Annual Report 2016

Zamilindustrial

Zamil Industrial Investment Co.
P.O. Box 14441 Dammam 31424
Kingdom of Saudi Arabia

zamilindustrial.com

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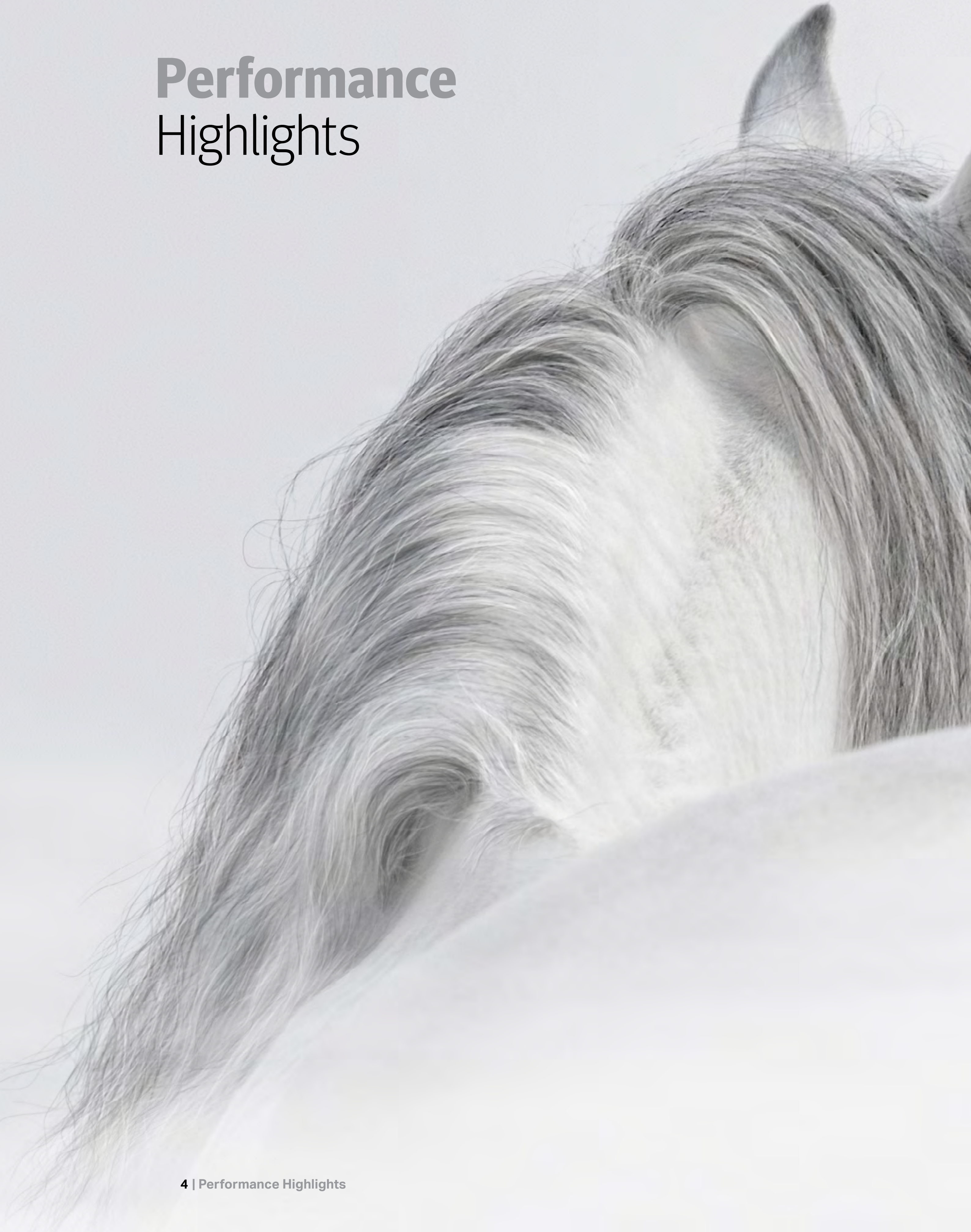
Performance Highlights



- **Revenues** in 2016 were SAR 4,950.6 million (USD 1,320.2 million).
- **Gross Profits** in 2016 amounted to SAR 1,209.2 million (USD 322.4 million).
- **Operating Income** in 2016 was SAR 323.8 million (USD 86.3 million) compared to SAR 407.5 million (USD 108.7 million) in 2015.
- **Net Income** after Zakat for 2016 amounted to SAR 201 million (USD 53.6 million).
- **Earnings per share** (from Net Income) equated to SAR 3.35 (USD 0.9) in 2016.
- **Shareholders' Equity** amounted to SAR 2,188.8 million (USD 583.7 million) at the end of 2016.

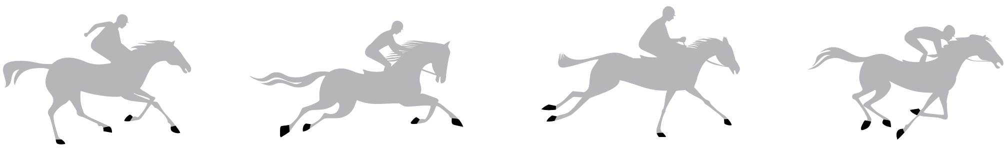
Board of Directors

Khalid A. Al Zamil
Chairman

Abdallah Saleh Jum'ah

Ahmed Abdullah Al Zamil

Adib Abdullah Al Zamil



Vision

To be a Winning Industrial Leader Creating Superior Values for Business and Community

Honesty and Integrity

We believe that goodwill and a good reputation are integral to our business. We uphold honesty, integrity, professionalism and a high level of business ethics. We are prudent and fair in dealings with our stakeholders.

Customers and Excellence

We are diligent in understanding and fulfilling our customers' needs. We strive to please our customers by ensuring excellence in quality and service. We listen to our customers and "go the extra mile" to satisfy them.

Innovation and Change

We are passionate about meaningful innovation. We are a learning organization. We learn from our experiences and global best practices, and we innovate to create leading local solutions leveraging world class knowledge. We embrace positive change arising from innovation and our aspirations to grow our business.

Mohammed A. Al Ghaith

Mohammad S. Al Harbi

Khalid M. Al Fuhaid

Abdulla Mohammed Al Zamil
Chief Executive Officer

Mission

To Win Markets' and Stakeholders' Trust Through Industrial Competence and Mutual Prosperity

Leadership and Prudence

We cultivate talent and leadership to create sound business solutions, to best meet our customer needs, and to develop markets, people and shareholder value. We do so by optimizing the use of funds, resources, materials and technologies. We build prudence and cost-effectiveness into our leadership culture and pass on the benefits to our customers.

Community and Prosperity

We believe in mutual prosperity. We aspire to thrive in business while bringing progress and prosperity to our own people and the communities where we operate. Our culture, our ideas, our practices, our environmental concern and our teamwork inspire us to create superior values for people and communities around us.

Business **Profile**

1998
Dammam

11,000+
people

99
countries

Founded in 1998 and headquartered in Dammam, Saudi Arabia, Zamil Industrial Investment Company **(Zamil Industrial)** is a publicly listed company and a leading manufacturing and fabrication group that provides engineered products, systems and support services for the construction industry.

STEEL **HVAC** **INSULATION** **CONCRETE**

Today, we serve clients in more than 90 countries worldwide and operate businesses in four major industrial sectors – Steel, HVAC, Insulation Materials and Concrete. We are majority shareholders in joint venture companies and own several subsidiaries. Our companies employ more than 11,000 people in 55 countries and obtain around 30% of our revenue from countries other than Saudi Arabia.

In keeping pace with the industrialization initiative of Saudi Arabia, Zamil Industrial has chosen to concentrate operations in the building, construction, and industrial structures and equipment industries. All operations are ISO 9001 certified, and Zamil Industrial businesses are the regular recipients of prestigious industry rewards in recognition of attention to quality, customer service and leadership in the research and development of new technologies and industrial processes.

The Zamil Industrial

Product Portfolio

Manufacturing facilities operated by Zamil Industrial businesses are currently located in Saudi Arabia, the United Arab Emirates (UAE), Egypt, India, Vietnam and Italy. Our companies manufacture and fabricate materials and provide innovative engineering systems, customized solutions and services to clients for use in construction and industrial operations.

Products and services include:

- Pre-engineered steel buildings and structural steel products
- Air-conditioning systems, including maintenance and installation services
- Process equipment
- Transmission and telecom towers, open-web joists and steel decks
- Precast concrete products
- Fiberglass and Rock wool insulation
- Pre-insulated pipes
- Mineral, rock wool and sprayed polyurethane foam sandwich panels
- Building automation, security and protection systems
- Maintenance and inspection of industrial projects
- Turnkey project solutions
- Passive telecom infrastructure

At Zamil Industrial, we provide customers with Total Building Solutions. Through our strength and diversity, we have built the capacity to operate as a single-source provider, capable of meeting complete project needs from engineering and materials to climate control.

Shared vision, mission and values unite our diverse business interests

Although the businesses of Zamil Industrial perform diverse functions, they are united by the company's shared vision, mission and time-honored core values. The company has grown and prospered based on the founders' vision of leadership through creation of value. Their mission of winning the trust of the markets and stakeholders through solid competence and concern for the beneficiaries of Zamil Industrial companies has proven successful. The company has become a global leader in the pursuit of knowledge, innovation, professionalism and excellence in business.

At Zamil Industrial, we will continue to follow our vision of business and community leadership, a mission of success gained through trust and competence, and an integration of our core values in pursuit of innovative corporate strategies. We will seek, support and nurture new business and reward our shareholders, employees and communities with the benefits of our success.

Share Trading

Zamil Industrial shares are available for trading to all Saudis, GCC nationals, and foreign investors. They are actively traded on the Saudi Stock Exchange (Tadawul) under the name "Zamil Industrial" (Saudi Stock Exchange: 2240, Bloomberg: ZIIC:AB). More information can be found at www.tadawul.com.sa.

Chairman's Letter

Dear Shareholder,

On behalf of the Board of Directors, I am very pleased to present to you the Annual Report of Zamil Industrial Investment Company (Zamil Industrial) for the financial year ended 31st December 2016.

It is most gratifying for me to be able to report another profitable year for your company. To have achieved this result is especially pleasing, as it clearly proves that our approach to business and the markets in which we operate are sound. It also indicates that the ever-expanding portfolio of products and services that we offer has been well received by our customers in Saudi Arabia and across the globe.

The year under review has been far from easy following the marked decline in the oil price in 2015 that continued to adversely impact business confidence through 2016, not only in our home market but also in our prime export markets. The Saudi government has sought to minimize the effect of the lower level of oil revenue by initiating major fiscal reforms and focus on growth in the non-oil sectors for expanding the economy.

The economic situation is similar in many of our export markets, especially those within the Gulf Cooperation Council (GCC), but also in locations where we maintain manufacturing operations. In Egypt, the effects of the liberalization of the Egyptian pound and the scrapping of fuel subsidies late in 2016 have resulted in the local currency losing more than half its value, adversely impacting the costs of production. Nevertheless, our company there sustained its domestic business while continuing to grow its exports to destinations across Africa.

After a period of rapid growth in India's economy, there were signs in 2016 that all was not well. However, the United Nations predicts the economy is likely to grow by more than 7% in each of the forthcoming two years, which bodes well for our operations there. Despite the prevailing depressed economic environment in Southeast Asia, our Vietnam operations have continued to develop new business across the region. Although our businesses continue to enjoy success, there is strong competition and margins are thinner than in earlier years, and these two factors have inevitably impacted this year's bottom line.

Given the difficult prevailing environment during 2016, it is very pleasing to be able to report that your company generated gross revenues of SAR 4,950.6 million (USD 1,320.2

Another profitable year for the company

Chairman's Letter (continued)

A prime reason for our ability to continue to generate new business and to develop new products and services is the quality and skills of our management and staff

million) over the year, a decrease of 9.8% from the figure of SAR 5,488.6 million (USD 1,463.6 million) a year earlier.

Net income for the year, after payment of zakat, was SAR 201 million (USD 53.6 million) compared with SAR 263 million (USD 70.1 million) in 2015. The decrease in net income can be attributed to the highly competitive environment and related reduction in margins but also to an increase in financial charges of approximately SAR 30 millions, as well as other items including taxes and losses from associated investments

Earnings per share stood at SAR 3.35 (USD 0.9), compared to SAR 4.38 (USD 1.2) in 2015. Meanwhile, shareholders' equity on 31st December 2016 amounted to SAR 2,189 million (USD 583.7 million), an increase of 1.8% over the figure of SAR 2,151 million (USD 573.6 million) at the end of 2015.

The Board of Directors is recommending the distribution of a final cash dividend of SAR 1.00 a share for the year. This,

together with the interim dividend of SAR 1.00 paid in August 2016, makes a total for the year of SAR 2.00 per share or SAR 120 million, which amounts to 20% of the company's paid-up capital. Shareholders' approval of the final dividend will be sought at the Annual General Meeting in 2017.

While the results do indicate the challenging environment in which the company has operated, they also indicate the strong status of your company in Saudi Arabia; in Egypt, India and Vietnam where we have manufacturing facilities; and in all those export markets we serve across the Middle East, and in Africa and Southeast Asia, where the high quality of our products is widely respected. In every area of our business, whether steel buildings, telecommunications and transmission towers, process equipment, HVAC products and services, insulation materials and precast concrete buildings and elements, your company's reputation is second to none in terms of quality and reliability.

Your company has been successful over many years due to our concentration on the needs of our customers and our constant desire to introduce new and original products and services to our portfolio. In this regard, 2016 has been no exception as several initiatives have been taken to provide innovative equipment and services of ultimate benefit to our customers. It is fully intended that this approach will prevail well into the future.

A prime reason for our ability to continue to generate new business and to develop new products and services is the quality and skills of our management and staff, be it at home or in our overseas businesses. We are proud of our professional, well-trained and skilled workforce and of the commitment they demonstrate throughout every aspect of their activity. For our part, we seek always to care for our employees and their families by ensuring their good health and their safety, whether at work or in their domestic environments.

As in previous years, we have continued to seek to employ nationals of the countries in which we work, providing them with the ability to enhance their personal capabilities, often through comprehensive training to develop their expertise while defining their career paths, so making them useful members of our teams and of their communities. Our efforts in the Kingdom to employ Saudi nationals have again borne fruit as their number continued to grow, but we are especially proud of our role as a caring company that employs people with disabilities to fulfill a meaningful role in our businesses. In addition, we continue to seek women to join our workforce, in which we have also been successful.

Your company always seeks to be socially responsible, supporting the communities in which we work, caring for the environment, enhancing our energy efficiency, ensuring water conservation, minimizing waste and recycling materials wherever possible. As important is our attention to those societies in which we operate, where we seek to participate in charitable activities in partial fulfillment of our core values.

