Annual Report 2018

Zamilindustrial

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

zamilindustrial.com

Contents

Board of Directors

Khalid A. Al Zamil

Chairman

Abdallah Saleh Jum'ah

Ahmed Abdullah Al Zamil

Adib Abdullah Al Zamil

Mohammed A. Al Ghaith

Mohammad S. Al Harbi

Khalid M. Al Fuhaid

Abdulla Mohammed Al Zamil

Chief Executive Officer

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.

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.

Chairman's Message

On behalf of the Board of Directors, I am pleased to present to you the annual report of Zamil Industrial Investment Company (Zamil Industrial) on the company's overall performance and the outcome of its activities and investments inside the Kingdom of Saudi Arabia and abroad, as well as the auditors' report and the consolidated financial statements for the fiscal year ended 31 December 2018.

Zamil Industrial achieved good revenues in 2018, only slightly lower than in 2017 despite the challenges facing the domestic industrial sector in general and the construction industry in particular, as well as the economic situation and market conditions in which we operate. During 2018, Zamil Industrial sectors experienced a setback due to lower domestic revenues, increases in the costs of raw materials, and severe competition. This led to pressure on selling prices, decreasing them significantly and adversely affecting gross margins.

Under the current economic situation, we have continued to reduce expenditures so as to adapt to the conditions and challenges at hand. We are redirecting more of our business to privately funded projects; enhancing operational expenditure-based activities and operations related to continuing government projects as opposed to capital expenditure-based ventures, including maintenance, repair, and after-sales service; maintaining an effective, low-cost structure; and seriously considering opportunities to reduce costs and increase productivity.

While the domestic economy is going through a transformation period, which offers emerging opportunities as well as new challenges, an improvement in the performance of the Saudi economy is expected in the coming period, supported by the growth of both the petroleum and nonpetroleum sectors. The IMF expects the Saudi economy to grow by 2.4% in 2019, with GDP growth of 2.1%. Growth is expected to improve slightly even in the nonpetroleum sector, thanks to an expansionary budget featuring several incentive packages designed to support growth, with revenues in the 2019 budget amounting to 975 billion riyals, reflecting the optimistic outlook of the government.

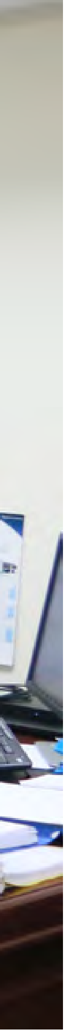
The prices of most basic commodities have recovered over recent months, and a surge has been recorded in the oil trade at higher prices, driven by global demand, which is partly the result of OPEC's decision to reduce production. Consequently, the Kingdom's overall

Chairman's Message (continued)

economic situation has stabilized, and structural changes to the economy are making their way toward Vision 2030. We are confident that the wise steps of our government and the Supreme Economic Council will bear fruit in the foreseeable future. This will reflect the local investment climate and support the company's business in achieving returns and maximizing value for shareholders. We also believe that the government's efforts and its focus on achieving sustainability and balance in public finances are beneficial to local businesses and support the decision-making processes.

Similar economic developments have been seen in a good portion of our export markets, especially the Gulf Cooperation Council countries, among others.

In Egypt, the liberalization of the Egyptian pound's exchange rate against foreign currencies and cuts in fuel subsidies more than halved its value, adversely affecting production costs. Zamil Industrial, however, continued to conduct its usual activities in the Egyptian market and increased its exports to various African countries.



India was no different. The Indian economy has seen a decrease in growth rates under the continuing repercussions of the government ban on several local currencies and the uncertainty surrounding the introduction of a new tax. Nevertheless, the East Asia and Pacific region remains one of the fastest-growing regions in the world. But profit margins remain highly strained by strong market competition, despite the positive outlook for economic growth and several potential emerging investment opportunities.

Zamil Industrial generated gross revenue of SAR 4,313.6 million (USD 1,150.3 million) in 2018, compared with SAR 4,403.9 million (USD 1,174.4 million) in 2017, a decrease of 2.0%. The net loss for the year, after deducting Zakat and tax, was SAR 139.9 million (USD 37.3 million), compared with a net profit of SAR 105 million (USD 28 million) in 2017. The net loss in 2018 was due to the adoption of IFRS 9, which resulted in an increase in provision for expected credit loss of financial assets of SAR 111 million (USD 29.6 million). The reduction in gross profit margins across all sectors was due to: lower domestic revenues; an increase in raw materials costs; pressure on selling prices and severe competition; an increase in financial charges; an increase in the share of the loss of associated companies; and the loss on disposal of the company’s share and impairment of dues from discontinued operations.

The loss per share, after deducting Zakat and tax, was SAR 2.33, compared with earnings per share of SAR 1.75 in 2017. Shareholders’ equity saw a 13.4% decrease, to SAR 1.624,1 million (USD 433.1 million) from SAR 1.876,4 million (USD 500.4 million) in 2017.

Given the financial results of 2018, the Board of Directors has recommended to the General Assembly that no dividend be distributed to shareholders for the fiscal year ending 31 December 2018. The Board made the decision to support and strengthen the financial position of the company.

Our financial results will continue to be affected by the turbulent economic climate prevailing in the region, the challenges of macroeconomic positioning, fluctuating commodity and materials prices and exchange rates, declining support, and intensifying competition. There is no doubt that the government's prudent policy and the solidity of the Saudi economy are important positive elements that lead us to look forward with confidence and optimism to the coming years.

Our continued success reflects the excellent reputation that Zamil Industrial's portfolio of products and services has garnered in all markets in which the company operates. Zamil Industrial is firmly established in all of its fields and industrial activities – air conditioning and cooling products and services, structural steel, transmission and telecom towers, processing equipment, insulation materials, and concrete buildings and products. In 2018 the company continued to take initiatives to provide state-of-the-art technologies and innovative services of ultimate benefit to our customers. Zamil Industrial's commitment to this effective strategy will continue, with our attention focused on meeting our customers' current and future needs.

Furthermore, the Board of Directors has elected to seek social achievements and prioritize social responsibility. Your company has taken on several social initiatives to enhance its role in the service of our community, and we will make progress in this field in our dedication to social responsibility.

Corporate governance has also been an integral part of our core values, as Zamil Industrial's Board of Directors was keen, throughout 2018, to fulfill its duties and ensure that the company's operations were conducted according to the best corporate governance methods. We are determined to adhere to governance and transparency principles by means of guiding the company's Internal Audit Department, which works constantly to ensure that the best available practices and the highest transparency and governance standards are observed across all sectors and fields of our business. In this regard, we pay detailed attention to the recommendations of the Saudi Stock Exchange (Tadawul) in the pursuit of a sound investment environment for shareholders.

In conclusion, on behalf of the Board of Directors, I would like to express my sincere thanks and appreciation to all employees of Zamil Industrial for their dedicated efforts and contributions to the company's success, and to our customers, for their trust in our abilities and our products. My grateful thanks and appreciation are also extended to our shareholders for their precious trust and steadfast belief in us, even during the really difficult times. This motivates us to make our utmost efforts to achieve the company's goals, aspirations, and strategies.

Khalid Abdullah Al Zamil
Chairman of the Board

Board of Directors' Report for 2018

Dear Respected Zamil Industrial Shareholders,

The Board of Directors of Zamil Industrial Investment Company (Zamil Industrial) is pleased to present to shareholders its annual report, including a review of Zamil Industrial's performance, activities and investments inside and outside of the Kingdom of Saudi Arabia and an overview of the company's overall status for the year 2018 by looking at its sectors: Air Conditioning, Steel, Insulation and other industries.

The report also comprises the audited consolidated financial statements and notes for the fiscal year ended on 31 December 2018, including the report prepared by Ernst & Young auditors, the balance sheet, revenue, changes in shareholders' rights, cash flow statements and remarks on such statements for the aforementioned year.

1 Overall Status

Zamil Industrial sectors experienced a setback in 2018 due to lower domestic revenues, an increase in input costs and severe competition, which led to pressure on the selling prices, decreasing them significantly and adversely affecting the gross margins.

2 Organization and Activities

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

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.

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.

Manufacturing facilities operated by Zamil Industrial businesses are currently located in Saudi Arabia, the United Arab Emirates, Egypt, India and Vietnam. 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, installation and operation 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

1998
Dammam

11,000+
people

99
countries

At Zamil Industrial, we provide customers with total building solutions. Our strength and diversity have enabled us to build the capacity to operate as a single-source provider capable of meeting complete project needs, from engineering and materials to climate control.

Zamil Industrial shares are available for trading for 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, International Code: SA0007879410). More information can be found at **www.tadawul.com.sa**.

STEEL

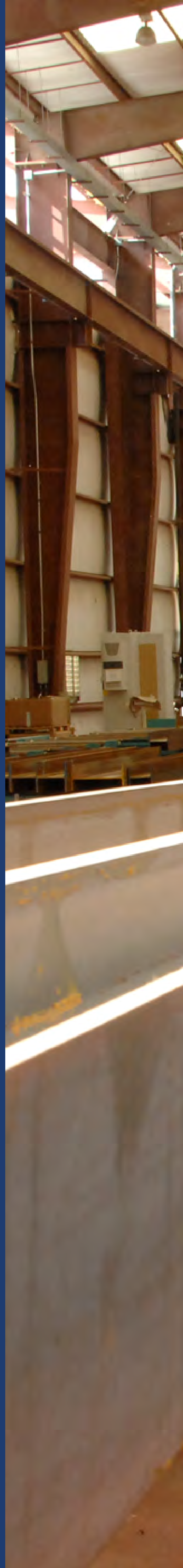
HVAC

INSULATION

CONCRETE

Steel
Sector

Zamil Industrial's Steel Sector is represented by Zamil Steel Holding Company Ltd. Founded in 1977, Zamil Steel is a global leader in the manufacture of pre-engineered steel buildings and the Middle East's premier supplier of structural steel products and process equipment, transmission and telecommunications towers, open web steel joists and roof and floor steel decks.




DRILL
CHIPS
P4

Zamil Steel's annual production capacity is more than 555,000 tons of fabricated steel of low-rise and high-rise steel buildings and structures for diverse industrial, commercial, agriculture, aviation, entertainment and military applications and in support of infrastructure and development projects. Zamil Steel products are sold in more than 90 countries through an international network of dedicated sales and representative offices, certified builders, agents and distributors.

Zamil Steel demonstrates its commitment to service at the local level by maintaining a network of 53 area offices located in 31 countries, as well as a large number of certified builders, agents and distributors. These facilities are fully staffed and equipped to provide quick, comprehensive responses to customer inquiries, as well as extensive after-sales service.

Zamil Steel’s main factories are based in Dammam, Saudi Arabia. Additional facilities are located in Egypt, Vietnam, India and Ras Al Khaimah (UAE). The company employs more than 600 engineers in its engineering departments in Saudi Arabia, Egypt, Vietnam, India and Jordan.

The company is also the largest supplier of sandwich panels in Saudi Arabia. It produces more than 1,5 million square meters of sprayed polyisocyanurate (PIR) foam and mineral wool sandwich panels annually, in compliance with international standards.

The company also offers engineering services and turnkey solutions for the supply and installation of roof coverings and wall cladding, including the secondary members and all related accessories for new buildings as well as retrofitted buildings.

Additionally, the company operates in the field of maintenance and plant turnaround, providing professional services and technical expertise through its highly skilled workforce and wide range of resources.

Moreover, Zamil Steel offers the engineering, procurement and construction services needed to complete new projects in different market sectors, for a variety of purposes. The company provides the design, fabrication and supply of steel buildings, as well as related civil and concrete works; the erection of steel buildings; and the installation of firefighting and fire alarm systems, architectural materials, mechanical systems, electrical systems and plumbing works through turnkey contracts using full-site management teams


Zamil
Air Conditioners
USE
R-410A
ONLY

HVAC
Sector

Zamil Industrial's HVAC Sector is represented by Zamil Air Conditioners Holding Co. Ltd. Founded in 1974 as a pioneer in the Saudi Arabian air conditioning industry, the company has expanded over the past four decades to become a leading international manufacturer of air conditioning systems and is currently the number one producer of such systems in the Middle East. Zamil Air Conditioners designs, manufactures, tests, markets and services a comprehensive range of air conditioning products, from compact room air conditioners and mini splits to large-scale central air conditioners, chillers and air-handling units for highly specialized commercial and industrial applications.

The company's products and services are marketed under various brand names depending on the specific market. With factories located in Dammam, Saudi Arabia, and India, Zamil Air Conditioners also produces branded air conditioners for several leading international manufacturers under Original Equipment Manufacturer (OEM) agreements.

Currently ranked as the region's leading air conditioning equipment service and maintenance provider, the company employs more than 2,500 qualified technicians spread across 18 branches in Saudi Arabia and GCC countries. The company owns and maintains nearly 500 service vehicles, equipped with the necessary tools, equipment and emergency spare parts to repair and service any HVAC unit regardless of brand, capacity or make.

The company offers professional air conditioning services as well as complete preventive maintenance programs and other related HVAC services, aimed at providing regular, scheduled checkups to keep air conditioning systems in optimum operating condition. It operates a Service & Parts department and offers annual service and maintenance contracts for banks, industrial establishments, oil and gas companies, retail outlets and homes, in addition to handling regular customer service calls.

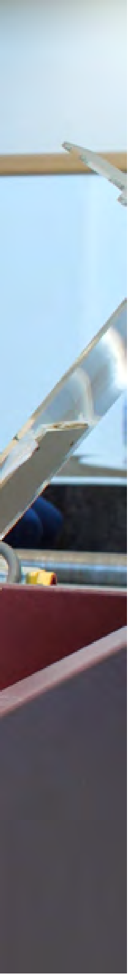
Zamil Air Conditioners has also developed a state-of-the-art Training Center, offering a complete range of training courses for the company's own technicians and engineers as well as for those employed by dealers and large corporate clients.

Moreover, Zamil Air Conditioners owns and operates Ikhtebar, the first independent laboratory created specifically for testing climate control solutions in the Middle East. Ikhtebar, which was constructed in 1984 by Intertek Testing Services and certified by Electrical Testing Laboratories (ETL), offers air conditioning manufacturers and importers a comprehensive range of performance tests for consumer and commercial air conditioners and chillers.

The lab also plays a key role in supporting research and development initiatives in the Heating, Ventilation and Air Conditioning (HVAC) industry in the Middle East, allowing Zamil Air Conditioners the distinction of being the only manufacturer in the region capable of guaranteeing compliance with local, regional and international specifications and standards of air conditioning products.

In 2010, Zamil Air Conditioners launched the first Saudi brand for anti-corrosion coating, ResisTec®, for high-quality anti-corrosion coating created specifically for HVAC products and components. The company developed ResisTec protective coating to help lower life-cycle costs, minimize HVAC depreciation and provide customers with the option to choose high-quality products and services that help them to substantially reduce costs and produce a healthier bottom line.

The innovative, environmentally friendly ResisTec technology protects HVAC equipment from corrosion and deterioration with a negligible effect on the performance of the coated coils. Resistec was developed specifically to lengthen the product life cycle and minimize equipment failure, especially under harsh Middle Eastern climate conditions.



Furthermore, the company has been offering solar and green building solutions since 2012, as green building projects, particularly those using solar technology, are on the rise. Driven by a team of experienced industry professionals, the company is adept in engineering, procurement, construction and retrofit services. Connections with leading companies across the globe provide opportunities to manufacture and supply Solar Modules, Inverters, Batteries, LED lights and Thermal Heaters in accordance with international safety and quality certificates.

The company offers a complete solution for photovoltaic integration, including power conversion, electrical distribution, monitoring, supervision and technical support, with a complete solution from the solar panel's DC output to the grid connection with different types of systems.

Zamil Air Conditioners designs and manufactures high-quality duct systems and other HVAC industry–related products, utilizing state-of-the-art automated duct lines, Plasma Cutting, CNC Turret punch press and other specific machinery through two duct factories located in Yanbu and Dammam, Saudi Arabia. The company also offers robotic duct cleaning solutions, using the latest European technologies to improve air quality and operational efficiency of air conditioning systems.

Insulation
Sector

Zamil Industrial maintains a presence in the insulation sector 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). 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.

GIG operates as a joint venture with Owens Corning, USA, the world leader in the technology of manufacturing fiberglass products. The Group manufactures premium quality glass wool insulation products for industrial and commercial applications. It is also the only manufacturer of fiberglass insulation products in Saudi Arabia. The Group's premium quality products and services are comparable to those of its counterparts in the United States and Europe.

Since 1992, the Group has been manufacturing rock wool products for construction and industrial customers, providing materials for the local and international markets ever since. The company focuses on rock wool, one of the most effective and widely used thermal, acoustical and fire insulation materials.

existing capacity in the GCC region, using the latest technology in this field. The Group employs qualified technical staff with vast experience in providing the best products and services to customers.

Additionally, the Group has been designing and manufacturing pre-insulated, prefabricated systems for aboveground, underground, cooling/heating and process piping since 1983. It produces high-quality pre-insulated pipes and HDPE products customized to meet the unique requirements of each individual customer as closely as possible. The Group also provides its customers with on-site technical assistance and installation supervision.

In addition, the Group maintains advanced in-house capabilities to perform computerized stress analysis using specialized software. This analysis determines the stresses in the carrier

steel pipe; detects any axial movement, which will provide data for the anchor design; and indicates whether the expansion joints are needed.

The Group’s high-density polyethylene (HDPE) pipes can be utilized in various applications, including wastewater systems, irrigation systems, gas pipeline systems, lining and relining and potable water systems.

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.

The Rabiah and Nassar Precast Concrete Factory (RANCO Precast) designs, manufactures and erects precast concrete buildings used for various applications, including residential properties, schools, shopping malls and industrial plants.

The factory also produces wall panels and fabricates a variety of other concrete-based products used in the construction industry, including standard and non-standard columns, plinth foundation, pre-stressed beams, pre-stressed double TT-slabs and flat slabs, hollow core slabs, boundary walls and road construction supplies.

The following table details the company's shares in its subsidiaries:

	Subsidiary	Capital	Ownership Percentage	Activity	Country of Operation	Country of Incorporation
1	**Zamil Steel Holding Co. – and its subsidiaries:**	SAR 250 million	100%	Holdings	KSA	KSA
	• Zamil Steel Pre-Engineered Buildings Co. Ltd.	SAR 50 million	100%	Steel buildings	KSA	KSA
	• Zamil Structural Steel Co. Ltd.	SAR 75 million	100%	Structural steel	KSA	KSA
	• Zamil Towers and Galvanizing Co. Ltd.	SAR 70 million	100%	Transmission and telecommunications towers	KSA	KSA
	• Zamil Process Equipment Co. Ltd.	SAR 55 million	100%	Process equipment	KSA	KSA
	• Building Component Solutions Co. Ltd.	SAR 25 million	100%	Insulated sandwich panels	KSA	KSA
	• Zamil Steel Construction Co. Ltd.	SAR 1 million	100%	Steel industry project management	KSA	KSA
	• Zamil Inspection and Maintenance of Industrial Projects Co. Ltd.	SAR 2 million	100%	Inspection and maintenance	KSA	KSA
	• Metallic Construction and Contracting Co. Ltd.	EGP 250,000	100%	Steel buildings	Egypt	Egypt
2	**Zamil Air Conditioners Holding Co. – and its subsidiaries:**	SAR 1 million	100%	Holdings	KSA	KSA
	• Zamil Air Conditioners and Home Appliances Co. Ltd.	SAR 173 million	100%	Air conditioners	KSA	KSA
	• Zamil Central Air Conditioners Co. Ltd.	SAR 101 million	100%	Air conditioners	KSA	KSA
	• Zamil Air Conditioning and Refrigeration Services Co. Ltd.	SAR 35.7 million	100%	Maintenance and services	KSA	KSA
	• Ikhtebar Co. Ltd.	SAR 500,000	100%	HVAC Testing	KSA	KSA
	• Eastern District Cooling Co. Ltd.	SAR 1 million	100%	District cooling systems	KSA	KSA
	• Zamil Energy Services Co. Ltd.	SAR 1 million	100%	Technical engineering services	KSA	KSA
	• Zamil Air Conditioning and Refrigeration Services Co. W.L.L.	BHD 270,000	100%	Maintenance and services	Bahrain	Bahrain
3	**Zamil Steel Buildings Co.**	EGP 100 million	100%	Steel buildings	Egypt	Egypt
4	**Zamil Steel Buildings (Shanghai) Co. Ltd.**	RMB 12,5 million	100%	Steel buildings	China	China
5	**Cooline Europe Holdings GmbH**	EUR 100,000	100%	Investment management	Austria	Austria
6	**Zamil Steel Buildings India Pvt. Ltd.**	INR 886.1 million	100%	Steel buildings	India	India
7	**Zamil Steel Engineering India Pvt. Ltd.**	INR 51.2 million	100%	Engineering office	India	India
8	**Arabian Stonewool Insulation Co.**	SAR 10 million	100%	Stonewool insulation	KSA	KSA
9	**Zamil Industrial Investment Co. (LLC)**	AED 5 million	100%	Holdings	UAE	UAE
10	**Zamil Steel Industries (LLC)**	AED 20 million	100%	Steel buildings	UAE	UAE
11	**Zamil Structural Steel Co. Ltd.**	USD 10 million	100%	Structural steel	Egypt	Egypt
12	**Zamil Construction India Pvt. Ltd.**	INR 13.7 million	100%	Steel industry project management	India	India
13	**Zamil Information Technology Global Pvt. Ltd.**	INR 23.5 million	100%	Information technology	India	India
14	**Zamil Higher Institute for Industrial Training**	SAR 8.14 million	100%	Industrial training	KSA	KSA
15	**Second Insulation Co. Ltd.**	SAR 50,000	100%	Insulation materials marketing	KSA	KSA
16	**Zamil Air Conditioners India Pvt. Ltd**	INR 1,372.7 million	100%	Air conditioners	India	India
17	**Saudi Central Energy Co. Ltd.**	SAR 1 million	100%	District cooling project management	KSA	KSA
18	**Zamil Industrial Investment Co. Asia Pvt. Ltd.**	SGD 1	100%	Holdings	Singapore	Singapore
19	**Zamil Steel Buildings Vietnam Co. Ltd.**	SAR 13.2 million	92.27%	Steel buildings	Vietnam	Vietnam
20	**Gulf Insulation Group (CJSC) – and its subsidiaries:**	SAR 21.1 million	51%	Holdings	KSA	KSA
21	**Saudi Preinsulated Pipes Industries**	SAR 7.2 million	51%	Pre-insulated pipes	KSA	KSA
22	**Petro-Chem Zamil Co. Ltd.**	SAR 2 million	50%	Furnaces	KSA	KSA
23	**Zamil Hudson Co. Ltd.**	SAR 2 million	50%	Heat exchangers	KSA	KSA

A portion of the parent company's shares in the subsidiaries outside of Saudi Arabia listed above is in the names of members of the Board of Directors or senior executives in their capacities as shareholders nominated to act on behalf of the parent company in accordance with legal requirements in the countries where such subsidiaries operate.

