

الإسمنت السعودية  
SAUDI CEMENT



**Annual Report 2016**  
**Power to Build**



## Table of Contents

4	Board of Directors
5	Vision, Mission and Values
6	Board of Directors' Statement
7	Statement from the Chairman of the Board of Directors
8	Production Capacities
9	Financial Highlights
10	Production - Stock
11	Operation and Maintenance - Sales - Exports - Principal Activity
12	Plans, Decisions & Future Expectations
13	Plans, Decisions & Future Expectations (Continued) - Risks facing the Company
14	Five Years Balance Sheet and Income Statement
15	Geographical Analysis of 2016 Revenue for Company and its Subsidiaries - Material Differences in Operating Results
16	Departure from Accounting Standards - Subsidiary Company - Issued Shares and debt Instrument - Dividend Policy
17	Appropriation Account – Description of any interest in a class of voting shares
18	Interests, Rights of Board Members, and their relatives / Senior Executive in the Shares of Saudi Cement Company - Loans and Bank financing
19	Classes and numbers of any convertible debt instruments, contractual securities, indebtedness of the issuer - Board of Directors meetings - Transaction between the issuer and any related party
20	Transaction between the issuer (Continued) - Arrangement or agreement or waived any rights for director or a senior executive of salary or compensation - Outstanding Statutory Payments - Thrift Saving Program
21	Board of Directors' Declarations –External Auditors Report containing reservations –Recommendation from board of directors to change the External Auditor- Board approval of Interim and Annual Financial Statements –Corporate Governance
22	Board Members Holding Directorships in other Saudi listed Companies- Board Membership & Classification
23	Audit Committee -The Nominations & Remunerations Committee - Executive Committee
24	Board of Directors' Remuneration and Other Compensation - Executives Remunerations
25	Punishment or penalty or preventive restriction - Results of Annual Audit - Implementing International Financial Reporting Standards (IFRS) - Quality Certificates
26	Occupational health and safety - Environmental Protection and Pollution
27	Hiring and Training of Saudi Nationals - Corporate Social Responsibility
28	Corporate Social Responsibility (Continued)
29	Board of Directors' Proposals
30	Conclusion
31-47	Financial Statements and Auditors' Report
48	Contacts

## 2016 Board of Directors' Report

For the Extraordinary General Assembly Meeting Held on  
12<sup>th</sup> Rajab 1438 (9<sup>th</sup> April 2017)



(DIN EN) ISO 9001:2008  
Reg. No. 04 100 160718



The Founder  
King Abdulaziz bin  
Abdulrahman Al Faisal Al Saud



Custodian of the Two Holy Mosques  
King Salman bin  
Abdulaziz Al Saud



His Royal Highness  
Crown Prince Muhammad bin  
Nayef bin Abdulaziz Al Saud,  
First Deputy Prime Minister  
and Minister of Interior





Mr. Khaled Abdulrahman Al-Rajhi  
Chairman



Dr. Mohammad Sulaiman Balghonaim  
Board Member



Mr. Khaled Abdulrahman Al-Abdulkarim  
Board Member



Mr. Fahad Abdullah Al-Saleh  
Board Member



Mr. Amin Mousa Al-Afifi  
Board Member



Mr. Hamad Abdullah Al-Olayan  
Board Member



Dr. Abdulrahman Suleiman Al-Rajhi  
Board Member



Mr. Ahmed Mohammed Al-Omran  
Board Member



Mr. Mohammed Abdulkarim  
Al-Khereiji - Board Member



Ms. Hala Walid Al-Juffali  
Board Member



Mr. Mohammed Ali Al-Garni  
Board Member & Chief Executive Officer

## Vision, Mission and Values

### VISION

To be world class producer of building materials and strive for excellence.

### MISSION

As a cement industry pioneer in the region, Saudi Cement Company aims to maintain its leadership position and reputation for safety, health, environment, quality, cost efficiency, and advanced operations; through a highly motivated team. Saudi Cement Company's goal is to exceed the expectations of all its stakeholders, including customers, employees, shareholders, and the community at large.

### VALUES

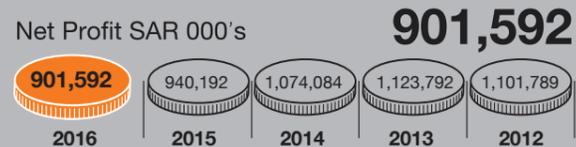
- To provide our customers with quality products and services.
- To provide an environment for our people to excel, develop and grow.
- To achieve attractive returns for our shareholders and finance growth, while adhering to the highest ethical standards and Islamic principles.

**Board of Directors' Statement**

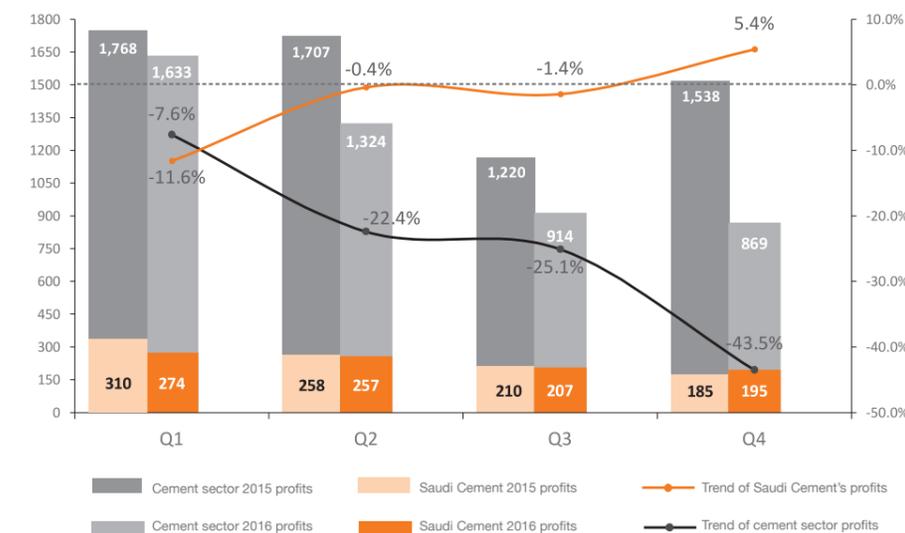
Respected Shareholders,

The Board of Directors welcomes you to the Extraordinary General Assembly Meeting of Saudi Cement Company and thanks you for attending this meeting.

The Board is pleased to present to you the "Annual Report" for the year ended December 31, 2016 together with the Financial Statements and the Auditors' Report related to that year.



Operating profit trend of Saudi Cement compared with Cement Sector by end of Q4, 2016



The cement sector in Saudi Arabia is facing major challenges and difficulties. The first one is the decline in demand due to the significant slowdown in government spending on projects due to the decrease in the Kingdom's revenues, and implementation of strict austerity policies. This all led to the reaching of clinker stocks in the sector to a new high ceiling with the closure of 2016, the new level is 28.1 million tons of clinker with 23.4% more than the closure of 2015. It was noted that some initiatives were taken by some companies operating in the sector to reduce their inventory level by lowering the amount of production and the closing of some old production lines, and our company was a leader in this initiative. However, production reduction remain as a difficult target because of the sector's high production capacity (estimated at 80 million tons of cement) versus demand declining in 2017.

On the other hand, competition among the companies operating in the market was increasing because of the pressures of inventory increase and the competition to get more market share with the low level of demand, which entered a downward trend that started in September 2016 which eroded the growth of domestic demand shown at the beginning of the year closing 2016, with a decrease of 9.8% compared to 2015. This led many companies to discount their selling price and bear heavy transportation costs to reach the major demand markets, resulting in a reduction of profit margins. It is worth mentioning that the profit margins also suffer from the high cost of fuel, which will negatively affect in the coming years according to the trends regarding fuel prices as per official bodies.

In view of the continued decline of local demand, we believe that a challenge is coming to the cement market in the Kingdom because of the continuation in increase of Clinker Stocks after the capacities expansion of some existing companies and the entry of new companies. Taking into account the issuance of the decision to allow the export that shocked the sector in terms of cost, as we believe that cement companies will not be able to export in accordance with the fees imposed.

Because of all of the above-mentioned conditions, our Company has worked diligently to raise its operating efficiency

and reduce the expenses in order to meet the conditions of market volatility, and this has generally improved its results.

Below is a summary of operational and financial results for the year 2016:

- The Clinker Production amounted to about 7.6 million tons compared with 7.9 million tons in the year 2015, i.e. a decrease of 3.4%.
- Total sales of cement during the year was about 7.3 million tons compared with the amount of 7.7 million tons sold in 2015 with a decrease of 4.9 %.
- Clinker stock increased by the end of the year to 4.7 million tons, compared with 4 million tons by the end of 2015, i.e. increase of 18.3%.
- Sales revenue of the year amounted to SR 1,778 million with a decrease of 8% compared to the year 2015.
- Operating profit for the year reached SR 933 million compared with SR 964 million in 2015, a decline of 3.2%.
- Earnings per share for the year amounted to SR 5.89 compared to SR 6.15 for 2015.
- Net cash flow from operations for the year decreased by 9% to about 1,078 million Riyals compared with 1,184 million Riyals in the year 2015.
- Total dividends distributed during the year amounted to 879.75 million Riyals.
- Total assets at the end of the year decreased by 5.8% amounting to 4,251 million Riyals compared with 4,514 million at the end of year 2015.
- Total shareholders equity at the end of the year increased by 0.6% amounting to 3,275 million riyals compared to around 3,256 million at the end of 2015.

Finally, we will continue working, to improve the operational efficiency, maintain our market share and make every possible effort to maintain our Company's leadership at the local and regional levels.

**Khaled Abdulrahman Al-Rajhi**  
Chairman of the Board of Directors

## Production Capacities (Operating)

### CLINKER

Annual Rated Capacity (tons) Kilns	8,910,000
Tons per day	2 x 11,500
Tons per day	1 x 4,000

### CEMENT

Annual Grinding (Capacity) tons	11,500,00
---------------------------------	-----------

### MILLS CEMENT

Tons per HOUR	3 x 280
Tons per HOUR	2 x 160
Tons per day	3 x 120
Tons per day	2 x 80

Cement Mills of old lines will be used to grind quantities in excess of the grinding capacity of the new Mills.

### TYPES OF CEMENT PRODUCED

Ordinary Portland Cement (ASTM Type 1 Specification)
Sulphate Resisting Cement (ATM Type V Specification)
Oilwell Cement (API Class G Specification) Under API License to use API Monogram
Special Cement of any type & specification as per market demand

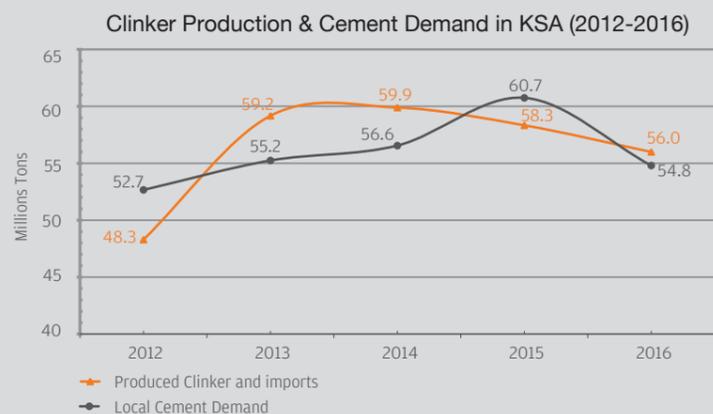
## Financial Highlights

All figures expressed in SAR 000's



SR 000's	2016	2015	2014	2013	2012
<b>Sales</b>	<b>1,778,139</b>	1,932,393	2,024,587	2,187,255	2,203,447
Cost of Sales	(749,139)	(796,371)	(795,530)	(902,993)	(974,237)
<b>Gross Profit</b>	<b>1,029,000</b>	1,136,022	1,229,057	1,284,262	1,229,210
Impairment loss of property, plant & equipment	0	(66,150)	0	0	0
General, Admin & Marketing Exp.	96,267	106,256	(105,614)	(97,887)	(87,153)
<b>Operating Income</b>	<b>932,733</b>	963,114	1,123,443	1,186,375	1,142,057
Other Income / (Expenses)	(7,618)	785	(12,432)	(15,344)	395
Zakat	(23,523)	(24,209)	(36,927)	(47,239)	(40,663)
<b>Net Income</b>	<b>901,592</b>	940,192	1,074,084	1,123,792	1,101,789

## Production - Stock



### Clinker Production:

Total quantity of clinker produced during 2016 amounted to 7,592,880 tons compared to a quantity of 7,856,130 tons for 2015 i.e. a decrease of (263,250) tons or approximately (3.4%).