Corporate governance is also a strong feature of our core values, as it leads us to ensure that we operate according to ethical and professional standards across all our businesses. We constantly seek to work transparently and to adhere to the highest possible codes of conduct. Integral to this, our status as a national company listed on the Saudi Stock Exchange (Tadawul), demands our detailed attention to the rules and regulations laid down by the Capital Market Authority, ensuring a sound investment environment for all our shareholders.

The Board acknowledges the many years of dedicated service of our colleague H.E. Dr. Soliman A Al Solaim, who sadly passed away mid last year, and shares profound grief over his demise. The Board consequently welcomed Mr. Khalid Mohammed Al Fuhaid as an independent director. He brings a wealth of knowledge, experience, and expertise to our company in the fields in which we operate.

Khalid Abdullah Al Zamil
Chairman of the Board

Chief Executive Officer's Letter

Dear Shareholders and Colleagues,

Zamil Industrial has completed another successful year, during which we have exerted considerable effort to ensure the continued growth and prosperity of our company.

In what has been a far from easy commercial environment, we have strived to generate new business, develop new products and provide high quality services to our customers.

Meeting these ends necessitates close attention to our core values and prudent management. To ensure business growth across all sectors, we have contained costs and enhanced our productivity.

The economic and business environments worldwide have been far from conducive to business growth. The price of oil on the world market stayed stubbornly low throughout most of the year, with commodities also being hit as economic development slowed in countries such as China. This situation had a seriously detrimental impact on many economies across the globe, where many of our customers are located. There were signs, however, of commodity prices rising late in the year alongside the oil price and by the year's end the United States and the European Union economies began to see growth, albeit of less than 2%. Countries in the Middle East and Southeast Asia suffered sluggish growth, if any at all.

In the Middle East, where oil is the driver of several economies, governments struggled to fulfill their budgeted programs. This was especially the case in our home market of Saudi Arabia. Early in 2016, the government announced an ambitious, yet undoubtedly challenging, set of reforms under the umbrella of “Vision 2030” and the “National Transformation Plan”, integral to which is a desire to move away from dependence on hydrocarbons and encourage greater private sector

We have strived to generate new business, develop new products and provide high quality services to our customers

Chief Executive Officer's Letter
(continued)

involvement in the national economy while seeking to inspire economic growth. To implement these reforms, the government had to resort to heavy borrowing.

In December, a bold national budget was announced for the coming year that seeks to increase its own spending while at the same time reducing the deficit. Integral to the budget is the intention to increase state spending on infrastructure, which had been severely curtailed in 2016.

As a leading private sector company with Saudi Arabia as our stronghold and prime market, we watch the national budget closely as it gives some guidance to what potential opportunities might arise. For 2017, overall expenditure amounts to SAR 890 billion (USD 237.3 billion), a figure that is higher than for the previous year. Of the total, SAR 42 billion (USD 11.2 billion) will be spent on the National Transformation Plan; SAR 200.3 billion (USD 53.4 billion) on Education, including more than 1,300 new schools; SAR 52.2 billion (USD 13.9 billion) on Infrastructure and Transportation, with 116 new initiatives including new industrial cities; and SAR 120.4 billion (USD 32.1 billion) on Health and Social Development, a figure that includes 23 new hospitals.

Financing of the budget will be accomplished through local and international borrowing. In the awarding of contracts, preference will be given to domestic, private sector companies, especially for construction and the supply of materials. It is perceived that the budget provides many opportunities for our company, which will be pursued assiduously.

As a company, we strive to keep a watchful eye on all economic, technological and social changes not only in Saudi Arabia but also in countries where we seek to generate business and support our customers. Early in the year, we spent considerable time in developmental planning, considering these changes with the basic aim of ascertaining where new opportunities might lie for our companies. We have also updated our business plans and strategies to take into account changes to the economic, legislative and geopolitical environment.

Our ongoing success is, however, very much in the hands of our experienced teams of executives, managers, and employees who have full responsibility not only for generating further business but also for locating new opportunities that lead on to the vertical and lateral expansion of our business. To ensure that all our colleagues maintain the high standards to which we and they aspire, training and educational opportunities are provided on an ongoing basis either in-house or through our training institute.

To enhance the exposure of our businesses and of our products and

As a company, we strive to keep a watchful eye on all economic, technological and social changes

services we participate in selected exhibitions and conferences, mainly within the GCC, but also in Southeast Asia.

Zamil Industrial is a socially aware business that seeks ways to minimize its environmental impact while taking heed of the needs of those less fortunate in the societies where we operate. Thus, we support entities such as Eta'am, which feeds needy families, and the Qaderoon Business Disability Network, that seeks to introduce the less-able to the operational workforce.

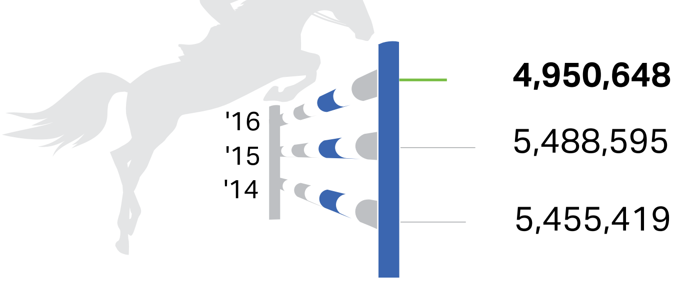
Despite difficult circumstances, we have achieved much in 2016. Our business has seen continued growth, albeit at a slower pace than would have been preferred, and the demand for our products and services has been sustained, albeit at a lower level due to client budgetary constraints. As we look ahead, we foresee a brighter 2017 where the government actively pursues its National Transformation Plan and increased opportunities become available.

Our success last year, as in earlier years, would not have been possible without the commitment of all our stakeholders – be they shareholders, customers, suppliers or members of our team. To all of you I express my grateful thanks.

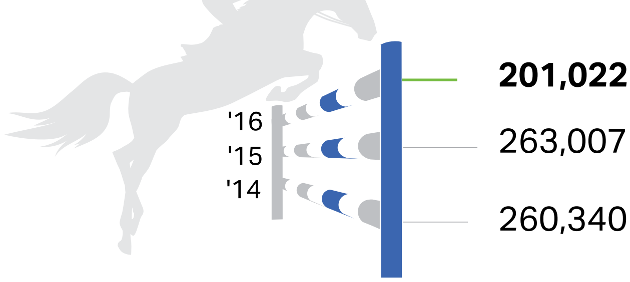
Abdulla Mohammed Al Zamil
Chief Executive Officer

Financial Highlights

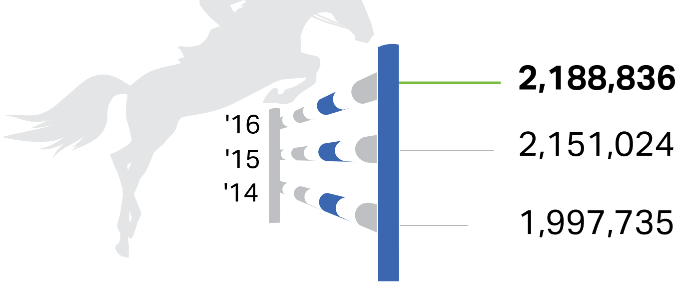
REVENUES
SAR 000s



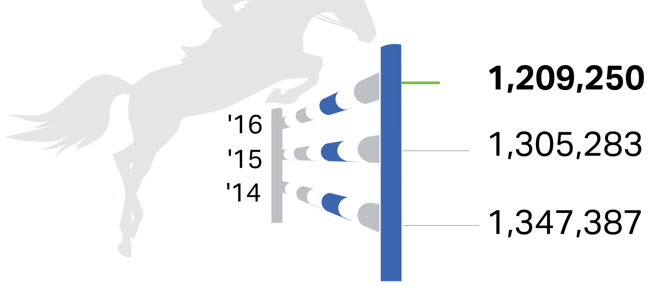
NET INCOME
SAR 000s



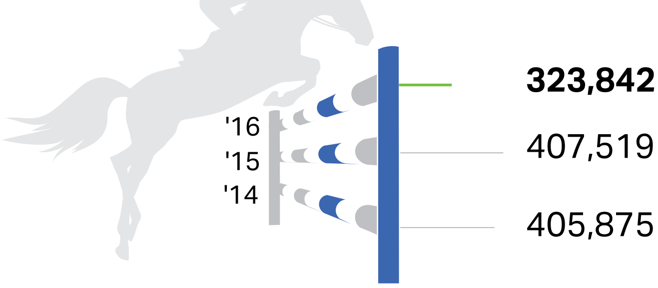
STOCKHOLDERS' EQUITY
SAR 000s



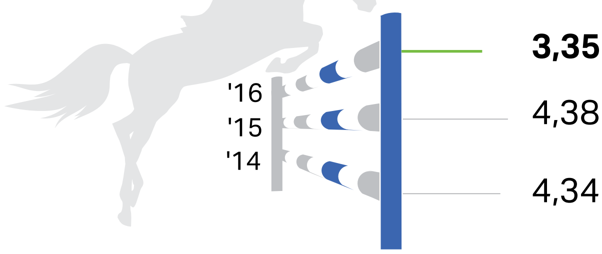
GROSS PROFIT
SAR 000s



OPERATING INCOME
SAR 000s



EARNINGS PER SHARE
SAR



Business Operations Review

Business Operations Review (continued)

Steel Sector

The business units within the steel sector are wholly owned by **Zamil Steel Holding Co. Ltd.,** a Saudi-registered company. The company is divided into two business groups: Building Products Group **(BPG)** and Industrial Steel Products Group **(ISPG)**.

Together, they provide an array of products and services to clients in Saudi Arabia, the wider Middle East and in Africa, the Indian subcontinent and Southeast Asia.

To promote all business units within the company, Zamil Steel participated in a number of local and regional exhibitions and conferences and Zamil Industrial took part in the exhibitions of the Saudi Exports Development Authority in Cairo and Istanbul.

Steel Sector
(continued)

Zamil Steel welcomed delegations from the **King Salman Airbase** and a visiting delegation from **Eiffage Metal**, an industrial design and comprehensive supply leader in turnkey metal construction markets globally, which culminated in the signing of a Memorandum of Understanding to cooperate on infrastructure and steelworks projects.

Building Products Group (BPG)

The prevailing economic environment in Saudi Arabia has had an adverse impact on the construction sector and particularly on the implementation of government-related projects. BPG has therefore been largely dependent on the private sector, where it has proven successful, but strong competition and tight margins have resulted in declining revenues.

Zamil Steel Pre-engineered Buildings Company (PEB-GCC)

PEB-GCC has had considerable success in generating new orders both in the domestic market and overseas, mainly in the GCC region. The number of orders won well exceeded one hundred, of which the largest were: Plant 4 for United Carton Industries in Al-Kharj; a workshop building for Schlumberger in Dammam; a Water Bottling Factory and Warehouse in Riyadh; and a Factory for Al-Qahtani in Dammam.

In export markets, PEB-GCC continued to be successful, primarily in the GCC, but also in Pakistan. The largest projects included an Effluent Water Treatment and Injection Plant in Kuwait, a mixed-use building in Sharjah (UAE), and a spinning unit in Pakistan.

During the year, PEB-GCC produced more than 69,490 metric tons (MT) of pre-engineered buildings and joists and shipped over 85,560 MT.

Building Component Solutions Company Ltd. (BCOMS)

BCOMS is a manufacturer of sandwich panels. In 2016, the company remained successful despite the prevailing difficult market conditions in Saudi Arabia. The largest orders comprised factories and warehouses from customers including Metal Industries, Saudi Ceramics, Al-Manee Factory and Al-Najris in Riyadh, and Mabani and Binzagr in Dammam.

Early in the year, BCOMS earned the FM Approvals Class 4480 and 4881 Certificates of Compliance for the company's metal-faced, combustible core, interior wall/ceiling and exterior wall assembly building panels, as well as the FM Approvals Class 4471 certification for BCOMS insulated roof panels. These certifications ensure that BCOMS' products conform to international standards.

During the twelve months, a total of 1.55 million linear meters of sandwich panels were produced and 1.59 million linear meters were shipped.

Zamil Steel Construction Company (ZSCC)

ZSCC has had another active year generating major contracts, including those from United Carton Industries Company (UCIC) for its Plant 4 in Al-Kharj; Saudi Aramco for Ras Tanura Refinery; SEPCO111/Saudi Electricity Company for the Power Plant 14 (PP 14) project in Riyadh; and Saudi Calcined Petroleum Coke Company for the company's new GPC warehouse in Jubail.

Steel Sector
(continued)

In addition to new projects, ZSCC completed or made substantial progress on a series of turnkey projects won in previous years, including the Al-Faisaliyah Mall in Dammam, a warehouse for Tamimi/SESCO, the UCIC Factory in Al-Kharj, a cement grinding plant for Prainsa, and offsite facilities of a process building for Intecsa.

Zamil Steel Egypt
Zamil Steel Egypt continued to be successful both in its home market and across the African continent, producing more than 53,500 MT and shipping over 55,000 MT during the year. Most orders won were either for warehouses or factories.

The largest orders in the domestic market included the Hassan Allam Construction and Consolidated Contractors Company joint venture, and for the Engineering Auto Factory in Beni Sweif.

More than fifty orders were received from across the African continent. The largest of these were for a factory in Ethiopia; Alvic Builders in Tanzania; Sameer Agriculture in Kenya; and the Africa Plastic TE/Warehouse in Togo.

Zamil Steel India
Zamil Steel India has pursued business across the vast Indian subcontinent with the net result of obtaining more than seventy new orders from domestic companies, the majority of which were for factories or warehouses but also included an indoor stadium, an office building, a power transmission building, a service box, a weaving mill and a substation.

Late in the year, Zamil Steel India proved successful in generating export orders from Sri Lanka and Nepal.

During the year, production reached more than 28,590 MT and goods shipped exceeded 30,470 MT.

Zamil Steel Vietnam

Production at Zamil Steel Vietnam's facilities in Vietnam amounted to more than 45,900 MT, while products shipped totaled more than 45,270 MT.

In its domestic market, Zamil Steel Vietnam won many orders for the construction of factories, the two largest being for the expansion of Binh Minh in Long An province and Ngai for Nha May Sua Dau Nanh Vinasoy in Binh Duong.

Overseas, Zamil Steel Vietnam sustained its success by winning major orders, several of which were substantially larger than those attained in Vietnam. The largest of these was for the Tecnicas Reunidas Project in Malaysia, expansion of a Meat Processing Facility for San Miguel Philippines, and storage Sheds for a Denim Factory in Hobigonj for Pioneer Denims Limited. Other projects were won in the Philippines, Thailand, Singapore, Bangladesh, Laos, Cambodia, and Indonesia.

Projects completed in 2016 included those for Pioneer Knit Fashion Ltd. and Badsha Textiles in Bangladesh and for MCBI and Holcim in the Philippines.

Integral to Zamil Steel Vietnam's marketing activities, the company participated in the "Thailand Warehouse Exhibition 2016" and "Architect 2016" in Bangkok; Phil Construct Manila 2016; the 12th Annual Indonesian Palm Oil Conference (IPOC 2016) in Bali; and the "Zamil Goes to Campus" program, which provides students in Indonesia with an understanding of the pre-engineered building system and its benefits to the modern construction industry.