3 The Company's Investments

Investments in associates are as follows:

1. A 50% share in Rabiah & Nassar and Zamil Concrete Industries Co. Ltd., whose main headquarters is located in Riyadh and is engaged in the production of precast concrete products.
2. A 25% share in Energy Central Company B.S.C. (Closed), located in the Kingdom of Bahrain. The company's principal activity is the distribution of utility services, including district cooling, seawater distillation, wastewater treatment, power generation and other related services.
3. A 20.83% share in IIB Paper Company Limited, which is registered in the Cayman Islands. Its principal activity is the production of tissue paper.

Investments in joint ventures are as follows:

1. A 51% share in Middle East Air Conditioners Company Limited, whose main headquarters is located in Dammam. It engages in the sale and promotion of air conditioners.

Available for sale investments are as follows:

1. A 2.11% share in Kinan International for Real Estate Development Company Limited. Its principal activity is investment in real estate, including the sale, construction and lease of lands and buildings.

4 Future Plans and Important Decisions

The company's principal future plans and important decisions include:

A) Continued efforts to expand and increase the yields of adjacencies of the company's sectors in its operating geographic regions to enhance the company's ability to control the value chain, maximizing the chances of earning higher returns for owners.

B) Continue to rationalize expenditures and increase production efficiency and cash management, which will enable the company to improve its financial position and earn higher returns for owners.

C) Right-size a selection of activities in an effort to maximize yields and mitigate costs.

5 Performance Highlights

Revenues amounted to SAR 4,313.7 million as of 31 December 2018, a decrease of SAR 90.2 million (2.0%) from SAR 4,403.9 million in 2017. Net loss for the year, after deducting Zakat and tax, was SAR 139.9 million, compared with a net profit of SAR 105 million in 2017, a decrease of 233.2%. Loss per share, after deducting Zakat and tax, was SAR 2.33, compared with earnings per share of SAR 1.75 during the same period in 2017

The following table details the contribution of each principal activity to the total annual revenues:

Item	**2018**	2017	Change
Air Conditioning Industry	**43.7%**	48.7%	-12.2%
Steel Industry	**49.6%**	44.7%	+8.7%
Insulation Industry	**7.0%**	6.8%	+0.9%
Head Office and Others	**-0.3%**	-0.2%	+31.5%
	100%	**100%**	

A) Statement of Income:

Item (SAR '000)	**2018**	2017	2016	2015	2014
Sales	**4,313,649**	4,403,850	4,929,230	5,488,595	5,455,419
Cost of sales	**3,607,234**	3,495,651	3,858,159	4,183,312	4,108,032
Gross profit	**706,415**	**908,199**	**1,071,071**	**1,305,283**	**1,347,387**
Total expenses	**834,909**	785,070	932,755	1,049,447	1,080,697
Other income, net	**2,292**	(2,298)	30,677	29,321	19,908
Zakat	**13,631**	15,813	22,612	22,150	26,258
Net income	**(139,833)**	**105,018**	**146,381**	**263,007**	**260,340**

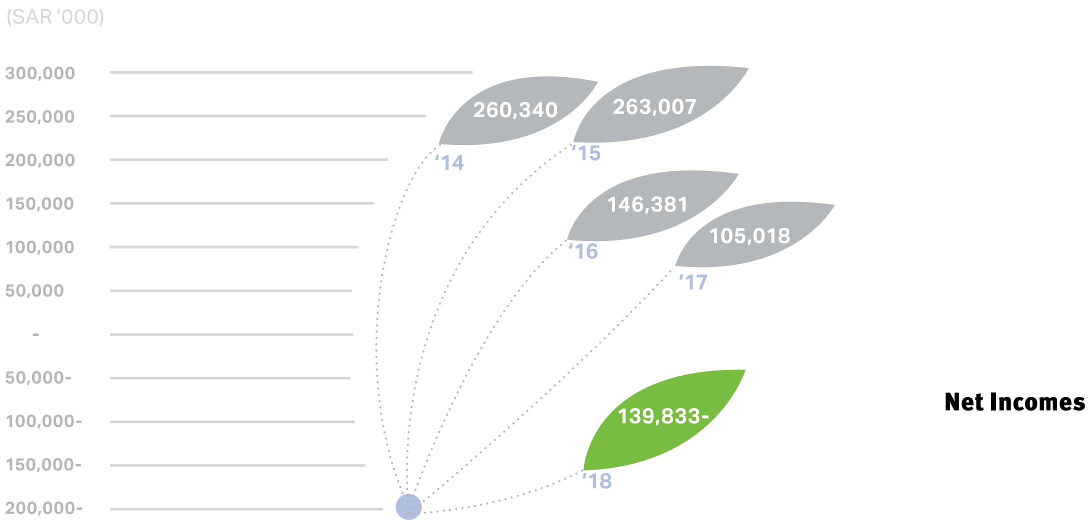
B) Balance Sheet:

Item (SAR '000)	**2018**	2017	2016	2015	2014
Current assets	4,241,708	4,036,713	4,093,137	4,344,531	4,106,842
Current liabilities	3,848,401	3,434,758	3,392,681	3,622,540	3,598,175
Working capital	**393,307**	**601,955**	**700,456**	**721,991**	**508,667**
Other long-term assets	502,992	555,122	584,704	708,919	797,930
Fixed assets	1,018,511	1,089,888	1,132,783	1,390,010	1,415,984
Total assets	**5,763,211**	**5,681,723**	**5,810,624**	**6,443,460**	**6,320,756**
Current liabilities	3,848,401	3,434,758	3,392,681	3,622,540	3,598,175
Long-term loans	38,734	67,255	195,246	313,338	403,915
Other liabilities	251,961	303,330	334,514	356,558	320,931
Total liabilities	**4,139,096**	**3,805,343**	**3,922,441**	**4,292,436**	**4,323,021**
Paid capital	600,000	600,000	600,000	600,000	600,000
Reserves and retained earnings	815,946	1,064,703	1,078,199	1,285,146	1,142,520
Minority interest	208,169	211,677	209,984	265,878	255,215
Shareholders' equity	**1,624,115**	**1,876,380**	**1,888,183**	**2,151,024**	**1,997,735**
Total liabilities and shareholders' equvity	**5,763,211**	**5,681,723**	**5,810,624**	**6,443,460**	**6,320,756**

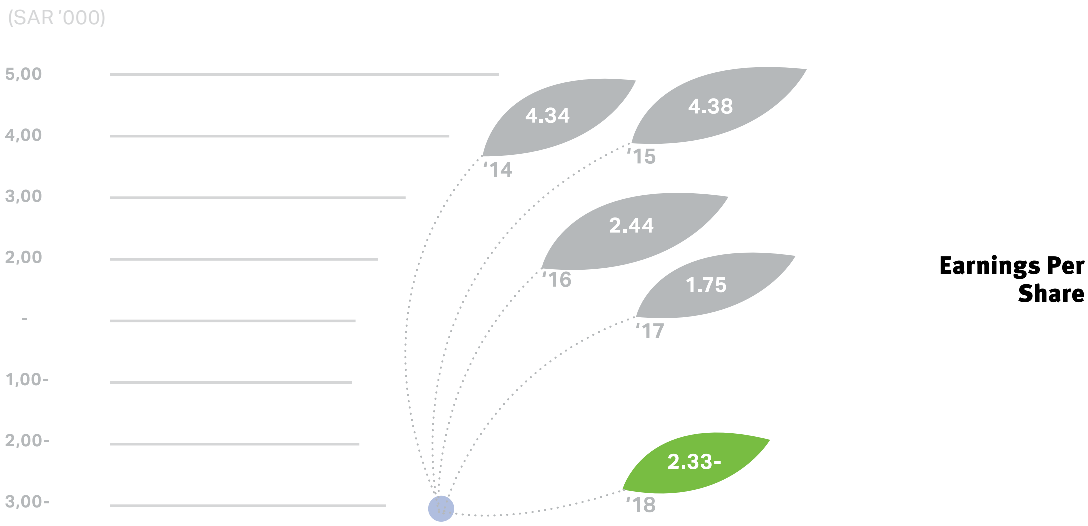
C) Outcome of Operation Activities:

Item (SAR '000)	2018	2017	Change	%
Sales	**4,313,649**	4,403,850	(90,201)	(2.0)
Cost of sales	**3,607,234**	3,495,651	111,583	3.2
Total operating profits	**(18,667)**	226,540	(245,207)	(108.2)
Expenses of main operations	**725,082**	681,659	43,423	6.4
Losses of main operations	**-**	-	-	-
Other revenue/expenses	**107,535**	105,709	1,826	1.7
Deductions: Zakat or tax	**13,631**	15,813	(2,182)	(13.8)
Net profits (loss)	**(139,833)**	105,018	(244,851)	(233.2)

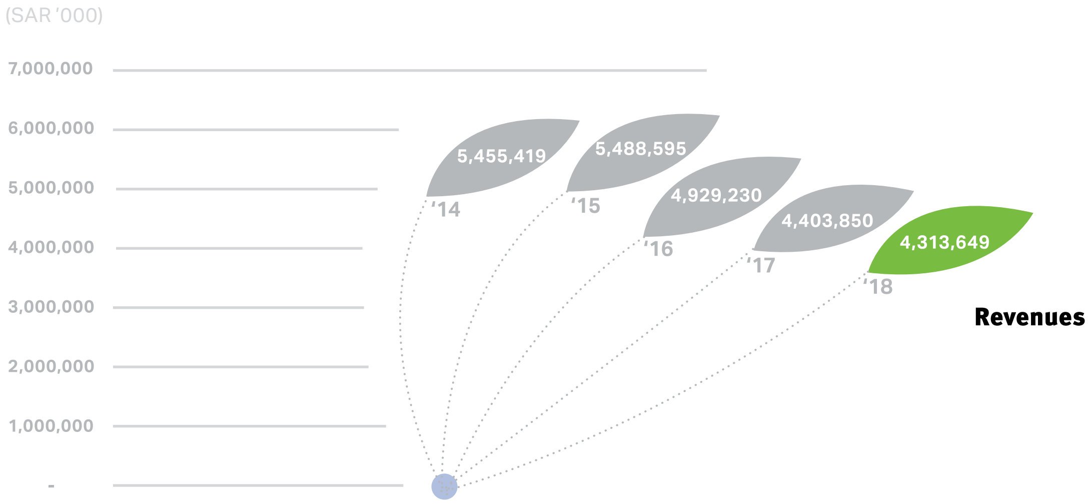
The following chart shows net incomes between 2014 and 2018:



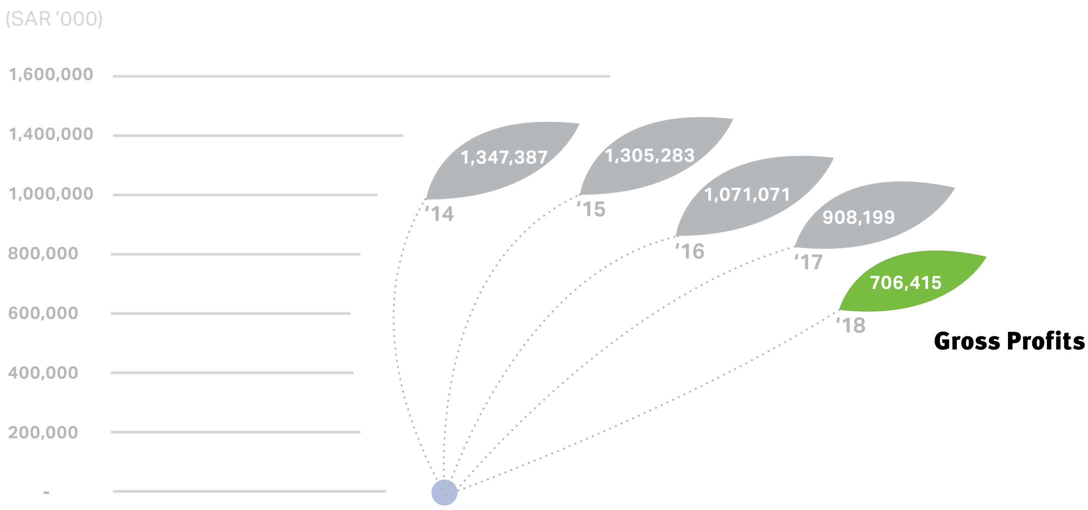
The following chart shows earnings per share between 2014 and 2018:



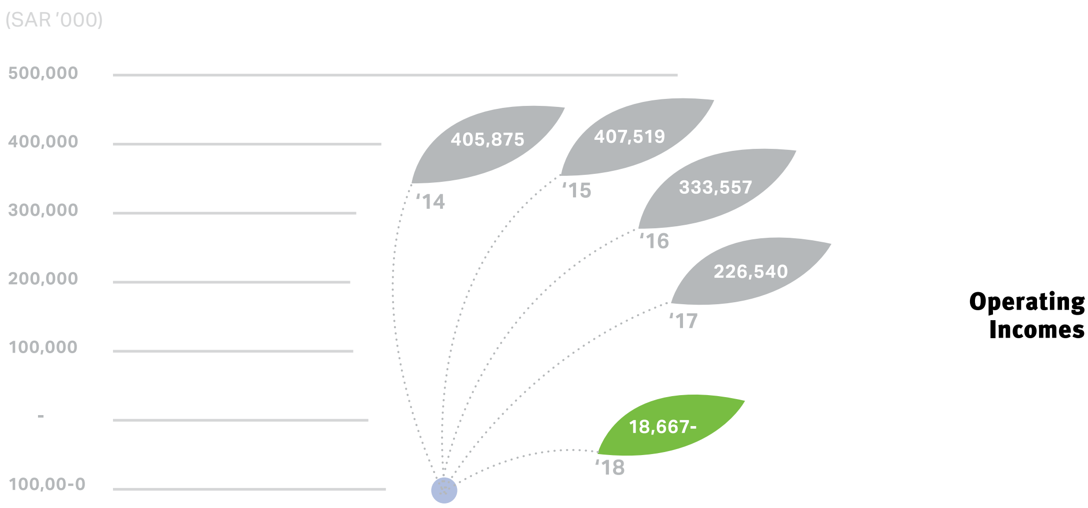
The following chart shows consolidated revenues over the past five years:



The following chart shows gross profits over the past five years:

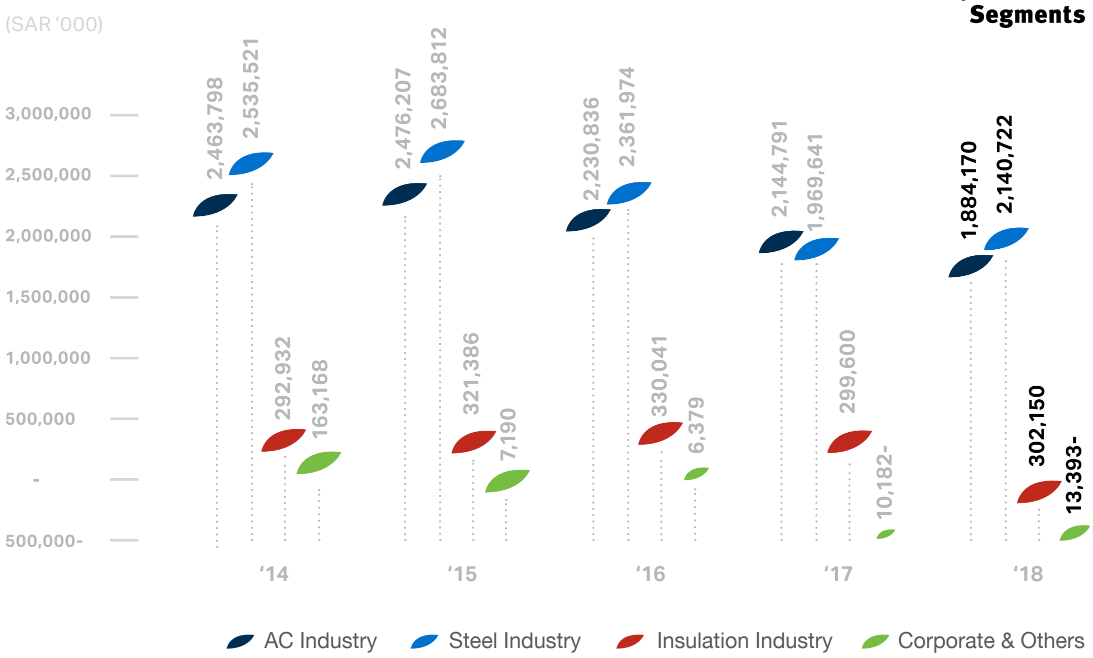


The following chart shows operating incomes over the past five years:



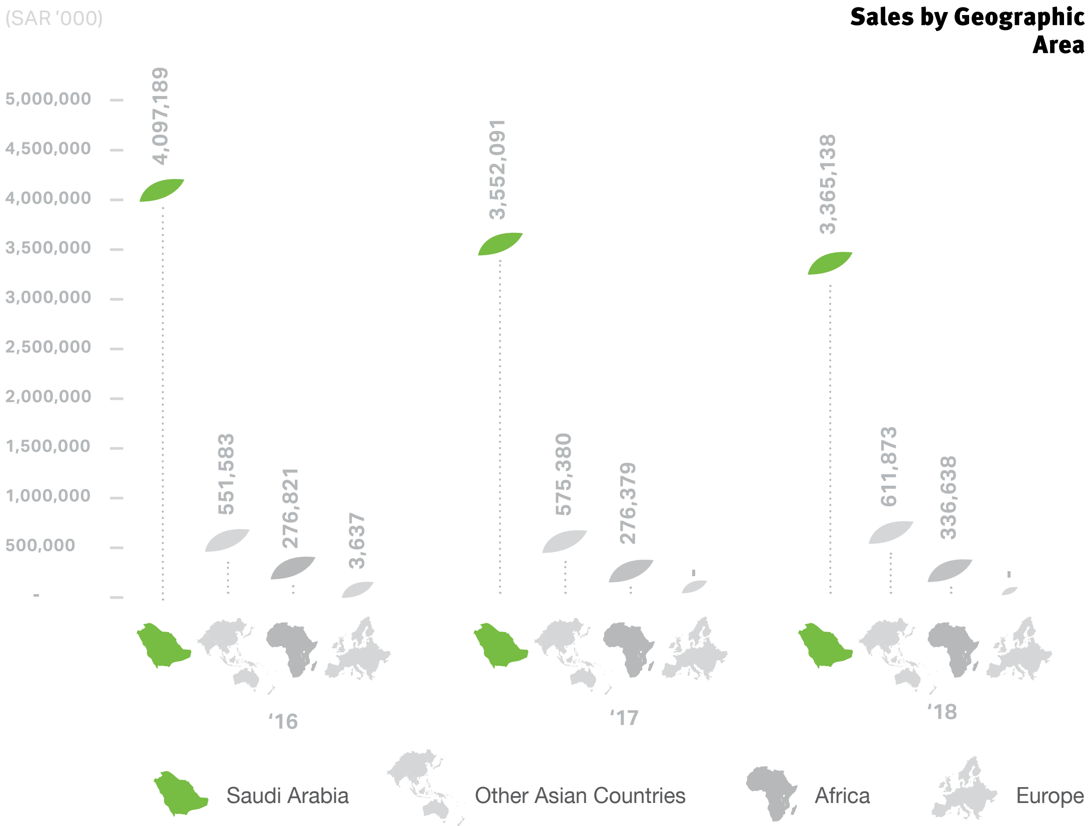
The Steel sector's revenue in 2018 was SAR 2,140.7 million, an increase of 8.7%. The Insulation sector's revenue also saw a 0.9% increase to SAR 302.2 million. The AC sector's revenue decreased 12.2% to SAR 1,884.2 million.

Sales by Business Segments

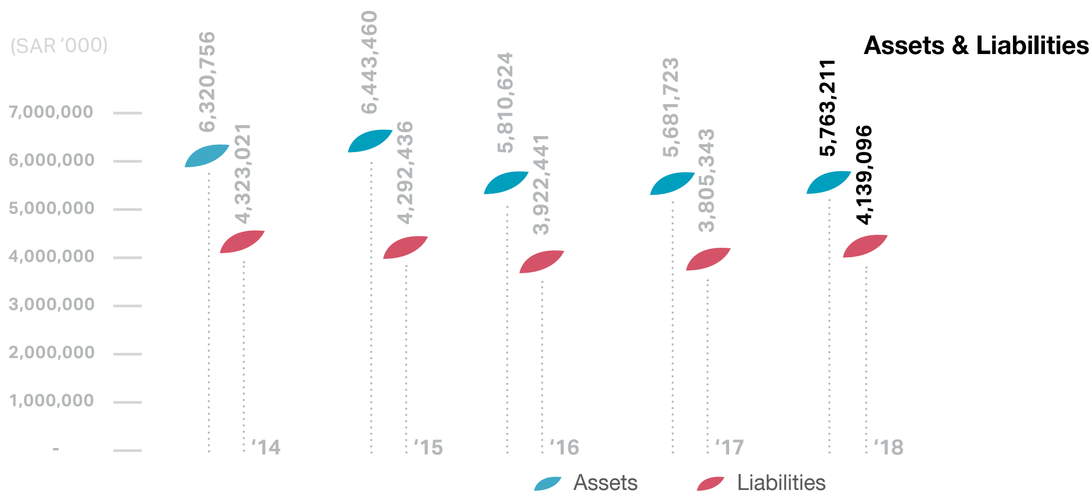


Geographically, the company's revenues based on operations in the Kingdom of Saudi Arabia were SAR 3,365 million. Revenues of the company's subsidiary factories outside the Kingdom of Saudi Arabia were SAR 949 million. This analysis, however, is not of exports, which are detailed in the exports section of the report.

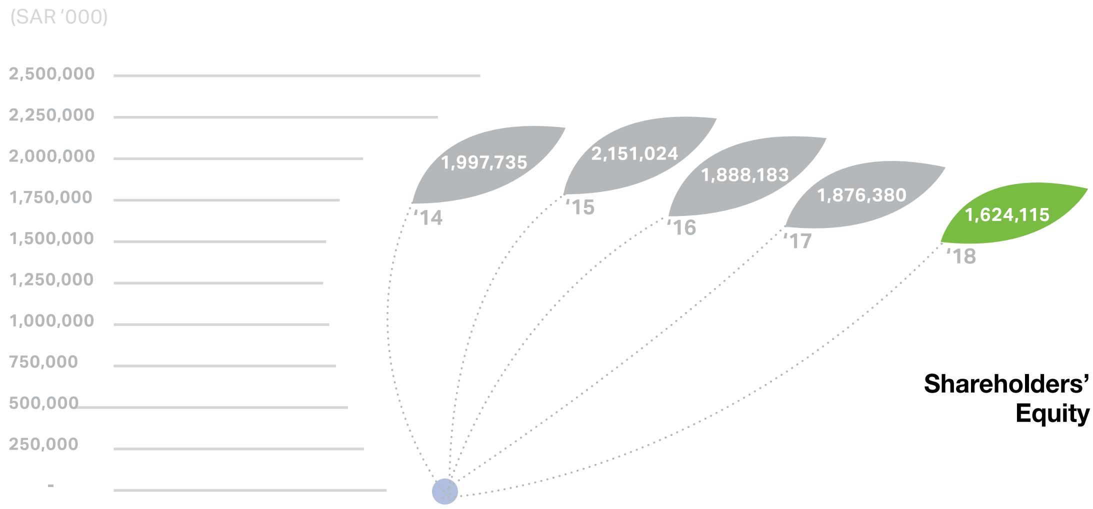
Sales by Geographic Area



The following chart shows the company's assets and liabilities over the past five years.



