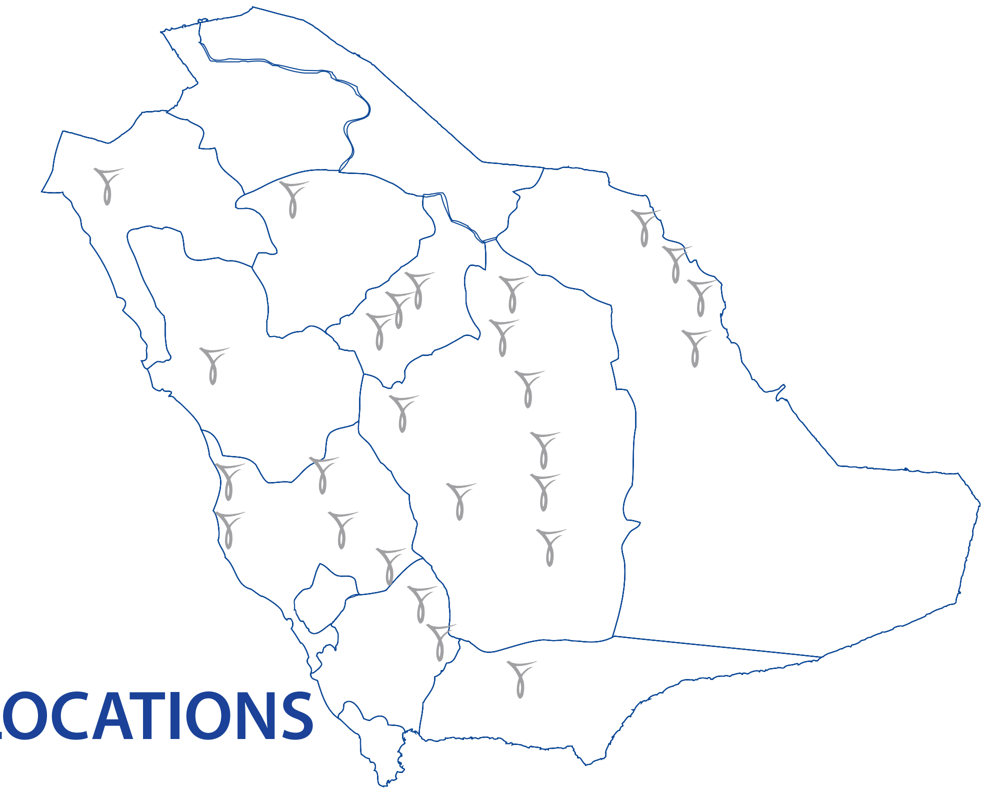
الخزف السعودي
Saudi Ceramics

الخزف السعودي

Annual Report
2017

بسم الله الرحمن الرحیم



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: 4644244 Ext. 8111 & 8103
Malaz Showroom: 4770715
Rawdah Showroom: 2784360
Kharj 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 Harameen Shorwoom: 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

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

Custodian of the Two Holy Mosques

King Salman Bin Abdulaziz Al-Saud

His Royal Highness

Prince Mohammed Bin Salman Bin Abdulaziz Al-Saud

Crown Prince, 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

Statement from The Chairman of the Board

Greetings, Shareholders of Saudi Ceramics Company,

I would like to welcome you to your extraordinary General Assembly and I am pleased to present the annual report of Saudi Ceramics Company for the fiscal year, ending December 31, 2017.

The results of 2017 were less than our ambitions and expectations due to the difficult conditions experienced by the local and regional markets. Problems such as the decline in new building projects, as well as the overall decline in the building sector in general, led to this result. However, the Board is keen to prepare the company for a future stage in which the Kingdom will witness a great boom and demand for the company's products will rise.

Under the direction and supervision of the Board of Directors, the company's management is implementing a comprehensive transformation plan that would enhance its competitiveness in the future in the local and export markets.

This plan includes promoting talented leaders within the company, as well as attracting new talented professionals to lead the company's future operations. This transformation plan also includes the development of the company's products, with special emphasis on the tile sector, creating new designs and specifications. We also plan on improving the company's internal systems, and various departments. We look forward to increasing project sales, especially housing projects, and major projects announced by the government. The company also aims to increase export sales. Part of these plans include improving the Dubai sales office and the recruitment of a sales team in Europe, thereby creating European and American markets for SCC sanitary ware and hot water heaters. The company also plans to take advantage of new opportunities in nearby markets such as Iraq and others.

With expectations of improved markets in the coming years, the company is implementing a program to add new tile designs with enhanced specifications, and to develop more use of local materials. We are also improving local showrooms in order to increase sales locally.

SCC also is working on lowering water and energy consumption levels in various products, such as producing a toilet that utilizes only three liters of water in accordance with government specifications, thereby contributing to the national effort of conservation, and also making products more attractive to consumers. Another aspect of this is that SCC is increasing it's production of energy saving water heaters, producing smart electric and solar heaters. Also, the Red Brick Factory has achieved success in the experimental production phase in 2017, and the company obtained the approval from the Ministry of Energy to supply the factory with fuel, which will reduce the production costs, which will help the factory to operate at full capacity in 2018, God willing.

The company is also implementing investment plans to boost its production capacity, invest in advanced technologies, and develop new products that meet the evolving needs of local, regional and international markets to achieve maximum returns for its shareholders and the Saudi economy. SCC seeks to benefit from the various potential and support provided by the government to the Saudi industry through various programs and funds.

The year 2017 has witnessed a significant decline in the local markets in general due to the downturn in government and private projects. Another factor hurting sales is the continued practice of dumping. This has led to a lowering of sales prices of ceramic products in order to maintain the company's share in the local market and to provide liquidity, resulting in a lower profit margin.

In order to maintain its market share and distribution channels, and enhance its competitive position for future sales, the company's factories have strived to match market demands. The production of the tile and porcelain factories decreased by 8.16% from the 2016 level, and the production of sanitary ware decreased 3.11% from the 2016 level. These drops in production level were both due to the overall decline in the construction sector. The water heater factories continued at the same rates of production as in 2016.

SCC has implemented a program to reduce factory energy costs in anticipation of future higher energy costs by launching a SR 28million project that will utilize the heat energy emitted by the production furnaces in other operations as a replacement to fuel, thereby reducing energy costs to the factories. This also reduces emissions, which improves the environment, which is helping in the national goal of achieving international standards for reducing pollution.

As the workforce is the most important resource, the company implements practical and systematic plans for the Saudization of jobs. By the end of 2017 the number of Saudi employees reached 1034. In 2017,the company implemented 105 training courses benefiting 982 trainees. On the other hand, the company seeks to increase the employment of Saudi women throughout the company, and appropriate work environments were provided to reach this goal. By the end of 2017, SCC had 43 Saudi women employees.

As we look forward to a bright future for the company with the efforts of the government to develop the industry, increase involvement in local projects, and support of export sales, I extend on your behalf and on behalf of the company's employees great thanks to the Custodian of the Two Holy Mosques , His Highness the Crown Prince, and our wise government for the support received by the national industry. I also extend thanks to the company's customers inside and outside the Kingdom for their confidence in the company and its products, as well as to the management of the company and all its employees.

Thank you,

Abdulkarim bin Ibrahim Alnafie

Chairman of the Board of Directors

Report of the Board of Directors
for the year 2017 AD

Gentlemen/ Shareholders of Saudi Ceramic Company

The Board of Directors is pleased to welcome and thank you for accepting the invitation to attend the extraordinary General Assembly meeting. In addition, it will be pleased to provide you with its annual report supported by the financial statements for the results of 2017 AD, which shall include the statement of the company's financial position as at 31/12/2017 AD, the statements of income, the statement of Cash Flows and the statement of changes in Shareholders' equity. As well as the notes indicated therein for the year then ended.

Company Activity:

Fabrication: The company is involved in manufacturing, storing, transferring and marketing ceramic, marble and porcelain tiles of various types and accessories, ceramic sanitary and accessories, toilet fixtures, electric and solar water heaters and accessories, boilers, special paints for ceramic products, red pottery bricks and derivatives, Plastic and ceramic pipes for various purposes. Moreover, various plastic products, drinking water coolers, bathtubs and porcelain, acrylic, plastic and ceramic showers and plastic road signs, various construction solutions and technologies and housing project solutions.

The company aims to contribute in achieving the Saudi Vision 2030

Mining:

it shall include Extraction, processing, formation and marketing of raw materials, including but not limited to silica sand, dolomite, feldspar, red clay, kaolin, limestone, gypsum powder, sandstone and sand. As well as transporting, storing and marketing of raw materials, quarry and mining sites management, construction and management of crushers and mills in raw material sites, Collection of all materials for recycling, including recycling and collection of waste and materials to be processed and disposed of, and recovering the necessary or complementary materials for the company's purposes.

Trading:

it shall include trading in all the materials needed by the company, including wholesale and retail trade and electronic commerce to market building materials products manufactured by the company or purchased from others. In addition, Supplying of the company's products and other products for government and private enterprises, importing and exporting as well as international sales, business services, undertakings, commercial agencies and marketing. Moreover, opening offices and exhibitions in other countries for the purpose of selling the products manufactured by the company or purchased from others.

Contributing to the achievement of the vision of the Kingdom 2030 "Saudi Vision 2030":

The company believes in the importance of the Saudi Vision 2030 and the prosperous future, which will be achieved as a result of the implementation of the programs it contains and the wise policy of the State under the leadership of the Custodian of the Two Holy Mosques King Salman bin Abdulaziz and His Highness the Prince Mohammed bin Salman bin Abdulaziz. The company aims to contribute in achieving the Saudi Vision 2030 through various fields, including increasing the added value of its products by employing more domestic content products and materials. In addition, increasing the return on the national economy, especially that the company is one of the important sources of diversifying the sources of the national non-oil economy in terms of exploiting many Natural raw materials extracted from our good land. In this regard, it has begun to implement a long-term plan to increase its exports and enhance its marketing capabilities in the international markets targeted. The company also seeks to increase the number of job opportunities for citizens in different fields of the company.

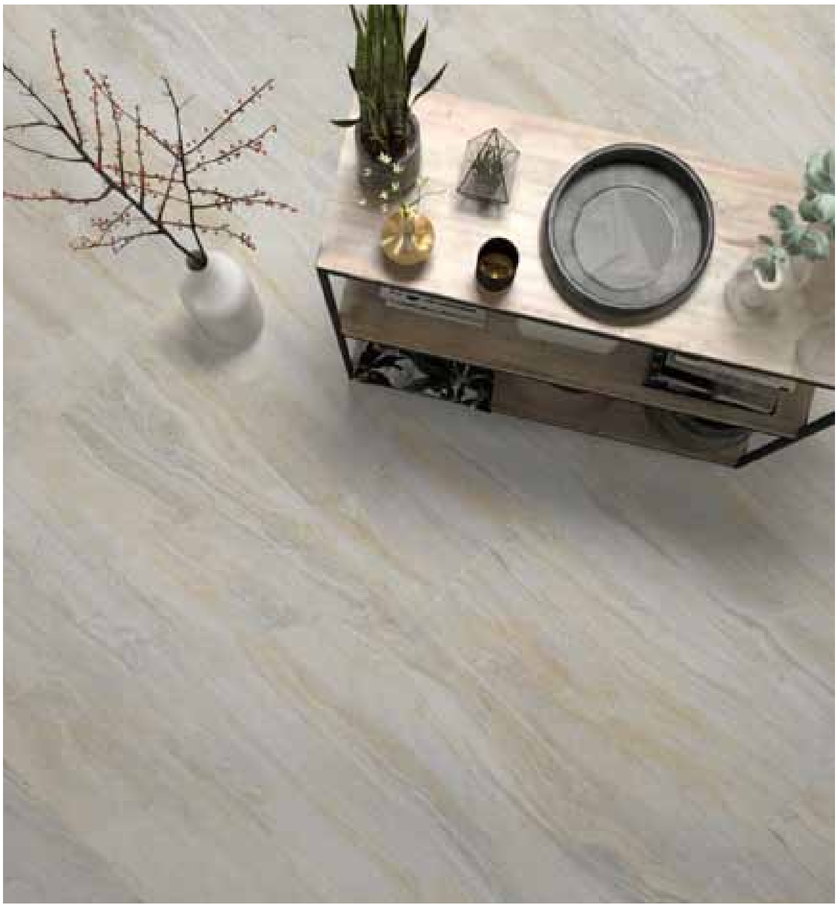
In spite of the temporary conditions experienced by the company›s domestic and regional markets, the company shall implement investment plans to enhance its production capacity, invest in advanced technologies and develop new products that may meet the evolving needs of domestic, regional and international markets to achieve maximum returns for its shareholders and the Saudi economy. The company shall seek to benefit from the various possibilities and support provided by the State to the Saudi industry through various programs and funds.

The report shall include what was implemented in 2017 as part of the company's plan to contribute to the vision of the Kingdom 2030 "Saudi Vision 2030".

Results of Company Activities:

The following is a comparison of the results of the Company's activities for the year 2017 with the results of its Activities/operations for the year 2016:

	2017 AD Thousand SR	2016 AD Thousand SR
Gross profit	168,269	357,829
Operating (loss) /profits	(62,987)	98,127
Net (loss)/profit	(97,054)	20,183
(loss) / Profit per share	(1.94) SR/share	0.40 SR/share



The main reason for the decrease in gross profit and operating profit for the year 2017 compared to last year 2016 is the decrease in the value of sales by approximately 13% due to the decrease in the size of demand in addition to being affected by the decline of building materials markets in the Kingdom and neighboring countries. In addition, rationalization of spending on government projects and not starting the major phase of Housing Projects. As well as the decline of private residential and commercial buildings projects with the continued dumping in the domestic market and the flow of Indian and Chinese products particularly in large quantities that leads to forcing the company to reduce the prices of selling products, especially as the company seeks to enhance its market share in the face of competing products, resulting in a lower gross profit margin of 15% as compared to 27% in 2016. The reason for the decline in the results of 2017 is the increase in the cost of financing and the increase in the consumption item due to the completion and capitalization of most of the projects under implementation, the most important of which is the second sanitary ware factory and the red brick factory. On the other hand, sales, marketing expenses,

The company seeks to track and meet the changing consumer needs of various products to ensure the company's continued competitiveness and to maintain its share in different markets

The production of tile factories has reached

40,749,622 m2

in 2017

general and administrative expenses decreased, as well as the Zakat provision compared to 2016.

Change in purchasing behavior:

As domestic demand for construction products, especially for buildings for personal and commercial investment, is falling, the demand for products for private residential buildings is still moving towards premium products. However, price competition in the domestic market has driven demand for low-priced products with a large trend for larger sizes of ceramic and porcelain tiles for Lounges and courtyards and bathrooms floor. With a major focus in Housing Projects on lower priced products.

For sanitary ware, despite the dramatic decline in new buildings, the demand for one-piece toilet continues to grow against two-piece toilets. WC facilities in homes and buildings in major cities are different from mainstream uses, such as the greater tendency for washbasins with wooden furniture rather than ceramic column washbasins, in addition to great tendency to use large tiles finishes in building halls and WCs.

The demand for regular heaters continues without modification, with increasing attention from the consumer to solar and central heaters, but quantities are still small due to the need of these types of private pipeline network.

The company seeks to track and meet the changing consumer needs of various products to ensure the company's continued competitiveness and to maintain its share in different markets.

Dumping in the domestic market:

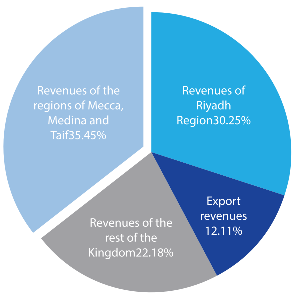
Despite the falling demand in the domestic building materials markets, importers continued to bring large quantities of Chinese and Indian products, especially sanitary ware and tiles, taking advantage of the prices of producers in those countries in the absence of strong controls on imports in the Kingdom. Moreover, the entry of products not in accordance with Saudi specifications for domestic markets. The import of large quantities that exceed the demand resulted in a great pressure on prices, which greatly affected the ability of domestic producers to achieve profitable sales, especially with the rise in various costs in 2017. The wide spread of small building materials retailers has contributed to limiting the spread of domestically produced products. It has also supported the competitiveness of imported products at the expense of domestic products. The decision of Saudization of building materials shops next year is expected to reduce the spread of these small shops.

In cooperation with Saudi ceramics companies, the company has made continuous efforts with the concerned government agencies at various levels to provide fair opportunities for Saudi companies to compete in the domestic market. This is done by developing solutions against the situation where the foreign companies and suppliers get benefit from not applying the regulations and government procedures that protect the Saudi market and the Saudi ceramics industry, and marketing products of these foreign companies in dumping quantities and prices that has negatively affected the Saudi industry and the Saudi consumer. The Saudi ceramics companies are demanding the application of local, regional and international regulations that prevent dumping. There has been interest from government agencies concerned to discuss various ways to protect the Saudi ceramics industry because of their economic importance as well as what they provide of a large number of job opportunities for Saudi youth. The results of these efforts are expected soon to be reflected positively on the company's results.

Housing Projects:

Housing Projects are deemed the most important projects that will benefit the national economy and the industries supporting these projects. The company is keen to contribute to the state plan to provide suitable housing for citizens where it has contacted various developers of Housing Projects to sign initial agreements pending the start of these projects, which was expected in 2017. The company is working to provide the needs of Housing Projects of their products, especially that the company›s products are characterized by high quality and low prices and quickly supplied to projects in addition to the availability of spare parts. Once implemented, Housing Projects will contribute to increased sales. The developers of the projects are not bound by a system of Saudi products, especially ceramics and porcelain tiles, although this is constantly raised by the company and other manufacturers with the concerned authorities to provide the national content in the Housing Projects.

Geographical Analysis of Company Revenues



Geographical Analysis of Company Revenues

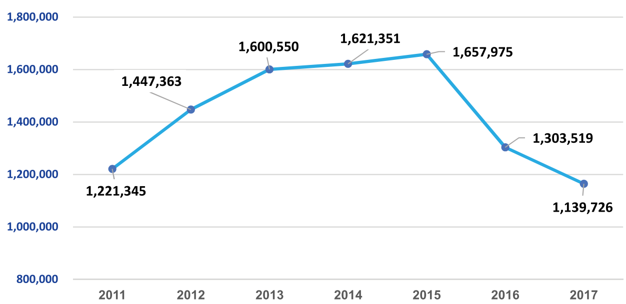
Revenues of Riyadh Region	30.25 %
Revenues of the regions of Mecca, Medina and Taif	35.45 %
Revenues of the rest of the Kingdom	22.18 %
Export revenues	12.11 %

The company plans to double its sales in the international markets during the next five years, the company started to implement a program to increase sales in Europe, America, Africa, Asia, GCC and Arab countries.

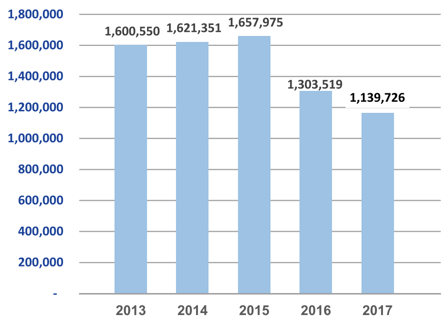
Sales:

The company's sales for 2017 fell by approximately 13% compared to sales in 2016 due to the large decline in government and private projects. The continued dumping of the Saudi market has also led to a decline in the prices of the sale of the company's ceramic products in order to maintain the company's share in the domestic market and provide adequate liquidity for its business, which led to a low profit margin. Although the company's sales have improved in some international markets such as Russia, sales of its products in other markets have been affected by the adjustment of specifications in those countries or high tariffs. The company has implemented a program to enhance its capabilities and share in the international markets in terms of increasing the number of sales and marketing staff in some markets and appointing more distributors in addition to intensifying participation in international trade fairs. The company has participated in eight international fairs that enabled them to identify these markets and their needs and to reach potential distributors for their products in those markets. Despite the difficulty of the markets, export sales from the previous year have improved in some markets, and new export markets have been added in 2017: Iraq, Kyrgyzstan, Moldova, Cuba, Botswana and others. The company has participated in the Saudi products fair held in Iraq, which has strengthened its contacts with its former customers and new customers where some products have been exported to them despite the high shipping costs awaiting the opening of a new port in Arar, which will contribute to reducing export costs to Iraq. The total number of countries in which the company's products have been exported over the past was 73 countries and the company plans to double its sales in the international markets during the next five years, the company started to implement a program to increase sales in Europe, America, Africa, Asia, GCC and Arab countries.

Sales in thousands riyals



Sales



The production of the company's factories:

The production of tile factories has reached 40,749,622 m2 in 2017, a decrease of 16.8% over 2016 due to the decrease in the demand for tile products due to the decrease in the construction sector activities in addition to the construction of new housing. This has resulted in a relative decrease in annual sales compared to the previous year especially in the period of Ramadan and until after the Hajj leave of the same year. This has led to a reduction in the production of tiles in the first tile factory and the first "ferita" factory as of August 2017, while the rest of the factories continued to normal production rates.

As for sanitary ware factories, their production during the year 2017 amounted to (34,870,242) kg with a decrease of 11.3% compared to the production of 2016 (39,328,876) kg. The production of sanitary ware has been reduced for the same reasons mentioned for tiles. While the heater factories continued to have the same production rates in the previous year with a slight decrease in the seasons.

The Company's contribution in rationalizing water consumption:

The company is implementing a continuous program to develop its products, especially those that contribute to water and energy rationalization in the Kingdom. The company has developed and manufactured high efficiency toilet chairs "toilets" using only three liters of water according to the specifications issued by the General Authority for Standardization and Metrology. So that the company contributes to the national effort to rationalize water consumption and ensure a good share in its markets.

The number of water-saving toilets that the company has developed has reached (35 types of toilets) that save millions of cubic meters annually of water consumption in various uses, with the company continuing to develop more toilets as well as providing water-saving siphon machines and water mixers for the laundries and showers.

The Company's contribution to reducing energy consumption in buildings:

The company is contributing to the country's efforts to promote energy rationalization in homes and buildings, helping citizens gain access to more energy-efficient products and providing areas for expansion of company's operations and sales. Saudi Ceramic heaters are the most energy-efficient

As for sanitary ware factories,
their production during the year 2017 amounted to

34,870,242 kg

heaters in the local market. They also comply with European and Saudi standards in terms of high class of electricity saving, enabling them to enter European markets, currently occupying 5% of the Spanish market. When Saudi standards are applied to electricity-saving heaters in 2018, the Saudi ceramic heater will enjoy a strong competitive position, God willing.