On the other hand, total clinker production for all cement companies in the Kingdom during 2016 reached about 55.5 million tons in comparison with 57 million tons for 2015, i.e. a decrease of (1.5) million tons or approximately (2.6%).

### Cement Production:

Cement production for 2016 amounted to 7,418,439 tons in comparison with 7,690,005 tons for 2015, i.e. a decrease of (271,566) tons or approximately (3.5%).

Cement grinding and dispatch were mainly conducted at Hofuf Plant. Also, Ain Dar plant's cement grinding and dispatch facilities were partially utilized for meeting cement sales by rail.

### Clinker Stock:

The clinker inventory as of December 31, 2016 amounted to 4,712,784 tons, in comparison with a quantity of 3,983,220 tons as of December 31, 2015, i.e. an increase of 729,564 tons or approximately 18.3%. On the other hand, clinker inventory continued increasing for all cement companies in the Kingdom, to new record levels by the end of 2016 reaching 28.1 million tons, an increase of 5.3 million tons and 23.4% compared to the end of 2015.

The escalation in clinker inventory was due to slower pace of growth in domestic demand during 2016 than Compound Annual Growth Rate (CAGR) of the preceding seven years; increase in local production quantities, and due to clinker importation in compliance with the directive from Ministry of Trade and Industry during 2013.

## Operation and Maintenance - Sales - Exports - Principal Activity



### Operation and Maintenance:

Saudi Cement Company continued highly efficient operation and scheduled preventive maintenance jobs, thereby improving the time available for operation and increasing production efficiency, which had positive impact on the Company's results.

Saudi Cement Company has maintained its supremacy in producing its high quality types of cement products, and has the capability and flexibility to produce other types of cement, if that proves to be economically viable.

### Sales:

Cement demand in Saudi Arabia witnessed its first drop during the year 2016 after enjoying a CAGR during the years 2009- 2015 of 10.9%. As the local cement demand during 2016 has dropped to around 54.8 million tons in comparison with the local demand of 60.7 million tons during the year 2015 i.e. a decrease by approximately 5.9 million tons or 9.8%.

Total cement sales (local & export) for the year 2016 amounted to 55.6 million tons.

Saudi Cement Company's local cement sales volume for the year 2016 was 6,781,478 tons in comparison with 7,222,950

tons for the year 2015 i.e. a decline of 441,472 tons or 6.1% while the total cement sales volume (local & export) for the 2016 amounted to 7,323,329 tons in comparison with 7,703,084 tons for the year 2015, i.e. a decrease of 379,755 tons or 4.9%.

### Exports:

The total exported quantities during the year 2016 reached 541,851 tons compared to 480,134 tons in the year 2015, i.e. an increase of 61,717 tons or 12.9%.

The above export quantity increase was mainly due to growing sales quantity in the Kingdom of Bahrain.

### Principal Activity:

Saudi Cement Company's principal and sole activity is confined to the manufacture and trade of cement and cement related products. Hence, the Company does not carry out any other activity, nor does it produce any other Products. The subsidiary companies' activities is in the trading, transporting of cement, manufacturing and selling of paper bags for cement packaging.

## Plans, Decisions & Future Expectations

### Plans, Decisions & Future Expectations:

Currently, Saudi Cement Company has no expansion plans for its production facilities due to adequacy of production capacity Kingdom wise for several future years. Further, clinker inventory levels for local cement companies has reached tremendous level, which is sufficient for considerable time, especially with the entry of additional production lines in some national companies, in addition to the entry of two new cement companies. There is no significant plans for restructuring, business expansion. The following operations has been postponed:

#### a) Kiln (6) Stoppage:

Considering the current market conditions and export difficulties, as a result of restricted conditions, which led to the rise of clinker inventory to high levels, the Board have resolved to temporarily stop Kiln (6) with daily production capacity of 3,500 tons of clinker effective 25/04/1437 (04/02/2016) as announced in Tawdaul on 28/04/1437 (07/02/2016).

#### b) Concentrating Cement Grinding Capacity at Hofuf Plant:

Currently, Saudi Cement Company mainly utilizes its grinding facilities at Hofuf Plant, and partially depends on the grinding facilities at its Ain Dar Plant to cater for Cement Rail dispatches and meet the demand in the local market.

Saudi Cement Company, however, aims to concentrate its grinding operations at Hofuf Plant only, in order to cut costs and better serve its customers. Accordingly, a contract was signed for laying of a new full-facility rail tracks at Hofuf plant with a total cost of SR 38 million, which was expected to be completed by November 2015. As per approved scheme from SRO, Saudi Cement has completed most of the jobs inside their yard. Later, SRO informed that they are modifying their station 23 layout, where Saudi Cement has to connect these new lines. After laying the new track by SRO in their area, Saudi Cement will connect the new laid tracks.

Another contract with a total cost of SR 84 million with initial expected completion date January 2016 was signed for constructing a cement loading facility for serving these new tracks. However, due to some delays, the two projects will be ready for operation by mid of year 2017 after Saudi Railway Organization completes storage tracks and link point to its main network. The cold commissioning of the system has been completed and Saudi Cement is waiting for the track operation to start the final commissioning.



Saudi Cement Company's sales volume of all cement types for 2016 reached to 7,323,329 tons compared to 7,703,084 tons for 2015, i.e. a decrease of approximately 4.9%.

## Plans, Decisions & Future Expectations (Continued) - Risks facing the Company

The above projects require raising the operational efficiency of grinding facility at Hofuf plant to higher levels in order to compensate for Ain Dar plant's old grinding facility which will be stopped (due to high operating cost and in order to save additional clinker transportation charges from Hofuf Plant to Ain Dar Plant) in addition to improving the cement quality, and meeting MEPA's environmental requirements. Accordingly, the Board of Directors had previously resolved to add two new cement mills with total designed capacity of approximately 440 tons/hour. The technical and financial offers from qualified contractors were received. Due to slowdown in domestic demand with continuation of the export difficulties, the Board of Directors has resolved during its meeting on 25/04/1437 (04/02/2016) to postpone execution of this project until market conditions improve, as previously announced on Tadawul.

### Risks facing the Company:

Saudi Cement Company faces operating risks of rising prices of raw materials and other production inputs, and their effect on increasing operation cost in addition, the Company faces the risk of the Kingdom's macroeconomic volatilities, like other domestic companies, which may result to decline in local cement demand because of expectations of lower government spending on infrastructure projects.

The Company faces the financing risk of rising interest rates on the profit margin of outstanding Islamic Murabaha loans within it is obligations in addition to that, the Company also faces the risk of changes in foreign currency exchange rates of the Saudi Riyal for its financial assets and liabilities denominated in foreign currencies. More over, the Company faces credit risk from inability of its customers and bankers to fulfill their obligations to the Company.

To manage the operating risks the Company implemented intensive preventive maintenance programs for the operating assets of the Company. The Company still may face the risk of unscheduled sudden stoppage of production lines. Furthermore, to manage the financing risks, the Company ensures that adequate Islamic banking financing is available to address the liquidity risk concerning its inability to raise funds from operations to meet its obligations when they are due. The Company policy to manage credit risk by limiting credit sales only to customers with high credit standing, as well as dealing with highly credit rated banks licensed by the Saudi Arabian Monetary Agency.



Total Exports Increase

**+12.9%**

From last year

(Expressed in Thousand Tons)



## Five Years Balance Sheet and Income Statement

### Five years Balance Sheets

Description	Years				
	2016	2015	2014	2013	2012
Current Assets	1,300,785	1,416,231	1,246,899	986,408	801,607
Non-Current Assets	2,950,159	3,097,358	3,260,353	3,384,487	3,531,555
<b>Total Assets</b>	<b>4,250,944</b>	<b>4,513,589</b>	<b>4,507,252</b>	<b>4,370,895</b>	<b>4,333,162</b>
Current Liabilities	884,203	1,166,451	1,106,556	841,467	767,386
Non-Current Liabilities	91,277	91,316	241,366	320,982	407,922
<b>Total Liabilities</b>	<b>975,480</b>	<b>1,257,767</b>	<b>1,347,922</b>	<b>1,162,449</b>	<b>1,175,308</b>
Paid up Capital	1,530,000	1,530,000	1,530,000	1,530,000	1,530,000
Reserves	765,000	765,000	785,000	835,000	835,000
General Reserves	0	20,000	0	0	0
Retained Earnings	980,464	940,822	844,330	843,446	792,854
<b>Shareholders' Equity</b>	<b>3,275,464</b>	<b>3,255,822</b>	<b>3,159,330</b>	<b>3,208,446</b>	<b>3,157,854</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>4,250,944</b>	<b>4,513,589</b>	<b>4,507,252</b>	<b>4,370,895</b>	<b>4,333,162</b>

### Five years' Income Statements

Description	Years				
	2016	2015	2014	2013	2012
<b>Sales</b>	<b>1,778,139</b>	<b>1,932,393</b>	<b>2,024,587</b>	<b>2,187,255</b>	<b>2,203,447</b>
Cost of Sales	(749,139)	(796,371)	(795,530)	(902,993)	(974,237)
<b>Gross profit</b>	<b>1,029,000</b>	<b>1,136,022</b>	<b>1,229,057</b>	<b>1,284,262</b>	<b>1,229,210</b>
Impairment loss Property, Plant & Equipment	0	(66,150)	0	0	0
Admin & Selling Exps.	(96,267)	(106,256)	(105,614)	(97,887)	(87,153)
<b>Operating Income</b>	<b>932,733</b>	<b>963,616</b>	<b>1,123,443</b>	<b>1,186,375</b>	<b>1,142,057</b>
Other Income/(Expenses)	(7,618)	785	(12,432)	(15,344)	395
Zakat	(23,523)	(24,209)	(36,927)	(47,239)	(40,663)
<b>Net Income</b>	<b>901,592</b>	<b>940,192</b>	<b>1,074,084</b>	<b>1,123,792</b>	<b>1,101,789</b>

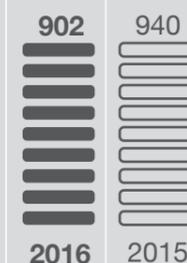
## Geographical Analysis of 2016 Revenue for the Company and its Subsidiaries - Material Differences in Operating Results

### Net Income

**- 4%**

Decrease from last year

(Expressed in SAR millions)



### Geographical Analysis of 2016 Revenue for the Company and its Subsidiaries:

The greater portion of Company's sales were made within Saudi Arabia, and a small portion was exported in accordance with the limits imposed by the government. Portland cement exports were confined to the Kingdom of Bahrain. Saudi Cement Company's local sales are made via truck delivery ex-plant Hofuf & Ain Dar Plants and Dammam Export Terminal through distributors mostly in the Eastern Province, as well as some company customers and small traders. Accordingly, the geographical analysis of local market sales, region-wise, is not possible. The following table shows the geographical analysis of sales revenue for our Company and its subsidiaries for 2016:

Details	2016	2015
<b>Saudi Cement Company:</b>		
Local Market	1,664,275	1,815,877
Export Market	113,864	116,516
<b>Total</b>	<b>1,778,139</b>	1,932,393
<b>Subsidiaries:</b>		
Local Market	267,714	179,553
Export Market	24,800	31,201
<b>Total</b>	<b>292,514</b>	210,754

### Material Differences in Operating Results:

Details	2016	2015	(SR 000's) % of change
Operating Profit	932,733	963,616	(3.2)

The decrease in operating profits compared to the previous year was due to decrease in local cement sales and increase in cost of sales due to increase in energy prices.

