Gas Distribution Company (associate company). It has also many transactions with Ceramic Pipes Company (associate company)- note that the company deals with related parties in the same commercial terms it deals with the other parties other than associate companies. Below are balances and details of transactions with related parties during 2016:
- **Natural Gas Distribution Company:** Mr. Abdulkarim Bin Ibrahim Al-Nafie is a board member of this company, representing Saudi Ceramic Company (Chairman of the Board of Directors of Saudi Ceramic Company). The total purchases of natural gas from this company during the fiscal year 2016 amounted to 36.4 million Riyals. The amount paid to it was 35.5 million, and its creditor account in 31.12.2016 amounted to 2.8 million Riyals.
- **Ceramic Pipes Company:** The scale of business with this company, during financial year 2016, amounted to 21.8 million Riyals. At the end of 2016, its debit balance amounted to 62 million Riyals.

The following boards of director's members are related parties to Ceramic Pipes Company:

- General Organization for Social Insurance (GOSI).
- Eng/ Saad Bin Ibrahim Al-Moajel

All transactions approved by the Board of Directors, have been included in the minutes of the Board of Directors. These transactions will be recorded in the report presented by the Chairman of the Board to the General Assembly.

- The company did not provide any loan of any kind to any member of the Board of Directors, nor it guarantees any loan taken by any board member.
- The company is committed to applying the Act of conflicts of interest that previously approved by the Board of Directors, in accordance with sub-paragraph (1) of paragraph (b) of Article (10) of Corporate Governance Regulations.

Assignment arrangements or agreement:

There are no assignment arrangements or agreement by which any Board member or senior executive assign any compensation or salary, nor is there any arrangements or agreement by which the company's shareholders assign any rights of profits.

Due Regular Payment:

- The Company submitted its annual zakat declaration until 2015, and received a certificate of Zakat for the year 2015, where it had paid an amount of 20.9 million Riyal. Zakat charged on the income statement for the year 2016 amounted to 22.5 million Riyal. The allocated credit balance in 12/31/2016 was 17 million Riyal.
- The Company paid in 2016 an amount of 20.3 million Riyals to (GOSI) in exchange for employee's subscriptions.
- The Company has obtained bank facilities in the form of letters of credit and letters of guarantee by local banks of 87 million Riyals as at 31 December 2016, including funds belonging to capital commitments for contracts to supply machinery and equipment for the projects of factories expansion amounting to 35 million Saudi Riyals.
- The company guarantees Ceramic Pipes Company loan of SR 36 million (an associate company) from the Saudi Industrial Development Fund as at December 31, 2016. The Company also guarantees a 43 million Saudi Riyals from Saudi Investment Bank granted as a loan to an associate company (Ceramic Pipes Company) as at December 31, 2016.

Investments or other reserves established for the benefit of the Company's employees:

Currently, there are no investments or other reserves established for the benefit of the Company's employees:

Board of Directors Confirmation:

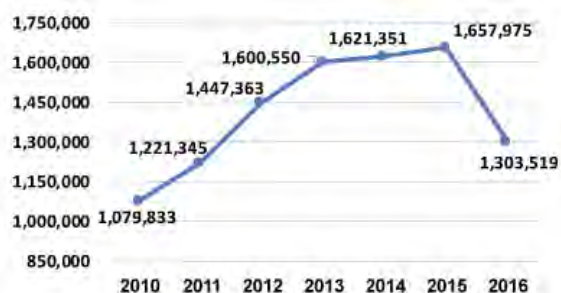
The Board of Directors confirms the following:

1. The accounting records are prepared properly.
2. The internal control system have been prepared on a sound basis and implemented effectively.
3. There is no doubt about the company's ability to continue its activity.