Shareholders' equity saw a drop of 13.4% to SAR 1,624.1 million, compared with SAR 1,876.4 million in 2017, as shown in the following chart:



The company's exports amounted to about SAR 730 million in 2018, compared with SAR 757 million in 2017. Exports were about 17% of total sales in 2018. The company's products are exported to over 90 countries by means of a network of sales and representative offices in over 55 countries around the world.

6 On Inconsistencies with the Saudi Organization for Certified Public Accountants' Accounting Standards

The Board of Directors declares that no inconsistencies exist with the accounting standards of the Saudi Organization for Certified Public Accountants (SOCPA).

All comparative figures have been reclassified in accordance with the new International Financial Reporting Standards (IFRS).

7 Loans

This comparison table details loans contracted by the company's management:

Item	2018 (SAR '000)	2017 (SAR '000)	Date Obtained	Due Date	Base Loan Amount (SAR '000)	Lender
Loan No. 1	**85,642**	107,442	29/08/2012	20/11/2021	**128,037**	Saudi Industrial Development Fund
	85,642	107,442				
Less: Current instalment	**(43,703)**	(34,669)				
Less: Fund administrative fees	**(3,205)**	(5,518)				
	38,734	67,255				

8 Financial Risk Management Objectives and Policies

The Group's principal financial liabilities comprise loans and borrowings and accounts payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include accounts receivables, net investment in finance lease, short-term deposits, cash and bank balances that derive directly from its operations. The Group also holds an investment in unquoted shares that is classified as equity investment at fair value through other comprehensive income.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks. The Group's senior management regularly reviews the policies and procedures to ensure that all the financial risks are identified, measured and managed in accordance with the Group's policies and risk objectives. The Group does not engage in any hedging activities. The Board of Directors reviews and agrees on policies for managing each of these risks, which are summarized below.

A) **Market risk:** Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: commission rate risk, currency risk and other price risk, such as equity price risk and commodity risk. Financial instruments affected by market risk include loans and borrowings, short-term deposits and equity instruments at fair value through other comprehensive income. The sensitivity analyses in the following sections relate to the position as of 31 December 2018 and 2017.

Commission rate risk
Commission rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market commission rates. The Group's exposure to the risk of changes in market commission rates relates primarily to the Group's long-term and short-term loans and its short-term deposits. The Group manages its exposure to commission rate risk by continuously monitoring movements in commission rates. On 31 December 2018 and 2017, the Group's exposure to commission rate risk was not significant, as its major long-term and short-term loans were subject to fixed commission rates.

Foreign currency risk
Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a foreign currency) and the Group's net investments in foreign subsidiaries and associates. The Group did not undertake significant transactions in currencies other than Saudi Riyals, US Dollars, Japanese Yen, Egyptian Pounds 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 Pounds. The Group manages currency risk exposure to Euros, Japanese Yen and Egyptian Pounds by continuously monitoring the currency fluctuations. On 31 December 2018 and 2017, the Group's exposure to foreign currency changes for its accounts receivable and accounts payable was not material.

The Group is exposed to significant foreign currency changes on its net investment in foreign operations in Egyptian Pounds and Indian Rupees. The following tables demonstrate the sensitivity to a reasonably possible change in Egyptian Pound and Indian Rupee exchange rates, with all other variables held constant. The impact on the Group's pre-tax equity is due to changes in the fair value of monetary assets and liabilities. The Group's exposure to foreign currency changes for all other currencies is not material.

	Change in **Egyptian Pound** rate	Effect on other components in equity (SAR '000)
31 December 2018	**+9%**	**1,438**
	-9%	(1,438)
31 December 2017	**+13%**	**2,416**
	-13%	(2,416)

	Change in **Indian Rupee** rate	Effect on other components in equity (SAR '000)
31 December 2018	**+2%**	**53**
	-2%	(53)
31 December 2017	**+2%**	**(1,321)**
	-2%	1,321

Commodity risk
The Group is exposed to the impact of market fluctuations in the price of various inputs to production, including steel, electric parts, glass materials and electricity. The Group prepares annual budgets and periodic forecasts, including sensitivity analyses, in respect to various levels of such materials to manage the risk.

Equity price risk
The Group's unlisted equity securities are susceptible to market price risk arising from uncertainties about the investment securities' future values. The Group manages the equity price risk through diversification and by placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Group's senior management on a regular basis. The Group's Board of Directors reviews and approves all equity investment decisions.

On the reporting date, the exposure to unlisted equity securities at fair value was SAR 40,538 thousands (2017: SAR 77,466 thousands).

B) **Credit risk:** Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk on its bank balances, short-term deposits, accounts receivables, contract assets, net investment in finance lease and some other receivables, as follows:

	31/12/2018	31/12/2017
	(SAR '000)	
Bank balances	**126,892**	180,242
Short-term deposits	**21,805**	31,471
Accounts receivable	**2,043,156**	1,951,955
Contract assets	**413,369**	361,412
Net investments in finance lease	**363,283**	384,946
Other receivables	**152,752**	136,605
	3,121,257	3,046,631

Accounts receivable and contract assets
Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. The Group seeks to manage its credit risk with respect to customers by setting credit limits for individual customers, monitoring outstanding receivables and ensuring close follow-ups.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses for each business unit of the Group. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., geographical region, product type, customer type and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The provision matrix is initially based on the Group's historical observed loss rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year, which can lead to an increased number of defaults in a particular sector, then the historical loss rates are adjusted. At every reporting date, the historical observed loss rates are updated and changes in the forward-looking estimates are analyzed.
The assessment of the correlation between historical observed loss rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customers' actual loss in the future.

Generally, accounts receivables are written off if past due for more than three years and are not subject to enforcement activity. It is not the practice of the Group to obtain collateral over receivables and the vast majority are, therefore, unsecured. On 31 December 2018, the Group obtained a letter of credits as collateral over its receivables amounting to SAR 245.8 million (2017: 225.2 million) from certain customers. The Group determined that such receivables are not exposed to significant credit risk and therefore have not been considered in the ECL assessment. The Group evaluates the concentration of risk with respect to trade accounts receivables as low, as its customers are located in several jurisdictions and industries and operate in largely independent markets.

Set out below is the information about the credit risk exposure on 31 December 2018 for the Group’s accounts receivables, net investment in finance lease and contract assets:

Accounts receivable	2018 (SAR '000)
Current	**540,223**
Less than 30 days	**207,969**
31 - 60 days	**146,249**
61 - 90 days	**93,284**
91 - 180 days	**177,362**
181-360 days	**186,398**
More than 360 days	**490,617**
	1,842,102
Receivables from related parties	**95,051**
Retention receivable	**171,852**
Net investment in finance lease	**363,283**
Contract assets	**415,397**
	2,887,685

Based on a provision matrix, the Group's expected credit losses on 31 December 2018 against its accounts receivable and contract assets exposed to credit risk amounted to SAR 311.6 million and SAR 2.02 million, respectively. Accordingly, in 2018, the Group recognized an amount of SAR 124,08 million as provisioned for expected credit losses in its consolidated statement of income for its continuing operations. Related parties receivables include an amount of SAR 37.9 million (2017: SAR nil) attributable to discontinued operations. The Group recognized an amount of SAR 23.2 million as a provision for expected credit losses as part of its net loss on discontinued operations in the consolidated statement of income.

The Group has applied the exemption to not restate the comparative information for prior periods with respect to classification and measurement. An impairment analysis of the Group's trade accounts receivables was performed under IAS 39 on an individual basis for major customers. On 31 December 2017, trade accounts receivables at a nominal value of SAR 150,5 million were impaired. The ageing analysis of unimpaired trade accounts receivables as of 31 December 2017 is as follows.

Accounts receivable	2017 (SAR '000)
Neither past due nor impaired	**540,800**
Past due but not impaired:	
Less than 30 days	**186,557**
31 - 60 days	**144,872**
61 - 90 days	**113,845**
91 - 180 days	**203,007**
181-360 days	**262,574**
More than 360 days	**242,311**
	1,693,966

Bank balances and short-term deposits
Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the Group's policy. The Group seeks to manage its credit risk with respect to banks by only dealing with reputable banks. At the reporting date, no significant concentration of credit risk was identified by the management.

C) **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 realize financial assets quickly at an amount close to their fair value. The Group manages its liquidity risk by monitoring working capital and cash flow requirements on a regular basis and ensuring that bank facilities are available. The Group's terms of sales require amounts to be paid within 30 to 90 days of the date of submitting the invoice. Trade payables are normally settled within 30 to 120 days of the date of purchase.

Excessive concentration risk

Concentrations arise when a number of counterparties are engaged in similar business activities, activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry.

In order to avoid excessive concentrations of risk, the Group's management focuses on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

Item	on demand	< 6 months	6 - 12 months	1 - 5 years	> 5 years	Total
As at 31 December 2018						
(SAR '000)						
Accounts payable	19,574	436,947	-	-	-	**456,521**
Other financial liabilities	-	374,431	-	-	-	**374,431**
Interest-bearing loans and borrowings	30,000	2,630,648	8,400	39,442	1,700	**2,710,190**
	49,574	**3,442,026**	**8,400**	**39,442**	**1,700**	**3,541,142**

Item	on demand	< 6 months	6 - 12 months	1 - 5 years	> 5 years	Total
As at 31 December 2017						
(SAR '000)						
Accounts payable	18,173	347,701	-	-	-	365,874
Other financial liabilities	-	396,630	-	-	-	396,630
Interest-bearing loans and borrowings	-	2,347,234	18,600	67,692	4,950	2,438,476
	18,173	3,091,565	18,600	67,692	4,950	3,200,980

9 Due Statutory Payments

The following table shows paid and due statutory payments for 2018:

Item	2018 (SAR '000)	2017
Custom charges	**40,102**	46,024
Zakat and tax	**45,099**	21,811
General Organization for Social Insurance	**41,779**	44,374
Visas and passports	**41,434**	23,002
Other	**-**	-
Total government charges:	**168,414**	135,211

10 Awards, Certifications and Quality

All Zamil Industrial subsidiaries are ISO 9000 certified by recognized competent organizations. Additionally, most of the subsidiaries have obtained OHSAS 18001 Occupational Health and Safety Management systems certification as well as ISO 14001 Environmental Management System (EMS) certification. The Information Technology Department at Zamil Industrial has also received ISO/IEC 20000 certification for delivering information technology management services.

IIn 2018, Zamil Steel Buildings India Pvt. Ltd., a subsidiary of Zamil Industrial, was recertified for the Integrated Management System (IMS) based on the latest version released by the International Organization for Standardization. This certification unifies the three key standards—ISO 9001:2015 Quality Management System; ISO 14001:2015 Environmental Management System; and OHSAS 18001:2007 Occupational Health & Safety Management System—into one coherent system.

Zamil Industrial was awarded the Bronze category of "Mowaamah Certification" for the year 2018 in recognition of its efforts to provide a supportive and motivational work environment for people with disabilities. The "Mowaamah Certification," launched by the Ministry of Labor and Social Development in Saudi Arabia, indicates the adoption of best practices and standards while creating a work environment that comprehensively supports the special needs of workers with disabilities.

In May, Zamil Industrial was selected by the United Safety Council (USC) as the winner of the First Place Gold Award for Corporate Safety for the year 2017. The company was selected from a group of international organizations collaborating with the Council. This international award acknowledges the significant contributions of the company's management in the implementation of effective safety programs and initiatives. It also demonstrates the company's genuine commitment to sustaining rigorous safety management and to providing a safe, healthy and decent working environment free from foreseeable hazards and risks across all Zamil Industrial business units.

In October, Zamil Industrial received the "K2 Workflow Hero Award" at the recent K2 Business Process Automation Awards Ceremony, which was held at Gitex Technology Week 2018 in Dubai, UAE.

Lastly, Zamil Industrial received the Occupational Safety and Health (OSH) Champions Award for 2018 for the company's excellence in OSH practices and its exceptional record in OSH performance levels. The award, which was recently launched by the Ministry of Labor and Social Development in Saudi Arabia, aims to establish and promote the principles of safety and health in private sector organizations as part of the ministry's efforts to achieve a stable workforce, attract new workers, enhance work performance, ensure worker safety and health and maintain the workplace property and environment.

These certificates and achievements are a clear indication of Zamil Industrial's commitment to meeting and exceeding international standards and practices in accordance with the quality systems standards applied worldwide.

11 Human Resources and Workforce Localization

Zamil Industrial attaches great importance to its human resources as the most important element in managing and operating its business and believes that the human element is the basis for achieving outstanding business performance. Since its establishment, the company has concentrated on attracting candidates with top credentials and practical qualifications for key positions. It has also focused on developing human competencies by providing excellent growth and learning opportunities for employees in all sectors of the company.

At the end of 2018, the total Zamil Industrial headcount in Saudi Arabia was 8,380 employees, a decrease of 9.7% from the previous year. However, the number of Saudi nationals working in the company's sectors increased by 1.5% when compared to the corresponding period of the previous year, with the percentage of job localization reaching about 30% of the total employees of the company. During 2018, the Talent Acquisition program continued to focus on attracting and recruiting new Saudi employees. As a result, 851 new recruits joined Zamil Industrial's business units, 485 (or 57%) of whom were Saudis.

The number of Saudi females working in the various sections and departments dropped to 67 employees, a decrease of 13% from 2017, due to the employment reductions and the restructuring of some business units and sections in the company. In employing new recruits, close attention was paid to maintaining full compliance with the Nitaqat nationalization program, which ensures a growing number of Saudi employees in company workforces.

To address skill development needs, the Organizational Development and Transformation Department (ODT) provided 33 training and development courses during the year in addition to 68 courses conducted by ODT for employees during 2017. ODT also continued to provide employee development opportunities by provisioning more than 550 training courses and programs through the online training and development portal and Learning Management System (LMS), benefiting about 765 employees of the various functional levels in the company's sectors.

Course offerings fell into three categories: leadership development, functional proficiency and personal effectiveness, developed by globally recognized universities and executive development institutes in North America, Europe and Asia.

In October, Zamil Industrial presented employment opportunities at the Wadaef Job Fair 2018, 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 more than 60 people with disabilities across various business units and functional areas, with interrelated awareness sessions conducted on an in-house basis. Also, the company regularly organizes awareness seminars for officials and managers in key Zamil Industrial sectors and departments on the best practices for dealing with persons with disabilities in the workplace.

In recognition of its efforts to provide a supportive and motivational work environment for people with disabilities, Zamil Industrial was awarded the Bronze category of "Mowaamah Certification" for the year 2018. The "Mowaamah Certification" program, launched by the Ministry of Labor and Social Development in Saudi Arabia, adopts best practices and standards while creating a work environment that comprehensively supports the special needs of workers with disabilities.

The Human Resources Department again organized a series of social events for Zamil Industrial employees during the past year, including a Ramadan Iftar Celebration, Health & Wellness campaigns, and the 2018 Sports Fest

12 Training and Development

Zamil Industrial strives to provide training programs with outstanding content and high value to ensure the success and continuous development of employees and all business units in the company. In order to facilitate the continuous delivery of these specialized training and development programs and to increase job localization, the company has established the Zamil Higher Institute for Industrial Training. The institute specializes in preparing and graduating qualified Saudi technicians with diploma certificates accredited by the Technical and Vocational Training Corporation (TVTC); Grimsby Institute of Further & Higher Education, a leading UK-based provider of vocational air conditioning and refrigeration training; and Edexcel, a multinational education and examination body based in London, UK.

In 2018, Zamil Higher Institute for Industrial Training received an award for "Outstanding Performance in Qualifying Saudi Aramco's Contractor Technicians" from among all the Saudi Aramco-approved training centers and institutes. This prestigious top performer award was recognition for how the institute strictly adhered to the high-quality procedures and standards stipulated by Saudi Aramco for delivering qualification test preparation training courses as well as the qualification tests. The institute was the first training center to be approved by Saudi Aramco to conduct the qualification tests in 2014, and since then the Institute has helped over 700 technicians from different contracting companies to attend the qualification preparation courses and take the relevant tests for various training programs.

During 2018, the institute delivered Saudi Aramco certification test preparation courses and tested over 1,340 technicians from various Saudi Aramco contracting companies. Additionally, the institute was selected by Sadara Chemical Company as an approved center to deliver qualification test preparation courses and conduct tests for Sadara contractors' employees in various safety-related courses as well as maintenance crafts qualification assurance programs.

Moreover, the institute delivered one-month technical training courses for over 135 employees of a major Saudi Aramco contractor in several specialized technical fields, such as welding and fabrication, electrical, painting, sandblasting and machining.

The institute also started nine-month technical training certificate programs in electrical and occupational health and safety technology for a major Saudi Aramco contractor to train a total of 60 Saudi trainees during the year. The institute started similar training programs in electrical, pipefitting and HVAC ducting technology for 100 newly recruited Zamil Air Conditioning and Refrigeration Services Co. (Zamil CoolCare) trainees as part of their localization of workforce program.

Finally, the institute conducted specialized short courses on HVAC, team building, soldering and de-soldering of electronic components on PCB, safety, electrical maintenance, electronic devices, electrical control applications and the English language for a total of 392 employees from several national companies. Additionally, the institute has trained 20 employees from different companies and arranged the UK-based NEBOSH examinations for them during the year.

13

Corporate Social Responsibility

Zamil Industrial takes pride in its commitment to social responsibility in the communities in which it operates and contributes widely to a network of community service and development programs in partnership with charities and like-minded institutions to help those in need. The company continues its support of ambitious initiatives and social projects aimed at improving living conditions and contributing to the prosperity of communities in which the Zamil Industrial businesses operate. Corporate social responsibility is not limited to the workplace. Zamil Industrial encourages all employees to volunteer and participate in various community-based activities and initiatives.

In recent years, Zamil Industrial has worked closely with the Ministry of Labor in supporting the Qaderoon Business Disability Network, which seeks to motivate employers to include those with disabilities in their recruitment plans and empower persons with disabilities to be active members of the national workforce. Zamil Industrial currently employs more than 60 individuals with disabilities in various business units and functional areas.

In February, Zamil Industrial provided Diamond-level sponsorship for the Armed Forces Exhibition for Diversity of Requirements and Capabilities (AFED 2018), organized by the Saudi Ministry of Defense at the Riyadh International Convention and Exhibition Center. AFED 2018 displayed the requirements for a huge number of participants, which included ministries, government organizations and private sectors, as part of the process to achieve the goals set under Vision 2030 and the concentration of the Kingdom's orientation toward a strong and effective strategy to localize major and supplementary industries.

In April, Zamil Industrial provided platinum-level sponsorship for the Second Saudi International Quality Exhibition and Forum (Saudi Qualex 2018), held under the patronage of His Excellency the Minister of Energy, Industry and Mineral Resources, Eng. Khalid bin Abdulaziz Al-Faleh at the Riyadh International Convention and Exhibition Center. Saudi Qualex 2018 aimed to improve and develop industrial innovation and entrepreneurship, contribute to the improvement of industrial efficiency and sustainability, internationally enhance quality and competitiveness of national industries, raise awareness of the role of standards in quality assurance and consumer protection, highlight the importance of accreditation in supporting the national economy and support the GCC efforts to improve quality infrastructure.

In November, Zamil Air Conditioners participated as the main sponsor of the "Etqan Al Sharqiya 2018" conference, which was organized by the Saudi Society for Quality in the Eastern Province, during World Quality Month at the Holiday Inn Hotel in Al-Khobar.

In related developments, Zamil Steel in Ras Al Khaimah, United Arab Emirates, supported the "Journey of Zayed in the Year of Zayed" initiative, which was organized by the UAE Ministry of Interior, by covering the expenses of a group of pilgrims from the orphans and people with special needs to visit the Sacred Mosque and other holy places in Makkah.

At the end of 2018, as a part of the "Sharik" (Employee Engagement) initiative titled "Rad Al Jameel", Zamil Industrial, in cooperation with the Maternity and Children's Hospital in Dammam, organized and conducted its annual blood donation campaign. The event took place in both First and Second Industrial Cities in Dammam and was attended by participants throughout the company.

14 Capital and Shares' Details

The following table details the company's capital. No debt instruments are convertible to stock.

Item	2018	2017	(%) change
Authorized and fully paid share capital	**SAR 600 million**	SAR 600 million	0
Issued shares	**60 million shares**	60 million shares	0
Nominal value	**SAR 10**	SAR 10	0
Number of free-float shares	**44,999,375 shares** (74.9%)	44,999,375 shares (74.9%)	0
Closing share price	**SAR 17.40**	SAR 26.86	SAR (9.46)
Market value	**SAR 1,044,000,000**	SAR 1,611,600,000	(35.2%)

15 Corporate Governance Controls

The company has adhered to all mandatory provisions of corporate governance controls.

16 Board of Directors' Composition

The Board of Directors comprises eight members who are elected by the General Assembly before their memberships expire, and their term shall be three years, in accordance with the Companies' Law and the company's bylaws. The following table shows the names, positions and classifications of members of the Board of Directors, in accordance with corporate governance controls.

Name	Position	Classification
Khalid Abdullah Hamad Al Zamil	Chairman of the Board of Directors	Independent
Abdallah Saleh Jum'ah Al Dossari	Vice-chairman	Independent
Ahmed Abdullah Hamad Al Zamil	Member	Independent
Adib Abdullah Hamad Al Zamil As a representative of Zamil Group Holding Company	Member	Non-executive
Mohammed Ahmed Mahmoud Al-Ghaith As a representative of the Public Pension Agency	Member	Non-executive
Mohammad Sulaiman Mohammad Al Harbi	Member	Independent
Khalid Mohammed Saleh Al Fuhaid	Member	Independent
Abdulla Mohammed Abdullah Al Zamil	Member/CEO	Executive

17 A description of any interest in a class of voting shares held by persons who have notified the company of their holdings, together with any change to such interests during the last fiscal year

There are no interests in a class of voting shares held by persons who have notified the company of their holdings or any change to such interests during the last fiscal year.