## Departure from Accounting Standards - Subsidiary Companies - Particulars of Issued shares and debt instruments - Dividend Policy

### Departure from Accounting Standards:

There was not any departure from accounting standards issued by the Saudi Organization of Certified Public Accountants.

### Subsidiary Companies:

Saudi Cement Company owns shares in the following subsidiary companies:

Company name	% age of ownership	Established at	Country of operation	Main activity
1. United Cement Company (Bahraini closed Joint Stock Company) Issued shares one million @ one BD nominal value/share and there are no issued debt instruments.	36%	Bahrain	Bahrain	Trading and transporting cement in Bahrain
2. Cement Product Industry Co. Ltd. (Saudi Limited Liability Company). 18,000 issued shares @ SR 1,000 nominal value/share.	33.33%	KSA	KSA, Jeddah	Manufacturing and selling of paper bags for cement packing
3. Group International Cement Company* (Kuwait closed Joint Stock Company) Number of shares issued 60 Million @100 Kuwait Fils nominal value/share and there are no issued debt instruments.	40%	Kuwait	Kuwait	Trading and packing of Cement & Bulk Products

\* During the year Saudi Cement Company has sold its total shareholding of 40% in Group International Cement Company (Kuwaiti closed joint stock co.) on May 24,2016 resulting in a gain on sales of investment amounting to SAR 322,000 as announced in Tadawul.

### Particulars of issued shares and debt instruments of every subsidiary:

None

### Dividend Policy:

The Company distributes its annual net profits after deducting all general and administrative expenses and all other costs and provisions for Zakat, as follows:

- 10% of the net profit is set aside to formulate the Statutory Reserve, and the Ordinary General Assembly has the right to stop contribution to that reserve when it reaches 50% of the paid up capital. The 54th Ordinary General Assembly held on 08 Jumada-1 1434 (20 March 2013) ratified stopping appropriation to Statutory Reserve since it had reached 50% of paid- up capital.
- It is also the right of the Ordinary General Assembly, based on Board of Directors' recommendation, to set aside not less than 5% of the net profit to formulate a Voluntary Reserve for specific purpose(s).
- Distribute out of the remaining profit a first payment to shareholders representing 5% of paid up capital.
- Appropriate a maximum of 10% of the remaining profit as Board of Directors' 'remunerations not exceeding the maximum allowed limit per the decisions and instructions the pertinent government authorities.
- It is possible to distribute all (or part of) the remaining profit as additional Dividend to Shareholders, or carry it forward (totally or partially) to next year, in accordance with the decision of the Ordinary General Assembly on the recommendation of the Board of Directors.

## Appropriation Account - Description of any interest in a class of voting shares

### Appropriation Account:

During its meeting on 17/08/1437 (24/05/2016), the Board of Directors had decided to distribute interim dividends for the first half of the year 2016 at the rate of SR 2.75 per share representing 27.5% of nominal paid up capital, and totaling SR 420.75 million to shareholders registered on Tadawul as at close of market on Thursday 11/09/1437 (16/06/2016) and disbursement of this interim dividend started on Monday 22/09/1437 (27/06/2016), in accordance with the Company's By Laws, The Board of Directors recommends to your General Assembly to vote for its recommendation at its meeting on 11 Jumada I ,1438 (08 February 2017) to distribute interim dividends for the second half of 2016 at the rate of Saudi Riyals SR 2.75 per share representing 27.5% of nominal paid up capital and totaling SR 420.75 million to shareholders registered on Tadawul records as at close of market on the day of this shareholders' Extraordinary general assembly meeting on 12 Rajab1438 (April 09, 2017). If your General Assembly approves this distribution, the total dividends for the year 2016 will be Saudi Riyals five and a half (SR5.5) per share i.e. 55% of nominal paid up capital with a total amount of SR 841.5 million.

Below is the recommended profit appropriation:

	(SR 000s)
<b>Net profit</b>	<b>901,592</b>
Less: Statutory Reserve	-
	<b>901,592</b>
<b>Add:</b> The balance of the voluntary reserve (un appropriated) as approved by the General Assembly dated Mar 24 2016.	20,000
	<b>921,592</b>
<b>Less:</b> First portion of dividend to shareholders of 5% of paid-up capital (SR1,530 millions)	76,500
	<b>845,092</b>
<b>Less:</b> Directors remunerations	5,060
	<b>840,032</b>
<b>Add:</b> Profits brought forward from previous year	479,622
	<b>1,319,654</b>
<b>Less:</b> Additional dividend to shareholders of 50% of paid up capital (SR1,530 millions)	765,000
<b>Balance to be carried forward to next year</b>	<b>554,654</b>

**Description of any interest in a class of voting shares held by persons (other than the Saudi Cement Company's directors, senior executives and their relatives) that have notified the issuer of their holdings pursuant to Article (45) of these Rules, together with any change to such interests during the last financial year.**

None

## Interests, Rights of Board Members, and their relatives / Senior Executives in the Shares of Saudi Cement Company - Loans and Bank Financing

### Interests, Rights of Board Members, and their relatives in the Shares of Saudi Cement:

	No. Shares		Change (share)	Percentage of change
	Beginning of the year	End of the year		
Khaled Abdulrahman Al-Rajhi	12,338,507	12,324,500	(14,007)	(0.11)
Mohammad Sulaiman Balghonaim	202,684	202,684	-	-
Khaled Abdulrahman Al-Abdulkarim	17,137	17,137	-	-
Fahad Abdullah Al-Saleh	1,500	1,500	-	-
Amin Mousa Al-Afifi	2,718	2,718	-	-
Hamad Abdullah Al-Olayan	1,500	1,500	-	-
Abdulrahman Suleiman Al-Rajhi	1,000	1,000	-	-
Mohammed Ali Al-Garni	1,500	1,500	-	-
Ahmed Mohammed Al-Omran	Non- Owner	Non- Owner	-	-
Mohammed Abdulkarim Al-Kherejji	1,056,937	1,056,937	-	-
Hala Walid Al-Juffali	0	1,000	1,000	100

### Interest and Rights of Executive Management, and their relatives in Saudi Cement Company:

	No. of ShareChangees		Share	Change Percentage of change
	Beginning of the year	End of the year		
Yousef Ahmed Al-Mozaini – Sales Manager	1,650	1,650	-	-

### Description of any interest, contractually based securities, and subscription rights of the Saudi Cement Company's directors, senior executives and their relatives in the shares or debt instruments of the Saudi Cement Company's or any of its subsidiaries, together with any change to such interest or rights during the last financial year;

None

### Loans and Bank Financing:

The following table illustrates the total SIDF and local banks' Islamic Tawarruq loans, their movements during the year 2016 and the outstanding balances as at the end of 2016:

The Bank/SIDF	Duration	Initial Loan	Balance as of 01/01/2016	Used during the year	Repaid during the year	Balance as of 31/12/2016
SAMBA	Revolving	N/A	300	15	15	300
SFB	Revolving	N/A	0	150	150	0
Riyadh	Revolving	N/A	300	0	300	0
Al-Rajhi	Revolving	N/A	0	290	190	100
SIDF	Eight Years	596	120	0	120	0
Total		596	720	455	775	400

Saudi Cement Company would like to express its thanks and gratitude to SIDF management and staff for their sincere endeavors to support Saudi Cement Company's objectives, and thank the management and staff of the above local banks for the great confidence placed in our Company, and look forward to continued mutually beneficial relationships.

## Classes and numbers of any convertible debt instruments, contractual-based securities information relating to any borrowing of the issuer, indebtedness of the issuer or repayment of loans - Board of Directors meetings - Transaction between the issuer and any related party

Description of the Classes and numbers of any convertible debt instruments, any contractually based securities, warrants or similar rights issued or granted by Saudi Cement Company during the financial year:

None

Description of any conversion and subscription rights under any convertible debt instruments, any contractually based securities, warrants or similar rights issued or granted by Saudi Cement Company:

None

Description of any redemption, purchase, or cancellation by the Saudi Cement Company of any redeemable debt instruments and the value of such securities outstanding:

None

### Board Members' Meetings and Attendance:

The Board of Directors held 4 (four) meetings during 2016, with the following attendance record:

	Attendance Register			
	4/2/2016	24/3/2016	24/5/2016	24/11/2016
Khaled Abdulrahman Al-Rajhi	✓	✓	✓	✓
Mohammad Sulaiman Balghonaim	✓	✓	✗	✓
Khaled Abdulrahman Al-Abdulkarim	✓	✓	✓	✓
Fahad Abdullah Al-Saleh	✓	✓	✓	✓
Amin Mousa Al-Afifi	✓	✓	✓	✗
Hamad Abdullah Al-Olayan	✓	✓	✓	✓
Abdulrahman Sulaiman Al-Rajhi	✓	✓	✓	✓
Ahmed Mohammed Al-Omran	✓	✓	✓	✓
Mohammed Abdulkarim Al-Kherejji	✓	✓	✓	✓
Hala Walid A-Juffali *	✓	✓	✓	✓
Mohammed Ali Al-Garni	✓	✓	✓	✓
Walid Ahmed Al-Juffali	✗	N/A	N/A	N/A

✓ Attending ✗ Absent

\* Hala Walid Al-Juffali was appointed as a new member on 04/02/2016 and previously announced in Tadawul.

\*\* Dr. Walid Ahmed Al-Juffali (GMBH) resigned on 01/02/2016 and the Board accepted his resignation on 04/02/2016 and previously announced in Tadawul.

Description of any transaction between the Saudi Cement Company and any related party and business or contract to which the Saudi Cement Company is a party and in which a director of the issuer, the CEO, the CFO or any person related to any of them:

- The Company has awarded the contract for 2016 insurance services (excluding medical insurance) to Wataniya Insurance Company (a related party to Dr. Walid Ahmed Al-Juffali (GMBH) who is a Board Member of Wataniya Insurance Company) after winning the bid that was placed during 2015. Dr. Walid Ahmed Juffali (GMBH) resigned on 01/02/2016 and accepted by the Board on 04/02/2016 as announced in Tadawul. Also, Mr. Amin Mousa Al-Afifi the Board member has indirect interest (related Party) and he joined Wataniya Insurance Company as Board member on 26/04/2016. The total insurance premiums during the year amounted to about SAR 7.5 Million. There are no conditions on this type of contracts.
- The Company has awarded a contract to Cement Product Industry Co. Ltd. during 2016 for purchasing cement bags after winning the tender that was placed during 2015. Mr. Mohammed Ali Al-Garni Board Member & Chief Executive Officer (Related party) represents Saudi Cement Company in the Cement Product Industry Co. Ltd. The total contract amounted to SAR 36,970,000 starting from 01/01/2016 to 31/12/2016. There are no conditions on these type of contracts.

### Transaction between the issuer (Continued) - Arrangement or agreement or waived any rights for director or a senior executive of salary or compensation - Outstanding Statutory Payments - Thrift Saving Program

3. The Company has contracted with the United Cement Company (Closed Company in Bahrain) for Cement Selling. Mr. Mohammed Ali Al-Garni Board Member & Chief Executive Officer ( Related party) is representing Saudi Cement Company in United Cement Company and also Mr. Hamad Abdullah Al-Olayan ( Related party) is representing Saudi Cement Company and Board member in United Cement Company. The contract duration starting from 01/01/2016 to 31/12/2020. There are no conditions on this type of contracts.

**Description of any arrangement or agreement under which a director or a senior executive of Saudi Cement Company has waived any salary or compensation;**

None

**Description of any arrangement or agreement under which a shareholder of Saudi Cement Company has waived any rights to dividend.**

None

#### Outstanding Statutory Payments:

Details	Years		
	2016	2015	
Zakat & Income Tax	23,523	24,209	The Company is subject to Zakat and income regulations in Saudi Arabia, and provision made for Zakat on an accrual basis. Zakat calculated based on the zakat base or adjusted net income, whichever is greater.
General Organization for Social Insurance	938	828	The Company is subject to the General Organization and Social Insurance regulations and the social insurance contributions are recognized on accrual basis.
Raw Materials Exploitation Fees	46,045	50,321	The payment of the fees for the exploitation of raw materials as per the quarry special licenses in accordance with Mining Investment Law articles 71, 73 and 74 issued by Royal Decree No. M / 47 and the date of 20/08/1425.

