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Operator: Ladies and gentlemen, welcome to RAK Ceramics fourth quarter 2016 results conference call. I will now hand over to your host, Mr. Mohamad Haidar. Sir, please go ahead.

Mohamad Haidar: Good afternoon, ladies and gentlemen, and welcome to RAK Ceramics fourth quarter and full-year 2016 earnings conference call hosted by Arqaam Capital. This is Mohamad Haidar from Arqaam Capital Research and I'm joined today by RAK Ceramics Management Team -- Mr. Abdallah Massaad, CEO; Mr. PK Chand, CFO; and Philippe Habeichi, Head of Investor Relations. Without further delay, I will now hand over the call to Mr. Abdallah. Please go ahead.

Abdallah: Thank you, Mohamad. Good afternoon, everyone, and welcome to our 2016 results conference call and webcast. I'm Abdallah Massaad, CEO of RAK Ceramics and I'll walk you through the operational highlights for the year.

2016 was a difficult year for the GCC companies whose fortunes are tied to general construction activity. Weaker liquidity in the construction ecosystem brought about by lower deposits in the banking system and slower payments to contractors in conjunction with concerns over project spending rationalization and the rapid pace of social and economic measures in Saudi Arabia, filtered through in demand for tiles and sanitaryware; this was exacerbated by high levels of inventory at the distributor level.

Our sales to Saudi Arabia, which is in 2015 was our second largest market for tiles and sanitaryware declined by AED165 million or 41% year-on-year to AED235 million. As a percentage of our tiles revenue, it fell from 16.5% to 10.5%. Momentum has been declining during the year with the fourth quarter sales performance, the lowest of the year down 68% year-on-year.

Outside the GCC, we also suffered from a poor sales performance in India where revenues for the year fell by 100 million Dirham or 25% lead by volume and price declining throughout the year which were exacerbated in fourth quarter from the impact of demonetization drive. Our performance in Saudi Arabia and India alone more than explain the 6.1% year-on-year drop in our core revenue during the year. But as revenues in Saudi Arabia and India stabilize on a quarter-on-quarter, it's the core business and our other geographies that will drive the outlook for our 2017 revenue.

For example, in the UAE, our largest market in the fourth quarter, we saw growth of 2% year-on-year in the whole 2016. And it was a growth with 1.5% year-on-year. Project sales growth 6% year-on-year reflects our efforts to strengthen our project team.

In Europe, our second largest market representing 17.8% of tiles and sanitaryware sales, we saw almost 10% growth year-on-year, excluding the benefit of consolidation of our distribution joint venture and pressure from the lower British pound, which reflects the positive changes to our sales management after taking control of our distribution joint venture.

Geographic sales performance aside, we feel fairly good about the steps we have taken for the business, overall. And I will go through now, a list of operational highlights for the year, many of which will drive the business forward in 2017 as we continue to build towards our vision of becoming a leading ceramics lifestyle solution provider. If you turn your attention to slide number 4 now.

- During the year, we completed a major capacity expansion cycle. During the second quarter, we increased tile capacity in Bangladesh by 42% and sanitaryware capacity in UAE by 20%. We also restarted manufacturing in Iran, in the third quarter of 2016.

- During the year, we began the integration of our European distribution joint venture. European sales and distribution infrastructure has been reorganized with German warehousing shops and Italy as the main distribution hub. For the year, sales to Europe are up double digits. About 10% on a like-for-like basis even including the logistics issue suffered in third and fourth quarter.

- We continue to reexamine the business for efficiencies and manage to extract over more than 30 million Dirham in raw material cost savings. Total UAE savings including energy are about 50 million Dirham.

- During the course of the year, we took a decision to adjust our capacity in line with what we see as structural changes in the market. We mentioned in the last few conference calls that driving the market is a trend for larger porcelain tiles, while demand for smaller tiles was shrinking. In 2016, for example, in our UAE operation, our porcelain tiles revenue fell by 2.4% while our ceramics tile revenue fell by more than 20%. So during the year we started making adjustments. We optimized our tiles capacity to produce more porcelain tiles thereby closing some lines in ceramic tiles. Our production capacity is now 63% ceramics and 37% porcelain where this was our capacity in ceramics 74% and in porcelain 26% at the end of third quarter 2016. As we reviewed our UAE tiles output, we expect higher sales growth in 2017. Keep in mind that porcelain tiles sell for 2.5 to 3 times the price of ceramic tiles with margins that are comparable or better. These changes, we believe, better position the company away from commodity products and are aligned with our strategy to strengthen our brand.