18 A description of any interests, contractual securities or rights issues of Board members and their relatives on shares or debt instruments of the company

	At year's beginning		At year's end			
Name	Number of shares	Debt instruments	Number of shares	Debt instruments	Net change	Change percentage
Khalid Abdullah Hamad Al Zamil	1,747,233	0	1,747,233	0	0	0%
Abdallah Saleh Jum'ah Al Dossari	2,666	0	2,666	0	0	0%
Ahmed Abdullah Hamad Al Zamil	0	0	1,000	0	1,000	-
Adib Abdullah Hamad Al Zamil As a representative of Zamil Group Holding Company	*11,999,989	0	*11,999,989	0	0	0%
Mohammed Ahmed Mahmoud Al-Ghaith As a representative of the Public Pension Agency	*3,000,636	0	*3,000,636	0	0	0%
Mohammad Sulaiman Mohammad Al Harbi	1,000	0	1,000	0	0	0%
Khalid Mohammed Saleh Al Fuhaid	1,000	0	1,000	0	0	0%
Abdulla Mohammed Abdullah Al Zamil	21,000	0	21,000	0	0	0%

*The number of shares owned by a corporate entity

19 A description of any interests, contractual securities or rights issues of senior executives and their relatives on shares or debt instruments of the company

	At year's beginning		At year's end			
Name	Number of shares	Debt instruments	Numbe of shares	Debt instruments	Net change	Change percentage
Osama Fahad Al Bunyan	200,000	0	200,000	0	0	0%
Said Fahad Al Daajani	10,000	0	10,000	0	0	0%

20 Controlling interests of substantial shareholders who own 5% or more and percentage changes

	At year's beginning		At year's end			
Name	Number of shares	%	Numbe of shares	%	Net change	Change percentage
Zamil Group Holding Company	11,999,989	19.99	11,999,989	19.99	0	0%
Public Pension Agency	3,000,636	5.0	3,000,636	5.0	0	0%
Waleed Abdullah Hamad Al Zamil	0	0	3,168,066	5.28	3,168,066	-
Zamil Group Investment Company Ltd.	0	0	3,091,528	5.15	3,091,528	-

21 Names, former and current positions, qualifications and expertise of Board members, committee members and executives

Members of the Board of Directors:

Name	Current positions	Previous positions	Qualifications	Experience
Khalid Abdullah Hamad Al Zamil	• Chairman, Zamil Group Holding Company	• Chairman, Zamil Group Holding Company • Managing Director, Zamil Industrial Investment Co. • Managing Director, Strategic Affairs, Zamil Group Holding Co	• Bachelor's in Civil Engineering • Executive education programs (Harvard and IMD)	Professional experience since 1972
Abdallah Saleh Jum'ah Al Dossari	• Retired	• CEO, Saudi Arabian Oil Company (Saudi Aramco)	• B.A. in Political Science • Executive Management program	Professional experience since 1968
Ahmed Abdullah Hamad Al Zamil	• Businessman	• President, Zamil Air Conditioners	• Bachelor's in Business Administration	Professional experience since 1972
Adib Abdullah Hamad Al Zamil	• Chief Executive Officer, Zamil Group Holding Company	• Managing Director, Finance and Investment, Zamil Group Holding Company • Managing Director, Zamil Industrial Investment Co. • Managing Director, Zamil Air Conditioners • Financial Auditor, Zamil Group	• Bachelor's in Business Administration	Professional experience since 1975
Mohammed Ahmed Mahmoud Al-Ghaith	• Senior Management Auditor, Public Pension Agency	• Financial Auditor, Public Pension Agency • Statistics Researcher, Public Pension Agency	• Master's in Financial Management • Bachelor's in Operations Research	Professional experience since 2001
Mohammad Sulaiman Mohammad Al Harbi	• Freelance	• Chairman, Mohamed Al-Harbi Consulting Co. • CEO, Takween Advanced Industries • Chairman, Saudi German Company for Nonwoven Products • Project Manager, Saudi Industrial Development Fund	• Bachelor's in Industrial Engineering	Professional experience since 1992
Khalid Mohammed Saleh Al Fuhaid	• Chairman of the Board of Directors, Manafea Arabia Holding Co.	• CEO, Midad Holding Co. • General Manager, Aluminium Products Company (ALUPCO)	• Bachelor's in Mechanical Engineering	Professional experience since 1989
Abdulla Mohammed Abdullah Al Zamil	• CEO, Zamil Industrial Investment Co.	• COO, Zamil Industrial Investment Co. • VP, Zamil Air Conditioners • Senior VP of Shared Services, Zamil Industrial Investment Co. • VP, Sales & Marketing and Purchasing & Materials Management, Zamil Air Conditioners	• Master's in Finance and Business Administration • Bachelor's in Industrial Engineering	Professional experience since 1987

Committee members:

Name	Current positions	Previous positions	Qualifications	Experience
Dr. Jassim Shaheen Al-Rumaihi	• Administrative and Financial Consultant, Al-Ebdaa Al-Sharqi Consulting and Training	• Dammam Branch Director, Arab Open University • CEO, Razen Knowledge Holding Co. • VP for Administration and Development Affairs, Al-Shalawi International Holding Co. for Trading and Contracting • General Manager, Abdulrahman Al-Shalawi Establishment for Contracting • Adjunct Professor, King Fahd University for Petroleum and Minerals • VP for Financial and Administrative Affairs, Mizat Al-Khaleej Holding Co. • CEO, Saudi Consolidated Contracting Co. • VP for Financial and Administrative Affairs, Faysal Mohammed Al-Qahtani Sons Trading & Contracting Co. • Consultant to the Chairman, Faysal Mohammed Al-Qahtani Sons Trading & Contracting Co. • Head of the Accounting and Administrative Information Systems Department, King Fahd University for Petroleum and Minerals • Adjunct Professor, King Fahd University for Petroleum and Minerals • Adjunct Professor, King Saud University	• Doctorate in Accounting • Master's in Accounting • Bachelor's in Accounting	Professional experience since 1997

Executives:

Name	Current positions	Previous positions	Qualifications	Experience
Abdulla Mohammed Abdullah Al Zamil	• CEO, Zamil Industrial Investment Co.	• COO, Zamil Industrial Investment Co. • VP, Zamil Air Conditioners • Senior VP of Shared Services, Zamil Industrial Investment Co. • VP, Sales & Marketing and Purchasing & Materials Management, Zamil Air Conditioners	• Master's in Finance and Business Administration • Bachelor's in Industrial Engineering	Professional experience since 1987
Osama Fahad Al Bunyan	• COO, Zamil Industrial Investment Co.	• VP, Zamil Air Conditioners • Director, Material Management, Zamil Air Conditioners • Accountant, Saudi Electricity Company	• Bachelor's in Industrial Management	Professional experience since 1993
Awadh Sharif Al-Ameen	• CFO, Zamil Industrial Investment Co.	• CFO, Zamil Air Conditioners	• Bachelor's in Accounting	Professional experience since 1981
Said Fahad Al Daajani	• Director, Corporate Communications and Investor Relations • Head, Legal Affairs / Secretary of the Board of Directors	• Public and Investor Relations Manager • Administrative Assistant	• BA in Administrative Sciences and Political Science • Certification in Governance • Certification in Investor Relations	Professional experience since 1998

22 Names of companies inside and outside the Kingdom of Saudi Arabia whose current or former Boards of Directors or management teams include members of the company's Board of Directors

Name	Current companies	Location	Legal entity	Former companies	Location	Legal entity
Khalid Abdullah Hamad Al Zamil	• Middle East Battery Co. • Saudi Aramco Base Oil Company (Luberef) • Rabiah & Nassar and Zamil Concrete Industries Co. • Zamil Group Holding Co. • Prince Mohammad Bin Fahd University	• In KSA • In KSA • In KSA • In KSA • In KSA	• Limited Liability • Limited Liability • Unlisted • Limited Liability • Unlisted	• Gulf Insulation Group	• In KSA	• Unlisted
Abdallah Saleh Jum'ah Al Dossari	• Hassana Investment Co. • Saudi Arabian Airlines • Saudi Investment Bank	• In KSA • In KSA • In KSA	• Unlisted • Unlisted • Listed	• Halliburton • JPMorgan Chase & Co. • Reliance International • Schlumberger • Saudi Arabian Oil Company (Saudi Aramco) • Motiva • Motor Oil Hellas • Petron • S-Oil Corporation • Saudi Petroleum International, Inc.	• Abroad • Abroad • Abroad • Abroad • In KSA • Abroad • Abroad • Abroad • Abroad • Abroad	• Listed • Listed • Listed • Listed • Unlisted • Limited Liability • Listed • Listed • Listed • Unlisted
Ahmed Abdullah Hamad Al Zamil	–	–	–	• Zamil Group Holding Co. • United Plastic Cards Co. • Sigma Paints • Saudi German Company for Nonwoven Products • Gulf Packaging Industries • Saudi Industrial Export Co.	• In KSA • In KSA • In KSA • In KSA • In KSA • In KSA	• Unlisted • Limited Liability • Limited Liability • Limited Liability • Limited Liability • Limited Liability
Adib Abdullah Hamad Al Zamil	• United Carton Industries Co. • Jadwa Investment • Fajr Capital • Saudi Arabian Investment Co. (Sanabil) • Zamil Group Holding Co.	• In KSA • In KSA • Abroad • In KSA • In KSA	• Limited Liability • Unlisted • Unlisted • Unlisted • Unlisted	• Al-Bilad Bank • Methanol Chemicals Co. (Chemanol) • Gulf Union Co-Operative Insurance Co. • Dana Gas • Saudi Guardian International Float Glass (GulfGuard)	• In KSA • In KSA • In KSA • Abroad • In KSA	• Listed • Listed • Listed • Listed • Limited Liability
Mohammed Ahmed Mahmoud Al-Ghaith	–	–	–	–	–	–
Mohammad Sulaiman Mohammad Al Harbi	• Musharaka Capital Co. • Arabian Amines Company • National Talents Co.	• In KSA • In KSA • In KSA	• CJSC • Limited Liability • Limited Liability	• Hail Agricultural Development Co. • Takween Advanced Industries	• In KSA • In KSA	• Listed (formerly) • Listed

Name	Current companies	Location	Legal entity	Former companies	Location	Legal entity
Khalid Mohammed Saleh Al Fuhaid	• Manafea Arabia Holding Co. • Manafea Holding (Health care) • Manafea Al-Bahr Co. • Manafea Al-Jazeera Co. • Manafea Industrial Co. • Aluminum Rolling Shutter Co. • Life Lines Medical Co. • First United Medical Co. • Designs and IT Co. • Al-Narjes Real Estate Development Co. • Cherish Cosmetics	• In KSA • In KSA • In KSA • In KSA • In KSA • In KSA • In KSA • In KSA • In KSA • In KSA • In KSA	• Limited Liability • Limited Liability • Limited Liability • Limited Liability • Limited Liability • Limited Liability • Limited Liability • Limited Liability • Limited Liability • Limited Liability • Limited Liability	• Manafea Gulf Co.	• Abroad	• Limited Liability
Abdulla Mohammed Abdullah Al Zamil	• Gulf International Bank • Gulf International Bank Capital • Gulf International Bank (UK) • Saudi Global Ports Co. • VIVA Bahrain • Dammam Airport Co. • Rabiah & Nassar and Zamil Concrete Industries Co. • Gulf Insulation Group • Dhahran Ahliyya Schools	• Abroad • In KSA • Abroad • In KSA • Abroad • In KSA • In KSA • In KSA • In KSA	• Unlisted • Unlisted • Unlisted • Limited Liability • Unlisted • Limited Liability • Limited Liability • Unlisted • Limited Liability	• Saudi Food Bank • Endeavor Saudi Arabia	• In KSA • In KSA	• Limited Liability • Limited Liability

23 Board Meetings Attendance Record

The Board of Directors (in its seventh term) convened 4 sessions in 2018. Board of Directors members are paid attendance allowances for each meeting attended. Any member who did not attend a Board of Directors meeting has appointed another member as an attorney to attend in their stead and vote on their behalf. The following is an attendance sheet.

Name	No. (9/7) on 08/04	No. (10/7) on 27/05	No. (11/7) on 24/09	No. (12/7) on 09/12	Total
Khalid Abdullah Hamad Al Zamil	√	√	√	√	4
Abdallah Saleh Jum'ah Al Dossari	√	√	√	√	4
Ahmed Abdullah Hamad Al Zamil	√	√	√	√	4
Adib Abdullah Hamad Al Zamil	√	√	√	√	4
Mohammed Ahmed Mahmoud Al-Ghaith	√	√	√	√	4
Mohammad Sulaiman Mohammad Al Harbi	√	√	√	√	4
Khalid Mohammed Saleh Al Fuhaid	√	√	√	√	4
Abdulla Mohammed Abdullah Al Zamil	√	√	√	√	4

24 Procedure taken by the Board of Directors to inform its members of the shareholders' suggestions and remarks on the company and its performance

The company's bylaws grant shareholders the right to attend General Assembly meetings to learn about the company's overall situation, activities and performance during the ended fiscal year. They also have the right to engage in deliberation and discussions conducted during meetings, and the Board of Directors shall answer questions raised by shareholders to the extent that this does not jeopardize the Company's interest. The regulations protect the right to inquire and request information.

The Secretary of the Board and the Investor Relations Department, in turn, shall serve as a communication channel between shareholders, the Chairman of the Board of Directors and the company's Chief Executive Officer. It shall also present the Board of Directors with material views, suggestions and comments, if any, at the Board's first meeting following the General Assembly.

25 Committees of the Board of Directors

The Board of Directors has two substantive committees: the Audit Committee and the Nomination and Remuneration Committee. The committees comprise members of the Board of Directors and external members, in accordance with the directives and regulations in place in connection with this matter. The following is a brief description of each committee:

1) Audit Committee

The Audit Committee comprises 3 members. It was formed by a resolution of the General Assembly on 9 February 2017.

It works in compliance with the duties and procedures provided in the Companies' Law, the Corporate Governance Regulations and the Audit Committee Regulations approved by the General Assembly. The Audit Committee is competent in monitoring the company's activities and ensuring the integrity and effectiveness of the reports, financial statements and internal control systems. The duties of the Audit Committee specifically include the following:

A) Financial Reports:

1. Analyzing and monitoring the company's interim and annual financial statements before they are presented to the Board of Directors, expressing its opinion and recommendations thereon to ensure their integrity, fairness and transparency.
2. Expressing its technical opinion, at the request of the Board of Directors, regarding whether the Board Report and the company's financial statements are fair, balanced and understandable and contain information that allows shareholders and investors to assess the company's financial position, performance, business model and strategy.
3. Examining any important or unusual issues contained in the financial reports.
4. Accurately investigating any issues raised by the company's Chief Financial Officer or any person assuming their duties or the company's compliance officer or external auditor.
5. Examining the accounting estimates in respect of significant matters that are contained in the financial reports.
6. Examining the accounting policies followed by the company and expressing its opinion and recommendations to the Board of Directors thereon.

B) Internal Audit:

1. Examining and reviewing the company's internal and financial control systems and risk management system.
2. Analyzing internal audit reports and observing the implementation of corrective measures in respect of the remarks made in such reports.
3. Monitoring and overseeing the performance and activities of the internal auditor and internal audit department of the company, if any, to ensure the availability of the necessary resources and their effectiveness in performing the assigned activities and duties. If the company has no internal auditor, the committee shall provide a recommendation to the Board of Directors on whether there is a need to appoint an internal auditor.
4. Providing recommendations to the Board of Directors for appointing a manager of the internal audit unit or department or an internal auditor and suggesting their remunerations, or approving the appointment of a professional accounting firm to undertake internal audit duties.

C) External Auditor:

1. Providing recommendations to the Board of Directors to appoint external auditors, dismiss them, determine their remunerations and assess their performance after verifying their independence and reviewing the scope of their work and the terms of their contracts.
2. Verifying the independence of the external auditor, their objectivity, fairness, and effectiveness of the audit activities, taking into account the relevant rules and standards.
3. Reviewing the plan of the company's external auditor and their activities, and ensuring that they do not provide any technical or administrative services that are beyond their scope of work, and providing its opinion thereon.
4. Responding to queries of the company's external auditor.
5. Reviewing the external auditor's reports and comments on the financial statements, and following up on the procedures taken in connection therewith.

D) Ensuring Compliance:

1. Reviewing the findings of supervisory authorities and ensuring that the company has taken the necessary actions in connection therewith.
2. Ensuring the company's compliance with the relevant laws, regulations, policies and instructions.
3. Reviewing the contracts and proposed related party transactions, and providing its recommendations to the Board of Directors in connection therewith.

4. Reporting to the Board of Directors any issues in connection with which it deems necessary to take action, and providing recommendations as to the steps that should be taken.

The committee has convened seven times during the year. The following is an attendance sheet:

Meeting No.	Mohammad Sulaiman Mohammad Al Harbi (Chairman – Independent)	Mohammed Ahmed Mahmoud Al-Ghaith (Member – Non-Executive)	Dr. Jassim Shaheen Hamad Al-Rumaihi (Member – Outside Director)
No. (7/7) on 20/03	√	√	√
No. (8/7) on 18/04	√	√	√
No. (9/7) on 24/04	√	√	√
No. (10/7) on 25/07	√	√	√
No. (11/7) on 24/09	√	√	√
No. (12/7) on 01/11	√	√	√
No. (13/7) on 21/11	√	√	√
Total	7	7	7

2) Nomination and Remuneration Committee

The Nomination and Remuneration Committee comprises 3 members, who were nominated by the Board of Directors.

It works in compliance with the duties and procedures provided in the Corporate Governance Regulations and the Nomination and Remuneration Regulations approved by the General Assembly, including:

1. Preparing a clear policy for the remunerations of members of the Board of Directors and its committees and senior executives, and presenting such policy to the Board of Directors in preparation for approval by the General Assembly, provided that such policy follows standards that are connected to performance, and disclosing and ensuring the implementation of such policy.
2. Clarifying the relation between the remunerations paid and the adopted remuneration policy, and highlighting any material deviation from that policy.
3. Periodically reviewing the remuneration policy and assessing its effectiveness in achieving its objectives.
4. Providing recommendations to the Board of Directors in respect of the remunerations of its members, committee members and senior executives, in accordance with the approved policy.
5. Suggesting clear policies and standards for membership of the Board of Directors and Executive Management.
6. Providing recommendations to the Board of Directors for the nomination or re-nomination of members in accordance with the approved policies and standards, taking into account that nomination shall not include any person convicted of a crime involving dishonesty.
7. Preparing a description of the capabilities and qualifications required for membership of the Board of Directors and Executive Management positions.
8. Determining the amount of time that the member shall allocate to the activities of the Board of Directors.
9. Annually reviewing the skills and expertise required of members of the Board of Directors and Executive Management positions.
10. Reviewing the structure of the Board of Directors, Committees and the Executive Management and providing recommendations regarding changes that may be made to such structure.
11. Annually ensuring the independence of independent directors and the absence of any conflicts of interest if a member of the Board of Directors also acts as a member of the Board of Directors of another company.
12. Setting forth job descriptions for executive, non-executive and independent directors and senior executives.
13. Setting special procedures to be followed in the event that the position of a member of the Board of Directors or a senior executive becomes vacant.
14. Determining the strengths and weaknesses of the Board of Directors and recommending remedy solutions that serve the company's interests.
15. Assessing the matters that fall within its authority or those referred to it by the Board of Directors, and communicating its recommendations to the Board of Directors to issue decisions in connection therewith, or take decisions in regards to these matters if delegated by the Board of Directors.
16. Seeking assistance from any experts or specialists, whether internal or external, within the scope of its powers. This shall be included in the minutes of the committee meeting; the minutes shall state the name of the expert and his or her relation to the company or its Executive Management.

The committee has convened twice during the year. The following is an attendance sheet:

Meeting No.	Abdallah Saleh Jum'ah Al Dossari (Chairman – Independent)	Khalid Abdullah Hamad Al Zamil (Member – Independent)	Mohammad Sulaiman Mohammad Al Harbi (Member – Independent)
No. (3/7) on 19/07	√	√	√
No. (4/7) on 19/12	√	√	√
Total	2	2	2

26 The means used by the Board of Directors to assess its performance and the performance of its committees and members, the external body which conducted the assessment, and its relation to the company, if any

The Nomination and Remuneration Committee shall determine the strengths and weaknesses of the Board of Directors and recommend remedy solutions that serve the company's interests. The Chairman of the Board of Directors shall evaluate the Nomination and Remuneration Committee. The Board of Directors has not appointed an external body to conduct the performance assessment during the fiscal year 2018, and the Nomination and Remuneration Committee will look into that in its future meetings.

27 Remunerations and compensations for members of the Board of Directors, committee members, and senior executives

The following tables detail all remunerations and compensations paid to members of the Board of Directors, committee members and senior executives during the fiscal year 2018. Remunerations and compensations are subject to the remuneration policy approved by the General Assembly. The Board recognizes that there is no significant deviation from this policy:

Members of the Board of Directors:

	Fixed remuneration							Variable remuneration						(SAR '000)		
Member	Specific amount	Allowance for attending Board Meetings	Allowance for attending Committee meetings	In-kind Benefits	Remunerations for technical and consultative work	Remunerations of the chairman, Managing Director or Secretary, if a member	**Total**	Percentage of the profits	Periodic Remuneration	Short-term incentive plans	Long-term incentive plans	Granted shares	**Total**	End of Service Benefit	Grand total	Expenses allowance
First: Independent Directors																
Khalid Abdullah Al Zamil	200	12	6	0	0	0	**218**	0	0	0	0	0	**0**	0	**218**	0
Abdallah Saleh Jum'ah	200	12	6	0	0	0	**218**	0	0	0	0	0	**0**	0	**218**	0
Ahmed Abdullah Al Zamil	200	12	0	0	0	0	**212**	0	0	0	0	0	**0**	0	**212**	0
Mohammad Sulaiman Al Harbi	200	12	27	0	0	0	**239**	0	0	0	0	0	**0**	0	**239**	0
Khalid Mohammed Al Fuhaid	200	12	0	0	0	0	**212**	0	0	0	0	0	**0**	0	**212**	0
Second: Non-Executive Directors																
Adib Abdullah Al Zamil	200	15	0	0	0	0	**215**	0	0	0	0	0	**0**	0	**215**	0
Mohammed Ahmed Al-Ghaith	200	15	18	0	0	0	**233**	0	0	0	0	0	**0**	0	**233**	0
Third: Executive Directors																
Abdulla Mohammed Al Zamil	200	12	0	0	0	0	**212**	0	0	0	0	0	**0**	0	**212**	0

Committee members

Member	Fixed remuneration	Allowance for attending meetings	Total
Audit Committee members:		(SAR '000)	
Mohammad Sulaiman Al Harbi	0	21	**21**
Mohammed Ahmed Al-Ghaith	0	21	**21**
Dr. Jassim Shaheen Al-Rumaihi (Non-Board member)	50	21	**71**
Nomination and Remuneration Committee: members			
Abdallah Saleh Jum'ah	0	6	**6**
Khalid Abdullah Al Zamil	0	6	**6**
Mohammad Sulaiman Al Harbi	0	6	**6**

Senior Executives

	Fixed remuneration				Variable remuneration						(SAR '000)		
	Salaries	Allowances	In-kind benefits	**Total**	Periodic remuneration	Profits	Short-term incentive plans	Long-term incentive plans	Granted shares	**Total**	End of Service Benefit	Total remunerations for Board executives, if any	**Grand total**
Four senior executives who collected the highest remunerations, including the CEO and the CFO													
	4,476	2,579	0	**7,055**	0	0	0	0	0	**0**	7,105	200	**14,160**

It is worth mentioning that members of the Board of Directors will only receive their annual remunerations for the fiscal year ended 31 December 2018 in their capacities as members of the Board of Directors after the approval of the company's General Assembly, which will convene at a later date. Members' remunerations are in accordance with the laws issued by the relevant authorities in this regard

28 Remuneration policy

In compliance with Article 93 of the Corporate Governance Regulations, the General Assembly has approved – in its meeting on 31 December 2017 – the "Remuneration and Compensation Policy for members of the Board, Committees and the Executive Management." These are the major standards and mechanisms that apply for remunerations of members of the Board of Directors, its committees and the Executive Management:

General remuneration standards:

Under this policy, the company's Nomination and Remuneration Committee provides recommendations to the Board of Directors on the remunerations and compensations of members of the Board of Directors, its committees and the Executive Management in accordance with the following standards:

1. Remunerations and compensations shall be consistent with the company's strategy and objectives.
2. Remunerations shall be proportionate to the company's activity and the skills required for its management.
3. The policy shall be designed in coordination with the Nomination and Remuneration Committee when new members are appointed.
4. The industry in which the company operates, its size and the expertise of members of the Board of Directors and Executive Management shall be taken into account.
5. Practices adopted by other companies in respect to determining remunerations and practices common on the market shall be taken into account, provided that any unjustifiable increases in remunerations and compensations that may result therefrom be avoided.
6. Remunerations shall be determined based on the job level, its holder's duties and responsibilities, educational qualifications, practical experience, skills and level of performance.
7. Remunerations shall be provided with the aim of encouraging members of the Board of Directors and Executive Management to achieve the success of the company and its long-term development – by, for example, making the variable part of the remuneration linked to long-term performance.
8. Remunerations shall be suspended or reclaimed if it is determined that such remunerations were set based on inaccurate information provided by a member of the Board of Directors, its committees or the Executive Management, in order to prevent abuse of power to obtain unmerited remunerations.
9. The grant of company shares to members of the Board of Directors and Executive Management, whether newly issued or purchased by the company, shall be regulated.
10. Members of the Board of Directors may not vote on the Board of Directors members' remuneration item at the shareholders' General Assembly meeting.
11. Members of the Board of Directors may receive remuneration for their membership in the Audit Committee composed by the General Assembly or for any additional executive, technical, administrative or consultation – under a professional license – duties or positions that may be commissioned to them within the company, in addition to the remuneration that they may receive in their capacity as members of the Board of Directors and committees composed by the Board of Directors in accordance with the Companies' Law and the company's bylaws.
12. Remunerations of members of the Board of Directors shall vary in their magnitudes in such manner that reflects each member's experience, competencies, duties, independence, number of sessions attended and other relevant considerations.
13. Remunerations for independent members of the Board of Directors must not be a percentage of the company's profits or be directly or indirectly based on the company's profitability.
14. In the event that the General Assembly decides to terminate the membership of a member of the Board of Directors following their absence from three consecutive board meetings without legitimate excuse, such member shall not deserve any remunerations for the period following the last meeting that they attended, and they shall refund all remunerations that were issued for that period.