#### Thrift Saving Program for Saudi Cement Company employees:

The Company contributes to a Thrift Savings Program for its employees that was approved by the Ministry of Labor & Social Affairs on 11/05/1414 (27/10/1993) in order to motivate employees to exert their best efforts in serving the Company, and increase their loyalty.

The following is the movement of Company's contribution to the Thrift Saving Program During 2016.

Description	Amount in SR
Balance at the beginning of the year	8,035,248
Additions during 2016	1,040,382
Deletions during 2016	1,120,291
Balance at the end of the year	7,955,339

### Board of Directors' Declarations - External Auditors Report - Recommendation from Board of Directors - Board approval of Interim and Annual Financial Statements - Corporate Governance

#### Board of Directors' Declarations:

##### The Board of Directors declares that:

- A - Proper books of account have been maintained;
- B - The system of internal control is sound in design, and has been effectively implemented; and
- C - There are no significant doubts about the Company's ability to continue as a going concern.

##### External Auditor's Report Reservation on annual financial statements.

None

##### Board of Directors recommendation of changing the External Auditors:

None

##### Board approval of Interim and Annual Financial Statements:

The Board of directors approved the interim and annual financial statements during the fiscal year 2016.

#### Corporate Governance:

Saudi Cement Company has already prepared its own Corporate Governance Charter, which was approved by the Board of Directors on 22nd of Safar 1430 (17/2/2009). Saudi Cement Company is currently applying all the Corporate Governance Regulations provisions, except for the following:

No.	Pertinent Article/Para	Reasons for non-adoption
1	6/(b) " Cumulative voting method shall be applied for the election of Board Members".	Will be applied during the next term of the board members.
2	6/(d) " Investors who are legal persons and who act on behalf of others - e.g. investment funds- shall disclose in their annual reports their voting policies, actual voting, and ways of dealing with any material conflict of interests that may affect the practice of the fundamental rights in relation to their investments".	Not mandatory by regulation beside absence of mechanism for execution so far.
3	10/ (e) "Outlining a written policy that regulate the relationship with stakeholders with a view to protecting their respective rights; in particular, such policy must cover..etc..".	Will be applied once it becomes mandatory.
4	12/(i) " Legal person who is entitled under the Company's Articles of Association to appoint representatives in the Board of Directors, is not entitled to vote on the appointment of other members of the Board of Directors".	Non-Applicable.

## Board Members Holding Directorships in other Saudi listed Companies

## Board Members Holding Directorships in other Saudi listed Companies

## Board Members Holding Directorships in other Saudi listed Companies

The following Board Members hold directorships in other joint stock companies:

Name of Board Member	Name of Listed Company
Khaled Abdulrahman Al-Rajhi	<ul style="list-style-type: none"> <li>Al-Bilad Bank</li> <li>Saudi United Company for Co- operative Insurance “ Walaa</li> <li>Takween Advanced Industries Co.</li> </ul>
Khaled Abdulrahman Al-Abdulkarim	<ul style="list-style-type: none"> <li>Samba Financial Group</li> </ul>
Amin Mousa Al-Affi	<ul style="list-style-type: none"> <li>Wataniya Cooperative Insurance Company-KSA.</li> <li>Wataniya Saudi Insurance Company- (Closed Joint Stock Company) Bahrain.</li> </ul>
Hamad Abdullah Al-Olayan (Representative of Saudi Cement Company)	<ul style="list-style-type: none"> <li>United Cement Company (Bahraini Closed Joint Stock Company )</li> </ul>
Abdulrahman Sulaiman Al-Rajhi	<ul style="list-style-type: none"> <li>Advanced Educational Company (Closed Joint Stock Company)</li> <li>Saudi Industrial Investment Group</li> <li>Al-Rajhi Brothers Group Company (Closed Joint Stock Company)</li> <li>Syuop Arabian Company (Closed Joint Stock Company)</li> </ul>
Mohammed Ali Al-Garni (Representative of Saudi Cement Company)	<ul style="list-style-type: none"> <li>United Cement Company (Bahraini Closed Joint Stock Company )</li> </ul>
Ahmed Mohammed Al-Omran	<ul style="list-style-type: none"> <li>Samba Financial Group</li> </ul>
Mohammed Abdulkarim Al-Khereiji	<ul style="list-style-type: none"> <li>CHUBB Arabia Cooperative Insurance Co.</li> <li>Arab Paper Manufacturing Co. Ltd.-WARAQ.</li> <li>Dar Al Yaum for Press, Printing &amp; Publishing.</li> </ul>
Hala Walid Al-Juffali	<ul style="list-style-type: none"> <li>Ibrahim Juffali &amp; Brothers</li> </ul>

## Board Membership &amp; Classification:

The Board of Directors consists of eleven (11) members, and their classification for 2016 was as follows:

Name of Board Member	Designation	Classification
Khaled Abdulrahman Al-Rajhi	Chairman	Non-Executive
Mohammad Sulaiman Balghonaim	Board Member	Independent
Khaled Abdulrahman Al-Abdulkarim	Board Member	Independent
Fahad Abdullah Al-Saleh *	Board Member	Non-Executive
Amin Mousa Al-Affi	Board Member	Independent
Hamad Abdullah Al-Olayan	Board Member	Non-Executive
Abdulrahman Suleiman Al-Rajhi	Board Member	Independent
Mohammed Ali Al-Garni	Board Member & Chief Executive Officer	Executive
Ahmed Mohammed Al-Omran**	Board Member	Non-Executive
Mohammed Abdulkarim Al-Khereiji	Board Member	Independent
Hala Walid Al-Juffali	Board Member	Independent

\* Representative of General Organization for Retirement.

\*\* Representative of the General Organization for Social Insurance.

## Audit Committee -The Nominations &amp; Remunerations Committee - Executive Committee

## Audit Committee -The Nominations &amp; Remunerations Committee - Executive Committee

## Audit Committee:

The Audit Committee's members are:

Mr. Hamad Abdullah Al-Olayan	Chairman
Mr. Mohammed Abdulkarim Al-Khereiji	Member
Dr. Ahmad Abdulla Al-Maghamis (External )	Member

The Committee has performed its duties and responsibilities through Eight meetings held during the year. The most important duties and responsibilities of the committee are:

Discussions of the interim and yearly Financial Statements before being reported to the Board of Directors; recommendations to the Board for appointment, demission and determining the fees of the External Auditors; follow up of the work of the appointed External Auditors including study of their audit plan and their observations shown in the management letter about the internal controls and the implementation of these observations; studying the internal control system and giving a written report of its opinion & recommendations in this regard including the accounting policies implemented in the Company; supervising the Company internal audit department and studying its reports and following up on the implementation of corrective actions of all observations in the internal audit reports. The committee started its work from 01/01/2016 and will end on 31/12/2018.

## Nominations &amp; Remunerations Committee:

The Nominations & Remunerations committee's members are:

Dr. Mohammad Sulaiman Balghonaim	Chairman
Mr. Khaled Abdulrahman Al-Abdulkarim	Member
Mr. Amin Mousa Al-Affi	Member

The Committee has performed its duties and responsibilities through two meetings held during the year. The most important duties and responsibilities of the Committee are; recommend to the Board nomination of directors, review the structure of the Board, and annually review the capabilities and qualifications of its members, and recommend possible changes that can be made for the Company's benefit; set clear policies for the compensation & remuneration of the Board members and the Executive Management on the basis of their performance, ensuring that the compensation and rewards are adequate to retain qualified persons, as well as to attract qualified people by giving offers which are compatible with the market's competitive levels of compensation and rewards. Verify annually the independence of the independent Board members and prevent any conflict of interest for members holding directorship in other companies. The committee started its work from 01/01/2016 and will end on 31/12/2018.

## Executive Committee:

The Executive Committee's members are:

Mr. Khaled Abdulrahman Al-Rajhi	Chairman
Mr. Khaled Abdulrahman Al-Abdulkarim	Member
Mr. Fahad Abdullah Al-Saleh	Member

The most important duties and responsibilities of the Committee are : perform the financial authorities and others. The major responsibilities of the Committee are: practice of financial authorities and other authorities granted by the Board to perform delegated duties by the Board. The Committee has performed its duties and responsibilities through four meetings held during the 2016 year. The Committee started its work from 01/01/2016 and will end on 31/12/2018.

## Board of Directors' Remuneration and Other Compensation - Executives Remunerations

### Board of Directors' Remuneration and Other Compensation paid during 2016:

The Chairman and members of the Board of Directors did not receive any remuneration or other compensations during 2016 except as detailed below:

Name of Board Member	Yearly Remuneration	Other Compensations	Total
Khaled Abdulrahman Al-Rajhi	200,000	12,000	212,000
Walid Ahmed Al-Juffali (GMBH)	200,000	207,130	407,130
Mohammad Sulaiman Balghonaim	200,000	18,720	218,720
Khaled Abdulrahman Al-Abdulkarim	200,000	12,000	212,000
Fahad Abdullah Al-Saleh	200,000	22,720	222,720
Sami Ali Al-Juffali	200,000	0	200,000
Hamad Abdullah Al-Olayan	200,000	12,000	212,000
Abdulrahman Suleiman Al-Rajhi	200,000	14,040	214,040
Mohammed Ali Al-Garni	200,000	12,000	212,000
Ahmed Mohammed Al-Omran	200,000	22,720	222,720
Mohammed Abdulkarim Al-Khereiji	200,000	12,000	212,000

### Highest Remunerations & Compensations paid during 2016 to Top Five Executives:

The following schedule shows details of highest remunerations & compensations paid to the top five executives, including CEO. Finance Manager is also added.

Description	Amounts In SR (000's)
Annual Salaries & compensation	3,562
Annual Allowances	2,884
Annual Bonus	4,977
Annual Performance Incentives	6,083



## Punishment, penalty or preventive restriction - Results of Annual Audit - Implementing International Financial Reporting Standards (IFRS) - Quality Certificates

### Punishment, penalty, or preventive restriction imposed on Saudi Cement Company by the authorities or any other supervisory, regulatory or judiciary body:

None

### Results of Annual Audit on the effectiveness of internal control procedures:

The Internal Audit Department of the Company implements continuous operational audits to ensure the effectiveness of internal control system and procedures in safeguarding the Company's assets, and assess operational risks and the adequacy of performance effectiveness. These internal operational audits did not show any material weakness in the internal control system of the Company, and found that the internal control procedures were operating efficiently. In addition, the External Auditors usually conduct an evaluation of that system as part of their audit of the Company's financial statements, whereby they are enabled access to all the minutes of the internal audit committee as well as reports of the internal audit department for the period subject to their examinations.

### Saudi Cement Company's plan for implementing International Financial Reporting Standards (IFRS):

This has reference to the Capital Market Authority (CMA) circular dated 12/08/2015 emphasizing Board of Directors' preparation of an IFRS conversion plan for financial statements prepared for accounting periods commencing 01/01/2017 onwards. Reference is also made to CMA circular dated 13/01/2016 concerning the requirement for Board of Directors' incorporating in 2015 and 2016 annual reports particulars of the aforesaid plan, progress in its implementation, and the Company's readiness to apply IFRS effective 01/01/2017.

As per Capital Market Authority circular on 08/20/2016, requesting listed companies to disclose all stages of IFRS conversion progress, the Company has announced the three stages of the conversion, which may be summarized as below:

1. Prepare the conversion plan, the appointment of an expert external consultant, and the formation of an internal team to be responsible for the conversion plan.
2. The accounting policies were approved by the Board of Directors for preparation of the financial statement in accordance with IFRS.
3. The Company has prepared the opening balances for the year 2016 in accordance with International Financial Reporting Standards (IFRS). There are no significant financial impacts on the opening balance of shareholders' equity as at the date of transition to International Financial Reporting Standards (IFRS) 2016 quarterly comparative IFRS financials are under preparation.
4. The Company's readiness to prepare its financial statements for the first quarter of 2017, in compliance with IFRS.