- In 2016, we grew the projected channels in UAE in line with our strategy to get additional business from specifiers and architects, which outperformed all other distribution channels. We invested in our retail space channel, completing our showroom renovation, including our largest showroom in Ras Al Khaimah and Sharjah in the fourth quarter 2016 with benefit to be felt in 2017.

- Our fastest growth division kept their momentum in 2016. In Bangladesh, tile revenues were up by 10.5% on the year as additional capacity were added on the second quarter started to filter through. Alleviating our capacity constraint there, capacity utilization peaks in the fourth quarter 2016 and margin rose by 240 basis points. Our tableware business has another strong year with 20% sales growth. A new product introduction lead to significant margin expansion. Our U.S. market penetration has been successful.

- In the last year we substantially increased the capacity of our tiles products development and marketing team. And launched the first of several new collections, leveraging their experience in design in Cersaie in September 2016. A smaller number of collections were launched the previous years to position the companies image to a more narrow market for discerning higher-end customers. We also believe this focus will be beneficial to margins and managing working capital requirements. Our new sanitaryware team will be introducing it's first expanded range in March as the ISH show in Franfkurt. And, similarly, our new product introduction and design is closely linked with how we think about branding margin and working capital going forward.

- Lastly, we took bold steps this year to strengthen the RAK Ceramics brand image. We changed the logo, upgraded our marketing materials and updated our packaging. This was done online and offline as we invested in the look and feel of the in-store experience. In fact, we encourage you to visit our new website www.rakceramics.com as well our UAE showroom, to get a better sense of the visual transformation. We supported this branding push with a new higher selected marketing campaign across the UAE and Europe. An Indian campaign will be rolling out soon. And in the second quarter, in Bangladesh, to enhance our perception as a truly global ceramics integrated company. Now I will give the call to my colleague PK Chand, our CFO.

PK: Thank you, Mr. Abdallah. I start with the brief of 2016 financial highlights. 2016 group revenue was 2.8 billion Dirham lower by 9.3% over the previous year. A big part of the decline is due to KSA, rest of GCC, India and non-core. If KSA market was flat total revenue decline would have been just 0.6%.

Despite challenging global market and trade conditions, consolidated gross profit margin improved by 230 basis point at 30.5%. Core gross margin increased by 120 basis point at 30.5% year-on-year and non-core margins increased by 770 basis point at 30.3% mainly on account of better performance in around creating business. Gross profit margin for 2016 is normalized and calculated adding back extraordinary provisions on inventories of 68 million Dirhams.

2016 EBITDA is 485 million lower by 18.2% year-on-year and EBITDA margin is 17.4% lower by 190 basis point year-on-year. 2016 like for like profit if 216 million lower by 37.1%. Like for like net profit we calculated after adding back provisions and adjusting the strategy gains on sale of entities last year. Provisions for 2016, we have 185 million versus 83 million in last year.

Reported net profit was AED31 million down by 90%. Turning on our balance sheet, we have continued investment in our core business with expansions in the sanitary ware in UAE and tiles in Bangladesh.

Total capex spent in '16 was AED215 million against AED267 million in 2015. Expansion capex was AED71 million this year and maintenance capex was 144 million. The working capital reduced by AED173 million at AED1.68 billion representing 234 days, versus AED1.86 billion representing 228 days in December 2015. Slower than expected sales have led to an increase in our inventory position by 33 days to 221 days compared to 188 days at the end of December 2015.

On the receivables side, despite lower sales and the challenging liquidity environment number of days of receivables has only slightly increased 210 days from 108 days at the end of December '15. As a result of our working capital management efforts our debt levels at year-end was fairly flat. We ended the year at just 3% above at AED1.66 billion and our gearing ratio expressed as net debt to EBITDA increased slightly on the back of lower profitability to 3.4 from 2.7 at the end of December '15. Now, let me look at the performance of our segments.

As far as tiles is concerned, our revenue decreased by 10% year-on-year. And sales to the UAE, which is our largest market rose 1.3% year-on-year. Project sales rose 6.1%, reflecting the investments we did in building our sales team. While retail sales were flat due to remodeling of UAE showroom, which got completed in the last quarter of 2015. Sales to the trader and distributor channel decreased by 6.2% year-on-year.

Looking to other regions, notably GCC sales continued to be under pressure due to construction sector weakness. In particular, Saudi Arabia where sales were lower by 42% year-on-year on volume and price declines as distributers were cautious about taking up further inventory due to ongoing weakness in business sentiment. Europe was the brightest part, rose 30.2% year-on-year. Excluding the impact of consolidation of European entities, sales revenue grew by 10.9% year-on-year despite logistics issues in the third quarter 2016, which impacted sales. In the fourth quarter 2016, excluding the impact of consolidation sales to Europe declined 4.2% year-on-year.