Remunerations for members of the Board of Directors:

1. Remunerations for members of the Board of Directors may be fixed sums, attendance allowances, benefits in kind or a percentage of net profits; members may receive a combination of such benefits.
2. In the event that remunerations are a percentage of the company's profits, such percentage may not amount to more than 10% of the net profits after setting aside the reserves determined by the General Assembly in accordance with the provisions of the law and the company's bylaws and after distributing profits to the shareholders equal to no less than 5% of the company's paid capital, provided that such remunerations be proportionate to the number of sessions attended by the member. Any assessment that is inconsistent with that shall be void.
3. In all cases, the sum of remunerations, in-kind benefits or financial benefits received by each member of the Board of Directors shall not exceed SAR 500,000 per annum, in accordance with the regulations set forth by the competent body.
4. The Board Report submitted to the General Assembly must detail all remunerations, allowances for expenses and other benefits collected by members of the Board of Directors throughout the fiscal year.

It must also detail all fees collected by members of the Board of Directors in their capacities as employees or administrative employees and the compensations received by them for technical or administrative work or consultations. It must also detail the number of board meetings and the number of sessions attended by each member of the Board of Directors since the last General Assembly meeting.

Remunerations for committee members:

1. Based on the recommendation of the Nomination and Remuneration Committee, the Board of Directors shall determine and approve remunerations, attendance fees and other entitlements for the membership of its committees, with the exception of the Audit Committee.
2. Remunerations for committee membership shall be a lump sum in addition to meeting attendance fees.
3. Remunerations for membership of the Audit Committee shall be approved by the shareholders' General Assembly based on the recommendation of the Board of Directors.
4. The number of memberships held by a member of the Board of Directors shall be taken into account upon the composition of committees, such that the total remuneration amount disbursed to a member for their membership of the Board of Directors and its committees shall not exceed the maximum provided in the Companies' Law and in accordance with clause 11 of Article 3 of this policy.

Remunerations for the Executive Management:

1. Based on the recommendation of the Nomination and Remuneration Committee, the Board of Directors shall determine the type of remunerations disbursed to senior executives in the company – such as fixed remunerations, performance-based remuneration and bonuses – without prejudice to directives and regulations issued to joint-stock companies.
2. Senior executives' remunerations shall be consistent with the company's strategic objectives and proportionate to the company's activity and the skills for its management, while taking into account the industry in which the company operates and the company's size.
3. The Nomination and Remuneration Committee shall continually review incentive plans for senior executives and submit its recommendations to the Board of Directors for approval.
4. The objective of remunerations is to foster the necessary competitive atmosphere which attracts and retains qualified, skilled employees and maintains the skillfulness that the company needs.

General terms:

1. Remunerations for members of the Board of Directors and its committees and secretary shall be disbursed annually following the approval of the consolidated annual financial statements (after audit) by the company shareholders' General Assembly.
2. Attendance allowances may be disbursed following each session, quarterly or with annual remunerations.
3. In the event that more than one meeting is convened on one day, allowances and other expenses shall be disbursed only once.
4. Remunerations for members of the Executive Management shall be disbursed annually as soon as they are approved by the Board of Directors based on the recommendation of the Nomination and Remuneration Committee.

29 The company's policy on profit distribution

The decision to distribute any cash profits shall be taken based on the assessment and recommendation of the Board of Directors, and all existing factors shall be taken into consideration, including but not limited to the company's financial position, cash inflow, future investments, and the performance of the company sectors. The company has been distributing annual profits to shareholders since it was established, but past distributions do not necessarily guarantee future distributions.

The profit distribution policy is provided in Article 41 of the company's bylaws, and it stipulates:

Net profits of the company shall be distributed, whether on a quarterly or biannual basis or annual basis, as deemed reasonable by the Board, provided that the General Assembly delegates distribution of periodical payouts and renewed on an annual basis, according to the following method:

- (10%) of the net profits shall be kept as a statutory reserve, and the ordinary General Assembly may discontinue this deduction when such reserve reaches (30%) of the paid-up capital.
- The ordinary General Assembly may, upon a Board proposal, set aside (10%) of the net profits to build up a conventional reserve, which shall be used for specific purpose(s).

- The ordinary General Assembly may decide to build up other reserves, to the extent it fulfills the company interest or guarantees continuous cash dividends distribution. The General Assembly can also decide to provide for establishing social and welfare programs for its employees or support existing ones.
- The remaining amount shall be distributed to shareholders at no less than (5%) of the paid-up capital.
- Observing the provisions stipulated in Article (16) and Article (76) of the Companies' Act, the Nomination and Remuneration Committee recommends the remuneration of the Board, provided it does not exceed the maximum amount as per the prevailing regulations. Moreover, the remuneration should be pro-rata with the number of actual meetings the member attends.

It is noted that no dividends have been distributed for the fiscal year 2018 and no recommendation was issued on that matter as of 31/12/2018

30 Any punishment, penalty, precautionary procedure, or preventive measure imposed on the company by the Capital Market Authority or any other supervisory, regulatory or judicial authority, and the reasons for non-compliance, the imposing authority and the measures undertaken to remedy and avoid such non-compliance in the future

The Board of Directors declares that no punishment, penalty, precautionary procedure or preventive measure has been imposed on the company by the Capital Market Authority or any other supervisory, regulatory or judicial authority.

31 Transactions with relevant bodies

As part of Zamil Industrial Investment Company (Zamil Industrial) subsidiaries' continuous activities, there exist business and contracts between them and affiliates/subsidiaries of Zamil Group Holding Company in 2018, which is represented by Mr. Adib A. Al Zamil

Such business and contracts are either annual or time-limited; they are renewed automatically, and agreements on them have been reached in previous years, as they are a continuation of long-standing relationships.

Agreements in that regard are reached in light of common commercial terms and in accordance with the company's relevant internal procedures and bylaws.

All prices and terms of payment for these agreements and transactions are approved by the Board of Directors. The vote of the related party is excluded from voting during the meeting. It is also approved and authorized for another year by the shareholders' General Assembly annually.

Such transactions include:

1. The purchase of SAR 2,777,864 worth of products or services from Zamil Architectural Holding Company, which is a subsidiary of Zamil Group Holding Company, represented by Mr. Adib Abdullah Al Zamil, who is a member of the Board of Directors of Zamil Industrial Investment Company.
2. The purchase of SAR 3,455,833 worth of products or services from Zamil Chemical and Plastic Industries Holding Company, which is a subsidiary of Zamil Group Holding Company, represented by Mr. Adib Abdullah Al Zamil, who is a member of the Board of Directors of Zamil Industrial Investment Company.
3. The purchase of SAR 15,823,628 worth of products or services from Zamil Trade & Services Holding Company, which is a subsidiary of Zamil Group Holding Company, represented by Mr. Adib Abdullah Al Zamil, who is a member of the Board of Directors of Zamil Industrial Investment Company.
4. The purchase of SAR 8,498,964 worth of products or services from Zamil Real Estate Holding Company, which is a subsidiary of Zamil Group Holding Company, represented by Mr. Adib Abdullah Al Zamil, who is a member of the Board of Directors of Zamil Industrial Investment Company.

32 Numbers of company's requests of shareholder records and the dates and reasons thereof

In 2018, the company's Investor Relations Department requested shareholder records 14 times using the Tadawulaty service in this manner and for these reasons:

Req.	Date of request	Date of ownership	Reason
1	10/01/2018	02/01/2018	Preparation of annual analysis report for register of shareholders
2	04/02/2018	04/02/2018	Preparation of monthly analysis report for register of shareholders
3	04/03/2018	04/03/2018	Preparation of monthly analysis report for register of shareholders
4	03/04/2018	02/04/2018	Preparation of monthly analysis report for register of shareholders
5	08/05/2018	02/05/2018	Preparation of monthly analysis report for register of shareholders
6	23/05/2018	23/05/2018	Register of shareholders for General Assembly
7	05/06/2018	04/06/2018	Preparation of monthly analysis report for register of shareholders
8	02/07/2018	02/07/2018	Preparation of monthly analysis report for register of shareholders
9	02/08/2018	02/08/2018	Preparation of monthly analysis report for register of shareholders
10	03/09/2018	03/09/2018	Preparation of monthly analysis report for register of shareholders
11	01/10/2018	02/10/2018	Preparation of monthly analysis report for register of shareholders
12	16/10/2018	16/10/2018	Preparation of monthly analysis report for register of shareholders
13	04/11/2018	04/11/2018	Preparation of monthly analysis report for register of shareholders
14	04/12/2018	04/12/2018	Preparation of monthly analysis report for register of shareholders

33 Results of the annual review of the effectiveness of the company's internal control procedures and the opinion of the Audit Committee with respect to the adequacy of the company's internal control system

The Corporate Internal Audit Department independently implements the audit plan approved by the Audit Committee and regularly assesses the internal control systems applied within the Group and its subsidiaries inside and outside Saudi Arabia. It also follows up with executive departments on the implementation of recommendations and remedy procedures for remarks provided in its reports.

Judging by internal review reports, the Audit Committee verified the effectiveness of financial, operational and administrative policies and procedures, and it did not reveal any substantial risks that may affect the company's activities. Based on the information it has obtained, there were no major remarks for the year 2018 that may have an impact on the company's financial position. Minor remarks are issued in the framework of the daily activities and business of the company and the industries in which it operates; they are taken into account, and appropriate solutions and procedures are immediately devised for the remedy thereof. It is noteworthy that the Executive Management continues to take the necessary remedy procedures to mitigate risks mentioned in internal review reports and to adhere to the applicable policies, laws and instructions.

The committee also verified the external auditor's independence, and a discussion was conducted regarding the company's performance, including annual and quarterly financial statements and the appended clarifications, all prior to submission to the Board of Directors.

Generally, the Audit Committee is confident in the effectiveness of the company's internal control system. Thus, the Board of Directors acknowledges the functionality and effectiveness of the company's internal control system in the realization of the company's purposes and shareholders' benefit.

34 The Audit Committee's recommendation on the need for appointing an internal auditor for the company, if there is no internal auditor

The company has a department concerned with internal auditing that is headed by the general auditor. The general auditor continuously and regularly keeps the Audit Committee posted by means of regular reports. Therefore, the Audit Committee has not made any recommendations on the need for appointing an internal auditor.

The Corporate Internal Audit Department also prepares and develops the company's policies and provides consultation, assistance and clarification on policies, procedures, internal regulations and other relevant fields, contributing to the enhancement and improvement of internal auditing.

35 The Audit Committee's recommendations that bear conflict with resolutions of the Board of Directors or those which the Board of Directors has disregarded relating to the appointment, dismissal, assessment or determination of the remuneration of the internal auditor, as well as justifications for those recommendations and reasons for disregarding them

No recommendations by the Audit Committee were disregarded by the Board of Directors.

36 A list of the dates of the General Assembly meetings held during the last fiscal year and the names of members of the Board of Directors who attended them:

During the fiscal year 2018, the company convened just one General Assembly meeting. The following is a list of the members of the Board of Directors present at the meeting:

Board member	Extraordinary General Assembly (23/05/2018)
Khalid Abdullah Hamad Al Zamil	√
Abdallah Saleh Jum'ah Al Dossari	x
Ahmed Abdullah Hamad Al Zamil	x
Adib Abdullah Hamad Al Zamil	√
Mohammed Ahmed Mahmoud Al-Ghaith	x
Mohammad Sulaiman Mohammad Al Harbi	√
Abdulla Mohammed Abdullah Al Zamil	x
Khalid Mohammed Saleh Al Fuhaid	√

37 Statement as to the value of any investments made or any reserves set up for the benefit of the employees of the company

No investments have been made or reserves set up for the benefit of the company's employees.

38 Board of Directors' Declarations

The Board of Directors affirms the following:

1. The accounting records have been prepared correctly.
2. The internal control system has been properly prepared and implemented effectively.
3. There is no doubt about the company's ability to continue its activity.
4. No shares or debt instruments have been issued for affiliate companies.
5. There are no interest, contractual securities or rights issues of the members of the Board of Directors, senior executives or their relatives on shares or debt instruments of the company or its affiliates.
6. There are no classes or numbers of any convertible debt instruments, contractually based securities, warrants or similar rights issued or granted by the company during the fiscal year or any compensation obtained by the company in this regard.
7. There are no conversion or subscription rights under any convertible debt instruments, contractually based securities, warrants or similar rights issued or granted by the company.
8. There have been no redemptions, purchases or cancellations by the company or any of its subsidiaries of any redeemable debt instruments during 2018.
9. There have been no transactions between the company and related parties.
10. Aside from what has been listed in the body of this report, there are no contracts to which the company is party and which involve or previously involved a substantial interest, whether directly or indirectly, for a member of the Board of Directors, a senior executive or a person related to any of them.
11. There are no arrangements or agreements under which a shareholder of the company, a member of the Board of Directors, a senior executive or an employee of the company has waived any rights to dividends.
12. There are no undisclosed conflicts of interest.
13. The company has not received a request from the certified public accountant for a call for the convention of the General Assembly in 2018.
14. The company has not received a request from shareholders holding shares equal to at least 5% of the share capital of the company for a call for the convention of the General Assembly in 2018.
15. There have been no procedures that may lead to the impediment of shareholders' voting rights.
16. There have been no substantial events that may have an impact on the integrity of the company's financial position following the end of the fiscal year which require the disclosure thereof.
17. The company has not provided any member of its Board of Directors or its senior executives with loans or credit facilities.

39 Conclusion

On your behalf, the Board of Directors of Zamil Industrial Investment Company (Zamil Industrial) tenders grateful thanks to the esteemed Custodian of the Two Holy Mosques, the Crown Prince and our good government for the continuous support that the company has been receiving to stimulate the economic development process and promote national industries, which enable the company to compete with international companies and achieve Vision 2030. The Board of Directors would also like to thank employees of the Ministry of Commerce and Investment, Capital Market Authority, Saudi Stock Exchange (Tadawul) and Securities Depository Center Company (Edaa) and all relevant entities for their cooperation and efforts to serve companies.

The Board of Directors tenders grateful thanks on your behalf as well to the management and employees of Zamil Industrial Investment Company and its affiliates in all industries, branches, factories and internal and external offices for their efforts and dedication, and the Board invites them to continue their devoted efforts in the face of adversity. Thanks are also extended to the company's clients inside and outside of the Kingdom of Saudi Arabia for the trust they have placed in the company and its products and for their continued support.

Board of Directors

Consolidated Financial Statements and Auditors' Report

31 December 2018

Independent Auditor's Report on the Consolidated Financial Statement

to the Shareholders of

Zamil Industrial Investment Company

(A Saudi Joint Stock Company)

Opinion

We have audited the consolidated financial statements of Zamil Industrial Investment Company ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with professional code of conduct and ethics endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each key audit matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
First time adoption of IFRS 9 financial Instruments The Group adopted IFRS 9 with effect from 1 January 2018, management has determined that the most significant impact of the new standard on the Group's financial statements relates to the calculation of provision for expected credit losses against accounts receivable. The Group has accounts receivable of SR 2,355 million as at 31 December 2018 including certain overdue balances amounting to SR 1,302 million against which the Group has recorded a provision for expected credit losses amounting to SR 312 million. Assessment of provision for expected credit losses is highly subjective due to the significant judgement, estimates and assumptions applied by the management in determining the expected losses. The management is required to determine an expected loss rate against its outstanding accounts receivables based on the Group's historical credit loss experience adjusted with forward-looking information. The assessment of the correlation between historical observed loss rates, forecast economic conditions and expected future cash flows is a significant estimate. Given the significance of the impact of IFRS 9 on the Group's accounts receivable, the complexity and judgements related particularly to the calculation of expected credit losses we considered this area as a key audit matter. Refer to note 22 for further details.	In order to assess the appropriateness of the management's judgement and estimate, following procedures were performed: • We evaluated the Group's processes and controls relating to the monitoring of accounts receivable and review of credit risks of customers. • We evaluated the appropriateness of significant judgements, estimates and assumptions made by management. • We analysed the accounting policies and assessed the methodology developed to calculate expected loss rate under IFRS 9. • We checked the mathematical accuracy of the model and recalculated expected losses on a sample basis. • We analysed the results of expected credit loss model performed by the Group. Tested the accounts receivable aging and other source data used in assessment on a sample basis. • Assessed the adequacy of the Group's disclosure regarding expected credit losses of accounts receivable and the management's assessment of the credit risk and their responses to such risks.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition of long-term contracts One of the Group's significant revenue streams is derived from long-term contracts. The Group recognises revenue from long-term contracts using percentage of completion method. The determination of the percentage of completion requires significant management judgement and estimates such as assessment of costs incurred over total cost of the project, survey of work done and the process for identification of loss making contracts. The revenues and costs related to a project include estimates, as the project scope may change and the total costs of a project depend on various factors including material and labour costs. Accounting policies for revenue recognition related to long-term contracts are given in note 2 to the consolidated financial statements. Considering the above, revenue recognition from construction contracts has been determined as a key audit matter. The recoverability of contract assets related to long-term contracts is therefore based on management's evaluation and best estimate of the ultimate realisation of these balances.	Our audit procedures in relation to revenue recognition of long term contracts included: • Reviewed the Group's estimation process (including the approval of project budget, monitoring of project costs and activities, and management's review and customer's approval of project's stage of completion and milestones achieved) used in determining the amounts of revenue and costs recognised in the consolidated financial statements. • On a sample basis, reviewed the contractual terms and work status of the customer contracts, along with discussions with management and checked that contract revenue was recognised according to the percentage of completion of each project measured by the stage of completion of physical activities. • Performed analytical procedures to compare revenue and gross margin with those reported in prior periods for identifying significant fluctuation and obtaining explanations from management about such fluctuations. • Reviewed the re-forecast of contract costs, on a sample basis, arising from contract modifications and analysed current on-going negotiations and settlements that may impair the profitability of such contract as well as the collectability of significant contracts by reference to the recent credit review assessment of each customer prepared by management. • Assessed the recoverability of contract assets by considering if work is physically certified and progress billings have been raised since the year-end. • Assessed the adequacy of disclosures in describing the areas of judgement and estimation uncertainties involving revenue recognition and work executed in excess of billings.

Other information included in The Group’s 2018 Annual Report

Other information consists of the information included in the Group’s 2018 annual report, other than the consolidated financial statements and our auditors’ report thereon. Management is responsible for the other information in its annual report. The Group’s 2018 annual report is expected to be made available to us after the date of this auditors’ report.
Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.
In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.
When we read the Group’s 2018 annual report, if we conclude that there is material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants and the provisions of Companies’ Law and Company’s By-laws, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.
Those charged with governance are responsible for overseeing the Group’s financial reporting process.

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risks of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

for Ernst & Young

Waleed G. Tawfiq
Certified Public Accountants
Registration No. 437

14 Rajab 1440 H
21 March 2019

Al Khobar

The attached notes 1 to 43 form part of these consolidated financial statements.

Consolidated Statement Of Income

For the year ended 31 December 2018

Continuing Operations	Notes		SR'000
REVENUES		**2018**	2017
Revenue from contracts with customers	6	4,297,734	4,387,037
Finance lease income		15,915	16,813
		4,313,649	4,403,850
DIRECT COSTS			
Cost of sales	7	(2,779,800)	(2,745,251)
Contracts cost	8	(827,434)	(750,400)
		(3,607,234)	(3,495,651)
GROSS PROFIT		**706,415**	908,199
EXPENSES			
Selling and distribution	9	(346,922)	(269,515)
General and administration	10	(378,160)	(412,144)
		(18,667)	226,540
Share in results of associates and a joint venture	17	(3,964)	(893)
Other income (expenses), net	11	6,256	(1,405)
Financial charges		(97,619)	(87,102)
Impairment reversal (losses) on non-current assets	12	47,967	(10,880)
(LOSS) INCOME BEFORE ZAKAT AND INCOME TAX FROM CONTINUING OPERATIONS		**(66,027)**	126,260
Zakat and income tax	35	(20,468)	(14,752)
Deferred tax	35	6,837	(1,061)
(LOSS) INCOME FOR THE YEAR FROM CONTINUING OPERATIONS		**(79,658)**	110,447
Discontinued Operations			
Loss after zakat and income tax for the period from discontinued operations	13	(54,328)	-
NET (LOSS) INCOME FOR THE YEAR		**(133,986)**	110,447
Net (Loss) Income for the Year Attributable to:			
Shareholders of the parent company		(139,833)	105,018
Non-controlling interests		5,847	5,429
		(133,986)	110,447
EARNINGS PER SHARE FROM NET (LOSS) INCOME			
Basic and diluted, earnings per share attributable to the shareholders of the parent company	14	(2.33)	1.75
EARNINGS PER SHARE FOR CONTINUING OPERATIONS			
Basic and diluted, earnings per share attributable to the shareholders of the parent company	14	(1.43)	1.75

The attached notes 1 to 43 form part of these consolidated financial statements.