The company also established a red brick factory to manufacture high-quality and energy-saving products in both residential and commercial buildings where this isolated ceramic brick has an insulation ratio up to 45% compared to concrete or glass bricks. The production of the company in the experimental production phase in 2017 was a great success. The company has obtained the approval of the Ministry of Energy, Industry and Mineral Resources to supply the factory with low cost fuel, which will reduce the cost of the production of the factory and help to run in full capacity in 2018. In addition to increasing sales and establishment of brick sales centers, especially in Riyadh and nearby areas and distributors in the Kingdom and some Gulf countries.

Rationalization of energy consumption in the company's factories:

In order to reduce energy costs in the company's plants and in anticipation of the future increase, the company has implemented a project costing 28 million Saudi riyals based on the reuse of heat energy emitted from the furnaces of production in other operations instead of the use of fuel in the latter. This shall contribute to reducing the cost of fuel used and improve the environment by reducing industrial emissions in tile factories (1), (2) and (3). The company has completed most of the phases of the project. The first phase of the project has been operated in factory (3) and the equipment of factory (2) has been delivered while the equipment of factory (1) will be delivered at the end of March 2018. The company will complete and operate all stages of the project in November 2018, God willing. this project will contribute to increase the company's profits from tiles in the coming years and enhance its competitiveness in competitive markets, which will contribute to reducing the company's consumption of natural gas and reduce its cost by Less than 15%. This is the third energy-recycling project where a similar project has already been completed at tile factory No. (4) and another project in the red brick factory.

The project will also contribute, upon completion, to the improvement of the environmental situation in factories and surrounding environment and to achieve international standards for pollution reduction. Where the company obtained the certificate of environmental compatibility from the General Authority for Meteorology and Environmental Protection due to the company's commitment to all environmental standards in all its operations.

> **The reuse of heat energy project will contribute, upon completion,** to the improvement of the environmental situation in factories and surrounding environment and to achieve international standards for pollution reduction

Development of tile products:

The company has implemented a program to develop the company's tiles products and enhance its competitiveness in various markets, especially private projects, housing projects, government projects and export markets. The following projects have been implemented:

- Project of polishing, cutting and squaring of porcelain tiles:

The first phase of the project was completed with the installation of porcelain tiles polishing and squaring line, which cost 11.3 million riyals.

The experimental operation is being carried out before the end of March 2018 with a production capacity of 6,000 square meters per day in sizes of (30 x 30), (80 x 80 X) and up to (60 x 120). The company is to launch the second phase of the project, which shall include three other lines in the first half of 2018.

The project will contribute to the development of tiles products, raise their quality, and enable the company to market them with a better profit margin and to enter into projects that require this type of tile developed.

- Raising the percentage of local content in the tiles:

The company's laboratories have succeeded in 2017 in the development of local materials for porcelain tile body with similar or higher specifications of imported materials and imported porcelain tiles. This has contributed to reducing the cost of producing porcelain. The new product has received a great demand in the markets for its quality and low price, which enabled the company to achieve an increase in sales of porcelain. In addition, the company is working to double it in the coming periods, God willing.

The first phase of the project was completed with the installation of porcelain tiles polishing and squaring line, which cost

11.3

million riyals

In order to raise the level of the company's after-sales services, before the end of 2017, the company has contracted with a specialized company to provide after-sales and maintenance services of the company's products at the customer's sites

- Improving tile designs:

With the company's huge production capacity in line with the decline of local markets and the intensification of competition as well as the company's quest to enter new markets, the company has begun to invest in the development of tile designs in terms of human and material capabilities, the use of local team and international companies and the establishment of a women's center for the development of tile designs, which will start work in the second quarter of 2018. The first production of the project has started with the Saudi Construction fair held in October 2017 and during the following months where the new designs have met a great demand which will contribute to the increase in demand for the company's products.

Project of manufacturing of one-piece chairs:

In order to enable the company's sanitary ware factory to meet the needs of the growing markets on one-piece bathroom chairs, the company is implementing a project to expand its production capacity with an additional capacity of 21,000 pieces per year to reach 80,000 chairs a year. This shall provide the company with greater flexibility in developing its products and providing new products in the markets each year in addition to meeting the needs of international markets targeted, such as Europe, America and the markets of Iraq and other promising markets, in which the company seeks to increase sales in the next few years.

Development of company's fairs:

The company started implementing a comprehensive project to develop the company's fairs and make a qualitative leap in it where new designs for the company's fairs have been applied to the new Saudi ceramic fair in Al-Yasmeen neighborhood in Riyadh city, which is scheduled to open in the month of Ramadan 1439 AH. Working on the preparation of the designs for the company's other fairs has also started and will be launched during the second quarter of 2018. At least 10 fairs will be completed before the end of the year, God willing. the company will also open new fairs in some important markets.

Unified Communication Center:

As part of the plan to develop the company's services, a unified communication center was established with the number (920011124) allocated for this purpose. The company has finished processing the center and trained a number of Saudi women to work there that has started work before the end of 2017. The center aims to facilitate customer contact with the company from all regions of the Kingdom and from outside and obtain the correct information about the company's products, services and places to receive them in addition to receiving maintenance requests for the company's products, especially heaters and sanitary ware. The Center works to deliver applications to the concerned departments of the company and its suppliers and follow them to achieve the highest degree of customer satisfaction. The Center also communicates with existing and potential customers to introduce new products and identify their needs.

After-Sales and Maintenance Services:

In order to raise the level of the company's after-sales services, before the end of 2017, the company has contracted with a specialized company to provide after-sales and maintenance services of the company's products at the customer's sites upon request. The company bears the costs of this service if the product is under warranty, and provides customers, whether the product under warranty or not, with a high level of professional maintenance, including heaters and sanitary ware in particular.

Company Website and Social Networking Accounts:

For the importance of the Internet in the definition of the company and its products, the company has developed in 2017 a comprehensive website of the company on the Internet (www.saudiceramics.com), where it contains comprehensive information about the company's products. Coming to the importance of communicating with the company's clients in the international markets, the site was provided in six languages, including Arabic and English, French, Spanish, Italian and Russian, and will be increased in the future with the increase of the company's work in the international markets.

As for the importance of social networking sites, the company has developed its accounts in social networking sites to be more interactive and to achieve good communication with the customers of the company and to monitor what is done in those sites. A number of Saudi women have been employed to manage these sites.

Dubai Sales Office:

For the importance of the UAE market and as a part of the company's efforts to increase its market share in the year 2017, the company has made a comprehensive development to the office including the appointment of a Saudi manager for the office. In addition to the restructuring of the office by establishing a department for projects and another for the wholesale. The center is supported by a number of specialized specialists in the marketing of building materials with the establishment of a warehouse for the office. Upon the completion of the experimental phase of the fair and the formation of the sales team in the office, it is expected that the Office will achieve significant growth in sales in the coming years.

Reducing Company Costs:

With the great pressure in the domestic and international markets and the high prices and costs of many materials involved in the manufacture of the company's products as well as the high prices and fees of many local services, the company has, in 2017, under the direct supervision of the Company's Board of Directors, implemented a program to reduce costs and rationalize expenses, including:

- Reduce the number of employees in the company "Downsizing"

The company has implemented a plan to downsize, which focused on the important production processes, re-engineering operations and the development of new policies for workers in the company resulted in downsizing as follows:

	2016	2017
Total number of employees	4,317	3,769
Number of Saudi Employees	1,060	1,034
Number of Non - Saudi Employees	3,257	2,735
Employees who have retired according to the new retirement policy	21	126
Annual official staff costs (SAR)	338,421,683	297,811,342
Out-Source Costs (SAR)	29,321,833	15,119,550

- Raising efficiency in factories and departments of the company:

The company has implemented various programs in 2017 to raise efficiency in its various operations including the following:

- Develop the organization of maintenance operations to achieve greater efficiency.
- Develop monthly performance assessment for all employees and personnel of the company and its management.
- Perform specialized courses in Japanese Kaizen and SIX SIGMA to raise efficiency and quality.
- Perform programs to develop the working environment in the factories of the company to be at the forefront of their counterparts.
- Implement a new project for safety, security and quality guidelines in the company's factories.

- Searching for more and less-expensive sources and suppliers:

To reduce the cost of materials, the company has implemented a program to reduce the cost of procurement of materials used in the operations. The program has focused on expanding the supplier base, negotiating lower prices for many materials and supplies and obtaining better payment terms.

- Increase the percentage of local content in the company's products:

In order to reduce the quantities of imported materials while reducing supply time and thus reduce transport and storage costs, the company transferred many of its purchases to local sources such as local porcelain tiles, some components of heaters and others. Due to the nature of the Company's stock of ready-made products, the financial impact of this reduction on the cost of the Company's sales of products will gradually be reflected during the next accounting periods.

Information Technology:

Due to the importance of information technology in increasing control and accuracy and reduce costs and speed up procedures and business in the company, the company has, in 2017, implemented a project for the development of financial systems, payment systems, human resources and warehouses. In addition to the implementation of new technical systems in sales such as CRM, mobile applications for administrative work, connectivity with banks, internal communications system, time management and others.

Financial and Accounting Systems:

Due to the importance of financial and accounting works in the company, which requires more accuracy and speed in procedures, the financial management procedures in the company have been developed through the following:

- Start the application of the International Financial Reporting Standards adopted in the Kingdom of Saudi Arabia
- Develop and streamline the financial procedures of the company and reduce the steps of work with more supervision.
- Provide more specialized training courses for management personnel.
- Implement the VAT system successfully and train relevant staff on the system.
- Develop models of contracts and agreements used.
- Develop the Company's financial indicators and performance indicators and providing them electronically to the members of the Board of Directors and the company's managers.
- Initiate the development of the electronic banking system with banks.

Risk management:

Within the nature of each industry, there are multiple risks facing the company so the company has implemented plans and programs to deal with those risks, whatever their level, to avoid them or reduce their impact on the operations of the company as much as possible. The Risk Committee has been restructured in addition to increasing its knowledge on supervising the company's risk management and implementing a plan to prepare and deal with various risks. The risks that the company takes into account are:

- Labor-related risks such as high foreign labor costs, difficulty in obtaining trained technical personnel, especially with the competition from international factories and attracting them to the company's staff, as well as the turnover rate of Saudi staff in factories due to the nature of the industry in addition to the lack in trained staff. The company has established a training center that aims to transform it into a training academy that will contribute in preparing the Saudi youth to work in the company's factories.
- Risks related to the fuel of the company's factories and sources of energy such as gas and electricity and the possibility of its stoppage or rising prices where the company provided alternatives such as the possibility of using other materials and emergency power stations and others.

In 2017, the company has implemented a price competition program with dumping products that helped in directing the demand for the company's products and increased its share in local markets

- Risks related to raw materials involved in manufacturing or fluctuations in the prices of raw materials, all of which are potential in the operation of factories, but the percentage of occurrence is small and the company is working to avoid them and deal with them if occurred.
- Risks of continued dumping in the domestic market: It is necessary to take into consideration the unfair competition of products that flood the local market and are sold at prices below their cost or below the prices sold in other countries. The company, alone or with other local manufacturers, is making efforts to communicate with the concerned government agencies, which have shown great interest and are working with the company to find solutions that limit the phenomenon of dumping in the local market and is expected to show results soon. In 2017, the company has also implemented a price competition program with dumping products that helped in directing the demand for the company's products and increased its share in local markets. Despite the falling in local markets, the company's sales of tiles have decreased only slightly.
- Coming to the risks arising from the financial operations, they are continuous and for all industries, including the risk of high interest rates on loans and bank facilities, liquidity risk, credit risk to the Company's customers and the risk of fluctuation in foreign exchange rates, which the Company has taken into account. The management believes they are all insignificant risks. Noting that the company has entered into agreements with a number of local banks to reschedule existing bank loans. The company avoids credit risk by depositing its funds in highly reputable banks and the management of the company does not expect significant credit risks to arise. The company has a broad customer base and is keen to obtain adequate guarantees from customers and monitor and follow up the movement of their accounts. The company also monitors currency fluctuations and take necessary precautions when needed by stabilizing foreign exchange rates.

Manpower, Saudization and training:

The company's policy is to attract Saudi manpower and settle jobs (nationalize) based on scientific bases and specific methodology based on identifying the company's manpower requirements contained in the approved budget, specifying the job description of each job using various main means and sources of research according to the required qualifications and expertise.

In 2017, the company organized 105 training courses benefiting 982 trainees.

The training courses included (83) courses held at the training center of the company, which reached 881 trainees and the other courses were held in training centers inside and outside the Kingdom.

The number of Saudi employees at 31/12/2017 was 1,034 employees representing 28% of the total manpower. For women's employment, the company has provided all the requirements that guarantee women their privacy and respect in accordance with the teachings of Islamic law and Saudi regulations. The number of Saudi female employees on 31/12/2017 was (43) employees working in multiple areas suitable for women.

The company is implementing a plan aimed at doubling the number of male and female Saudis working in various locations through several programs, including increasing the recruitment of graduates of universities and institutes to spend their training period in the company as a means to

attract them after graduation. In addition, the implementation of training programs for graduates of public education to prepare and train them to work in the company. For such purpose, the company has established an advanced training center to implement these programs in addition to cooperation with the Human Resources Fund and educational and other bodies to attract more Saudis and develop the working environment and conditions that help them to continue in the company. The company also seeks to recruit more Saudi women to work in positions that fit them, especially in the administrative and some production processes. The company is continuing with other companies to request the concerned authorities to connect the second and third industrial city in Riyadh with public transport lines to facilitate the Saudis to reach their workplaces.

The number of Saudi employees in 2017 was

1,034

representing 28% of the total manpower

“Mowaamah” Project:

As part of its commitment to contribute to the realization of the vision of the Kingdom “Vision 2030” and its social responsibility to increase the percentage of nationalization in all its different areas, the company has participated in a program that aims to empower those with special needs to work in the private sector, which will inevitably support the rates of job nationalization as well as the company’s access to incentives and privileges that will also return to them well for their contribution in this humanitarian and noble aspect. As well as to highlight the leading role and approach, that has long been done by the company since its inception.

Company Leaders:

The company is implementing a continuous program to prepare new management leaders from inside the company and attract national talents to lead the company’s various operations to prepare the company to be more ready for the future. Saudi managers represent 90% of the company’s leaders. The company’s leadership development program from inside and outside will be a continuous program to meet the company’s growing needs and growth in future operations.

> **The Board of Directors has adopted an annual award entitled** “Council Award for Best Factory” aiming to stimulate the company’s factories to develop its performance in various fields including: Performance Development, Cost Reduction, Work Environment, Saudization, Product Development, Customer Service, Safety, Security and many other specifications

Work environment:

The company seeks to develop the working environment in its various operations, especially in the factories where the program (5S) is implemented after training a good number of employees of the company to use it as well as the programs (Kaizen) and (Six Sigma). This will increase the Saudis’ interest in working for the company, while reducing the use of paper and making all its procedures and process within the framework of full automation, making it an “environment friendly” company in all its affairs, God willing.

Best Factory Award:

The Board of Directors has adopted an annual award entitled “Council Award for Best Factory” aiming to stimulate the company’s factories to develop its performance in various fields including: Performance Development, Cost Reduction, Work Environment, Saudization, Product Development, Customer Service, Safety, Security and many other specifications. During the year 2017, five factories won the Council Award.

Innovative Ideas System:

In 2017, the company has begun implementing the innovative ideas system to encourage the company's employees to contribute their ideas and work in developing the company's business, reducing costs, inventing and developing products. The program shall offer in-kind and financial awards to staff members who show ideas that are evaluated and accepted by a special committee. A relatively large number of employees have benefited from innovative ideas that have had an impact on the company's related business.

Humanitarian Situation:

In order to achieve the principle of social responsibility in line with the leading role of the company in supporting and helping some of its employees and their families who have been exposed to medical disability or died. The company has always provided assistance and contributed to the alleviation of the burdens of its employees at all times.

The Accounting Policies of the Company and the transition to international standards:

The Company has adopted the International Financial Reporting Standards (IFRS) effective 1 January 2017. Accordingly, some changes in the Company's financial statements have been made on a number of items in the measurement, recognition, presentation and disclosure method for the current and comparative periods in accordance with the accounting policies adopted by the Board of Directors at its meeting on 28/12/2016, And other standards approved by the Saudi Organization for Certified Public Accountants.

Associates and principal activities:

1. Natural Gas Distribution Company, a Saudi shareholding company whose main activity is the purchase of gas and its distribution to factories in the second industrial city of Riyadh.
2. Ceramic Pipe Company, a Saudi shareholding company whose main activity is the manufacture and sale of pottery pipes and its factory is located in Riyadh.
3. Ceramic Investment Company – Limited Liability Company – a company established in Riyadh in partnership with the Ceramic Pipe Company (an associate company) with a capital of five hundred thousand (500,000 SAR) riyals paid in full. Its activities shall involve in import, export, marketing and retail services.

Equity and debt instruments issued by associates:

1. The share capital of the Natural Gas Distribution Company is 50 million riyals worth 5 million shares, each of which is SR 10, of which five (5) riyals have been paid. The Saudi Ceramic Company owns 793,333 shares thereof amounting to SR 3,966,670 representing 15.87% of the company's capital. The Natural Gas Distribution Company has not issued any debt instruments.
2. The company's capital is 57 million riyals worth 5.7 million shares each of which is ten riyals. Saudi Ceramic Company owns 50% or 2.85 million shares worth SR 28.5 Million. The Ceramic Pipe Company did not issue any debt instruments. Despite the significant improvement in the production of the company, the Ceramic Pipes Company suffers from losses resulting from the decrease in production capacity due to the maintenance of one of the ovens within the plan to develop the company's production and raise its capacity to meet the huge sewage projects announced by the country.

The Ceramics Pipe Company Board of Directors is working in cooperation with partners including the Saudi Ceramic Company to accelerate the preparation of the company. In addition to supporting it with the appropriate administrative and technical capabilities and to provide suitable sources of funding to enable it to meet the expected demand for its products in sewage projects, that shall contribute to its success and preserving the rights of partners.

3. Ceramic Investment Company – Limited Liability Company – a company established in the city of Riyadh in partnership with Ceramic Pipe Company (an associate) with a capital of five hundred thousand riyals (500,000 SAR) paid in full. Its activities shall involve import, export, marketing and retail services.
4. Arzan Company for Operation and Maintenance – Limited Liability Company – wholly owned by Saudi Ceramic Company, its main activity is contracting, maintenance, operation, cleaning, nutrition and others. It was established in 2017 with a capital of SR 50,000 and is scheduled to start in the second quarter of 2018.

Dividends Policy:

The Company's annual net profits (Dividends) shall be distributed as follows:

1. 10 % of net profits shall be set aside to form the statutory reserve of the Company. The Ordinary General Assembly may decide to discontinue such set aside when the said reserve reaches (30%) of the paid up share capital.
2. The Ordinary General Assembly on the proposal of the Board of Directors may set aside a percentage of net profits to form a general agreement reserve.
3. The General Assembly may decide to make other reserves to the extent that it serves the interest of the company or ensures the distribution of fixed profits as much as possible to the shareholders.
4. The remainder shall be distributed to the shareholders at a rate not less than (5 %) five percent of the paid-up capital of the company.
5. The General Assembly may approve the distribution of profits on an annual, half or quarterly basis. The Board of Directors may be authorized to do so.

The profits to be distributed to the shareholders in the place and the dates determined by the Board of Directors shall be paid in accordance with the regulations and instructions issued by the Capital Market Authority.

Ownership of large amount of shares under Article 45 of the Registration and Recognition Rules:

There is no influential interest in the category of voting shares belonging to any of the persons who during the year 2017 notified the company of these rights under Article (45) of the registration and Recognition rules, where the company did not receive any of these communications/notifications during 2017.

Board of Directors:

In accordance with the Articles of Association of the Company, the members of the Board of Directors shall be appointed by the Ordinary General Assembly of the shareholders of the Company for a period of three years. The current members of the Board were appointed by the

General Assembly held on 22 February 2016 for a period of three years beginning on 1/4/2016 and in the cumulative voting method. The following is a list of the current members of the Board of Directors and their equity and change in equity during 2017.

S.No.	Member Name	No. of shares		Number of shares of wife and minor children	
		31/12/2017	31/12/2016	31/12/2017	31/12/2016
1	Saad bin Ibrahim Almojil	301,333	301,333	5,000	5,000
2	General Organization for Social Insurance represented by: (Sami Bin Ibrahim Al Issa)	8,099,029 -	8,099,029 -	-	-
3	(Abdulkarim bin Ibrahim Al-Nafie)	-	-	-	-
4	Public Investment Fund represented by: (Abdullah bin Mohammed Jaligam)	2,700,249 -	2,700,249 -	-	-
5	Abdulaziz bin Abdulkarim Al-Khuraiji	10,000	10,000	-	-
6	Abdullah bin Turki al-Sudairy	10,000	10,000	-	-
7	Abdulrahman bin Abdulqader Bajnid	10,000	10,000	-	-
				-	-

Shares of Chief Executives

S.No.	Name	No. of shares		Number of shares of wife and minor children	
		31/12/2017	31/12/2016	31/12/2017	31/12/2016
1	Hamad bin Abdulaziz Al-Sheikh	5,000	-	-	-
2	Ibrahim bin Mohammed al - Haidari	-	-	-	-
3	Eid bin Abdullah Al - Enezi	-	-	-	-
4	Khaled bin Saleh Al-Tarifi	-	-	-	-
5	Saad bin Khalaf Al Arfaj	-	-	-	-

Saudi Industrial Development Fund loans:

The company has already received long-term loans from the Saudi Industrial Development Fund to finance expansions in Ceramic and Porcelain tiles factories, sanitary ware, electric water heaters, and red brick factory project by guaranteeing the mortgage of all fixed assets of these factories. The movement of the Fund account during 2017 was as follows:

SR "000"	
155,854	Balance of loans of the Fund in 1/1/2017 AD
53,265	Add: addition during 2017 AD
(25,870)	Less: paid to the Fund during 2017 AD
183,249	Balance at the end of 2017 AD

The balance of unused facilities from the loans of the Fund as at 31/12/2017 amounted to 29 million riyals, noting that the expiry date of these loans is 29/12/1438 AH corresponding to 20/9/2017 AD

and the extension is underway. The installments due to the Fund during the coming year 2018 amount to SR 48.6 Million.

The Board of Directors takes this opportunity to express its thanks and gratitude to the Saudi Industrial Development Fund (SDF) and its sponsors for the help and support received by company from the Fund in supporting and financing its capital projects.