By production location, India tile revenue decreased by 27.1% year-on-year. Volume fell 18.5%, while the average selling price reduced by 8.5% reflecting a competitive environment and lower energy costs. The decline in ASPs also reflect a lower valuation in the Indian rupee versus the U.S. dollar year-on-year.

Tile revenue from Bangladesh rose 10.5% year-on-year, led by higher volumes post the completion of our tile capacity expansion in second quarter '16. Utilization rate peaked in the last quarter.

2016 tiles margin increased by 80 basis points at 25.3% year-on-year. By production location tiles gross margin in the UAE were lower by 70 basis point to 29.4% led by lower volumes and pricing in exports. Tiles margin in India decreased to 15.1% from 18.1% reversing the margin improvement trend in previous quarters as volumes and ASPs were impacted by demonetization in the fourth quarter and a tough competitive environment. Tile gross margin rose in Bangladesh by 240 basis point to 37.6% on higher fixed cost absorption due to expansion. And this has offset the declines in UAE and India locations.

Coming to sanitaryware our revenues rose 2.7% year-on-year. Sales to the UAE rose 2.1% year-on-year. As the fourth quarter '16 sales rebounded by 15.5% reversing the slight pressure in the first nine months of the year. Sales to Saudi Arabia was lower by 31.6% year-on-year. And the fourth quarter dropped 59.7% as lower priced imports from India continued to put pressure on an already soft market. Sales to Europe increased by 15.5% year-on-year but were lower by 5.5% excluding the impact of consolidation. As previously mentioned third quarter '16 sales were impacted by logistic issues during the centralization of our distribution hub to Italy. Moreover, a significant portion of our sanitaryware revenue are denominated in British pounds. The lower British pounds versus the Dirham made a material impact on sales and revenues to UK, the company's main European market for sanitaryware.

By production location, revenues from the UAE rose by 2.8% year-on-year factoring in the lower pound revenue growth would have been higher by 5.4%. Revenue from India decreased by 24.3% year-on-year. While volume decreased by 17.8%. Revenue from Bangladesh increased by 10.5% year-on-year. Led by higher volumes while pricing was stable.

2016 sanitaryware margins decreased by 220 basis points at 41.3% year-on-year. The main reason for the decline in gross margin is due to change in product mix and the impact from depreciation of British pound on our sales to UK market. In terms of production location, UAE margins decreased from 44.6% to 42.9%. Similarly, Bangladesh margins decreased by 360 basis points at 42.5%. India margins fell sharply from 22.8% to 8.6% on lower utilization and made performance issues and lower demand due to demonization.

In our tableware business, revenues increased to AED175 million from AED146 million in 2015, that is increase of 20.1% year-on-year. Excluding the impact of consolidation of European entity year-on-year growth is 8.3%. During 2016, the company has been very successful in introducing new product lines at substantially higher average selling prices. Among the new product launched in 2016, cutlery products gave good response and the company plans to substantially increase its cutlery offering in 2017.

During the course of the year, the company also entered the U.S. market with a showroom in New York. Sales to the U.S. in 2016 were around AED8 million and the outlook for growth is promising.

Tableware gross margin was 61% up by 11% year-on-year. On a like-for-like basis, excluding the impact of consolidation of RAK Porcelain Europe, tableware gross margin rose by 370 basis points to 56.8%. We remain confident of solid growth and profitability for tableware in 2017.

We come to non-core revenue now. Non-core revenues were AED364 million versus AED492 million, that is decline of 26.1% year-on-year. About 40% of the decline is attributable to the contribution of RAK logistics into which...which was AED56 million in 2015. The unit was sold in the last quarter of 2015. The remainder of the decline was caused by lower revenues at Al Hamra constructions and at Electro RAK, which is an MEP business as a result of the greater weakness in the construction sector in the UAE. Non-core margins, we show EBITDA margins as we believe it is a more relevant metric for this group. Non-core EBITDA fell 13.7% year-on-year. And EBITDA margin rose 600 basis points year-on-year to 41.5% from 35.5%.

Strong profitability at Al Hamra construction was offset by the weak performance in Electro Group and Ceramin. The next slide shows the revenue bridge and which presents the key drivers for our revenue. We show the bridge for underperformance in sales declined in Saudi Arabia is really the biggest contributor to the sales performance. Otherwise, we would have been single digit loses declines even with lower revenue from India and non-core.