Consolidated Statement Of Comprehensive Income

For the year ended 31 December 2018

	Notes		SR'000
		2018	2017
Net (loss) income for the year		**(133,986)**	110,447
Other comprehensive income			
Other comprehensive income to be reclassified to income in subsequent periods:			
Foreign currency differences on translation of foreign operations		1,070	(1,808)
Net other comprehensive income to be reclassified to income in subsequent periods		**1,070**	(1,808)
Other comprehensive income not to be reclassified to income in subsequent periods:			
Net loss on equity instruments at fair value through other comprehensive income	18	(20,441)	-
Actuarial (losses) gains on defined benefit schemes	30	(9,498)	2,937
Share in other comprehensive income of an associate		(480)	131
Net other comprehensive income not to be reclassified to income in subsequent periods		(30,419)	3,068
Other comprehensive income for the year		(29,349)	1,260
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(163,335)**	111,707
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO:			
Shareholders of the parent company		(169,006)	106,504
Non-controlling interests		5,671	5,203
		(163,335)	111,707

The attached notes 1 to 43 form part of these consolidated financial statements.

Consolidated Statement Of Financial Position

As at 31 December 2018

	Notes	SR'000	
ASSETS		**2018**	2017
NON-CURRENT ASSETS			
Property, plant and equipment	15	1,018,511	1,089,888
Other intangible assets	16	5,030	5,575
Investments in associates and a joint venture	17	85,384	80,773
Equity instruments at fair value through other comprehensive income	18	40,538	77,466
Net investments in finance lease	19	340,683	363,283
Goodwill	20	21,126	21,126
Deferred tax assets	35	10,231	6,899
TOTAL NON-CURRENT ASSETS		**1,521,503**	1,645,010
CURRENT ASSETS			
Inventories	21	1,344,767	1,248,557
Accounts receivable	22	2,043,156	1,951,955
Contract assets	23	413,369	361,412
Advances, other receivables and prepayments	24	265,359	237,602
Current portion of net investment in finance lease	19	22,600	21,663
Cash and cash equivalents	25	152,457	215,524
TOTAL CURRENT ASSETS		**4,241,708**	4,036,713
TOTAL ASSETS		**5,763,211**	5,681,723

The attached notes 1 to 43 form part of these consolidated financial statements.

Consolidated Statement Of Financial Position (continued)

As at 31 December 2018

	Notes	SR'000	
EQUITY AND LIABILITIES		**2018**	2017
EQUITY			
Share capital	26	**600,000**	600,000
Statutory reserve		**180,000**	180,000
Retained earnings		**668,577**	910,136
Foreign currency translation reserve		**(26,583)**	(25,433)
Fair value reserve		**(6,048)**	-
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT COMPANY		**1,415,946**	1,664,703
NON-CONTROLLING INTERESTS	28	**208,169**	211,677
TOTAL EQUITY		**1,624,115**	1,876,380
NON-CURRENT LIABILITIES			
Term loans	29	**38,734**	67,255
Employees' defined benefit liabilities	30	**246,979**	294,964
Deferred tax liabilities	35	**4,982**	8,366
TOTAL NON-CURRENT LIABILITIES		**290,695**	370,585
CURRENT LIABILITIES			
Accounts payable	31	**456,521**	365,874
Accruals and provisions	32	**383,911**	408,009
Short term loans	33	**2,624,548**	2,331,034
Current portion of term loans	29	**43,703**	34,669
Contract liabilities	34	**292,350**	249,523
Zakat and income tax provision	35	**47,368**	45,649
TOTAL CURRENT LIABILITIES		**3,848,401**	3,434,758
TOTAL LIABILITIES		**4,139,096**	3,805,343
TOTAL EQUITY AND LIABILITIES		**5,763,211**	5,681,723

The attached notes 1 to 43 form part of these consolidated financial statements.

Consolidated Statement Of Changes In Equity

For the year ended 31 December 2018

Attributed to shareholders of the parent company SR'000

	Share capital	Statutory reserve	Retained earnings	Foreign currency translation reserve	Fair value reserve	Total	Non-controlling interests	Total equity
Balance at 1 January 2017	600,000	300,000	801,819	(23,620)	-	1,678,199	209,984	1,888,183
Net income for the year	-	-	105,018	-	-	105,018	5,429	110,447
Other comprehensive income	-	-	3,299	(1,813)	-	1,486	(226)	1,260
Total comprehensive income	-	-	108,317	(1,813)	-	106,504	5,203	111,707
Transfer	-	(120,000)	120,000	-	-	-	-	-
Dividends (note 27)	-	-	(120,000)	-	-	(120,000)	-	(120,000)
Movement in non-controlling interests	-	-	-	-	-	-	(3,510)	(3,510)
Balance at 31 December 2017	600,000	180,000	910,136	(25,433)	-	1,664,703	211,677	1,876,380
Impact of IFRS 9 and IFRS 15 adoption (note 3)	-	-	(6,651)	-	(10,880)	(17,531)	(3,557)	(21,088)
Balance at 1 January 2018 (after amendment)	600,000	180,000	903,485	(25,433)	(10,880)	1,647,172	208,120	1,855,292
Net (loss) income for the year			(139,833)	-	-	(139,833)	5,847	(133,986)
Other comprehensive income	-	-	(35,075)	1,070	4,832	(29,173)	(176)	(29,349)
Total comprehensive income	-	-	(174,908)	1,070	4,832	(169,006)	5,671	(163,335)
Dividends (note 27)	-	-	(60,000)	-	-	(60,000)	-	(60,000)
Reclassification to income on disposal of discontinued operations (note 13)	-	-	-	(2,220)	-	(2,220)	-	(2,220)
Movement in non-controlling interests	-	-	-	-	-	-	(5,622)	(5,622)
Balance at 31 December 2018	**600,000**	**180,000**	**668,577**	**(26,583)**	**(6,048)**	**1,415,946**	**208,169**	**1,624,115**

The attached notes 1 to 43 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

SR'000

OPERATING ACTIVITIES	2018	2017
(Loss) income before zakat and income tax from continuing operations	**(66,027)**	126,260
Loss before zakat and income tax from discontinued operations	**(54,328)**	-
(Loss) income before zakat and income tax	**(120,355)**	126,260
Adjustments to reconcile income before zakat and income tax to net cash flows:		
Depreciation	**119,143**	133,289
Amortisation of other intangible assets	**695**	535
Amortisation of prepaid financial charges	**2,313**	2,550
Provision for employees' defined benefit liabilities	**43,420**	43,393
Impairment (reversal) loss on non-current assets	**(47,967)**	10,880
Financial charges	**97,619**	87,102
Gains on disposal of property, plant and equipment	**(132)**	(395)
Share in results of associates and a joint venture	**3,964**	893
Loss on disposal of discontinued operations	**54,328**	-
	153,028	404,507
Working capital adjustments:		
Inventories	**(96,210)**	204,203
Accounts receivable	**(93,876)**	(90,687)
Contract assets	**(55,924)**	(99,146)
Advances, other receivables and prepayments	**(23,774)**	(13,917)
Net investment in finance lease	**21,663**	20,764
Accounts payable	**90,647**	1,115
Accruals and provisions	**(55,352)**	(70,496)
Contract liabilities	**42,827**	(43,636)
Cash (used in) from operations	**(16,971)**	312,707
Financial charges paid	**(97,619)**	(87,102)
Zakat and income tax paid	**(18,598)**	(24,598)
Employees' defined benefit liabilities paid	**(100,903)**	(74,548)
Net cash (used in) from operating activities	**(234,091)**	126,459
INVESTING ACTIVITIES		
Proceeds from disposal of discontinued operations	**13,280**	-
Proceeds from disposal of equity instruments at fair value through other comprehensive income	**12,504**	-
Purchase of property, plant and equipment	**(35,392)**	(90,213)
Payments against liabilities assumed under disposal of discontinued operations		
Proceeds from disposal of property, plant and equipment	**(28,225)**	-
Additions to other intangible assets	**699**	2,183
	(150)	(94)
Net cash used in investing activities	**(37,284)**	(88,124)
FINANCING ACTIVITIES		
Net movement in short term loans	**293,514**	271,285
Net movement in term loans	**(21,800)**	(236,960)
Dividends paid	**(60,000)**	(120,000)
Movement in non-controlling interests	**(5,622)**	(3,510)

The attached notes 1 to 43 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows (continued)

For the year ended 31 December 2018

	SR'000	
	2018	2017
Net cash from (used in) financing activities	**206,092**	(89,185)
DECREASE IN CASH AND CASH EQUIVALENTS	(65,283)	(50,850)
Cash and cash equivalents at the beginning of the year	215,524	272,393
Movement in foreign currency translation reserve, net	2,216	(6,019)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**152,457**	215,524

	SR'000	
NON-CASH TRANSACTIONS	**2018**	2017
Net amounts receivable against disposal of discontinued operations included in accounts receivables	14,446	-
Amount of liabilities assumed by the Group for discontinued operations included in accruals and provisions	31,254	-
Amounts receivable against disposal of equity instruments at fair value through other comprehensive income	3,983	-

	SR'000	
NON-CASH TRANSACTIONS (continued)	**2018**	2017
Increase in impairment loss against accounts receivable on adoption of IFRS 9		
Adjustment to contract assets on adoption of IFRS 15	17,121	-
Remeasurement (losses) gains on employees' defined benefit liabilities	3,967	-
Reclassification of exchange difference on disposal of discontinued operations	(9,498)	2,937
Exchange differences on investment in associates		
Exchange differences on property, plant and equipment	2,220	-
Exchange differences on deferred tax assets	-	(2,221)
Exchange differences on zakat and income tax provision	1,176	(1,969)
Share in other comprehensive income of an associate	121	(95)
	(151)	74
	(480)	131

Notes to the Consolidated Financial Statements

At 31 December 2018

1 CORPORATE INFORMATION

Zamil Industrial Investment Company ("the Company") was converted to a Saudi Joint Stock Company in accordance with the Ministerial Resolution number 407 dated 14 Rabi' I 1419 H (corresponding to 9 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 1396 H (corresponding to 14 September 1976) with the following branches in the Kingdom of Saudi Arabia:

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

The Company has investment in the following subsidiaries:	Effective ownership percentage	
	2018	2017
Zamil Steel Holding Company Limited - Saudi Arabia	**100%**	100%
Zamil Steel Pre-Engineered Buildings Company Limited - Saudi Arabia	**100%**	100%
Zamil Structural Steel Company Limited - Saudi Arabia	**100%**	100%
Zamil Towers & Galvanizing Company - Saudi Arabia	**100%**	100%
Zamil Process Equipment Company Limited - Saudi Arabia	**100%**	100%
Building Component Solutions Company Limited - Saudi Arabia	**100%**	100%
Zamil Steel Construction Company Limited - Saudi Arabia	**100%**	100%
Zamil Inspection & Maintenance of Industrial Projects Company Limited - Saudi Arabia	**100%**	100%
Metallic Construction and Contracting Company Limited - Egypt	**100%**	100%
Zamil Air Conditioners Holding Company Limited - Saudi Arabia	**100%**	100%
Zamil Air Conditioners & Home Appliances Company Limited - Saudi Arabia	**100%**	100%
Zamil Central Air Conditioners Company Limited - Saudi Arabia	**100%**	100%
Zamil Air Conditioning & Refrigeration Services Company Limited - Saudi Arabia	**100%**	100%
Ikhtebar Company Limited - Saudi Arabia	**100%**	100%
Eastern District Cooling Company Limited - Saudi Arabia	**100%**	100%
Zamil Energy Services Company Limited - Saudi Arabia	**100%**	100%
Zamil Air Conditioning and Refrigeration Services Company W.L.L - Bahrain	**100%**	100%
Zamil Steel Buildings Company - Egypt	**100%**	100%
Zamil Steel Buildings (Shanghai) Company Limited - China	**100%**	100%
Cooling Europe Holdings 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%
Zamil Industrial Investment Company - UAE	**100%**	100%

The Company has investment in the following subsidiaries:	Effective ownership percentage	
	2018	2017
Zamil Steel Industries Abu Dhabi (LLC) - UAE	**100%**	100%
Zamil Structural Steel Company - Egypt	**100%**	100%
Zamil Construction India Private Limited - India	**100%**	100%
Zamil Information Technology Global Private Limited - India	**100%**	100%
Zamil Higher Institute for Industrial Training - Saudi Arabia	**100%**	100%
Second Insulation Company Limited - Saudi Arabia	**100%**	100%
Zamil Air Conditioners India Private Limited - India	**100%**	100%
Saudi Central Energy Company Limited - Saudi Arabia	**100%**	100%
Zamil Industrial Investment Company Asia Pte. Limited - Singapore	**100%**	100%
Zamil Steel Buildings Vietnam Company Limited - Vietnam	**92.27%**	92.27%
Gulf Insulation Group - Saudi Arabia	**51%**	51%
Saudi Preinsulated Pipes Industries - Saudi Arabia	**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 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.

The consolidated financial statements of the Group as of 31 December 2018 were authorised for issuance in accordance with the Board of Directors' resolution on 21 March 2019 (corresponding to 14 Rajab 1440H).

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation
These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) and other standards and pronouncements that are endorsed in the Kingdom of Saudi Arabia (“KSA’) by Saudi Organization for Certified Public Accountants (“SOCPA”) (collectively referred to as “IFRS as endorsed in KSA”).

These consolidated financial statements are prepared using historical cost convention except for the remeasurement of equity instruments at fair value through other comprehensive income, using the accrual basis of accounting. For employees and other post-employment benefits, actuarial present value calculation is used.

These consolidated financial statements are presented in Saudi Riyals (“SR”) which is also the functional currency of the Group. All values are rounded to the nearest thousands (“SR ‘000”), except when otherwise indicated.

Basis of consolidation
These consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Notes to the Consolidated Financial Statements (continued)

At 31 December 2018

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Income and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in consolidated statement of income. Any investment retained is recognised at fair value.

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 financial position and within shareholders' equity in the consolidated statement of financial position, separately from the equity attributable to the shareholders of the Company.

Property, plant and equipment /depreciation

Construction in progress, property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in consolidated statement of income as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

Buildings on leasehold lands	Machinery	Furniture, fixtures and equipment	Motor vehicles
20 to 40 years	5 to 20 years	3 to 5 years	3 years

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income when the asset is derecognised. The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

Intangible assets /amortisation
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in consolidated statement of income in the period in which the expenditure is incurred. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of income in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

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

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of income when the asset is derecognised.

Investments in associates and a joint venture
An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries. The Group’s investments in its associate and joint venture are accounted for using the equity method. Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group’s share of net assets of the associate or joint venture

Notes to the Consolidated Financial Statements (continued)
At 31 December 2018

since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment separately.

The consolidated statement of income reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture. The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the consolidated statement of income outside operating profit and represents profit or loss after tax and noncontrolling interests in the subsidiaries of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognises the loss as 'Share of profit of an associate and a joint venture' in the consolidated statement of income. Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in the consolidated statement of income.

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.

Financial assets
Initial recognition and measurement
Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification, as described below:

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The Group's financial assets at amortised cost includes trade and certain other receivables.

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group elected to classify irrevocably its non-listed equity investments under this category.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or

- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Notes to the Consolidated Financial Statements (continued)
At 31 December 2018

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets
The Group recognises an allowance for expected credit losses (ECLs) for its trade receivables and contract assets. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

The Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

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. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with the changes in fair value recognised in the consolidated statement of income.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in 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 that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

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-financial assets
The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the consolidated statement of income in expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of income.

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.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Notes to the Consolidated Financial Statements (continued)
At 31 December 2018

Inventories
Inventories are stated at the lower of cost and net realizable 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 been passed to the company and are stated at cost.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

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.

Statutory reserve
As required by Saudi Arabian Regulations for Companies, the Company must transfer 10% of its income to the statutory reserve. The Company may resolve to discontinue such transfers when the reserve totals 50% of the share capital (reduced to 30% in accordance with new Saudi Arabian Regulations for Companies effective from 29 April 2016). The reserve is not available for distribution.

Financial liabilities
Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings or payables, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts.

Subsequent measurement
The measurement of financial liabilities depends on their classification, as described below:

Loans and borrowings
This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in income statement when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the consolidated statement of income. This category generally applies to interest-bearing loans and borrowings.

Derecognition
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of income.

Offsetting of financial instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Employees' defined benefit liabilities
The Group operates a non-funded employee end-of-service benefit plan, which is classified as defined benefit obligation under IAS 19 'Employee Benefits'. A defined benefit plan is a plan which is not a defined contribution plan. The liability recognized in the consolidated statement of financial position for a defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets at that date. The defined benefit obligation is calculated by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting estimated future cash outflows using market yields at the end of the reporting period of high quality corporate bonds that have terms to maturity approximating to the estimated term of the post employment benefit obligations. Actuarial gains and losses arising from changes in actuarial assumptions and experience adjustments are recognized in equity through other comprehensive income in the period in which they arise.

Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the consolidated statement of income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Liabilities which are probable, they are recorded in the consolidated statement of financial position under accounts payable and accruals. A contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Zakat and income tax
Zakat and income tax
Zakat is provided for the Company and for subsidiaries operate inside the Kingdom of Saudi Arabia in accordance with Regulations of the General Authority of Zakat and Tax (GAZT) prevailing in the Kingdom of Saudi Arabia. Income tax is provided for in accordance with fiscal authorities in which the Company's subsidiaries operate outside the Kingdom of Saudi Arabia. Provision for zakat and income tax is charged to the consolidated statement of income.

Deferred tax
Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Revenue recognition
Revenue from contracts with customers
Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements because it typically controls the goods or services before transferring them to the customer.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2018

A) Sale of goods

Revenue from sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. The normal credit term is 30 to 90 days upon delivery. The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the sale of equipment, the Group considers the effects of variable consideration, the existence of significant financing components, non-cash consideration, and consideration payable to the customer (if any).

In general the contracts for the sale of goods do not provide customers with a right of return and volume rebates. Accordingly, the application of the constraint on variable consideration did not have any impact on the revenue recognised by the Group.

The Group provides normal warranty provisions for general repairs for one to five years on its certain products, in line with industry practice. A liability for potential warranty claims is recognised at the time the product is sold. The Group does not provide any extended warranties or maintenance contracts to its customers.

Generally, the Group receives short-term advances from its customers. Using the practical expedient in IFRS 15, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

B) Rendering of services

The Group provides installation, maintenance and engineering services that are either sold separately or bundled together with the sale of equipment to a customer. These services can be obtained from other providers and do not significantly customise or modify the equipment.

Contracts for bundled sales of equipment and related services are comprised of two performance obligations because the promises to transfer equipment and provide maintenance or installation services are capable of being distinct and separately identifiable. Accordingly, the Group allocates the transaction price based on the relative stand-alone selling prices of the equipment and maintenance or installation services.

The Group recognises revenue from above services over time, using an input method to measure progress towards complete satisfaction of the service, because the customer simultaneously receives and consumes the benefits provided by the Group. Revenue from the sale of the fire prevention equipment are recognised at a point in time, generally upon delivery of the equipment.

C) Revenue from long-term contracts

The Group has determined that for its long-term contracts for turnkey projects in its steel and air conditioner segments and for made-to-order equipment in its steel segment, the customer controls all of the work in progress as the project progresses and equipment is manufactured. This is because under those contracts the works are performed and equipment are made to a customer's specification and if a contract is terminated by the customer, then the Group is entitled to reimbursement of the costs incurred to date, including a reasonable margin.

At the time of entering into a contract, the Group identifies the performance obligations attached to each contract. For this purpose, the Group evaluates the contractual terms and its customary business practices to identify whether there are distinct performance obligations within each contract. The Group determines the transaction price of each contract in order to identify the transaction price of each aforementioned performance obligations as the amount of consideration to which the Group expects to be entitled in exchange for transferring promised services to a customer. Having determined the transaction price of the contract, the Group allocates the transaction price to each performance obligation.

The Group recognises revenue upon the satisfaction of performance obligations attached to contracts, which occurs when service obligations mentioned in the contract are met and accepted by the customer in form of acceptance of works completed. The Group recognises revenue from such long-term contracts over time, using an input method to measure progress towards complete satisfaction of the performance obligation by reference to the percentage of completion method. In applying the percentage of completion method, revenue recognised corresponds to the total contract revenue multiplied by the actual completion rate based on the proportion of total contract costs incurred to date and the estimated cost to complete.

The Group receives advances from customers for its long-term projects. Generally, such advances are not significant to the contract consideration and received in the normal course of business at the start of the project. The Group does not adjust the promised amount of consideration for the effects of a significant financing component as the Group has determined that such advances are received for reasons other than financing the projects. These advances are adjusted against progress billings raised to the customer in accordance with the terms of the contract.

The value of work completed but not billed at the date of consolidated statement of financial position is classified as "contract assets" under current assets in the consolidated statement of financial position. Amounts billed in excess of work completed and advances received at the consolidated statement of financial position date is classified as "contract liabilities" under current liabilities in the consolidated statement of financial position. Invoices are issued according to contractual terms and are usually payable within 30 to 90 days.

Cost to obtain a contract
The Group pays sales commission to its employees and sales agents for certain contracts for sales of goods and services. The Group has elected to apply the optional practical expedient for costs to obtain a contract which allows the Group to immediately expense sales commissions because the amortisation period of the asset that the Group otherwise would have used is one year or less.

Finance income
Finance income, including income arising from finance leases and other financial instruments, is recognised using the effective interest method.

Contract balances
Contract assets
A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Accounts receivables
A receivable represents the Group’s right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets.

Expenses
Expenses are recognised when incurred based on the accrual basis of accounting. Selling and distribution expenses are those that specifically relate to salesmen, sales department, warranties, warehousing, delivery vehicles as well as provision for expected credit losses. 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.

Operating leases
Leases in which substantially all the risks and benefits of ownership of the asset are not transferred to the Group are classified as operating leases. Operating lease payments are recognised as an operating expense in the consolidated statement of income on a straight-line basis over the lease term.

Foreign currencies
The Group’s consolidated financial statements are presented in Saudi Riyal, which is also the parent company’s functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional

Notes to the Consolidated Financial Statements (continued)
At 31 December 2018

currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to consolidated statement of income reflects the amount that arises from using this method.

Transaction and balances
Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

All differences arising on settlement or translation of monetary items are taken to the statement of income with the exception of differences on foreign monetary items that form part of a net investment in a foreign operation. These are recognised in OCI until the disposal of the net investment, at which time they are reclassified to consolidated statement of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of a gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or consolidated statement of income, respectively).

Group companies
On consolidation, the assets and liabilities of foreign operations are translated into Saudi Riyal at the rate of exchange prevailing at the reporting date and their statements of income are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified to consolidated statement of income.

Current versus non-current classification
The Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Fair value measurement
The Group measures financial instruments such as available for sale investments at fair value at each statement of financial position date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the consolidated financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above. 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.

Non-current assets held for sale and discontinued operations
The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the

Notes to the Consolidated Financial Statements (continued)
At 31 December 2018

plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale. Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or
- Is a subsidiary acquired exclusively with a view to resale

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of income.

3 CHANGES TO THE GROUP'S ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards effective as of 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but not yet effective.

The Group applies, for the first time, IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments. The nature and effect of these changes are disclosed below:

IFRS 15 Revenue from Contracts with Customers
IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group elected the modified retrospective method and applied the standard retrospectively to only the most current period presented in the financial statements. The Group recognised the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of retained earnings at the date of initial application i.e. 1 January 2018 which is allowable as per the standard. Accordingly, the information presented for the previous corresponding period has not been restated.

The Group generates its revenue from sale of goods, rendering of services, and long-term contracts. The goods and services are sold both on their own in separately identified contracts with customers and together as a bundled package of goods and/or services.