### Quality Certificates:

The Company has continued its application of, and in compliance with international Quality Management Systems, and maintained its ISO 9001:2008 certifications obtained from specialized and accredited German Company (TUV NORD) for the Hofuf and Ain Dar Plants. This reaffirms the commitment of the Company towards full compliance and implementation of the quality management programs in all its internal administration and production / technical processes with the purpose of attaining the desired level of efficiency, effectiveness, and continuous improvement for all Company's different operating sectors and functional lines.

The Company has continued to comply with the quality specifications (CE) required by European countries for its products from Hofuf Plant.

Furthermore, the Company has continued to comply with the quality specifications of the American Petroleum Institute (API) for its oil-well cement product.

Saudi Cement Company continued to comply with quality standards of the Saudi Arabian Standards Organization (SASO), as well as other International Standards.

## Occupational health and safety - Environmental Protection and Pollution



### Occupational Health and Safety – Rising to the challenge

Occupational health and safety is Saudi Cement's number one priority. The Company aims to be an employer of choice that reports with integrity and transparency, and shows a genuine commitment to the health and safety of the people that work for it.

This is why the Company has spent years focusing on its reporting culture, meanwhile building trust throughout the Company, and the figures have started to reflect this change.

The advancement in culture is reflected in the improvement of Safety Key Performance Indicators.

The OSHAS 18001 certification for Hofuf Plant has given added advantage to achieve excellence in all areas of operations.

#### Environment Protection and Pollution Control:

Reducing dust emissions is a key priority for the Company and therefore, many steps were taken to develop and maintain its facilities, thereby ensuring a better environment.

As a part of recent expansion of the Hofuf plant, the Company has used the latest technology in this field to curb dust emissions. Moreover, the main Electrostatic filters were replaced with modern technical filters for Production Line 6

and Cement Mills No. 9 & 10. These measures have enabled the reduction of emissions to low levels, better than the requirements set by the General Authority for Meteorology and Environmental Protection (GAMEP).

To maintain this low level of emissions, the Company has taken several measures, including but not limited to:

1. Develop a plan for periodic maintenance of all existing filters, which ensures continuity, as per design efficiency.
2. Continuous measurements and monitoring of emissions using advanced equipment in all stacks as well as periodic measurements by a specialized company.
3. Take into consideration low levels of emissions in all new projects.

Therefore, the Company deserved the ISO 14001 certificate issued from Société Générale de Surveillance (SGS) and the operation license from The General Authority of Meteorology and Environmental Protection (GAMEP) certifying Hofuf Plant for fulfilling necessary requirements in all manufacturing processes.

## Hiring and Training of Saudi Nationals - Corporate Social Responsibility

The percentage of Saudi work force at the end of 2016 had reached to 53.67%. Saudi Cement Company is adopting Saudization plan as a national strategic goal and will continue with this plan.



### Hiring and Training of Saudi Nationals:

A number of specialized technical and administrative training courses have been implemented, in addition to some training programs for Company's employees during 2016.

The Company also contracted with the Saudi Petroleum Services Polytechnic (SPSP) after signing a support agreement with Human Resources Development Fund (HRDF) to train a group of Saudi youth in the fields of operation, mechanics, electrical and welding for two years. The Company has contributed on the supervision and follow-up of the training, and this group has joined the Company after the completion of the training, Some of them are still on the job.

Additionally, Saudi Cement Company carried out co-operative training for college and university students, as well as its students' summer training programs.

The percentage of Saudi work force at the end of 2016 had reached to 53.67%. Saudi Cement Company sought to reinforce its Saudization plan as a national strategic goal and is continuing that quest.

#### Corporate Social Responsibility (CSR):

Saudi Cement Company has a long-standing commitment towards the community, supporting many institutions in the Kingdom of Saudi Arabia. The Company's corporate

culture encourages giving back, with many of its employees passionately volunteering for these initiatives.

The Company presented direct support during the year 2016 to the following societies:

#### 1. Social Charitable Societies:

Benevolence Charitable Society in the Eastern Province, Benevolence Charitable Society in Al Ahsa Province, Charitable Holy Qura'an Memorization Society in the Eastern Province, Charitable Holy Qura'an Memorization Society in Al Ahsa Province, Al Omran Charitable Society, Fatat Al Ahsa Charitable Society, Al Oyoon Charitable Society, Al Helailah Charitable Society, Al Mouwasat Charitable Society, Al Foddol Charitable Society, Al Mansourah Charitable Society, Charitable Women Society for Social Services, Qafelat El Khair Society for Social Services, Benevolence Charitable Society in El Kalabiah, El Bataliah Charitable Society, Al Morah Charitable Society, El Tarf Charitable Society, El Jeshah Charitable Society, El Jaffer Charitable Society

## Corporate Social Responsibility (Continued)

### 2. Specialized Charitable Societies:

Prince Sultan Disabled Rehabilitation Center in the Eastern Province, Al Rahma Charitable Medical Society, Saudi Charitable Society for Cancer Patients Care, Charitable Anti Drugs Society, Saudi Charitable Diabetics & Endocrinology Society, Anti Smoke Charitable Society in Dammam, Anti-Smoking Charitable Society in Al Ahsa, Charitable Disabled Care & Rehabilitation Society, Charitable Marriage Facilitation & Family Care Society.

In addition to that, Saudi Cement Company has sponsored on many occasions and ceremonies, sponsoring the first Saudi Conference for Concrete in 2016 organized by the Saudi Chambers Council organization, participated in the fourteen International Arab Conference for Mineral Resources, participated in Gulf Traffic Campaign for the Year 2016 in collaboration with the General Directorate of Traffic, sponsored the International Arab Conference for Mineral Resources, participated in the awareness Campaign in collaboration with the General Directorate of Anti Drugs in Al Ahsa Governorate.

### 3. Accidents & Casualty Center in the National Guard Hospital, Al Ahsa:

Based on the Company's social responsibility towards the community, the Extraordinary General Assembly held on 4/6/1431H (18/5/2010) approved the recommendation of Saudi Cement Company's Board of Directors for allotting an amount of SR 50 million (Fifty Million Saudi Riyals only) from the Conventional Reserve for the construction of Casualties & Accidents Center in King Abdul Aziz Hospital of the National Guard Health Affairs in Al Ahsa Governorate. Since the Health Affairs have started the execution of the project, and following a visit to the project site by some Company's officials, the Executive Management has signed a contract for donating the construction of Casualties and Accidents Center in King Abdul Aziz Hospital in Al Ahsa on 23/6/2014. Saudi Cement Company paid in three instalments an amount of SR 30 million during 2016, and the remaining will be paid based on the project progress.

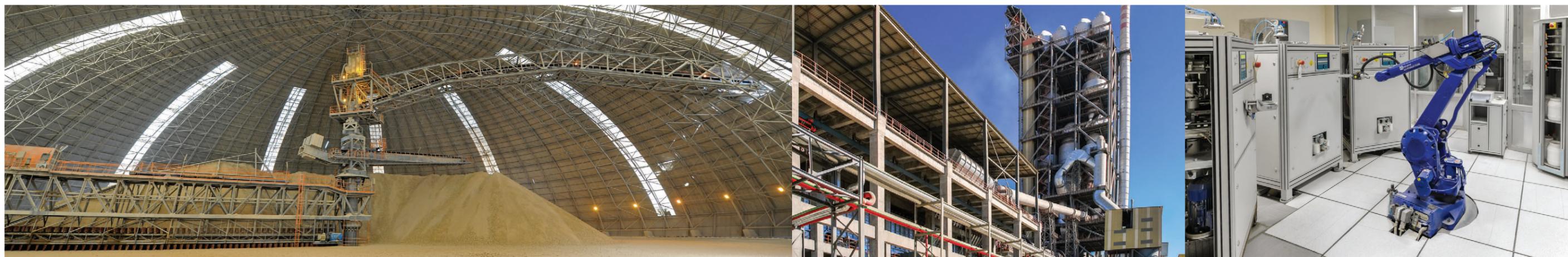
## Board of Directors' Proposals:

### Board of Directors' Proposals:

The Board of Directors recommends your adoption of the following resolutions:

1. Vote on the Board of Directors' report for the year ended 31/12/2016.
2. Vote on the financial statements for the financial year ended 31/12/2016.
3. Vote on the Auditors Report for the financial year ended 31/12/2016.
4. Vote on the appointment of the Company external auditor as recommended by the Audit Committee to audit year 2017 financial, review of the Company quarterly interim financial statements and determination of their fees.
5. Vote on absolving the Board of Directors from responsibilities with respect to the management of the Company for fiscal year end 31/12/2016.
6. Vote on the Board of Directors decision made on 17/08/1437 (24/05/2016) for the first half of year 2016 dividend distribution of SR 2.75 per share representing 27.5% of the share capital and total amount of SR 420.75 Million.
7. Vote on the dividend distribution for the second half of year 2016 at the rate of SR 2.75 per share representing 27.5% of the share capital and total amount of SR 420.75 Million. Entitlement for the Second half of year 2016 dividends shall be to shareholders on the registers of the Securities Depository Center (Depository Center) at the close of trading on the day of this general assembly meeting and distribution will be commenced on Monday 20/07/1438 (17/04/2017).
8. Vote on disbursement for SAR 5,060,000 (Five Million Sixty Thousand Saudi Riyals) as Directors' remuneration for the year 2016.
9. Vote on amending the Company's Bylaws in accordance with the new Company Laws issued by the Ministry of Commerce and Investment in 1437 / 2015.

10. Vote on Board of Directors' recommendation to transfer the surplus from the Statutory Reserve with amount of SAR 306 million (Three hundred and six million) to the Retained earnings to become 30% of the paid up capital and stop the 10% transfer of the net profit to the Statutory Reserve.
11. Vote on authorizing the Board of Directors to distribute interim dividends for the year 2017.
12. Vote on business and contracts which will be done between Saudi Cement Company and United Cement Company (Closed Company in Bahrain) on which Mr. Mohammed Ali Al-Garni Board Member & Chief Executive Officer and the Board member Mr. Hamad Abdulla Al-Olayan (related parties) for the next year. The total transactions during 2016 amounted to SAR 102,911,000 representing selling of cement to United Cement Company, and there are no conditions for this types of contracts.
13. Vote on business and contracts which will be done between Saudi Cement Company and Cement Product Industry Co. Ltd. on which Mr. Mohammed Ali Al-Garni Board Member & Chief Executive Officer (related party) and permitting that for the next year. The total contract amounted to SAR 36,970,000 for purchasing empty cement bags and no condition for this types of contracts.
14. Vote on business and contracts which will be done between Saudi Cement Company and Wataniya Insurance Company on which Mr. Amin Mousa Al-Afifi Board Member (related party) and permitting that for the next year. The total transaction during 2016 mounting to SAR 7,500,000 representing insurance services except medical insurance and no condition for this types of contracts.
15. Vote on employee loans policy granted by the Company as part of the Company's incentive programs for employees.
16. To vote on the formation of the Audit Committee and to approve the amended Bylaws, which include its scope of work and determine the remuneration of its members, from to date until the end of the current session of the Board ending 31 December 2018. The nominated committee members are:
  1. Mr. Hamad Abdulla Al-Olayan (Chairman –non-executive Board Member)
  2. Mr. Mohammed AbdulKarim Al-Khereiji (Member –Independent Board Member)
  3. Dr. Ahmad Abdulla Al-Maghamis (External member)



## Conclusion

The Board of Directors expresses its appreciation and gratitude to all Saudi Cement Company shareholders for the Extraordinary General Assembly Meeting, their confidence, support, and prays to Allah Almighty for His Blessings to our country and to our leaders, His Majesty the Custodian of the Two Holy Mosques King Salman bin Abdulaziz Al-Saud, and HRH Crown Prince, First Deputy Prime Minister and the Minister of Interior, Prince Muhammad bin Naif bin Abdulaziz Al-Saud, and HRH Prince Mohammed bin Salman bin Abdulaziz Al-Saud, Deputy Crown Prince, Second Deputy Premier and Minister of Defense.