In this slide, we highlight our EBITDA calculation methodology as we have done in previous quarters. Now, as far as this year, we recorded provisions of AED185 million at the local and international level, out of which AED132 million is extraordinary. About 89 million out of the provisions reflect the impact of lower market prices for ceramic tiles sold in the GCC as a result of the build up of excess inventory at the local producers level. Sixty-two million Dirham of provisions were taken for impairment loss on trade receivables and due from related parties. Thirteen--million Dirhams were taken as impairment of goodwill against acquisition of stake in Germany joint venture. Twenty-two--million Dirhams against provision of impairment in share in result is mainly on account of inventory and receivables in our Saudi JVs.

Coming to the next slide, this slide you can see it shows the material costs, which represents our largest cost component increased by 1.4% to 47% of the COGS, mainly on account of change in product mix. Energy is another big component for us at 21% of the COGS. In 2015, this cost was 20.4%. In this year, stock has increased by 130 million, which has been included under the head packing material and others.

As far as administrative and general expenses during 2016 is concerned, it rose by 20.1%. year-on-year to 248 million, mainly on account of consolidation of European distribution impacting 19 million and 25 million from prior previous expenses.

Selling and distribution expenses rose 14.4% year-on-year to 381 million from 333 million in 2015, mainly on account of consolidation of European distribution infrastructure impacting 82 million. If we exclude the consolidation impact, selling and distribution expenses would have declined 10.2% year-on-year.

Turning our balance sheet, our gearing level in the year finished at 3.42 of net debt to EBITDA from 3.2 at the end of third quarter 2016. We have mentioned in the past that we are comfortable at around current levels of debt. Cost of debt in the fourth quarter '16 is higher, at 2.86% compared to 2.77% in the third quarter '16, mainly due to increasing three month LIBOR.

At the end of third quarter '16, we stated that having completed our expansion plans during 2016, we anticipated minimal capex requirements going forward beyond maintenance capex. While we continue to believe that our current capacity sufficient to meet our needs in the short-term and medium-term, we now believe that further investment in the business is required to lower our production cost in light of rising energy costs and a very competitive environment amongst GCC tile and sanitaryware manufacture producers. We have budgeted capex of AED265 million in 2017, versus our previous guidance of AED125 million to AED150 million. The level of maintenance capex, historically, out of which AED133 million on new projects, including AED84 million in the UAE on core generation projects, larger scales, and hydraulic presence. The payback period on these investments is estimated to be around two years.

Lastly, on working capital it continues to be a difficult environment and lower sales resulted in higher inventory than we would have liked at the end of the quarter. Optimization of production should result in lower levels of inventory going forward. Receivables, on the other hand, are holding well in light of the measures we introduced to reduce counterparty risk. And in spite of unfavorable market conditions, we have been able to maintain net working capital at AED1.68 billion Dirham in absolutely terms. However due to lower revenue it translates to higher number of days at 234 days at the end of December 2016. Now, I will request Mr. Abdallah for the concluding remarks.

Abdallah: The GCC environment for building product continues to remain challenging in the near term but we believe that the changes we have made to our tile manufacturing capacity and overhead reduction initiative as well as investments in our people, technologies, and our brands allow us to be better positioned going into 2017.

Our priorities heading into 2017 are as follows:

The UAE market is expected to stay resilient for us and we look for continuous growth on project sales on the back of investments to grow the team and stronger retail channels of sales post major investments we have done to renovate and rebrand our showroom throughout the year. During the year, we plan to further support our UAE market sales through the opening of a flagship showroom in Dubai.

We continue to anticipate a recovery in our sales in India in the second half of 2017 after putting in place a new CEO in the second quarter of 2016 and made several senior hires throughout the year to support him, including nine senior hires since October. We are confident we have the right sales infrastructure in the place to support the business. One of the key steps necessary for further growth and lower costs in addition in India, is additional capacity in the North Western part of the country. And we are currently reviewing option with a view of concluding a joint venture agreement or acquisition in this year. Other key elements of the Indian growth story for us including expanding the dealer network and their geographic representation and creation of a project sales team.

In Iran, our manufacturing unit has been a provision for the last few months. We are working on rolling out a second line, which we expect to be operational by the second quarter 2017. Which would bring our production capacity to nearly four million square meters from less than one million in 2016. Iran was a drag on our performance of AED2.7 million Dirham at the EBITDA-level in 2016 and losses of AED35.7 million Dirham at the net profit level. We expect positive EBITDA in 2017.