Local bank loans (long and short term):

The Company has acquired long and short-term loan facilities in the Islamic Murabaha method by local commercial banks in the amount of SR 732 million to finance the expansion of the factories and to guarantee bonds for banks. These loans are repayable in semi-annual installments of unequal value ending on 5/4/2022. The movement of local bank loans during 2017 is as follows:

SR "000"	
728,000	Balance of Bank Loans on 1/1/2017 AD
424,498	Add: received during 2017 AD
420,089	Less: paid during 2017 AD
732,409	Balance at the end of the year 2017 AD

SR "000"	
224,498	Shor-term Bank Loans
507,911	Long-term Bank Loans
732,409	

The value of installments due from these loans during 2018 amount to 420.4 million riyals.

Debt Instruments, Option Rights and Conversion Rights:

The Company has no rights to transfer or subscribe under debt instruments convertible into shares, Option Rights, subscription warrants or similar rights issued or granted by the Company during 2017. There is no refund, purchase or cancellation by the Company for any redeemable debt instruments

Meetings of the Board of Directors during 2017

S.No.	Name	23/2	24/5	17/7	04/10	27/12	Total	Attendance Ratio
1	Saad bin Ibrahim Almojil	✓	✓	✓	✓	✓	5	**100 %**
2	General Organization for Social Insurance represented by: (Sami Bin Ibrahim Al Issa)	✓	✓	✓	✓	✓	5	**100 %**
3	(Abdulkarim bin Ibrahim Al-Nafie)	✓	✓	✓	✓	✓	5	**100 %**
4	Public Investment Fund represented by: (Abdullah bin Mohammed Jaligam)	✓	✓	✓	✓	✓	5	**100 %**
5	Abdulaziz bin Abdulkarim Al-Khuraiji	✓	✓	✓	✓	✓	5	**100 %**
6	Abdullah bin Turki al-Sudairy	✓	✓	✓	✓	✓	5	**100 %**
7	Abdulrahman bin Abdulqader Bajnid	✓	x	✓	x	✓	3	**60 %**
	Total	7	6	7	6	7	33	**94.3 %**

Conflict of interest:

- No member of the Board of Directors, CEO or CFO has any substantial interest (direct or indirect) in the business or contracts made for the Company's account during 2017 except as described below. The related parties shall be treated with the same terms of dealing with other parties not associated with the Company.
- The Company deals in its normal business with related parties as it purchases gas from the Natural Gas Distribution Company (an associate invested company) and deals with the Ceramic Pipe Company (an associate invested company) in various transactions.

The following are balances and details of transactions with related parties during 2017.

- Natural Gas Distribution Company and Saudi Ceramics Company represented in its board by Mr. Abdulkarim bin Ibrahim Al-Nafie (Chairman of the Board of Directors of Saudi Ceramic Company). The purchases of natural gas during the fiscal year 2017 amounted to 32 million riyals where the paid amount was 32.5 million riyals and the balance of their payable account on 31 December 2017 amounted to 2.3 million riyals.
- Ceramic Pipe Company, where the transactions during the fiscal year 2017 amounted to 7 million riyals and the balance of payable account at the end of 2017 amounted to 69 million riyals.
- The following members of the Board of Directors are related parties to the Ceramic Pipe Company
    - General Organization for Social Insurance
    - Eng./ Saad bin Ibrahim Almojil

All of it have been approved by the Board of Directors and included in the minutes of the Board of Directors. These transactions will be shown by a report of the chairman of the Board of Directors to the General Assembly.

The company did not provide any loan of any kind to any of the members of the Board of Directors. Moreover, the company did not guarantee any loan held by a member of the Board of Directors.

The Company shall comply with the conflict of interest regulation previously approved by the Board of Directors in accordance with Article (42) of the Corporate Governance Regulations.

Waiver Arrangements or Agreement:

There is no arrangement or agreement whereby a board member or a chief executive may waive any compensation or salary. There is also no arrangement or agreement whereby any of the Company's shareholders may waive any rights in profits.

Statutory Payable payments:

- The company has submitted its zakat declarations and obtained the zakat certificate until 2016. The company has paid SR 14.7 Million. The zakat provision on the statement of income for the year 2017 amounted to SR 100,000 and the balance of the provision at 31/12/2017 was SR 2.3 Million.
- The payment to the General Organization for Social Insurance for contributions for 2017 amounted to SR 19.3 Million.
- The Company has bank facilities in the form of letters of guarantee and letters of credit from local banks as at 31 December 2017 amounting to SR 59 million, including credits relating to capital commitments for contracts for the supply of machinery and equipment for factory expansion projects amounting to SR 23 million.
- The Company has guaranteed SR 36 million from the Saudi Industrial Development Fund loan granted to Ceramic Pipe Company (an associate) as at 31 December 2017. The company has also guaranteed a SR 33 million loan from the Saudi Investment Bank granted to Ceramic Pipe Company (an associate) as at 31 December 2017.

Guarantees granted:

The Company shall guarantee an amount of SAR 36 million from the Saudi Industrial Development Fund loan granted to the Ceramic Pipe Company (an associate) as at 31 December 2017. The Company shall also guarantee (the amount after the decline) SAR 33 million from the Saudi Investment Bank loan granted to the associate (Ceramic Pipe Company) as at 31 December 2017.

Other investments or reserves created for the benefit of the Company's employees:

Currently, there are no investments or other reserves created for the Company's employees.

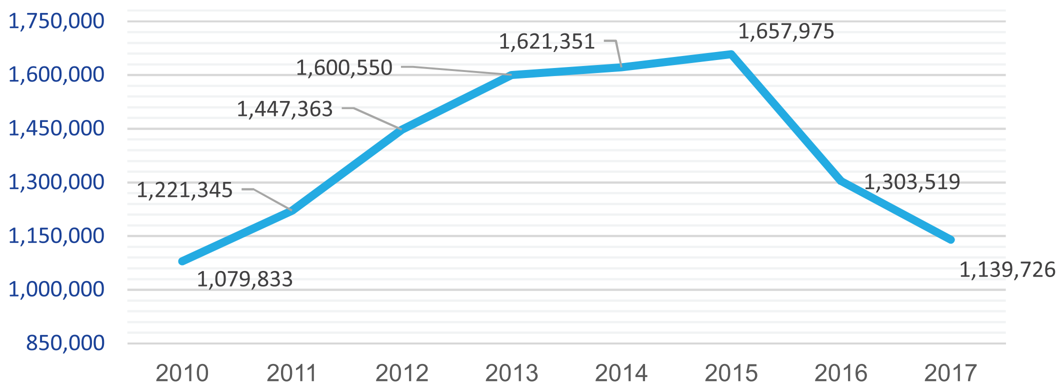
Confirmations of the Board of Directors

The board of directors shall confirm the following

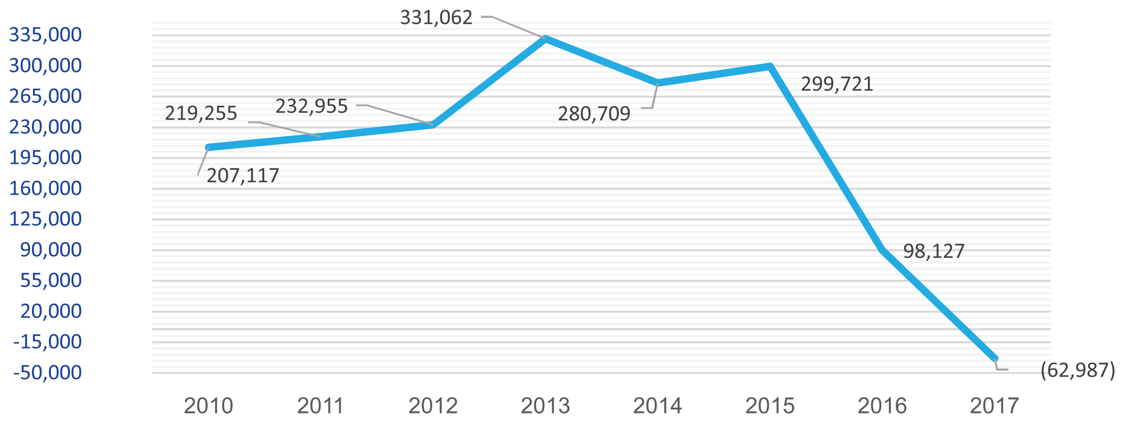
1. The accounting records have been prepared correctly.
2. The internal control system is well established and implemented effectively.
3. There is no doubt about the company's ability to continue its business.

Review of activity over the past eight years (Value in thousands of Riyals)

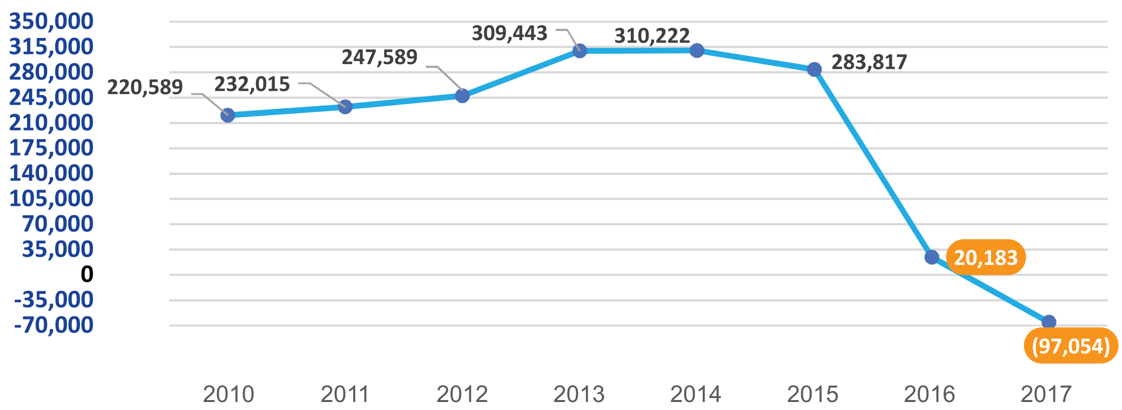
Sales



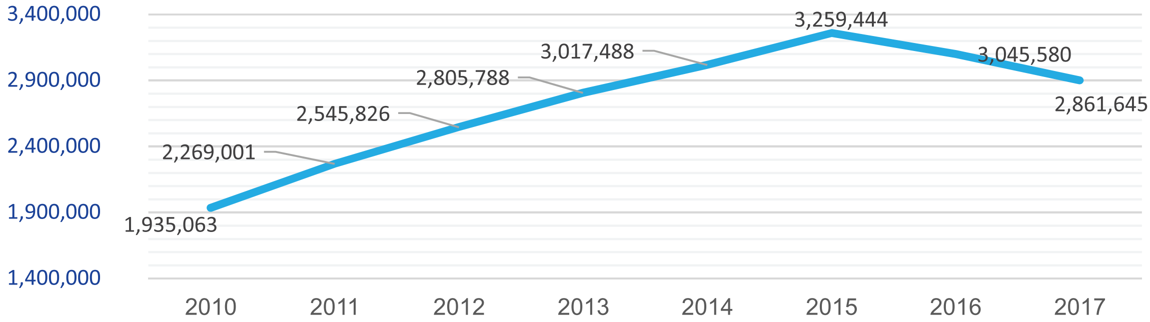
Net operating profit



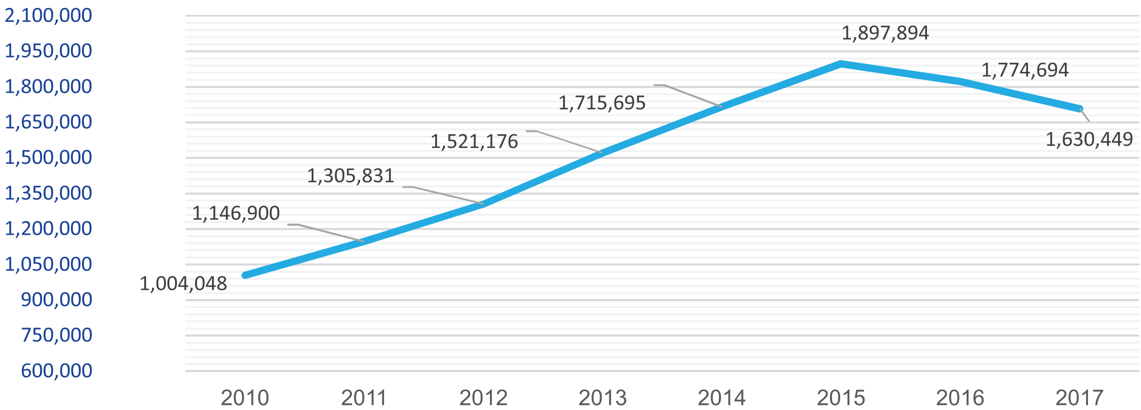
Net Profit



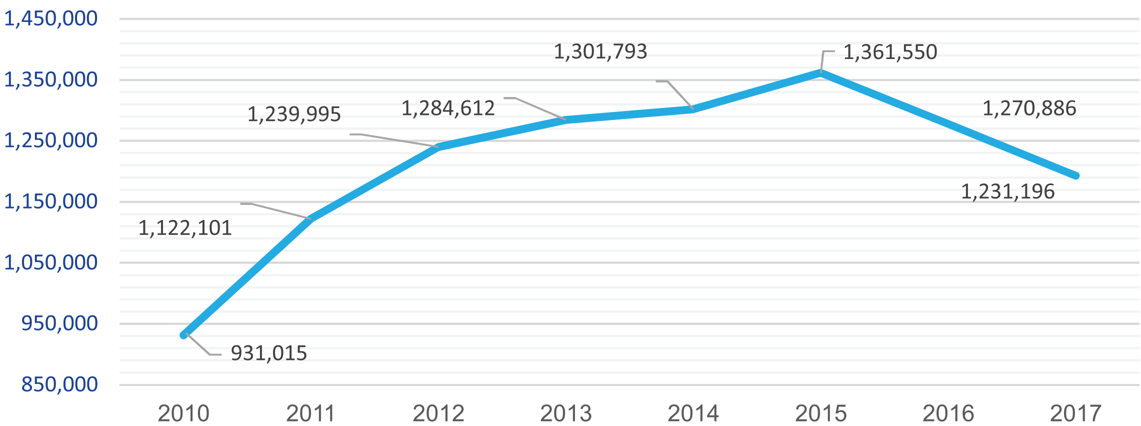
Gross Assets



Total Equities



Total Liabilities



Other Financial Indicators

Fiscal Year	2017	2016	2015	2014	2013	2012	2011	2010
Ratio of net (loss) profit to assets	-5.9%	0.7%	8.9%	10.3%	11.0%	9.7%	10.2%	11.4%
Ratio of net (loss) profit to shareholder's equities	-3.8%	1.1%	15.3%	18.1%	20.3%	19.0%	20.2%	22.0%
Ratio of gross profit to sales	14.8%	27.5%	35.1%	34.8%	36.2%	32.8%	36.6%	36.5%
Ratio of net (loss) profit to sales	-8.5%	1.5%	17.1%	19.1%	19.3%	17.1%	19.0%	20.4%
Ratio of net operating (loss) profit to sales	-5.5%	7.5%	18.1%	17.3%	19.4%	16.1%	18.0%	19.2%
Share net (loss) profit (Riyal)	-1.94	0.40	5.68	6.20	8.25	6.60	9.28	8.82
Capital (Million Riyals)	500	500	500	500	375	375	250	250

Governance of Companies

The Company shall have a special internal governance system prepared by its board of directors, which supervise this system and monitor its effectiveness as required. The corporate shall apply all corporate governance systems.

Norms and Standards of Governance Guidelines will be presented at the General Assembly meeting to be approved and accepted.

Members of the board of directors participated in the membership of the boards of directors of other joint stock companies:

S.No	Name	Other Joint Stock Companies Names
1	Abdulkarim bin Ibrahim Al-Nafie	Natural Gas Distribution Company (not included) United Cement Industrial Company (not included)
2	Saad bin Ibrahim Almojil	Arabian Pipes Company (APC) (included). Eastern Province Cement Company (included). Al Yamamah Steel Co. (included). Mohammad Almojil Group (MMG). (not included). Packaging Products Company. (not included). Ceramic Pipes Company. (not included).
3	Abdulaziz bin Abdulkarim Al-Khuraiji	Chubb Arabia Cooperative Insurance Company. (included). Bidaya Home Finance. (not included). Al Khuraiji Investment Company. (not included).
4	Abdullah bin Mohammed bin Abdullah Jaligam	None
5	Sami bin Ibrahim bin Abdulaziz Al - Issa	None
6	Abdullah bin Turki bin Saad al-Sudairy	Biot Lian Company. (not included) Taslyiah Company. (not included)
7	Abdurrahman bin Abdulqader bin Said Bajnid	None

Composition of the Board of Directors

Board of Directors consists of the following names:

S.No	Name	Member Capacity
1	Abdulkarim bin Ibrahim Al-Nafie	Non-executive (representative of the General Organization for Social Insurance (GOSI))
2	Saad bin Ibrahim Almojil	Non-executive
3	Abdulaziz bin Abdulkarim Al-Khuraiji	Non-executive (representative of the General Organization for Social Insurance (GOSI))
4	Abdullah bin Mohammed bin Abdullah Jaligam	Non-executive (representative of Public Investment Fund (PIF)).
5	Sami bin Ibrahim bin Abdulaziz Al - Issa	Independent member
6	Abdullah bin Turki bin Saad al-Sudairy	Independent member
7	Abdurrahman bin Abdulqader bin Said Bajnid	Independent member

After the approval issued by the Assembly at its last meeting on 19/4/2017 and after the completion of the formal procedures for the adoption of the Articles of Association of the company, the company, based on the resolution of the Board of Directors after the recommendation of the Committee of Rewards and nominations, issued an announcement to invite those who wish to operate the eighth seat and raise candidates for the Assembly to choose the appropriate member.

Names of the members of the Board of Directors and members of the committees, their functions, qualifications, and experience

S.No	Member of the Board of Directors Name	Previous Job	Current Job	Qualifications	Experiences
1	Abdulkarim bin Ibrahim Al-Nafie	Director General of the Saudi Industrial Development Fund	Chairman of Saudi Ceramic Company	Bachelor of Accounting and Business Administration	22 years of experience in credit management of the Saudi Industrial Development Fund from 1981 to 2003. 12 years of experience as Chief Executive Officer of Saudi Ceramic Company from 2003 to 2015. Director General of the Saudi Industrial Development Fund from July 2015 to 2017. Member of the board of directors of a number of companies and government bodies. Chairman of the Board of Directors of Saudi Ceramic Company up to date.
2	Saad bin Ibrahim Almojil	Managing Director of Almojil Trading & Contracting Co.	Chairman of the Board of Directors of Almojil Trading & Contracting Co.	MA in Chemical Engineering	Over the past decades, he occupied several positions in the presidency and membership of the Board of Directors of several companies and still up to date. Participating in various industrial and commercial organizations and participating in various charitable and social organization
3	Abdulaziz bin Abdulkarim Al-Khuraiji	Director General of the General Supervision Department of the General Organization for Social Insurance	Director General of Internal Audit at the General Organization for Social Insurance	EMBA (Executive Master of Business Administration)	Director of the Financial Control Department of the Company from August 2008 to June 2010. Director General of the General Department of Control from July 2010 to December 2011. Director General of Internal Audit from January 2012 up to date.
4	Abdullah bin Mohammed bin Abdullah Jaligam	Assistant Financial Director and Financial Advisor at the Public Investment Fund.	Assistant Financial Director and Financial Advisor at the Public Investment Fund	Bachelor of Accountant	26 – year experience as a financial advisor in the Public Investment Fund
5	Sami bin Ibrahim bin Abdulaziz Al - Issa	Chairman of Al Khuraiji Group	Executive Director of Al Khuraiji Investment Company	Bachelor of Science in Management	16 - year experience in the field of trade, contracting, Real Estate and investment
6	Abdullah bin Turki bin Saad al-Sudairy	Executive Vice President of Amlak International for Real Estate	Executive Vice President of Amlak International for Real Estate	Master International Administration	8 - year experience in Samba Financial Group - Corporate Division - Assistant General Manager 10 – year experience in Amlak International for Real Estate Finance Company - Chief Executive Officer up to date.
7	Abdurrahman bin Abdulqader bin Said Bajnid	Director of Gulf Bank in Saudi Arabia	CEO of Rafal Real Estate Development	Bachelor of Financial Management	18 - year experience in the fields of Saudi banks, commercial holding companies and real estate development companies

Committees of the Board of Directors

1. Executive Committee:

The Executive Committee shall consist of three members nominated by the Board of Directors from among its members. Their membership shall be terminated upon the expiry of the period designated to the Board of Directors and may be renewed for similar periods.

The tasks of the committee include the implementation of the company's policies, the performance control and the approval of projects and expenses within the limits of powers and responsibilities determined by the Board of Directors. Regular minutes shall be executed in the meetings of the Committee and singed by the members of the Committee and shall be presented before the Board of Directors at the next meeting of the board.

Members of the Executive Committee:

The Board of Directors nominated the following members of the Executive Committee as of 6/4/2016:

1. Mr. Abdullah bin Mohammed Jaligam (Chairman)
2. Mr. Abdullah bin Turki bin Saad al-Sudairy. (Member)
3. Mr. Abdurrahman bin Abdulqader Bajnid. (Member)

The Committee held 12 meetings during the year of 2017 and the attendance rate was 92%.

2. Audit Committee:

According to the selection rules of the Audit Committee, the duration of their membership and the manner of its work approved by the Ordinary General Assembly held on 17/4/1994, the Ordinary General Assembly held on 1/4/2007 and the Extraordinary General Assembly held on 19/04/2017, The Board of Directors shall be constituted out of the members of the executive committee as the board of directors has suggested, providing that the number of its members shall not be less three and not exceeding five for a period not exceeding three years and not be less than one year and may be renewed for similar periods. The membership of the Committee shall expire upon the expiry of the term of the Board of Directors. The members of the Committee shall include a member in charge of financial and accounting matters.

The main tasks of Auditing Committee are to make sure of the adequacy and effectiveness of the internal control procedures, to verify the validity and authenticity of the financial statements, to guide the selection of the chartered accountants according to specific regulations, to review the quarterly and annual financial statements before publishing them and to study the reports and observations submitted by both the chartered accountant and the Internal Auditing Department. Moreover, to approve any work out of the scope of audit work assigned to them during their audit work, and to give an opinion and recommendation regarding the preliminary and annual financial statements before submitting them to the Board of Directors.

