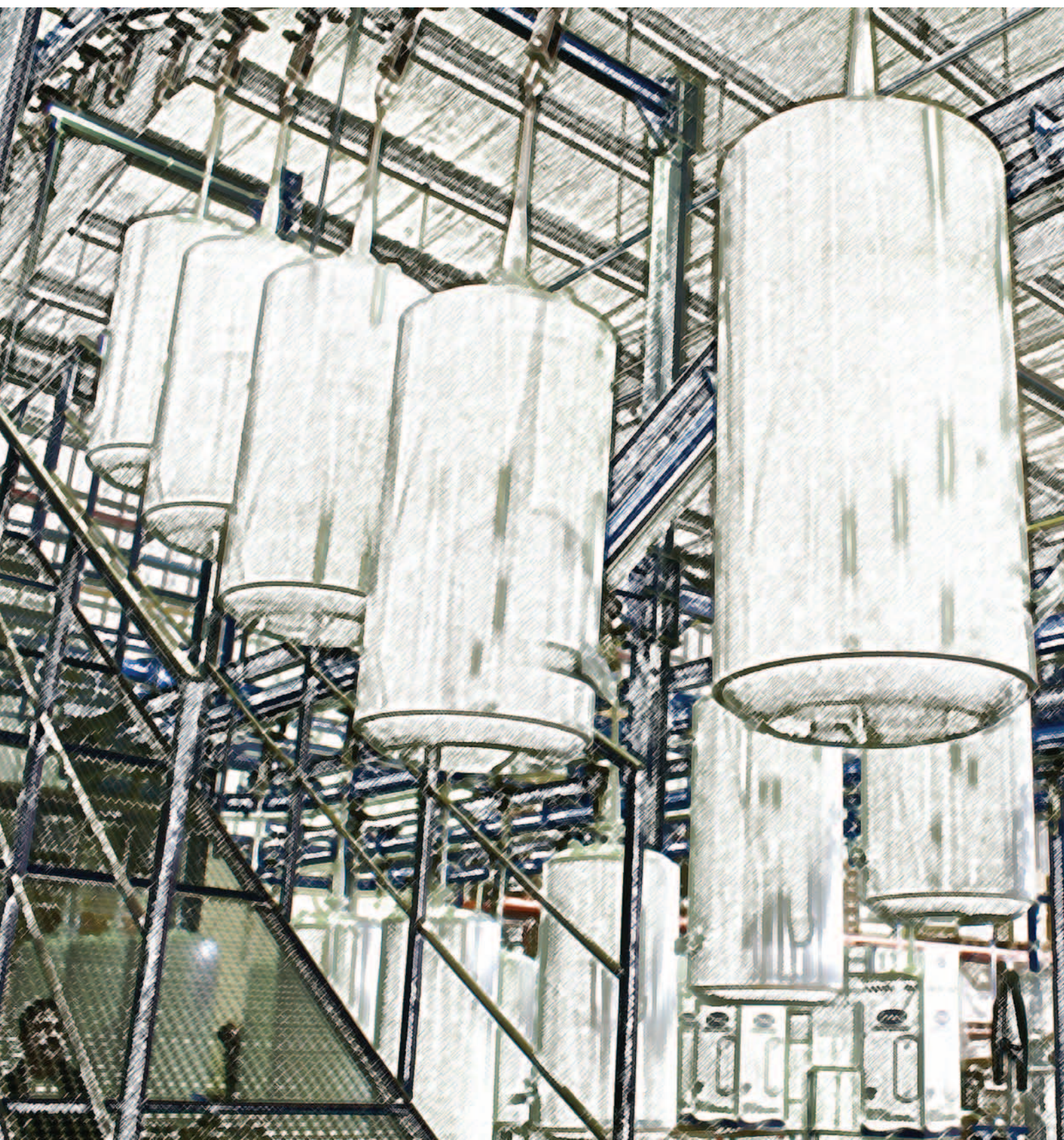




شركة الخزف السعودية
Saudi Ceramic Company

ANNUAL REPORT 2012







الحمد لله
الرحمن
الرحيم



LOCATIONS

Head Office:

Riyadh, King Fahad Road
P.O. Box 3893
Riyadh 11481, Saudi Arabia
Tel.: 4644244 Fax: 4627569

Sales Management:

Tel.: 4644244 Fax: 4652124

Marketing Department:

Tel.: 4644244 Fax: 4610147

Central Region:

Regional Sales Department:

Tel.: 4644244 Ext. 1720 Fax: 4652124
Olaya Showroom: 4644244
Takhassusi Showroom: 4880395
Malaz Showroom: 4770715
Rawdah Showroom: 2784360
Badeha Showroom: 2674507
Nafal Showroom: 2105065
Kharj Road Showroom: 2133518
Al Sahafa Showroom: 4151546

Western Region:

Regional Sales Department:

Tel.: 6586565 Fax: 6058842
Altahlaya Showroom: 6690055
Jeddah Showroom 2: 6586565
Taif Showroom: 7376092
Makkah Showroom: 5485588
Medinah Showroom: 8488844

Eastern Region:

Regional Sales Department:

Tel.: 8340670 Fax: 8331764
Dammam Showroom: 8340670
Dammam Showroom(2): 8228267
Al Khobar Showroom: 8962644
Al Ahsa Showroom: 5307624
Jubail Showroom: 3411200

Southern Region:

Regional Sales Department:

Tel.: 2216311 Fax: 2216291
Asir Showroom: 2216311
Jazan Showroom: 3231191
Najran Showroom: 5235455

Qassim & North Region:

Regional Sales Department:

Tel.: 3819009 Fax: 3814872
Buraidah Showroom: 3819009
Tabuk Showroom: 4238965
Unaiza Showroom: 3655005
Hail Showroom: 5340068
Sakaka Office: 6261556
Rass Showroom: 3511399

Export Sales:

Tel.: (01) 4644244 Ext. 1610
Fax: (01) 2177672

Dubai Sales Office:

Tel.: 00 971 4 2666584
Fax: 00 971 4 2666594

Sanitary Ware Plant

Tel: 4981030
Fax : 4981832

Ceramic Tile Plant

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

Water Heater Plant

Tel: 2650265 Ext. 3015
Fax: 2650265 3046

E-mail: info@saudiceramics.com

Website: www.saudiceramics.com

Member of The National Committee for Joint Stock Companies





Custodian of the Two Holy Mosques
King Abdullah Bin Abdul Aziz Al-Saud



His Royal Highness
Prince Muqrin bin Abdulaziz Al-Saud
Second Deputy Prime Minister



His Royal Highness
Prince Salman bin Abdulaziz Al-Saud
Crown Prince, Deputy Prime Minister, Minister of Defense

Board of Director



Saad Ibrahim Al-Moajel
Chairman



Khalid Saleh Al-Rajhi
Board Member



Suleiman M. Al-Khelaifi
Board Member



Fahad Abdullah Al-Harbi
Board Member



Abdullah M. Al-Quhtani
(Public Investment Fund)
Board Member



**Abdul Mohsin Abdul
Rahman Al-Sweilem**
Board Member



Sami Ibrahim Alessa
(General Organization for Social
Insurance)
Board Member



executive committee

Khalid Saleh Al-Rajhi

Chairman of Executive Committee

Fahad Abdullah Al-Harbi

Executive Committee Member

Abdullah M. Al-Quhtani

Executive Committee Member



Abdulkarim Alnafie

CEO

Chairman Message



Saad Ibrahim Al-Moajel
Chairman, Board of Director

Dear Fellow Shareholders,

On behalf of myself and the members of the Board of Directors, I would like to welcome you, and thank you, for attending this General Assembly of the Company shareholders. It pleases me to introduce to you Saudi Ceramics 2012 annual report, which contains the Board Report, Financial Statements, attachments and the Auditors' Report.

Thanks to God's help the Company continued its record of profitable growth for all operations and markets this year and achieved all the targets set in its annual budget. In fact, 2012 is considered the best, in terms of record figures and performance, in the history of the Company.

The financial indicators contained in the Report show continued steady growth over the years and an annual increase in the Company's net profits of 6.7% at SAR 247.6 million compared to 2011.

The Company's sales revenue of SAR 1.447 million shows an 18.5% increase compared to last year and an impressive average annual growth of 14% over the last 5 years.

Saudi Ceramics continues to offer services through 28 existing showrooms throughout the Kingdom with 2 new showrooms opening in early 2013 and through a wide network of distributors. The Company continues to grow its export sales, which in 2012 totaled SAR190 million to some 55 countries, including new markets in Britain and Ghana.

During 2012, the Company's manufacturing facilities operated at almost full capacity with production increases of 19.7% in tiles, 9% in sanitary ware and 8.7% in water heaters compared to last year production.

The Company has taken a leading role in a national trend towards water and energy conservation. It has succeeded in designing and developing single piece WC's, which work effectively using only 3 liters of water. The Company has also recently introduced to the market a "Smart" energy-saving electrical water heater and a solar water heater.



Saudi Ceramics considers quality a critical success factor in the success of its operations and applies world-class state of the art technology to all its expansion projects.

Expansion projects are on-going in accordance with its previous plans and installation of two new tile lines were completed in 2012 with a subsequent increase in annual production capacity of 4 million sq. meters. The introduction of once-firing kilns to replace older style twice-fire systems will start production by the end of the second quarter of 2013 increasing production capacity by a further 8 million sq. meters per year. In addition, a new tile line is being installed in Factory 1 with a capacity of 4 million sq. meters per year, and this is expected to start production by the end of the 3rd quarter of 2013.