During the year, the Singapore Structural Steel Society audited Zamil Steel Vietnam and continued its top accreditation of S1 for the factories in both Hanoi and Dong Nai, which serve the Singapore market. Additionally, the American Institute of Steel Construction (AISC) certified Zamil Steel Vietnam's Dong Nai factory for meeting the standards for steel building structures with a sophisticated paint endorsement. The company became the first steel structure supplier to receive AISC certification in Vietnam.

Zamil Steel Vietnam became the first steel structure supplier in Vietnam to attain AISC certification

Industrial Steel Products Group (ISPG)

In 2016, ISPG saw its revenues decline, although profitability improved as productivity increased and production costs were contained.

Zamil Structural Steel Co. (ZSSC)

ZSSC produces and supplies structural steel, pipe racks, platforms and pipe supports for the oil, gas, petrochemical and mineral industries. In 2016, the company saw production rise to more than 57,000 MT with shipment also seeing growth to over 65,590 MT.

The major projects won during the year were both for Kuwait National Petroleum Company's (KNPC) Al-Zour Refinery; one for delivery to Tecnicas Reunidas and the other for the Fluor Corporation, Daewoo E&C and Hyundai Heavy Industries (FDH) joint venture for the EPC 2 and 3 projects.

Projects completed during the year in Saudi Arabia included those for Sadara Chemical Company's LSPB1 project; the Rabigh Phase II Project at Petro Rabigh's Refining and Petrochemical Complex; and Saudi Electricity Company's Riyadh PP12 project – Air Cooled Condenser System, all of which brought ZSSC high commendations from the contractors. Overseas, ZSSC successfully completed the supply, fabrication and delivery of a large tonnage of steel products for KNPC's Clean Fuels project MAB2 in Kuwait.

ZSSC participated with Zamil Process Equipment Co. in the Abu Dhabi International Petroleum Conference and Exhibition 2016 (ADIPEC 2016).

Steel Sector
(continued)

Zamil Towers and Galvanizing Company (ZS T&G)

ZS T&G produces and supplies lattice steel structures.

The company has had another successful year, although production and shipments declined over the previous year. Both transmission and telecommunications towers have continued to be in demand from clients across Saudi Arabia, and export orders have also been received for transmission towers from clients in Oman and Kuwait.

Projects completed in Saudi Arabia in 2016 included the fabrication and supply of transmission line towers for power supply replacement by Saudi Aramco; the design, fabrication, erection, and testing of a new family of 500/600KV towers for HVDC projects for Saudi Electricity Company; the fabrication and supply of 26,546.35MT transmission towers for Saudi Electricity Company's Tabuk BSP to Tabarjal BSP Project – this latter assignment being the largest project ever executed by ZS T&G.

Overseas, Zamil T&G successfully completed a prestigious tower supply project for PT-PLN for the North-West Sumatra Interconnector Project in Indonesia, which called for 14,900 MT of 275KV transmission towers. In the GCC, two projects were completed in Oman, one in Dubai, and one in Abu Dhabi.

Zamil Process Equipment Company (ZPEC)

ZPEC manufactures equipment for end users in the oil, gas and petrochemical industries.

During 2016, ZPEC's production saw a slight decline over a year earlier, but actual shipments grew to over 9,000 MT.

ZPEC received many contracts from Saudi Aramco and its contractors, as well as from Sadara Chemical Company and Safco/SABIC. The largest of these was for the Fadili/Aramco project, while a further substantial contract was won from Larsen & Toubro for the Hasbah II/Aramco project.

ZPEC also plans to export equipment to the Dangote Refinery in Nigeria, one of the world's largest oil refineries.

Projects completed during the year comprised the delivery to site of the first set of high pressure steam drums manufactured from high tensile carbon manganese steel for the Saudi Electricity Company PP13/14 combined cycle plant; manufacture and delivery of the first unit of a tall gas scrubber for the Ma'aden DAP/NAK project, which is manufactured from super austenitic stainless steel 904 L grade in accordance with ASME SEC VIII and API 650 codes; fabrication and delivery of six waste heat boiler units to Saudi Aramco's Jazan IGCC Project, a first waste heat recovery project for ZPEC; and delivery of 14 scraper/launcher receivers well ahead of schedule for Saudi Aramco's crucial Shaybah project expansion.

ZPEC participated together with Zamil Structural Steel Co. in the Project Qatar Exhibition and Conference in Doha and Oman's Oil & Gas Exhibition and Conference 2016.

Zamil Inspection and Maintenance of Industrial Projects Company (ZIMIPCO)

ZIMIPCO fulfills a vital role in undertaking highly technical assignments for customers in the oil, gas and petrochemical sectors that necessitate a breadth of expertise and the ability to work according to tight schedules in order to minimize facility downtime.

Most of ZIMIPCO's assignments were carried out for Saudi Aramco but projects were also undertaken for SABIC, Sadara Chemical Company, SADAF, Ibn Rushd, Petrokemya, and Sahara Petrochemicals.

Business Operations Review (continued)

HVAC Sector

Zamil Industrial's HVAC Sector is represented by **Zamil Air Conditioners Holding Co. Ltd.,** and comprises three business units in Saudi Arabia: **Unitary and Applied**, **Consumer and CoolCare.**

Together they are the largest suppliers of an extensive range of air conditioners in the Middle East.

The year 2016 has been another very active period for the sector, although both revenues and profitability experienced a decline over those reported a year earlier.

HVAC Sector
(continued)

During 2016, Zamil Air Conditioners welcomed an executive business delegation from Haier Company; a high-ranking trade and commercial delegation from the Embassy of Sweden; teams from Saudi Electricity Company in the central and eastern regions; and students from the ASME Chapter of Prince Mohammad bin Fahd University.

Unitary and Applied Business Unit

The Unitary and Applied Business Unit continued to generate a considerable number of orders from clients and their contractors across Saudi Arabia, as well as export orders from Dubai, Bahrain, Oman, Qatar and elsewhere in the Middle East region.

Landmark orders included those from Beijing Emirates International Construction for the KAP-2, Makkah and Madinah project; DSG for Schools in Riyadh; Hitachi Ltd. Infrastructure System Co. for Jazan Refinery; China Railway Construction Corporation Limited for a Residential Community in Dhahran Camp; and GAMA Power for a Power Plant in Quraya.

Consumer Business Unit

The Consumer Business Unit has generated a high level of new orders, especially in the three main regions of the Kingdom, and from elsewhere in the GCC in addition to Ghana.

The largest order received was from Bahwan Electronics LLC / Khimji Ramdas in Oman, designated for retail sale there. In the Kingdom, major orders were received from the Ministry of Education/Saudi Aramco in Jubail; the Ministry of Interior for Al Jouf University; and the Saline Water Conversion Corporation/Saudi Aramco in Dammam.

CoolCare - Maintenance, Repair and Overhaul (MRO)

CoolCare MRO sustained its revenue growth during 2016 by fulfilling service obligations to clients. The larger contracts awarded comprised a retrofit assignment for Saudi Aramco; a PM contract for National Water Company; the supply, installation, repair, replacement, service, gas charging and inspection for Tasnee and Petrokemya; maintenance for Saudi Electricity Company; and retrofits for clients in Riyadh and Jeddah.

ZAC's APU has designed and tested the first ever solar-powered chilled water fan coil unit

HVAC Sector
(continued)

CoolCare – Zamil Projects Division

Many projects were generated during 2016, including those for Siemens in Jeddah; for SEPCO 2/HQC in Jazan, Turaif and Dammam; for the IGCC Jazan, Umm Waal Phosphate and Master Gas 2 projects; for Tecnicas Reunidas in Jazan; and for Saudi Aramco for Jazan Package 13/Safaniyah On-shore.

The receipt of several large orders ensured CoolCare Zamil Projects Division could grow its revenues again this year over those attained in 2015.

CoolCare Parts

CoolCare Parts received many orders during the year, including those from Saudi Electricity Company in the eastern and central regions; Saudi Aramco and Al Jazeera Trading in the eastern region, Trading House Establishment in the central region, and customers including the Saudi Royal Navy, the Saline Water Conversion Corporation and Zamil Air Conditioners Applied in the western region.

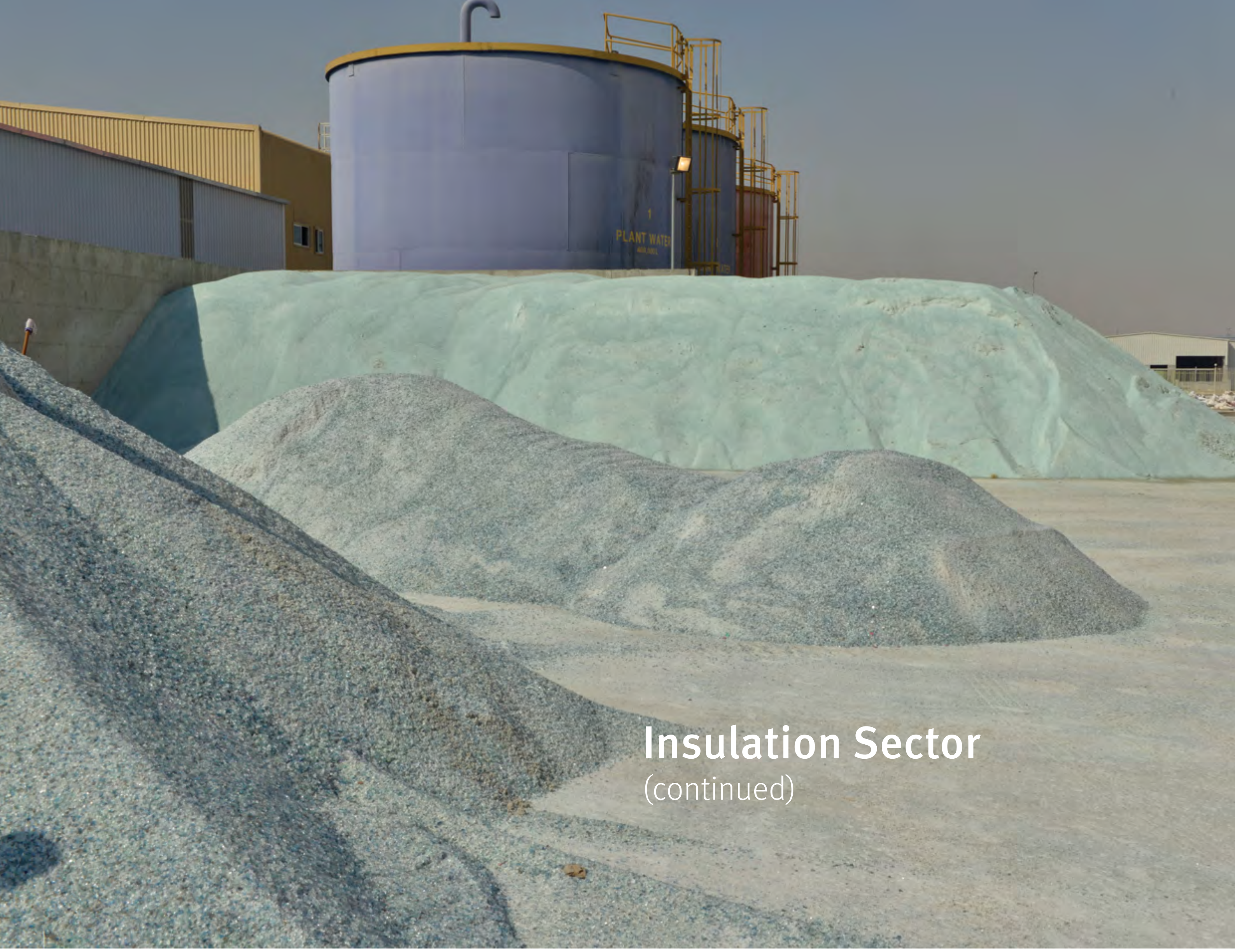
CoolCare Parts, together with the UNEP-ROWA and UNIDO in cooperation with the Saudi National Ozone Unit, under the Presidency of Metrology and Environment, and Dammam College of Technology, conducted an International Qualification training program on Good Practices in HVAC/R Servicing for 50 engineers, supervisors, team leaders and technicians of Zamil Air Conditioners.

CoolCare MRO and Zamil Projects Division both saw revenue growth during the year

Business
Operations
Review (continued)

Insulation Sector

Zamil Industrial's presence in the insulation sector is through Gulf Insulation Group **(GIG)**, of which Zamil Industrial is managing partner and major shareholder with 51% of the equity. GIG comprises three companies: Arabian Fiberglass Insulation Co. Ltd. **(AFICO)**, Saudi Rock Wool Factory Company **(SRWF)** and Saudi Pre-Insulated Pipes Industries **(SPPI)**.



Insulation Sector
(continued)

These companies enjoy excellent reputations for the high quality of their environmentally efficient insulation products and solutions, all of which conform to the highest international standards.

In 2016, the insulation sector succeeded in generating an overall increase in revenues over those achieved a year earlier.

Arabian Fiberglass Insulation Company (AFICO)

AFICO has continued to be successful across Saudi Arabia, the GCC and the wider Middle East, while increasing production by 9% to support new projects for the export market.

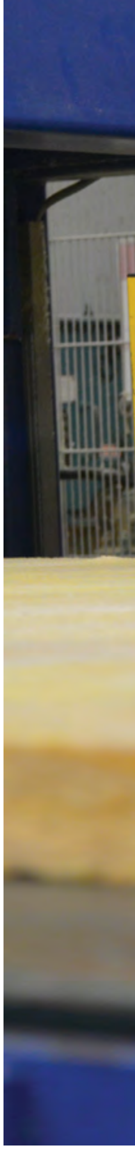
Major projects won in Saudi Arabia included those for King Abdulaziz Center for World Culture and the Hilton Tower in Dammam; KAP-28 and KAP-4, Tadawul Tower and the Al-Rajhi Headquarters Building in Riyadh; and the Kingdom Tower and Airport projects in Jeddah. Overseas prime orders were received from Bahrain Airport and from Dubai Creek Residence, Warner Theme Park, and Dubai Mall Fashion Avenue in the UAE.

To further business in coming years, manufacturing plants are being merged to ensure better utilization of utilities, memorandums of understanding were signed with major contractors, a new automatic pipe manufacturing section was set up

AFICO is seeking to improve energy efficiency

as was a special resin manufacturing plant, and warehouse capacity was expanded. AFICO is also pursuing a new ISO standard while remaining DCL and UL qualified.

Insulation Sector
(continued)



Saudi Rock Wool Factory Company (SRWF)

SRWF was successful again in 2016, generating increased revenues year-on-year.

Major orders were won in Saudi Arabia from Kaefer-Raco Engineering for Yanbu Power Plant, from both Absar and ATCO for expansion projects for Saudi Aramco in Dhahran, and from Salini Impregilo for the Riyadh Metro. Numerous further orders were obtained from clients across the Kingdom.