The Board of Directors also extends its thanks and gratitude to all government departments and private sector entities and to all Saudi Cement Company's customers and suppliers for their continuous support and last but not the least, to the Company employees for their continued efforts and their will to serve the Company most efficiently and diligently.

May Allah bless you all.

The Board of Directors

## Financial Statements and Auditors' Report 31 December 2016

### Contents

32	Independent Auditors' Report
33	Balance Sheet
34	Statement of Income
35	Statement of Cash Flows
36	Statement of Changes in Shareholder's Equity
37	Notes to the Financial Statements

**Auditors Report to the Shareholders of**

Saudi Cement Company  
(A Saudi Joint Stock Company)

**Scope of Audit:**

We have audited the accompanying balance sheet of Saudi Cement Company, a Saudi Joint Stock company (the Company) as at 31 December 2016 and the related statements of income, cash flows and changes in shareholder' equity for the year then ended. These financial statements are the responsibility of the Company's management and have been prepared by them in accordance with the provisions of Article 123 of the Regulations of Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the financial statements.

**Unqualified Opinion:**

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

- i) present fairly, in all material respects, the financial position of the Company as at 31 December 2016 and the results of its operations and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.
- ii) comply with the requirements of the Regulations for Companies and the Company's by laws in so far as they affect the preparation and presentation of the financial statements.

for Ernst & Young

Abdulaziz Saud Alshubaibi

Certified Public Accountant

Registration No. 339

15 Jumada' I 1438H

12 February 2017

Alkhobar

**Balance Sheet**

31 December 2016

	Note	2016 SR "000"	2015 SR "000"
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	4	183,820	383,000
Trade accounts receivable	5	259,357	226,922
Inventories	6	817,469	754,934
Prepayments and other receivables	7	40,139	51,375
<b>TOTAL CURRENT ASSETS</b>		<b>1,300,785</b>	<b>1,416,231</b>
<b>NON CURRENT ASSETS</b>			
Investments in associated companies	9	60,100	82,800
Property, plant and equipment	10	2,729,940	2,876,424
Construction work in progress	11	160,119	138,134
<b>TOTAL NON CURRENT ASSETS</b>		<b>2,950,159</b>	<b>3,097,358</b>
<b>TOTAL ASSETS</b>		<b>4,250,944</b>	<b>4,513,589</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Trade accounts payable		103,958	90,818
Accruals and advances from customers	12	112,701	120,393
Islamic financing	13	400,000	600,000
Dividends payable	14	210,350	172,395
Current portion of Saudi Industrial Development Fund loans	15	-	120,000
Current portion of liability for charitable contribution	16	20,000	30,000
Zakat provision	17	37,194	32,845
<b>TOTAL CURRENT LIABILITIES</b>		<b>884,203</b>	<b>1,166,451</b>
<b>NON CURRENT LIABILITIES</b>			
Employees' terminal benefits		91,277	91,316
<b>TOTAL LIABILITIES</b>		<b>975,480</b>	<b>1,257,767</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	18	1,530,000	1,530,000
Statutory reserve		765,000	765,000
General reserve	19	-	20,000
Retained earnings		980,464	940,822
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>3,275,464</b>	<b>3,255,822</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>4,250,944</b>	<b>4,513,589</b>

## Statement of Income

## Statement of Income

For the year ended December 31, 2016

	Note	2016 SR "000"	2015 SR "000"
<b>Sales</b>		1,778,139	1,932,393
Cost of sales		(749,139)	(796,371)
<b>GROSS PROFIT</b>		1,029,000	1,136,022
<b>EXPENSES</b>			
Impairment of property, plant and equipment	10	-	(66,150)
Selling and distribution	20	(35,501)	(35,129)
General and administration	21	(60,766)	(71,127)
<b>INCOME FROM MAIN OPERATIONS</b>		932,733	963,616
Other income, net		4,274	11,559
Followup fees in respect of Saudi Industrial Development Fund loans	15	(3,715)	(3,931)
Islamic financial charges	13	(13,222)	(8,130)
<b>INCOME BEFORE SHARE IN NET RESULTS OF ASSOCIATED COMPANIES AND ZAKAT</b>		920,070	963,114
Share in net results of associated companies	9	5,045	1,287
<b>INCOME BEFORE ZAKAT</b>		925,115	964,401
Zakat	17	(23,523)	(24,209)
<b>NET INCOME FOR THE YEAR</b>		901,592	940,192
<b>EARNINGS PER SHARE FOR THE YEAR (SR):</b>			
Attributable to income from main operations		6.10	6.30
Attributable to net income		5.89	6.15
Weighted average number of shares outstanding	18	153,000	153,000

The attached notes 1 to 27 form part of these financial statements

## Statement of Cash Flows

## Statement of Cash Flows

For the year ended December 31, 2016

	Note	2016 SR "000"	2015 SR "000"
<b>OPERATING ACTIVITIES</b>			
Income before share in net results of associated companies and zakat		920,070	963,114
Adjustments for:			
Depreciation of property, plant and equipment		216,293	219,296
Impairment loss of property, plant and equipment		-	66,150
Employees' terminal benefits, net		(39)	(50)
Islamic financial charges		13,222	8,130
Gain on disposal of property, plant and equipment		(70)	(133)
Gain on disposal of investment in an associated company		(322)	-
Construction work in progress written-off		2,048	-
		1,151,202	1,256,507
Changes in operating assets and liabilities:			
Receivables		(21,199)	1,725
Inventories		(62,535)	(86,406)
Payables		43,403	48,977
Cash from operations		1,110,871	1,220,803
Islamic financial charges paid		(13,222)	(8,130)
Zakat paid		(19,174)	(28,291)
Net cash from operating activities		1,078,475	1,184,382
<b>INVESTING ACTIVITIES</b>			
Additions to property, plant and equipment		(27,903)	(6,093)
Additions to construction work in progress		(65,941)	(121,305)
Proceeds from disposal of property, plant and equipment		72	1,002
Proceeds from disposal of investment in an associated company		24,310	-
Dividends received from associated companies		3,757	5,365
Net cash used in investing activities		(65,705)	(121,031)
<b>FINANCING ACTIVITIES</b>			
Net movement in Islamic financing		(200,000)	-
Charitable contribution paid		(10,000)	(20,000)
Repayment of Saudi Industrial Development Fund loans		(120,000)	(115,000)
Board of Directors' remuneration paid		(2,200)	(2,200)
Dividends paid		(879,750)	(841,500)
Net cash used in financing activities		(1,211,950)	(978,700)
<b>(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>		(199,180)	84,651
Cash and cash equivalents at the beginning of the year		383,000	298,349
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	4	183,820	383,000
<b>NONCASH TRANSACTION:</b>			
Significant noncash transaction arose as a result of :			
Transfer from construction work in progress to property, plant and equipment		41,908	47,278

The attached notes 1 to 27 form part of these financial statements

## Statement of Changes in Shareholder's Equity

**Statement of Changes in Shareholder's Equity**

For the year ended December 31, 2016

	Share capital SR "000"	Statutory reserve SR "000"	General reserve SR "000"	Retained earnings SR "000"	Total SR "000"
<b>Balance at 31 December 2014</b>	<b>1,530,000</b>	<b>765,000</b>	<b>20,000</b>	<b>844,330</b>	<b>3,159,330</b>
Net income for the year	-	-	-	940,192	940,192
Dividends (note 14)	-	-	-	(841,500)	(841,500)
Board of Directors' remuneration	-	-	-	(2,200)	(2,200)
<b>Balance at 31 December 2015</b>	<b>1,530,000</b>	<b>765,000</b>	<b>20,000</b>	<b>940,822</b>	<b>3,255,822</b>
Net income for the year	-	-	-	901,592	901,592
Transferred to retained earnings (note 19)	-	-	(20,000)	20,000	-
Dividends (note 14)	-	-	-	(879,750)	(879,750)
Board of Directors' remuneration	-	-	-	(2,200)	(2,200)
<b>Balance at 31 December 2016</b>	<b>1,530,000</b>	<b>765,000</b>	<b>-</b>	<b>980,464</b>	<b>3,275,464</b>

## Notes to the Financial Statements

**Notes to the Financial Statements**

As at December 31, 2016

**1 ACTIVITIES**

Saudi Cement Company («the Company») is a Saudi Joint Stock Company incorporated under Royal Decree number 6/6/10/726 dated 8 Rabi' II 1375 H (corresponding to 23 November 1955) and registered in the Kingdom of Saudi Arabia, in the city of Dammam under Commercial Registration number 2050000602 dated 6 Dhul Qaidah 1377 H (corresponding to 24 May 1958). The Company is engaged in manufacturing and selling cement and its related products.

The Company has obtained under the Royal Decrees number M/11 and M/12 both dated 4 Rabi'I 1405H (corresponding to 27 November 1984) the right of the mining concession for the exploitation of limestone, gypsum and clay and all the necessary materials for the manufacture of cement in Al Jadidah (Khashem Em Houdah) and western area of Abuqayq city, with total area of thirty six square kilometres for 30 years period. The Company is in the process of renewing them for another period.

**2 BASIS OF PREPARATION**

The Ministry of Commerce and Investment commenced the implementation of the new Companies Regulations effective 25 Rajab 1437H corresponding to 2 May 2016 ("the effective date"). The new regulations shall replace the Companies Regulations promulgated by Royal Decree No. M/6 dated 22 Rabi'I 1385H and it shall supersede all provisions that are inconsistent therewith. Companies existing as at the effective date of the regulations shall make all necessary amendments to their by-laws/articles of association to comply with the requirements of the provisions of the new companies regulations within a period of one year of the effective date of the companies' regulations.

The Company is in the process of making the necessary amendments to the Company's by-laws, as required by the new regulations. Management intends to complete all formalities within the grace period granted by the new regulations, which is ending on 24 Rajab 1438H (corresponding to 21 April 2017). Accordingly, these financial statements have been prepared in accordance with the old companies regulations.

**3 SIGNIFICANT ACCOUNTING POLICIES**

The financial statements have been prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia. The significant accounting policies adopted are as follows:

**Accounting convention**

The financial statements are prepared under the historical cost convention.

**Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period.

**Cash and cash equivalents**

Cash and cash equivalents consist of bank balances, cash on hand and Murabaha investment that is readily convertible into known amounts of cash and has original maturities of three months or less, when purchased.

**Accounts receivable**

Accounts receivable are stated at the original invoice amount, less an allowance for any uncollectible amounts. An estimate for doubtful debt is made when the collection of the account receivable amount is considered doubtful. Bad debts are written off as incurred.

**Notes to the Financial Statements (Continued)**

At December 31, 2016

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)****Inventories**

Inventories are stated at the lower of cost and market value. Costs are those expenses incurred in bringing each product to its present location and condition and calculated on the following basis:

Spare parts and raw materials	- purchase cost on a weighted average basis.
Finished goods and work in progress	- cost of direct materials and labour plus attributable overheads based on a normal level of activity.

**Investment in associated companies**

Investments in associated companies where the Company has significant influence over the investees' financial and operation decisions, normally when the Company owns stake between 20% to 50% of the capital of the investee company, is accounted for using the equity method.

**Property, plant and equipment/depreciation**

Property, plant and equipment are initially recorded at cost and are stated at cost less accumulated depreciation and any impairment in value. Freehold land is not depreciated. The cost of other property, plant and equipment is depreciated on a straight line basis over the estimated useful lives of the assets.

Improvements on assets are amortised on a straight line basis over the shorter of the useful life of the improvement or the related assets.

Expenditure for repair and maintenance are charged to statement of income as incurred. Improvements that increase the value or materially extend the useful life of the related assets are capitalised.