A) Sale of goods
The Group's contracts with customers for the sale of goods generally include one performance obligation. The Group has concluded that revenue from sale of goods should be recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. Therefore, the adoption of IFRS 15 did not have an impact on the timing of revenue recognition and the amount of revenue recognised.

In general the contracts for the sale of goods do not provide customers with a right of return and volume rebates. Accordingly, the application of the constraint on variable consideration did not have any impact on the revenue recognised by the Group.

The Group provides normal warranty provisions for general repairs for one to five years on its certain products, in line with industry practice. A liability for potential warranty claims is recognised at the time the product is sold. The Group does not provide any extended warranties or maintenance contracts to its customers.

Generally, the Group receives short-term advances from its customers. Using the practical expedient in IFRS 15, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

B) Rendering of services

The Group's air conditioners segment also provides installation services as part of its long-term contracts with customers for mechanical, electrical and central air conditioning projects. These services are sold either separately or bundled together with the long-term contracts with customers. The installation services can be obtained from other providers and do not significantly customise or modify the air conditioners and other electrical equipment.

Prior to the adoption of IFRS 15, the Group accounted for the equipment and installation service as separate deliverables within the bundled sales and recognised revenue based on the invoiced amounts.

Under IFRS 15, the Group assessed that there are two performance obligations in a contract for bundled sales of equipment and installation services, because its promises to transfer equipment and provide installation services are capable of being distinct and separately identifiable.

The Group performed a re-allocation of contract consideration based on the relative stand-alone selling prices of the equipment and installation services, which decreased the amount allocated to installation services. Therefore, the Group reduced its contract assets with a corresponding adjustment to retained earnings.

Under IFRS 15, the Group concluded that revenue from installation services will continue to be recognised over time, using an input method to measure progress towards complete satisfaction of the service similar to the previous accounting policy, because the customer simultaneously receives and consumes the benefits provided by the Group. Revenue from the sale of the equipment will continue to be recognised at a point in time, upon delivery of the equipment.

The following tables show the adjustments recognised for individual line item affected by the changes on adoption of IFRS 15 with corresponding impact charged to retained earnings at 1 January 2018:

		SR'000	
	31/12/2017	Adjustments	**01/01/2018** (Restated)
Contract assets	361,412	(3,967)	**357,445**

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group has applied the exemption for not to restate the comparative information for prior periods with respect to classification and measurement.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2018

A) Classification and measurement

Except for certain trade receivables, under IFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under IFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion').

At transition date to IFRS 9, the Group has financial assets measured at amortised cost and equity instruments at FVOCI. The new classification and measurement of the Group's financial assets are, as follows:

Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's trade and other receivables.

Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition. This category only includes equity instruments, which the Group intends to hold for the foreseeable future and which the Group has irrevocably elected to so classify upon initial recognition or transition. The Group classified its unquoted equity instruments as equity instruments at FVOCI. Equity instruments at FVOCI are not subject to an impairment assessment under IFRS 9. Under IAS 39, the Group's unquoted equity instruments were classified as AFS financial assets.

Upon adoption of IFRS 9, the Group has reclassified impairment loss (fair value adjustments) recorded at 31 December 2017 against its equity instruments at FVOCI to fair value reserve from retained earnings at 1 January 2018.

		SR'000	
	31/12/2017	Adjustments	**01/01/2018** (Restated)
Fair value reserve	-	(10,880)	**(10,880)**

The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 relates to the new impairment requirements, as described further below.

The accounting for the Group's financial liabilities remains largely the same as it was under IAS 39. Accordingly, the adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities.

B) Impairment

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For contract assets and trade and other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

The adoption of the ECL requirements of IFRS 9 resulted in increases in impairment allowances of the Group's debt financial assets. The increase in allowance resulted in adjustment to retained earnings at 1 January 2018.

	SR'000		
	31/12/2017	Adjustments	**01/01/2018** (Restated)
Accounts receivable	1,951,955	(17,121)	**1,934,834**

4 SIGNIFICANT ACCOUNTING ESTIMATES, JUDGEMENTS AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of asset or liability affected in future periods.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty, and critical judgments in applying accounting policies (that have the most significant effect on the amount recognized in the consolidated financial statements) includes:

Impairment of non-financial assets
An impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2018

Valuation of defined benefit obligations

The cost of the defined benefit pension plan and other post-employment benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases and other assumptions. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

Impairment of accounts receivables and contract assets

The Group uses a provision matrix to calculate expected credit losses (ECLs) for accounts receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed loss rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults in a particular sector, the historical loss rates are adjusted. At every reporting date, the historical observed loss rates are updated and changes in the forward-looking estimates are analysed

The assessment of the correlation between historical observed loss rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual loss in the future.

Estimated cost to complete

At each reporting date, the Group is required to estimate costs to complete on fixed-price contracts. Estimating costs to complete on such contracts requires the Group to make estimates of future costs to be incurred, based on work to be performed beyond the reporting date. This estimate will impact contract revenues, contract costs and contract assets. Project costs to complete estimate is based on the management's best estimates at the reporting date after considering all the available and known factors.

Fair value measurement of financial instruments

When the fair values of financial assets recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments.

Useful lives of property, plant and equipment

The management determines the estimated useful lives of its equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

5 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IIFRS 16 Leases
IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

The Group plans to adopt IFRS 16 retrospectively with a cumulative effect of initially applying the Standard recognised in retained earnings at the date of initial application. The Group will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Group will elect to use the exemptions applicable to the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group has leases of certain office equipment (i.e., printing and photocopying machines) that are considered of low value. At reporting date, the Group is in the process to assess the potential effect of IFRS 16 on its consolidated financial statements.

The Group will adopt the new standard on the effective date. At this stage, the Group is finalising its assessment of the impact of the new standard on the Group's consolidated financial statements.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement
The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event

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- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Group will apply these amendments when they become effective.

IFRIC Interpretation 23 Uncertainty over income tax treatment
The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group will apply interpretation from its effective date. Since the Group operates in a multinational tax environment, applying the Interpretation may affect its consolidated financial statements and the required disclosures. In addition, the Group may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

Amendments to IAS 28: Long-term interests in associates and joint ventures
The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted. Since the Group does not have such long-term interests in its associate and joint venture, the amendments will not have a significant impact on its consolidated financial statements.

IFRS 3 Business Combinations
The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments will apply on future business combinations of the Group.

IFRS 11 Joint Arrangements
A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.

6 REVENUE FROM CONTRACTS WITH CUSTOMERS

	SR'000	
	2018	2017
Set out below is the disaggregation of the Group's revenue from contracts with customers:		
Sale of goods	**2,958,485**	3,169,183
Rendering of services	**384,997**	351,812
Revenue from long-term contracts	**954,252**	866,042
Total revenue from contracts with customers	**4,297,734**	4,387,037

Reconciliation of the Group's disaggregate revenue for its reportable segments and timing of revenue recognition is disclosed in note 38.

Contract balances

	SR'000	
	2018	2017
Group's contract balances comprise of following:		
Accounts receivable (note 22)	**2,043,156**	1,951,955
Contract assets (note 23)	**413,369**	361,412
Contract liabilities (note 34)	**292,350**	249,523

Accounts receivable are non-interest bearing and are generally on terms of 30 to 90 days.

Contract assets are initially recognised for revenue earned from its long-term contracts in its steel and air conditioner segment as receipt of consideration is conditional on successful completion of obligations mentioned in the contract and accepted by the customer in form of acceptance of works completed. Upon completion of contract obligation and acceptance by the customer, the amounts recognised as contract assets are reclassified to accounts receivable.

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Contract liabilities include advances received from customer and billings in excess of value of work executed against its long-term contracts.

7 COST OF SALES

	SR'000	
	2018	2017
Cost of inventories recognised as expense	**1,705,999**	1,714,181
Employees' and labour costs	**504,758**	540,612
Depreciation	**88,331**	97,713
Sub-contracting costs	**145,710**	90,189
Others direct costs	**335,002**	302,556
	2,779,800	2,745,251

8 CONTRACTS COST

Materials consumed	**413,208**	342,613
Employees' and labour costs	**129,710**	113,605
Depreciation	**8,885**	11,135
Sub-contracting costs	**245,476**	241,593
Others direct costs	**30,155**	41,454
	827,434	750,400

9 SELLING AND DISTRIBUTION EXPENSES

Employees' costs	**95,427**	124,936
Provision for expected credit losses (note 39)	**124,087**	13,031
Transportation	**53,761**	46,909
Advertising and sales promotion	**8,568**	5,188
Warranties	**18,831**	24,783
Rent and utilities	**17,117**	18,387
Depreciation	**3,357**	4,035
Repairs and maintenance	**234**	286
Business travel	**3,620**	3,854
Support services	**2,351**	2,339
Communication and IT services	**828**	843
Others	**18,741**	24,924
	346,922	269,515

10 GENERAL AND ADMINISTRATION EXPENSES

Employees' costs	**276,228**	302,385
Communication and IT services	**18,785**	16,596
Depreciation	**18,570**	20,406
Support services	**8,681**	5,693
Rent and utilities	**11,953**	15,174
Professional fees	**7,252**	9,052
Business travel	**3,511**	4,117
Repairs and maintenance	**4,152**	7,053
Office supplies	**2,463**	4,291
Amortisation	**695**	535
Others	**25,870**	26,842
	378,160	412,144

11 OTHER INCOME (EXPENSES), NET

SR'000

	2018	2017
Foreign currency exchange losses	(2,801)	(2,634)
Gains on disposal of property, plant and equipment	132	395
Others	8,925	834
	6,256	(1,405)

12 IMPAIRMENT (REVERSAL) LOSS ON NON- CURRENT ASSETS

Reversal of Impairment loss on property, plant and equipment (note 15)	(14,117)	-
Reversal of impairment loss on investment in an associate (note 17)	(33,850)	-
Impairment loss on available-for-sale investment (note 18)	-	10,880
	(47,967)	10,880

13 DISCONTINUED OPERATIONS

13.1 During the year, the Group's investment in Geoclima S.r.l. Company (an associate) registered in Italy within air conditioner segment was fully disposed off following the Group's management plan to sell its share in the investee company. Legal formalities with regard to disposal were completed during the year and a net loss of SR 524 thousands has been recognised in the consolidated statement of income on disposal.

SR'000

	2018	2017
Loss on disposal of Group's share in the investee company	2,161	-
Cumulative exchange gain reclassified from foreign currency translation reserve to statement of income on disposal	(1,637)	-
	524	-

13.2 During the year, the Group has entered into a share purchase agreement with other shareholders for disposal of its share in ZNA Infra Private Limited, India (an associate) with a book value of SR 9,354 thousands. In accordance with the share transfer arrangement agreed among the shareholders, the Group assumed liabilities of the investee amounting to SR 21,739 thousands to be settled by it without any reimbursement from the investee or other shareholders. Further, the Group agreed to settle the liabilities of investee amounting to SR 37,740 thousands with a repayment of such amounts from the investee to the Group. Such amounts have been booked as receivable from the investee and are included in the amounts due from related parties (note 36). As at 31 December 2018, a provision of SR 23,294 thousands was recognised in the consolidated statement of income against the above receivable amount. Legal formalities with regard to disposal arrangement are in process and expected to be completed during year 2019. In view of the above arrangement, a net loss of SR 53,804 thousands has been recognised in the consolidated statement of income.

SR'000

	2018	2017
Loss on disposal of Group's share in the investee company	31,093	-
Provision for impairment of amounts due from investee	23,294	-
Cumulative exchange gain reclassified from foreign currency translation reserve to statement of income on disposal	(583)	-
	53,804	-

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14 EARNINGS PER SHARE

	SR'000	
	2018	2017
Basic and diluted earnings per share is calculated by dividing the net income for the year attributable to the shareholders of the parent company by the weighted average number of outstanding shares during the year as follows:		
Net (loss) income for the period attributable to the shareholders of the parent company (SR '000):		
Continuing operations	(85,505)	105,018
Discontinued operations	(54,328)	-
	(139,833)	105,018
Weighted average number of outstanding shares during the year (share '000)	60,000	60,000
Earning per share from net (loss) income		
Basic and diluted earnings per share attributable to the shareholders of the parent company	(2.33)	1.75
Earning per share for continuing operations		
Basic and diluted earnings per share attributable to the shareholders of the parent company	(1.43)	1.75
Earning per share for discontinued operations		
Basic and diluted earnings per share attributable to the shareholders of the parent company	(0.91)	-

15 PROPERTY, PLANT AND EQUIPMENT

	Freehold land	Buildings on leasehold land	Machinery	Furniture, fixtures and equipment	Motor vehicles	Capital work-in-progress	Total
			SR'000				
Cost							
At 1 January 2017	112,280	914,030	1,561,317	239,271	104,798	61,437	**2,993,133**
Additions	910	5,195	36,285	12,206	2,142	33,475	**90,213**
Transfer	-	7,021	30,491	1,580	-	(39,092)	**-**
Disposal	-	(84)	(6,675)	(3,690)	(3,915)	(878)	**(15,242)**
Foreign currency translation	362	3,311	4,945	2,426	82	23	**11,149**
At 31 December 2017	113,552	929,473	1,626,363	251,793	103,107	54,965	**3,079,253**
Additions	-	1,703	18,413	6,825	6,633	1,818	**35,392**
Transfer	-	943	10,655	1,022	-	(12,620)	**-**
Disposal	(237)	(596)	(12,294)	(4,712)	(3,095)	-	**(20,934)**
Foreign currency translation	(505)	(4,047)	(7,371)	(3,870)	(71)	(28)	**(15,892)**
At 31 December 2018	**112,810**	**927,476**	**1,635,766**	**251,058**	**106,574**	**44,135**	**3,077,819**

PROPERTY, PLANT AND EQUIPMENT	Freehold land	Buildings on leasehold land	Machinery	Furniture, fixtures and equipment	Motor vehicles	Capital work-in-progress	Total
			SR'000				
Depreciation and impairment:							
At 1 January 2017	15,479	461,773	1,115,766	187,997	79,335	-	**1,860,350**
Charge for the year	-	35,446	71,909	16,070	9,864	-	**133,289**
Disposal	-	(35)	(6,377)	(3,362)	(3,680)	-	**(13,454)**
Foreign currency translation	310	2,197	4,213	2,390	70	-	**9,180**
At 31 December 2017	15,789	499,381	1,185,511	203,095	85,589	-	**1,989,365**
Charge for the year	-	38,072	54,864	14,824	11,383	-	**119,143**
Reversal of impairment losses	-	(7,252)	(6,865)	-	-		**(14,117)**
Disposal	(237)	(465)	(12,111)	(4,492)	(3,062)	-	**(20,367)**
Foreign currency translation	(419)	(3,974)	(7,171)	(3,083)	(69)	-	**(14,716)**
At 31 December 2018	**15,133**	**525,762**	**1,214,228**	**210,344**	**93,841**	**-**	**2,059,308**
Net book amounts:							
At 31 December 2018	**97,677**	**401,714**	**421,538**	**40,714**	**12,733**	**44,135**	**1,018,511**
At 31 December 2017	97,763	430,092	440,852	48,698	17,518	54,965	1,089,888

In prior periods, the Group determined that the recoverable amount of its property, plant and equipment in a subsidiary, which is considered a CGU, was less than its carrying amount and accordingly an impairment loss of SR 25,449 thousands was recognised.

During the year, as a result of increase in sale volumes and resumption of activities of the subsidiary to normal operational level, the Group determined that the recoverable amount of its CGU, has exceeded its carrying amount. Accordingly, an impairment loss of SR 14,117 thousands was reversed. The recoverable amount as at 31 December 2018 was based on value in use and was determined at the level of the CGU. In determining value in use for the CGU, the cash flows were discounted at a rate of 12.46% on a pre-tax basis.

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 2018. The Group has right to renew these lease agreements.

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 29 and 33).

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16 OTHER INTANGIBLE ASSETS

	SR'000
Cost:	
At 1 January 2017	10,779
Additions	94
At 31 December 2017	10,873
Additions	150
At 31 December 2018	**11,023**
Accumulated amortisation:	
At 1 January 2017	4,763
Charge for the year	535
At 31 December 2017	5,298
Charge for the year	695
At 31 December 2018	**5,993**
Net carrying value	
At 31 December 2018	**5,030**
At 31 December 2017	5,575

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.

17 INVESTMENTS IN ASSOCIATES AND A JOINT VENTURE

Carrying values of the Group's share for investment in associates and a joint venture were as follows:

	Percentage of ownership		SR'000	
Associates	**2018**	2017	**2018**	2017
Rabiah Nasser and Zamil Concrete Industries Company Limited - Saudi Arabia ("RANCO") (note 17.1)	50%	**50%**	56,296	22,541
Energy Central Company B.S.C. - Bahrain (note 17.2)	25%	**25%**	14,900	14,900
ZNA Infra Private Limited - India formerly Zamil Infra Private Limited (note 17.3)	-	**51%**	-	9,354
Geoclima S.r.l - Italy (note 17.4)	-	**40%**	-	15,441
IIB Paper Company Limited - Bahrain (note 17.5)	20.83%	**20.83%**	3,052	4,450
			74,248	66,686
Joint venture				
Middle East Air Conditioners Company Limited (note 17.6)	50%	**51%**	11,136	14,087
			11,136	14,087
			85,384	80,773

The following table illustrates the summarised financial information of the Group's investment in associates:

Summarised statement of financial position (continued)	RANCO	Energy Central Company B.S.C. - Bahrain	ZNA Infra Private Limited - India	Geoclima S.r.l - Italy	IIB Paper Company Limited - Bahrain	**Total**
31 December 2016			SR'000			
Current assets	137,197	35,250	-	-	-	
Non-current assets	155,919	65,330	-	-	4	
Current liabilities	(152,652)	(1,570)	-	-	15,375	
Non-current liabilities	(87,922)	(340)	-	-	(728)	
Net assets	52,542	98,670	-	-	-	
Proportion of the Group's ownership	50%	25%	-	-	14,651	
Group's share of net assets	26,271	24,668	-	-	3,052	
Goodwill	-	-	-	-	-	
Impairment loss / other adjustments	30,025	(9,768)	-	-	-	
Group's carrying amount of the investment	56,296	14,900	-	-	3,052	**74,248**
31 December 2017						
Current assets	102,629	43,580	154,006	65,125	-	
Non-current assets	166,248	53,540	118,093	21,692	21,577	
Current liabilities	(130,489)	(1,570)	(148,654)	(37,179)	(214)	
Non-current liabilities	(17,956)	(26,350)	(105,104)	(14,835)	-	
Net assets	120,432	69,200	18,341	34,803	21,363	
Proportion of the Group's ownership	50%	25%	51%	40%	20.83%	
Group's share of net assets	60,216	17,300	9,354	13,921	4,450	
Goodwill	-	-	-	1,520	-	
Impairment loss / other adjustments	(37,675)	(2,400)	-	-	-	
Group's carrying amount of the investment	22,541	14,900	9,354	15,441	4,450	**66,686**
Summarised statements of comprehensive income for associates				SR'000		
31 December 2018						
Revenue	143,912	-	-	-	-	
Operating income	3,218	-	-	-	-	
Net income (loss) for the year	768	-	-	-	(6,707)	
Other comprehensive income	(959)	-	-	-	-	
Total comprehensive income for the year	(191)	-	-	-	(6,707)	
Group's share of total comprehensive income	(96)	-	-	-	(1,397)	**(1,493)**

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Summarised statement of financial position (continued)	RANCO	Energy Central Company B.S.C. - Bahrain	ZNA Infra Private Limited - India	Geoclima S.r.l - Italy	IIB Paper Company Limited - Bahrain	**Total**
31 December 2016			SR'000			
31 December 2017						
Revenues	139,534	-	167,295	70,049	-	
Operating income	6,451	-	17,391	7,778	-	
Net income (loss) for the year	4,884	-	(850)	2,614	-	
Other comprehensive income	262	-	-	-	-	
Total comprehensive income for the year	5,146	-	(850)	2,614	-	
Group's share of total comprehensive income	2,573	-	(433)	1,046	-	**3,186**

17.1 Rabiah Nasser and Zamil Concrete Industries Company Ltd ("RANCO") which is registered in Saudi Arabia and engaged in the production of concrete products, asphalt and polystyrene. In prior periods, the Group determined that the recoverable amount in its investment in an associate, which is considered a CGU, was less than its carrying amount. The recoverable amount was based on the CGU's value in use using a pre-tax discount rate of 12.4%. Accordingly an impairment loss of SR 61,556 thousands was recognised. During the year, as the associate's operational activities resumed to normal levels and are expected to continue in the foreseeable future, therefore, the Group determined that the recoverable amount of its CGU, has exceeded its carrying amount. The recoverable amount was based on the CGU's value in use using a pre-tax discount rate of 11.3%. Accordingly, an impairment loss of SR 33,850 thousands was reversed.

17.2 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.

17.3 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. During the year, following the Group's management plan to dispose off its share in investee company, the full value of the investment has been written-off. Details of the disposal arrangement and resultant loss recognised by the Group is disclosed in note 13.

17.4 During the year, the Group's investment in Geoclima S.r.l. Company registered in Italy within air conditioner segment was fully disposed off following the Group's management plan to dispose of its share in the investee company. Details net loss recognised on disposal are disclosed in note 13.

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

17.6 Middle East Air Conditioners Company Limited is registered in Kingdom of Saudi Arabia and is engaged in sale of air conditioners. Summarised financial information of the joint venture, based on its IFRS financial statements, and reconciliation with the carrying amount of the investment in the consolidated financial statements is set out below:

Summarised statement of financial position for joint venture	SR'000	
	2018	2017
Current assets (including bank balances and cash of SR 6,2 million, 2017: SR 2,1 million)	**39,590**	42,433
Non-current assets	**6**	7
Current liabilities Current liabilities (including zakat and income tax provision of SR 0,34 million, 2017: SR 0,48 million)	**(19,427)**	(17,452)
Non-current liabilities	**(71)**	(87)
Net assets	**20,098**	24,901
Proportion of the Group's ownership	**51%**	51%
Group's share of net assets	**10,250**	12,700
Other adjustments	**886**	1,387
Group's carrying amount of the investment	**11,136**	14,087

Summarised statement of comprehensive income for joint venture		
Revenues	**21,949**	24,116
Cost of sales	**(22,642)**	(23,939)
Selling and distribution expenses	**(1,215)**	(5,959)
General and administrative expenses	**(1,143)**	(1,959)
Other expenses	**(1,229)**	-
Loss before zakat and income tax	**(4,280)**	(7,741)
Zakat and income tax	**(473)**	(394)
Total comprehensive income for the year	**(4,753)**	(8,135)
Group's share of total comprehensive income for the year	**(2,951)**	(3,948)

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18 EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	SR'000	
	2018	2017
Kinan International for Real Estate Development Company Limited (note 18.1)	40,538	46,586
PLG Photovoltaic Limited (note 18.2)	-	30,880
	40,538	77,466

18.1 This investment represents 2.11% share in Kinan International For Real Estate Development Company Limited, an unlisted company which is registered in Saudi Arabia and is engaged in real estate activities.