Export orders were also won, including those for the Sohar Refinery Improvement Project in Oman and the Midfield Terminal Building at the Abu Dhabi International Airport and Al Ain Hospital in the UAE.

Further activities entailed the conversion of materials such as XPS, PIR and Calcium Silicate to Rockwool, the obtaining of certifications from the Civil Defense Authorities in Dubai, Bahrain and Qatar, attaining registration with PDO and ORPIC/JSRC (Oman Petroleum), and receiving approval from the Saudi Ministry of Housing. Additionally, the Rockwool Specification has been included in the standards of the Royal Commission in Yanbu and KEO International Consultants.

SRWF also reached agreement with 3M to distribute insulation installation adhesives and participated in the Big 5 Exhibitions in Dubai and Jeddah, Saudi Build in Riyadh and in Project Qatar.

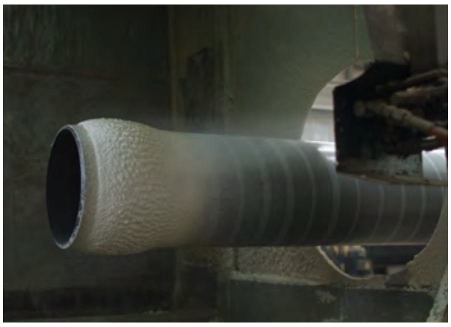
SPPI was awarded a landmark project for special piping for a Sulphur loading facility

Saudi Pre-insulated Pipes Industries Co. (SPPI)

SPPI had another busy year generating business, mainly from across Saudi Arabia. The company has seen marked growth in sales revenues over those of 2015.

Among the major contracts awarded was one from BARTEC Private Ltd. for Saudi Aramco's Sulfur Railcar Loading Facility Project in Jubail – a landmark project as it is the first time a local manufacturer has produced this type of piping insulation system in Kingdom.

A new product line, the pre-insulated heat tracing system, was introduced while all the company's certifications were updated.



Business Operations Review (continued)

Concrete Sector

This sector is represented by Rabiah & Nassar and Zamil Concrete Industries Co. Ltd. (Ranco Zamil), in which Zamil Industrial has a 50% equity interest.

Concrete
SECTOR

Ranco Zamil is a leader in the Saudi precast concrete industry with a long-established reputation for quality. The company designs, manufactures and erects precast buildings in addition to a complete range of concrete elements.

Major projects won or commissioned during the year included egress shafts and adits for the Riyadh Metro Project, which called for high quality products as the allowable tolerances were extremely strict and tight; prefabricated units for a new Jarir Bookstore, the Fashion Village, and Tatweer Business Park in Riyadh; housing units for Saudi Aramco's employees working in Khurais; and cladding panels for a hospital and utility services buildings at the Ministry of Interior Security Forces Hospital Project in Salboukh.

The company's ISO certification was also renewed during the year.

Corporate and Shared Services

Zamil Industrial's Corporate and Shared Services enhances the benefits of size and ensures improved utilization of resources by leveraging synergies of the corporate organization to every business unit within Zamil Industrial. The experience and expertise within Corporate and Shared Services is employed to promote growth and cooperation throughout the business in accordance with the company's Vision and Mission.

In line with the Capital Market Authority's requirements, Zamil Industrial will be implementing International Financial Reporting Standards (IFRS) beginning 1 January 2017 and will issue the first IFRS-compliant quarterly financial statements at the end of March 2017.

Corporate Governance

Strong corporate governance is key to Zamil Industrial's core values, through which it seeks to ensure the creation of long-term customer value and which it views as the premise for its Code of Business Conduct and Ethics, Corporate Governance Guidelines, the Charters of the Board of Directors' sub-committees, and the company's Disclosure Policies. The aim is to be able to warrant the transparency and veracity of all information circulated.

Zamil Industrial is publicly listed on Tadawul, and seeks to comply fully with Capital Market Authority recommendations that ensure enhancement of the quality, transparency and levels of disclosure within publicly-quoted businesses, thereby providing an environment in which investors can take meaningful decisions.

Zamil Industrial is committed to ensuring the clarity of its actions and the presentation of all material facts, and to achieving conformity with the company's values and policies and ongoing good governance. The ultimate responsibility for compliance lies with the Board of Directors.

Every year, the Board assesses the company's performance; ensures the maintenance of a suitable balance between the company's defined strategy and its operational and financial performance; oversees the management of risk, internal controls and the protection of assets; and maintains all Board and management succession plans.

Internal Audit

A prime role of the Corporate Internal Audit Department (CIAD) is to provide the Board of Directors, the Audit Committee and Executive Management with independent and objective opinions on risk management, the adequacy of control, governance and overall effectiveness in achieving Zamil Industrial's agreed objectives. In fulfilling its function, CIAD examines and evaluates the adequacy of the system of management control and those policies, procedures and plans the company has adopted to guide its activities, while supplying management with information to assist in the control of assets and operations under its authority.

CIAD also acts as an independent and objective consultancy to help line managers improve risk management,

Zamil Industrial's governance, risk management and internal controls are generally effective

Corporate and Shared Services
(continued)

governance, and control. In fulfilling its duties, CIAD has direct access and is accountable to the Chief Executive Officer and the Board of Directors while also providing regular reports to the Audit Committee.

Zamil Industrial's governance, risk management and internal control arrangements are generally adequate and effective.

To fulfill CIAD activities, a risk-based methodology in planning and conducting audit assignments was employed. Among the activities undertaken were several regular financial and operational audit assignments that resulted in a number of recommendations made to management. Aside from the audit function, CIAD supervised inventory teams responsible for the physical counting of specific materials held in warehouses in Saudi Arabia and elsewhere in the GCC.

Further activities included follow-up audits to ensure prompt and accurate implementation of all agreed-upon recommendations; and the provision of compliance auditors to Zamil Steel in India and Vietnam to review all payments before final approval.

In addition to performing audits, CIAD also prepared corporate policy documents and provided advice, consultation and interpretation of policies and procedures, internal controls, contracts and other areas of concern in all Zamil Industrial departments with the aim of strengthening and enhancing internal control within each department.

CIAD's recommendations during the year have had a significant impact on reducing operational costs, strengthening control over inventory management and fixed assets, improving operational efficiency and increasing comprehension of internal controls throughout the business.

Legal Affairs

Legal Affairs provides interactive support on a day-to-day basis, managing legal risk for all company businesses by securing transactions, ensuring compliance and providing rigid reviews of all agreements that include commercial contracts; distributor, consortium, joint venture and non-disclosure agreements; memorandums of understanding; and internal company policy documents.

The team also provides legal advice on corporate re-structuring and dissolution; undertakes due diligence activities; participates in the preparation of such documents as company board resolutions, partners' resolutions, Articles of Association amendments, and powers of attorney; works in association with a globally recognized trademark attorney to register or renew corporate trademarks; and participates actively in debt collection, seeking to recover long-outstanding receivables.

Strong corporate governance is key to Zamil Industrial's core values

Corporate and Shared Services (continued)

Human Capital

Zamil Industrial's Human Resources Department (Human Capital) has been active in pursuing initiatives such as acquiring talent through outside recruitment or identifying talented individuals from within the workforce; addressing development needs through the provision of training courses; designing and launching new programs under the Leadership Development Curriculum; participating in development needs assessments for the Talent and Succession Pool; and taking responsibility for talent reviews.

Saudization within Zamil Industrial continues to grow and has now reached 25%

At the year-end, Zamil Industrial's total headcount was 10,840, a decrease of 4.97% over a year earlier. Saudi nationals increased by 4.34% year-on-year, whereas expatriate employee numbers fell by 7.85% over the same period. During the year, talent acquisition was focused on new Saudi employees, with 606 out of 1,129 new hires, or 54%, being Saudi nationals and at the year-end the Saudization ratio stood at 25%.

To address skill development needs, 69 courses corresponding to 255 days of training were provided this year. Of the opportunities available, which were divided across three programs – leadership development, functional proficiency and personal effectiveness – 47 were made available externally and 22 were delivered in-house. The participation of Saudi nationals in the programs was 37% for in-house courses and 38% for external programs.

Zamil Industrial's Leadership Development Curriculum saw the design and launch of two new flagship programs, both of which have been accredited and recognized by the UK's Institute of Leadership Management. The new programs operate on two levels: Level 1 addresses "The Fundamentals of Leadership" while Level 2 covers "Middle Managers' Development". Forty-two Zamil Industrial managers completed the courses, 36 of whom attained ILM Leadership Certification, and 100% of Level 1 participants attained full certification.

To address "Development needs assessment for the talent and succession pool," assessments and executive coaching were provided for 12 Level 3 managers – General Managers and Directors – all of whom were given individual four-hour feedback and an executive coaching session from a Center for Creative

Leadership coach. Twenty-six Level 2 managers were assessed and provided with one-on-one 90-minute feedback and coaching sessions with the Corporate Human Capital team. Furthermore, 124 supervisors in the succession pool went through psychometric assessments for input to their individual development plans (IDPs), with one-on-one feedback and planning sessions conducted by the Corporate Human Capital team in order to generate the IDPs.

Courses focusing on performance culture building were also provided. Eighty-one managers and supervisors completed a KPI masterclass course that was followed by a series of KPI-setting workshops led by Corporate Human Capital, which 56% of targeted managers and 21% of targeted supervisors attended, while 13 Zamil Industrial Core Values workshops were conducted to raise employee awareness of the company's core values and their application in the workplace. These were attended by 365 employees.

Corporate and Shared Services (continued)

In January, an Employee Engagement Survey was undertaken for Saudi-based employees in which 4,556 employees out of a total of 11,292 took part – for a participation rate of 40%. Debriefs on the survey results have subsequently been undertaken.

An activity vital to the future of Zamil Industrial is the undertaking of Talent Reviews. In 2016, two talent review rounds were conducted, in Q1 and Q3, in which 629 positions across Zamil Industrial were addressed. These reviews were conducted to assess the attrition risks in critical roles, to ascertain the availability and readiness levels of successors, and to identify action areas to mitigate risks of attrition or to pursue development initiatives.

Zamil Industrial has intensified the use of social media and information technology as a recruitment tool and a means by which to raise the visibility of its profile. An HR App called ZamiLeads was also introduced as another recruitment tool, and an SMS notification system was launched as a communications tool for L&D program administration.

In October, Zamil Industrial presented employment opportunities at the Wadaef Job Fair 2016, organized by the Asharqia Chamber of Commerce and Industry with the aim of seeking employable Saudis.

Integral to Zamil Industrial's commitment to diversity in the workplace, the company intensified its pledge to the Qaderoon Business Disability Network advocacy organization to create a sustainable program to employ persons with disabilities. It now employs 49 people across various business units and functional areas, with inter-related awareness sessions conducted in-house. The company also employs women in defined areas within the overall business.

Human Capital again organized a series of social events for Zamil Industrial employees during the past year, including a Ramadan Iftar Celebration and the 2016 Sports Fest.

Training

The Zamil Higher Institute for Industrial Training (ZHIIT) was established to make effective contributions to the training of Saudi nationals in both technical and professional fields. The Institute has been important in Zamil Industrial's success over recent years and the high standards to which it aspires were maintained by providing in-house training as well as for employees of other Saudi companies. The Institute currently services 20 external clients.

During the year, ZHIIT received accreditation from the National Examination Board in Occupational Safety and Health (NEBOSH-UK) to deliver two training courses: International General Certificate in Occupational Health and Safety and International Technical Certificate in Oil and Gas Operational Safety.

Among the major achievements of 2016 has been the provision to 725 full-time trainees of two-year diploma programs in various technological fields for national company clients, in addition to Zamil Industrial entities. Two hundred and six employees of local contracting companies attended the Saudi Aramco Certification Preparation Courses and Tests, primarily provided for instrumentation, electrical, machinist or mechanical and HVAC technicians. Specialized technical short courses have been delivered for several companies in addition to clients of Zamil Air Conditioners and Zamil CoolCare.

A training agreement was signed with Saudi KAD Contracting Company to train 60 of its employees in welding and fabrication technology, and with Sadara Chemical Company for a four-year training contract to provide one-year apprenticeship programs for new Saudi recruits.

Looking to the future, the Institute has been accredited by the Technical and Vocational Training Corporation (TVTC), a Saudi government entity, to deliver a mobile phone services course that is in high demand. Such courses will start in February 2017 and will possibly be offered monthly thereafter.

Finally, a draft training agreement has been submitted to Sparrows-UK for their final review and approval that will lead to the provision of joint delivery of several specialized technical courses that are related to offshore crane operators; rigging, lifting and wire rope inspection; and third party assessment.

Information Technology

Zamil Industrial Information Technology Global (Zamil ITG) is seeing a marked movement in the way that businesses are exploiting technology effectively to transform markets, relationships and processes and that digital transformation is the key to unlocking productivity and gaining the competitive advantage.

Zamil ITG has therefore initiated a pilot project to make Zamil Industrial's HVAC products "Smart" by connecting chillers to the Internet using an "Internet of Things" platform that will enable the prediction of situations from accumulated data and provide automated alarms for service and maintenance that could, over time, facilitate new services. In addition, Smart Mobile App development became part of the Zamil ITG portfolio and new initiatives have been taken for Apps that will facilitate real-time engagement.

Significant progress has also been made in standardizing business processes throughout Zamil Steel's global operations. Many processes within Zamil Industrial's business units were automated and improvements were experienced in sales, engineering, material planning, the mobile supply chain, finance, human capital and logistics, with the aim of improved productivity, a reduction in reworks and better cost management.

Across Zamil Industrial, ITG has been active in upgrading company and business unit capabilities. At Zamil Steel Egypt and Zamil Steel PEB the Oracle Discrete Manufacturing Module has been enabled, which allows for a lean manufacturing approach to improve production efficiency, optimize information and resources, and reduce costs. At BCOMS, the Scrap Monitoring Feature in Oracle ERP has been enabled to allow users to track the

Corporate and Shared Services (continued)

cost associated with scrap materials at a project level as has been the WIP Manufacturing Costing Feature, also in Oracle ERP, that eliminates manual efforts and provides manufacturing costs of goods sold, thereby enhancing productivity and containing costs.

In the HVAC sector, the Order Life Cycle Management Module has been developed and implemented for Zamil Air Conditioners' (ZAC's) Applied Sales and Engineering Departments, to assist in determining the estimated delivery schedule and the tracking of the status of projects. For ZAC Finance, the Letter of Credit Request module for foreign suppliers has been developed in-house, enabling online processing of Letter of Credit requests; the Oracle Purchasing and payable modules have been successfully enabled for EDCC; the Document Management Application "Zamil Cloudspace" has been implemented for CoolCare MRO as a central repository; and a new Performance Test Request form has been developed and released in iSweet for ZAC Quality, enabling users to request quality testing online, reduce paperwork, save turnaround time and enhance the availability of online data for analysis.