The General Assembly held on 19/4/2016 approved the formation of the current audit committee proposed by the Board of Directors as of 6/4/2016. The members of the Audit Committee are as follows:

1. Mr. Nasser bin Abdullah al-Awfi (Chairman)
2. Mr. Sami bin Ibrahim Al – Issa (Member)
3. Mr. Ayman bin Saleh al – Ghamdi (Member)

During 2017, the Committee held six meetings and the attendance rate was 100%.

3. Nomination and Remuneration Committee:

Nomination and Remuneration Committee shall consist of at least three members nominated by the Board of Directors for a period not exceeding three years and not be less than one year. They may be reappointed for similar periods and the membership of the Committee shall be expired upon the expiry of the period designated to the Board of Directors.

Nomination and Remuneration Committee's tasks are to recommend the nomination of the council's membership in accordance with the policies, standards, and procedures necessary for candidacy for the membership and approved by the General Assembly held on 1/4/2013, as well as preparing a description for the capacities and qualifications required for the membership of the Council, identifying the strengths and weaknesses points of the Council and suggesting their remedies, ensuring that there is no conflict of interests and annually assuring from the independence of independent members and drawing up policies regarding the compensations and remunerations of members of the Board and chief executive officers.

The updated list of the work of the Nomination and Remuneration Committee will be submitted for approval by the General Assembly.

The Board appointed the following committee of the Nomination and Remuneration Committee as of 6/4/2016:

1. Mr. Abdulaziz bin Abdulkarim Al-Khuraiji (Chairman)
2. Mr. Saad bin Ibrahim Almojil (Member)
3. Mr. Sami bin Ibrahim Al - Issa (Member)

During the year 2017, the Committee held three meetings and the attendance rate was 100%.

4. Strategic Committee:

The Strategy Committee shall consist of three members nominated by the Board of Directors and selected from among its members. Their membership shall be terminated upon the expiry of the term of the Board of Directors. They may be reappointed for similar periods. The committee may seek the assistance of any of its directors and employees in order to achieve its objectives.

The task of the committee is to draw and follow up a medium and long-term strategic plan in order to develop the company, develop the quality of its products, study the available investment opportunities, strengthen the competitive position of the company, and recommend the acquisition of companies and establishments that carry out similar business activities or that may help the to achieve its objectives.

The first strategic committee was formed from the following members of the Board of Directors as of 6/4/2016:

Mr. Abdulkarim bin Ibrahim Al-Nafie (Chairman)
Mr. Abdulaziz bin Abdulkarim Al-Khuraiji (Member)
Mr. Abdullah bin Turki bin Saad al-Sudairy (Member)

During 2017, The Committee held two meetings and the attendance rate was 100%.

Remunerations, salaries, and allowances:

Description	Board members/ Executive members Thousand Riyals	Board members/ Non-executive and independent members Thousand Riyals	Five top executives who received the highest remuneration and compensations including the Chief Executive Officer and Chief Financial Officer Thousand Riyals
Salaries and bounces	-	-	3,341
Allowances	-	788	1,031
Annual and periodical remunerations	-	1,400	582
Incentives plans	-	-	-
Other benefits	-	-	2,740
	-	2,188	7,694

Creating an investment portfolio:

The Board of Directors decided on 29/12/2014 to create an investment portfolio for the purpose of contributing to the IPO in the Saudi Stock Exchange, providing that financing of such subscriptions shall be subjective. The company did not exercise any activity in this portfolio until the end of 2017.

Social Responsibility and Preservation of the Environment

In the frame of providing more opportunities to Saudis to work in its locations and its role in localizing the Saudi senior staff, the company seeks to increase the number of Saudis to 1034 employees and the number of Saudi female employees to (43). The company has provided the female employees with their privacy according to the teachings of Islamic Shariah and Saudi systems and work in many areas of the company.

The company contributes to the establishment and building of many mosques, places of worship and Koranic schools where it provides its products including road mosques in Riyadh. The company also provides cash donations to many charities as well as sponsoring programs of social development committees.

The company pays great attention to the cleanliness and improvement of the environment by using high-tech machines for recycling waste and remnants of products, as well as transporting raw materials inside factories using modern underground methods.

The energy recycling project reduces heat generated from some tile kilns factories, which contributes to the cleanliness and improvement of the environment.

Effect of Results of the annual audit on the effectiveness of internal control procedures

The internal control system has been prepared on a sound basis and its effectiveness is reinforced by:

1. The existence of a management specialized in the audit work, which is called (Internal Audit Department).
2. The existence of internal audit committee which submits its reports to the Board of Directors.
3. The Internal Audit Department submits its periodic reports to the Audit Committee, which submits the reports to the Board of Directors. The adequacy and effectiveness of the internal control system are reviewed and evaluated by the Internal Audit Department and some aspects of internal control are reviewed periodically by external auditors. The Audit Committee is persuaded by the fact that this cycle reflects the effectiveness of the Company's internal control procedures and that there are not any material observations to be taken.

External Auditor:

The General Assembly of the shareholders held on 19/04/2017 appointed of Dr. Mohamed Al-Amri & Co. to audit the company's accounts for the year of 2017 and the quarterly financial statements based on the recommendation of the Audit Committee.

The company contributes to the establishment and building of many mosques, places of worship and Koranic schools where it provides its products including road mosques in Riyadh

Dividends distribution for the year of 2017

The net loss of 2017 amounted to SR 97,054,000 and the Board of Directors suggests the following:

	Thousand Riyals	Thousand Riyals
Balance of the remaining profits after disbursing the profit of 2016		1,000,490
Net loss of 2017	(97,054)	
Add: Other comprehensive income items	2,712	
	(94,342)	
Total		**906,148**
Deducted: Distribution of free shares to shareholders equal to 20% of the capital.		(100,000)
Balance		**806,148**
Balance carried forward next year		806,148

Date of the General Assembly of Shareholders held during the fiscal year 2017 (one meeting) and the names of the members of the Board who attend the meeting:

Name	Attendance record 19/04/2017
Abdulkarim bin Ibrahim Al-Nafie	attended
Saad bin Ibrahim Almojil	absent
Abdulaziz bin Abdulkarim Al-Khuraiji	attended
Abdullah bin Mohammed bin Abdullah Jaligam	attended
Sami bin Ibrahim bin Abdulaziz Al - Issa	attended
Abdullah bin Turki bin Saad al-Sudairy	attended
Abdurrahman bin Abdulqader bin Said Bajnid	absent

Board of Directors suggests the following:

1. To vote on the financial statements of the company for the fiscal year ended on 31 December 2017.
2. To vote on the report of the Board of Directors for the fiscal year ended on 31 December 2017.
3. To vote on the auditor's report for the fiscal year ended on 31 December 2017.
4. To vote on the recommendation of the Board of Directors to raise the capital from 500 million Riyals to 600 million Riyals by issuing 10 million shares at a value of 100 million Riyals (deducted from the balance of retained earnings) by granting one free share for every five existing shares owned by registered shareholders at the end of the trading day of the date of the Extraordinary General Meeting.
5. To vote on the discharge of the members of the Board of Directors from the responsibility for their management of the company during 2017.
6. To vote on the selection of a member to fill the eighth seat on the Board of Directors for the current session.
7. To vote on the election of an auditor among the candidates nominated by the Audit Committee to review the financial statements for the fiscal year of 2018 and the quarterly financial statements and determine their fees.
8. To vote on the disbursement of an amount of (1.4) million Saudi Riyals to the members of the Board of Directors by 200 thousand Riyals per member for the year of 2017.
9. To vote on dealing with Natural Gas Distribution Company ((NGDC) for the year 2018, noting that there are no special conditions for dealing with this company, which is an associate company (Saudi Ceramic Company owns part of its capital) and that the representative of Saudi Ceramics Company in the Board of Directors of the Natural Gas Distribution Company for 2017 is Mr. Abdulkarim bin Ibrahim Al-Nafie is the main activity in the purchase of natural gas and distribution to factories in the second industrial city in Riyadh. The value of transactions during 2017 amounted to 32 million riyals.
10. To vote on dealing with Ceramic Pipe Company for the year 2018, putting into consideration that there are not any special conditions to deal with this company, which is an associate company (Saudi Ceramic Company owns part of its capital) and that the representatives of Saudi Ceramic Company in the Ceramic Pipe Company in 2017 are Mr.Hamad Al-Sheikh and Eng. Eid al-Anzi and Eng. Mohammed Al-Maqbel, whose main activity is fabrication and sale of pottery pipes. The value of transactions during 2017 amounted to 7 million Riyals, noting that the following members of the Board of Directors whose names are mentioned below have an interest in dealing with Ceramic Pipe Company, namely: A- General Organization for Social Insurance B – Eng. Saad bin Ibrahim Almojil.
11. To vote on the "Remuneration and Nomination Committee Regulations".
12. To vote on "the policy of remuneration of members of the Board of Directors and committees emerged from Board of Directors and Executive Department."
13. To vote on updated" Policy, Standards and Procedures " of the board.
14. To vote on the amendment of Article No. 7 of the Company`s Main System related to the capital.
15. To vote on the amendment of Article No. 8 of the Company`s Main System related to subscription to stock.

The Board of Directors would like to take the opportunity to thank you for your hospitality to this invitation and to thank our wise government, especially the Custodian of the Two Holy Mosques and His Highness the Crown Prince, for the encouragement provided by HH to the company as well as supporting provided to achieve the company's vision of 2030 and making use of what the company provides to support the role of industry in increasing the income of the domestic product. The Board also expresses 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 continued support and confidence.

Best Regards,

Board of Directors

Saudi Ceramic Company

(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS FOR
THE YEAR ENDED DECEMBER 31, 2017
AND INDEPENDENT AUDITOR'S REPORT

SAUDI CERAMIC COMPANY

(A Saudi Joint Stock Company)
Index Of Consolidated Financial Statements
For The Year Ended December 31, 2017

41 Independent auditors' report on the audit of consolidated financial statements

50 Consolidated statement of financial position

51 Consolidated statement of profit or loss and OCI

52 Consolidated statement of changes in equity

53 Consolidated statement of cash flows

54 Notes to the consolidated financial statements

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 AUDITORS' REPORT

To the shareholders of
Saudi Ceramic Company
A Saudi Joint Stock Company

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Saudi Ceramic Company (the "Company") and its subsidiaries (collectively the "Group"), which comprise of the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity, and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") endorsed in the Kingdom of Saudi Arabia, and other standards and versions endorsed by Saudi Organization for Certified Public Accountants ("SOCPA").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA) endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the professional code of conduct and that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated financial statements and we have fulfilled our other ethical responsibilities in accordance with its requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The key audit matters include:

Partners: Dr. Mohamed Al-Amri (60), Jamal M. Al-Amri (331), Gihad M. Al-Amri (362)
• Jeddah: Tel. 012 6394477, Fax: 012 6394058 • Dammam: Tel. 013 8344311, Fax: 013 8338553, www.alamri.com
Dr. Mohamed Al-Amri & Co., a Saudi Professional Company registered under licence no. 323/11/66, C.R. 1010433982
member of BDO International Limited, a UK company Limited by guarantee, and forms part of the international BDO network of independent member firms.

BDO 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

Key Audit Matters (continued)

The application of the International Financial Reporting Standards beginning from 1 January 2017	
Key audit matter	**How the matter was addressed in our audit**
The Saudi Organization for Certified Public Accountants ("SOCPA") has endorsed the International Financial Reporting Standards (IFRSs) to be implemented in the Kingdom of Saudi Arabia as of 1 January 2017 for the listed companies, accordingly, the Group has adopted the International Financial Reporting Standards in accordance with the SOCPA's decision, this application resulted in several amendments, the most important of which are: • Adjustments for recognition and derecognition of certain items to comply with the requirements of IFRS. • Reclassification of certain items in the financial statements. • Adding a section to the statement of comprehensive income includes other comprehensive income items. • Addition of certain accounting policies that comply with international financial reporting standards. • Recognition of actuarial losses or gains from re-measuring the obligation for employees' end of service benefits. This has been identified as a key audit matter for the significant change in the form and content of the financial statements in terms of presentation and accounting treatments than before.	• We have obtained an understanding of the Group's plan for transition from the generally accepted accounting principles (SOCPA) to the international financial reporting standards (IFRSs). • We obtained a report analyzing the differences in application of generally accepted accounting principles (SOCPA) and the international financial reporting standards (IFRSs). • We reviewed the completion of the identification of differences in terms of presentation, disclosure, recognition, and measurement. • We reviewed the accuracy of the adjustments made as a result of the application of the International Financial Reporting Standards (IFRSs), as they were recorded in the statement of financial position as at 1 January 2016 and the statement of financial position for the year ended 31 December 2016. • We have reviewed the disclosure in the annual financial statements related to the effects of the application of the International Financial Reporting Standards (IFRSs).
Refer to note (7) for the impacts of application of the International Financial Reporting Standards (IFRSs).	

Partners: Dr. Mohamed Al-Amri (60), Jamal M. Al-Amri (331), Gihad M. Al-Amri (362)
• Jeddah: Tel. 012 6394477, Fax: 012 6394058 • Dammam: Tel. 013 8344311, Fax: 013 8338553, www.alamri.com
Dr. Mohamed Al-Amri & Co., a Saudi Professional Company registered under licence no. 323/11/66, C.R. 1010433982
member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

BDO 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

Key Audit Matters (continued)

Revenue recognition	
Key audit matter	How the matter was addressed in our audit
As at 31 December 2017, the Group's revenues amounted to SR 1,140 million (31 December 2016: SR 1.304 million). Revenue is measured at the fair value of the consideration received or receivable. Revenue is realized when there is sufficient expectation that future economic benefits will flow to the entity and that the value of these benefits can be measured reliably. Revenue recognition considered as a key audit matter as the timing and amount of revenue recognized in the financial year can have a material impact on the financial performance.	• Evaluate the design, implementation and test the efficiency of the controls implemented to recognize the revenue in accordance with the Group's policy. • Test of the entries on the revenue to identify any unusual or irregular items. • Verify the sales transactions carried out near the end of the year to assess whether revenue is recognized in the correct year. • Predicate the current year's revenue based on trend analysis information, and then compare these forecasts with the actual revenue and, if necessary, make further enquiries and tests.
Refer to note (6) Summary of significant accounting policies and note (8) for relevant disclosure.	

BDO 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

Key Audit Matters (continued)

Impairment of trade receivables	
Key audit matter	**How the matter was addressed in our audit**
As at 31 December 2017, the Group's trade receivables amounted to SAR 160 million (2016: SAR 162 million), net of provision for doubtful debts of SR 4.1 million (SAR 3.8 million). The ability to collect the trade receivables is a key component of the company's working capital Management, which is carried out on an ongoing basis. It was considered as a key audit matter because it requires the management to use estimates to determine the decline in the value of trade receivables.	• We have evaluated the procedures and controls related to the Group's control of trade receivables and credit risk assessment. • Reviewed a sample of customer invoices to verify the correctness of ageing report. • Assessed the management assumptions used to determine the decline in the value of trade receivables through a detailed analysis of the age of trade receivables.
Refer to note (6) Summary of significant accounting policies and note (19) for relevant disclosure.	

BDO 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

Key Audit Matters (continued)

Valuation of inventories	
Key audit matter	How the matter was addressed in our audit
As at 31 December 2017, the inventory balance amounted to SR 707 million (2016: SAR 797 million), net of provision for slow moving inventories of SR 52 million (2016: SAR 12 million). Inventories are stated at the lower of cost and net realizable value. When inventory is obsolete, its net realizable value is estimated. This estimate is made individually for material amounts. The non-material amounts of the obsolete inventory items are assessed on a compound basis and are allocated based on the inventory type and the degree of obsolescence based on the expected selling prices. We consider this as a key audit matter due to the significant judgment and key assumptions applied by the management in determining the allowance for slow moving inventories and the level of inventories write down required based on net realizable value (NRV) assessment.	• Evaluating the design, implementation and test the efficiency of the key controls related to the Group's procedures for determination and monitoring of the allowance for slow moving inventories. • Reviewing the Group's net realizable value test of inventories to verify whether the inventory is valued at the lower of cost or net realizable value. • Inquiring for any identified expired or slow-moving inventories during our attendance of physical counts.
Refer to note (6) Summary of significant accounting policies and note (18) for relevant disclosure.	

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

Key Audit Matters (continued)

Loans covenants	
Key audit matter	**How the matter was addressed in our audit**
As at 31 December 2017, the loans balance amounted to SAR 691 million (2016: SAR 681 million). It was considered as a key audit matter because there are risks of not classifying loans properly and failure to meet the financial convenient and installments in a timely manner, resulting in breach of contract terms, and non-compliance with bank convenient associated with the Group's financial indicators.	• Obtained the bank confirmations of lenders for loans and match them with the Group books. • Reviewed the loan agreements and make sure that the balances have been properly disclosed. • Obtained a statement that clarifying the Group's commitment to bank convenient, verifying and recalculating and ensuring compliance. • Verifying the Group's compliance with the requirements of the international Financial Reporting standard (IFRSs) regarding the classification of loans if the Group has breached the bank convenient.
Refer to note (6) Summary of significant accounting policies and note (22) for relevant disclosure.	

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

Key Audit Matters (continued)

Investments in associates	
Key audit matter	**How the matter was addressed in our audit**
As of December 31, 2017 investments in associates amounted to SR 25 Million (2016: SR 25 million). The Group is exposed to the risk of classification and impairment in its companies that are accounted for using the equity method. The Group's management conducts the impairment test on investments and amounts due from associated companies that are accounted for using the equity method and considers whether there are indications of impairment in respect of these investments. The assessment of impairment requires the use of judgments and assumptions when carrying out the impairment tests. The classification and impairment assessment of associates that are accounted for using the equity method is considered as a key audit matter due to the importance of the balances in the consolidated financial statements as a whole, in addition to the professional judgment associated with the impairment assessment and the impact of the financial guarantees provided to the investee companies.	• Reviewing the relevant agreements together with supporting documents and ensuring that they are properly accounted for and presented in accordance with the requirements of the IFRSs. • Obtaining approved financial statements of associates. • Ensuring that the equity method is properly accounted for. • Assessing the adequacy of the disclosures presented in the consolidated financial statements including the Company's plans to support investment in associates and related financial collateral. • Evaluating the reasonableness of management's assumptions and estimates used in determining the recoverable amount of material investments. We have benchmarked these assumptions against external data and assessed them based on our knowledge of the Group and the industry. • Testing management sensitivity analysis and related scenarios around key drivers of the cash flow forecasts and impairment test models.
Refer to note (6) Summary of significant accounting policies and note (16) for relevant disclosure.	

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

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRSs endorsed in the Kingdom of Saudi Arabia, other standards and versions endorsed by SOCPA and Regulations of Companies requirements, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those Charged with Governance, in particular the Audit Committee, are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA endorsed in the kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Partners: Dr. Mohamed Al-Amri (60), Jamal M. Al-Amri (331), Gihad M. Al-Amri (362)
Jeddah: Tel. 012 6394477, Fax: 012 6394058 Dammam: Tel. 013 8344311, Fax: 013 8338553, www.alamri.com
Dr. Mohamed Al-Amri & Co., a Saudi Professional Company registered under licence no. 323/11/66, C.R. 1010433982
member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the management and Those Charged with Governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Those Charged With Governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In our opinion these consolidated financial statements, taken as a whole, comply with the Regulations for Companies and the Company's by-laws with respect to the preparation and presentation of consolidated financial statements.

For Dr. Mohamed Al-Amri & Co.

Riyadh
Certified Public Accountants
Dr. Mohamed Al-Amri & Co.

Jamal M. Al-Amri
Certified Public Accountant
Registration No. 331

Riyadh, on: 11 Rajab 1439(H)
Corresponding to: 28 March 2018(G)

10

Partners: Dr. Mohamed Al-Amri (60), Jamal M. Al-Amri (331), Gihad M. Al-Amri (362)
• Jeddah: Tel. 012 6394477, Fax: 012 6394058 • Dammam: Tel. 013 8344311, Fax: 013 8338553, www.alamri.com
Dr. Mohamed Al-Amri & Co., a Saudi Professional Company registered under licence no. 323/11/66, C.R. 1010433082
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)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(In Saudi Riyals Thousand)

		31 December 2017	31 December 2016 Restated – Note 7	1 January 2016 Restated – Note 7
Assets	**Note**			
Non-current assets				
Property, plant and equipment	13	**1,712,645**	1,860,908	1,909,730
Intangible assets	14	**1,775**	4,010	6,936
Investments accounted for using the equity method	16	**25,067**	24,742	74,771
Financial assets at fair value through other comprehensive income	17	**10,894**	10,797	9,403
Derivative financial instruments	7	**-**	188	119
Total non-current assets		**1,750,381**	1,900,645	2,000,959
Current assets				
Inventories	18	**707,067**	796,822	710,803
Trade and other receivables	19	**324,901**	323,414	307,055
Cash and cash equivalents	20	**79,296**	24,699	186,056
Total current assets		**1,111,264**	1,144,935	1,203,914
Total assets		**2,861,645**	3,045,580	3,204,873
Equity and liabilities				
Equity				
Share capital	21	**500,000**	500,000	500,000
Statutory reserve	21	**218,336**	218,336	215,882
Fair value reserve	21	**5,965**	5,868	4,473
Retained earnings		**906,148**	1,050,490	1,134,545
Total equity		**1,630,449**	1,774,694	1,854,900
Liabilities				
Non-current liabilities				
Loans and borrowings	22	**225,366**	423,282	659,284
Employees› end of service benefits	23	**69,385**	77,225	74,458
Total non-current liabilities		**294,751**	500,507	733,742
Current liabilities				
Short term loans	22	**224,498**	203,000	-
Current portion of loans and borrowings	22	**465,794**	257,572	272,943
Trade and other payables	24	**243,809**	292,845	327,933
Zakat provision	11	**2,344**	16,962	15,355
Total current liabilities		**936,445**	770,379	616,231
Total liabilities		**1,231,196**	1,270,886	1,349,973
Total equity and liabilities		**2,861,645**	3,045,580	3,204,873

The notes 1 to 31 are an integral part of these consolidated financial statements.