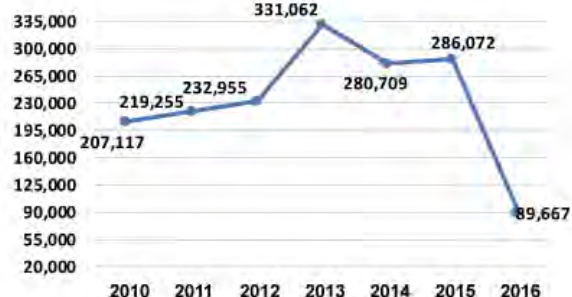


Review of the Company Activities During the Past Years

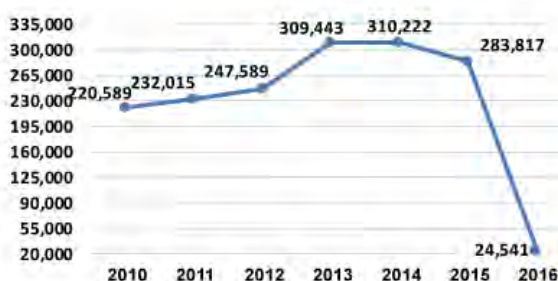
Sales



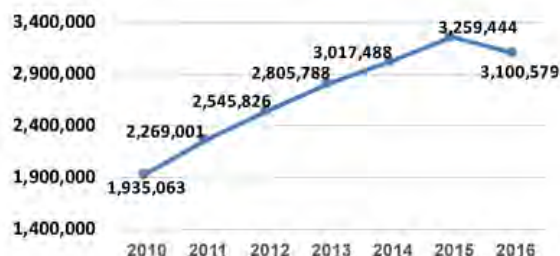
Net Operational Profit



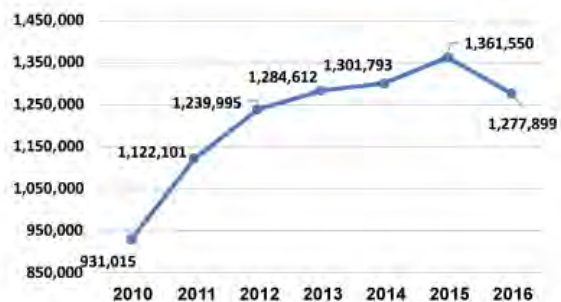
Total Net Profit



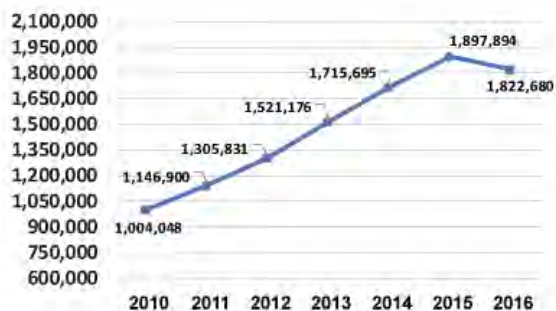
Total Assets



Total Liabilities



Total Shareholders' Equity



	2010	2011	2012	2013	2014	2015	2016
Net Profit Ratio to Assets	11.4%	10.2%	9.7%	11.0%	10.3%	8.7%	0.8%
Net Profit Ratio to Shareholders Equity	22.0%	20.2%	19.0%	20.3%	18.1%	15.0%	1.3%
Total Profit Ratio to Sales	36.5%	36.6%	32.8%	36.2%	34.8%	35.1%	27.7%
Net Profit Ratio to Sales	20.4%	19.0%	17.1%	19.3%	19.1%	17.1%	1.9%
Net Operational Profit Ratio to Sales	19.2%	18.0%	16.1%	19.4%	17.3%	18.1%	6.9%
Net Profit / Share SAR	8.82	9.28	6.60	8.25	6.20	5.68	0.49
Capital in Million SAR	250	250	375	375	500	500	500

Corporate Governance:

The company has its own internal governance system prepared by the Board of Directors who oversees the system and monitor its effectiveness. The company implements all the provisions of the Corporate Governance Regulation, taking note of the following:

1. Paragraph (d) of Article (6) concerning voting rights which stipulates that investors of judicial personality and who act on behalf of others - e.g. investment funds- shall disclose in their annual reports their voting policies, actual voting, and ways of dealing with any material conflict of interests that may affect the practice of the fundamental rights in relation to their investments.
2. Paragraph (i) of Article (12) concerning formation of the Board of Directors, which states that judicial person who is entitled under the company's Articles of Association to appoint representatives in the Board of Directors, is not entitled to nomination vote of other members of the Board of Directors.

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

Sr.	Member Name	Other Shareholding Companies
1	Saad Bin Ibrahim Al-Moajel	Arabian Pipe (listed) Eastern Cement Company(listed) Al Yamamah Steel Industries Co (listed) Al Yamamah Steel (listed) Ceramic Pipe Company (listed)
2	Abdulkarim Bin Ibrahim Al-Nafie	United Cement Industrial Company (not listed) Natural Gas Distribution Company (not listed)
3	Abdulaziz Bin Abdulkarim Al-Khereiji	CHUBB Arabia Cooperative Insurance Co. (listed) Bidaya Home Finance (not listed) RFIB Saudi (not listed) Al-Khereiji Investment Company (not listed)
4	Abdullah Bin Mohammed Joligem	None
5	Sami Bin Ibrahim Al-Essa	None
6	Abdullah Bin Turki Al-Sedairy	Liyan Houses Co (not listed) Tasliayh Co (not listed) Alwatan Units (not listed)
7	Abdulrahman Bin Abdulgadir Bajnaid	Silos companies (not listed)

Board of Directors:

The Board of Directors is composed of the following members:

No.	Member Name	Classification
1	Saad Bin Ibrahim Al-Moajel	Non-Executive
2	Abdulkarim Bin Ibrahim Al-Nafie	Non-Executive (represents GOSI)
3	Sami Bin Ibrahim Al-Essa	Non-Executive (represents GOSI)
4	Abdullah Bin Mohammed Joligem	Non-Executive (represents Public Investment Fund)
5	Abdulaziz Bin Abdulkarim Al-Khereiji	Independent
6	Abdullah Bin Turki Al-Sedairy	Independent
7	Abdulrahman Bin Abdulgadir Bajnaid	Independent

Board Committees:

1. Executive Committee

The Executive Committee consists of three members chosen by the Board of Directors from its members. The membership in this committee ends at the end of the period prescribed for the Board of Directors and may be renewed for similar periods.

The responsibilities of this Committee include: applying the company's policies, monitoring performance and approving projects and expenditures within the limits and responsibilities determined by the Board of Directors. This committee must record regular minutes of its meetings and signed it by the members, then provide these minutes to the Board of Directors at the next meeting of the Board.