In the Insulation Sector, the new "ZISupplier", a cloud-based web application that standardizes and automates the purchase management process, has been rolled out for the Saudi Rock Wool Factory and Saudi Pre-insulated Pipes Industries, enabling streamlining and expedited requests for quotations.

Elsewhere, major IT infrastructure upgrades have been completed for Zamil Steel PEB Ras Al Khaimah and for Ranco Zamil in line with Zamil standards. At Zamil Steel Vietnam, access privilege management and a corporate whitelist of licensed applications have been implemented to enhance computer security, reduce operational cost and increase the company's ability to meet compliance issues.

At the Corporate level, Oracle Global ERP Instance has been upgraded while the Oracle Human Capital Management System (HCM) has gone live within Zamil Industrial and at the ZHIIT. Additionally, the Incident Investigation Report System has been enhanced for Zamil Industrial CLPD to work with the new HCM across all business units.

Given the proliferation and increased sophistication of Cyber threats, ITG has enhanced its monitoring capabilities, incident response times and enforcement of IT policies, including providing user awareness training, thereby protecting company data and intellectual property while also meeting regulatory compliance.

The periodic audit of ITG's ISO 20000:2011 IT Service Management Certification was completed without any non-conformance issues.

Loss Prevention and Safety

The Corporate Loss Prevention Department at Zamil Industrial (CLPD) plays an important role in ensuring that all Zamil Industrial employees, wherever they might be working, are fully aware of the Health, Safety and Environment (HSE) programs within Zamil Industrial and its primary aim of avoiding potential hazards to the company's operations, other employees and the immediate and wider environment.

The effectiveness of CLPD's programs and activities are evident in the major improvements in HSE that have been made. Zamil Industrial HSE Incident Rates improved by 43% in comparison to the three previous years; Lost Time Injury cases fell by 50% over the same period; Frequency and Severity Rates were lower by 90% and 76% respectively year-on-year since CLPD was formed; Zamil Industrial Normal Days or Incident Free Days improved by 15% when compared to each of the three earlier years; and Zamil

Industrial Indirect Costs of Occupational Injuries have fallen by 53% as a result of a significant reduction in Lost Time Injuries or the severity of recorded injuries. Integral to such reduced levels of HSE incidents is the ongoing execution of HSE Training and Awareness programs, Emergency Action Plan Program drills, and Top Management HSE Audits.

To ensure that CLPD maintains competitiveness with the world's majors in occupational safety and health, eleven Zamil Industrial employees were trained and certified by the United Safety Council in Occupational Safety. The participants took part in a five-day Certified Occupational Safety Specialist (COSS) course. Zamil Industrial is the first private company to acquire the COSS program in Saudi Arabia.

To motivate Zamil Industrial's businesses and employees to contribute to the success of safety management and a healthy safety culture, corporate Safety Awards of Excellence are distributed each year by CLPD, and safety posters communicating crucial information to all employees have been distributed.

Corporate Social Responsibility, Environment, Sponsorships and Recognition

Corporate Social Responsibility

In accordance with Zamil Industrial's core values, the company continued to display a strong commitment to the community it serves during the year by encouraging, supporting and implementing socially responsible programs while participating in sustainable community service initiatives.

Over the past two years, Zamil Industrial has worked closely with the Ministry of Labor in supporting the Qaderoon Business Disability Network that seeks to motivate employers to include those with disabilities in their recruitment plans. At the end of 2016, Zamil Industrial employed 49 individuals with disabilities in various business units.

A major commitment was made some time ago to be an active supporter of the Saudi Food Bank (Eta'am), of which Zamil Industrial was a founder. Today there are fully operational branches in Dammam, Jeddah, Jubail and Qatif. Over the past year tremendous growth was seen in the number of preserved meals, the total reaching 2.4 million from across the Kingdom, with the number of families benefiting rising to 2,670.

To fulfill its obligations, Eta'am signed agreements with 28 hotels and restaurants to collect excess food from weddings and other such events, and now operates 25 delivery vehicles, and has 16 drivers and 44 packaging staff. In addition, 350 new male and female individuals joined the program's volunteer team. To ensure its food safety management and product quality, Eta'am renewed its HACCP (Hazard Analysis and Critical Control Points) certification.

To enhance awareness of its endeavors, more than 140 campaigns were held explaining Eta'am's activities and emphasizing the need to preserve excess food in support of the needy. Particularly rewarding was the receipt by Eta'am of the Best Community Development Award from CSR Saudi Arabia.

Further participation by Zamil Industrial in "Endeavor Saudi Arabia" has taken place this year. As part of Endeavor Saudi Arabia's activities, it has launched a series of events called "Majlis" to provide a focus for meetings between local network members and prominent guest speakers. Furthermore, a Memorandum of Understanding was signed with KPMG to develop and implement best practice modules for entrepreneurship development; a new partnership was established with Allure Hub, which will provide co-working spaces to members free of charge; and "Revive" was launched to bring together keynote speakers to analyze various topics from various angles through thought-provoking panel discussions. In the twelve months under review, members received 310 hours of mentoring and 30 introductions to global connections and investors.

Environment, Energy Efficiency and Conservation

Zamil Industrial has always been vigilant in seeking ways to reduce the environmental impact of its factories, shipping methods and production processes.

Corporate Social Responsibility, Environment, Sponsorships and Recognition (continued)

Zamil Air Conditioners' Unitary and Applied Business Unit has enhanced its environmental friendliness through an improvement to a factory process related to the leak testing of coils and units. The new system replaces Freon with Hydrogen, which is more environmentally friendly and cost saving.

The Applied Product Unit designed and tested the first ever solar-powered chilled water fan coil unit. The solar project is off-grid generating 15KWh (an average of 1,000KWh a day) and can operate 50 FCUs (fan coil units) with standard motors. A new hybrid solar DX split unit that can operate either on- or off-grid is under research.

Zamil Air Conditioners participated in the Air-Conditioning, Heating and Refrigeration Institute's events in the USA that primarily focused on "Low-Global Warming Potential Alternative Refrigerants".

In the Insulation Sector, scrap recycling has been stepped up, improved utilization of utilities has been achieved, an ecofriendly product was under development, and at the year-end an energy audit was under way to improve energy efficiency at AFICO.

SRWF's Al-Kharj exhaust pollution control system went into very effective operation, and chemical liquid wastes were being recycled.

Sponsorships

Zamil Industrial and Zamil Group participated as Diamond Sponsors in the Armed Forces Exhibition for Diversification of Local Manufacturing held under the auspices of the Ministry of Defense in Riyadh.

For the fifth consecutive year, Zamil Industrial sponsored a Ramadan Iftar for the Social Nursery Center in Dammam that was attended by all the residents of the nursery and Zamil Air Conditioners held several Ramadan Iftars for distributors and employees

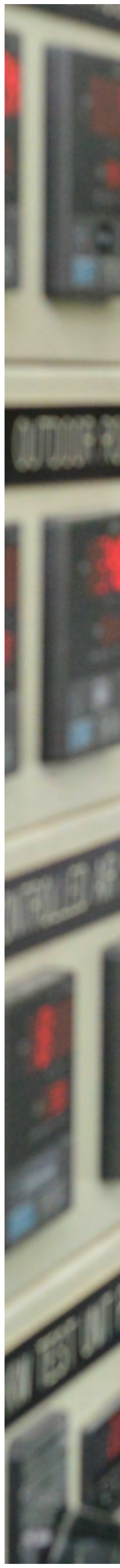
Recognition

Zamil Air Conditioners was honored in October by the Saudi Society for Quality in the Eastern Province in recognition of its successful efforts to support regional activities.

For the thirteenth time, Zamil Steel Vietnam received the Golden Dragon Award, presented for outstanding business ethics and contributions to the National Economy of Vietnam.

In the third quarter, Zamil Industrial received a Digital Excellence Award in the Cloud Applications (Software as a Service) Category at the Oracle Executive Digital Summit.

The safety performance of Zamil Industrial was recognized internationally when it was awarded the 2015 Bronze Award for Corporate Safety from the United Safety Council (USC) in the USA. Additionally, the CLPD Director was personally presented by the USC with the award of an Excellence in Safety Certificate of Recognition.




INDOOR ROOM
PRIMARY INDOOR ROOM
INDOOR ROOM
OUTDOOR ROOM
SECONDARY INDOOR ROOM
OUTDOOR ROOM
OUTDOOR ROOM
FACILITY POWER
CONTROLLED AIR SPACE
INDOOR ROOM
5 KW TEST UNIT POWER
FACILITY POWER
15 KW TEST UNIT POWER
FACILITY POWER

Consolidated Financial Statements and **Auditors' Report**

31 December 2016

Auditors' Report

To the Shareholders of
Zamil Industrial Investment Company
(A Saudi Joint Stock Company) and Its Subsidiaries

Scope of Audit:

We have audited the accompanying consolidated balance sheet of Zamil Industrial Investment Company, A Saudi Joint Stock Company ("the Company") and its subsidiaries (collectively referred to as the "Group") as at 31 December 2016 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended. These consolidated 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 for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these consolidated 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 statements presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the consolidated financial statements.

Unqualified opinion

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

i) present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016 and the consolidated results of its operations and its cash flows for the year then ended in accordance with the 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 consolidated financial statements.

for Ernst & Young

ارنست ويونغ ترخيص مهني رقم ٤٥ PROFESSIONAL LICENCE No. 45 ERNST & YOUNG

Abdulaziz Saud AlShubaibi
Certified Public Accountants
Registration No. 339

13 Jumada' II 1438 H
12 March 2017

Al Khobar

Consolidated Balance Sheet

As at 31 December 2016

	Notes	2016 SR'000	2015 SR'000
ASSETS			
Current Assets			
Cash and cash equivalents	4	**275,614**	355,424
Accounts receivable and prepayments	5	**2,026,818**	1,882,036
Amounts due from related parties	9	**69,516**	38,651
Value of work executed in excess of billings	6	**262,266**	284,009
Current portion of net investment in finance lease	7	**20,765**	19,904
Inventories	8	**1,485,392**	1,764,507
TOTAL CURRENT ASSETS		**4,140,371**	4,344,531
Non-Current Assets			
Property, plant and equipment	10	**1,282,181**	1,390,010
Investments in associates	11	**88,936**	93,340
Available for sale investments	12	**88,346**	89,496
Net investments in finance lease	7	**384,945**	405,710
Amounts due from a related party	9	**33,850**	33,850
Other intangible assets	13	**6,016**	6,397
Goodwill	14	**80,126**	80,126
TOTAL NON-CURRENT ASSETS		**1,964,400**	2,098,929
TOTAL ASSETS		**6,104,771**	6,443,460
CURRENT LIABILITIES			
Accounts payables and accruals	15	**1,058,698**	1,352,771
Billings in excess of value of work executed	16	**58,288**	94,876
Amounts due to related parties	9	**20,059**	21,675
Short term loans	17	**2,059,749**	1,956,147
Current portion of term loans	18	**141,088**	138,350
Provision for zakat and income tax	19	**55,421**	58,721
TOTAL CURRENT LIABILITIES		**3,393,303**	3,622,540
Non-Current Liabilities			
Term loans	18	**195,246**	313,338
Employees' terminal benefits	20	**327,386**	356,558
TOTAL NON-CURRENT LIABILITIES		**522,632**	669,896
TOTAL LIABILITIES		**3,915,935**	4,292,436
SHAREHOLDERS' EQUITY			
Equity Attributable to the Shareholders of the Company			
Share capital	21	**600,000**	600,000
Statutory reserve		**300,000**	280,471
Retained earnings		**1,014,929**	955,036
Proposed dividends	22	**60,000**	60,000
Foreign currency translation reserve		**(35,087)**	(10,361)
		1,939,842	1,885,146
Non-Controlling Interests	23	**248,994**	265,878
TOTAL SHAREHOLDERS' EQUITY		**2,188,836**	2,151,024
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY		**6,104,771**	6,443,460

The attached notes 1 to 34 form part of these consolidated financial statements.

Consolidated Statement of Income
For the year ended 31 December 2016

	Notes	2016 SR'000	2015 SR'000
REVENUE			
Sales		**4,003,482**	4,664,986
Contracts revenue		**929,492**	805,110
Finance lease income		**17,674**	18,499
		4,950,648	5,488,595
DIRECT COSTS			
Cost of sales		**(3,004,667)**	(3,491,329)
Contracts costs		**(736,731)**	(691,983)
GROSS PROFIT		**1,209,250**	1,305,283
EXPENSES			
Selling and distribution	24	**(425,727)**	(438,736)
General and administration	25	**(459,681)**	(459,028)
INCOME FROM MAIN OPERATIONS		**323,842**	407,519
Other income, net	26	**37,784**	18,051
Financial charges		**(95,502)**	(68,514)
Impairment loss on non-current assets	27	**(32,469)**	(51,420)
INCOME BEFORE SHARE IN RESULTS OF ASSOCIATES, NON-CONTROLLING INTERESTS AND ZAKAT AND INCOME TAX		**233,655**	305,636
Share in results of associates	11	**(4,404)**	(3,158)
INCOME BEFORE NON-CONTROLLING INTERESTS, ZAKAT AND INCOME TAX		**229,251**	302,478
Non-controlling interests	23	**14,895**	(11,125)
INCOME BEFORE ZAKAT AND INCOME TAX		**244,146**	291,353
Zakat and income tax	19	**(26,932)**	(28,346)
De-recognition of deferred tax assets		**(16,192)**	-
NET INCOME FOR THE YEAR		**201,022**	263,007
EARNINGS PER SHARE			
Attributable to main operations	28	**5.40**	6.79
Attributable to net income	28	**3.35**	4.38
Weighted average number of shares outstanding (Thousand shares)	21	**60,000**	60,000

The attached notes 1 to 34 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows
For the year ended 31 December 2016

	2016 SR'000	2015 SR'000
OPERATING ACTIVITIES		
Income before share of non-controlling interests, zakat and income tax	**229,251**	302,478
Adjustments for:		
Depreciation	**158,849**	161,381
Amortisation of other intangible assets	**953**	675
Amortisation of prepaid financial charges	**2,736**	1,385
Impairment loss on non-current assets	**32,469**	51,420
Obsolete inventory written-off	**10,993**	-
Other intangible assets written-off	**-**	14,428
Employees' terminal benefits, net	**(29,172)**	35,627
Financial charges	**95,502**	68,514
Gains on disposal of property, plant and equipment	**(515)**	(922)
Share in results of associates	**4,404**	3,158
	505,470	638,144
Changes in operating assets and liabilities:		
Accounts receivable and prepayments	**(160,974)**	(90,208)
Amounts due from related parties	**(30,865)**	20,172
Value of work executed in excess of billings	**21,743**	46,112
Net investment in finance lease	**19,904**	19,078
Inventories	**268,122**	(167,236)
Accounts payables and accruals	**(286,655)**	58,458
Billings in excess of value of work executed	**(36,588)**	14,150
Amounts due to related parties	**(1,616)**	(934)
Cash from operations	**298,541**	537,736
Financial charges paid	**(95,502)**	(68,514)
Zakat and income tax paid	**(30,232)**	(22,241)
Net cash from operating activities	**172,807**	446,981
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(110,450)**	(138,904)
Proceeds from disposal of property, plant and equipment	**2,982**	2,129
Net movement in amounts due from a related party	**-**	-
Addition to other intangible assets	**(572)**	(574)
Net cash used in investing activities	**(108,040)**	(137,349)
FINANCING ACTIVITIES		
Net movement in short term loans	**103,602**	(37,301)
Net movement in term loans	**(118,090)**	(110,075)
Dividends paid	**(120,000)**	(120,000)
Non-controlling interests, net	**(1,989)**	(462)
Net cash used in financing activities	**(136,477)**	(267,838)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENT	**(71,710)**	41,794
Cash and cash equivalents at the beginning of the year	**355,424**	309,721
Net movement in foreign currency translation reserve	**(8,100)**	3,909
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**275,614**	355,424

