

Saudi Cement Company
(A Saudi Joint Stock Company)

FINANCIAL STATEMENTS
31 DECEMBER 2016

**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 shareholders' 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 Alshabaibi
Certified Public Accountant
Registration No. 339



15 Jumada' I 1438H
12 February 2017

Alkhobar

Saudi Cement Company
(A Saudi Joint Stock Company)

BALANCE SHEET

As at 31 December 2016

		2016 SR "000"	2015 SR "000"
ASSETS	Note		
CURRENT ASSETS			
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	<u>40,139</u>	<u>51,375</u>
TOTAL CURRENT ASSETS		<u>1,300,785</u>	<u>1,416,231</u>
NON-CURRENT ASSETS			
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	<u>160,119</u>	<u>138,134</u>
TOTAL NON-CURRENT ASSETS		<u>2,950,159</u>	<u>3,097,358</u>
TOTAL ASSETS		<u>4,250,944</u>	<u>4,513,589</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
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	<u>37,194</u>	<u>32,845</u>
TOTAL CURRENT LIABILITIES		<u>884,203</u>	<u>1,166,451</u>
NON-CURRENT LIABILITIES			
Employees' terminal benefits		<u>91,277</u>	<u>91,316</u>
TOTAL LIABILITIES		<u>975,480</u>	<u>1,257,767</u>
SHAREHOLDERS' EQUITY			
Share capital	18	1,530,000	1,530,000
Statutory reserve		765,000	765,000
General reserve	19	-	20,000
Retained earnings		<u>980,464</u>	<u>940,822</u>
TOTAL SHAREHOLDERS' EQUITY		<u>3,275,464</u>	<u>3,255,822</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>4,250,944</u>	<u>4,513,589</u>

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

Saudi Cement Company
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STATEMENT OF INCOME
Year ended 31 December 2016

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

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

Saudi Cement Company
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STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Note	2016 SR "000"	2015 SR "000"
OPERATING ACTIVITIES			
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	-
		<u>1,151,202</u>	<u>1,256,507</u>
Changes in operating assets and liabilities:			
Receivables		(21,199)	1,725
Inventories		(62,535)	(86,406)
Payables		43,403	48,977
Cash from operations		<u>1,110,871</u>	<u>1,220,803</u>
Islamic financial charges paid		(13,222)	(8,130)
Zakat paid		(19,174)	(28,291)
Net cash from operating activities		<u>1,078,475</u>	<u>1,184,382</u>
INVESTING ACTIVITIES			
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		<u>(65,705)</u>	<u>(121,031)</u>
FINANCING ACTIVITIES			
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		<u>(1,211,950)</u>	<u>(978,700)</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(199,180)	84,651
Cash and cash equivalents at the beginning of the year		<u>383,000</u>	<u>298,349</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	4	<u><u>183,820</u></u>	<u><u>383,000</u></u>
NON-CASH TRANSACTION:			
Significant non-cash transaction arose as a result of :			
Transfer from construction work in progress to property, plant and equipment		<u>41,908</u>	<u>47,278</u>

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

Saudi Cement Company
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STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Year ended 31 December 2016

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

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

Saudi Cement Company
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NOTES TO THE FINANCIAL STATEMENTS

At 31 December 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 Houidah) and western area of Abuqayq city, with total area of thirty six square kilometres for 30 years period. The Company is in the process to renew 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 to make 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.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 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 31 December 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.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2016

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
	<u>183,820</u>	<u>383,000</u>

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
	<u>259,357</u>	<u>226,922</u>

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)
	<u>213,638</u>	<u>225,648</u>
Raw materials	132,130	252,155
Work in progress	470,468	274,995
Finished goods	1,233	2,136
	<u>817,469</u>	<u>754,934</u>

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
Write-off	(32,271)	(21,022)
At the end of the year	<u>1,082</u>	<u>23,353</u>

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
	<u>40,139</u>	<u>51,375</u>

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NOTES TO THE FINANCIAL STATEMENTS (continued)
At 31 December 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:

<u>Related parties</u>	<u>Relationship</u>	<u>Nature of transactions</u>	<u>Amount of transactions</u>		<u>Year-end balance</u>	
			<u>2016</u> <u>SR "000"</u>	<u>2015</u> <u>SR "000"</u>	<u>2016</u> <u>SR "000"</u>	<u>2015</u> <u>SR "000"</u>
<u>A) Trade accounts receivable due from a related party shown in note 5:</u>						
United Cement Company	Associated company	Sales	102,911	112,803	21,096	23,971
<u>B) Advance to a related party shown in note 7:</u>						
Cement Product Industry Company Limited	Associated company	Advance received	500	-	3,450	3,950
<u>C) Trade accounts payable due to a related party shown under current liabilities in the balance sheet:</u>						
Cement Product Industry Company Limited	Associated company	Purchases of raw materials	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.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2016

9 INVESTMENTS IN ASSOCIATED COMPANIES

The movement of investments in associated companies was as follows:

	<i>United Cement Company SR "000"</i>	<i>Cement Product Industry Company Limited SR "000"</i>	<i>Group International Cement Company SR "000"</i>	<i>Total 2016 SR "000"</i>	<i>Total 2015 SR "000"</i>
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 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.

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NOTES TO THE FINANCIAL STATEMENTS (continued)
At 31 December 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
 - 3 to 30 years
- Plant and equipment
 - 4 to 10 years
 - 4 to 10 years
- Tools and transportation equipment
- Furniture, fixtures and office equipment

	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"
<i>Cost:</i>							
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)
At the end of the year	69,607	1,868,999	4,975,159	295,715	85,901	7,295,381	7,230,174
<i>Accumulated depreciation:</i>							
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)
At the end of the year	-	1,177,382	3,069,766	260,584	57,709	4,565,441	4,353,750
<i>Net book amounts:</i>							
At 31 December 2016	69,607	691,617	1,905,393	35,131	28,192	2,729,940	
At 31 December 2015	69,607	721,012	2,020,191	52,323	13,291		2,876,424

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2016

10 PROPERTY, PLANT AND EQUIPMENT (continued)

Certain property, plant and equipment are constructed on the land provided under the right of the mining concession provided by the government (note 1).

On 18 Rabi' I 1437H (corresponding to 29 December 2015), the Board of Directors have resolved to fully impair the carrying value of two kilns recorded under plant and equipment for their total net book values of SR 66.15 million.

11 CONSTRUCTION WORK IN PROGRESS

Construction work in progress represents the on-going 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	<u>160,119</u>	<u>138,134</u>

12 ACCRUALS AND ADVANCES FROM CUSTOMERS

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

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.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2016

14 DIVIDENDS (continued)

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.

15 SAUDI INDUSTRIAL DEVELOPMENT FUND LOANS

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

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2016

17 ZAKAT

Charge for the year

The zakat charge consists of

	2016 SR "000"	2015 SR "000"
Charge for the year	<u>23,523</u>	<u>24,209</u>

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)	<u>(3,014,538)</u>	<u>(3,058,126)</u>
	<u>(523,797)</u>	<u>(589,072)</u>
Zakatable profit for the year	<u>933,235</u>	<u>968,360</u>
Zakat base	<u>933,235</u>	<u>968,360</u>

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	<u>(19,174)</u>	<u>(28,291)</u>
At the end of the year	<u>37,194</u>	<u>32,845</u>

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.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2016.

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.

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
	<u>35,501</u>	<u>35,129</u>

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
	<u>60,766</u>	<u>71,127</u>

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2016

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2016

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 by-laws, and has not been integrated with the Company's accounting records.