SAUDI CERAMIC COMPANY

(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OCI

FOR THE YEAR ENDED 31 DECEMBER 2017

(In Saudi Riyals Thousand)

	Note	2017	2016
Revenue	25	**1,139,726**	1,303,519
Cost of sales	9	**(971,457)**	(945,690)
Gross profit		**168,269**	357,829
Other income	9	**10,742**	10,013
Impairment loss on trade and other receivables	19	**(345)**	(900)
Selling and distribution expenses	9	**(167,962)**	(184,432)
General and administration expenses	9	**(73,691)**	(84,383)
Operating (loss)/ profit		**(62,987)**	98,127
Gain on sale of property, plant and equipment		**5,628**	2,124
Net finance costs	10	**(40,316)**	(8,843)
Impairment of investment in associate		**-**	(25,000)
Share of net profit/(loss) of associates accounted for using the equity method	16	**721**	(23,717)
(Loss) / profit before zakat		**(96,954)**	42,691
Zakat expense	11	**(100)**	(22,508)
(Loss) / profit for the year		**(97,054)**	20,183
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit liability	23	**2,712**	(1,784)
Financial assets at fair value through OCI - net change in fair value	17	**97**	1,395
Other comprehensive income/ (loss)for the year		**2,809**	(389)
Total comprehensive (loss) / income for the year		**(94,245)**	19,794
Basic and diluted (loss) / earnings per share (SAR)	12	**(1.94)**	0.40

The notes 1 to 31 are an integral part of these consolidated financial statements

SAUDI CERAMIC COMPANY

(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

(In Saudi Riyals Thousand)

	Share capital	Statutory reserve	Fair value reserve	Retained earnings	Total Equity
Balance as at 1 January 2017	500,000	218,336	5,868	1,050,490	1,774,694
Net loss for the year	-	-	-	(97,054)	(97,054)
Other comprehensive income for the year	-	-	97	2,712	2,809
Total comprehensive income / (loss) for the year	-	-	97	(94,342)	(94,245)
Dividends paid (Note 21.3)	-	-	-	(50,000)	(50,000)
Balance as at 31 December 2017	500,000	218,336	5,965	906,148	1,630,449
Balance as at 1 January 2016 as previously reported	500,000	215,882	1,636	1,180,257	1,897,775
Impact of correction of error (Note 7.15)	-	-	-	(33,115)	(33,115)
Impact of IFRS conversion	-	-	2,837	(12,597)	(9,760)
Balance as at 1 January 2016 – Restated	500,000	215,882	4,473	1,134,545	1,854,900
Net Profit for the year	-	2,454	-	17,729	20,183
Other comprehensive income / (loss) for the year	-	-	1,395	(1,784)	(389)
Total comprehensive income / (loss) for the year	-	-	1,395	15,945	19,794
Dividends paid (Note 21.3)	-	-	-	(100,000)	(100,000)
Balance as at 31 December 2016	500,000	218,336	5,868	1,050,490	1,774,694

The notes 1 to 31 are an integral part of these consolidated financial statements

SAUDI CERAMIC COMPANY

(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

(In Saudi Riyals Thousand)

	2017	2016
Cash flows from operating activities		
Net (loss)/profit before zakat Adjustments for:	**(96,954)**	42,691
Depreciation	**203,946**	173,854
Amortization of Intangible Assets	**2,235**	4,431
Provision for doubtful debts	**345**	900
Provision for slow moving and obsolete items	**40,102**	1,727
Employees› end of service benefits, net	**(5,128)**	983
Finance costs	**38,570**	14,234
Share of (profit)/ loss of equity accounted associates	**(721)**	24,037
Impairment of investment in equity accounted associate	**-**	25,000
Loss /(gain) on derivative financial instruments	**188**	(69)
Gain on sale of property, plant and equipment	**(5,628)**	(2,124)
Changes in		
inventories	**49,653**	(83,479)
Trade and other receivables	**(1,832)**	(17,259)
Trade and other payables	**(57,945)**	(43,745)
Cash generated from operations	**166,831**	141,181
Zakat paid	**(14,718)**	(20,901)
Net cash from operating activities	**152,113**	120,280
Cash flows from investing activities		
Additions to property, plant and equipment including CWIP	**(63,598)**	(129,654)
Proceeds from sale of property, plant and equipment	**13,543**	2,479
Additions to intangible assets	**-**	(1,505)
Dividend received from associates accounted for using equity method	**396**	992
Net cash from investing activities	**(49,659)**	(127,688)
Cash flows from financing activities		
Net proceeds from short term loans	**21,498**	203,000
Net proceeds / (repayment) of borrowings	**10,284**	(251,928)
Interest paid	**(29,639)**	(5,021)
Dividends paid	**(50,000)**	(100,000)
Net cash used in financing activities	**(47,857)**	(153,949)
Net increase in cash and cash equivalents	**54,597**	(161,357)
Cash and cash equivalents at the beginning of the period	**24,699**	186,056
Cash and cash equivalents at the end of the period	**79,296**	24,699

The notes 1 to 31 are an integral part of these consolidated financial statements.

(In Saudi Riyals Thousand)

1. ORGANIZATION AND ACTIVITY

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

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

These financial statements include the assets, liabilities, and results of the operations of the Company and its branches including its subsidiary Ceramic Investment Company (a Limited Liability Company).

The company's head office is located in Riyadh, King Fahad Road, Al-Olayya District, PO Box 3893, Riyadh 11481, Kingdom of Saudi Arabia

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

The following are the details of the subsidiary:

Name of Subsidiary	Country of incorporation	Main Activity	Ownership %		
			December 2017	December 2016	January 2016
Ceramic Investment Company	Kingdom of Saudi Arabia	Import and export, marketing services, wholesale and retail trading.	**95**	95	95

The Company operates through the main register and the following sub-registry records:

Commercial registration number of branch	Date of registration (H)	Location	Commercial registration number of branch	Date of registration (H)	Location
1010216239	16/01/1427 H	Riyadh	1131007399	06/11/1408 H	Buraydah
1010928163	19/03/1439 H	Riyadh	3350018888	24/01/1428 H	Hail
1010180983	23/07/1423 H	Riyadh	1128007072	19/03/1428 H	Unaizah
1010217304	20/02/1427 H	Riyadh	2050017836	16/08/1408 H	Dammam
1010217307	20/02/1427 H	Riyadh	5855018515	15/01/1420 H	Khamis mushait
1010410337	10/06/1435 H	Riyadh	4031101336	29/01/1439 H	Makkah Al-mukarramah
2252023606	19/09/1415 H	Al-Hasa	3550007463	17/08/1408 H	Tabuk
4032011466	04/09/1408 H	Al-taif	5900010962	21/06/1427 H	Jizan
4650026206	23/08/1418 H	Almadina Almunawara	2051032588	17/04/1427 H	Al-khobar
4030040747	13/01/1404 H	Jeddah	5950021703	26/04/1433 H	Najran
2055007583	09/05/1427 H	Al-Jubail	1010217302	20/02/1427 H	Al-Kharj
1110000544	06/06/1432 H	Durma	2050093084	25/08/1434 H	Dammam
1132010819	13/06/1437 H	Ar Rass	4032050268	11/07/1437 H	Al-taif
4030290458	28/10/1437 H	Jeddah			

2. FIRST TIME ADOPTION OF IFRS

The Board of Directors of the Saudi Organization for Certified Public Accountants in 1433H (corresponding to 2012G) adopted a plan for the transition to international accounting standards. In accordance with the decision of the Board of Directors of the Saudi Organization for Certified Public Accountants, the international financial reporting standards will be applicable from the beginning of 2017. Accordingly, the Company's first annual financial statements prepared in accordance with the International Financial Reporting Standards will be the financial statements for the year ending 31 December 2017. Accordingly, the date 01/01/2016 is the date of transition to IFRS as it marks the beginning of the comparative period for the first financial statements prepared in accordance with International Financial Reporting Standards.

Wherever the term "International Financial Reporting Standards" appears in these financial statements, they refer to "International Financial Reporting Standards as adopted in Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for Certified Public Accountants". The approved international financial reporting standards are international standards as issued by the International Accounting Standards Board, and the requirements and disclosures that have been added by Saudi Organization for Certified Public Accountants to some of these standards. The other standards and publications include the standards and technical opinions on topics not covered by international standards such as zakat.

An explanation of how the transition to IFRS has affected the previously reported equity as at December 31, 2016 and January 01, 2016; and comprehensive income of the Group for the year ended December 31, 2016, including the nature and effect of significant changes in accounting policies from those used in the Group's Financial Statements for the year ended December 31, 2016 is provided in Note 7.

As required by the Capital Market Authority ("CMA") through its circular dated 16th October 2016 the Group needs to apply the cost model to measure the property, plant and equipment, investment property and intangible assets upon adopting the IFRS for three years' period starting from the IFRS adoption date.

3. Basis of preparation

Statement of Compliance

These financial statements are prepared in accordance with International Financial Reporting Standards for each type of asset and liability, obligations, income and expenses. The measurement rules are more fully described in the accounting policies in Note 6.

The preparation of these financial statements in accordance with International Financial Reporting Standards requires the use of certain significant accounting estimates and requires management to exercise judgment in applying the Company's accounting policies. The significant judgments and estimates in the preparation of the financial statements are disclosed in note 5.

These financial statements are prepared on a historical cost basis, except for employees' end of service benefits which is recognised at the present value of future obligations and financial assets at fair value through OCI which is measured at fair value.

These consolidated financial statements are presented in Saudi Arabian Riyal, which is the Company's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

4. NEW STANDARDS, AMENDMENTS AND STANDARDS ISSUED BUT NOT YET EFFECTIVE

4.1. New standards, amendments to standards and interpretations applied by the Group

The accompanying consolidated financial statements have been prepared as at 31 December 2017 and represent the first complete set of annual consolidated financial statements prepared in accordance with International Financial Reporting Standards. These policies have been applied consistently from the preparation of the opening statement of financial position as at 01 January 2016. These standards have been adopted and approved by the Authority and are effective as of 31/12/2017, including:

- Amendments to IAS 1 Presentation of Financial Statements on the Disclosure Initiative,
- Amendments to IAS 16 "Property, plant and equipment",
- The annual improvements to IFRS 2012-2014 cycle which include amendments to IFRS 5 and IFRS 7 and IAS 19 and 34.
- Disclosure initiative (Amendments to IAS 7); The amendments require disclosures that enable users of Financial Statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The Group's financing activities, as disclosed in Consolidated Statement of Cash Flows, represents only cash flow changes.
- Recognition of deferred tax assets for unrealised losses (Amendments to IAS 12); The amendments clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. Group does not hold any debt instruments measured at fair value; therefore, there is no impact of this amendment on Consolidated Financial Statements.
- Annual Improvements to IFRSs 2014–2016 Cycle (Amendments to IFRS 12 Disclosure of Interests in Other Entities); The amendments clarify that disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution. There is no impact of this amendment on these Consolidated Financial Statements.

4.2. Standards issued but not yet effective

Following are the new standards and amendments to standards which are effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted.

a. IFRS 9 – Financial Instruments

IFRS 9 Financial Instruments sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

The Group has early adopted IFRS 9 – Financial Instruments issued in July 2014 with a date of initial application of 1 January 2016.

b. IFRS 15 – Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

c. IFRS 16 – Leases

IFRS 16 (Leases) establishes how to recognise, measure and disclose lease arrangements. The standard introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases as the approach of IAS 17 in accounting by the lessor remains substantially unchanged in IFRS 16.

d. Other Standards and amendments

The following new or amended standards are not yet effective and neither expected to have a significant impact on the Group's Consolidated Financial Statements

- Annual Improvements to IFRSs 2014-2016 Cycle – Amendments to IFRS 1 and IAS 28.
- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2).
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)
- Transfers of Investment Property (Amendments to IAS 40).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).
- IFRIC 22 Foreign Currency Transactions and Advance Consideration.
- IFRIC 23 Uncertainty over Income Tax Treatments.

5. Significant estimates and judgements

The preparation of these consolidated financial statements in accordance with applicable accounting standards and policies requires the use of judgments, estimates and assumptions that affect the values of income, expenses, assets, liabilities and notes attached herewith including contingent liabilities. Uncertainties about these assumptions and estimates may result in results that require a material adjustment to the carrying amounts of the assets and liabilities affected in future periods.

The principal assumptions and estimates relating to the future and other key sources of uncertainty at the consolidated statement of financial position date, which pose high risks, may result in material adjustments to the carrying amounts of assets and liabilities during the next financial year. The Group's assumptions and estimates are based on available information when preparing consolidated financial statements. These assumptions and estimates of future developments may change as a result of market changes and circumstances beyond the control of the Group. Such changes to assumptions are accounted for when incurred.

a. Going concern

The Group management believes that there is no material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern, therefore, these consolidated financial statements have been prepared on a going concern basis.

b. Estimated useful life of property, plant and equipment

The cost of property, plant and equipment is depreciated over the estimated useful life of the asset. Factors influencing the useful life estimation include the asset maintenance schedule, technical obsolescence, and residual value. Management of the Group has not calculated the residual value of its assets considering it is insignificant.

c. Provision for slow moving and obsolete inventories

Inventories are stated at the lower of cost and net realizable value. Adjustments are made to reduce the cost of inventory to net realizable value - if necessary. Factors influencing these adjustments include changes in demand for inventories, technological changes and deterioration of quality. Accordingly, the Group considers these factors and takes them into consideration in order to calculate a provision for impaired inventories and slow movement. Any adjustments that may result from the difference in these factors are periodically reviewed.

d. Provision for doubtful debts

Provision for doubtful debts is determined by reference to a range of factors to ensure that receivables are not overdue due to possible un-collectability, including the total quality and lifetime of accounts receivable, continuous credit rating of customers' financial position and collateral obtained from customers in certain circumstances.

e. Actuarial valuation for employees' end of service benefit obligation

The cost of employees' end of service benefits is determined under the defined unfunded employee benefit program that is measured using actuarial valuation. The actuarial valuation includes many assumptions that may differ from actual developments in the future. These assumptions include determining the discount rate, future salary increases and employee turnover. Given the complexity of the evaluation and its long-term nature, the unfunded employees' end of service benefits is highly sensitive to changes in these assumptions. All assumptions are reviewed once or more per year when necessary.

f. Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under prevailing market conditions regardless of whether it is directly observable or estimated using another valuation method. The fair value measurement is based on the assumption that the sale of assets or liabilities will be either:

1. through the principal market for the assets or liabilities; or
2. through the most advantageous market for these assets or liabilities in the absence of principal market

The principal or most advantageous market must be accessible by the Group at the measurement date.

The fair value is measured using the assumptions used by market participants when pricing the assets or liabilities on the assumption that market participants are working to the best of their economic interests.

The measurement of fair value of non-financial assets take into account the ability of market participants to generate economic benefits by using the assets in the best interest of them or by selling them to another market participant for use in the best interest of the market. The Group uses the valuation techniques that are appropriate to prevailing market conditions and for which it has sufficient data to measure fair value, maximizing the use of relevant observable inputs, and minimizing the use of unobservable inputs.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

1. Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
2. Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
3. Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

g. Lease classification

The Group leases a number of lands on which its plants are located and a number of buildings and warehouses under operating leases. Leases usually extend from 5 to 30 years, with the lease renewal option after that date. Lease payments are renegotiated every five years to reflect market rental. Some leases provide additional rental payments based on changes in local price indices. For some operating leases, the Group is restricted from entering into any sublease agreements.

The Group treats rental of warehouse buildings and land thereon as operating leases where the benefits and risks of ownership remain with the owners of these land and buildings.

The factory lands were leased from the Industrial Cities Authority. The lease extends for 30 years with lease renewal option. The rent is increased by changes in local price indices. The lease is accounted for as an operating lease.

4. SIGNIFICANT ACCOUNTING POLICIES

6.1 Basis of consolidation

- The consolidated financial statements are comprised of the financial statements of the Company and its subsidiaries. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investees and has the ability to affect those returns through its power over the investees. Specifically, the Company controls an investee, if and only if, the Company has all of the following:
- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee.
- Exposure or rights to variable returns from its involvement with the investee, and
- The ability to exercise its power over the investee to influence its returns.
- Generally, there is an assumption that the majority of voting rights result in control, In support of this assumption, when the Company has less than a majority of the voting or similar rights of an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
- The contractual arrangement(s) with the other vote holders of the investee.
- Rights arising from other contractual arrangements which grants the parent company the ability to direct the relevant activities.
- The Company's voting rights and any potential voting rights.

The Company re-assesses whether it has control over an investee, if the facts and circumstances indicate any changes in one or more of the three control elements. The consolidation of the subsidiary begins from the date when the Company obtains control over the subsidiary and ceases when the Company loses its control over the subsidiary.

The assets, liabilities, revenues and expenses of a subsidiary acquired during the year are recognized in the consolidated financial statements from the date the Company obtains control until such control ceases to exist.

Gains or losses and each of the other comprehensive income items are attributed to the shareholders of the parent company and the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of the subsidiaries to make their accounting policies consistent with the Company's accounting policies. All assets, liabilities equity, revenues, expenses and cash flows related to intra-company transactions are entirely eliminated upon consolidation of the financial statements.

Changes in Company's ownership interests in any subsidiary that do not result in loss of control are treated as equity transactions; If the Company lost control over a subsidiary, it would derecognize the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognized in the statement of income. Any investment retained is recognized at fair value.

If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

6.2 Investment in associates

Associates are those entities in which the Group has significant influence. The significant influence is the Group's ability to participate in the financial and operating policies of the investee; however, this influence does not amount to control or joint control over these policies. The Group's investment in associates is accounted for using the "equity method" as from the date on which the investee becomes an associate until the Group's influence on the associate ceases. Upon acquisition of an investment in an associate, any increase in the cost of the investment is recognized in the net fair value of the identifiable assets and liabilities of the investee and included in the carrying amount of the investment. Any increase in the Group's share of the net fair value of the identifiable assets and liabilities of the associate is recognized immediately after the revaluation of the associate in the consolidated statement of profit or loss and other comprehensive income in the period in which the investment is acquired.

6.3 Classification of assets and liabilities into current / non-current

The Group presents the assets and liabilities in the statement of financial position based on current/non-current classification.

An asset is current when it is:

- Held primarily for the purpose of trading.
- Expected to be realized within twelve months after the reporting period.
- Expected to be realized or intended to sold or consumed in the normal operating cycle.
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is held primarily for the purpose of trading.
- It is expected to be settled in the normal operating cycle.
- It is due to be settled within twelve months after the reporting period.
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

All other liabilities are classified as non-current.

6.4 Intangible assets

6.4.1 Recognition and measurement

Intangible assets that are acquired by the Group and have finite useful lives are measured at historical cost less accumulated amortisation and accumulated impairment losses, if any.

6.4.2 Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

(In Saudi Riyals Thousand)

6.4.3 Amortisation

Amortisation is calculated to write off the cost of intangible assets less their estimated residual value using the straight line method over their estimated useful lives. The amortization expense is recognized in the statement of profit or loss and other comprehensive income.

The estimated useful lives of intangible assets are as follows:

Computer software 5 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

6.5 Property, plant and equipment

6.5.1 Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets. Purchased software that is integral to the functionality of the related equipment is also capitalised as part of that equipment.

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognised in statement of profit or loss and other comprehensive income.

6.5.2 Subsequent expenditure

The cost of replacing a part of an item of property, plant and equipment and any other subsequent expenditure is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part or expenditure will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

6.5.3 Depreciation

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Land is not depreciated.

The estimated useful lives of property, plant and equipment for current and comparative periods are as follows:

	No of 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

Residual values, remaining useful lives and depreciation methods are reviewed at each reporting date and adjusted if appropriate.

6.6 Impairment of non-financial assets

The Group assesses annually whether there is any indication that any of its assets, other than inventories, have been impaired. If such indication exists, the asset's recoverable amount is estimated and compared to its carrying value. Where it is impossible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest cash-generating unit, to which the asset is allocated, that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash generating units.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount an impairment loss is recognised immediately in profit or loss.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

6.7 Financial instruments

6.7.1 Initial measurement of financial instruments

All financial instruments are initially measured at fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs. Transaction costs of financial assets or financial liability carried at fair value through profit or loss are expensed in profit or loss.

6.7.2 Classification

The classification of a financial asset is made at the time it is initially recognized, namely when the Group becomes a party to the contractual provisions of the instrument. If certain conditions are met, the classification of an asset may subsequently need to be reclassified.

All financial assets are classified in to two categories, namely, those measured at amortized cost and those measured at fair value.

Where assets are measured at fair value, gains and losses are either recognized entirely in profit or loss (fair value through profit or loss - FVTPL), or recognized in other comprehensive income (fair value through other comprehensive income - FVTOCI).

All financial liabilities, other than financial guarantees and loan commitments, are also classified in to two categories, namely, those measured at amortised cost or FVTPL.

6.7.3 Subsequent measurement of financial assets

Financial assets are classified based on:

1. The business model adopted by the Group to manage a group of financial assets.
2. Examine the contractual cash flow characteristics of the financial asset.

Financial assets, other than investments in equity instruments, are measured at amortized cost when (a) these assets are held in a business model whose objective is to maintain a group of financial assets for the purpose of collecting contractual cash flows; (b) Including but not limited to payments consisting of the original amount and the return on the principal outstanding.

The effective rate of return method is used to calculate the amortized cost of the financial asset.

Investments in equity instruments are measured at fair value and are reflected in the consolidated statement of financial position. The change in value is recognized in profit or loss, except for the equity instruments acquired and designated by the Group as a fair value through other comprehensive income.

6.7.4 Subsequent measurement of financial liabilities

Financial liabilities held for trading are measured at FVTPL and all other financial liabilities are measured at amortized cost.

6.7.5 De-recognition of financial assets

Once the asset under consideration for de-recognition has been determined, an assessment is made as to whether the asset has been transferred, and if so, whether the transfer of that asset is subsequently eligible for de-recognition.

An asset is transferred if either the Group has transferred the contractual rights to receive the cash flows, or the Group has retained the contractual rights to receive the cash flows from the asset, but has assumed a contractual obligation to pass those cash flows on under an arrangement that meets the following three conditions:

- the Group has no obligation to pay amounts to the eventual recipient unless it collects equivalent amounts on the original asset
- the Group is prohibited from selling or pledging the original asset (other than as security to the eventual recipient),
- the Group has an obligation to remit those cash flows without material delay.

Once the Group has determined that the asset has been transferred, then determines whether or not substantially all of the risks and rewards of ownership of the asset has been transferred. If substantially all the risks and rewards have been transferred, the asset is de-recognised. If substantially all the risks and rewards have been retained, de-recognition of the asset is precluded.

If the Group has neither retained nor transferred substantially all of the risks and rewards of the asset, then the Group assesses whether it has relinquished control of the asset or not. If the Group does not control the asset then it is de-recognized; however, if the Group has retained control of the asset, then the asset continues to be recognized to the extent to which the Group has a continuing involvement in the asset.