As we mentioned earlier, by focusing on design and product development, we have done a great deal to introduce more narrow, higher-end product selection at CERSAIE and feedback from the trade has been very positive. As the GCC region is marred by excess capacity in particular lower-end commodity tiles, achieving product differentiation is one of the key to the success going forward. The sales and margin performance of our tableware business is a good example of how differentiated product can really move the needle on sales and margins. And we look forward to leveraging further the effort of our tiles and sanitaryware product design, which we started this year.

Efforts made to strengthen our brand would be further supported in 2017 as we roll out to Bangladesh and Saudi Arabia. Over the next two, three years, the objective is to build on our brand recognition by launching integrated RAK Ceramics collection across tiles, sanitaryware and that's in faucets so that all of our product line can benefit from the effort. Logistics issue in Europe in the third quarter and part of the fourth quarter and higher inventory level have made us reexamine our supply chain. We see potential for better systems integration across warehousing distributed on production, which we plan on harnessing to optimize working capital going forwards.

As the sales outlook remain challenging, especially in the GCC region, we believe that investment in initiatives to drive down our operating costs are essential to our sales and margin outlook. For example, we see opportunities to reduce our SG&A expenses from current levels through technology initiatives reducing manual input. At the plants level, as our CFO mentioned earlier, we are investing in co-generation equipment, larger kiln and other equipment, which we believe will lower our cost of production and provide us with a quick payback. Among our 2017 priority is to strengthen our relationship with dealers and make it easier for them to sell our products. We will be doing this through developing project sales channel for them in geographies where they don't have the capacity to do it themselves. We will also increase training and marketing support.

As the supply/demand balance has changed in many of our markets, dealers plays a key roles in the push and pull strategies we create to support our differentiated brand approach. In Saudi Arabia, negotiations to acquire distribution partners are ongoing as we seek to control and expand sales distribution in that market.

Lastly, we are looking at deals in India to reduce costs and strengthen our presence in that market. Similarly, for the purpose of feeding our global distribution network, we continue to look at geographies with lower costs of production than the UAE and/or closer to markets we intend to serve. GCC and Europe are where we are focusing most of our attention so far and plan to act on an optimistic basis.

In conclusion, we look toward 2017 with cautious optimism. Measures we took in 2016 including the completion capacity of expansion, investments in Iran, investments in the brand, investments in our UAE distribution network, investments in recruiting the right people will all pay off in 2017 and we anticipate a strong year for the company. While our results will surely be helped from concerns over economies for the GCC regions deciding, even absence that scenario growth in India, Europe, Bangladesh, and Asia, will lead our sales forward. And combined with higher margin expectation from cost saving initiatives results in a strong bottom line in 2017. With that, I would like to turn back the call to the operator and open the line for question.

Operator: Thank you. Ladies and gentlemen, we will now start our Q&A session. If you wish to ask a question, please press zero-one on your telephone keypad. Thank you for holding until we have our first question. As a reminder, ladies and gentlemen, if you wish to ask a question, please press zero-one on your telephone keypad. Thank you for holding.

We have a question from Christopher Cleave, Pioneer Investment. Please, go ahead.

Christopher: Good Afternoon. I am interested to hear a little bit more about the acquisition or joint venture agreement that you are looking at in India. And, roughly, how big an acquisition are you looking at? I'm assuming the multiple will be quite high, if we're looking at an India business. Maybe you could just elaborate just a little bit more on what you're looking at.

Abdallah: Thank you for your question. We mentioned several times about, for us, in India to capture the growth in this country where we have our production facility in the south, for to optimize the logistic costs we have to have another plant in the north and western part. To be honest with you, we feel after invested last year in our sales infrastructure and building the management team, we...in India, there are a lot of small manufacturers, especially around Gujarat, where the cost of production is low and the investments is not a big impact. And we feel that the demonetization, which impacted the old players in India, this will give us advantage to acquire in this moment.

Christopher: So what are the...how large are the business that you're looking at I mean, in terms of the sales that they generate?

Abdallah: The investment could in the region of five, six million dollars, as far as taking a stake on the unit.

Christopher: Okay. Okay. So it's not a big investments that you're looking at making?

Abdallah: Oh, no.

Christopher: All right.

Abdallah: No.

Christopher: Okay. That's the only question I had. Thank you.

Operator: Ladies and gentlemen, if you wish to ask a question, please press zero-one on your telephone keypad. Thank you for holding.

As a reminder, if you wish to ask a question, please press zero-one on your telephone keypad. Thank you for holding.

We have a question from Mahmood Akbar from AlRajhi Alpha Investment. Please, go ahead.

