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Operator: Ladies and gentlemen, welcome to RAK Ceramics first quarter 2017 results conference call hosted by Arqaam Capital. I will now hand over to your host, Mr. Mohamad Haidar. Sir, please go ahead.

Mohamad: Good afternoon, ladies and gentlemen, and welcome to the RAK Ceramics first quarter 2017 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 Mr. Philippe Habeichi, Head of Investor Relations. Without further delay, I will now hand over the call to Abdallah. Please, go ahead.

Abdallah: Thank you, Good afternoon, everyone, and welcome to our first quarter 2017 results conference call and webcast. I'm Abdallah Massaad, the CEO of RAK Ceramics. And we'll walk you through the operational highlights of the quarter.

We had a good performance in the first quarter driven by a rebound in revenues on quarter-on-quarter basis and decisive action to scale bath tiles and sanitaryware production in the UAE and lower operating costs and inventory levels.

We are particularly pleased about the performance of our tiles division. Revenues faced difficult year-on-year comparables but were up by 10.8% Q-on-Q, lead by a rebound in the GCC. Results continue to be driven by demand for our GP tiles which are higher average selling price, higher margin, and are gaining in traction and helped lift Q1 tile gross profit margin to the highest in over three years.

The sanitaryware revenues were also very strong, in particular to the UAE where they rose 17.9% year-on-year and generated high margins. The market in Saudi Arabia, which had been weak in the whole second half 2016, saw an 85% rebound in revenues quarter-on-quarter. Competition in ceramic tiles in Saudi continues to be strong but we are gaining momentum in GP tiles and with slightly better economic mood in Saudi Arabia, we believe the bottom is behind us.

Two other highlights we want to emphasize on the cost side. Despite slashing production of tiles and sanitarywares in UAE, in the quarter, we managed to keep costs per unit in control. Tile cost of production per unit in the UAE rose only 5% year-on-year, despite a 26% decline in tile production. On G&A, as mentioned earlier we reduced expenses by 6.2% year-on-year by reducing non-essential expenditures and improving workflow and other efficiencies. Lastly, on the balance sheet, we are pleased with our inventory position in the UAE with tiles inventory in square meters is minus or down by 4.8% quarter-on-quarter and sanitarywares inventory in pieces is down by 13% quarter-on-quarter, reversing several consecutive quarters of inventory accumulation and putting us on the path for further improvements in the next few quarters.

We made a number of steps in the quarter delivering on our Value Creation Initiatives. Electro RAK was sold in the quarter for 45 million dirham as part of our plan to exit non-core assets and reinvest in the core ceramics business. Our negotiations with our Saudi joint venture partners are ongoing and significant progress has been made. Lastly, in India, we

have identified tile producers for acquisition and we expect to make an announcement in the next few months.

I will circle back later with comments on our progress on the nine key initiatives that we set out for 2017. In the meantime, I would like to turn it over to our CFO, PK Chand, for a review of the financials.

PK: Thank you, Mr. Abdallah. The total revenue for the first quarter was 681 million, core revenue being 621 million, lower by 3.7% year-on-year, and higher by 10.8% quarter-on-quarter on strong GCC and India sales.

Consolidated Gross Margins were 31.7%, higher by 150 basis points year-on-year. Core margin rose 190 basis points led by a very strong performance in tiles, which Mr. Abdallah had said earlier, had highest quarter one gross margin in three years. Non-Core Gross Margin declined as a result of asset sales and shrinking non-core activities.

Core EBITDA in the quarter was flat year-on-year with the margin rising by 60% basis points to 15.5%. However, total EBITDA was lower by 17% year-on-year at 114.8 million

Net Profit for Q1 '17 is 64.5 million, lower by 2.1% with higher margins by 50 basis points at 9.5%. Core net profit was 39.5 million, a 6% decline year-on-year, and in line with the decline in core revenues. Like-for-like net profit excluding provisions and one-off items showed a 34% decline, mainly due to decline in revenue by 55 million.

On the cash front, we saw a 4.1% increase in net debt quarter-on-quarter, reflecting seasonality from the annual dividend payment. Working capital fell 46 million, in large part due to significant destocking in the UAE tiles and sanitaryware. CAPEX was relatively light in Q1 with the major of our CAPEX program scheduled in subsequent quarters. We still expect to finish the year end at about 3X net debt to EBITDA. Now we turn on individual unit performances.