On derecognition of a financial asset, either in entirety or in part, the difference between (a) the carrying amount (measured at the date of derecognition) and (b) the consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss.

6.7.6 De- recognition of financial liabilities

A financial liability is removed from the statement of financial position when, and only when, it is extinguished, that is, when the obligation specified in the contract is either discharged or cancelled or expires.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

6.7.7 Derivatives

All derivatives, including those linked to unquoted equity investments, are measured at fair value. Value changes are recognized immediately in profit or loss as a component of net income from other financial instruments at FVTPL unless the Group elects to apply hedge accounting by designating the derivative as a hedging instrument in an eligible hedging relationship. The Group currently does not designate a derivative as a hedging instrument.

6.7.8 Reclassification

For financial assets, reclassification is done between FVTPL, FVTOCI and amortised cost, if and only if the Group's business model objective for its financial assets changes so its previous model assessment would no longer apply.

If reclassification, if any, is considered appropriate, it is done prospectively from the reclassification date which is defined as the first day of the first reporting period following the change in business model. The

Group does not restate any previously recognized gains, losses, or interest.

6.7.9 Impairment

The impairment model applied by the Group is based on "expected loss" model as specified in IFRS 09.

Expected credit losses are measured through a loss allowance at an amount equal to:

- the 12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date); or
- full lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument).

A loss allowance for full lifetime expected credit losses is recognized for a financial instrument if the credit risk of that financial instrument has increased significantly since initial recognition, as well as to contract assets or trade receivables that do not contain a significant financing component. The Group also recognizes full lifetime expected losses for all contract assets and/or all trade receivables that do contain a significant financing component in accordance with IFRS 15.

For all other financial instruments, expected credit losses are measured at an amount equal to the 12-month expected credit losses.

The Group uses practical expedients when estimating full lifetime expected credit losses. As a result, full lifetime expected credit losses on trade receivables are calculated using a recoverability assessment of each specific customer on a gross carrying amount.

6.7.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when, and only when, the Group currently has a legally enforceable right to offset the recognised amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

6.8 Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

6.9 Employees' End of Service Benefits

6.9.1 Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

6.9.2 Defined benefit plans

The Group's net obligation in respect of defined benefit plan is calculated by estimating the amount of future benefits that employees have earned in the current and prior periods as per Saudi Labour Law, and discounting that amount.

The calculation of defined benefit obligations is performed annually by a qualified independent actuary using the projected unit credit method.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, are recognised immediately in other comprehensive income. The Group determines the net interest expense on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability, taking into account any changes in the net defined benefit liability during the period as a result of benefit payments. Net interest expense and other expenses related to defined benefit plan are recognised in profit or loss.

6.10 Zakat

Zakat is accrued for and payable in accordance with the regulations of the General Authority of Zakat and 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.

6.11 Revenue

The following specific recognition criteria must be met before revenue is recognised.

6.11.1 Sale of Goods

Revenue is recognised when the control over goods is transferred to the customer. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction to revenue. The Group measures revenue from sale of goods at their transaction price specified in a contract with customer, net of returns, trade discounts and volume rebates. No significant element of financing is deemed present as the sales are made with a credit term of 90 days, which is consistent with market practice.

6.11.2 Dividend Income

Dividend income is recognised when the Group's right to receive the payment is established.

6.11.3 Gain or Losses on Disposal of Property, Plant and Equipment

Gains or losses resulting from the disposal of property, plant and equipment are accounted for in the profit or loss, in the period in which the sale occurs.

6.11.4 Recovery of Bad and Doubtful Debts Written Off

Recovery of amounts written off as bad and doubtful debts is recognized as a reduction to bad and doubtful debts expense when received.

6.11.5 Other Income

Other income is recognized in the profit or loss when earned.

6.12 Leases

Operating leases

Leases where the lessor effectively retains substantially all the risks and rewards of an asset under the leased term, are classified as operating leases.

Lease payments (excluding cost of service such as insurance and maintenance) paid under operating leases are recognized as an expense in the profit or loss over the period of lease on a straight line basis.

6.13 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

6.14 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

6.15 Foreign currency transactions

Transactions in foreign currencies are translated into the Saudi Arabian Riyals, which is also the functional currency of the Group, at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in profit or loss.

6.16 Expenses

Sales and marketing expenses represents 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 administration expenses. Shared expenses are allocated between selling and general expenses using a consistent basis.

6.17 Statutory reserve

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

6.18 Earnings per share

The Group presents basic earnings per share data for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the year.

6.19 Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When one is available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

5. EXPLANATION OF TRANSITION TO IFRS

As stated in Note 2, these are the first consolidated financial statements that the Group has prepared in accordance with IFRSs. For periods up to and including the year ended 31 December 2016, the Group prepared its financial statements in accordance with SOCPA (Local GAAP).

The accounting policies set out in Note 6 have been applied in preparing the consolidated financial statements for the year ended 31 December 2017, the comparative information presented in these financial statements and in the preparation of an opening IFRS statement of financial position at 1 January 2016 (the Group's date of transition to IFRS).

In preparing its opening IFRS statement of financial position, the Group has adjusted amounts reported previously in financial statements prepared in accordance with SOCPA (Local GAAP). An explanation of how the transition from SOCPA to IFRSs has affected the Group's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

(In Saudi Riyals Thousand)

7. EXPLANATION OF TRANSITION TO IFRS (continued)

Reconciliation of equity as at 1 January 2016

		As per SOCPA - Reported	Correction of error	Effect of transition to IFRS	As per IFRS - Restated
Assets	**Note**				
Non-current assets					
Property, plant and equipment	7.2/7.10	1,407,831	-	501,899	1,909,730
Projects under construction	7.2	506,508	-	(506,508)	-
Intangible assets	7.2	-	-	6,936	6,936
Investments and other financial assets	7.4	81,812	-	(81,812)	-
Equity accounted investments	7.4	-	-	74,771	74,771
Financial assets at FVOCI	7.3, 7.4	-	-	9,403	9,403
Derivative financial instruments	7.5	-	-	119	119
Total non-current assets		1,996,151	-	4,808	2,000,959
Current assets					
Inventories	7.10	737,513	-	(26,710)	710,803
Trade and other receivables	7.1, 7.12,7.15	171,546	(33,115)	168,624	307,055
Prepayments and other receivables	7.12	138,202	-	(138,202)	-
Loan to associated company	7.12	30,476	-	(30,476)	-
Cash and cash equivalents	7.1	185,556	-	500	186,056
Total current assets		1,263,293	(33,115)	(26,264)	1,203,914
Total assets		3,259,444	(33,115)	(21,456)	3,204,873
Equity and liabilities					
Equity					
Share capital		500,000	-	-	500,000
Statutory reserve		215,882	-	-	215,882
Fair value reserve	7.3	1,636	-	2,837	4,473
Retained earnings	7.15,7.13	1,180,257	(33,115)	(12,597)	1,134,545
Net changes in fair value of cash flow hedges	7.5	119	-	(119)	-
Total equity		1,897,894	(33,115)	(9,879)	1,854,900
Liabilities					
Non-current liabilities					
Loans and borrowings	7.6	669,176	-	(9,892)	659,284
Employees' end of service benefits	7.7	73,520	-	938	74,458
Total non-current liabilities		742,696	-	(8,954)	733,742
Current liabilities					
Current portion of loans and borrowings	7.6	277,110	-	(4,167)	272,943
Trade and other payables	7.12, 7.6, 7.1, 7.8, 7.5	242,652	-	85,281	327,933
Accrual and other liabilities	7.12	83,747	-	(83,747)	-
Zakat provision	7.1	15,345	-	10	15,355
Total current liabilities		618,854	-	(2,623)	616,231
Total liabilities		1,361,550	-	(11,577)	1,349,973
Total equity and liabilities		3,259,444	(33,115)	(21,456)	3,204,873

(In Saudi Riyals Thousand)

7. EXPLANATION OF TRANSITION TO IFRS (continued)

Reconciliation of equity as at 31 December 2016

		As per SOCPA - Reported	Correction of error	Effect of transition to IFRS	As per IFRS - Restated
Assets	**Note**				
Non-current assets					
Property, plant and equipment	7.2 ,7.10	1,736,063	-	124,845	1,860,908
Projects under construction	7.2	125,720	-	(125,720)	-
Intangible assets	7.2	-	-	4,010	4,010
Investments and other financial assets	7.4	33,358	-	(33,358)	-
Equity accounted investments	7.4	-	-	24,742	24,742
Financial assets at FVOCI	7.3, 7.4	-	-	10,797	10,797
Derivative financial instruments	7.5	-	-	188	188
Total non-current assets		1,895,141	-	5,504	1,900,645
Current assets					
Inventories	7.10	824,635	-	(27,813)	796,822
Trade and other receivables	7.1, 7.12,7.15	195,073	(33,115)	161,456	323,414
Prepayments and other receivables	7.12	111,055	-	(111,055)	-
Loan to associated company	7.12	50,476	-	(50,476)	-
Cash and cash equivalents	7.1	24,199	-	500	24,699
Total current assets		1,205,438	(33,115)	(27,388)	1,144,935
Total assets		3,100,579	(33,115)	(21,884)	3,045,580
Equity and liabilities					
Equity					
Share capital		500,000	-	-	500,000
Statutory reserve		218,336	-	-	218,336
Fair value reserve	7.3	3,212	-	2,656	5,868
Retained earnings	7.15,7.13	1,100,944	(33,115)	(17,339)	1,050,490
Net changes in fair value of cash flow hedges	7.5	188	-	(188)	-
Total equity		1,822,680	(33,115)	(14,871)	1,774,694
Liabilities					
Non-current liabilities					
Loans and borrowings	7.6	430,348	-	(7,066)	423,282
Employees' end of service benefits	7.7	75,834	-	1,391	77,225
Total non-current liabilities		506,182	-	(5,675)	500,507
Current liabilities					
Short term loans		203,000	-	-	203,000
Current portion of loans and borrowings	7.6	261,703	-	(4,131)	257,572
Trade and other payables	7.12, 7.6, 7.1, 7.8, 7.5	201,852	-	90,993	292,845
Accrual and other liabilities	7.12	88,210	-	(88,210)	-
Zakat provision	7.1	16,952	-	10	16,962
Total current liabilities		771,717	-	(1,338)	770,379
Total liabilities		1,277,899	-	(7,013)	1,270,886
Total equity and liabilities		3,100,579	(33,115)	(21,884)	3,045,580

(In Saudi Riyals Thousand)

7. EXPLANATION OF TRANSITION TO IFRS (continued)

Reconciliation of statement of profit or loss and other comprehensive income for the year ended 31 December 2016.

		As per SOCPA	Effect of transition to IFRS	As per IFRS
	Note			
Revenue		1,303,519	-	1,303,519
Cost of sales		(943,019)	(2,671)	(945,690)
Gross profit		360,500	(2,671)	357,829
Other income	7.5,7.11	(5,057)	15,070	10,013
Impairment loss on trade and other receivables	7.11	-	(900)	(900)
Selling and distribution expenses		(184,432)	-	(184,432)
General and administration expenses	7.7, 7.8	(86,401)	2,018	(84,383)
Operating profit		84,610	13,517	98,127
Gain on sale of property, plant and equipment	7.11	-	2,124	2,124
Impairment of investment in associate		(25,000)	-	(25,000)
Finance costs	7.9,7.11	(12,569)	(2,866)	(15,435)
Finance income	7.5,7.11	-	6,592	6,592
Share of net loss of associates accounted for using the equity method	7.11	-	(23,717)	(23,717)
Profit before zakat		47,041	(4,350)	42,691
Zakat expense		(22,500)	(8)	(22,508)
Profit for the period		24,541	(4,358)	20,183
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Remeasurements of defined benefit liability	7.7	-	(1,784)	(1,784)
Financial assets at fair value through OCI - net change in fair value	7.3	1,576	(181)	1,395
Other comprehensive income for the period		1,576	(1,965)	(389)
Total comprehensive income for the period		26,117	(6,323)	19,794

(In Saudi Riyals Thousand)

7.1 Business combinations

The financial statements of the subsidiary, Ceramic Investment Company (CIC) have been consolidated at the transition date and intercompany transactions and balances as at 1 January 2016 have been eliminated on consolidation of CIC.

7.2 Property, plant and equipment

The impact of re-measurement of loans at amortised cost has been adjusted against the Capital Work-in-Progress (CWIP) and Property Plant and equipment (PPE) since SIDF appraisal cost paid in advance were capitalized to CWIP on initial recognition. Further, capital work in progress is reclassified to property, plant and equipment and certain software are reclassified and shown separately as intangible assets.

Table below shows the details of reclassifications and adjustments at each reporting date.

	1 January 2016	31 December 2016
Reclassification to intangible assets	(6,936)	(4,010)
Reclassification from capital work in progress	506,508	125,720
Adjustment of excess amortised cost capitalised in PPE	(1,155)	(9,760)
Adjustment of excess amortised cost capitalised in CWIP	(12,904)	(1,923)
Capitalisation of spare parts (Note 7.10)	16,386	14,818
Effect of transition to IFRS	**501,899**	**124,845**

7.3 Financial assets at fair value through other comprehensive income

Under SOCPA, the Group accounted for investments in unquoted equity shares as available for sale financial assets measured at cost. Under IFRS 9, the Group has designated such investments as financial assets at fair value through other comprehensive income (FVOCI). IFRS 9 does not allow cost exception provided by IAS 39, therefore, the fair value of unquoted equity shares of Gulf real estate Company is determined using Adjusted net assets method as per IFRS 13. At 1 January 2016, the fair value of these shares is SR 7 million and the carrying amount under SOCPA was SR 4.2 million. The SR 2.8 million difference between the fair value and current carrying amount has been recognised as a separate component of equity, in the Fair value reserve.

The impact arising from the change is summarized as follows:

	1 January 2016	31 December 2016
Consolidated statement of comprehensive income		
Other comprehensive income - Net change in fair value of financial assets at FVOCI	-	181
Adjustment before zakat	-	181
Consolidated statement of financial position		
Financial assets at FVOCI	2,837	2,656
Fair value reserve before zakat	(2,837)	(2,656)
Adjustment to retained earnings before zakat	-	-

(In Saudi Riyals Thousand)

7.4 Investments and other financial assets

Investments and financial assets include investment in associates, investment in subsidiaries and other investments in equity instruments. These investments have been re-classified to respective line item in the opening Statement of Financial Position.

Table below shows the details of reclassification on each reporting date

	1 January 2016	31 December 2016
Carrying amount as per SOCPA	81,812	33,358
Reclassification to:		
Investments accounted for using the equity method	(74,771)	(24,742)
Investments in subsidiaries	(475)	(475)
Financial assets at fair value through other comprehensive income	(6,566)	(8,141)
Carrying amount as per IFRS	-	-

Investment in subsidiary was remeasured at fair value on 1 January 2016 and the impact of impairment amounting SR 102 thousand is recorded in retained earnings. The carrying amount of SR 373 thousand after recording impairment was removed at each reporting date to consolidated the assets and liabilities of subsidiary.

7.5 Derivate financial instruments

IFRS 1- First time adoption of IFRSs requires an entity to de-recognize previous recognized assets and liabilities arising from its previous hedge accounting if such hedging relationship is not fulfilling certain requirements in IFRS 9- Financial Instruments.

As the existing hedging instrument has not fulfilled such requirements, cash flow hedge reserve and related derivative asset are eliminated and only a derivative financial instrument has recognised at fair value with changes in fair value to be recognised in profit or loss.

	1 January 2016	31 December 2016
Consolidated statement of comprehensive income		
Finance income	-	(69)
Adjustment before zakat	**-**	**(69)**
Consolidated statement of financial position		
Cash flow hedge reserve	119	188
Trade and other payables	(119)	(188)
Derivative financial instruments	119	188
Adjustment to retained earnings before zakat	**119**	**188**

(In Saudi Riyals Thousand)

7.6 Loans and borrowings

As per IFRS 9- Financial Instruments, SCC's term loans are classified as financial liabilities subsequently measured at amortized cost. Term loans include variable rate loans from commercial banks and loans obtained from Saudi Industrial Development Fund (SIDF) which charge a loan appraisal cost only which is payable over the term of loan as per agreed repayment schedule.

The carrying amount of loans from SIDF is adjusted for the impact of amortisation as per IFRS 9 because instead of amortising the appraisal cost over the term of loan SCC capitalised the whole appraisal cost in the CWIP at initial recognition by increasing the carrying amount of loan to the total amount payable till maturity. Therefore, carrying amount of loan is adjusted against the CWIP and PPE for the remaining appraisal costs as at each reporting date.

The impact arising from the change is summarized as follows:

	1 January 2016	31 December 2016
Consolidated statement of financial position		
Loans and borrowings – current	4,167	4,131
Loans and borrowings – non-current	9,892	7,066
Trade and other payables	-	(1,180)
Property, plant and equipment	(14,059)	(10,017)
Adjustment to retained earnings before zakat	-	-

7.7 Employees' end of service benefits

Under SOCPA the Group's obligation in respect of employees' end of service benefits liability was calculated based on the Group's best estimate of the amount payable at each year end in accordance with Saudi Labor Law. Under IFRSs the obligation is determined using the projected unit credit method and actuarial valuations are obtained at each year end.

The impact arising from the change is summarized as follows:

	1 January 2016	31 December 2016
Consolidated statement of comprehensive income		
General and administration expenses	-	(1,331)
Other comprehensive income	-	1,784
Adjustment before zakat	-	453
Consolidated statement of financial position		
Employees' end of service benefits	938	1,391
Adjustment to retained earnings before zakat	**938**	**1,391**

(In Saudi Riyals Thousand)

7.8 Directors' remuneration

Under SOCPA the fee paid to directors was recorded directly in the retained earnings on cash basis. However, as per IFRSs this is remuneration paid to the directors for their services to the Company during previous year, therefore, a provision has been recorded at 1 January 2016 for directors' remuneration for 2015 against retained earnings and impact of subsequent payment of this remuneration in 2016 has been reclassified to opening retained earnings. Starting from 1 January 2016 a provision is recognised each quarter for the directors' remuneration for 2016.

The impact arising from the change is summarized as follows:

	1 January 2016	31 December 2016
Consolidated statement of comprehensive income		
General and administration expenses	-	1,400
Adjustment before zakat	**-**	**1,400**
Consolidated statement of financial position		
Trade and other payables	1,400	1,400
Adjustment to retained earnings before zakat	1,400	1,400

7.9 Capitalisation of borrowing costs

Under SOCPA, the Group capitalised the borrowing costs related to SIDF loans. At the date of transition, the Group adjusted the carrying amount of CWIP, PPE and loans from SIDF to remove the impact of future borrowing costs as per loan amortisation schedule. The future borrowing costs are recorded in statement of profit or loss as per loan amortisation schedule. Further, the quarterly management fee charged by SIDF was charged to profit or loss when incurred, however, from 1 January 2016 these costs are capitalised to the cost of relevant specific assets under construction on the basis of respective outstanding loan balances where applicable in line with IAS 23.

The impact arising from the correction is summarized as follows:

	1 January 2016	31 December 2016
Consolidated statement of comprehensive income		
Finance costs	-	1665
Adjustment before zakat	-	1,665
Consolidated statement of financial position		
Loans and borrowings	14,059	11,198
Trade and other payables	-	(1,180)
Property, plant and equipment	(14,059)	(11,683)
Adjustment to retained earnings before zakat	-	(1,665)

(In Saudi Riyals Thousand)

7.10 Capitalisation of spare parts in property, plant and equipment

Under SOCPA, the spare parts of capital nature amounting SR 26.7 million were recorded in inventory. At the date of transition these spare parts are transferred from inventory to the property, plant and equipment and the depreciation from the purchase date is charged to retained earnings.

The impact arising from the change is summarized as follows:

	1 January 2016	31 December 2016
Consolidated statement of comprehensive income		
Cost of sales – depreciation expense	-	2,671
Adjustment before zakat	-	2,671
Consolidated statement of financial position		
Inventories	(26,710)	(27,813)
Property, plant and equipment	16,386	14,818
Adjustment to retained earnings before zakat	(10,324)	(12,995)

7.11 Reclassification within statement of profit or loss and other comprehensive income

a- Under IFRSs the Group's share of profit or (loss) of equity accounted investees, and gain on sale of property, plant and equipment are disclosed separately on the face of statement of profit or loss and other comprehensive income. Under SOCPA this income /(loss) was disclosed as other income or other expenses.

b- Under IFRSs expected impairment loss on trade and other receivables is disclosed separately on the face of statement of profit or loss and OCI. Under SOCPA it was disclosed as part of general and administration expenses.

c- Under IFRSs finance costs are disclosed net of finance income on the face of statement of profit or loss and OCI (refer Note 10). Under SOCPA, finance income was included in other income / other expenses.

These reclassifications had no impact on total comprehensive income for the year ended 31 December 2016.

(In Saudi Riyals Thousand)

7.12 Reclassification within statement of financial position

Under SOCPA, the prepayments and other receivables and loan to associated company were separately disclosed on the statement of financial position. Under IFRS, these balances are merged with trade and other receivables.

Under SOCPA accrued and other liabilities were separately disclosed on the statement of financial position, however, under IFRS, these are merged with trade and other payables.

This reclassification had no impact on total current assets and total current liabilities on either 1 January 2016 or 31 December 2016.

7.13 Retained earnings

The above IFRS changes decreased (increased) retained earnings as follows:

	Note	1 January 2016	31 December 2016
Capitalisation of spare parts	7.10	10,324	12,995
Re-measurement of employees' end of service benefit	7.7	938	1,391
Recognition of financial derivative	7.5	(119)	(188)
Re-measurement of SIDF loans	7.9	-	834
Impairment of Ceramic investment company	7.1	102	102
Error correction of related party receivable		(28)	(28)
Provision for directors' remuneration 2015	7.8	1,400	-
Provision for directors' remuneration 2016	7.8	-	1,400
Capitalisation of borrowing costs	7.9	-	831
Impact of consolidating CIC	7.1	(20)	2
(Increase) / decrease in retained earnings		12,597	17,339

7.14 Adjustments to the statement of cash flows

There are no material differences between the statement of cash flows presented under IFRS and the statement of cash flows presented under SOCPA.

7.15 Correction of prior period error

The customer's incentive was adjusted where it was recognized in a manner that is not in accordance with the accrual basis, and as a result, the Group made amendments to 01 January 2016. The following tables summarise the impacts on the Group's consolidated financial statements.