Plans for the installation of a second sanitary ware plant are on target and will provide an extra 18,000 tons of annual capacity when it comes on line in first half of 2014. Progress is also being made on 330,000 tons per year red-brick project. Production is expected at the end of the first half of 2014.

In early 2013 the Board approved a project for the expansion of the second electrical water heaters factory with a capacity of 600,000 units per year. The production from this project is expected to come on stream by mid-2015.

In terms of manpower, training and Saudization, the Company signed a new agreement in 2012 with Human Resources Fund within the framework of the Saudization Scheme in order to attract more Saudi nationals in line with the training programs connected with employment and as a result 28 Saudi trainees have joined the scheme. In addition, the Company organized 12 training courses during 2012 in technical and administrative fields. The number of trainees totaled 1,165.

The total number of Saudis employed by the Company represents 23% of the total labor force. Moreover, this year, Saudi woman have been enabled to work in the Company and all necessary steps have been taken to guarantee their privacy and respect according to Islamic Shari'ah teachings and Saudi regulations.

Finally, I would like to take this opportunity to extend on behalf of you our gratitude and appreciation to the Custodian of the two holy Mosques and his Royal Crown Prince and our wise Government for the aid and support they offer to the Company. I also would like to thank our customers, inside and outside Saudi Arabia, for their trust in the Company and its products. We extend our thanks to the Company management and its personnel for their efforts and honesty which led to these strong positive results.

Thank you.

Board of Directors' Report

To the 35th Ordinary General Assembly to be held on Monday 20th Jumada I, 1434H (1st April 2013AD) at 8:30 P.M., at Prince Salman Hall, Sheraton Hotel, Riyadh.

Dear Esteemed Shareholders,

It is the Board of Directors pleasure to welcome you and to thank you for accepting its invitation to attend the 35th Ordinary General Assembly giving an opportunity to present to you the annual report of Saudi Ceramics for 2012. This report includes, together with the financial statements, the Company's financial position as at 31 December 2012 as well as the income & cash flow statements, changes in shareholders equities and explanatory notes.

The Company's Activity:

The Company's activity is the manufacture and selling of various types of ceramic products (ceramic tiles and sanitary ware), water heaters, their various components, imported equipment, machines and complementary materials, as required.

The net income of ceramic products and sanitary ware in 2012 represents 87% of the Company's operational profit, whilst water heaters represent 13% of profit.

Results of the Company's Operations:

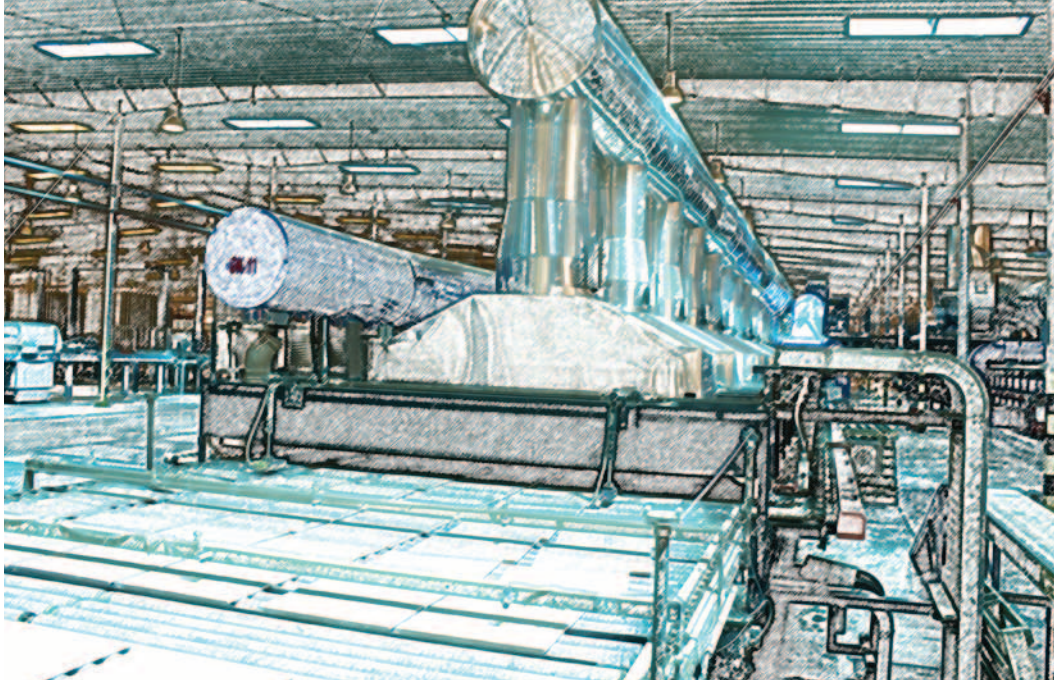
In 2012 the Company continued its record of profitable growth for all products and trading activities. In fact, 2012, is considered the best, in terms of performance, delivery of sales targets and profit in the Company's history. Compared to 2011, Saudi Ceramics operational profit increased by 5,8% due to higher production volumes and sales activities.

The tables below show the operational income, financial expenses and net income for the year compared to 2011 and revenue on a geographical basis:

	2012 (1000 Riyals)	2011 (1000 Riyals)
Main Operational Income for the Year	257,888	243,862
Net Financial Expenses	(16,353)	(17,132)
Other net revenues	14,634	12,760
Net Income before zakat	256,169	239,490
Investment Profits & Other Revenues	(8,580)	7,475
Net income of the year	247,589	232,015

Geographic Analysis of the Company's Revenues:

Geographical Region (KSA)	Percent
Riyadh Region Revenues	33% of the Company's sales
Makkah, Medina & Taif Region Revenues	28% of the Company's sales
The Kingdom's Other Regions Revenues	26% of the Company's sales
Exports Revenues	13% of the Company's sales
Total	100%



Results Comparison with 2011:

The Company's sales continued to grow consistently during 2012 and achieved a new record of SAR 1,447 million, which represents 18,5% increase compared to 2011. The following is a statement of the Company sales for the last five years, which shows an average annual growth rate of 14%:

Sales (1000 Riyals)	Year
857,106	2008
957,725	2009
1,079,833	2010
1,221,345	2011
1,447,363	2012

Saudi Ceramics continues to offer services through 28 existing showrooms in most cities in the Kingdom with 2 new showrooms opening in Al Sahafa Quarter in North Riyadh and on King Saud Road in Dammam. Another showroom was opened early in 2013 in Ar Rass city in Qassim region and another will open in Uhd Rofidah, in the southern Region, in the first part of quarter 3 of 2013. In addition to our wide network of distributors across the Kingdom as well as to various international markets. Company exports in 2012 totaled SAR190 million to 55 countries, including new markets in Britain and Ghana.

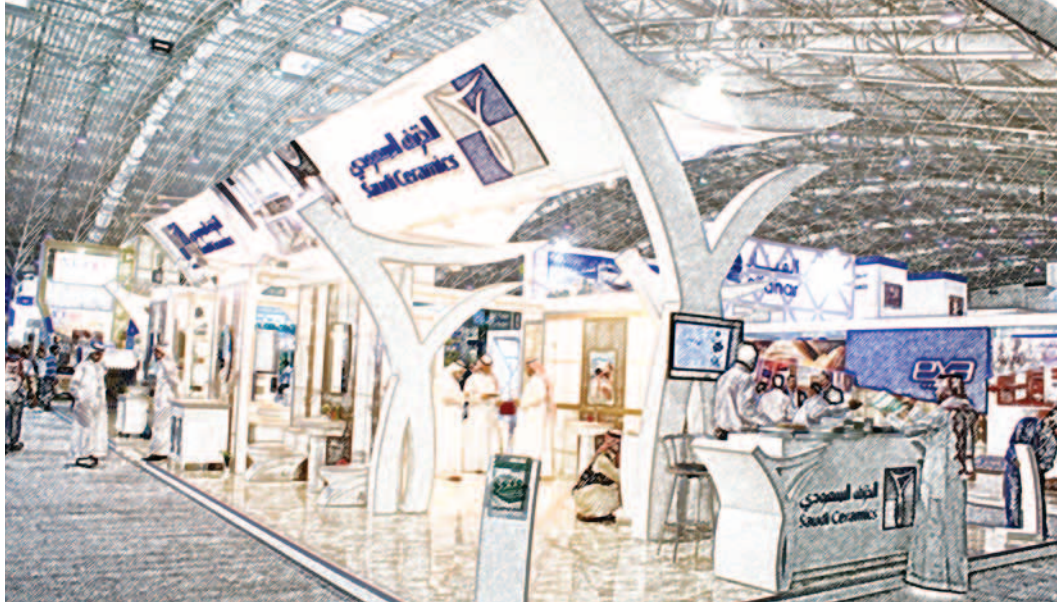
The Company's Factories:

During 2012, the Company's manufacturing facilities operated at almost full capacity with little disruption with the exception caused by raw material shortages resulting from new transport arrangement restrictions related to the entry of trucks into Riyadh City. Compared to 2011, production increases of 19,7% were recorded in tiles, 9% in sanitary ware and 8,7% in water heaters.

Thanks to God, the company has been able to ensure that the level of debt and stock remain relative and controlled in line with the increase in sales and production expansion. The level of debt is now down to almost one month of sales compared to 41 days last year whilst finished product stock is two months, and raw material stocks have been maintained at less than 3 months average manufacturing needs.