Members of Executive Committee:

The Board of Directors selected the following members to join the Executive Committee as of 04/06/2016:

- | | |
|--|----------|
| ■ Mr. Abdullah Bin Mohammed Joligem | Chairman |
| ■ Mr. Abdullah Bin Turki Al-Sedairy | Member |
| ■ Mr. Abdulrahman Bin Abdulgadir Bajnaid | Member |

The membership of the following names has expired as of 31/03/2016:

- Mr. Khalid Bin Saleh Al-Rajhi
- Mr. Ali Bin Saeed Al-Khuraimi

During 2016, the Executive Committee (first and second) held 12 meetings, with attendance rate of 92%.

2. Audit Committee:

Pursuant to the rules of choosing the Audit Committee and the duration of its membership and its modus operandi ratified by the Ordinary General Assembly held on 17/4/1994, and the Ordinary General Assembly held on 01/04/2007. The Audit Committee consists of three members appointed by the Board of Directors for a period not exceeding three years and not less than one year. The members may be reappointed for similar periods. The membership in this Committee expires at the end of the period prescribed for the Board of Directors. Among the members of this Committee, there must be a specialist in financial and accounting matters.

The major tasks of Audit Committee are : To ensure the adequacy and effectiveness of internal control procedures, verify the safety and accuracy of the financial statements, recommends to choose the External Auditors in accordance with specific regulations, review quarterly and annual financial statements prior to publication, examine reports and notes provided by the Chartered Accountant and internal audit management, approve any work outside the scope of auditing assigned to it while auditing, express opinion, and make recommendation on the initial and annual financial statements before submitted to the Board of Directors.

The Board has appointed the current Audit Committee as of 06/04/2016:

■ Mr. Nasir Bin Abdullah Al-Awfi	Chairman
■ Mr. Sami Bin Ibrahim Al-Essa	Member
■ Mr. Ayman Bin Saleh Al-Ghamdi	Member

The membership of Mr. Abdul Rahman Hammad has expired as of 31/03/2016.

During 2016, this committee held six meetings with attendance rate of 100%.

3. Nomination & Remuneration Committee:

The Nomination & Remuneration Committee consists of not less than three members appointed by the Board of Directors for a period not exceeding three years and not less than one year. The members may be reappointed for similar periods. The membership in this Committee expires at the end of the period prescribed for the Board of Directors.

The Nominations & Remuneration Committee undertakes the following responsibilities: Nominating nominees to the Board membership in accordance with policies, standards and procedures necessary to nominate membership which was approved by the General Assembly on 04/01/2013 , as well as preparing a description of the capabilities and qualifications required for membership of the Board, identifying strengths and weaknesses of the Board and suggest solutions, making sure that there is no conflict of interest, ensure annually that the independent members are independent, and develop policies regarding compensation and bonuses of the Board members and senior executives.

The Board has appointed the following Nomination & Remuneration Committee as of 06/04/2016:

■ Mr. Eng. Saad Bin Ibrahim Al-Moajel	Chairman
■ Mr. Abdulaziz Bin Abdulkarim Al-Khereiji	Member
■ Mr. Sami Bin Ibrahim Al-Essa	Member

The membership of Mr. Abdulmohsen Abdulrahman Al-Suwailem has expired as of 31/03/2016.

During 2016, this committee held one meeting with attendance rate of 100%.

4. Strategy Committee:

The Strategy Committee consists of three members appointed by the Board of Directors. The membership in this Committee expires at the end of the period prescribed for the Board of Directors. The members may be reappointed for similar periods. In order to achieve its goal, the Committee may seek assistance from managers and employees of the Company.

The Strategy Committee undertakes the following responsibilities: Development and follow-up the company's medium and long-term strategy with a view to Company growth. Improve the quality of the Company's products, studying available investment opportunities , strengthening the competitive position of the company, recommends the acquisition of Companies and Establishments, engaged in similar business of

the company or cooperate with the companies to achieve its purposes, and work to minimize risks.

The first Strategic Committee consists of the members 06/04/2016:

- Mr. Abdulkarim Bin Ibrahim Al-Nafie Chairman
- Mr. Abdulaziz Bin Abdulkarim Al-Khereiji Member
- Mr. Abdullah Bin Turki Al-Sideiry Member

During 2016, this committee held four meeting with attendance rate of 92%.

Remunerations, salaries and allowances:

Description	Executive Board member '000 SAR	Non-Executive Board members and independent '000 SAR	Five of the senior executives who received highest remunerations and compensation including the CEO & CFO '000 SAR
Salaries and compensations	—	—	2,978
Allowances	—	698	1,042
Periodical and annual remunerations	—	1,400	125
Incentive plans	—	—	249
Other benefits	—	—	326
Total	—	2,098	4,720

Penalties:

The Capital Market Authority has imposed a fine of SAR 40,000 (fourty thousand Riyals) on the Company due to breach of paragraph (e) of Article (12) of Corporate Governance Regulation according to paragraph (b) of Article (59) of Tadawul system. This is because the number of independent members of the Board of Directors are less than one-third of the Board members.

Establishment of investment portfolio:

On 29.12.2014, the Board of Directors decided to set up an investment portfolio to contributing to the IPOs raised in the Saudi Capital Market, providing that the IPOs to be self-financing. During 2016, the Company did not exercise any activity in this portfolio.