	1 January 2016		
	As previously reported	Adjustment	As restated
Consolidated statement of financial position			
Trade receivables , net	171,546	(33,115)	138,431
Total assets	171,546	(33,115)	138,431
Retained earnings	1,180,257	(33,115)	1,147,142
Total equity	1,180,257	(33,115)	1,147,142

(In Saudi Riyals Thousand)

	31 December 2016		
	As previously reported	Adjustment	As restated
Consolidated statement of financial position			
Trade receivables , net	195,073	(33,115)	161,958
Total assets	195,073	(33,115)	161,958
Retained earnings	1,100,944	(33,115)	1,067,829
Total equity	1,100,944	(33,115)	1,067,829

Consolidated statement of profit or loss and other comprehensive income

There is no material impact on the statement of profit or loss and other comprehensive income because impact of under provisioning in 2015 was approximately equal to the impact of under provisioning in 2016.

There is no material impact on the basic and diluted earnings per share for the year ended 31 December 2017 and 2016.

Consolidated statement of cash flows

There is no material impact on the total operating, investing, or financing cash flows for the years ended 31 December 2017 and 2016.

6. REVENUE

8.1. Nature of goods and services

The group derives revenue from the transfer of goods and services over time and at a point in time in the following major product lines and geographical regions:

Products and services	Segment	Nature, timing of satisfaction of performance obligations and significant payment terms
Ceramic tiles, porcelain tiles, ceramic road markers, all sanitary ware items including bathtubs, mirrors, mixers, toilet seat covers, flushing systems etc.	Ceramic tiles & sanitary ware	The Group recognises revenue when it transfers control over a product to a customer. The items are often sold with volume discounts based on aggregate sales over a 12 months' period. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. A contract liability is recognised for expected volume discounts payable to customers in relation to sales made until the end of the reporting period. No element of financing is deemed present as there are not contracts where the period between the transfer of the promised goods to the customer and payment by the customer exceeds one year. As a consequence, the group does not adjust any of the transaction prices for the time value of money. A receivable is recognised when the goods are delivered in case of local sales or shipped in case of exports as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due. The Group also operates a chain of retail stores selling these items. Revenue from the sale of goods is recognised when a group entity sells a product to the customer.
Electric water heaters	Water heaters	Payment of the transaction price is due immediately when the customer purchases the item. It is the group's policy to sell its products to the end customer with a right of return within 3 months, however, based on past history the value of returns is insignificant considering the nature of goods.

(In Saudi Riyals Thousand)

8.2 Contract balances

The following table provides information about receivables and contract liabilities from contracts with customers.

	31 December 2017	31 December 2016	1 January 2016
Receivables, which are included in trade and other receivables	**160,226**	161,958	138,431
Contract liabilities which are included in trade and other payables			
Contract liability - advances from customers	**20,689**	22,986	18,868
Total contract liabilities	**20,689**	22,986	18,868

7. INCOME AND EXPENSES

9.1. Other income / (expense)

	For the year ended December 31	
	2017	**2016**
Rent income from property	**2,999**	2,938
Scrap sales	**7,193**	6,264
Others	**550**	811
	10,742	10,013

9.2. Cost of sales

	For the year ended December 31	
	2017	**2016**
Raw materials consumed	**451,660**	436,050
Salaries, wages and other employee costs	**181,128**	207,231
Depreciation	**187,279**	155,282
Energy cost	**72,585**	86,552
Repairs and maintenance	**32,952**	55,123
Provision for slow moving and obsolete inventory	**40,102**	1,727
Others	**5,751**	3,725
	971,457	945,690

9.3. Selling and distribution expenses

	For the year ended December 31	
	2017	**2016**
Salaries, wages and other employee costs	**66,142**	72,178
Freight and transportation charges	**57,879**	63,647
Rent	**12,156**	9,989
Depreciation	**11,614**	14,025
Advertising and promotion	**4,568**	10,691
Communication and fee	**4,079**	6,885
Repairs and maintenance	**3,858**	3,784
Insurance and travel	**3,259**	2,786
Others	**4,407**	447
	167,962	184,432

(In Saudi Riyals Thousand)

9.4. Administrative and general expenses

	For the year ended December 31	
	2017	**2016**
Salaries, wages and other employee costs	**50,541**	59,013
Repairs and maintenance	**10,543**	11,872
Depreciation	**5,053**	4,547
Amortisation of intangible assets	**2,235**	4,431
Provision for directors' remuneration	**2,188**	2,098
Insurance and travel	**1,603**	1,158
Legal and professional fees	**1,124**	335
Others	**404**	929
	73,691	84,383

8. NET FINANCE INCOME/ (COSTS)

	For the year ended December 31	
	2017	**2016**
Finance costs		
Financial liabilities measured at amortised cost – interest expense	**38,570**	14,234
Net foreign exchange loss	**558**	-
Net change in fair value of derivatives	**188**	-
Bank charges and others	**1,000**	1,201
Total finance costs	**40,316**	15,435
Finance income		
Interest on short term deposits	**-**	466
Dividend income from investment in equity securities at FVOCI	**-**	322
Net change in fair value of derivatives	**-**	69
Net foreign exchange gain	**-**	5,735
Total finance income	**-**	6,592
Net finance costs recognised in profit or loss	**40,316**	8,843

9. ZAKAT

11.1. Basis for zakat provision

The Company is subject to zakat in accordance with the regulations of the General Authority of Zakat and Tax (GAZT). A provision for zakat for the Company and its subsidiaries is charged to the statement of profit or loss and OCI.

11.2. Zakat base comprises the following

	2017	**2016**
Shareholders' equity	**1,630,449**	1,798,344
Net adjusted income	**(44,498)**	47,026
Additions	**357,991**	787,713
Deductions	**(1,865,592)**	(2,022,699)
	78,350	610,384

11.3. Changes in zakat provision are as follows

	For the year ended December 31	
	2017	**2016**
Balance at the beginning of the year	**16,962**	15,355
Payments made during the year	**(14,718)**	(20,901)
Provision for the year	**100**	22,508
Balance at the end of the year	**2,344**	16,962

11.4. Status of final assessments

The Company has submitted its zakat returns and financial statements and accordingly paid the zakat due and obtained the zakat certificate for the year 2016.

10. EARNINGS PER SHARE

12.1. Basic earnings per share

Basic earnings per share is calculated by dividing the following net profit for the year attributable to ordinary shareholders by weighted average number of ordinary shares outstanding during the year.

	2017	2016
Net (loss)/ profit attributable to ordinary shareholders (SAR '000')	**(97,054)**	20,183
Weighted average number of ordinary shares in issue (In '000')	**50,000**	50,000
Basic and diluted earnings per share (SAR)	**(1.94)**	0.40

12.2. Diluted earnings per share

The calculation of diluted earnings per ordinary share is based on net profit attributable to ordinary shareholders and weighted average number of ordinary shares outstanding after adjustment for the effect of all dilutive potential ordinary shares. There were no potentially dilutive shares outstanding at any time during the year/previous year.

(In Saudi Riyals Thousand)

11. PROPERTY, PLANT AND EQUIPMENT

13.1. Reconciliation of carrying amount

	Land	Buildings	Machinery & equipment	Furniture & fixtures	Motor vehicles	Leasehold improvements	Assets under construction	Total
Cost								
Balance at 1 January 2016	165,619	786,100	1,838,022	54,748	99,035	18,585	493,604	3,455,713
Additions	-	9,832	6,793	7,451	5,071	-	100,507	129,654
Transferred from AUC	-	136,560	315,452	16,097	515	1,690	(470,314)	-
Disposals	-	(2)	(4,268)	-	(9,531)	(250)	-	(14,051)
Balance at 31 December 2016	165,619	932,490	2,155,999	78,296	95,090	20,025	123,797	3,571,316
Additions	9,486	8,712	9,870	2,708	3,292	9	29,521	63,598
Transferred from AUC	-	5,230	67,791	2,643	-	3,621	(79,285)	-
Disposals	(7,707)	-	-	-	(2,210)	-	-	(9,917)
Balance at 31 December 2017	**167,398**	**946,432**	**2,233,660**	**83,647**	**96,172**	**23,655**	**74,033**	**3,624,997**
Accumulated depreciation								
Balance at 1 January 2016	-	433,794	980,187	43,139	73,077	15,786	-	1,545,983
Depreciation	-	32,046	122,730	6,588	12,107	383	-	173,854
Disposals	-	(1)			(9,332)	(96)	-	(9,429)
Balance at 31 December 2016	-	465,839	1,102,917	49,727	75,852	16,073	-	1,710,408
Depreciation	-	36,898	149,408	7,286	9,624	730	-	203,946
Disposals	-	-	-	-	(2,002)	-	-	(2,002)
Balance at 31 December 2017	**-**	**502,737**	**1,252,325**	**57,013**	**83,474**	**16,803**	**-**	**1,912,352**
Carrying value								
At 1 January 2016	165,619	352,306	857,835	11,609	25,958	2,799	493,604	1,909,730
At 31 December 2016	165,619	466,651	1,053,082	28,569	19,238	3,952	123,797	1,860,908
At 31 December 2017	**167,398**	**443,695**	**981,335**	**26,634**	**12,698**	**6,852**	**74,033**	**1,712,645**

(In Saudi Riyals Thousand)

13.2. Property, plant and equipment pledged as security for liabilities

At 31 December 2017, property, plant and equipment with carrying amount of SAR 1,420 million (31 December 2016: SAR 1,519 million; 1 January 2016: SAR 1,193 million) were pledged as security against the loans from Saudi Industrial Development Fund (SIDF).

13.3. Assets under construction

It includes SAR 454 thousand of borrowing costs capitalized during the year (31 December 2016: SAR 17.2 million).

12. INTANGIBLE ASSETS

	Software
Cost	
Balance at 1 January 2016	22,115
Additions during the year	1,505
Balance at 31 December 2016	23,620
Balance at 31 December 2017	**23,620**
Accumulated amortisation and impairment	
Balance at 1 January 2016	15,179
Amortization during the year	4,431
Balance at 31 December 2016	19,610
Amortization during the year	2,235
Balance at 31 December 2017	**21,845**
Carrying value	
At 1 January 2016	6,936
At 31 December 2016	4,010
At 31 December 2017	**1,775**

13. GROUP INFORMATION

Subsidiaries

The consolidated financial statements of the Group include the financial statements of effectively a wholly owned subsidiary Ceramic Investment Company - a Saudi limited liability company established in Riyadh in collaboration with Ceramic Pipes Company (Associate Company) with a fully paid up capital of SAR 500,000. Its main activity is import, export, marketing services, wholesale and retail trading.

Associates

The group has a 50% interest in Ceramic Pipes Company (2016:50%, 1 January 2016: 50%)

The group has a 15.87% interest in Natural Gas Distribution Company (2016:15.87%, 1 January 2016: 15.87%)

(In Saudi Riyals Thousand)

14. INVESTMENTS IN ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD

Set out below are the associates of the group as at 31 December 2017 which, in the opinion of the directors, are material to the group. The entities listed below have share capital consisting solely of ordinary shares, which are held directly by the group. The country of incorporation or registration is also their principal place of business, and the proportion of ownership interest is the same as the proportion of voting rights held.

16.1. Investment in associates

	Note	31 December 2017	31 December 2016	1 January 2016
Ceramic pipes company	16.1.1	**16,035**	16,035	65,335
Natural gas distribution company	16.1.2	**9,032**	8,707	9,436
		25,067	24,742	74,771

16.1.1. The Company holds 50% of the share capital of Ceramic Pipes Company, "a Closed Joint Stock Company". The main activity of the associate is manufacturing of ceramic vitrified clay pipes. Its product range complements the group's product range and provides access to markets not previously serviced by the group. The subscribed share capital of Ceramic Pipes Company is SAR 57 million after the reduction (31 December 2016: SAR 193 million; 1 January 2016: SAR 193 million). This investment is accounted for using equity method. The Ceramic Pipes Company is registered in Riyadh, Kingdom of Saudi Arabia.

During 2017, Ceramic Pipes Company reduced its Capital by deducting the accumulated losses until 31 December 2016 and amended its commercial registration accordingly to to reduce the paid up capital to SR 57 million.

The directors have concluded that the Group does not control Ceramic Pipes Company, even though it holds 50% of the voting rights of this associate. This is because the Group does not have major representation on the board of directors and does not have the ability to affect the returns of the associate.

16.1.2. The Company holds 15.87% of the share capital of Natural Gas Distribution Company, "a Closed Joint Stock Company" amounting to SR 25 million. The Natural Gas Distribution Company is one of the Group's strategic suppliers and is principally engaged in the purchase and distribution of gas to the factories in the second industrial city in Riyadh. The investment is accounted for using the equity method based on the Company having significant influence over the investee by representation on the board of directors. The Natural gas distribution Company is registered in Riyadh, Kingdom of Saudi Arabia.

(In Saudi Riyals Thousand)

16.2. Movement in carrying amount of investment in associate

	Ceramic Pipes Company*	Natural Gas Distribution Company
Value of investment as at 1 January 2016	**65,335**	9,436
Share of profit/(loss) of associate company after tax / zakat	**(24,300)**	263
Impairment loss	**(25,000)**	-
Dividend received	-	(992)
Value of investment as at 31December 2016	**16,035**	8,707
Share of profit/(loss) of associate company after tax / zakat	-	721
Dividend received	-	(396)
Value of investment as at 31 December 2017	**16,035**	9,032

*According to the minutes of the Board of Directors of Saudi Ceramic Company No. 203 dated 7 February 2018, the Board reviewed the results of the Ceramic Pipe Company and discussed the financial and technical results and the technical staff appointments during 2017 and the company's future plans in terms of entering the infrastructure projects as well as the entry of foreign markets, especially European markets. Accordingly, the Board stressed the need to continue to provide financial and technical support to the company by converting the loans and debts of the existing partners into equity shares in the company and to provide new financing for the company to develop its production and production capacity and meet its additional needs

Accordingly, the Group's management does not believe that there are indications of decline in the value of the investment as well as the Accrual balances as explained in Note 28.3.

15. EQUITY INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

At 1 January 2016, the Group designated certain investments shown in the following table as equity securities at fair value through other comprehensive income because these equity securities represent investments that the Group intends to hold for the long-term for strategic purposes. In 2015, these investments were classified as available for sale and measured at fair value except for the Gulf real estate company which was measured at cost because its fair value was not considered to be reliably measurable (Note 28.3).

17.1 Fair value

	31 December 2017	31 December 2016	1 January 2016
Gulf real estate company	**6,600**	6,856	7,037
Yanbu National Petrochemical (YANSAB)	**4,294**	3,941	2,366
	10,894	10,797	9,403

None of these strategic investments were disposed of during 2017, and there were no transfers of any cumulative gain or loss within equity relating to these investments.

17.2 Dividend income recognized

No dividends are received from these investments during the year ended 31 December 2017 (2016: SAR 322 thousand).

(In Saudi Riyals Thousand)

16. INVENTORIES

	31 December 2017	31 December 2016	1 January 2016
Finished goods	**431,953**	448,703	315,018
Work in progress	**48,126**	66,955	60,293
Raw materials and consumables	**183,924**	194,551	250,799
Purchased goods for resale	**26,653**	29,368	33,464
Spare parts	**68,537**	69,270	61,527
	759,193	808,847	721,101
Less: provision for slow moving and obsolete items (Refer Note 18.1)	**(52,126)**	(12,025)	(10,298)
	707,067	796,822	710,803

18.1. Movement in the allowance for slow moving inventories:

	2017	2016
Balance at 1 January	**12,025**	10,298
Charge for the year	**40,101**	1,727
Balance at 31 December	**52,126**	**12,025**

17. TRADE AND OTHER RECEIVABLES

	31 December 2017	31 December 2016	1 January 2016
Trade receivables, net	**164,327**	165,714	141,287
Provision for doubtful debts (Note 29.3.2)	**(4,101)**	(3,756)	(2,856)
	160,226	161,958	138,431
Due from related parties (Note 28)	**18,014**	10,916	9,748
Loan to associate company	**50,476**	50,476	30,476
Other receivables (Note 19.1)	**96,185**	100,064	128,400
	324,901	323,414	307,055

19.1. Other receivables

	31 December 2017	31 December 2016	1 January 2016
Prepaid expenses	**24,969**	20,523	14,720
Refundable deposits	**8,853**	7,383	12,209
Advance to employees	**1,256**	2,100	2,151
Advance to suppliers	**61,107**	70,058	98,929
Others	**-**	-	391
	96,185	100,064	128,400

Information about the Group's exposure to credit and market risks, and impairment losses for trade and other receivables is included in Note 29.3.

18. CASH AND CASH EQUIVALENTS

	31 December 2017	31 December 2016	1 January 2016
	SAR 000	SAR 000	SAR 000
Bank deposit	-	-	98,000
Cash at bank	**78,048**	23,232	86,323
Cash in hand	**1,248**	1,467	1,733
Cash and cash equivalents	**79,296**	24,699	186,056

19. CAPITAL AND RESERVES

21.1 Share Capital

	31 December 2017	31 December 2016	1 January 2016
Ordinary shares authorized – Par value SAR 10	**50,000**	50,000	50,000
Number of fully paid ordinary shares in issue	**50,000**	50,000	50,000
Value of ordinary shares in issue (SAR '000')	**500,000**	500,000	500,000

All ordinary shares rank equally with regard to the Company's residual assets. Holders of these shares are entitled to dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company.

21.2 Nature and purpose of reserves

21.2.1 Statutory reserve

In accordance with the Regulations for Companies and the Company's Articles of Association, the Company has established a statutory reserve by the appropriation of 10% of annual net income. Since the balance of this reserve is more than 30% of the paid up capital the Company decided to discontinue the reserve. This reserve is not available for dividend distribution.

21.2.2 Fair value reserve

The fair value reserve comprises the cumulative net change including impairment, reported directly in equity, in the fair value of financial assets at fair value through other comprehensive income until the assets are derecognised.

21.3 Dividend per share

	2017	2016
Total dividend distributed (SAR "000")	**50,000**	100,000
Dividend per share (SAR)	**1**	2

After the reporting date, the board of directors at their meeting held on 7 February 2018 has proposed the issuance of 1 for 5 bonus shares from retained earnings which will increase the authorized and paid-up ordinary share capital by SR 100 million. The total number of issued and subscribed shares of the Company will increase to 60 million ordinary shares.

(In Saudi Riyals Thousand)

21.4 OCI accumulated in reserves

	Fair value reserve	Retained earnings	Total OCI
At 1 January 2016	**4,473**	**-**	**4,473**
Remeasurements of defined benefit liability	**-**	**(1,784)**	**(1,784)**
Financial assets at FVOCI - net change in fair value	**1,395**	**-**	**1,395**
At 31 December 2016	**5,868**	**(1,784)**	**4,084**
Remeasurements of defined benefit liability	**-**	**2,712**	**2,712**
Financial assets at FVOCI - net change in fair value	**97**	**-**	**97**
At 31 December 2017	**5,965**	**928**	**6,893**

20. LOANS AND BORROWINGS

	31 December 2017	31 December 2016	1 January 2016
Loans from local banks (Note 22.1)	**507,911**	525,000	741,250
Saudi Industrial Development Fund (Note 22.2)	**183,249**	155,854	190,977
Total loans	**691,160**	**680,854**	**932,227**
Less: current portion			
Loans from local banks	**420,411**	235,833	222,500
Saudi Industrial Development Fund	**45,383**	21,739	50,443
Total current portion	**465,794**	**257,572**	**272,943**
Total non-current portion	**225,366**	**423,282**	**659,284**

The loans contain certain covenants. A future breach of covenants may lead to renegotiation. The covenants are monitored on a monthly basis by Management, in case of potential breach, actions are taken by management to ensure compliance. Subsequent to the year end, the agreements were entered to reschedule some bank loans to long term.

Information about the Group's exposure to interest rate, foreign currency and liquidity risks is included in Note 29.3.

22.1 Loans from local banks

The Company obtained long-term Islamic Murabaha loan facilities from local commercial banks for a total amount of SR 508 million (2016: SR 791 million; 1 January 2016: SR 791 million) for the purpose of financing the expansion of its plants. The bank facilities are guaranteed by promissory notes in favor of the banks. The loans charges are determined based on the Murabaha agreement and the loans repayments will be made on unequal semi-annual installments which will end on 05/04/2022.

During the first quarter of 2018, the Group has signed agreements with several banks to reschedule part of the short term loans of SR 240 million as long term for a period of 7 years to further improve its cash flows and liquidity. These rescheduled loans will be repaid in unequal semi-annual installments which will end on 31 December 2024.

22.2. 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 carrying amount of these assets amounts to SR 1,420 million (31 December 2016: SR 1,519 million; 1 January 2016: SR 1,193 million). The agreements with SIDF include terms related to financial ratios.

(In Saudi Riyals Thousand)

The loans are payable in unequal semi-annual instalments commencing on Rabi Thani 15, 1433H, 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, 2017 amounted to SR 29 million (31 December 2016: SR 56 million; 1 January 2016: SR 56 million). The due date for utilizing these amounts was 29/12/1438 H, corresponding to 20/09/2017 G.

22.3. Short term loans

Short term loans represent Islamic Murabaha loans granted to the Company by local commercial banks with maturity of one year or less. These loans are predominantly of a revolving nature and loans' charges are determined based on the basis of market prices. These loans are guaranteed by promissory notes in favor of the banks for the loan values. During the year ended 31 December 2017 short term loans amounting SR 224.5 million were received (year ended 31 December 2016: SR 203 million) and SR 203 million were repaid to the banks (year ended 31 December 2016: Nil).

21. EMPLOYEES' END OF SERVICE BENEFITS

23.1. The Group operates following post-employment defined benefit plan as per Saudi labor law.

The plan entitles the employee upon the end of service to receive an award of a half month salary for each of the first five years and a one-month salary for each of the following years. The end of service award is calculated on the last drawn salary.