Slide seven breaks down tile revenues by geography. While tiles revenue has been lower by 10% YoY, revenue jumped 13% quarter-on-quarter lead by big rebounds in the UAE and KSA, leading us to believe that the significant weakness we witnessed in fourth quarter may be behind us. Results continue to be driven by demand for our GP tiles, which was high with higher ASP, higher margin, and they are helping to lift the first quarter tile Gross margin to the highest in over three years.

Strong growth in Bangladesh reflects the outcome of capacity addition, which we completed in second quarter of 2016. Sales to Europe was higher 7.6% quarter-on-quarter. However, lower by 21.8% year-on-year, due to transition of new sales regional head during the quarter

As far as tiles margins is concerned, first quarter the tiles margins rose 160 basis points year-on-year to 27.1%, a three-year high. Tile margins in the UAE rose 120 basis points to 30.4% on the back of a more favorable mix and production cost savings in the UAE. Margins in Bangladesh also rose, up 100 basis points to 36.9% on higher fixed cost absorption due to tile capacity expansion. Margin in India declined slightly by 60 basis points but should improve in the second half of 2017.

As far as sanitaryware revenues are concerned, 2016 sanitaryware sales rose 9.6% year-on-year and 2.9% quarter-on-quarter lead by demand in Europe, the UAE, and the Middle East. KSA sales showed strong quarter-on-quarter growth of 107%. By production location, revenue from the UAE lead the way with 15.1% year-on-year growth and 9% quarter-on-quarter growth. Bangladesh was flat & India sanitaryware revenues fell as a result of

production stoppage but with limited impact on total revenue and profits.

As far as sanitaryware margins are concerned the first quarter of 2017 the margins fell 120 basis points year-on-year to 39.3%. The main reasons for the decline in gross margins are higher unit operating costs from lower productions and the impact of the Euro & GBP on our sales to the Europe. In terms of production location, UAE margins decreased 140 basis points from 40.6% last year to 39.2%, while Bangladesh margins improved by 50 basis points to reach 44.8%. India margins reflect lower sales and production utilization as previously mentioned.

As far as tableware business is concerned, it was another good quarter for tableware with sales up 39.8% year-on-year and gross margins still holding strong, just below 60% level. The consolidated results this quarter, reflect the consolidation of the company's 47% interest in Restofair, a tableware distributor. The consolidation of Restofair added 13.2 million to revenue. Like-for-Like tableware, revenue growth was 4.3% year-on-year & gross margin was 60%.

Now we turn to the non-core revenues. The first quarter 2017 non-core revenues fell 33.5% year-on-year. Lower revenues reflect one month of revenue contribution from Electro RAK Group, which was sold in the quarter and the performance at Alhambra Construction, where rough grading work continues but at substantially lower rates than during the recently expired contract period.

Non-core margins -- non-core EBITDA fell 56.3% year-on-year to 18.4 million dirhams from 42.1 million dirhams in the first quarter of 2016. Nearly all the decline was a result of lower margins on the rough grading contract at Alhambra Construction with margins in the remaining businesses fairly stable.

Slide 14 gives detail of the EBITDA calculation and it outlines our EBITDA figure for the first quarter of 2017 and our method of calculation. We calculate EBITDA adding back Provisions against receivables collections, extraordinary provisions, and other nonrecurring items.

The notable items in the quarter, which we excluded from EBITDA were a 3.8 million gain on the sale of Electro RAK and a 10.7 million gain on the sale of assets of Alhambra Construction. Despite the revenue decline year-on-year, core EBITDA was up marginally and core EBITDA margin improved to 15.5% from 14.9% a year earlier.

As far as our COGS is concerned, COGS fell 8.7% year-on-year versus a 7.4% revenue decline. Savings came from lower energy, labor, packing material, and maintenance. During 2016 we have invested on co-generation in two tile plants from which we have been saving on our energy costs close to two million in first quarter 2017. We are further evaluating the options to install in other UAE tile plants for which we have already budgeted in our CAPEX. We have taken many other initiatives across our UAE plants to optimize production outputs & reduction in costs.

As far as SG&A are concerned, we have been successful this quarter lowering SG&A expenses by 6.2% year-on-year on like-for-like basis. As mentioned, we anticipate that we will be able to extract around 25 million dirhams in SG&A expenses in 2017 through various cost-cutting initiatives.

Turning to our balance sheet, the net debt fell on an absolute basis by 6.1% year-on-year but was up 4.1% quarter-on-quarter as a result of dividend payment. Net Debt to EBITDA ratio rose to 3.7 times at quarter end, reflecting lower non-core EBITDA. While, as a

reminder, core EBITDA was stable year-on-year. By the end of the year, as a result of improving performance, we would expect the net debt to EBITDA level to be close to 3 times.