The financial impact of increased energy and water prices:

On 12/29/2015 and on 07/01/2016, the Company announced on Tadawul website that the expected financial impact due to the adjustment of power and water prices, aimed at raising the efficiency of government support system, would result in an increase in total operating expenses. The actual expenses of energy, water and electricity, gas and diesel and water needed for industry) has increased with amount of 19.7 million Riyals in 2016, compared to energy expenses in 2015. The increase in the cost of electricity consumption has amounted to 10.5 million Riyals, compared to 2015. The impact of the increase in energy and water prices expected to be at 42 million Riyals, but because of the Company's management efforts, the impact was reduced to 19.7 million Riyals.

Social Responsibility and Environmental Conservation:

On the basis of the Company's effort to attract more Saudis and labor saudization, it has increased, Praise be to Allaah , the number of Saudis to 1067 employees. The number of Saudi female labor working in various departments has reached (35), where the Company has provided them with privacy pursuant to the Islamic Sharia law and applicable regulations in the Saudi Arabia.

The Company contributes in projects of establishing many mosques and worship places and Holly Quran schools ,where it provide the needs of such projects from its products, including road mosques in Riyadh region. The Company also offers cash donations to many charities as well as sponsoring committees of social development programs.

The Company takes great care to cleanliness and improvement of the environment and invests high-tech machines for recycling waste and debris that came from its products as well as transporting raw materials inside the factories using underground modern methods

The Company recently signed a contract with international companies specialized in the field of energy recycling , allowing the Company to re-use heat losses of some tile factories furnaces to be recycled and used in the operations of some production lines and other equipment that need lower temperature, such as spray dryers and vertical dryers, which contribute to save gas energy, in addition to contribute in cleanliness and improvement of the environment

Annual Audit Results and Internal Control Procedures Effectiveness:

An Internal Control System has been developed based on sound foundations and its efficiency is reinforced through the following means:

A department specialized in auditing called the "Internal Audit Department".

An Audit Committee reporting to the Board of Directors.

The internal audit department forwards its periodical reports to the Audit Committee, which in turn forwards them to the Board of Directors. The efficiency and effectiveness of the internal control functions are reviewed and evaluated by the internal audit department. The external auditors review some aspects of the internal control periodically. The Audit Committee is confident that this cycle ensures the effectiveness of the internal control measures of the Company. There are no major observations requiring attention.

The External Auditor:

The General Assembly of the shareholders of the Company, held on 27/4/2016, reappointed Dr. Mohammed Al Omari and Company as the Company's Auditors for 2016 and quarterly financial statements according to the Audit Committee's recommendation.

Dividends Distribution 2016:

The Company's net profit for the year 2016 amounted to 24.541 million Riyals, the Board of Directors suggests to be distributed as follow:

'000 Riyals	'000 Riyals	
1,078,857		Profit balance after 2015 profit distribution
	24,541	Net profit of 2016
	2,541	Deduct: 10% transferred as statutory reserve
22,087		
1,100,944		The total
50,000		Deduct: 10% of the capital as dividends distribution. Paid as one Riyal per share for 2016
1,050,944		
1,400		Deduct: remunerations of the Board of Directors members for 2016
1,049,544		Balance: transferred to next year

The Board of Directors suggests to vote on the following:

1. The Company's Financial Statements for the year 2016.
2. The Board of Directors' Report.
3. The auditor's report for the financial year ended 31/12/2016.
4. The dividends to the shareholders equivalent to 10% of the paid-up capital of one Riyal per share for the financial year ended 31/12/2016. Entitlement of dividends will be to shareholders as at the end of the day of the General Assembly meeting.
5. Discharge the Directors from their responsibilities for managing the Company during 2016.
6. Selection of the Account Auditor among the candidates nominated by the Audit Committee to audit the financial statements for the year 2017 and the quarterly financial statements, as well as determination of his professional fees.
7. Disbursement of SAR 1.4 million as remuneration to the Board of Directors Members for the year 2016, at two hundred thousand Riyals (SAR 200,000) for each member.
8. Amendment of the Company's Articles of Association in accordance with the new Companies Law issued by the Royal Decree No. (M/3) dated 28/1/1437 H (as per Annex).
9. Article (3) of the Company's amended Articles of Association regarding the purposes of the Company.
10. Form the Audit Committee to audit the current session for the Board of Directors, and approve the updating of the rules of selecting the members of this committee, and determine its functions, controls and remuneration. The candidates are:

- Mr. Nasser Bin Abdullah Al-Awfi (Chairman of the Committee).
 - Mr. Ayman Bin Saleh Al-Ghamdi (Member).
 - Mr. Sami Bin Ibrahim Al-Essa (Member).
11. Transaction with Natural Gas Distribution Co. for the year 2017, note that there are no specific terms to deal with this company. Natural Gas Distribution Co is an associate company. Saudi Ceramic participates in the capital of this company. Saudi Ceramic represented in the Board of Directors of Natural Gas Distribution Company for the year 2016 by Mr. Abdulkarim Bin Ibrahim Al- Nafie . The main activity of this company is to purchase and distribute natural gas to factories in the second industrial city of Riyadh. The value of transactions with this company, during 2016, amounted to SAR 36.4 million.
12. Transaction with Ceramic Pipe Company for 2017, note that there are no specific terms to deal with this company. Ceramic Pipe Company is an associate company. Saudi Ceramic participates in the capital of this company. Saudi Ceramic represented in this company by: Mr. Hamad Al Al-Shaikh, Eng. Eid Al-Anzi, and Mr. Mohammad Al-Qaoud. The main activity of Ceramic Pipe Company is to manufacture and sale of clay pipes. The value of transactions during 2016, amounted to SR 21.8 million. The following Directors have an interest in dealing with Ceramic Pipes Company:
- General Organization for Social Insurance.
 - Engineer / Saad Bin Ibrahim Al-Moajel.