Utility Conservation:

The Company has taken a leading role in a national trend towards water and energy conservation. It has succeeded in designing and developing single piece WC's, which work effectively using only 3 liters of water. The Company has also recently introduced to the market a "Smart" energy-saving electrical water heater and a solar water heater.



Factory Expansions:

In the 2011 report, the Board of Directors pointed out that the Company had signed contracts for replacing the double-firing tile production lines in 2nd Factory with a state-of-the-art single firing system. This will increase production capacity by some 8 million square meters such that the total annual production capacity for the total project will be 12 million square meters. Progress in this project is on plan and installing of two production lines with annual capacity of 4 million square meters has been completed and actual production started before the end of 2012. The final phase of the project will be completed, and production is expected to start before the end of the 2nd quarter of 2013.

In addition, the Company has signed a contract to add a new ceramic tile production line in the 1st Factory with an annual capacity of about 4 million sq. meters. This too is expected to start production by the end of the 3rd quarter of 2013. The Board of Directors previously declared on 4/10/2011 approval for the establishment of a second sanitary ware factory in Riyadh, with a first-stage capacity equivalent to 18,000 tons per year. All contracts for this projects buildings and equipment have been signed with key suppliers and production is expected to start in the first half of 2014. It is worth emphasizing that the Company continues to invest in the latest ceramic manufacturing technology in order to maintain its world-class competitiveness.

In addition to successive factory expansions and the increase in production output, the Company is also focused on the Quality of its products and operational management policies and procedures.

Potential Risks:

Due to its industrial and commercial activities, Saudi Ceramics continues to face certain economic and operational risks due to volatility in some key raw material prices, electric and gas outage as well as a lack of skilled labour. These are faced by all manufacturing businesses, and although relatively low risk issues for Saudi Ceramics, the Company's management are working tirelessly to avoid and minimize their impact on business performance. The practice of "dumping" by some foreign countries, whether in local or regional markets, is also a commercial risk should be tackled.

Labour, Saudization & Training:

In 2012, the Company signed a new agreement with the Human Resources Fund within the framework of the Saudization scheme in order to attract more Saudi labour, and the Company is working towards full implementation. A total of 28 trainees have already been attracted in line with the training programmes connected with longer term employment opportunities. The total number of Saudis currently employed at Saudi Ceramics is 781 and we are working to attract, train and qualify more Saudi employees. Moreover, Saudi woman have been enabled (for the first time) to work in the company and all necessary steps have been taken to guarantee their privacy and respect in accordance with Islamic Shari'ah and Saudi regulations. The number of female employees currently totals 7, working in administrative roles, but this too is planned to grow.

During 2012, the Company organised 12 training courses in administrative and technical fields that involved some 165 employees. These courses were conducted partly in-house in the Company's Training Center as well other training centers outside the company.

Accounting Policies Used by the Company:

Saudi Ceramics is using Accounting Policies that are conforming to accounting standards issued by the Saudi Commission for Legal Accountants.

Associate Companies and Main Activity:

1. Natural Gas Distribution Company – It is a Saudi closed joint stock company, its main activity is purchasing and distribution of natural gas to factories in the 2nd industrial city in Riyadh.
2. Ceramic Pipes Company – It is a Saudi closed joint stock company with its main activity in the manufacture of clay pipe and the factory is based in the 2nd industrial city in Riyadh.
3. Ceramics Company for Investment – It is a Saudi limited liability company established in Riyadh in collaboration with Ceramic Pipes Company (Affiliate Company) with a capital of SAR 500,000. The share of Saudi Ceramics is 95% and is fully paid up. Its main activity is import, export, marketing services, wholesale and retail trading.

Shares & Debt Instruments Issued by Associate Companies:

1. The Company owns 15,87% of the capital of Natural Gas Distribution Company (NDC) totaling SAR 25 million, but the Natural Gas Distribution Company did not issue any debt instruments.
2. The Company owns 50% of the capital of Ceramic Pipes Company totaling SAR150 million of which Ceramic Pipes Company did not issue any debt instruments.
3. The Company owns 95% of Ceramic Company for Investment capital totaling SAR 500,000 and Ceramic Company for investment did not issue any debt instruments.

Profit Distribution Policy:

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

1. Retaining legally imposed Zakat.
2. Retaining 10% net profits as a regular reserve. The General Assembly may stop this when the reserve reaches half the capital value.
3. From the remaining profit, 5% of the paid up capital is distributed as a dividend to shareholders.
4. Then 7,5% of the remaining quantum is allocated as awards for the Board of Directors according to applicable regulations.
5. By a recommendation from the Board of Directors, the General Assembly allocates part of the remaining amount for the shareholders as an extra profit share.
6. When determining the portion of share in the net profit, the General Assembly may choose to create other reserves by an amount that will ensure sustainability or the distribution of fixed profits to shareholders, as far as possible.

Ownership of Major Shares Holding According to Article 30 of Registration & Inclusion Rules:

There is no major shareholder having the right to vote who notified the Company during 2011 of such rights in accordance with Article 30 of Registration & Inclusion Rules and the Company did not receive any such notification during 2012.

Board of Directors:

According to the Statutes of the Company, the Board members are appointed by the General Assembly of the Company's shareholders for 3 (three) years. The members of the current Board were appointed by the General Assembly held on 22 March 2010.

During this General Assembly, Board members will be elected for the next session for 3 (three) years by accumulated voting.

Below is a table of the current Board members, their equities & changes in their equities during 2012:

S. No.	Member's Name	No. of Shares		No. of Shares (Wife & Dependent Children)	
		31/12/2012	31/12/2011	31/12/2012	31/12/2011
1	Saad Ibrahim Al-Moajel	301,500	201,000	3,750	2,500
2	GOSI	5,995,537	3,997,025	-	-
3	General Investments Fund	2,025,187	1,350,125	-	-
4	Khalid Saleh Al-Rajhi	8,100	5,400	-	-
5	Suleiman Mohammed Al-Khelaifi	3,000	2,000	30,000	20,000
6	Fahad Abdullah Al-Harbi	3000	2,000	-	-
7	Abdul Mohsin Abdul Rahman Al Sweilem	1,500	1,000	-	-

Note: the extraordinary General Assembly held on 9/4/2012 decided to increase capital from SAR 250 million to SAR 375 million by granting one share for free per 2 existing shares owned by shareholders in the date of the Assembly.

Senior Executives' Shares:

S. No.	Member's Name	No. of Shares		No. of Shares (Wife & Dependent Children)	
		31/12/2012	31/12/2011	31/12/2012	31/12/2011
1	Abdul Karim Ibrahim Alnafie	1,500	1,000	-	-
2	Ali Saleh Al-Naim	1,500	200	750	500
3	Ibrahim Al-haidary	-	-	-	-
4	Eid Abdullah Al-Enezy	-	-	-	-
5	Abdullah Nasser Al Owairdhi	-	-	-	-

Note: the Extraordinary General Assembly held on 9/4/2012 decided to increase capital from SAR 250 million to SAR 375 million by granting one share for free per 2 existing shares owned by shareholders in the date of the Assembly.

Loans from the Saudi Industrial Development Fund:

The Company has obtained one unified long-term contract with Saudi Industrial Development Fund for financing the expansion projects of the Company's factories producing tiles, sanitary ware and water heaters. These loans are paid in bi-annual installments of differing value; the origin of the present loan appears in the unified contract within the previous total loans. The balance of the Fund loans on 31/12/2012 totaled SAR 227,3 million. The total value of the installments paid in 2012 is SAR 45,6 million. The total value of the loans received from the Fund during the year is SAR 31 million.

The Board would like to take this opportunity to express its gratitude to the Saudi Industrial Development Fund and to those in charge of it for the support the Company has received from the Fund in all of its projects.



Local Banks (long and short- term) Loans:

Saudi Ceramics obtained banking debts (short and long-term loans) from local banks for financing Murabahat granted for the Company and guaranteed by order bonds for banks with the value equal to these loans.

(SAR1000)	
566,701	Value of loans balance on 1/1/2012
581,167	Amounts received during the year 2012
471,499	Amounts paid from loans during the year 2012
676,369	Balance on 31/12/2012

Debt Instruments, Option Rights, Transfer Rights:

The Company does not have any transfer or subscription rights under transferable debt instruments for stocks or rights option, or subscription right notes, or similar rights issued or granted by the Company during 2012.

The Company does not have any recovery or purchase or cancellations made by it for any recoverable debt instruments.

Board of Directors Meetings:

The Board of Directors held four (4) meetings during 2012 with a full attendance average of 96%, as follows:

Member's Name	1	2	3	4	Total	Attendance (%)
Saad Ibrahim Al Moajel	✓	✓	✓	✓	4	100%
GOSI	✓	✓	✓	✓	4	100%
General Investment Fund	✓	✓	✓	✓	4	100%
Khaled Saleh Al Rajhi	✓	✓	✓	✓	4	100%
Suleiman Mohammad Al Khelaifi	✓	✓	✓	✓	4	100%
Fahad Abdullah al Harbi	✓	✓	✓	✓	4	100%
Abdul Mohsin Abdul Rahman Al Sweilem	✓	✓	X	✓	3	75%
TOTAL	7	7	6	7	27	96%

Conflict of Interests:

- There is no major (direct or indirect) conflict of interest for any of the Board members, CEO or Finance Manager in any business or contracts made to the benefit of the Company during 2012 with the exception outlined below.