On the CAPEX side, no major spend was carried out in the first quarter and we continue to anticipate a spending of about 265 million, 135 million being maintenance expenses, and 133 million being the growth. This growth investment will go towards co-generation projects, larger kilns and hydraulic presses for the UAE operation with remainders on setting up our own distribution for tableware in Europe, where we currently rent and other items.

Lastly, with respect to the working capital, the key highlight is the reduction of our ending UAE inventories as a result of lower production and better production planning. Although this year has shown up in inventory days, we expect to continue to make further progress on working capital management during the year. Now I will turn back to Mr. Abdallah for his final comments.

Abdallah: Thank you, PK. I would like to take a moment to look at the 9 priorities we established for RAK Ceramics for 2017 at the beginning of the year inspired by our value creation plan priorities, and review where we stand currently. Slide 20 is a copy of the slide we introduced at the time of reporting 2016 results.

The first priority we listed was to emphasize on the UAE local market because of our home turf advantage, the market growth potential, and margins. We did just that in the first quarter. As mentioned, UAE sales rose 5.4% year-on-year with solid growth in projects and distributors. Retail sales have yet to show their potential and we expect good results going forward, especially that it is the highest margin channel we have in the UAE. The new flagship showroom in Dubai is under development and should be ready to open late third quarter.

India is the second priority was growing through organic and inorganic means. We Identified three players in joint ventures in India, particularly in Morbi. And our discussions for strategic tie-ups are at an advanced stage. A projects team has yet to be implemented but sales hires continue and we are adding dealers.

Iran -- we had a small delay this quarter in terms of production but remain on track to start the second line this year, with timing expect in Q3. In the meantime, we are strengthening the local sales force and recruiting an ERP leads. And, for sure, we still continue producing with one-third of our capacity over there.

Product Differentiation -- having adopted a new approach to product launches last year in our tile segment with focus on innovation over quality and under the banner of our new brand image, it was our sanitaryware business' turn to follow suit with new ranges launched at ISH in March. ISH is the largest or the most important sanitaryware exhibition, which takes place every two years in Germany, which were well received with an emphasis on rimless technology. Further innovation and product launches in tableware were also launched in the quarter, including a wood line and a new twist to our fusion series.

Branding -- after rolling out a new RAK Ceramics brand image last year we extended the campaign to Bangladesh in March -- changing the logo, marketing materials both, online and offline. We also invested in upgrades at the showroom in UAE and India. The last major remaining market to roll out our new image is Saudi Arabia, which we expect to do in the second quarter and third quarter this year.

Supply chain -- as evidenced by Q1 working capital changes, we made a lot of headway

getting our various teams to work together to better balance production requirements to inventory levels. We expect continued reduction in working capital and better margins going forward as a result.

Cost efficiencies -- we continue to find little pockets of efficiencies on the productions side and raw material savings and packaging savings totaled over four million dirhams in the quarter. Energy savings also contributed and further benefits are expected next year, as we roll out co-generation to more plants. On the overhead side, as mentioned earlier, we achieved a 10 million dirham savings in SG&A alone in the UAE, in the quarter, bring numbers 6.2% lower than first quarter 2016. We see further opportunities for the SG&A savings and are targeting...and our target is 25-30 million reduction for the year.

Dealers -- we reactivated the importance of this vertical to us as a group and made expanding and optimizing the dealer network as a priority. We are pleased to say that during the quarter we add 50 new distributors in our export markets from the UAE, and over 50 new dealers in India and Bangladesh. With respect to our dealer relation in Saudi Arabia, as mentioned, we are in a very advanced stage in negotiation to acquire our joint ventures. And the next quarter or in the next few weeks, we should have an announcement in this regard.

Acquisitions -- lastly, was the request to acquisition...with respect to acquisitions, we had nothing to announce in Q1. But evaluation of opportunities are ongoing. Focus continues to remain on India, as mentioned and the GCC and Europe. We did divest of our stake in Electro RAK in the quarter for 45 million dirhams and expect further non-core asset sales throughout 2017. With that, I would like to turn it over back to the operator and open the line to questions.

Operator: Thank you, sir. Ladies and gentlemen, we will now start 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. Our first question comes from Mr. Vijay -- GBC Oman. Sir, please go ahead.

Vijay: Yeah. Good evening. I have some couple of questions. My first question is, where do you see the GP margins going forward? Is it likely to improve whether or to settle on these current levels? And my second question is, on the Iran contribution, last time you had mentioned that there's around 65% of the capacity utilization. So what was the Q1 contribution from Iran? And when do you see a break even in this plan? And my third question is on China as a disposal, you have any update on this? And, finally on your Saudi market outlook?