The Board of Directors would like to take this opportunity to thank you for accepting this invitation and to thank our wise government, especially the Custodian of the Two Holy Mosques, His Highness the Crown Prince and His Highness the Deputy Crown Prince for their encouragement. The Board of Directors confirms its support and backup to Saudi Arabia's Vision for 2030. The Company will benefit from Vision 2030 as it provides great support to the Saudi's industry to maximize the local content. The Company seeks to develop its exports to maximize the industry role in increasing the income of non-oil economy. The Board of Directors expresses, also, its thanks to the Company's management and employees for their sincere efforts, as well as to the company's customers inside and outside the Kingdom for their continuous support and trust.

Peace, Mercy And Blessings Of Allah

Board of Directors



Saudi Ceramic Company

(A Saudi Joint Stock Company)

FINANCIAL STATEMENTS FOR THE
YEAR ENDED DECEMBER 31, 2016
AND INDEPENDENT AUDITOR'S REPORT

31

SAUDI CERAMIC COMPANY

(A Saudi Joint Stock Company)

INDEX OF FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016 AND INDEPENDENT AUDITOR'S REPORT

	PAGE
Independent Auditor's Report	33
Balance Sheet	34
Statement of Income	35
Statement of Cash Flows	36 - 37
Statement of Changes in Shareholders' Equity	38
Notes to the Financial Statements	39 - 54





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

P.O. Box 8736, Riyadh 11492
Tel : +966 11 278 0608
Fax : +966 11 278 2883
info@alamri.com

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, 2016 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, 2016 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.



Gilhad Al-Amri
Certified Public Accountant
Registration No. 362



Jumada Al-Awwal 24, 1438H
February 21, 2017 G

Partners: Dr. Mohamed Al-Amri (60), Jemal M. Al-Amri (33), Gilhad M. Al-Amri (402)
Riyadh: Tel: 012 6184477, Fax: 012 6184458 • Dammam: Tel: 011 8344111, Fax: 011 8318555, www.alamri.com
Dr. Mohamed Al-Amri & Co., a Saudi Professional Company registered under license no. 323/1/86, C.R. 40602/8310
member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms

SAUDI CERAMIC COMPANY

(A Saudi Joint Stock Company)

BALANCE SHEET

		As of December 31,	
ASSETS	Notes	2016 SR'000	2015 SR'000
Current assets			
Cash and cash equivalents	3	24,199	185,556
Accounts receivable, net	4	195,073	171,546
Inventories, net	5	824,635	737,513
Prepayments and other receivables	6	111,055	138,202
Loan to associated company		50,476	30,476
Total current assets		1,205,438	1,263,293
Non-current assets			
Investments and financial assets	7	33,358	81,812
Projects under construction	8	125,720	506,508
Property, plant and equipment, net	9	1,736,063	1,407,831
Total non-current assets		1,895,141	1,996,151
Total assets		3,100,579	3,259,444
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Short term loans	10	203,000	-
Current portions of long term loans	13	261,703	277,110
Accounts payable		201,852	242,652
Accruals and other liabilities	11	88,210	83,747
Provision for zakat	12	16,952	15,345
Total current liabilities		771,717	618,854
Non-current liabilities			
Long term loans	13	430,348	669,176
Employees' end of service benefits		75,834	73,520
Total non-current liabilities		506,182	742,696
Total liabilities		1,277,899	1,361,550
Shareholders' equity			
Share capital	1	500,000	500,000
Statutory reserve		218,336	215,882
Retained earnings		1,100,944	1,180,257
Unrealized gain from available-for-sale securities		3,212	1,636
Net changes in fair value of cash flow hedges		188	119
Total shareholders' equity		1,822,680	1,897,894
Total liabilities and shareholders' equity		3,100,579	3,259,444

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,	
		2016 SR'000	2015 SR'000
Net sales		1,303,519	1,657,975
Cost of sales		(943,019)	(1,075,995)
Gross Income		360,500	581,980
Selling and marketing expenses	14	(184,432)	(207,129)
General and administrative expenses	15	(86,401)	(88,779)
Income from main operations		89,667	286,072
Finance costs		(12,569)	(8,128)
Provision for investment		(25,000)	--
Other revenues, net	16	(5,057)	21,739
Net income before Zakat		47,041	299,683
Zakat provision	12	(22,500)	(15,866)
Net income		24,541	283,817
Earnings (loss) per share in Saudi Riyal from:			
Main operations		1.79	5.72
Other operations		(1.30)	(0.04)
Net income		0.49	5.68