Mahmood: Yeah. Thank you, for taking my call. I just have a quick question on your marketing cost. There has been a significant increase relative to revenue that I understand, this is due to the rebranding. Is this going remain going forward? So will it be around 13.5% of revenues? Or, do you expect a decline? My second question again, related to costs, general and admin costs have also increased I mean particularly in other costs as well. So if you would just reply to what extent those would like around a sustainable or are you expecting a further costs reduction program in 2017? Thank you.

Abdallah: See, you asked about selling and other expenses. As far as selling expenses are concerned, the increase is mainly on account of consolidation of our European entities, not because of the advertising. So the increase is because whatever selling expenses has been incurred in all of the European entities, this year it has been consolidated. While this, last year, this was not consolidated like-by-like. Now, if you exclude the impact of consolidation, in fact, our selling expenses have gone down by 10%. So that is the first answer.

The second question, what you asked is the increase in the general, the administration and general expenses? The answer is the same. It is mainly on account of consolidation of European entities. Now, the third question which you asked was the increase in other expenses? Now, actually 2015, 17 million, what you see in financial under the head, administration and general expenses is after reversal. In last year, there was a reversal of 31 million. And, therefore, it is on like-to-like basis it is almost same. I hope it answers your question.

Mahmood: Yes, it does. Thank you very much. But the...so that means that the European business had had a much higher cost base. So basically, the 13.5% of revenues selling and marketing is likely to remain the same going forward?

Abdallah: Yeah. Because, obviously, if the sales go down, the fixed expenses don't go down generally in the same proportion. So as your percentage of sales, it will tend to increase.

Philippe: It's Philippe. If I could just add to that. I think that, as far as European sales infrastructure is concerned, I think we incurred most of the cost this year, but we're going to incur most of the revenue benefit next year. So I think it's a timing thing you have to take into consideration.

Mahmood: Sure. Sure. Just one last question. Sorry. And, just one last question. In the 2016 financials, there has been this change in inventory of finished goods of 130 million. I understand what this is but I mean if you could just please explain what this is? And if it's a one-off as well? So I think this is a one-off because it reduces your cost of goods sold? This is what is existing the next year, right?

Abdallah: Yeah, you are right.

Mahmood: Okay. And this is basically something that you've produced last year?

Abdallah: Yeah. If you go to our income statement...if you go to our income statement, which is on page...just a moment... Yeah. Which is on page 12 of our financials. You will see on the top side, after cost of sales, we have written write-offs and provision of inventory of 88 million. So the details of that is given, as you know, in 13. So this has been included...

Mahmood: Yeah.

Abdallah: So what is your exact question?

Mahmood: So... If you can just give me one-second. I'm just checking the financials. No I'm talking about, within cost of sales, there is a change in inventory of finished goods, which reduces the cost of sales by 130 million.

Abdallah: Yes.

Mahmood: So this is different than the...this is completely different to the write-off of provisions for inventory. So I'm talking specifically about the 130 million deduction from COGS, the change in inventory of finished goods.

Abdallah: See, if you go to see the eight, there you see change in inventory of finished goods -- 130 million. Which is after taking into account the write-off in provision.

Mahmood: Okay. So why is they reduced from COGS? I don't understand.

Abdallah: Why?

Mahmood: Yeah.

Abdallah: I think we can take it to the offline.

Mahmood: Okay.

Abdallah: Yeah, we'll do that.

Mahmood: All right. Thank you. Thank you very much.

Operator: Our next question is from Alok Nawani from Ghobash Trading. Please, go ahead.

Alok: Good evening, gentlemen. And thank you for your call. Just two questions from my side. One is on the inventory provisions. I was wondering what your outlook on that might be in 2017, if you see the risk for more provisions? And also for, in the same breath, for receivables provisions, what has been the source markets for these provisions and also your outlook? And, my second question relates to your capacity reductions in the UAE. If you could just quantify what kind of productions you have seen in the UAE? I'd appreciate that. Thank you.

Abdallah: As far as provisions are concerned, to say how did they take place? Now, after we saw our third quarter results, when details in Saudi Arabia and other GCC markets went down. And then we realized that maybe that we need to consider taking provisions both, on inventory and receivables. And, therefore, we did a massive exercise to go through the itemized detail and considering the...all of what were produced in past years -- the lot sizes, the colors, the designs which were...and we did an exercise and we came to this conclusion that we need to take a provision. And since the going itself was not good recorded in the right time, when we can clean our records. And that is how we took that decision. As far as 2017 is concerned, frankly, I do not see any reason for any kind of any provision apart from normal day-to-day operations so the provisions are not going to be there.