Abdallah: Thank you for your question. In the GP margin contribution, you see, I mentioned we did several initiatives in markets. Well, you know, like we say confidently optimistic, the first quarter was good for us. We control as much as we can our cost in the market, the market prices, our competitors, and you can see it from the results of our peers in the regions as there are local manufacturers, they reduce their prices. Meanwhile, we did not follow this trend and we maintained our prices and we focused on reducing our expenses. I believe the gross profit margin, which we have is quite good. I cannot tell you it will improve. Let us see how the market will go in the next quarter.

In Iran, look, I mentioned last time that we are utilizing 35% it means we have three kilns. One kiln is ready and we are preparing to go to 65% utilization. As I mentioned here, we have a slight delay there which can go but the contribution of the Iran factory to the group is very, very negligible. Especially, you know, we were expecting that the sanction will happen. But, you know, we are very cautious in Iran and the same thing happening only in the market and to market where it does not affect the group in this aspect.

Regarding the China, still, now, we are in process. The market is difficult in China so, no, we did not find a buyer for the plan. But we are pleased to say that we already sold all of the inventories available in China. We already took the raw material and spares we have to other plants we have as we're utilizing. And what part of the changes we're doing in the factory in UAE requires some new machineries, which we might take it or we might utilize the existing machinery we have in China. We'll update you if we have any further, further news in this aspect. Regarding Saudi, look, market in Saudi, quarter three and quarter four last year was very, very severe. So we can say that this quarter was better than the fourth quarter last year, especially with good announcements on getting back all the allowances and some good news in the market. But, still way below the standard, which was before.

Operator: Our next question comes from Anoop Fernandes -- SICO Bahrain. Please, go ahead.

Anoop: Yeah. Good evening, gentlemen, and thanks for the opportunity. I have three questions. Firstly, regarding your KSA quarter-on-quarter rebound, was this due to demand trending up or was it, you know, did we get more aggressive, in terms of pricing to get market share. The second question is related to inventories. We have seen an increasing trend of a decline at the company level but how are things stepping up at the distributed level across the system. I mean are you seeing a decline in inventories there as well? And thirdly, if you could kind of give some guidance on the you know, the non-core revenue? Should we be assuming that the 1Q trend for the remaining quarters as well? Thank you.

Abdallah: Thank you, Anoop. In term of the rebound in sales, as mentioned, we said we will go very aggressive in our local market. We see that in UAE...we have strong brand, strong setup and last year we created a specification team and project team which we were very aggressive. We want several projects, iconic projects. We did a good agreement with reliable developers. And the sales in UAE supported overall growth during this quarter. For the Saudi, we did not...we were not aggressive at reducing our prices, but we have as we mentioned last year that we are strengthening our distribution network. We added two new dealers, one in the central and one in one the southern province. And we added, also, several dealers as mentioned, 50 dealers in the export we opened so we did not...we extended our distribution network where we were also monitoring, we didn't want our inventory level at our distribution network will also include. So no, we don't see. We see a trend of everyone reducing their inventory, including our dealers. In non-core, PK?

PK: Yeah, so as the non-core revenues are concerned, we expect the same trend to continue in all the quarters except whenever any sale happens, obviously, they'll be with the trend. Otherwise, it is going to be almost the same.

Anoop: Okay. Because in non-core we were supposed to exit the having a contract Alhambra -- AHHC was supposed to end. So could you please elaborate a bit on, you mentioned something about this thing being renewed but would you be able to elaborate, you know, a bit further on what the renewal is and so on.

PK: See the Alhambra Construction, the last contract that we had expired in December 2016. And for this year, the contract has been extended but, obviously, at a much lower price. So this contract will end in December 2017. And then, unless we receive fresh orders, we will sell the equipments, all the moving equipment that, which are being used for this project.

Anoop: Okay. Just, you know, a follow-up for Abdallah. So inventories at the distributed level, when across the system, have they come down substantially? I mean why I'm asking

this is because can we expect some sort of a restocking, you know, as we head in 2018? Given that the complications from that will sort of arise, so is that something you're looking forward to that possibly towards the end of the year we could see this restocking happening? But that obviously would happen if the inventory have reduced from what they've been in the last three or six months.

Abdallah: Look, we mentioned and we're working very close on that because if it's not only we sell, we make, we need to make sure that the inventory and our distribution system also be in a comfortable level where they can reorder. So we are not there for one quarter or for one month to push inventory to a client or to our distributors. No.