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,	
	2016 SR'000	2015 SR'000
Cash flows from operating activities:		
Net income before Zakat	47,041	299,683
Adjustments to reconcile net income before zakat to net cash provided by operating activities:		
Provision for doubtful debts, net	900	351
Provision for slow moving and obsolete items	1,728	5,400
Loss from associated companies	24,039	22,850
Provision for investment	25,000	--
Depreciation	175,612	166,928
Gain from sale of property, plant and equipment	(2,124)	(116)
Employees' end of service benefit provision	13,958	16,346
(Increase) Decrease in operating assets:		
Accounts receivable	(24,427)	7,863
Inventories	(88,850)	(54,914)
Release of provision for slow moving and obsolete items	-	(19,050)
Prepayments and other receivables	19,867	(33,619)
Increase (Decrease) in operating liabilities:		
Accounts payable	(40,800)	(5,883)
Accruals and other liabilities	4,535	4,898
Cash from operations	156,479	410,737
Employees' end of service benefits paid	(11,644)	(14,667)
Zakat paid	(20,896)	(15,666)
Net cash provided by operating activities	123,939	380,404
Cash flows from investing activities:		
Dividends received from associate company	991	-
Additions to property, plant, equipment and projects	(123,410)	(201,462)
Loan to associated company	(20,000)	(30,476)
Proceeds from sale of property, plant and equipment	9,758	8,290
Net cash used in investing activities	(132,661)	(223,648)

SAUDI CERAMIC COMPANY

(A Saudi Joint Stock Company)

STATEMENT OF CASH FLOWS

	For the Year Ended December 31,	
	2016 SR'000	2015 SR'000
Cash flows from financing activities:		
Net repayments from loans	(320,860)	(448,940)
Net proceeds from loans	269,625	508,697
Dividends and board of directors remuneration paid	(101,400)	(101,400)
Net cash used in financing activities	(152,635)	(41,643)
Net increase in cash and cash equivalents	(161,357)	115,113
Cash and cash equivalents at the beginning of the year	185,556	70,443
Cash and cash equivalents at the end of the year	24,199	185,556
Non cash transactions		
(Gain) Loss from revaluation of available for sale securities	(1,576)	1,112
Net changes in fair value of cash flow hedges	(69)	(894)
Project under construction and spare parts inventory transferred to property	478,919	136,668
Uncollected portion from sale of property	-	7,280
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, 2016						
Balance January 1, 2016	500,000	215,882	1,180,257	1,636	119	1,897,894
Dividends For 2015	--	--	(100,000)	--	--	(100,000)
Board Of Directors Remuneration For 2015	--	--	(1,400)	--	--	(1,400)
Net Income For The Year	--	--	24,541	--	--	24,541
Transferred To Statutory Reserve	--	2,454	(2,454)	--	--	--
Unrealized Gain From Available For-Sale Securities	--	--	--	1,576	--	1,576
Net Changes In Fair Value Of Cash Flow Hedges	--	--	--	--	69	69
Balance At December 31, 2016	500,000	218,336	1,100,944	3,212	188	1,822,680
For the year ended December 31, 2015						
Balance 1, January 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

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, 2016

(All amounts in Saudi Riyals thousands unless otherwise stated)

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 main activity of the Company is the manufacture of clay construction products (glazing materials particularly for internal use of the Company, washed clay for the use of the Company, sanitary ware, water coolers, electric water heaters, seat and cover for toilets, ceramic tiles, ceramic road markers, and desert plastic conditioners). These financial statements include assets, liabilities and the financial results of the Company and its branches.

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. The Company uses on the same accounting policies in preparing the financial statements. 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.

SAUDI CERAMIC COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

(All amounts in Saudi Riyals thousands unless otherwise stated)

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.

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:

SAUDI CERAMIC COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

(All amounts in Saudi Riyals thousands unless otherwise stated)

	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.

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 Companies' 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.

SAUDI CERAMIC COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

(All amounts in Saudi Riyals thousands unless otherwise stated)

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.

SAUDI CERAMIC COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

(All amounts in Saudi Riyals thousands unless otherwise stated)

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.

3. CASH AND CASH EQUIVALENTS

	As of December 31,	
	2016 SR'000	2015 SR'000
Cash at banks	22,732	85,823
Bank deposit	-	98,000
Cash on hand	1,467	1,733
	24,199	185,556

4. ACCOUNTS RECEIVABLE, NET

	As of December 31,	
	2016 SR'000	2015 SR'000
Trade accounts receivable (covered)	149,800	127,887
Trade accounts receivable (uncovered)	49,029	46,515
	198,829	174,402
Provision for doubtful debts	(3,756)	(2,856)
	195,073	171,546

Movement in provision for doubtful debts is summarized as follows:

	As of December 31,	
	2016 SR'000	2015 SR'000
Balance at beginning of the year	2,856	2,505
Additions for the year	900	351
	3,756	2,856

SAUDI CERAMIC COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

(All amounts in Saudi Riyals thousands unless otherwise stated)

5. INVENTORIES, NET

	As of December 31,	
	2016 SR'000	2015 SR'000
Finished goods	448,703	315,018
Work in process	66,955	60,293
Raw materials	194,551	250,799
Purchased goods for resale	29,368	33,464
Spare parts	97,083	88,236
	836,660	747,810
Provision for slow moving and obsolete items	(12,025)	(10,297)
	824,635	737,513

Movement in provision for slow moving and obsolete items is summarized as follows:

	2016 SR'000	2015 SR'000
Balance at beginning of the year	10,297	23,947
Additions for the year	1,728	5,400
Disposal for the year	-	(19,050)
	12,025	10,297

6. PREPAYMENTS AND OTHER RECEIVABLE

	As of December 31,	
	2016 SR'000	2015 SR'000
Prepaid expenses	20,523	14,720
Refundable deposits	35,402	32,528
Employees' advances	2,100	2,151
Advance payments to suppliers	81,049	108,731
Others	-	391
	139,074	158,521
Provision for doubtful debts	(28,019)	(20,319)
	111,055	138,202

SAUDI CERAMIC COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

(All amounts in Saudi Riyals thousands unless otherwise stated)

7. INVESTMENTS AND FINANCIAL ASSETS

	As of December 31,	
	2016 SR'000	2015 SR'000
Investments in Associates		
Ceramic Pipes Company (7A)	41,035	9,436
Natural Gas Distribution Company (7B)	8,706	65,335
Ceramic Investment Company (7C)	475	475
	50,216	75,246
Provision for investment in Ceramic Pipes Company	(25,000)	--
	25,216	75,246
Investments in Available for Sale Securities		
Gulf Real Estate Company	4,200	4,200
Yanbu National Petrochemical (YANSAB)	3,942	3,478
	8,142	6,566
Total	33,358	81,812

Investments in Associates

- 7A.** The Company holds 50% of the share capital of Ceramic Pipes Company amounting to SR 193 million (2015: SR 193 million) "a Closed Joint Stock Company". The main activity of the associate is manufacturing of clay pipes. The investment is accounted for according to the equity method. During the third quarter of 2016 Ceramic Pipes Company re-evaluated its fixed assets resulted in impairment in the value of these assets by SR 50 million. The board of directors of Saudi Ceramic Company decided to provide against this impairment by SR 25 million equivalent to the shareholding percentage in the Ceramic Pipes Company.
- 7B.** The Company holds 15.87% of the subscribed share capital of Natural Gas Distribution Company. The authorized share capital of the company is SR 50 million divided into 5 million shares with SR 10 per share, with paid part of SR 5, bringing the paid up capital to SR 25 million. The company is "a Closed Joint Stock Company" with main activity 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 representation on the board of directors.
- 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.

SAUDI CERAMIC COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

(All amounts in Saudi Riyals thousands unless otherwise stated)

8. PROJECTS UNDER CONSTRUCTION

	As of December 31,	
	2016 SR'000	2015 SR'000
Tiles plant expansion	40,168	40,129
Sanitary ware plant expansion	-	196,367
Red Bricks project	303	173,773
Water heaters plant expansion	59,875	61,619
Desert Mines Project	6	821
Others	25,368	33,799
	125,720	506,508

Financing costs capitalized on projects under construction during the year amounted to SR 14.9 million (2015: SR 10.7 million).

9. PROPERTY, PLANT AND EQUIPMENT, NET

	Land SR'000	Buildings SR'000	Machinery, Equipment and Assets Spare SR'000	Furniture and Fixtures SR'000	Vehicle & Transportation Equipment SR'000	Leasehold Improve- ments SR'000	Total SR'000
Cost							
At January 1, 2016	165,619	787,255	1,811,312	76,863	99,035	18,585	2,958,669
Additions	-	9,832	5,689	8,956	5,071	-	29,548
Transferred from PUC	-	145,165	315,452	16,097	515	1,690	478,919
Disposals	-	(2)	(4,268)	-	(9,531)	(250)	(14,051)
At December 31, 2016	165,619	942,250	2,128,185	101,916	95,090	20,025	3,453,085
Accumulated Depreciation							
At January 1, 2016	-	(433,794)	(969,863)	(58,318)	(73,077)	(15,786)	(1,550,838)
Charge for the year	-	(32,046)	(120,058)	(11,019)	(12,107)	(383)	(175,613)
Disposals	-	1			9,332	96	9,429
At December 31, 2016	-	(465,839)	(1,089,921)	(69,337)	(75,852)	(16,073)	(1,717,022)
Net Book Value							
December 31, 2016	165,619	476,411	1,038,264	32,579	19,238	3,952	1,736,063
December 31, 2015	165,619	353,461	841,449	18,545	25,958	2,799	1,407,831

SAUDI CERAMIC COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

(All amounts in Saudi Riyals thousands unless otherwise stated)

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,	
	2016 SR'000	2015 SR'000
Employee accruals	36,072	40,307
Accrued expenses	24,286	20,354
Customer advances	22,986	18,868
Dividends payable	4,678	4,099
Provision for changes in fair value of cash flow hedges	188	119
	88,210	83,747



SAUDI CERAMIC COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

(All amounts in Saudi Riyals thousands unless otherwise stated)

12. ZAKAT PROVISION

	For the Year Ended December 31,	
	2016 SR'000	2015 SR'000
Zakat base comprises the following:		
Shareholders' equity	1,797,951	1,493,606
Net adjusted income	47,041	299,683
Additions	787,713	925,495
Deductions	(2,022,699)	(2,075,012)
	610,006	643,772
Changes in Zakat provision are as follows:		
Balance at the beginning of the year	15,345	15,145
Payments made during the year	(20,893)	(15,666)
Provision for the year	22,500	15,866
Balance at the end of the year	16,952	15,345

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 2015.