- During the fiscal year 2011, sales to Saudi Marble and Granite Factory (YARA), a Company owned by the Board member, Mr. Fahad Abdullah Al-Harbi, totaled SAR 70,133,536,69; the factory's debit balance at the year-end was SAR 3,916,000 and this balance covered by a bank guarantee. The General Assembly of the Company shareholders held on 9/4/2012 agreed to permit the above-mentioned Board member to maintain his membership and practice his own activity, which is considered as competitive to the Company, for a period of one year.
- Purchases from Gas distribution Company, (an affiliate), during the fiscal year 2012 totaled SAR 17,513,000 and its credit balance at the end of the year was SAR 1,502,000.
- Payments to Pipe Ceramic Company (an affiliate) during the fiscal year 2012 totaled SAR 5,916,996, and its debit balance at the end of the year was SAR 5,916,996.
- Consent for all above mentioned was taken by the Board of Directors and included in the Board's minutes of meetings and will be submitted to the General Assembly for approval.
- The Company did not offer any cash debt of any kind to any of the Board's members, nor did it guarantee any debt made by any of the Board's members.
- The Company is committed to apply the regulations on the Conflict of Interests previously endorsed by the Board according to sub-clause (1) of clause (b) of Article 10 of the Corporate Governance Regulations.

Assignment, Arrangements or Agreement:

There are no assignments, agreements or arrangements by which may any of the Board members or CEOs assign any compensations or salaries. There are no assignments, agreements or arrangements by which may any of the shareholders of the Company assign any rights in profits.

Due Regular Payments:

- The Company submitted its annual Zakat declarations up to 2011 and obtained a final certificate for the year 2011 against settlement of SR 7,724,850. It has also allocated sufficient funds to meet any obligations that may arise due to differences when the final balance of the last fiscal year is completed. Zakat allowance allocated on the income statement for 2012 totals SAR 8,58 million, and the allowance balance as at 31/12/2012 was SAR 11,25 million.
- Payments made to the Social Insurance Organization against employees' subscription for 2012 totaled SAR 10,9 million.
- The Company obtained facilities from local banks in the form of letter of credits and bank guarantees worth SAR270 million as at 31/12/2012. So far, SAR 224 million of these capital credits have been used to secure contracts for importing machinery and equipment related to the expansion projects.
- The Company guarantees part of its debts from Saudi Industrial Development Fund granted to Saudi Pipes Company (associate company) amounting to SR 51.2 million equal to its shares in the associate company. The Company also guarantees part of the debt granted by Saudi Investment Bank to the associate company amounting SR 55,4 million equal to its share in the associate company's capital.

Other Investments or Reserves Established for the Interest of the Company's Staff:

Currently, there are no other investments or reserves established in the interest of the Company's staff.

Confirmations Made by The Board of Directors:

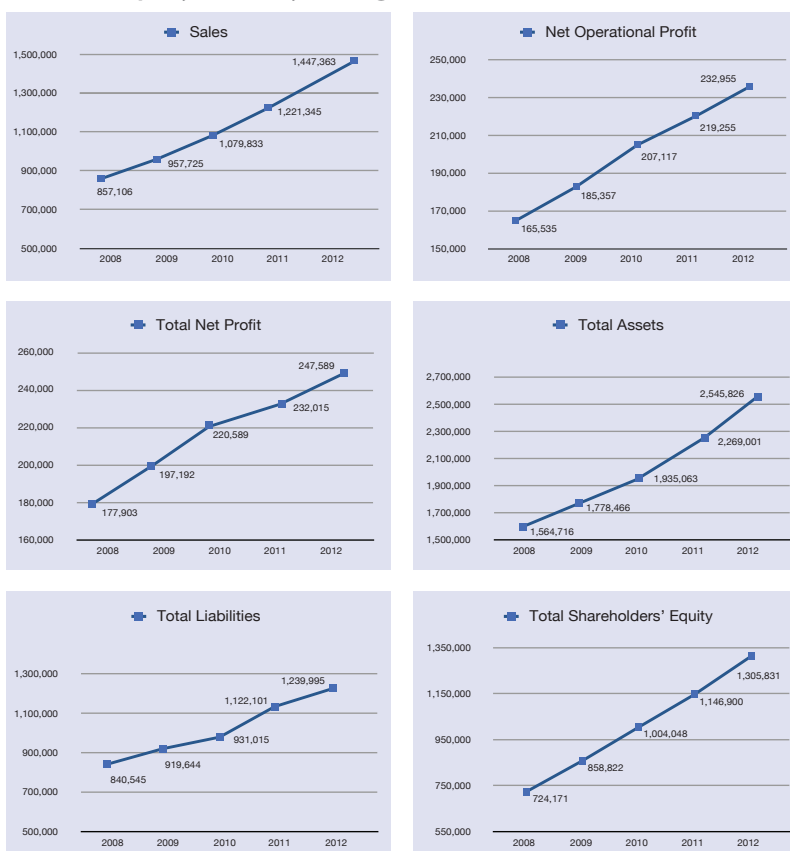
The Board confirms the following:

- The accounting records have been prepared in a proper manner.
- The internal control system is prepared on proper bases and has been efficiently executed.
- There is no doubt regarding the Company's sustainability and ability to pursue its activities.

Augmentation of the Company's Capital:

The Extraordinary General Assembly held on 9/4/2012 agreed, on the recommendation of the Board, to increase the corporate capital from SAR 250 million to SAR 375 million by issuing 12,5 shares whose value is SAR 125 million by granting one share free for each 2 existing shares owned by shareholders listed on shareholders register as at the end of the day the Extraordinary General Assembly was held, provided that the amount of this increase of capital shall be paid from retained profits (SAR125 million). The increase was effective from 9/4/2012.

The Company's Activity During the Last 5 Years (value in 000's SR)



Their Financial Indicators

	2012	2011	2010	2009	2008	2007	2006
Net Profit ratio to Assets	9.7%	10.2%	11.4%	11.1%	11.4%	9.9%	9.0%
Net Profit ratio to Shareholders' Equity	19.0%	20.2%	22.0%	23.0%	24.6%	20.8%	17.0%
Total Profit ratio to Sales	33.1%	36.6%	36.5%	36.8%	37.4%	36.7%	37.1%
Net Profit ratio to Sales	17.1%	19.0%	20.4%	20.6%	20.8%	30.7%	18.6%
Net Operational Profit ratio to Sales	16.1%	18.0%	19.2%	19.4%	19.3%	18.2%	18.1%
Net Profit per Share in SAR	6.60	9.28	8.82	7.89	7.12	5.10	3.73

Note: Net share profit for 2012 represents the company net profit divided by the total number of shares (37.5 million shares after the increase of the capital by 50%).



Corporate Governance:

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

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

1. Clause (d) of article VI concerning disclosure from the persons of legal capacity acting on behalf of others by disclosing their policies for voting and their actual voting in their annual reports. The Company has not received such disclosure from any party.
2. Clause (p) of article XII concerning persons having legal capacity who have the right - pursuant to the Company's statutes - to appoint their representatives in the Board of Directors, bearing in mind that the Company's statutes does not give this right to anyone. To your Assembly will be submitted Paragraph (d) of Article X of the Corporate Governance Regulations regarding setting policies and standards and clear and definite procedures for membership in the Board and executing them after being approved by the General Assembly.

Participation of the Board members in other Joint Stock Companies board membership:

S. No.	Member's Name	Other Joint Stock Companies
1	Saad Ibrahim Al-Mojel	Eastern Region Cement Co. Arabian Pipe Co. Manufacturing & Power Services Co. Yamamah Metallic Industries Co.
2	Sami Ibrahim Alessa (GOSI Representative)	N/A
3	Abdullah Mohammed Al-Quhtani (General Investment Funds Representative)	N/A
4	Khalid Saleh Al Rajhi	N/A
5	Suleiman Mohammed Al-Khelaifi	Natural Gas Distribution Co. Ceramic Pipes Co. Yamamah Granite & Marble Co.
6	Fahad Abdullah Al-Harbi	Ceramic Pipes Co.
7	Abdul Mohsin Abdul Rahman Al Sweilem	Arabian Pipe Co. Falcom Financial Services Co. Packaging Materials Manufacturing Co. (FABCO) W/houses and Supporting Services Co.

Composition of the Board of Directors:

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

S. No.	Member's Name	Class.
1	Saad Ibrahim Al Moajel	Independent
2	GOSI (represented by Sami Ibrahim Alessa)	Non-executive
3	General Investments Fund (represented by Abdullah Mohammed Al-Quhtani)	Non-executive
4	Khaled Saleh Al Rajhi	Non-executive
5	Suleiman Mohammad Al Khelaifi	Non-executive
6	Fahad Abdullah Al Harbi	Non-executive
7	Abdul Mohsin Abdul Rahman Al Sweilem	Independent

The Board of Directors' Committees:

1. Executive Committee:

The Executive Committee is composed of three members chosen by the Board of Directors. Their membership in the committee expires at the end of the term determined for the Board of Directors, but they may be reappointed to the committee for a similar term.

The Executive Committee's responsibilities include the application of the Company's policies, monitoring its performance, approving the projects & expenses within the limits of their authority and responsibilities as defined by the Board of Directors. Regular minutes of the Executive Committee meetings are prepared and signed by the committee's members and presented to the Board of Directors at its next meeting.