23.2. Movement in employees' end of service benefits

	2017	2016
Balance at 1 January	**77,225**	74,458
Included in profit or loss		
Current service cost	**9,434**	8,895
Interest cost	**2,575**	1,965
	12,009	10,860
Included in other comprehensive income		
Actuarial (gain)/ loss	**(2,712)**	1,784
Other		
Benefits paid	**(17,137)**	(9,877)
Balance at 31 December	**69,385**	77,225

23.3. Actuarial assumptions

	31 December 2017	31 December 2016	1 January 2016
Discount rate	**3.85%**	3.75%	3%
Future salary growth rate	**3%**	3.75%	3%
Withdrawal rate	**11%**	11%	11%

(In Saudi Riyals Thousand)

23.4. Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the employee's end of service benefit liability by the amount shown below

	31 December 2017		31 December 2016		1 January 2016	
Base liability		**69,385**		77,225		74,458
	Increase 1%	**Decrease 1%**	Increase 1%	Decrease 1%	Increase 1%	Decrease 1%
Discount rate	**65,146**	**74,189**	74,387	80,257	71,860	77,233
Future salary growth rate	**74,536**	**64,762**	80,575	74,039	77,532	71,533

22. TRADE AND OTHER PAYABLES

	31 December 2017	31 December 2016	1 January 2016
Trade payables	**163,742**	199,063	240,845
Accrued expenses	**52,317**	63,329	62,314
Advances from customers	**20,689**	22,986	18,868
Due to related parties	**2,331**	2,789	1,807
Other payables	**4,730**	4,678	4,099
	243,809	292,845	327,933

Information about the Group's exposure to currency and liquidity risks is included in Note 29.3

23. OPERATING SEGMENTS

The Group is engaged in the manufacturing and trading of different types of ceramic and porcelain products and water heaters. The Group has following two strategic divisions which are its reportable segments.

The following summary describes the operations of each reportable segment

Reportable segment	**Operations**
Ceramic tiles and sanitary ware	Manufacturing and distribution of ceramic and porcelain tiles and sanitary ware items
Water heaters	Manufacturing and distribution of electric water heaters

The Group's chief executive officer reviews the internal management reports of each segment on monthly basis.

Other operations include the red bricks manufacturing and distribution, rental of property, plastic, packaging, head office and desert mines (Branch). None of these segments meets any of the quantitative thresholds for determining reportable segments in 2017 & 2016.

25.1. Information about reportable segments

Information related to each reportable segment is set out below. Segment profit (loss) before zakat is used to measure performance because management believes that this information is the most relevant in evaluating the results of the respective segments relative to other entities that operate in the same industries.

(In Saudi Riyals Thousand)

	31 December 2017		
	Ceramic tiles & sanitary ware	**Water heaters**	**Total**
Total revenue from external customers	**835,598**	**304,128**	**1,139,726**
Inter-segment revenue	**18,923**	**-**	**18,923**
Segment revenue	**854,521**	**304,128**	**1,158,649**
Segment profit/ (loss) before zakat	**(123,715)**	**26,040**	**(97,675)**
Depreciation and amortisation	**(182,916)**	**(23,265)**	**(206,181)**
Segment assets	**2,559,825**	**301,820**	**2,861,645**
Segment liabilities	**1,133,045**	**98,151**	**1,231,196**

	31 December 2016		
	Ceramic tiles & sanitary ware	**Water heaters**	**Total**
Total revenue from external customers	995,421	308,098	1,303,519
Inter-segment revenue	25,027	-	25,027
Segment revenue	1,020,448	308,098	1,328,546
Segment profit/ loss before zakat	26,325	40,083	66,408
Depreciation and amortisation	(157,721)	(20,564)	(178,285)
Segment assets	2,697,820	347,760	3,045,580
Segment liabilities	1,197,073	73,813	1,270,886

The geographic information analyses the Group's revenue and non-current assets by the Company's country of incorporation and other countries. In presenting the geographic information, segment revenue has been based on the geographic location of customers and segment assets were based on the geographic location of the assets.

Revenue

	31 December 2017	**31 December 2016**
Saudi Arabia	**986,028**	1,146,476
Other GCC countries	**83,814**	98,388
Other countries	**69,884**	58,655
Total	**1,139,726**	1,303,519

The five largest customers account approximately for 36% of the revenue at 31 December 2017 (31 December 2016: 34%).

Property, plant and equipment

	31 December 2017	31 December 2016	01 January 2016
Saudi Arabia	**1,702,280**	1,851,043	1,908,461
Other GCC countries	**10,365**	9,865	1,269
Total	**1,712,645**	1,860,908	1,909,730

(In Saudi Riyals Thousand)

24. CONTINGENCIES AND COMMITMENT

The Company has obtained bank facilities in the form of letters of guarantee and letters of credit from local banks amounting to SR 59 million as of 31 December 2017 (31 December 2016: SR 87 million; 1 January 2016: SR 62 million). The letters of credit include an amount of SR 23 million (31 December 2016: SR 35 million; 1 January 2016: 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) equivalent to its portion in the share capital of that company as at 31 December 2017 for the amount of SR 36 million (31 December 2016: SR 36 million; 1 January 2016: SR 40 million). Additionally, the Company guarantees portion of the Saudi Investment Bank loan to the associate company equivalent to the portion in the share capital of that company for the amount of SR 33 million (31 December 2016: SR 43 million; 1 January 2016: SR 43 million).

25. OPERATING LEASES

The future minimum lease payments under non-cancellable leases were payable as follows:

	31 December 2017	31 December 2016	01 January 2016
Less than one year	**3,185**	3,203	3,203
Between two to five years	**12,273**	12,390	12,525
More than five years	**17,852**	20,920	23,989
Total	**33,310**	36,513	39,717

26. RELATED PARTY TRANSACTIONS

28.1. Subsidiaries and associates

Interest in subsidiaries and associates are set out in Note 15 and Note 16 respectively.

28.2. Transactions with key management personnel

Members of the Board of Directors do not receive any remuneration for their role in managing the Company unless approved by General Assembly. Members of the Board of Directors receive an attendance allowance for Board and Board Committee meetings. Executive Directors receive fixed remuneration as a result of their direct duties and responsibilities. The most Senior Executives, including the Chief Executive Officer and the Chief Financial Officer, receive remuneration according to the employment contracts signed with them. The following table illustrates details of remuneration and compensation paid to Directors and Key Management Personnel:

	31 December 2017			31 December 2016		
	Non-executive board members	**Key management personnel**	**Total**	Non-executive board members	Key management personnel	Total
Salaries and compensation	**-**	**3,341**	**3,341**	-	2,978	2,978
Allowances	**788**	**1,031**	**1,819**	698	1,042	1,740
Annual and periodic remunerations	**1,400**	**582**	**1,982**	1,400	125	1,525
Incentive plans	**-**	**-**	**-**	-	249	249
Other benefits	**-**	**2,740**	**2,740**	-	326	326
Total	**2,188**	**7,694**	**9,882**	2,098	4,720	6,818

(In Saudi Riyals Thousand)

28.3 Other related party transactions

	Transaction values for the year ended 31 December		Balance as at 31 December		Balance as at 1 January
	2017	2016	2017	2016	2016
Purchase of goods and services					
Associates	**32,085**	35,453	**2,331**	2,789	1,807
Others					
Associates					
• Loan to associate	**-**	20,000	**50,476**	50,476	30,476
• Payment of expenses, net	**7,098**	1,168	**18,014**	10,916	10,025
• Dividends received	**396**	992	**-**	-	-

(In Saudi Riyals Thousand)

27. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT

29.1 Accounting classification and fair values

The following table shows the carrying amounts and fair values of the Group's financial assets and financial liabilities, including their levels in the fair value hierarchy. For the financial assets and financial liabilities not measured at fair value, that have a short term maturity it is assumed that the carrying amounts approximate their fair value, therefore, it does not include fair value information for these financial instruments. This includes cash and cash equivalents, trade and other receivables, short term loans and trade and other payables.

	Carrying amount				Fair value			
	Fair value – hedging instruments	Financial assets at FVOCI	Amortised cost	Total	Level 1	Level 2	Level 3	Total
31 December 2017								
Financial assets								
Financial assets at FVOCI (Note 17)	-	**10,894**	-	**10,894**	**4,294**	-	**6,600**	**10,894**
Trade and other receivables (Note 19)	-	-	**324,901**	**324,901**				
Cash and cash equivalents (Note 20)	-	-	**79,296**	**79,296**				
	-	**10,894**	**404,197**	**415,091**	**4,294**	-	**6,600**	**10,894**
Financial liabilities								
Short term loans (Note 22)	-	-	**224,498**	**224,498**	-	-	-	-
Loans and borrowings (Note 22)	-	-	**691,160**	**691,160**	-	-	-	-
Trade and other payables excluding accrued expenses (Note 24)	-	-	**191,492**	**191,492**	-	-	-	-
	-	-	**1,107,150**	**1,107,150**	-	-	-	-

(In Saudi Riyals Thousand)

	Carrying amount				Fair value			
	Fair value – hedging instruments	Financial assets at FVOCI	Amortised cost	Total	Level 1	Level 2	Level 3	Total
31 December 2016								
Financial assets								
Interest rate swaps	188	-	-	188	-	188	--	188
Financial assets at FVOCI (Note 17)	-	10,797	-	10,797	3,941	-	6,856	10,797
Trade and other receivables (Note 19)	-	-	323,414	323,414	-	-	-	--
Cash and cash equivalents (Note 20)	-	-	24,699	24,699	-	-	-	--
	188	10,797	348,113	359,098	3,941	188	6,856	10,985
Financial liabilities								
Short term loans (Note 22)	-	-	203,000	203,000	-	-	-	-
Loans and borrowings (Note 22)	-	-	680,854	680,854	-	-	-	-
Trade and other payables excluding accrued expenses (Note 24)	-	-	229,516	229,516	-	-	-	-
	-	-	1,113,370	1,113,370	-	-	-	-

(In Saudi Riyals Thousand)

	Carrying amount				Fair value			
	Fair value – hedging instruments	Financial assets at FVOCI	Amortised cost	Total	Level 1	Level 2	Level 3	Total
1 January 2016								
Financial assets								
Interest rate swaps	119	-	-	119	-	119	-	119
Financial assets at FVOCI (Note 17)	-	9,403	-	9,403	2,366	-	7,037	9,403
Trade and other receivables (Note 19)	-	-	307,055	307,055	-	-	-	-
Cash and cash equivalents (Note 20)	-	-	186,056	186,056	-	-	-	-
	119	9,403	493,111	502,633	2,366	119	7,037	9,522
Financial liabilities								
Short term loans (Note 22)	-	-	-	-	-	-	-	-
Loans and borrowings (Note 22)	-	-	932,227	932,227	-	-	-	-
Trade and other payables excluding accrued expenses (Note 24)	-	-	265,619	265,619	-	-	-	-
	-	-	1,197,846	1,197,846	-	-	-	-

(In Saudi Riyals Thousand)

29.2. Measurement of fair values

The following tables show the valuation techniques used in measuring level 2 and level 3 fair values for financial instruments measured at fair value in the statement of financial position, as well as the significant unobservable inputs used.

Financial instruments measured at fair value

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Equity securities	The fair value is calculated using the adjusted net asset method which involves deriving the fair value of an investee's equity instruments by reference to the fair value of its assets and liabilities (recognised and un-recognised).	Historical margin on sale of real estate investments by investee (31 December 2017: 30%, 31 December 2016: 30%, 1 January 2016: 37%) Historical margin on sale of real estate investments under construction by investee (31 December 2017: 9.5%, 31 December 2016 & 1 January 2016: 9.5%)	The estimated fair value would increase (decrease) if: Expected value change in real estate investments increase (decrease) Expected value change in real estate investments under construction increase (decrease) The unobservable inputs are based on the average margin on historical transactions in real estate investment and real estate investments under construction by the investee. Due to unavailability of information such as forecast and market study etc. because of the nature and size of investment in the investee i.e. 1.4% of the total share capital, the expectations could not be further substantiated. However, the sensitivity analysis is disclosed for real estate investments for 15% variation and for real estate investments under construction for 5% variation.

Financial instruments measured at fair value

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Interest rate swap	The fair value is calculated as the present value of the estimated future cash flows. Estimates of future floating-rate cash flows are based on quoted swap rates, futures prices and interbank borrowing rates. Estimated cash flows are discounted using a yield curve constructed from similar sources and which reflects the relevant benchmark interbank rate used by market participants for this purpose when pricing interest rate swaps. The fair value estimate is subject to a credit risk adjustment that reflects the credit risk of the Group and of the counterparty; this is calculated based on credit spreads derived from current credit default swap or bond prices.	Not applicable	Not applicable

(In Saudi Riyals Thousand)

Financial instruments measured at fair value

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Other financial liabilities	Discounted cash flows: The valuation model considers the present value of expected payment, discounted using a risk-adjusted discount rate.	Not applicable	Not applicable

Other financial liabilities include loans from SIDF and unsecured bank loans.

29.2.1 Transfers between levels of fair value hierarchy

There were no transfers between levels of fair value hierarchy in either direction during the year ended 31 December 2017 and no transfers in either direction during the year ended 31 December 2016.

29.2.2 Level 3 fair values

Reconciliation of level 3 fair values

The following table shows a reconciliation from the opening balances to the closing balances for level 3 fair values for recurring fair value measurements.

Equity securities at FVOCI

	2017	2016
Balance at 1 January	**6,856**	7,037
Gain included in OCI		
Net change in fair value (unrealised)	**(256)**	(181)
Balance at 31 December	**6,600**	6,856

Sensitivity analysis

For the fair value of Equity securities at fair value through other comprehensive income reasonably possible changes at the reporting date to one of the significant unobservable inputs, holding other inputs constant, would have the following effects.

	OCI, before zakat	
	Increase	Decrease
At 31 December 2017		
Expected value change in real estate investment (15% movement)	**237**	**(239)**
Expected value change in real estate investment under construction (5% movement)	**206**	**(208)**
At 31 December 2016		
Expected value change in real estate investment (15% movement)	235	(241)
Expected value change in real estate investment under construction (5% movement)	204	(210)

29.3 Financial risk management

The Group has exposure to the following risks arising from financial instruments:

- Credit risk (Note 29.3.2)
- Liquidity risk (Note 29.3.3)
- Market risk (Note 29.3.4)

29.3.1 Risk management framework

The Group's board of directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The board of directors has established the executive committee, which is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the board of directors on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group audit committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group audit committee is assisted in its oversight role by internal audit. Internal audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the audit committee.

29.3.2 Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and cash in bank.

The carrying amounts of financial assets represent the maximum credit exposure.

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry and country in which customers operate. Details of concentration of revenue are included in the Note 25.

The risk management committee has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, if they are available, financial statements, credit agency information, industry information and in some cases bank references. Sale limits are established for each customer and reviewed quarterly. Any sales exceeding those limits require approval from the risk management committee.

The Group limits its exposure to credit risk from trade receivables by obtaining letters of guarantee or letters of credit based on the credit history of customer. Trade receivables at 31 December 2017 with carrying amount of SAR 95 million (31 December 2016: SAR 111 million; 1 January 2016 SAR 96 million) are secured against either letters of guarantee or letters of credit.

(In Saudi Riyals Thousand)

At 31 December, the gross exposure to credit risk for trade receivables by geographic region was as follows.

	2017	2016
Saudi Arabia	**167,861**	179,593
Other GCC countries	**23,222**	32,656
Other countries	**20,747**	6,468
Total	**211,830**	218,717

The five largest customers account approximately for 43% of gross outstanding trade receivables at 31 December 2017.

The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The loss allowance provision is determined as follows; the expected credit losses below also incorporate forward looking information.

	31 December 2017		
	Expected loss rate	Gross Carrying amount subject to impairment	Loss allowance provision
Not yet due	**0.197%**	**103,173**	**203**
30 days past due	**2.83%**	**2,369**	**67**
31 – 90 days past due	**7.96%**	**2,098**	**167**
91 – 180 days past due	**13.08%**	**3,401**	**445**
181 – 365 days past due	**41.35%**	**3,461**	**1,431**
More than 365 days	**100%**	**1,788**	**1,788**
		116,290	**4,101**

	31 December 2016		
	Expected loss rate %	Gross Carrying amount subject to impairment	Loss allowance provision
Not yet due	0.30%	84,354	253
30 days past due	3.64%	6,761	246
31 – 90 days past due	8.36%	9,393	785
91 – 180 days past due	15.91%	5,120	815
181 – 365 days past due	43.78%	836	366
More than 365 days	100%	1,291	1,291
		107,755	3,756

(In Saudi Riyals Thousand)

	1 January 2016		
	Expected loss rate %	Gross Carrying amount subject to impairment	Loss allowance provision
Not yet due	0.30%	85,683	257
30 days past due	5.78%	6,237	360
31 – 90 days past due	12.41%	5,679	705
91 – 180 days past due	17.91%	1,361	244
181 – 365 days past due	43.78%	16	7
More than 365 days	100%	1,283	1,283
		100,259	2,856

The gross carrying amount of trade receivables at 31 December 2017 is SAR 212 million (31 December 2016: SAR 219 million; 1 January 2016: SAR 196 million).

During the period, the company made no write-offs of trade receivables, it does not expect to receive future cash flows from and no recoveries from collection of cash flows previously written off.

Movements in the allowance for impairment in respect of trade receivables

The movement in the allowance for impairment in respect of trade receivables during the year was as follows.

	2017	2016
Balance at 1 January	**3,756**	2,856
Increase in loss allowance recognised in profit or loss	**345**	900
Balance at 31 December	**4,101**	3,756

Cash and cash equivalents

The Group held cash and cash equivalents of SAR 79.3 million at 31 December 2017 (31 December 2016: SAR 24.7 million; 1 January 2016: SAR 186.1 million). The cash and cash equivalents are held with banks with high credit rating, therefore, the Group considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties.

29.3.3 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. Following are the contractual maturities at the end of the reporting period of financial liabilities. The amounts are grossed and undiscounted, and include estimated interest payments.

	31 December 2017			
Financial liabilities	**Carrying amount**	**On demand or less than 1 year**	**1 year to 5 years**	**More than 5 years**
Loans and borrowings	915,658	690,292	225,366	-
Trade and other payables	191,492	191,492	-	-
	1,107,150	**881,784**	**225,366**	**-**

(In Saudi Riyals Thousand)

	31 December 2016			
Financial liabilities	**Carrying amount**	**On demand or less than 1 year**	**1 year to 5 years**	**More than 5 years**
Loans and borrowings	883,854	460,572	423,282	-
Trade and other payables	229,516	229,516	-	-
	1,113,370	**690,088**	**423,282**	**-**

	1 January 2016			
Financial liabilities	**Carrying amount**	**On demand or less than 1 year**	**1 year to 5 years**	**More than 5 years**
Loans and borrowings	932,227	272,943	647,111	12,173
Trade and other payables	265,619	265,619	-	-
	1,197,846	**538,562**	**647,111**	**12,173**

The Group's liquidity risk arises from the short-term loans, the current part of long-term loans, accounts payable, and other liabilities.

The group maintains sufficient amount of cash and cash equivalents for liquidity purpose. Management reviews cash flow forecasts on a regular basis to determine whether the group has sufficient cash reserves to meet future working capital requirements and to take advantage of business opportunities. The Group limits liquidity risks through having bank facilities available and ensuring settlement of payables and receivables on due date.

29.3.4. Market risk

Market risk is the risk that changes in market prices – such as foreign exchange rates, interest rates and equity prices – will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Commission rate risk

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 bank loans and facilities that carry variable commission rates amounting to SAR 732 million at 31 December 2017 (31 December 2016: SAR 728 million; 1 January 2016: SAR 741 million). The Company is working on minimizing the risks on commission rates through monitoring the expected fluctuations in the commission rates and takes safety measures when needed by entering into the short term agreements with local banks to fix the commission rate.

The following table demonstrates the sensitivity of the income to reasonably possible changes in commission rates, with all other variables held constant. There is no direct impact on the Group's equity.

(In Saudi Riyals Thousand)

Sensitivity analysis

	Increase/ decrease in basis points of commission rates	Effect on income for the year
31 December 2017	+100	(7,320)
	-100	7,320
31 December 2016	+100	(7,280)
	-100	7,280
01 January 2016	+100	(7,410)
	-100	7,410

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in currency other than SAR. The Group exposure to foreign currency risk is primarily limited to transactions in, Euro ("EUR"), Great British Pounds ("GBP"), United State Dollars ("USD"), and UAE Dirham ("AED"). The Group's management believes that their exposure to currency risk is limited as the SAR and AED are pegged to USD. The fluctuation in exchange rates against EUR and GBP are monitored on a continuous basis.

The management monitors fluctuations in foreign currency exchange rates and believes that the Company is not significantly vulnerable to exchange rate changes.

Quantitative data regarding the Group's exposure to currency risk arising from currencies that are not pegged to USD is as follows:

	31 December 2017	
	EUR	GBP
Cash at bank	5,817	-
Trade payables	(5,465)	(1,569)
Net statement of financial position exposure	**352**	**(1,569)**

	31 December 2016	
	EUR	GBP
Cash at bank	3,205	-
Trade payables	(10,966)	(375)
Net statement of financial position exposure	**(7,761)**	**(375)**

	01 January 2016	
	EUR	GBP
Cash at bank	17,334	-
Trade payables	(28,261)	(2,681)
Net statement of financial position exposure	**(10,927)**	**(2,681)**

(In Saudi Riyals Thousand)

Sensitivity analysis

A strengthening / (weakening) of the EUR and GBP against SAR by 10% would have affected the measurement of financial instruments denominated in foreign currency and would have increased / (decreased) the profit or loss by the amounts shown below:

	31 December 2017	
	Strengthening	**Weakening**
EUR (10% movement)	35	(35)
GBP (10% movement)	(157)	157
	(122)	**122**

	31 December 2016	
	Strengthening	**Weakening**
EUR (10% movement)	(776)	776
GBP (10% movement)	(37)	37
	(813)	813

	01 January 2016	
	Strengthening	**Weakening**
EUR (10% movement)	(1,093)	1,093
GBP (10% movement)	(268)	268
	(1,361)	1,361

29.4. Capital management

The Board's policy is to maintain an efficient capital base so as to maintain investor, creditor and market confidence and to sustain the future development of its business. The Board of Directors monitor the return on capital employed and the level of dividends to ordinary shareholders.

The Group's objectives when managing capital are:

to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and

to provide an adequate return to shareholders.

28. SUBSEQUENT EVENTS

The board of directors in their meeting held on 21 Jumada Al-Awwal, 1439H corresponding to 07 February 2018 G has proposed to issue 10 million bonus shares by issuing 1 bonus share for each 5 shares held. The issue of bonus shares will increase the authorized and fully paid up share capital of the Company from SAR 500 million to SAR 600 million.

In the opinion of the management, there have been no other significant subsequent events since the yearend that would have a material impact on the financial position of the Group as reflected in these Consolidated Financial Statements.

29. DATE OF AUTHORIZATION FOR ISSUE

These consolidated financial statements for the year ended 31 December 2017 were authorized for issue by the Board of Directors on 11 Rajab, 1439H (corresponding to 28 March 2018).

E-mail: info@saudiceramics.com
Website: www.saudiceramics.com
عضو اللجنة الوطنية للشركات المساهمة السعودية