Alok: Do you happen to have a target for inventory deals that you are working on?

Abdallah: Yes, a far as our inventory levels are concerned, see, right now our level is around 214 days, which we feel it should come down to around 190 to 192 days. That is the target with which we are working.

Alok: Okay. Thank you.

Operator: Our next question is from Joe Francis from Bahrain National. Please, go ahead.

Joe: Hi, thank you for taking my question. One question is regarding the Bangladesh operation. You said the utilization peaked. Can you say what is the utilization as of now?

Abdallah: Yeah. Thank you for...now, we mentioned that last year, we had a capacity constrain. We have demand more than what we can produce. With the expansion in place, now we are producing full capacity and also we are selling.

Joe: Okay. And one more on...when did you get into Europe market? Can you give me the time when you opened the New York showroom?

Abdallah: Look, you know, in our table we are a business. Our largest market is the European market. And to grow this business we saw it in two angles. One is to add more products where we added the cutleries this year and we also, we entered into multiple finishes and different typology of products from neo-fusion and so on. Also, one way is to prepare the market for a future expansion and the future growth. And in the first quarter of 2016, we already opened a showroom in New York and we already setting up a sales team and a warehouse in U.S. in order to grow this market, which is a great potential for us.

Joe: Okay. That's it. Thank you.

Abdallah: No problem.

Operator: Our next question is from Christopher Cleave from Pioneer Investment. Please, go ahead.

Christopher: Hello, again. I forgot to ask about the receivables. I'm interested to know where it is that you're having particular problems collecting your receivables? Because, obviously, you took...you effectively wrote down some of those receivables this quarter. Are many of them related to the Saudi market? Or are they quite kind of...are they spread across your geographies?

Abdallah: As far as our equity accounted in these are concerned, that is obviously the Saudi JVs. But the impact is not significant. That is about six, seven million Dirham. And whatever provisions we have taken, that is in relation to all over the world. So wherever our exposure is there we have done an analysis party-by-party. And depending on the movement in the receivables, we wanted to follow a kind of rated policy and, therefore, we took those provisions.

Christopher: So the problem isn't really linked to the Saudi market then. So I mean that's the only market in which...well, along with India, I suppose, you had significant problem, in terms of your sales. So clearly the difficulty is more that you failed to...as a kind of failure in your credit systems, no?

Abdallah: Yeah.

Christopher: I mean if it's a general problem then, clearly, you have the wrong policies. Is that true? Hello?

Abdallah: No. I will feel that, you know, because there were certain legacy issues, which we have been continuing. And now several steps have been taken to rectify the situation. But, still, because of the legacy issues, credit limits which were already more, now all those things are in the process of correction. And, that is how we wanted to continue with it and we took decision to take those provisions.

Christopher: Right. So this...will you kind of describe this as an ongoing process in which you have to kind of continually, I suppose, adjust the level of your receivables? Or do you think that you now cleared out the legacy receivables?

Abdallah: No. The legacy issues are almost everything we have taken care. Now, obviously, because when you do a business, there is always the likelihood that there could be something wrong with this vision. So that will be an ongoing process but, obviously, the legacy issues are all over.

Christopher: Okay. Okay. So when you...I mean it sounds like you're looking to acquire the Saudi distribution partner you have. When you acquire them, there isn't going to be, say, a large adjustment you have to make to your receivables book?

Abdallah: That, actually, you know, we are in the process of -- this is my answer. So we actually, you know, thinking of doing a proper due diligence. And, then, only we will be able to comment on this.

Christopher: Okay. Okay.. What would be the rationale behind acquiring your Saudi partner?

Abdallah: I think like in 2016 we acquired all of our European entities, the whole idea is that we want to conduct a business the way we want to operate and, therefore, we want complete control in Saudi markets. And I think that's like all I want to say on that.

Yeah, looking at Saudi, Saudi remained a big market. And our biggest capacity in the UAE and the Saudi, for sure, in the GCC, is the largest market. For now, there are factories available in Saudi. And to be continuing competing or at least positioning ourself in the market the joint venture, which we have to take care, sometimes. Or if we take decisions, we have to consider the interest, also, of our partner. So this what you see this year. Despite that, we lost sales in Saudi but our margins, we did not go into a price war and we maintained our margins.

We believe with the same exercise of renovating our showroom, positioning ourself, having proper project team and positioning...differentiating ourself from the local factories where we have a bigger...a wider range of product, we have differentiated products we can extract value out of the market. So this is basically to control our destiny and to work hand on hand on proper positioning and the proper specification and capturing good high margins products is required.