Current Executive Committee Members:

1.	Mr. Khalid Saleh Al-Rajhi	Chairman
2.	Mr. Fahad Abdullah Al-Harbi	Member
3.	Mr. Abdullah Mohammad Al Quhtani	Member

The executive committee held (12) meetings during 2012 and attendance was 100%.

2. Audit Committee:

The Audit Committee is composed of three members appointed by the Board of Directors for a term not exceeding three years and not less than one year and they too may be reappointed for a similar term. Membership of the committee ends on the expiry dates of the membership of the Board of Directors. Among the committee members, one should have reasonable knowledge of financial and accounting affairs according to the criteria used for selecting the audit committee, its term and the committee membership, its scope of work and workstyle as approved by the Ordinary General Assembly held on 17/4/1994 and the Ordinary General Assembly held on 1/4/2007.

The current Audit Committee is composed of three members from the Company's shareholders who are not Board members, as follows: Mr. Mohammad Abdullah Al Khayal, chairman; and the members Mr. Ali Abdul Rahman Al Guwaize, and Mr. Musa'id Ahmad Al Misfer. The audit committee held 4 meetings during 2012 and the members' attendance was 100%.

Among the main duties of the Audit Committee are their responsibility to ensure the adequacy and efficiency of the internal control procedures, financial statement integrity and validity, to make recommendation related to the selection of external auditors according to specific criteria, and revise the quarterly and annual financial statements before publication. Other duties include review and comment on reports submitted by the certified accountant and the internal audit department.

The addition of the following tasks will be submitted to your Assembly for approval:

- a. Follow up of the legal accountants' work and approval of any work outside the field of auditing entitled to them whilst performing audit work.
- b. Studying the initial and annual financial statements before submission to the Board of Directors and giving comments and recommendations.

3. Nomination & Remuneration Committee:

In a meeting held on 17/3/2008, and in accordance with the Board of Directors' recommendation, the General Assembly of the Company ratified the criteria for selecting the members of the Nomination and Remuneration Committee, the term of their membership and the committee's work style. The Nomination and Remuneration Committee is composed of at least three members chosen by the Company's Board of Directors for a term not exceeding three years and not less than one year. The committee membership expires at the end of Board of Directors' membership term.

Among the tasks of the Nomination and Remuneration Committee is the adoption of a recommendation for nomination to the Board members in accordance with the approved policies and criteria, as well as preparing a description of the required qualifications for the Board membership, defining the points of weakness and strength of the Board and proposing remedies and ensuring is no conflict of interest. Additionally, the committee prepares policies for remuneration and compensation for the members of the Board of Directors and Senior Executives.

The current Nomination and Remuneration Committee is composed as follows: Mr. Khalid Saleh Al-Rajhi as chairman, Mr. Abdullah Mohammed Al-Qahtani, member; and Mr. Abdul Aziz Abdul Karim Al Kheraiji, member. The Nomination and Remuneration Committee held 3 meetings during the year 2012, attendance was 89%.

Remunerations, Salaries & Allowances:

Description	Board Executive Members	Board non-executive Members	5 Senior Executives who received Highest Remunerations & Compensations including the CEO and financial director
	SAR	SAR	SAR
Salaries & Compensations	-	-	2,810,400
Allowances	-	679,000	983,640
Periodical & Annual Remunerations	-	1,400,000	2,961,500
Incentive Plans	-	-	612,000
Other Benefits	-	-	-
Total	-	2,079,000	7,367,540

4. Penalties:

No financial penalties, sanctions or precautionary restrictions whatsoever have been imposed during 2012 on the Company by the Capital Market Authority or by any other supervisory or regulatory or judicial authority.

Annual Audit Results for the Efficiency of the Internal Control Procedures:

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

1. A department specialized in auditing called the "Internal Audit Department".
2. An Audit Committee reporting to the Board of Directors.



The internal audit department performs auditing and reviews before payment and forwards its periodical reports to the Audit Committee, which in turn forwards them to the Board of Directors.

The efficiency and effectiveness of the internal control function are reviewed and evaluated by the internal audit department, and some aspects of the internal control are reviewed periodically by external auditors.

The Audit Committee is confident that this cycle ensures the effectiveness of the internal control measures of the Company. There are no major observations requiring attention.

The External Auditor:

The General Assembly of the shareholders of the Company, held on 9/4/2012, reappointed Price water House Coopers Co as the Company's Auditors for 2012 according to the Audit Committee's recommendation.

Distribution of Profits for the Year 2012:

The Company's net profits for the year 2012 amounted to SAR247, 589,000 which the Board suggests to be distributed as follows:

(SAR)	
247,589,000	Net Profit after legal Zakat deductions
24,759,000	Less: 10% carried forward as reserves
222,830,000	
18,750,000	Less: First share for shareholders equaling to 5% of the paid up capital (half riyal per share).
204,080,000	
1,400,000	Less: Board members rewards
202,680,000	
555,518,000	Plus profits carried forward from last year.
758,198,000	
75,000,000	Less: extra portion for shareholders = 20% from paid up capital at a rate of 3 riyals per share.
683,198,000	Carried forward Balance.



The Board of Directors Propose the following:

1. Approval of the Board of Directors' Report for 2012.
2. Ratification of the Financial Statements of the Company for 2012.
3. Approval of the proposed distribution of Shareholder dividends equivalent to 25% of paid up capital at a rate of two and half riyals per share. Entitlement of profits will be to shareholders as at the end of the day of the annual General Assembly meeting.
4. To hold the Board members free of liability for managing the Company during 2012.
5. Allow the Board member, Mr. Fahad Abdullah Al-Harbi, to continue as a Board Director of Saudi Ceramics whilst continuing to practice his own competing business for a period of one year.
6. Approve the deal with the Natural Gas Distribution Co and Ceramic Pipe Company that are associates sharing Saudi ceramics capital.
7. Appoint an auditor from those nominated by the audit committee for auditing the financial statements for the fiscal year 2013, and the quarterly financial statements as well as defining their fees.
8. Approve the policies, procedures and membership standards required for nomination to the Board members.
9. Approve the regulations and amend the criteria for selecting the Audit Committee, terms of its membership and its work style.
10. Elect the next Board of Directors by accumulated voting.
11. The approval of payment for the amount of SR 1.4 million as a remuneration for the members of the board for 2012 (SR 200,000 for each member).

The Board of Directors would like to take this opportunity to thank you for attending this meeting. It also extends its sincere thanks to the Custodian of The Two Holy Mosques and his Royal Crown Prince and to our Government for their support and encouragement. The Board of Directors also expresses its gratitude to the Company's Management and its personnel for their honest efforts which led to the achievement of these strong results. Our gratitude is also extended to the Company's customers for their continuous confidence and support.

THE BOARD OF DIRECTORS



INDEPENDENT AUDITOR'S REPORT

February 20, 2013

To the Shareholders of Saudi Ceramic Company:
(A Saudi Joint Stock Company)

Scope of audit

We have audited the accompanying balance sheet of Saudi Ceramic Company (the "Company") and the related statements of income, cash flows and changes in shareholders' equity for the year then ended, and the notes which form an integral part of the financial statements. These financial statements, which were prepared by the Company in accordance with Articles 123 of the Regulations for Companies and presented to us with all information and explanations which we required, are the responsibility of the Company's management. 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 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 basis for our opinion.

Unqualified opinion

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

- Present fairly, in all material respects, the financial position of the Company as of December 31, 2012 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in Saudi Arabia appropriate to the circumstances of the Company; and
- Comply, in all material respects, with the requirements of the Regulations for Companies and the Company's By-laws with respect to the preparation and presentation of financial statements.

PricewaterhouseCoopers

By:

Omar M. Al Sagga
License Number 369



PricewaterhouseCoopers, Kingdom Tower, P.O. Box 8282, Riyadh 11482, Kingdom of Saudi Arabia
T: +966 (1) 465-4240, F: +966 (1) 465-1663, www.pwc.com/middle-east

SAUDI CERAMIC COMPANY
(A Saudi Joint Stock Company)

Balance sheet

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	As of December 31,	
		2012	2011
Assets			
Current assets			
Cash and cash equivalents	3	57,383	64,218
Accounts receivable, net	4	132,298	136,448
Inventories, net	5	598,099	534,951
Prepayments and other assets	6	105,517	57,318
		893,297	792,935
Non-current assets			
Investments	7	80,720	61,037
Projects under construction	8	283,978	276,975
Property, machinery and equipment, net	9	1,287,831	1,138,054
		1,652,529	1,476,066
Total assets		2,545,826	2,269,001
Liabilities			
Current liabilities			
Short-term borrowings	10	120,000	160,000
Current portion of long-term borrowings	14	213,464	194,681
Accounts payable		200,619	186,762
Accruals and other liabilities	11	72,793	67,887
Zakat provision	13	11,249	10,394
		618,125	619,724
Non-current liabilities			
Long-term borrowings	14	570,250	453,964
Employees' termination benefits	12	51,620	48,413
		621,870	502,377
Total liabilities		1,239,995	1,122,101
Shareholders' equity			
Share capital	1	375,000	250,000
Statutory reserve	16	149,759	125,000
Retained earnings	15	778,348	769,418
Fair value reserve		2,724	2,482
Total shareholders' equity		1,305,831	1,146,900
Total liabilities and shareholders' equity		2,545,826	2,269,001
Contingencies and capital commitments	22		