So what we did, we changed a lot in sizes, our flexibility, our technology, our, really, R&D. So we mentioned like...two, three years...sorry, last year we invested in...we are the only factory in the region and maybe few in the world where we have technology to produce our most our function. So we were able, really, to come up to refresh the product mix we have. And follow what is the market trend now. And, therefore, we are able, really, to receive or to get fresh orders to where today, honestly, we have very comfortable pending order in the system, which much better from when we started this year. And selling from the inventory we have.

Meanwhile, as mentioned, we adjusted our capacity to not to add or to control our inventory. But in this case, we are also very tight in controlling our costs. And that's why the results of this quarter, honestly, will be the last two quarters are significantly better than what we expected

Anoop: Okay. Okay. Thank you very much.

Operator: Ladies and gentlemen, I would like to remind you, if you have any further questions, please press zero-one on your telephone keypad. Thank you for holding. Yes, a question from Divye Arora -- ADS securities. Please, go ahead.

Divye: Hello. Hi. Would you be able to give us a guidance on the revenues from Saudi market? So is it really the bottom that we have seen in this quarter and we can now be level focus pays on the revenues we have seen in Q1? And same for India? And second thing is linked to the receivables and inventory provision. So this quarter, it was pretty low receivables and inventory provisions. But bigly what this is in that in your case you take down 60 to 70 million off of inventory and receivables provisions every year. So will it be more loaded into the fourth quarter? Thank you.

Abdallah: Thank you for your question. Look, regarding Saudi and India, you touch on the two markets, which are strategic and big markets for us. Look, in Saudi, as I mentioned, so we had a good quarter with the fourth quarter but we did not yet reach a level where we've been in Saudi so we are very aggressive. We are in discussion also, we mentioned several times that we have also legacies, in terms of joint ventures. One joint venture in Rial and Jordan. So we are trying to and hopefully we will be able to close the discussion to acquire these two joint ventures and act in the Kingdom as a factory available, which we service the Saudi market during this very tight time. So I...we have to now, the first quarter was a little better momentum if everything remains stable I believe that we have a better potential to grow there.

In India, it is the same that we mentioned last year. We had our CEO, which we are very happy about. We already finished all positions and these structures. And, yes, I expect that growth will be shown in India. And, also, as it is an important market. Also, we are working and hopefully we will close the acquisition in India during the next months...the next few

months from here. Regarding inventory, PK?

PK: As far as inventory provisioning is concerned. You will recall that in the last quarter of 2016, we had taken extraordinary provisions and that came as a result of our identification of slow moving items and small law items. And, sales, we had taken all those provisions and we are careful in every quarter that whatever such small laws are coming during the quarter we keep on providing that in the same quarter itself. So I do not foresee any reason why we should have a much bigger provisioning as far as the whole year is concerned, so I'm quite optimistic on that.

As far as the receivable provisionings are concerned, the same thing that whatever we thought that, yes, might not come, we have fully provided apart from the normal business that concern is, I do not foresee any major provision to be taken.

Divye: Is there any number, which we can assume for the full year for both, inventory and receivables? Like 30 million or 40 million for the full year.

PK: It's difficult to give you a number but, yes...it is definitely going to be significantly lower even compared numbers. Normal that we're assuming to be 55 and I will personally feel that it should not exceed more than 30-35 million, something like this.

Divye: Just the thing, that thing about Saudi, so what do you think is going to be driver you know on the Saudi real estate market that this can help you? And do you see these drivers coming in the second half of 2017?

PK: Sorry. Can you repeat what you...the question, please?

Divye: I'm saying, what are the key drivers that you're looking at to see a rebound in the Saudi real estate market and the Saudi tile and sanitaryware demand? And, looking more towards the second half this year or next year?

PK: Okay. You are asking some question where I wish I can answer. So specifically, we had a lot of project, which get in hold. And you know we sell, as mentioned, initially in buckets where projects is an important segment for the wholesale and retail. So the wholesale, which we are continuing to work on the project, we continue to supply projects but many projects are on hold. So the moment these projects will continue, government will release payment and announce the continuation of the project, this will immediately impact the demand over there. I hope this is clear.

Operator: Ladies and gentlemen, I would like to remind you, if you have any further questions, please press zero-one on your telephone keypad. Thank you for holding. Ladies and gentlemen, I would like to remind you, if you have any further questions, please press zero-one on your telephone keypad. Thank you for holding. You have no further question. Your speakers, back to you for the conclusion.

Mohamad: Thank you, everyone. Yes, Abdallah, please.

Abdallah: Thank you very much. Thank you, all, for attending our earning call. Thank you.

PK: Thank you so much.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You can now disconnect.