The attached notes 1 to 34 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows (continued)
For the year ended 31 December 2016

	2016 SR'000	2015 SR'000
NON-CASH TRANSACTIONS:		
De-recognition of deferred tax assets	**16,192**	-
Foreign currency translation losses	**16,626**	2,290
Directors remuneration accrued during the year	**1,600**	2,000

Consolidated Statement of Changes in Shareholders' Equity
For the year ended 31 December 2016

EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE COMPANY

	Share capital	Statutory reserve	Retained earnings	Proposed dividends	Foreign currency translation reserve	Total
	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000
Balance at 31 December 2014	600,000	254,170	840,330	60,000	(11,980)	1,742,520
Net income for the year	-	-	263,007	-	-	263,007
Transfer to statutory reserve	-	26,301	(26,301)	-	-	-
Dividends paid (note 22)	-	-	(60,000)	(60,000)	-	(120,000)
Proposed cash dividends (note 22)	-	-	(60,000)	60,000	-	-
Directors' remuneration	-	-	(2,000)	-	-	(2,000)
Net movement in foreign currency translation reserve	-	-	-	-	1,619	1,619
Balance at 31 December 2015	600,000	280,471	955,036	60,000	(10,361)	1,885,146
Net income for the year	-	-	201,022	-	-	201,022
Transfer to statutory reserve	-	19,529	(19,529)	-	-	-
Dividends paid (note 22)	-	-	(60,000)	(60,000)	-	(120,000)
Proposed cash dividends (note 22)	-	-	(60,000)	60,000	-	-
Directors' remuneration	-	-	(1,600)	-	-	(1,600)
Net movement in foreign currency translation reserve	-	-	-	-	(24,726)	(24,726)
BALANCE AT 31 DECEMBER 2016	**600,000**	**300,000**	**1,014,929**	**60,000**	**(35,087)**	**1,939,842**

The attached notes 1 to 34 form part of these consolidated financial statements.

1- ORGANIZATION AND ACTIVITIES

Zamil Industrial Investment Company ("the Company") is converted to a Saudi Joint Stock Company in accordance with the Ministerial Resolution number 407 dated 14 Rabi' I 1419H (corresponding to 8 July 1998). Prior to that the Company was operating as a limited liability company under the name of Zamil Steel Buildings Company Limited. The Company is registered in the Kingdom of Saudi Arabia under Commercial Registration number 2050004215 dated 19 Ramadan 1396H (corresponding to 14 September 1976) with the following branches in the Kingdom of Saudi Arabia:

Commercial registration number	Date	Location
2050099363	8 Jumada' II 1435 H	Dammam
2050033721	1 Safar 1419H	Dammam
2050064535	10 Rabi' II 1430H	Dammam

The Company has investment in the following subsidiaries:	Effective Ownership Percentage	
	2016	2015
Zamil Steel Holding Company - Saudi Arabia	**100%**	100%
Zamil Steel Pre-Engineered Buildings Company - Saudi Arabia	**100%**	100%
Zamil Structural Steel Company - Saudi Arabia	**100%**	100%
Zamil Towers and Galvanizing Company - Saudi Arabia	**100%**	100%
Zamil Process Equipment Company - Saudi Arabia	**100%**	100%
Zamil Air Conditioners and Household Appliances - Saudi Arabia	**100%**	100%
Zamil Central Air Conditioners - Saudi Arabia	**100%**	100%
Zamil Air Conditioners Holding Company - Saudi Arabia	**100%**	100%
Zamil Air Conditioners and Refrigeration Services - Saudi Arabia	**100%**	100%
Zamil Steel Buildings Company - Egypt	**100%**	100%
Zamil Steel Buildings (Shanghai) Company Limited - China	**100%**	100%
Cooline Europe Holdings GmbH - Austria	**100%**	100%
Clima Tech air conditioners GmbH - Austria	**100%**	100%
Zamil Steel Buildings India Private Limited - India	**100%**	100%
Zamil Steel Engineering India Private Limited - India	**100%**	100%
Arabian Stonewool Insulation Company - Saudi Arabia	**100%**	100%
Ikhtebar Company Limited - Saudi Arabia	**100%**	100%
Zamil Energy Services Company ("ZESCO") - Saudi Arabia	**100%**	100%
Zamil Industrial Investment Company - UAE	**100%**	100%
Zamil Steel Industries Abu Dhabi (LLC) - UAE	**100%**	100%
Zamil Steel Buildings (Thailand) Co. Limited - Thailand	**100%**	100%
Zamil Steel Construction Company - Saudi Arabia	**100%**	100%
Zamil Structural Steel Company - Egypt	**100%**	100%
Zamil Construction India PVT. Ltd. - India	**100%**	100%
Building Component Solutions Company - Saudi Arabia	**100%**	100%
Zamil Information Technology Global Private Limited - India	**100%**	100%
Zamil Higher Institute for Industrial Training Company - Saudi Arabia	**100%**	100%
Second Insulation Company Limited - Saudi Arabia	**100%**	100%

The Company has investment in the following subsidiaries:	Effective Ownership Percentage	
	2016	2015
Eastern District Cooling Company Limited - Saudi Arabia	**100%**	100%
Zamil Air Conditioners India Private Limited ("ZAC") - India	**100%**	100%
Saudi Central Energy Company Limited	**100%**	100%
Zamil Industrial Investment Company Asia Pte. Ltd - Singapore	**100%**	100%
Zamil Inspection and Maintenance of Industrial Projects Company Ltd.- Saudi Arabia	**100%**	100%
Zamil Steel Buildings Vietnam Company Limited	**92.27%**	92.27%
Gulf Insulation Group ("GIG")	**51%**	51%
Saudi Preinsulated Pipes Industries Company Limited ("SPPI")	**51%**	51%
Middle East Air Conditioners Company Limited - Saudi Arabia ("MEAC")	**51%**	51%
Zamil Hudson Company Limited - Saudi Arabia	**50%**	50%
Petro-Chem Zamil Company Limited - Saudi Arabia	**50%**	50%

The Company and its subsidiaries listed above (collectively referred to as the "Group") are engaged in the design and engineering, manufacturing and fabrication of construction materials, pre-engineering steel buildings, steel structures, air conditions and climate control systems for commercial, industrial and residential applications, telecom and broadcasting towers, process equipment, fiberglass, rockwool and engineering plastic foam insulation, and solar power projects.

2- BASIS OF PREPARATION

The Ministry of Commerce and Investment commenced the implementation of the new Companies Regulations effective 25 Rajab1437H 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 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.

As at the consolidated balance sheet date, the Company was in the process to make the necessary amendments to the company's By Laws as required by the new regulations. Therefore, these consolidated financial statements have been prepared in accordance with the old Companies Regulations. Subsequent to the consolidated balance sheet date, the Company has completed all the necessary amendments to the Company's By Laws as required by the new companies' regulations.

3- SIGNIFICANT ACCOUNTING POLICIES

The consolidated 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:

Basis of consolidation
These consolidated financial statements include assets, liabilities and the results of the operations of the Company and its subsidiaries as disclosed in note (1) above. A subsidiary company is that in which the Group has, directly or indirectly, long term investment comprising an interest in the voting capital which it exerts control. A subsidiary company is consolidated from the date on which the Group obtains control until the date that control ceases. The consolidated financial statements are prepared on the basis of the individual financial statements of the Company and the financial statements of its subsidiaries. The Group's management prepared the financial statements of the subsidiaries for the same reporting period as the Company, using consistent accounting policies. All intra-group balances, income, expenses, unrealized gains and losses resulting from intra-group transactions are eliminated in full.

Non-controlling interest represents the portion of profit or loss and net assets that are not held by the Group and are presented separately in the consolidated statement of income and within shareholders' equity in the consolidated balance sheet, separately from shareholders' equity attributable to the Company.

Accounting convention
The consolidated financial statements are prepared under the historical cost convention and modified to include the measurement at fair values of available for sale investments.

Use of estimates
The preparation of consolidated 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 disclosures of contingent assets and liabilities at the date of consolidated financial statements and the reported amounts of revenue and expenses during the reporting period.

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand, bank balances and time deposits with original maturity of three months or less from the acquisition date which are subject to an insignificant risk of changes in value.

Accounts receivable
Accounts receivable are stated at original invoice amount less allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

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

Raw materials	- purchase cost on a weighted average basis.
Work in progress and finished goods	- cost of direct materials and labour plus attributable overheads based on a 'normal level of activity.
Goods in transits	- cost of direct materials which are under shipment and for which risks and rewards have passes to the company and are stated at cost

Net investment in finance lease
Where the Group determines a long term cooling water arrangement to be or to contain a lease and where the Group transfers substantially all the risks and benefits incidental to ownership of the leased item, the arrangement is considered as a finance lease. A finance lease is presented as net investment in finance lease and is recognised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments received are apportioned between finance income and the reduction of the net investment in finance lease so as to achieve a constant rate of commission on the remaining balance of the asset.

The amount of net investment in finance lease is recorded in the consolidated balance sheet as a financial asset and classified as net investment in finance lease at the gross amount receivable under the finance lease less unearned finance income. Provision is made against net investment in finance lease as soon as any receivable is considered doubtful by the management.

Available for sale investments
These represent investments which are neither bought with the intention of being held to maturity nor for trading purposes. Such investments are stated at fair value. Changes in fair value are credited or charged to the consolidated statement of changes in shareholders' equity. Where there is an objective evidence that investments may be impaired, the estimated recoverable amount of those investments is determined and any impairment loss for the difference between the recoverable amount and the carrying amount is recognized in the consolidated statement of income.

For investment traded in active market, fair value is determined by reference to quoted market bid prices. For unquoted equity investments, fair value is determined by reference to the market value of similar investments or is based on the expected discounted cash flows and other relevant factors. Cost is considered to be the fair value where there is no reliable fair value information is available for such investments.

Where partial holdings are sold, the related carrying values of such investments are accounted for on a weighted average basis.

Investments in associates
The Group's investment in an associates is accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence over the investee financial and operational decisions.

Under the equity method, the investment in an associate is carried in the consolidated balance sheet at cost adjusted by the changes in the Group's share of net assets of the associate. The consolidated statement of income reflects the share in results of the associates. Where there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any change and discloses this, when applicable, in the consolidated statement of changes in shareholders' equity. Profits and losses resulting from transactions between the Group and the associates are eliminated to the extent of interest in an associate.

The financial statements of the associates are prepared for the same period as the Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

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 and construction work in progress are 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.

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

Other intangible assets /amortization
Costs which have a long term future benefit are treated as other intangible assets and are amortized over the estimated period of benefit.

Business combination and goodwill
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Goodwill is initially measured at cost being the excess of the consideration transferred over fair value of the Group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the consolidated statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Where goodwill forms part of a cash generating unit ("CGU") and part of the operation within that unit is disposed off, the goodwill associated with the operation disposed off is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed off in this circumstance is measured based on the relative values of the operation disposed off and the portion of the cash generating unit retained.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (group of cash-generating units) to which goodwill has been allocated, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill at each reporting date.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognised in the consolidated statement of income.

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 amounts is charged to the consolidated statement of income.

Impairment and uncollectibility of financial assets
An assessment is made at each consolidated balance sheet date to determine whether there is an objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the consolidated statement of income. Impairment is determined as follows:

(a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the consolidated statement of income.

(b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flow discounted at the current market rate of return for a similar financial asset.

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 Group.

Provisions
Provision is made when the Group 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.

Prepaid financial charges
Prepaid financial charges represent the debt acquisition fees which are paid in advance for obtaining the term loans. These financial charges are deferred and amortised over the remaining loan periods using the effective interest method or on straight line basis method, providing that using straight line method will not have results that are materially different from using the effective interest method. The unamortised balance is presented as a contra account with loan balance.

Warranties
Amounts are accrued on an estimated basis to meet possible future costs under warranty commitments and are included under accounts payables and accruals (note 15).

Zakat and income tax
Zakat and income tax is provided for the Company and for subsidiaries operate inside the Kingdom of Saudi Arabia in accordance with Saudi Arabian fiscal regulations. Income tax is provided for in accordance with fiscal authorities in which the Group's subsidiaries operate outside the Kingdom of Saudi Arabia. Provision for zakat and income tax is charged to the consolidated statement of income. Additional amounts, if any, that may become due on finalization of the zakat and income tax assessments are accounted for in the year in which assessments is finalized.

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.

Statutory reserve
As required by Saudi Arabian Regulations for Companies, the Company has transferred 10% of its income for the year to the statutory reserve. The Company may resolve to discontinue such transfers when the reserve totals 50% of the share capital. The reserve is not available for distribution.

Revenue
Sales
Sales represent the invoiced value of goods supplied and services rendered by the Group during the year. Sales from sale of goods are recognised, net of discount, when the 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. Sales from rendering of services are recognised when contracted services are performed.

Contract revenue
Revenue on long term contracts, where the outcome can be reliably estimated, is recognized under the percentage of completion method by reference to the stage of completion of the contract activity. The stage of completion is measured by calculating the proportion of the costs incurred to date to the estimated total costs of a contract. The value of work completed but not billed at the consolidated balance sheet date is classified as "value of work executed in excess of billings" under current assets in the consolidated balance sheet. Amounts billed in excess of work completed at the consolidated balance sheet date is classified as "billings in excess of value of work executed" under current liabilities in the consolidated balance sheet. Profit is not recognized on a contract until the management believes that the outcome of that contract can be assessed with reasonable certainty. In the case of unprofitable contracts, a provision is made for foreseeable losses in full.

Finance income
Finance income in respect of the net investment in finance lease is recognized over the period of the installments on a systematic basis based on the internal rate of return.

Expenses
Selling and distribution expenses are those that specifically relate to salesmen, sales department, warranties, warehousing, delivery vehicles as well as allowance for doubtful debts. All other expenses related to main operations are allocated on a consistent basis to direct costs and general and administration expenses in accordance with allocation factors determined as appropriate by the Group.

Foreign currencies
Transaction
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 consolidated balance sheet date. All differences are taken to the consolidated statement of income.