The notes from 1 to 24 form an integral part of these financial statements

SAUDI CERAMIC COMPANY
(A Saudi Joint Stock Company)

Income statement

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	Year ended December 31,	
		2012	2011
Revenues		1,447,363	1,221,345
Cost of revenues		(973,078)	(781,579)
Gross profit		474,285	439,766
Operating expenses			
Selling and marketing	18	(156,710)	(137,176)
General and administrative	19	(59,687)	(58,728)
Income from main operations		257,888	243,862
Other income (expenses)			
Financial charges, net		(16,353)	(17,132)
Other income, net	20	14,634	12,760
Income before zakat		256,169	239,490
Zakat		(8,580)	(7,475)
Net income for the year		247,589	232,015
Earnings/(loss) per share (Saudi Riyal):			
Income from main operation	17	6.88	6.50
Loss from non-continuing operations	17	(0.28)	(0.31)
Net income for the year	17	6.60	6.19

The notes from 1 to 24 form an integral part of these financial statements



SAUDI CERAMIC COMPANY
(A Saudi Joint Stock Company)

Cash flow statement

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Year ended December 31,	
	2012	2011
Cash flows from operations:		
Net income before zakat	256,169	239,490
Adjustments to non-cash items:		
Provision for slow moving and obsolete items	4,991	4,000
Provision for doubtful debts and other receivables	3,543	2,600
The Company's share in net loss (profit) of associates	4,726	(853)
Depreciation	129,026	120,704
Gain from sale of property, machinery and equipment	(243)	(467)
Employees' termination benefit	7,544	12,961
Changes in working capital:		
Accounts receivable	4,207	(36,340)
Inventories	(68,139)	(114,155)
Prepayments and other current assets	(51,799)	4,741
Accounts payable	13,857	112,920
Accrued expenses and other current liabilities	5,434	11,988
Employee's termination benefits paid	(4,337)	(2,532)
Loan to associated company	-	1,750
Zakat paid	(7,725)	(6,787)
Net cash generated from operations	297,254	350,020
Cash flows from investing activities:		
Additions to investments	(25,000)	(10,475)
Dividends received from associate company	833	1,587
Additions to property, machinery and equipment and projects under construction	(285,806)	(276,475)
Proceeds from sale of property, machinery and equipment	243	467
Net cash utilized in investing activities	(309,730)	(284,896)
Cash flows from financing activities:		
Change in short-term borrowings	(21,217)	(12,720)
Change in long-term borrowings	116,286	61,286
Dividends and board of directors remunerations paid	(89,428)	(88,474)
Net cash generated from (used in) financing activities	5,641	(39,908)
Net change in cash and cash equivalents	(6,835)	25,216
Cash and cash equivalents at the beginning of the year	64,218	39,002
Cash and cash equivalents at the end of the year	57,383	64,218
Supplemental non-cash information:		
Change in fair value reserve	242	(263)
Share capital increase through issuing stock dividends funded from retained earnings	125,000	-
Write-off of provision for slow moving and obsolete items	-	(3,155)

The notes from 1 to 24 form an integral part of these financial statements

SAUDI CERAMIC COMPANY

(A Saudi Joint Stock Company)

Statement of changes in shareholders' equity

(All amounts in Saudi Riyals thousands unless otherwise stated)

	<u>Note</u>	Share capital	Statutory reserve	Retained earnings	Fair value reserve	Total
2012						
January 1, 2012		250,000	125,000	769,418	2,482	1,146,900
Increase in share capital	1	125,000	-	(125,000)	-	-
Dividends	15	-	-	(87,500)	-	(87,500)
Board of Directors remunerations	15	-	-	(1,400)	-	(1,400)
Net income for the year		-	-	247,589	-	247,589
Transfer to statutory reserve	16	-	24,759	(24,759)	-	-
Unrealized gain from revaluation of available for sale securities		-	-	-	242	242
December 31, 2012		375,000	149,759	778,348	2,724	1,305,831
2011						
January 1, 2011		250,000	125,000	626,303	2,745	1,004,048
Dividends		-	-	(87,500)	-	(87,500)
Board of Directors remunerations		-	-	(1,400)	-	(1,400)
Net income for the year		-	-	232,015	-	232,015
Unrealized gain from revaluation of available for sale securities		-	-	-	(263)	(263)
December 31, 2011		250,000	125,000	769,418	2,482	1,146,900

The notes from 1 to 24 form an integral part of these financial statements



SAUDI CERAMIC COMPANY
(A Saudi Joint Stock Company)

Notes to the Financial Statement for year ended December 31, 2012

(All amounts in Saudi Riyals thousands unless otherwise stated)

1. General information

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

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

The accompanying financial statements include the assets, liabilities and the results of operations of the Company and its branch (Desert Mines) which operates under Commercial Registration No. 1010277510 issued in Riyadh on Dhu Al Hijja 21, 1430H (corresponding to December 8, 2009). The Branch is engaged in the production of silica sand, zircon powder, dolomite, feldspar and other materials, which are raw materials for the Company's production.

The General Assembly, in its extraordinary meeting held on Jumada I 17, 1433H (corresponding to April 9, 2012) approved to increase the share capital of the Company from SR 250 million to SR 375 million through issuing stock dividends to the shareholders on the basis of one share for every 2 shares outstanding, and funded by retained earnings. Accordingly, the authorized and fully paid-up capital of the Company is SR 375 million as of December 31, 2012, divided into 37.5 million shares of SR 10 each.

The accompanying financial statements were approved by the Board of Directors on Rabi II 8, 1434H (corresponding to February 18, 2013).

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of the financial statements set below. These policies have been consistently applied to all years presented, unless otherwise stated.

2.1 Basis of preparations

The accompanying financial statements have been prepared under the historical cost convention on accrual basis of accounting, as modified by revaluation of available for securities to value and measuring investments in associates using the equity method, and in compliance with accounting standards promulgated by the Saudi Organization for Certified Public Accountants ("SOCPA").

2.2 Critical accounting estimates and judgments in the preparation of financial statements

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of certain critical 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 revenues and expenses during the reporting period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates and assumptions concerning the future, the resulting accounting estimates may differ from the related actual results.

2.3 Foreign currency

(a) Reporting currency

These financial statements are presented in Saudi Riyals ("SR") which is the reporting currency of the Company.

SAUDI CERAMIC COMPANY

(A Saudi Joint Stock Company)

Notes to the Financial Statement for year ended December 31, 2012

(All amounts in Saudi Riyals thousands unless otherwise stated)

(b) Transactions and balances

Foreign currency transactions are translated into Saudi Riyals using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

2.4 Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and at banks, and the other highly liquid investments with maturities of three months or less from their purchase date, if any.

2.5 Accounts receivable

Accounts receivable are carried at original invoice amount less provision for doubtful debts. A provision against doubtful debts is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Such provisions are charged to the income statement. When an account receivable is uncollectible, it is written-off against the provision for doubtful debts. Any subsequent recoveries of amounts previously written-off are credited to the income statement.

2.6 Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined on a weighted average cost basis. Cost of finished goods and production in process includes cost of materials, labor and an appropriate proportion of indirect overheads. Provision is made for slow moving and obsolete items.

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

2.7 Investments

(a) Investment in associates

Associates are entities in which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost.

The Company's share of its associates' post-acquisition income or losses is recognized in the income statement, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Company's share of losses in an associate equals or exceeds its interest in an associate, including any other unsecured receivables, the Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

(b) Investment in available for sale securities

Available for sale securities principally consist of less than 20% equity investments in certain quoted/unquoted securities and investments in mutual funds. These investments are included in non-current assets unless management intends to sell such investments within twelve months from the balance sheet date. These investments are initially recognized at cost and are subsequently re-measured at fair value at each reporting date as follows:

- a) Fair values of quoted securities are based on available market price at the reporting date adjusted for any restriction on the transfer or sale of such investment.

SAUDI CERAMIC COMPANY
(A Saudi Joint Stock Company)

Notes to the Financial Statement for year ended December 31,2012

(All amounts in Saudi Riyals thousands unless otherwise stated)

- b) Fair values of unquoted securities are based on a reasonable estimate determined by reference to the current market value of their similar quoted investment securities or is based on the expected discounted cash flows.
- c) Investments which cannot be measured at fair value reliably are recognized at cost.

Cumulative adjustments arising from revaluation of these investments are reported as separate component of shareholders' equity as fair value reserve until the investment is disposed. Gains and losses arising from the sale of these investments during the year which they arise and the settlement of any unrealized gains or losses which were recognized previously are recognized in the income statement. Dividends are recognized in the income statement when approved by the investee.

2.8 Property, machinery and equipment

Property, machinery and equipment are carried at cost, less accumulated depreciation and impairment loss, except projects under construction which is carried at cost. Land is not depreciated. Depreciation is charged to the income statement, using the straight-line method to allocate the costs of the related assets to their residual values over the following estimated useful lives:

	Number of Years
Buildings	10 - 33.33
Leasehold improvements	4 or lease period, whichever is lesser
Machinery and equipment	10 - 12.5
Means of transportation	4 - 6.66
Furniture and office equipment	6.66 - 10

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the income statement.

Maintenance and normal repairs which do not materially extend the estimated useful life of an asset are charged to the income statement, as and when incurred. Major renewals and improvements, if any, are capitalized and the assets so replaced are retired.