13. LONG TERM LOANS

	As of December 31,	
	2016 SR'000	2015 SR'000
Loans from Saudi Industrial Development Fund (13a)	167,051	205,036
Loans from local banks (13b)	525,000	741,250
Total loans	692,051	946,286
Less: current portion		
Loans from Saudi Industrial Development Fund	(25,870)	(54,610)
Loans from local banks	(235,833)	(222,500)
Total current portion	(261,703)	(277,110)
Total non-current portion	430,348	669,176

SAUDI CERAMIC COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

(All amounts in Saudi Riyals thousands unless otherwise stated)

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, 2016 amounted to SR 56 million. The due date for utilizing these amounts is 29/12/1438 H, corresponding to 20/09/2017 G.

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

	2016 SR'000	2015 SR'000
Balance at the beginning of the year	205,036	201,591
Loans received during the year	16,625	64,165
Settlements made during the year	(54,610)	(60,720)
Balance at the end of the year	167,051	205,036

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 16/9/2021. The movements in local banks loans during the year ended December 31, were as follows:

	2016 SR'000	2015 SR'000
Balance at the beginning of the year	741,250	664,938
Loans received during the year	50,000	300,000
Settlements made during the year	(266,250)	(223,688)
Balance at the end of the year	525,000	741,250

SAUDI CERAMIC COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

(All amounts in Saudi Riyals thousands unless otherwise stated)

14. SELLING AND MARKETING EXPENSES

	For the Year Ended December 31,	
	2016 SR'000	2015 SR'000
Salaries, wages and equivalent related costs	72,178	79,662
Freight and transportation charges	63,647	82,504
Advertising	10,691	9,822
Depreciation	14,025	12,178
Rent	9,989	10,302
Repairs and maintenance	3,784	3,298
Communications and fees	6,885	6,448
Insurance and travel	2,786	2,569
Others	447	346
	184,432	207,129

15. GENERAL AND ADMINISTRATIVE EXPENSES

	For the Year Ended December 31,	
	2016 SR'000	2015 SR'000
Salaries, wages and equivalent related costs	59,013	58,470
Depreciation	8,978	7,173
Repairs and maintenance	11,872	9,608
Consumable materials and supplies	4,175	9,624
Insurance and travel	1,158	1,265
Bank charges	1,201	2,632
Others	4	7
	86,401	88,779

The expenses and meetings' attendance allowances for the board of directors and other committees of the board amounted to SR 784 thousand during the year (2015: SR 710 thousand).

SAUDI CERAMIC COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

(All amounts in Saudi Riyals thousands unless otherwise stated)

16. OTHER REVENUES, NET

	For the Year Ended December 31,	
	2016 SR'000	2015 SR'000
Loss from associates, net	(22,929)	(22,850)
Inventory provision reduction	-	13,649
Currency differences	5,735	9,815
Gain from property sales	2,124	116
Revenues from scrap sales	6,264	10,459
Rent	2,938	2,938
Others, net	811	7,612
	(5,057)	21,739

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 2016 were as follows:

	Transaction Type	Balance 1/1/2016 SR'000	Transaction Value SR'000	Payments and Received SR'000	Balance 31/12/2016 SR'000
Natural Gas Company	Purchases	1,807	36,435	(35,453)	2,789
Ceramic Pipes Company	Various	(40,501)	(21,822)	345	(61,978)

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 87 million as of 31 December 2016 (2015: to SR 62 million) . The letters of credit include an amount of SR 35 million (2015: SR 21 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) for the amount of SR 36 million (2015: 40 million). Additionally, the Company guarantees portion of the Saudi Investment Bank loan to the associate company for the amount of SR 43 million (2015: SR 43 million).

SAUDI CERAMIC COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

(All amounts in Saudi Riyals thousands unless otherwise stated)

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 main segments of the Company are ceramic tiles and sanitary ware, and electric water heaters. Other segments of production inputs, plastic products, and red bricks are included in the ceramic tiles and sanitary ware segment, while the water coolers and desert plastic conditioners segments are included in the electric water heaters segment since these segments are immaterial.

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, 2016:			
Total assets	2,739,858	360,721	3,100,579
Total liabilities	1,202,507	75,392	1,277,899
Net Sales	995,421	308,098	1,303,519
Gross income	263,882	96,618	360,500
Net income	(10,317)	34,858	24,541
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

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

SAUDI CERAMIC COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

(All amounts in Saudi Riyals thousands unless otherwise stated)

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 38 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.

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.

SAUDI CERAMIC COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

(All amounts in Saudi Riyals thousands unless otherwise stated)



21. PROPOSED DIVIDENDS

The ordinary general assembly in its meeting dated 27/04/2016 approved cash dividends to the shareholders for the year 2015 amounting to SR 100 million, which is SR 2 for each share and SR 1.4 million as remuneration for board of directors.

The board of directors, in their meeting on December 28, 2016, proposed cash dividends to the shareholders for the year 2016 amounting to SR 50 million which is SR 1 for each share as representing 10% of share par value.

22. APPROVAL OF FINANCIAL STATEMENTS

The board of directors approved these financial statements on February 21, 2017.

التقرير السنوي 2016



شركة الخزف السعودية
Saudi Ceramic Company