**Construction work in progress**

Construction work in progress are recognised at cost of material and services needed to construct the fixed assets and other costs that can be specifically identified as necessary costs to have these fixed assets ready for its intended use including borrowing cost eligible for capitalisation, which then transferred to its category under property, plant and equipment.

**Impairment of non current assets**

The carrying values of non current assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use. The excess of carrying value over the estimated recoverable amount is charged to the statement of income.

**Accounts payable and accruals**

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed to the Company.

**Provisions**

Provisions are recognised when the Company has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and can be measured reliably.

**Zakat**

Zakat is provided for in accordance with Saudi Arabian fiscal regulations. The provision is charged to the statement of income. Additional amounts, if any, that may become due on finalisation of an assessment are accounted for in the year in which assessment is finalised.

**Employees' terminal benefits**

Provision is made for amounts payable related to the accumulated periods of service at the balance sheet date in accordance with the employees' contracts of employment.

**Notes to the Financial Statements (Continued)**

At December 31, 2016

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)****Dividends**

Dividends are recognised as a liability at the time of the shareholders' approval by the Annual General Meeting. Interim dividends are recorded as and when approved by the Board of Directors.

**Statutory reserve**

In accordance with the Saudi Arabian Regulations for Companies, the Company must set aside 10% of its net income in each year until it has built up a reserve equal to one half of the share capital. This having been achieved. The reserve is not available for distribution.

**Revenue recognition**

Sales represent the invoiced value of goods supplied by the Company during the year. Revenues from sale of goods are recognised when significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably, normally on delivery to the customer.

**Expenses**

Selling and distribution expenses are those that specifically relate to marketing personnel, advertisements, promotions as well as bad debts expense. All other expenses other than follow up fees in respect of Saudi Industrial Development Fund loan, Islamic financial charges and impairment loss are allocated on a consistent basis to cost of sales and general and administration expenses in accordance with allocation factors determined as appropriate by the Company.

**Borrowing costs**

Borrowing costs that are directly attributable to the construction of an asset are capitalised up to stage when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed and, thereafter, such costs are charged to the statement of income.

**Foreign currencies**

Transactions in foreign currencies are recorded in Saudi Riyals (SR) at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to statement of income.

**Earnings per share**

Earnings per share from main operations is calculated by dividing the income from main operations for the year by the weighted average number of ordinary shares outstanding during the year.

Earnings per share from net income is calculated by dividing the net income for the year by the weighted average number of ordinary shares outstanding during the year.

**Segmental reporting**

A segment is a distinguishable component of the Company that is engaged either in providing products or services (a business segment) or in providing products or services within a particular economic environment (a geographical segment), which is subject to risks and rewards that are different from those of other segments.

**4 CASH AND CASH EQUIVALENTS**

	2016 SR "000"	2015 SR "000"
Bank balances and cash on hand	183,820	163,000
Short term Islamic Murabaha Investment	-	220,000
	183,820	383,000

**Notes to the Financial Statements (Continued)**

At December 31, 2016

**5 TRADE ACCOUNTS RECEIVABLE**

	2016 SR "000"	2015 SR "000"
Trade accounts receivable due from third parties	238,261	202,951
Trade accounts receivable due from a related party (note 8)	21,096	23,971
	259,357	226,922

**6 INVENTORIES**

	2016 SR "000"	2015 SR "000"
Spare parts	214,720	249,001
Less: allowance for slow moving and obsolete spare parts	(1,082)	(23,353)
	213,638	225,648
Raw materials	132,130	252,155
Work in progress	470,468	274,995
Finished goods	1,233	2,136
	817,469	754,934

The movement of allowance for slow moving and obsolete spare parts is as follows:

	2016 SR "000"	2015 SR "000"
At the beginning of the year	23,353	29,858
Provision for the year	10,000	14,517
Writeoff	(32,271)	(21,022)
At the end of the year	1,082	23,353

**7 PREPAYMENTS AND OTHER RECEIVABLES**

	2016 SR "000"	2015 SR "000"
Advances to suppliers	29,101	32,708
Prepaid expenses	3,839	4,665
Advance to a related party (note 8)	3,450	3,950
Custom deposits	404	6,176
Other	3,345	3,876
	40,139	51,375

**Notes to the Financial Statements (Continued)**

At December 31, 2016

**8 RELATED PARTIES' TRANSACTION AND BALANCES**

Related parties represent major shareholders, directors and key management personnel of the Company, and entities controlled or significantly influenced by such parties.

The following are the details of major related parties' transactions during the year and the related year end balances:

Related parties	Relationship	Nature of transactions	A mount of transactions		Year-end balance	
			2016 SR "000"	2015 SR "000"	2016 SR "000"	2015 SR "000"
United Cement Company	Associated company	Sales	102,911	112,803	21,096	23,971

**A) Trade accounts receivable due from a related party shown in note 5:**

United Cement Company	Associated company	Sales	102,911	112,803	21,096	23,971
-----------------------	--------------------	-------	---------	---------	--------	--------

**B) Advance to a related party shown in note 7:**

Cement Product Industry Company Limited	Associated company	Advance received	500	-	3,450	3,950
---	--------------------	------------------	-----	---	-------	-------

**C) Trade accounts payable due to a related party shown under current liabilities in the balance sheet:**

Cement Product Industry Company Limited	Associated company	Purchases	36,970	44,745	617	-
---	--------------------	-----------	--------	--------	-----	---

Pricing policies and terms of these transactions are approved by the Company's management and according to the underlying agreements with respective related parties.

**9 INVESTMENTS IN ASSOCIATED COMPANIES**

The movement of investments in associated companies was as follows:

	United Cement Company SR "000"	Cement Product Industry Company Limited SR "000"	Group International Cement Company SR "000"	Total 2016 SR "000"	Total 2015 SR "000"
Percentage of ownership	36%	33.33%	Nil		
			(2015: 40%)		
At the beginning of the year	28,202	30,610	23,988	82,800	86,878
Share in net results	3,497	1,548	-	5,045	1,287
Sold during the year	-	-	(23,988)	(23,988)	-
Dividends	(3,757)	-	-	(3,757)	(5,365)
At the end of the year	27,942	32,158	-	60,100	82,800

United Cement Company is a Bahraini closed joint stock company registered and operating in the Kingdom of Bahrain. The company is engaged in the import, storage and selling of cement in different forms.

Cement Product Industry Company Limited is a limited liability company registered and operating in the Kingdom of Saudi Arabia. The company is engaged in the manufacturing of cement derivative products and other products necessary for manufacturing and packing cement.

Group International Cement Company is a Kuwaiti closed joint stock company registered and operating in the State of Kuwait. The company is engaged in construction of buildings and manufacturing of construction materials and trading and packing of cement products. During the year, the Company has sold its shares in Group International Cement Company, effectively from 1 January 2016.

**Notes to the Financial Statements (Continued)**

At December 31, 2016

**10 PROPERTY, PLANT AND EQUIPMENT**

The estimated useful lives of the assets for the calculation of depreciation are as follows:

Buildings and civil works	10 to 33 years
Plant and equipment	3 to 30 years
Tools and transportation equipment	4 to 10 years
Furniture, fixtures and office equipment	4 to 10 years

	Land SR "000"	Buildings and civil works SR "000"	Plant and equipment SR "000"	Tools and transportation equipment SR "000"	Furniture, fixtures and office equipment SR "000"	Total 2016 SR "000"	Total 2015 SR "000"
<b>Cost:</b>							
At the beginning of the year	69,607	1,862,001	4,938,539	291,862	68,165	7,230,174	7,245,652
Additions	-	-	3,895	4,448	19,560	27,903	6,093
Transfer from construction work in progress (note 11)	-	6,999	32,725	1,560	624	41,908	47,278
Disposals	-	(1)	-	(2,155)	(2,448)	(4,604)	(2,699)
Impairment	-	-	-	-	-	-	(66,150)
<b>At the end of the year</b>	<b>69,607</b>	<b>1,868,999</b>	<b>4,975,159</b>	<b>295,715</b>	<b>85,901</b>	<b>7,295,381</b>	<b>7,230,174</b>
Accumulated depreciation:							
At the beginning of the year	-	1,140,989	2,918,348	239,539	54,874	4,353,750	4,136,284
Charge for the year	-	36,394	151,418	23,199	5,282	216,293	219,296
Disposals	-	(1)	-	(2,154)	(2,447)	(4,602)	(1,830)
<b>At the end of the year</b>	<b>-</b>	<b>1,177,382</b>	<b>3,069,766</b>	<b>260,584</b>	<b>57,709</b>	<b>4,565,441</b>	<b>4,353,750</b>
<b>Net book amounts:</b>							
<b>At 31 December 2016</b>	<b>69,607</b>	<b>691,617</b>	<b>1,905,393</b>	<b>35,131</b>	<b>28,192</b>	<b>2,729,940</b>	
At 31 December 2015	69,607	721,012	2,020,191	52,323	13,291		2,876,424

**Notes to the Financial Statements (Continued)**

At December 31, 2016

**11 CONSTRUCTION WORK IN PROGRESS**

Construction work in progress represents the ongoing construction work of a bulk railway loading facility and its railway link which are expected to be finalised in 2017, in addition to other construction projects. The movement of the construction work in progress is as follows:

	2016 SR "000"	2015 SR "000"
At the beginning of the year	138,134	64,107
Additions during the year	65,941	121,305
Transferred to property, plant and equipment (note 10)	(41,908)	(47,278)
Written-off during the year	(2,048)	-
At the end of the year	160,119	138,134

**12 ACCRUALS AND ADVANCES FROM CUSTOMERS**

	2016 SR "000"	2015 SR "000"
Accrued expenses	104,287	98,045
Advances from customers	8,414	22,348
	112,701	120,393

**13 ISLAMIC FINANCING**

The Islamic facilities have been obtained from various local banks to meet the working capital requirements with a total amount of SR 1,850 million (2015: SR 1,850 million), the utilised balance as of 31 December 2016 is SR 400 million (31 December 2015: SR 600 million), which is secured by promissory notes issued by the Company and carries charges agreed with the facilities providers. The outstanding Islamic financing is classified under current liabilities in the balance sheet as it is repayable within 12 months from the balance sheet date. The facility agreements contained certain covenants, which requires among other things, certain financial ratios to be maintained.

**14 DIVIDENDS**

On 17 Sha'ban 1437H (corresponding 24 May 2016), the Board of Directors resolved to distribute interim cash dividends amounting to SR 2.75 per share (SR 420.75 million in total) for the first half of 2016.

On 15 Jumada' II 1437H (corresponding 24 March 2016), the General Assembly approved the Board of Directors' proposal to distribute cash dividends amounting to SR 3 per share (SR 459 million in total) for the second half of 2015.

On 7 Sha-ban 1436 H corresponding to 25 May 2015, the Board of Directors resolved to distribute interim cash dividends amounting to SR 3 per share (SR 459 million in total) for the first half of 2015.

On 26 Jumada' I 1436 H corresponding to 17 March 2015, the General Assembly approved the Board of Directors proposal to distribute cash dividends amounting to SR 2.5 per share (SR 382.5 million in total) for the second half of 2014.

Subsequent to year end, on 11 Jumada' I 1438H (corresponding to 8 February 2017), the Board of Directors proposed to distribute cash dividends amounting to SR 2.75 per share (SR 420.75 million in total) for the second half of 2016.

**Notes to the Financial Statements (Continued)**

At December 31, 2016

**15 SAUDI INDUSTRIAL DEVELOPMENT FUND LOANS**

	2016 SR "000"	2015 SR "000"
Saudi Industrial Development Fund loans	-	120,000
Less: current portion	-	(120,000)
Noncurrent portion	-	-

During 2008, the Company has obtained a loan from the Saudi Industrial Development Fund ("SIDF") amounting to SR 300 million to finance its project in Hofuf, the loan is repayable in 14 unequal semi-annual installments, which commenced in January 2010. During 2009, the Company has obtained another loan from the SIDF amounting to SR 296 million to finance the expansion of its project in Hofuf, the loan is repayable in 13 unequal semi-annual installments, which commenced in January 2011. These loans are secured by promissory notes and a primary mortgage over the related projects' fixed assets. The facility agreements contained certain covenants, which requires among other things, certain financial ratios to be maintained. The two loans were fully settled during the year.