Translation
Financial statements of foreign operations are translated in to SR using the exchange rate at each consolidated balance sheet date, for assets and liabilities, and average exchange rate for each period for revenue, expenses, gains and losses. Components of equity other than retained earnings, are translated at the rate ruling at the date of occurrence of each component. Translation adjustments are recorded as a separate component in shareholders' equity.

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

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

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

Operating lease
Lease is classified as operating lease whenever the terms of the lease do not transfer substantially all the risks and reward of ownership to the lessee. Operating lease payments are recognized as an expense in the consolidated statement of income on a straight line basis over the lease term on an accrual basis.

Fair values
For investments traded in active markets, fair value is determined by reference to quoted market bid prices.

For unquoted equity investments, fair value is determined by reference to the market value of a similar investment or is based on the expected discounted cash flows and other relevant factors. Cost is considered to be the fair value where there is no reliable fair value information available for such investments.

4- CASH AND CASH EQUIVALENTS

	2016 SR'000	2015 SR'000
Bank balances and cash	**271,307**	331,153
Time deposits	**4,307**	24,271
	275,614	355,424

5- ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2016 SR'000	2015 SR'000
Trade accounts receivable	**1,797,438**	1,703,344
Retention receivables	**150,150**	67,411
	1,947,588	1,770,755
Less: allowances for doubtful debts	**(149,555)**	(124,812)
	1,798,033	1,645,943
Prepaid expenses	**38,780**	44,256
Advances to suppliers	**43,026**	64,206
Other receivables	**146,979**	127,631
	2,026,818	1,882,036

At 31 December 2016, trade accounts receivable at nominal value of SR 150 million (2015: SR 125 million) were impaired. Movements in the allowance for doubtful debts were as follows:

	2016 SR'000	2015 SR'000
At the beginning of the year	**124,812**	111,925
Allowance for the year	**57,581**	33,034
Written-off during the year	**(32,838)**	(20,147)
At the end of the year	**149,555**	124,812

Unimpaired receivables are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Group to obtain collateral over receivables and the vast majority are, therefore, unsecured.

6- VALUE OF WORK EXECUTED IN EXCESS OF BILLINGS

	2016 SR'000	2015 SR'000
Value of the work executed to date	**1,145,783**	1,075,779
Less: Amounts received and receivable as progress billings	**(883,517)**	(791,770)
	262,266	284,009

7- NET INVESTMENT IN FINANCE LEASE

Eastern District Cooling Company ("EDCC"), a subsidiary, entered into an energy performance contract during 2008 with Saudi Iron and Steel Company ("Hadeed") for a period of 20 years. As per the terms stipulated in the agreement it is agreed to design, construct, operate and maintain a District Cooling Plant (DCP) at the premises of Hadeed. At the end of the contract term all the rights, title and interest in the DCP will be transferred to Hadeed for an all-inclusive lump sum payment of SR 53.3 million. During 2013, the construction of DCS was completed and it was transferred to Hadeed under finance lease agreement on 1 April 2013.

The net investment in finance lease and the future minimum lease payments are as follows:

a) Net investment in finance lease consists of:	2016 SR'000	2015 SR'000
Gross investments in lease (see (b) below)	**541,790**	579,368
Less: Unearned finance income	**(136,080)**	(153,754)
	405,710	425,614
Analysed as:		
Net investment in finance lease, current	**20,765**	19,904
Net investment in finance lease, non-current	**384,945**	405,710

b) The future minimum lease payments to be received consists of:	2016 SR'000	2015 SR'000
Within one year	**37,578**	37,578
After one year but not more than five years	**187,888**	150,312
Five years onwards	**316,324**	391,478
	541,790	579,368

8- INVENTORIES

	2016 SR'000	2015 SR'000
Raw materials	**695,326**	982,220
Finished goods	**634,291**	535,103
Work in progress	**72,972**	140,318
Goods in transit	**82,803**	106,866
	1,485,392	1,764,507

9- RELATED PARTIES' TRANSACTIONS AND BALANCES

Related parties represent major shareholders, directors and key management personnel of the Group, and entities controlled or significantly influenced by such parties. Following is the list of major related parties of the Group:

Name of related party	Nature of relationship
Energy Central Company B.S.C. - Bahrain	Associate
ZNA Infra Private Limited - India formerly Zamil Infra Private Limited	Associate
Geoclima - Italy	Associate
Rabiah & Nassar and Zamil Concrete Industries Co. Ltd - Saudi Arabia ("RANCO")	Associate
Zamil Architectural Holding Company	Affiliate
Zamil Group Holding Company	Affiliate
Hudson Products Corporation	Affiliate
Petrochem Development Co. Inc.	Affiliate
United Carton Industries	Affiliate

The following are the details of related parties' transactions during the year:

Transactions with related parties' included in the consolidated statement of income are as follows:

Related party	Nature of transaction	Amount of transaction 2016 SR'000	Amount of transaction 2015 SR'000
Affiliate	Sales	**92,637**	13,722
Affiliate	Purchases	**63,825**	56,365
Key managerial personnel	Directors remuneration and other benefits paid by the Company	**6,610**	6,800

Pricing policies and terms of payments of transactions with related parties are approved by the Group's management.

The breakdown of amounts due from /to related parties is as follows:

a) Amounts due from related parties shown in the consolidated balance sheet under current assets:

	2016 SR'000	2015 SR'000
United Carton Industries	**24,441**	-
Zamil Architectural Holding Company	**17,831**	8,721
RANCO	**10,148**	13,330
Geoclima - Italy	**4,326**	4,989
Others	**12,770**	11,611
	69,516	38,651

b) Amounts due from a related party shown in the consolidated balance sheet under non-current assets:

	2016 SR'000	2015 SR'000
RANCO	**33,850**	33,850

This amount represents a loan provided to finance RANCO's working capital and carries no financial charges and has no fixed repayment date. The yearend balance is shown under non-current assets in the consolidated balance sheet as it is not expected to be settled during 2017.

c) Amounts due to related parties shown in the consolidated balance sheet under current liabilities:

	2016 SR'000	2015 SR'000
Energy Central Company B.S.C. - Bahrain	**14,900**	14,764
Hudson Products Corporation	**-**	2,512
Others	**5,159**	4,399
	20,059	21,675

10- PROPERTY, PLANT AND EQUIPMENT

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

Buildings on leasehold land	Machinery	Furniture, fixtures & equipment	Motor vehicles
20 to 40 years	**5 to 20 years**	**3 to 5 years**	**3 to 5 years**

	Freehold land	Buildings on leasehold land	Machinery	Furniture, fixtures and equipment	Motor vehicles	Capital work-in-progress	**Total 2016**	Total 2015
	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000
Cost:								
At the beginning of the year	115,055	885,426	1,585,543	224,116	101,953	43,732	**2,955,825**	2,848,777
Additions	-	4,082	23,650	14,090	9,761	58,867	**110,450**	138,904
Disposal	-	(2,150)	(27,971)	(4,309)	(3,412)	(139)	**(37,981)**	(23,388)
Transfer	-	17,370	21,263	2,272	-	(40,905)	**-**	-
Foreign currency translation	(2,775)	(10,955)	(11,671)	(10,753)	(2,621)	(125)	**(38,900)**	(8,468)
At the end of the year	**112,280**	**893,773**	**1,590,814**	**225,416**	**105,681**	**61,430**	**2,989,394**	2,955,825
Depreciation and impairment:								
At the beginning of the year	-	384,447	947,204	156,612	77,552	-	**1,565,815**	1,432,793
Charge for the year	-	36,100	91,560	19,438	11,751	-	**158,849**	161,381
Disposal	-	(1,895)	(18,522)	(2,841)	(3,238)	-	**(26,496)**	(22,181)
Impairment loss (note 27)	-	-	31,319	-	-	-	**31,319**	-
Foreign currency translation	-	(3,300)	(8,778)	(7,986)	(2,210)	-	**(22,274)**	(6,178)
At the end of the year	**-**	**415,352**	**1,042,783**	**165,223**	**83,855**	**-**	**1,707,213**	1,565,815
Net book amounts:								
At 31 December 2016	**112,280**	**478,421**	**548,031**	**60,193**	**21,826**	**61,430**	**1,282,181**	
At 31 December 2015	115,055	500,979	638,339	67,504	24,401	43,732		1,390,010

The majority of the buildings are constructed on plots of land leased from The Saudi Industrial Property Authority (MODON) in Riyadh and first and second industrial city - Dammam for periods range from 4 to 25 years with various commencing dates range from the years 1993 to 2015.

Capital work-in-progress represents mainly the cost incurred in respect of new building, expansion, upgrading of production facilities, new production line and machinery and equipment acquired for general modernisation.

Certain property, plant and equipment are mortgaged as a security against the loans obtained from the financial institutions (note 17 and 18).

11- INVESTMENTS IN ASSOCIATES	**2016**	2015	**2016**	2015
	Percentage of ownership		SR'000	SR'000
Rabiah & Nassar and Zamil Concrete Industries Co. Ltd - Saudi Arabia ("RANCO") (note (i))	**50%**	50%	**47,625**	45,603
Energy Central Company B.S.C. - Bahrain (note (ii))	**25%**	25%	**14,900**	16,339
ZNA Infra Private Limited - India formerly Zamil Infra Private Limited (note (iii))	**51%**	51%	**9,204**	13,813
Geoclima S.r.l - Italy (note (iv))	**40%**	40%	**12,757**	10,367
IIB Paper Company Limited - Bahrain (note (v))	**20.83%**	20.83%	**4,450**	7,218
			88,936	93,340

(i) Rabiah & Nassar and Zamil Concrete Industries Co. Ltd ("RANCO") which is registered in Saudi Arabia and engaged in the production of concrete products, asphalt and polystyrene. The investment carrying value includes embedded goodwill of SR 23.9 million (2015: SR 23.9 million).

(ii) Energy Central Company B.S.C is a closed Joint Stock Company incorporated in the Kingdom of Bahrain. The principal activities of the company are distribution of utility services including district cooling, seawater desalination, waste water treatment, power generation and other related services within the GCC countries.

(iii) ZNA Infra Private Limited - India formerly "Zamil Infra Private Limited" is registered in India as a private limited company under the Companies Act of India 1956. The principal activities of the company are supply of telecom towers, accompanying shelters fitted with the appropriate sandwich panels, customized air conditioning equipment and power interface units. The company is also engaged in supplying, installation and commissioning of solar energy plant and generation of solar electrical energy. Although, the Group's share in ZNA Infra Private Limited - India formerly "Zamil Infra Private Limited" is more than 50%, it is considered as an associate of the Group as the Group has significant influence only over the investee company's operational and financial decisions but not controlling these decisions.

(iv) Geoclima S.r.l. Company is registered in Italy and it is engaged in the manufacturing of air conditioners. Originally a goodwill of SR 3.2 million was accounted for the value of investment in associate using equity method. The investment carrying value includes embedded goodwill of SR 1.5 million (2015: SR 1.5 million).

(v) IIB Paper Company Limited is registered in Cayman Islands and is engaged in the production of tissue paper.

Movements in investments in associates are as follows:

	2016	2015
	SR'000	SR'000
At the beginning of the year	**93,340**	96,498
Share in results of associates	**(4,404)**	(3,158)
At the end of the year	**88,936**	93,340

12- AVAILABLE FOR SALE INVESTMENTS	2016	2015
	SR'000	SR'000
Kinan International For Real Estate Development Company Limited (note (i))	**46,586**	46,586
PLG Photovoltaic Limited (note (ii))	**41,760**	42,910
At the end of the year	**88,346**	89,496

i) This investment represents 2.11% share in Kinan International for Real Estate Development Company Limited, unlisted company which is registered in Saudi Arabia and is engaged in real estate activities. The investment is stated at the cost as cost is considered to be fair value where there is no available fair value information for such investment.

ii) This investment represents 75.6% non-voting and unquoted share in PLG Photovoltaic Limited, unlisted company which is registered in India and is engaged in the activity of providing solar energy. During the year, the Company recognised an impairment loss of SR1.2 million due to the decline in the value of foreign currency as such decline considered prolonged.

13- OTHER INTANGIBLE ASSETS	2016	2015
Cost	SR'000	SR'000
At the beginning of the year	**10,207**	24,061
Additions	**572**	574
Written off during the year	**-**	(14,428)
At 31 December	**10,779**	10,207
Accumulated amortisation		
At the beginning of the year	**3,810**	3,135
Charge for the year	**953**	675
At 31 December	**4,763**	3,810
Net carrying value		
At 31 December	**6,016**	6,397

Other intangible assets mainly represent amounts paid to acquire lease rights to use plots of land in Vietnam and are amortised over a period of 20 to 30 years.

14- GOODWILL	2016	2015
	SR'000	SR'000
At the beginning of the year	**80,126**	110,706
Impairment loss	**-**	(30,580)
At the end of the year	**80,126**	80,126

During 2011, the Group acquired 51% of the voting shares of Gulf Insulation Group ("GIG"), a company registered in the Kingdom of Saudi Arabia. During 2012, the Group exercised purchase price allocation which is resulting a goodwill of SR 110 million.

During 2014, GIG transferred 51% ownership of its wholly owned subsidiary Saudi Preinsulated Pipes Industries Company Limited ("SPPI") to one of its partner, Second Insulation Company Limited ("SICL"), a wholly owned subsidiary of the Group. Accordingly, the Group performed its annual impairment test in December 2015 considering the allocation of goodwill to GIG and SPPI and performing impairment view on CGUs based on the available information and comparing carrying values to their estimated recoverable amounts based on appropriate method.

SPPI

During 2015, the recoverable amount of SPPI was determined based on a value in use calculation using cash flow projection from financial budgets approved by senior management covering a five-year period. As a result of the analysis, the management recognised an impairment loss of SR 30.58 million against goodwill with the entire carrying amount of SR 30.58 million as at 31 December 2015. Consequently, the carrying amount of goodwill as at 31 December 2016 is nil (2015: same).

GIG

The recoverable amount of GIG is also determined based on a value in use calculation using cash flow projection from financial budgets approved by senior management covering a five-year period. The projected cash flows projections have been updated to reflect the future demands of the products of GIG. The cash flows beyond the five-year period are extrapolated using a 2% growth rate that is the same as the long-term average growth rate for the industry in which the GIG operates. As a result of the analysis, the management did not identify an impairment for this CGU during the year (2015: same).

15-ACCOUNTS PAYABLES AND ACCRUALS

	2016	2015
	SR'000	SR'000
Accounts payable	**344,700**	520,444
Accrued expenses	**308,657**	356,142
Advances from customers	**234,937**	312,885
Accrued contract costs	**153,853**	139,415
Warranties provision	**16,551**	23,885
	1,058,698	1,352,771

16-BILLINGS IN EXCESS OF VALUE OF WORK EXECUTED

	2016	2015
	SR'000	SR'000
Progress billings received or receivable	**580,842**	600,584
Less: value of work executed	**(522,554)**	(505,708)
	58,288	94,876

17-SHORT TERM LOANS

	2016	2015
	SR'000	SR'000
Short term loans	**115,263**	135,507
Murabaha and tawarruq finances	**1,944,486**	1,820,640
	2,059,749	1,956,147

The short term loans, Murabaha and Tawarruq finances were obtained from various local banks to meet the working capital requirements. These loans are secured by promissory notes and assignment of certain contract proceeds, corporate guarantees and a mortgage on the Group's property, plant and equipment (note 10). These borrowings carry commission charges at prevailing market borrowing rates.