Christopher: Do you think that...I mean it seems from what I read, that maybe the worst is over in the Saudi market? I mean the government started paying contractors again. Do you think that's true?

Abdallah: To be honest, we felt that now we are in better position in Saudi. For sure the market didn't recover fully. But, yet, we can see some recoveries. And also, one thing where last year we like a panic happened...where that...traders, which they were having projected better days, they had a lot of inventory in factories, which were only looking to sell in Saudi, as the demand is there with a shrinking of liquidity and holding the projects a panic happened. And to be honest with you, the only way that they fought with the panic is reducing prices and it affected all margins. For us, we thought and we felt that this is a temporary period where, now, we feel it's much better and our sales picked up in Saudi again. But I feel that, personally, that the worst is gone.

Christopher: I mean I suppose something else that must be happening in the Saudi market is that the subsidy regimes have been changed or at least they will be changed. And so some of your competitors, I'd imagine, will suddenly have to pay much higher prices for their inputs. Is that going to be a major factor going forward do you think, in the Saudi market?

Abdallah: Look, this is one angle where, at least, this will be an advantage...not that this is advantage. But, look, I believe that a lot of also competitors are weaker, now in Saudi. And, with this price war happens, we feel that we are in better position. Yes, we lost some things for a temporary period. But this will give us leverage on the long-term where we still in a position as above most of our competitors. And, if any cost on the local manufacturer will happen, this will give us again...it will not have an impact on us, other than we'll be more competitive.

Philippe: Christopher, I think if I can just add something quickly. If you look at, you know, we...I think what we're trying to send out as a message in the call is, you know, obviously, Saudi has always, historically been a big market and continues to be a market focus for us. But it shrunk as the percentage of the pie and other markets are taking, you know, other, you know, prominence or...at least, a bigger percentage of our mind share. So just focusing on what Saudi's going to do isn't as important to the future of RAK Ceramics as it was, say, two years ago or three years ago. If the market turns around, we'll gladly accept it. But we're not dependent on the market turnaround for our results to improve. Also, just in terms of product acceptance or product intake, just so you know, Saudi's more of a ceramic tile market and a lot less of a porcelain tile market. And as you know, we've shifted our production to emphasize porcelain tile. So again, it kind of lets you know which direction we're heading going forward. If you don't mind, we're going to leave it there, Christopher. If you have more questions, feel free to call us afterward. We'll take one more question from the callers and probably call it a wrap after that.

Christopher: Sure. Thanks very much.

Operator: We have time for the last question only. Mr. Vijay from Gulf Baader Capital Markets, please, go ahead.

Mr. Vijay: Yeah. Good evening. My question is on the receivables. As far as you guys note on note number 34. If there's anything off your...on incurred the receivables, especially more than

360 days that it shows a gain in AED131 million, and that's increased from AED105 million in 2015 to AED131 million in 2016. So and you also disclosed that a majority of your receivables are unsecured. So out of the maturity out taken to manage your credit card and do you expect a similar kind of write-off in 2017? If your receivables are around AED131 million and there too for more than 360 days?

PK: You refer to a particular note number. Can you repeat that?

Mr. Vijay: Yeah, note number 34. Page, where is the 74... The page number...sorry -- 72.

PK: You're question is, beyond was 360 days, right?

Mr. Vijay: Yeah, past due but not incurred, no? It's against [crosstalk]...

PK: Which has increased 105 million to 131 million, so that have gone up, right?

Mr. Vijay: Yes. So and you had mentioned that majority of your receivables remain unsecured. So what kind of tests you have taken to minimize that trade and...or, can you expect similar write-off of what you have seen in 2016.

PK: No. No. Mr. Vijay...Vijay, we have analyzed each item on this list. Either we have some firm payment plans and based on assessment of each party, then we did exercise that you see here. And then we took the provision. So where it was required, we have already taken the provision. Now, we feel that there will be no more provisions required in 2017, apart from the normal business operations.

Mr. Vijay: Okay. Okay. So you are sure that even though it's due more 360 days you'll be able to recover that?

PK: Yes. Yes. We have a formed plan from these parties that this is how they're going to be paid.

Mr. Vijay: Okay. Okay. Fine. Thanks. Thanks a lot.

Operator: We have no further questions. To your speakers, back to you for the conclusion.

Mohamad Haidar: Thank you, Abdallah. Thank you, Mr. Chand and Philippe. Thank you, everybody for joining the call.

Operator: This concludes today conference call. Thank you, all, for your participation. You may now disconnect.