2.9 Impairment of non-current assets

Non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-current assets other than intangible assets that suffered impairment are reviewed for possible reversal of impairment at year end. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the income statement. Impairment losses recognized on intangible assets are not reversible.

SAUDI CERAMIC COMPANY
(A Saudi Joint Stock Company)

Notes to the Financial Statement for year ended December 31,2012

(All amounts in Saudi Riyals thousands unless otherwise stated)

2.10 Borrowings

Borrowings are recognized at the proceeds received, net of transactions costs incurred, if any. Borrowing costs that are directly attributable to the acquisition or construction or production of qualified assets and require a substantial period of time to construct are capitalized as part of those assets by applying the capitalization rate to the average amounts spent on the projects during the period. Other borrowing costs are charged to the income statement.

2.11 Accounts payable and accruals

Liabilities are recognized for amounts to be paid for goods and services received, whether or not billed to the Company.

2.12 Provisions

Provisions are recognized when; the Company has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated.

2.13 Zakat

Zakat is accrued for and payable in accordance with the regulations of the Department of Zakat and Income Tax in Kingdom of Saudi Arabia ("DZIT"). Accrued zakat is charged to the income statement. Additional amounts payable, if any, at the finalization of final assessments, are recorded when such assessments are made.

2.14 Employees' termination benefits

Employees' termination benefits required by Saudi Labor Law are accrued by the Company and charged to the income statement. The liability is calculated; at the current value of the vested benefits to which the employee is entitled, should the employee leave at the balance sheet date. Terminations payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the laws of Saudi Arabia.

2.15 Revenue recognition

Revenues are recognized upon delivery of products and customers acceptance, when required. Revenues are shown net of discounts, and after eliminating the sales between the Company and its branch.

2.16 Selling, marketing and general and administrative expenses

Selling, marketing and general and administrative expenses include direct and indirect costs not specifically part of production costs as required under generally accepted accounting principles. Allocations between selling, marketing and general and administrative expenses and production costs, when required, are made on a consistent basis.

2.17 Dividends

Dividends are recorded in the financial statements in the year in which they are approved.

2.18 Operating leases

Rental expenses under operating leases are charged to the income statement over the period of the respective lease. Rental revenues are recognized on the accrual basis as per the contract terms.

2.19 Comparative figures

Certain comparative amounts have been reclassified to conform with 2012 presentation.

SAUDI CERAMIC COMPANY
(A Saudi Joint Stock Company)

Notes to the Financial Statement for year ended December 31, 2012

(All amounts in Saudi Riyals thousands unless otherwise stated)

3. Cash and cash equivalent

	2012	2011
Cash in hand	1,786	2,134
Cash at bank	55,597	62,084
	57,383	64,218

4. Accounts receivable, net

	2012	2011
Covered trade receivable	82,444	62,572
Uncovered trade receivable	52,397	76,476
	134,841	139,048
Provision for doubtful debts	(2,543)	(2,600)
	132,298	136,448

Movement of provision for doubtful debts is summarized as follows:

	2012	2011
January 1	2,600	2,600
Reversal during the year	(57)	-
December 31	2,543	2,600

5. Inventories, net

	2012	2011
Raw materials	240,557	212,342
Finished production	221,731	202,132
Production in progress	22,793	32,507
Purchased goods for resale	14,668	14,397
Spare parts	121,070	91,302
	620,819	552,680
Provision for slow moving and obsolete items	(22,720)	(17,729)
	598,099	534,951

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

	2012	2011
January 1	17,729	16,884
Addition during the year	4,991	4,000
Used during the year	-	(3,155)
December 31	22,720	17,729

SAUDI CERAMIC COMPANY
(A Saudi Joint Stock Company)

Notes to the Financial Statement for year ended December 31, 2012

(All amounts in Saudi Riyals thousands unless otherwise stated)

6. Prepayments and other current assets

	2012	2011
Advances to suppliers	74,812	30,569
Custom refundable deposits and other	19,167	16,409
Prepaid expenses	16,000	11,059
Advances to employees	1,322	1,465
Other	416	416
	111,717	59,918
Provision for doubtful debts for other receivable	(6,200)	(2,600)
	105,517	57,318

7. Investments

	2012	2011
Investment in associates		
Ceramic Pipes Company (A)	63,916	42,872
Natural Gas Distribution Company (B)	8,675	10,278
Ceramic Investment Company (C)	475	475
	73,066	53,625
Investment in available for sale securities		
Yanbu National Petrochemical Company (Yansab)	3,454	3,212
Gulf Real Estate's Company	4,200	4,200
	7,654	7,412
Total	80,720	61,037

- A) The Company owns 50% interest in the share capital of Ceramic Pipes Company amounting to SR 150 million (2011: SR 100 million) in which the Company's share of SR 75 million is fully paid (2011: SR 50 million). Ceramic Pipes Company is a Saudi closed joint stock company manufacturing clay pipes. Such investment is accounted for using the equity method. The general assembly of Ceramic Pipes Company, in its extra ordinary meeting held on December 11, 2012 resolved to increase the share capital of Ceramic Pipes Company by SR 50 million through issuance of 5 million shares which have been distributed based on shareholding percentage in Ceramic Pipes Company's share capital. The Company's share in such increase is SR 25 million which being fully paid. Accordingly, the Company's share in Ceramic Pipes Company became SR 75 million (50%) as at December 31, 2012.
- B) The Company owns 15,87% interest in the share capital of the Natural Gas Distribution Company amounting to SR 25 million (noting that the share capital of the Company increased during 2010 by SR 10 million, financed from the contractual reserve in the said company). Natural Gas Distribution Company is a Saudi closed joint stock company operates in purchasing the natural gas and distributing it to factories in the Second Industrial City in Riyadh. Such investment is accounted for using the equity method since the Company has a significant representation in the board of directors of the investee.



- C) During the second quarter of 2011, Ceramic Investment Company (a subsidiary) was established as a limited liability company in association with Ceramic Pipes Company (an associate) with a share capital of SR 500,000 in which the Company's share of SR 475,000 (or 95%) is fully paid. The main activities of the subsidiary are export, import, and marketing services, retail and wholesale of pipes and building materials. Ceramic Investment Company accounts were not consolidated into the accompanying financial statements as it is insignificant and due to the fact that the subsidiary did not commence its operations yet. Accordingly, the investment in Ceramic Investment Company is carried at cost under "investment in associates".

Movement of investments in associates is summarized as follows:

	January 1, 2012	Additions	Share in net income (loss)	Dividends	Adjustments	December 31, 2012
Ceramic Pipes Company	42,872	25,000	(4,122)	-	166	63,916
Natural Gas Distribution Company	10,278	-	955	(833)	(1,725)	8,675
Ceramic Investment Company	475	-	-	-	-	475
	53,625	25,000	(3,167)	(833)	(1,559)	73,066

8. Projects under construction

	2012	2011
Ceramic tiles factory expansion project	173,675	211,265
Sanitary ware factory expansion project	53,418	31,594
Red stone factory project	11,131	245
Water heater factory expansion project	9,183	5,815
Desert mines project	8,627	6,096
Other projects	27,944	21,960
	283,978	276,975

The net capitalized financing costs on the projects under construction during the year ended December 31, 2012 is SR 12.95 million (2011: SR 7.96 million).

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(All amounts in Saudi Riyals thousands unless otherwise stated)

9. Property, machinery and equipment, net

	Lands	Buildings	Machinery and equipments	Furniture and office equipment	Vehicles and transportation equipments	Leasehold improvements	Capitalized spare parts	Total
Cost								
January 1, 2012	101,941	591,869	1,347,371	39,524	59,834	15,184	7,407	2,163,130
Additions	71	91,286	151,322	20,161	15,712	251	-	278,803
Transfers	-	-	1,702	-	-	-	(1,702)	-
Disposals	-	-	-	(347)	(899)	-	-	(1,246)
December 31, 2012	102,012	683,155	1,500,395	59,338	74,647	15,435	5,705	2,440,687
Accumulated depreciation								
January 1, 2012	-	327,559	607,872	30,881	44,683	14,081	-	1,025,076
Charge for the year	-	24,830	90,822	5,218	7,533	623	-	129,026
Disposals	-	-	-	(347)	(899)	-	-	(1,246)
December 31, 2012	-	352,389	698,694	35,752	51,317	14,704	-	1,152,856
Net book value								
December 31, 2012	102,012	330,766	801,701	23,586	23,330	731	5,705	1,287,831
December 31, 2011	101,941	264,310	739,499	8,643	15,151	1,103	7,407	1,138,054

All factories properties of the Company is being collateral to Saudi Industrial Development Fund (SIDF) against loans given to the Company.

Some of the Company's buildings are built on leased lands from the government by lease contract with range from 10 to 30 years and nominal annual charge. Such lease contracts are renewal for similar periods.

10. Short-term borrowings

Short-term borrowings represent murabaha financing obtained from commercial banks and bear commissions at agreed margins. Such borrowings are guaranteed by promissory notes on behalf of the banks.