**16 LIABILITY FOR CHARITABLE CONTRIBUTION**

The shareholders in their extra-ordinary general assembly meeting held on 4 Jumada' II 1431H (corresponding to 18 May 2010) approved the appropriation of SR 50 million from the general reserve for the purpose of building a Trauma Centre in the National Guards Hospital in Al-Ahsa for the treatment of people injured in accident, as part of the social services provided by the Company to the community. The Company signed an agreement during 2014 with the National Guard's Health Affairs, whereby the amount of SR 50 million is expected to be disbursed through five equal installments during 2015 and 2016, upon receiving the relevant construction progress status report.

The two remaining construction progress reports are expected to be received during 2017.

**17 ZAKAT****Charge for the year**

The zakat charge consists of

	2016 SR "000"	2015 SR "000"
Charge for the year	23,523	24,209

**Notes to the Financial Statements (Continued)**

At December 31, 2016

**17 ZAKAT (Continued)**

The provision is based on the following:

	2016 SR "000"	2015 SR "000"
Equity	2,376,072	2,317,830
Opening provisions and other adjustments	114,669	151,224
Book value of long term assets (net of related financing)	(3,014,538)	(3,058,126)
	(523,797)	(589,072)
Zakatable profit for the year	933,235	968,360
Zakat base	933,235	968,360

The differences between the financial and the zakatable results are mainly due to provisions which are not allowed in the calculation of zakatable profit.

**Movement in provision**

The movement in the zakat provision as follows:

	2016 SR "000"	2015 SR "000"
At the beginning of the year	32,845	36,927
Provided during the year	23,523	24,209
Payments during the year	(19,174)	(28,291)
At the end of the year	37,194	32,845

**Status of assessments**

The Company's zakat assessments have been agreed with the General Authority of Zakat and Tax («GAZT») up to 2012. The assessments for the years 2013, 2014 and 2015 have not yet been raised by the GAZT.

Zakat base has been computed based on the Company's understanding of the zakat regulations enforced in the Kingdom of Saudi Arabia. The zakat regulations in Saudi Arabia are subject to different interpretations and a new zakat regulations is expected to be announced in due course. The assessments to be raised by the GAZT could be different from the declarations filed by the Company.

**18 SHARE CAPITAL**

The authorised, issued and paid up share capital is SR 1,530 million at 31 December 2016 consisting of 153 million shares (2015: SR 1,530 million consisting of 153 million shares) of SR 10 each.

**19 GENERAL RESERVE**

The shareholders in their General Assembly Meeting held on 24 Shawwal 1415H (corresponding 25 March 1995) approved the Board of Directors' proposal to establish a reserve for the expansion of the Company's plant in Hofuf. After the completion of the expansion in 1996, the remaining reserve was carried forward as a general reserve.

On 15 Jumada' II 1437H (corresponding 24 March 2016), the General Assembly has resolved to transfer the general reserve balance of SR 20 million back to retained earnings.

**Notes to the Financial Statements (Continued)**

At December 31, 2016

**20 SELLING AND DISTRIBUTION EXPENSES**

	2016 SR "000"	2015 SR "000"
Employees' costs	12,796	12,074
Depreciation	9,715	9,274
Transportation fees	8,073	9,397
Other	4,917	4,384
	35,501	35,129

**21 GENERAL AND ADMINISTRATION EXPENSES**

	2016 SR "000"	2015 SR "000"
Employees' costs	44,978	48,662
Depreciation	4,591	4,970
Professional fees	1,406	1,523
Donation	1,285	2,414
Publication fees	420	3,105
Training	184	1,376
Other	7,902	9,077
	60,766	71,127

**22 SEGMENTAL INFORMATION**

The Company carries out its activities mainly in the Kingdom of Saudi Arabia through one operating segment engaged in the production of cement and related products.

**23 CAPITAL COMMITMENT**

Management approved future capital expenditures amounting to SR 23.7 million (2015: SR 63.7 million).

**24 CONTINGENT LIABILITIES**

The Company's bankers have given guarantees, on behalf of the Company, amounting to SR 21.25 million (2015: SR 21.5 million) in respect of performance guarantees.

**Notes to the Financial Statements (Continued)**

At December 31, 2016

**25 RISK MANAGEMENT****Commission rate risk**

Commission rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market commission rates. The Company is subject to commission rate risk on its Islamic financing. The Company manages its exposure to commission rate risk by continuously monitoring movements in commission rates.

**Credit risk**

Credit risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. The Company seeks to manage its credit risk with respect to customers by setting credit limits for individual customers, monitoring outstanding receivables and obtaining bank guarantees from certain customers. At the balance sheet date, no significant concentration of credit risk was identified by management.

**Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. The Company manages its liquidity risk by ensuring bank facilities are available when required. The Company's terms of sales require amounts to be paid within 60 to 90 days of the date of sale. Trade payables are normally settled within 60 to 120 days of the date of purchase.

**Currency risk**

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company is subject to fluctuations in foreign exchange rates in the normal course of its business. The Company undertakes significant transactions in Saudi Riyals, US Dollars and Euros. As the Saudi Riyal is pegged to the US Dollar, balances in US Dollars are not considered to represent significant currency risk.

**26 FAIR VALUES OF FINANCIAL INSTRUMENTS**

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledge willing parties in an arm's length transaction. Financial instruments comprise of financial assets and financial liabilities.

The Company's financial assets consist of cash, cash equivalent and accounts receivable. Its financial liabilities consist of accounts payable, Islamic financing, liability for charitable contribution and Saudi Industrial Development Fund loans.

The fair values of financial instruments are not materially different from their carrying values at the balance sheet date.

**27 CONTINGENT ASSET HELD AND LIABILITY INCURRED UNDER EMPLOYEES' SAVING PLAN**

The Company has established an employees' saving plan for its employees, which was approved by the Ministry of Labour on 11 Jumada I 1414H (corresponding to 27 October 1993). The contributions from the Company and the participants are deposited in separate bank accounts as thrift saving accounts. These bank accounts with a total balance of SR 17.1 million (2015: SR 17.4 million) do not form part of the Company's available cash resources and have been accounted for, together with the related liability against the contributions, in its own standalone accounting records, as required by the saving plan's bylaws, and has not been integrated with the Company's accounting records.

**Contacts**

---

## **SAUDI CEMENT COMPANY**

---

### **HEAD OFFICE**

Saudi Cement Company  
3964 King Saud – Alamamra  
Unit No. 1  
Dammam 32415-7102  
Telephone : (013) 835 8000  
Fax: (013) 834 3091  
e-mail: [saudicement@saudicement.com.sa](mailto:saudicement@saudicement.com.sa)  
websit : [www.saudicement.com.sa](http://www.saudicement.com.sa)

### **HOFUF PLANT**

Telephone: (013) 533 2222  
Fax: (013) 533 2437  
E-mail: [saudicement@saudicement.com.sa](mailto:saudicement@saudicement.com.sa)

### **AIN DAR PLANT**

Telephone : (013) 566 0600  
Fax: (013) 566 1992  
Fax: (013) 566 1992  
E-mail: [saudicement@saudicement.com.sa](mailto:saudicement@saudicement.com.sa)

### **RIYADH OFFICE**

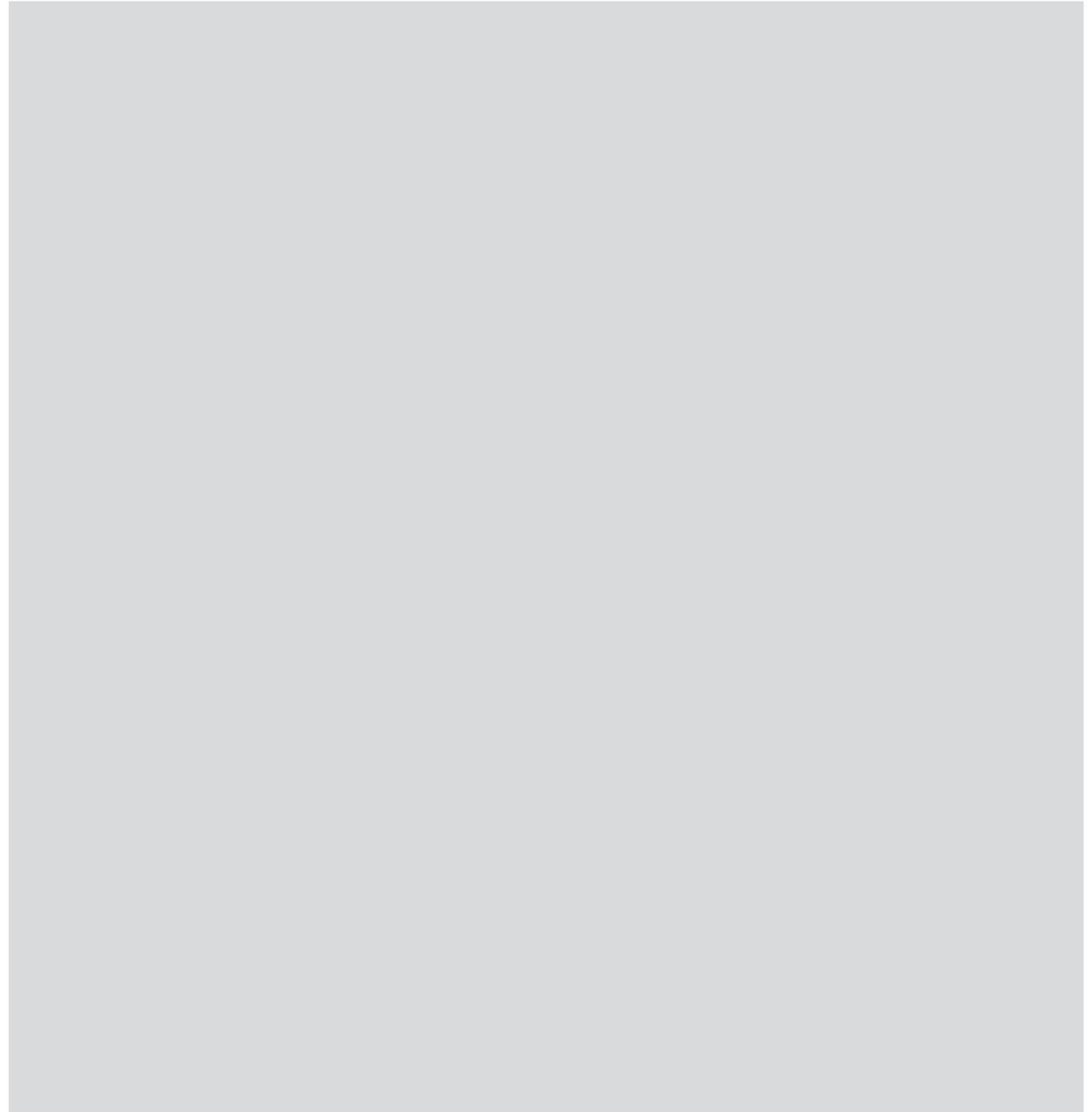
Telephone : (011) 464 1454  
Fax: (011) 464 4516  
E-mail : [saudicement@saudicement.com.sa](mailto:saudicement@saudicement.com.sa)

### **BANKS**

Riyad Bank  
National Commercial Bank  
Al- Awwal Bank  
Samba Financial Group  
Banque Saudi Fransi  
Saudi British Bank (SABB)  
Al-Rajhi Bank  
Bank Al-Jazira

### **EXTERNAL AUDITORS**

Ernst & Young



Power to Build  
[www.saudicement.com.sa](http://www.saudicement.com.sa)

**Saudi Cement Company**

A Saudi Joint Stock Company (Listed)

3964 - King Saud - Almamra

Unit No. 1 - Dammam 32415 - 7102

Kingdom of Saudi Arabia

Tel. +966 (013) 835 8000

Fax. +966 (013) 834 3091