18-TERM LOANS	**2016**	2015
	SR'000	SR'000
Commercial banks (note 'A' below)	**204,688**	321,538
Saudi Industrial Development Fund ("SIDF") (note 'B' below)	**139,714**	140,015
	344,402	461,553
Less: Current portion:		
Term loans from the commercial banks (note 'A' below)	**(104,688)**	(116,850)
Term loans from Saudi Industrial Development Fund ("SIDF") (note 'B' below)	**(36,400)**	(21,500)
	(141,088)	(138,350)
Less: SIDF prepaid financial charges	**(8,068)**	(9,865)
Non-current portion	**195,246**	313,338

A Term loans from the commercial banks comprise the following:

i) The Group obtained a loan facility of SR 500 million from a local bank. This loan is secured by promissory notes. The loan is repayable in 10 semiannual equal instalments commencing from 30 June 2014. The facility is subject to interest at SIBOR plus margin. At 31 December 2016, the outstanding loan was SR 200 million (2015: SR 300 million) including a current portion of SR 100 million (2015: SR 100 million).

ii) The Group also obtained a loan facility of SR 25 million from a local bank. This loan is secured by promissory notes and assignment of certain contract proceeds, corporate guarantees and a mortgage on the Group's property, plant and equipment (note 10). The loan is repayable in 16 equal quarterly instalments commencing from October 2013. The facility is subject to interest at SIBOR plus margin. At 31 December 2016, the outstanding loan was SR 4.7 million (2015: SR 10.9 million) including current portion of SR 4.7 million (2015: SR 6.3 million).

iii) Further, the Group obtained a loan facility of SR 25 million. These loans are secured by promissory notes and assignment of certain contract proceeds, corporate guarantees and a mortgage on the Group's property, plant and equipment (note 10). The loan is repayable in 36 unequal monthly instalments commencing from January 2014. The facility is subject to interest at SIBOR plus margin. Entire loan amount of SR 10.6 million payable as at 31 December 2015 has been paid during the year.

B The Group also obtained loan facility of SR 140 million from SIDF for financing the construction of the plant. The loan is secured by a mortgage on the Group's property, plant and equipment (note 10). The loans are repayable in unequal instalments.

The Group is required to comply with certain covenants which include, among other things, certain financial ratios to be maintained under all the loan facility agreements mentioned above.

Following are the combined aggregate amounts of future maturities of the term loans:

Year	2017	2018	2019	2020	2021	2022 and onwards	
SR'000	141,088	135,800	33,000	17,850	8,764	7,900	**344,402**

19-ZAKAT AND INCOME TAX

a) Zakat
Charge for the year

	2016	2015
The zakat charge consists of:	SR'000	SR'000
Current year provision	**22,612**	22,150

The provision for the year is based on zakat base of the Company and its wholly owned Saudi subsidiaries as a whole and individual zakat base of other Saudi subsidiaries (2015: same).

Status of assessments
The status of assessments of the Company including its wholly owned subsidiaries and major partially owned subsidiaries are as follows:

i) The Company and its wholly owned subsidiaries
The zakat assessments of the Company and its wholly owned Saudi subsidiaries as a whole have been agreed with the General Authority of Zakat and Tax ("the GAZT") up to 2013. The zakat declarations for the years 2014 and 2015 have been filed with the GAZT. However, the assessments have not yet been raised by the GAZT.

ii) Partially owned subsidiaries
SPPI
Zakat assessments have been agreed with the GAZT up to 2007. The zakat declarations for the years from 2008 to 2015 have been filed with the GAZT. However, the assessments have not yet been raised by the GAZT.

GIG
Zakat and income tax assessments have been agreed with the GAZT up to 2007. The zakat declarations for the years from 2008 to 2015 have been filed with the GAZT. However, the assessments have not yet been raised by the GAZT.

MEAC
Zakat and income tax assessments have been agreed with the GAZT up to 2003. The zakat declarations for the years from 2004 to 2015 have been filed with the GAZT. However, the assessments have not yet been raised by the GAZT.

Zakat base and the income tax provision have been computed based on the Company's understanding of zakat and income tax regulations enforced in the Kingdom of Saudi Arabia. The Zakat and income tax regulations in Saudi Arabia are subject to different interpretations and the new zakat and income tax regulations are 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.

b) Income tax
Charge for the year

	2016	2015
The income tax charge consists of:	SR'000	SR'000
Current year provision	**4,320**	6,196

Income tax provision is provided for in accordance with fiscal authorities in which the Group's subsidiaries operate outside the Kingdom of Saudi Arabia

Status of assessments
The status of assessment of the major foreign subsidiaries are as follows:

Zamil Air Conditioners India Private Limited ("ZAC - India")
Income tax assessments have been agreed with the Department of Income Tax of India ("the DIT") up to the year ended 31 March 2009. The income tax returns for the years ended 31 March 2010 to 31 March 2016 have been filed with the DIT. However, the final assessments have not yet been raised by the DIT.

Zamil Steel Buildings India Private Limited - India ("ZSB - India")
Income tax assessments have been agreed with the DIT up to the year ended 31 March 2014. The income tax returns for the years ended 31 March 2015 and 31 March 2016 have been filed with the DIT. However, the final assessments have not yet been raised by the DIT.

Zamil Construction India Pvt. Limited ("ZCON - India")
Income tax assessments have been agreed with the DIT up to the year ended 31 March 2014. The income tax returns for the years ended 31 March 2015 and 31 March 2016 have been filed with the DIT. However, the final assessments have not yet been raised by the DIT.

Zamil Information Technology Global Private Limited - India ("ZITG - India")
The income tax returns of the company for the years ended upto 31 March 2016 have been filed with the DIT. However, the final assessments have not yet been raised by the DIT for any of the year.

Zamil Steel Buildings Vietnam Limited Company ("ZSB - Vietnam")
Income tax assessments have been agreed with the tax authorities ("the TA") of Vietnam up to the year 2012. The income tax returns for the years 2013, 2014 and 2015 have been filed with the TA. However, the final assessments have not yet been raised by the TA.

Zamil Structural Steel - S.A.E - Private Free Zone (ZSS - Egypt)
The company, was established under the free zone system according to the provision of Investment Guarantees and Incentive Law number 8 of 1997. Accordingly, the company is exempted from corporate taxes and withholding taxes and these privileges will continue to apply for the lifetime of the company.

Zamil Steel Buildings Company Egypt - S.A.E (ZSB - Egypt)
Income tax assessments have been agreed with the Egyptian tax authorities ("the tax authorities") up to the year 2004. The income tax returns for the years from 2005 to 2015 have been filed with the tax authorities. However, the final assessments have not yet been raised by tax authorities.

Income tax has been computed based on the managements' understanding of the income tax regulations enforced in their respective countries. The income tax regulations are subject to different interpretations, and the assessments to be raised by the tax authorities could be different from the income tax returns filed by the respective company.

Movement in provision
The movement in the zakat and income tax provision for the year was as follows:

	2016	2015
	SR'000	SR'000
At the beginning of the year	**58,721**	52,616
Provided during the year	**26,932**	28,346
Payments during the year	**(30,232)**	(22,241)
At the end of the year	**55,421**	58,721

20- EMPLOYEES' TERMINAL BENEFITS

The movements in employees' terminal benefits are as follows:

	2016	2015
	SR'000	SR'000
At the beginning of the year	**356,558**	320,931
Charge for the year	**41,984**	70,376
Payments during the year	**(67,196)**	(34,749)
Recalssification	**(3,960)**	-
At the end of the year	**327,386**	356,558

21- SHARE CAPITAL

The authorised, issued and fully paid share capital of the Company amounting to SR 600 million (2015: SR 600 million) is divided into 60 million shares of SR 10 each (2015: 60 million share of SR 10 each).

22- DIVIDENDS

The board of directors in their meeting held on 27 July 2016 (corresponding to 22 Shawwal 1437 H) resolved to distribute interim cash dividends of SR 1 per share totalling SR 60 million representing 10% of share capital to shareholders which have been fully paid during the year (2015: The board of directors in their meeting held on 22 July 2015 (corresponding to 6 Shawwal 1436H) resolved to distribute interim cash dividends of SR 1 per share totalling SR 60 million representing 10% of share capital to shareholders which have fully been paid during the year).

Further, subsequent to year end the board of directors proposed a final cash dividend of SR 1 per share for the year 2016 totalling SR 60 million being 10% of the share capital for the approval of the shareholders in their Annual General Assembly (2015: The board of directors at their meeting held on 21 December 2015 (corresponding to 10 Rabi' I 1437H) proposed a final cash dividend of SR 1 per share for the year 2015 totalling SR 60 million being 10% of the share capital which is subsequently approved by the shareholders in their Annual General Assembly meeting held on 18 April 2016 (corresponding to 11 Rajab 1437 H)).

23- NON-CONTROLLING INTERESTS

The movements in non-controlling interests are as follows:

	2016	2015
	SR'000	SR'000
At the beginning of the year	**265,878**	255,215
Share in results	**(14,895)**	11,125
Net movement	**(1,989)**	(462)
At the end of the year	**248,994**	265,878

24- SELLING AND DISTRIBUTION EXPENSES

	2016	2015
	SR'000	SR'000
Employees' costs	**222,424**	251,821
Allowance for doubtful debts (note 5)	**57,581**	33,034
Transportation	**28,134**	35,192
Advertising and sales promotion	**23,120**	19,998
Warranties	**18,740**	22,143
Rent and utilities	**16,379**	12,968
Depreciation	**15,786**	17,283
Repairs and maintenance	**3,055**	4,278
Business travel	**6,791**	7,952
Support services	**6,152**	7,521
Communication and IT services	**2,760**	1,717
Others	**24,805**	24,829
	425,727	438,736

25- GENERAL AND ADMINISTRATION EXPENSES

	2016	2015
	SR'000	SR'000
Employees' costs	**344,991**	357,404
Communication and IT services	**20,196**	14,839
Depreciation	**25,701**	28,478
Support services	**5,845**	4,374
Rent and utilities	**14,691**	10,428
Professional fees	**9,264**	5,683
Business travel	**6,532**	4,488
Repairs and maintenance	**7,465**	7,371
Office supplies	**4,830**	4,450
Others	**20,166**	21,513
	459,681	459,028

26- OTHER INCOME, NET

	2016	2015
	SR'000	SR'000
Foreign currency exchange gains	**23,481**	8,344
Dividends income	**-**	1,070
Gain on disposal of property, plant and equipment	**515**	922
Other intangible assets written-off	**-**	(14,428)
Others	**13,788**	22,143
	37,784	18,051

27- IMPAIRMENT LOSS ON NON- CURRENT ASSETS

	2016	2015
	SR'000	SR'000
Impairment loss on property, plant and equipment	**31,319**	-
Impairment loss on available for sale investment	**1,150**	20,840
Impairment loss on goodwill (note14)	**-**	30,580
	32,469	51,420

28- EARNING PER SHARE

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

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

29- SEGMENTAL INFORMATION

Consistent with the Group's internal reporting process, business segments have been approved by board of directors in respect of the Group's activities. Transactions between the business segments are reported at cost. The Group's revenue, income (loss) from main operations and net assets by business and geographical segments, are as follows:

Business segments **2016**

	Air Conditioner Industry	Steel Industry	Insulation	Head office and others	Total
Revenue	**2,252,254**	**2,361,974**	**330,041**	**6,379**	**4,950,648**
Income (loss) from main operations	**174,734**	**140,236**	**27,775**	**(18,903)**	**323,842**
Net assets	**790,192**	**684,075**	**122,976**	**342,599**	**1,939,842**

Business segments 2015

	Air Conditioner Industry	Steel Industry	Insulation	Head office and others	Total
Revenue	2,476,207	2,683,812	321,386	7,190	5,488,595
Income (loss) from main operations	236,511	164,972	25,459	(19,423)	407,519
	727,149	806,175	127,318	224,504	1,885,146

Geographical segments **2016**

	Saudi Arabia	Other Asian countries	Africa	Europe	Total
Revenue	**4,118,607**	**551,583**	**276,821**	**3,637**	**4,950,648**
Income (loss) from main operations	**329,314**	**(5,425)**	**143**	**(190)**	**323,842**

Geographical segments 2015

	Saudi Arabia	Other Asian countries	Africa	Europe	Total
Revenue	4,506,460	588,130	384,373	9,632	5,488,595
Income (loss) from main operations	376,057	9,738	21,351	373	407,519

30- CONTINGENT LIABILITIES

The Group's bankers have issued performance and payments guarantees, on behalf of the Group, amounting to SR 1,050 million (2015: SR 1,165 million).

31- CAPITAL COMMITMENTS

The board of directors have approved future capital expenditure amounting to SR 21 million (2015: SR 70 million), relating to certain expansion projects.

32- 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 Group is subject to commission rate risk on its time deposits, commission bearing short-term loans and term loans. The Group manages its exposure to commission rate risk by continuously monitoring movements in commission rates.

Market risk
Equity price risk arises from changes in the fair values of equity investments. Equity price risk is managed by the investment department of the Group. The unquoted equity price risk exposure arises from the Group's investment portfolio. The Group manages this through diversification of investments in terms of geographical distribution, placing limits on individual and total equity instruments and industry concentration.

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 Group seeks to manage its credit risk with respect to banks by only dealing with reputable banks and with respect to customers by setting credit limits for individual customers, monitoring outstanding receivables and ensuring close follow ups. At the consolidated balance sheet date, no significant concentration of credit risk were identified by the management.

Liquidity risk
Liquidity risk is the risk that the Group 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 Group manages its liquidity risk by ensuring that bank facilities are available. The Group's terms of sales require amounts to be paid within 30 to 60 days of the date of submitting the invoice. 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 change in foreign exchange rates. The Group is subject to fluctuations in foreign exchange rates in the normal course of its business. The Group did not undertake significant transactions in currencies other than Saudi Riyals, US Dollars, Japanese Yen, Egyptian Pound and Euros during the year. As Saudi Riyals are pegged to US Dollars, balances in US Dollars are not considered to represent significant currency risk. The Group is exposed to currency risk on transactions and balances in Euros, Japanese Yen and Egyptian Pound. The Group manages currency risk exposure to Euros, Japanese Yen and Egyptian Pound by continuously monitoring the currency fluctuations.

33- FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. Financial instruments comprise of financial assets and financial liabilities. The Group's financial assets consist of cash and cash equivalents, accounts receivable, amounts due from related parties and net investment in finance lease. Its financial liabilities consist of short-term loans, term loans, accounts payable and amounts due to related parties.

34- COMPARATIVE FIGURES

Certain of the prior year amounts have been reclassified to conform with the presentation in the current year.