11. Accruals and other current liabilities

	2012	2011
Employees accruals	35,227	32,498
Accrued expenses	19,874	14,427
Advances and deposits from customers	14,057	16,799
Accrued dividends	3,635	4,163
	72,793	67,887

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(All amounts in Saudi Riyals thousands unless otherwise stated)

12. Employees' termination benefits

Movement of employees' termination benefits is summarized as follows:

	2012	2011
January 1	48,413	37,984
Provision for the year	7,544	12,961
Payments during the year	(4,337)	(2,532)
December 31	51,620	48,413

13. Zakat provision

Component of zakat base is summarized as follows:

	2012	2011
Shareholders' equity	1,055,518	912,403
Adjusted net income	256,169	253,364
Additions	867,429	712,507
Deductions	(1,772,895)	(1,564,886)
Zakat base	406,221	313,388

Movement of zakat provision is summarized as follows:

	2012	2011
January 1	10,394	9,706
Paid during the year	(7,725)	(6,767)
Additions during the year	8,580	7,475
December 31	11,249	10,394

The Company filed its zakat returns through 2011 and settled its accrued zakat and obtained the zakat certificate for the year 2011. The Company finalized the zakat assessments for the years 2004 through 2007 and filed an objection against the zakat assessments for these years and based on that, DZIT issued amended zakat assessments resulted in an increase in zakat paid by SR 5 million. The Company filed another objection against these amended zakat assessment which is still under review by DZIT.

14. Long-term borrowings

	2012	2011
Borrowings from Saudi Industrial Development Fund (A)	227,345	241,945
Borrowings from local banks (B)	556,369	406,700
Total borrowings	783,714	648,645
Less: current portions		
Borrowings from Saudi Industrial Development Fund	(51,200)	(45,625)
Borrowings from local banks	(162,264)	(149,056)
Total current portions	(213,464)	(194,681)
Non-current portions from long-term borrowings	570,250	453,964

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A) Saudi Industrial Development Fund (SIDF) Loans.

The Company obtained a loan from SIDF to finance the expansions in the ceramic, porcelain, sanitary ware and electric water heaters factories. These borrowings are collateralized by mortgaging of all fixed assets related to those factories. The loan agreements with SIDF include certain conditions in regards to the Company's obligations to some financial conditions and ratios. Such borrowings are to be settled by unequal semi-annual installments starting Rabi II 15, 1433H (corresponding to March 8, 2012) and ending Rabi II 15, 1440H (corresponding to December 23, 2018).

The available and unused facilities under such loan agreements as of December 31, 2012 amounting to SR 7 million, noting that the final date to utilize the available facility amount is Shaban 29, 1433H (corresponding to July 19, 2012) which currently under renewal.

Movement of SIDF borrowings is summarized as follows:

	2012	2011
January 1	241,945	224,170
Received during the year	31,025	53,350
Settled during the year	(45,625)	(35,575)
December 31	227,345	241,945

B) Borrowings from local banks

The Company has bank facilities in the form of murabaha financing from local banks to finance the factories expansions and guaranteed by promissory notes. Borrowing commissions are calculated according to the murabaha agreements based on prevailing market rates. Such borrowings are to be settled on semi-annual installments starting Ramadan 17, 1429H (corresponding to September 18, 2008) and ending Muharam 6, 1439H (corresponding to September 27, 2017).

Movement of local borrowings is summarized as follows:

	2012	2011
January 1	406,700	363,189
Received during the year	294,973	160,000
Settled during the year	(145,304)	(116,489)
December 31	556,369	406,700

15. Dividends

The general assembly, in its meeting held on Jumada I 17, 1433H (corresponding to April 9, 2012) approved cash dividends amounting to SR 87,5 million at SR 3,5 per share, as well as, SR 1,4 million remunerations for the members of the board of directors.

The board of directors, in its meeting held on December 29, 2012, recommended to the general assembly to distribute dividends of SR 93.75 million for year 2012 at a percentage of 25% of the share capital and equal to SR 2.5 per share. The dividends will be paid for the registered shareholders at the close of business at the upcoming general assembly meeting and which will be announced after the general assembly approval and other legal formalities.

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16. Statutory reserve

In accordance with the Regulations of Companies in the Kingdom of Saudi Arabia, the Company is required to transfer 10% of its net income to statutory reserve until such reserve equals 50% of its share capital. Such reserve is not available for distribution currently.

17. Earnings/ (loss) per share

Earnings/ (loss) per share were calculated by dividing income from main operations, loss from non-continuing operations and net income for the year on the weighted average of the normal shares outstanding during the year of 37,5 million share, noting that all shares are common shares. The earnings per share for the year ended December 31, 2011 have been recalculated to show the effect of the share capital increase from SR 25 million shares to SR 37.5 million shares.

18. Selling and marketing expenses

	2012	2011
Salaries, wages and related benefits	58,379	54,749
Transportation and shipment	60,938	46,930
Advertisement	8,873	8,483
Depreciation	9,018	9,903
Rental	6,436	6,098
Repairs and maintenance	3,120	2,952
Telecommunications	5,244	3,614
Travel and insurance	1,389	1,554
Packaging	2,408	1,781
Other	905	1,112
	156,710	137,176

19. General and administrative expenses

	2012	2011
Salaries, wages and related benefits	44,417	48,680
Depreciation	5,893	3,607
Repairs and maintenance	1,971	1,741
Telecommunications	1,462	1,198
Supplies and consumables	3,877	2,174
Travel and insurance	880	600
Other	1,187	728
	59,687	58,728

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Notes to the Financial Statement for year ended December 31, 2012

(All amounts in Saudi Riyals thousands unless otherwise stated)

20. Other income, net

	2012	2011
Company's share in net (loss) profit of associates	(4,726)	853
Income from sale of production waste	7,965	8,122
Foreign exchange differences	6,345	(155)
Rental	2,996	2,812
Other	2,054	1,128
	14,634	12,760

21. Related parties

The Company has transactions in the normal course of business with related parties and in terms similar to other parties that are not related to the Company. The details of transactions and balances of related parties as of and for the year ended December 31, 2012 are as follows:

	Transaction type	January 1, 2012	Transaction volume	Payments and settlement	December 31, 2012
(*) Natural Gas Distribution Company	Purchases	1,869	17,146	(17,513)	1,502
(**) Yara Trading Company	Sales	5,153	70,134	(71,371)	3,916
(*) Ceramic Pipe Company	Purchases	-	-	(5,917)	(5,917)

(*) Associate company (see Note 7)

(**) Company owned by one of the board of director members.

The remuneration and allowances for the board of director members, as well as, expenses and allowances for other committees that emanating from the board of directors during the year ended December 31, 2012 is SR 679,000 (2011: SR 431,000).

22. Contingencies and capital commitments

The Company has outstanding letters of guarantee and letters of credit from local banks amounting to SR 270 million as of December 31, 2012 (2011: SR 202 million). The letters of credit include an amount of SR 224 million (2011: SR 127 million) relating to capital commitments for the supply of machinery and equipment for the plants expansion projects.

The Company guaranteed part of the SIDF loan granted to Ceramic Pipes Company (an associate) with an amount of SR 51.2 million equal to its interest in the share capital of the associate (2011: SR 51.2 million). Also, the Company guaranteed part of The Saudi Investment Bank loan granted to the said associate with an amount of SR 55.4 million equal to its interest in the share capital of the associate.

23. Segmental information

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

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(All amounts in Saudi Riyals thousands unless otherwise stated)

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

	Ceramic Tiles and Sanitary Ware	Water Heaters	Total
As of and for the year ended December 31, 2012			
Total assets	2,256,782	289,044	2,545,826
Total liabilities	1,151,834	88,161	1,239,995
Revenues	1,131,758	315,605	1,447,363
Gross profit	404,548	69,737	474,285
Net income for the year	214,344	33,245	247,589
As of and for the year ended December 31,2011			
Total assets	1,931,598	337,403	2,269,001
Total liabilities	1,059,589	62,512	1,122,101
Revenues	948,234	273,111	1,221,345
Gross profit	377,184	62,582	439,766
Net income for the year	201,955	30,060	232,015

24. Financial instruments and risk management

The Company's activities expose it to a variety of financial risks: market risk (including currency risks, fair value risk, commission rate risk and price risk), credit risk and liquidity risk.

Financial instruments carried on the balance sheet include cash and cash equivalents, accounts receivable, prepayments and other current assets, instruments, short and long-term borrowings, accounts payable and accruals and other current liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Financial assets and liability are offset and net amount reported in the financial statements, when the Company has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and liability simultaneously.

Commission rate risk

Commission rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing commission rates on the future profit or the fair value of the financial instruments. The Company is subject to the commission rate risk on its liabilities that carry commission which include bank facilities and borrowings. The Company seeks to minimize the commission rate risk through monitoring the expected fluctuations in the commission rates and hedges against such risks when needed. The management believes the risks associated with commission rates fluctuations are immaterial.



Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty to meet its commitments associated with its financial liabilities when become due. Liquidity risk is managed by monitoring on a monthly basis that sufficient funds are available through bank facilities and making balance between account receivable collections periods and periods of settlement of supplies balances, to meet future commitments.

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 has no significant concentrate of credit risk. Cash is placed at banks with high credit ratings. For the accounts receivable, the management does not expect high risks from these balances as the Company has a wide base of customers who belong to several commercial and industrial sectors. The management also receives adequate guarantee from its customers and regularly monitors and evaluates its outstanding.

Price risk

The risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Company is exposed to equity security price risk because of investments held by the Company and classified as available for sale investments in the balance sheet.

Fair value risk

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. As the Company's financial instruments are compiled under the historical cost convention, except for available for sale securities which are carried at fair values. Differences can arise between the book values and fair value estimates. Management believes that the fair values of the Company's financial assets and liabilities are not materially different from their carrying values.



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