18.2 During the year, the Group has disposed off its 61.19% of unquoted share in PLG Photovoltaic Limited with a net book value of SR 30,880 thousands, an unlisted company which is registered in India against a value of SR 16,487 thousands. Accordingly, a loss of SR 14,393 thousands was recognised in retained earnings through the consolidated statement of other comprehensive income and the related fair value reserve of SR 10,880 thousands have been transferred to retained earnings.

Reconciliation of fair value of unquoted equity shares classified as equity instruments at fair value through other comprehensive income is as follows:

	SR'000	
	2018	2017
At the beginning of the year	**77,466**	88,346
Remeasurement recognised in consolidated other comprehensive income	**(6,048)**	-
Impairment loss recognised in consolidated statement of income (note 12)	**-**	(10,880)
Sales (note 18.2)	**(30,880)**	-
At the end of the year	**40,538**	77,466

19 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 the entire risks and rewards were 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:

	SR'000	
a) Net investment in finance lease consists of:	**2018**	2017
Gross investments in lease (see (b) below)	**466,635**	504,213
Less: Unearned finance income	**(103,352)**	(119,267)
	363,283	384,946
Analysed as:		
Net investment in finance lease, current	**22,600**	21,663
Net investment in finance lease, non-current	**340,683**	363,283
	363,283	384,946
b) The future minimum lease payments to be received consists of:		
Within one year	**37,578**	37,578
After one year but not more than five years	**187,888**	187,888
Five years onwards	**241,169**	278,747
	466,635	504,213

20 GOODWILL

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. The goodwill related to SPPI was fully impaired in the year 2015 and accordingly the balance amount relates to goodwill in GIG.

The Group performed its annual impairment test at each reporting date. The recoverable amount of GIG is 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% (2017: 2%) growth rate that is the same as the long term average growth rate for the industry in which the GIG operates. The recoverable amount was based on the CGU's value in use using a pre-tax discount rates of 11.7% to 12.9% (2017: 11.2% to 12.6%).

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As a result of the analysis, at 31 December 2018 the estimated recoverable amount of CGU exceeded its carrying amount by approximately SR 18 million (2017: SR 16 million) and the management did not identify an impairment for this CGU to which goodwill of SR 21 million is allocated.

The calculation of value in use for the CGU is most sensitive to the following assumptions:

- Gross margin
- Discount rates
- Growth rate used to extrapolate cash flows beyond the budget period

Gross margin

Gross margins are based on average values achieved in the three years preceding the start of the budget period. These are increased over the budget period for anticipated efficiency improvements. Decreased demand can lead to a decline in gross margin. A decrease in the gross margin of 3% would result in an impairment of the CGU.

Discount rates

Discount rates represent the current market assessment of the risks specific to the cash generating unit, regarding the time value of money and individual risks of the underlying assets which have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly-available marked data. A rise in the pre-tax discount rate of 1.6% would result in an impairment.

Growth rate estimates

A long-term growth rate into perpetuity has been determined as the lower of the nominal gross domestic product (GDP) rate for Saudi Arabia where the CGU operates. Management recognises that the speed of technological change and the possibility of new entrants can have a significant impact on growth rate assumptions. The effect of new entrants is not expected to have an adverse impact on the forecasts, but could yield a reasonably possible alternative to the estimated long-term growth rate of 2%. A reduction of 2.5% in the long-term growth rate would result in impairment of the CGU.

21 INVENTORIES

SR'000

	2018	2017
Raw materials	774,520	709,476
Finished goods	425,880	413,154
Work in progress	97,921	84,061
Goods in transit	46,446	41,866
	1,344,767	1,248,557

22 ACCOUNTS RECEIVABLE

	SR'000 2018	2017
Trade accounts receivable	**2,087,871**	1,844,475
Receivables from related parties (note 36)	**95,051**	65,341
Retentions receivable	**171,852**	192,648
	2,354,774	2,102,464
Less: provision for impairment of receivables	**(311,618)**	(150,509)
	2,043,156	1,951,955

For terms and conditions related to related parties receivables, refer to note 36.

Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days. Movement in the allowance for expected credit losses of trade receivables is as follows: (Comparative amounts for 2017, represent the allowance account for impairment losses under IAS 39).

	SR'000 2018	2017
At the beginning of the year	**150,509**	148,857
Impact of first time application of IFRS 9 (note 3)	**17,121**	-
	167,630	148,857
Provision for expected credit losses - continuing operations	**122,044**	13,031
Provision for expected credit losses - discontinued operations	**23,294**	-
Written-off during the year	**(323)**	(12,075)
Exchange differences	**(1,027)**	696
At the end of the year	**311,618**	150,509

Information about the credit exposures on accounts receivable is disclosed in note 39.

23 CONTRACT ASSETS

	SR'000 2018	2017
Value of the work executed to date	**1,746,042**	**1,558,568**
Less: Amounts received and receivable as progress billings	**(1,330,645)**	(1,197,156)
	415,397	361,412
Less: provision for expected credit losses	**(2,028)**	-
	413,369	361,412

Information about the credit exposures on contract assets is disclosed in note 39.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2018

24 ADVANCES, OTHER RECEIVABLES AND PREPAYMENTS

	SR'000	
	2018	2017
Advances to suppliers	**61,720**	62,264
Prepaid expenses	**50,887**	38,733
Other receivables	**152,752**	136,605
	265,359	237,602

25 CASH AND CASH EQUIVALENTS

	SR'000	
	2018	2017
Bank balances and cash	**130,652**	184,053
Short-term deposits	**21,805**	31,471
	152,457	215,524

The average interest rate on the short-term deposits during the year was 4 to 5% per annum (2017: 4 to 5% per annum).

26 SHARE CAPITAL

The authorised, issued and fully paid share capital of the Company is divided into 60 million shares (2017: same) of SR 10 each (2017: same).

27 DIVIDENDS

On 23 May 2018 (corresponding to 8 Ramadan 1439H), the Annual General Assembly approved the payment of a proposed final cash dividends from board of directors for the year 2017 of SR 1 per share (totaling to SR 60 million). Dividends have been fully paid during the year.

On 1 August 2017 (corresponding to 9 Dhu-al-Qa'dah 1438H), the board of directors resolved to distribute interim cash dividends for the year 2017 of SR 1 per share (totaling to SR 60 million). Such dividends were fully paid in the year 2017.

On 19 January 2017 (corresponding to 21 Rabi' II 1438H), the board of directors proposed a final cash dividend of SR 1 per share for the year 2016 totaling SR 60 million being 10% of the share capital for the approval of the shareholders in their Annual General Assembly. On 4 May 2017 (corresponding to 8 Sha'ban 1438H), the Annual General Assembly approved the payment of the proposed dividend for the year 2016. Such dividends were fully paid in the year 2017.

28 MATERIAL PARTLY-OWNED SUBSIDIARIES

Financial information of subsidiaries that have material non-controlling interests is provided below:

Proportion of equity interest held by non-controlling interests:		SR'000	
Name	**Country of incorporation**	**2018**	2017
Gulf Insulation Group	Kingdom of Saudi Arabia	**49%**	49%
Accumulated balances of material non-controlling interest:			
Gulf Insulation Group		**188,265**	185,465
Profit allocated to material non-controlling interest:		**31/12/2018**	31/12/2017
Gulf Insulation Group		**11,673**	10,089

The summarised financial information of the above subsidiary is provided below. This information is based on amounts before inter-company eliminations.

Summarised statement of income	**2018**	2017
Revenues	**262,869**	272,749
Cost of sales	**(177,214)**	(181,691)
Other operating expenses	**(59,280)**	(61,369)
Other income	**901**	1,218
Finance costs	**(6,753)**	(5,881)
Profit before zakat	**20,523**	25,026
Zakat and income tax	**(3,484)**	(6,708)
Net income for the year	**17,039**	18,318
Other comprehensive income for the year	**(622)**	(579)
Total comprehensive income for the year	**16,417**	17,739
Attributable to non-controlling interests	**11,673**	10,089
Dividends paid to non-controlling interests	**5,622**	1,127

Summarised statement of financial position:	**2018**	2017
Non-current assets	**331,703**	**347,693**
Current assets	**161,031**	**161,136**
Non-current liabilities	**(51,480)**	**(74,000)**
Current liabilities	**(147,853)**	**(152,870)**
Total Equity	**293,401**	**281,959**
Attributable to:		
Shareholders of the parent company	**105,136**	**96,494**
Non-controlling interests	**188,265**	**185,465**

Summarised cash flow information for year ended:	**2018**	2017
Cash flows from operating activities	**33,077**	54,029
Cash used in investing activities	**(7,151)**	(22,784)
Cash used in financing activities	**(29,750)**	(28,935)
Net increase in the cash and cash equivalents	**(3,824)**	2,310

Notes to the Consolidated Financial Statements (continued)
At 31 December 2018

29 TERM LOANS

SR'000	2018	2017
Saudi Industrial Development Fund ("SIDF")	85,642	107,442
	85,642	107,442
Less: SIDF prepaid financial charges	(3,205)	(5,518)
	82,437	101,924
Less: Current portion:		
Saudi Industrial Development Fund ("SIDF")	(43,703)	(34,669)
	(43,703)	(34,669)
Non-current portion	38,734	67,255

The Group 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 15). The loans are repayable in unequal instalments.

During the year, the Group has applied for restructuring of SIDF loan in a subsidiary for outstanding loan amount of SR 30 million at 31 December 2018. Legal formalities in this regard are under process and the management expect these to be completed during April 2019.

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	2019	2020	2021	2022	2023 and onwards	
SR'000	44,500	16,100	17,142	2,950	4,950	**85,642**

30 EMPLOYEES' DEFINED BENEFIT LIABILITIES

In accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its defined benefit obligations at 31 December 2018 and 31 December 2017 in respect of employees' end-of-service benefits payable under relevant local regulations and contractual arrangements. The main actuarial assumptions used to calculate the defined unfunded benefit obligation are as follows:

	2018	2017
Discount rate	4.45%	3.0%
Expected rate of salary increase	3.95%	2.5%

The break up of net benefit costs charged to consolidated statement of income is as follows:

	SR'000	
	2018	2017
Current service cost	**34,465**	33,233
Interest cost on benefit obligation	**8,955**	10,160
Net benefit expense	**43,420**	43,393

Changes in the present value of defined unfunded benefit obligation is as follows:

	SR'000	
	2018	2017
At the beginning of the year	**294,964**	329,056
Net benefit expense	**43,420**	43,393
Benefits paid	**(100,903)**	(74,548)
Remeasurement losses (gains) on employees' defined benefit liabilities	**9,498**	(2,937)
At the end of the year	**246,979**	294,964

Employees' defined benefit obligations due to a reasonable possible change in the significant actuarial assumptions, as at 31 December 2018 and 2017 is, as show below:

	SR'000	
	2018	2017
Discount rate:		
0.5% increase	**236,197**	238,668
0.5% increase	**258,390**	312,186
Future salary increase:		
0.5% increase	**257,870**	311,437
0.5% increase	**236,572**	286,216

The sensitivity analysis above has been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The sensitivity analysis is based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analysis may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another. The same method has been applied for the sensitivity analysis as when calculating the recognised pension liability.

The following payments are expected against the defined benefit liability in future years:

	SR'000	
	2018	2017
Within the next 12 months (next annual reporting period)	**17,038**	23,807
Between 2 and 5 years	**95,953**	114,440
Beyond 5 years	**170,422**	172,436
Total expected payments	**283,413**	310,683

The average duration of the defined benefit plan obligation at the end of the reporting period is 9.09 years (2017: 6.62 years).

Notes to the Consolidated Financial Statements (continued)

At 31 December 2018

31 ACCOUNTS PAYABLE

	SR'000	
	2018	2017
Trade accounts payable	**415,106**	330,549
Retentions payable	**21,841**	17,152
Related parties (note 36)	**19,574**	18,173
	456,521	365,874

Trade payables are non-interesting bearing and are normally settled on 30 to 120 days terms. For terms and conditions with related parties, refer to note 36. For explanations on the Group's liquidity risk management processes, refer to note 39.

32 ACCRUALS AND PROVISIONS

	SR'000	
	2018	2017
Accrued expenses	**250,728**	254,549
Accrued contract costs	**123,703**	142,081
Warranties provision	**9,480**	11,379
	383,911	408,009

Accrued expenses include an amount of SR 31,254 thousands (2017: SR nil) attributable to discontinued operations as disclosed in note 13.

33 SHORT TERM LOANS

	SR'000	
	2018	2017
Short term loans	**60,703**	69,187
Murabaha and tawarruq finances	**2,563,845**	2,261,847
	2,624,548	2,331,034

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 15). These borrowings carry commission charges at prevailing market borrowing rates. The effective commission rate for the year ended 31 December 2018 is 3.25% per annum (2017: 2.8% per annum):

34 CONTRACT LIABILITIES

	SR'000	
	2018	2017
Advances from customers	**218,930**	226,305
Billings in excess of value of work executed	**73,420**	23,218
	292,350	249,523

Billings in excess of value of work executed comprise of following:

	SR'000	
	2018	2017
Progress billings received or receivable	**891,670**	288,827
Less: value of work executed	**(818,250)**	(265,609)
	73,420	23,218

35 ZAKAT AND INCOME TAX

The major components of zakat and income tax expense for the year ended 31 December 2018 and 2017 are:

Consolidated statement of income	SR'000	
Zakat and current income tax:	**2018**	2017
Zakat charge	**17,311**	13,092
Current income tax charge	**3,157**	1,660
Deferred taxes	**(6,837)**	1,061
	13,631	15,813

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

	2018	2017
At the beginning of the year	**45,649**	55,421
Current year provision	**20,468**	14,752
Payments during the year	**(18,598)**	(24,598)
Exchange differences	**(151)**	74
At the end of the year	**47,368**	45,649

35.1 Zakat

Charge for the year	SR'000	
The zakat charge consists of:	**2018**	2017
Current year provision	**17,311**	13,092

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.

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 from 2014 to 2017 have been filed with the GAZT. However, the assessments have not yet been raised by the GAZT.

(ii) **Partially owned subsidiaries**
Saudi Preinsulated Pipes Industries
Zakat assessments have been agreed with the GAZT up to 2008. The zakat declarations for the years from 2008 to 2017 have been filed with the GAZT. However, the assessments have not yet been raised by the GAZT.

Gulf Insulation Group
Zakat and income tax assessments have been agreed with the GAZT up to 2007. The zakat declarations for the years from 2008 to 2017 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 prevailing in the Kingdom of Saudi Arabia. The zakat and income tax regulations in Saudi Arabia are subject to different interpretations and the assessments to be raised by the GAZT could be different from the declarations filed by the Company.

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35.2 Income tax

Charge for the year

	SR'000	
The income tax charge consists of:	**2018**	2017
Current year provision	**3,157**	1,660

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
Income tax assessments have been agreed with the Department of Income Tax of India ("the DIT") up to the year ended 31 March 2010. The income tax returns for the years ended 31 March 2011 to 31 March 2018 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
Income tax assessments have been agreed with the DIT up to the year ended 31 March 2017. The income tax returns for the years ended 31 March 2018 have been filed with the DIT. However, the final assessments have not yet been raised by the DIT.

Zamil Construction India Private Limited
Income tax assessments have been agreed with the DIT up to the year ended 31 March 2016. The income tax returns for the years ended 31 March 2017 and 2018 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
Income tax assessments have been agreed with the DIT up to the year ended 31 March 2016. The income tax returns of the company for the years ended 31 March 2017 and 2018 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 Company Limited
Income tax assessments have been agreed with the tax authorities ("the TA") of Vietnam up to the year 2017.

Zamil Structural Steel - S.A.E - Private Free Zone
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
Income tax assessments have been agreed with the Egyptian tax authorities ("the tax authorities") up to the year 2014. The income tax returns for the years from 2015 to 2017 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 management's 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.

35.3 Deferred tax

Deferred tax assets
The deferred tax assets relate to foreign subsidiaries in Vietnam, Egypt and India. The subsidiary in Egypt has incurred losses over the last two financial years and such losses are available for next five years for offset against future taxable profits of the subsidiary. The Group has concluded that the deferred assets will be recoverable using the estimated future taxable income based on the approved business plans and budgets for the subsidiaries.

The deferred tax asset comprises of timing differences relating to:

SR'000

Deferred tax asset	2018	2017
Accruals and provisions	6,982	5,529
Taxable losses carry forward	3,869	2,142
Total deferred tax assets	10,851	7,671

SR'000

Deferred tax liability	2018	2017
Accelerated depreciation for tax purposes	(620)	(772)
Total deferred tax liability	(620)	(772)
Net deferred tax asset	10,231	6,899

Reconciliation of deferred tax assets, net was as follows:

SR'000

	2018	2017
At the beginning of the year	**6,899**	4,957
Tax income during the year recognised in consolidated statement of income	**3,453**	1,847
Exchange differences	**(121)**	95
At the end of the year	**10,231**	6,899

Deferred tax liabilities
The deferred tax liabilities relates to a partially owned Saudi subsidiary with a foreign shareholder. The deferred tax liabilities comprise of timing differences relating to:

SR'000

Deferred tax liability	2018	2017
Accelerated depreciation for tax purposes	6,588	9,592
Total deferred tax liability	6,588	9,592

SR'000

Deferred tax asset	2018	2017
Employees' defined benefit liabilities	(671)	(888)
Allowance for doubtful debts	(912)	(338)
Allowance for slow moving inventories	(23)	-
Total deferred tax assets	(1,606)	(1,226)
Net deferred tax liability	4,982	8,366

Notes to the Consolidated Financial Statements (continued)

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Reconciliation of deferred tax liabilities, net was as follows:

	SR'000	
	2018	2017
At the beginning of the year	**8,366**	5,458
Tax (benefit) expense recognised in consolidated statement of income	**(3,384)**	2,908
At the end of the year	**4,982**	8,366

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

36 RELATED PARTY 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. The next senior and ultimate parent company of the Group is Zamil Group Holding Company (a Saudi Closed Joint Stock Company) registered in Dammam, Kingdom of Saudi Arabia.

The Group in the normal course of business carries out transactions with various related parties. Amounts due from/to related parties are shown under accounts receivable and account payable respectively. Transactions with related parties included in the consolidated statement of income are as follows:

Relationship and name of related party		Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
Ultimate parent companycompany			SR'000		
Zamil Group Holding Company	**2018**	**6,330**	**-**	**3,513**	**-**
	2017	1,854	360	-	76
Joint venture					
Middle East Air Conditioners Co. Ltd.	**2018**	**9,962**	**-**	**18,252**	**-**
	2017	15,996	-	16,526	-
Associates					
Rabiah Nasser & Zamil Concrete Industries Company Limited	**2018**	**-**	**-**	**12,804**	**-**
	2017	-	-	11,558	-
Energy Central Company - Bahrain	**2018**	**-**	**-**	**-**	**14,900**
	2017	-	-	-	14,900
Geoclima - Italy	**2018**	**-**	**-**	**2,382**	**-**
	2017	-	-	4,326	-
ZNA Infra Private Limited - India	**2018**	**-**	**-**	**37,890**	**-**
	2017	-	-	-	-

Relationship and name of related party		Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
Other related parties			SR'000		
United Carton Industries	**2018**	**716**	**2,328**	**8,758**	**-**
	2017	47,140	1,832	12,250	-
Zamil Architectural Holding Company	**2018**	**-**	**-**	**3,173**	**-**
	2017	2,120	711	4,668	-
Others	**2018**	**14,137**	**28,228**	**8,279**	**4,674**
	2017	92,417	46,125	16,013	3,197
Total					
	2018	**31,145**	**30,556**	**95,051**	**19,574**
	2017	159,527	49,028	65,341	18,173

The compensation to the key management personnel during the year ended 31 December 2018 amounted to SR 7.05 million (2017: SR 11.6 million). The directors' remuneration for the year ended 31 December 2018 amounted to SR 1.6 million (2017: SR 1.6 million).

Pricing policies and terms of payments of transactions with related parties are approved by the Board of Directors. Outstanding balances at the year-end are unsecured, interest free and settled in cash. For the year ended 31 December 2018, the Group recognised provision for expected credit losses of SR 23.2 million relating to amounts owed by related parties (2017: SR nil) and has been recognised as part of net loss from discontinued operations in the consolidated statement of income.

The amounts due from and due to related parties have been classified as account receivables and account payables respectively in the consolidated statement of financial position (refer to note 22 and 31).

37 CONTINGENCIES AND COMMITMENTS

Operating lease commitments
The Group has operating leases for rental of certain properties which generally have a term of 1 to 20 years (2017: 1 to 20 years). The rental charge for the year amounted to SR 43.5 million (2017: SR 37.5 million). Future minimum rentals payable under operating leases are, as follows:

	SR'000
Not later than one year	24,205
Later than one year and not later than five years	52,705
Later than five years	29,810
	106,720

Guarantees
The Group's bankers have issued performance and payments guarantees, on behalf of the Group, amounting to SR 1,079 million (2017: SR 1,097 million).

Capital commitments
The board of directors have approved future capital expenditure amounting to SR 21 million (2017: SR 15 million), relating to certain expansion projects.

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38 SEGMENTAL INFORMATION

For management purposes, the Group is organised into business units based on its products and services and has four reportable segments, as follows:

- The air conditioners industry, which is engaged in production of window, split and central air conditioners, electrical and gas ovens, automatic dryers, microwave ovens, air-conditioning ducts/channels, household refrigerators, automatic washing machines and installation, maintenance, operation and leasing of air conditioning and refrigeration systems.
- The steel industry, which is engaged in construction, managing and operating industrial projects, constructing, managing and operating airports and warehouses, constructing and providing fire protection services for building and structures, building, repairing and maintaining the communication towers, business of steel sheets works, heavy equipment and its spare parts, storage tanks, installation containers and pumps and implementation of electric works.
- The insulation industry, which is engaged in production of complete line of insulation products including fiberglass for using in thermal insulation of central air conditioners, pre-insulated pipes, glass wool, rock wool and engineering plastic foam insulations.
- Corporate and others, which are engaged in providing corporate and shared services, training and investment activities.

The Board of directors monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on income and is measured consistently in the consolidated financial statements.

Inter-segment revenues are eliminated upon consolidation and reflected in the 'adjustments and eliminations' column. All other adjustments and eliminations are part of detailed reconciliations presented further below.

For the year ended 31 December 2018 (SR '000)

Business segments	Air conditioner industry	Steel industry	Insulation industry	Corporate and others	Total segments	Adjustments and eliminations	Consolidated
Revenue from contracts with customers:							
External customer	**1,858,123**	**2,140,722**	**287,766**	**11,123**	**4,297,734**	**-**	**4,297,734**
Inter-segment	**10,132**	**-**	**14,384**	**4,853**	**29,369**	**(29,369)**	**-**
	1,868,255	**2,140,722**	**302,150**	**15,976**	**4,327,103**	**(29,369)**	**4,297,734**
Finance lease income	**15,915**	**-**	**-**	**-**	**15,915**	**-**	**15,915**
Total revenue	**1,884,170**	**2,140,722**	**302,150**	**15,976**	**4,343,018**	**(29,369)**	**4,313,649**
Timing of revenue recognition:							
At a point in time	1,022,281	1,640,432	287,766	8,006	2,958,485	-	2,958,485
Over time	835,842	500,290	-	3,117	1,339,249	-	1,339,249
	1,858,123	2,140,722	287,766	11,123	4,297,734	-	4,297,734
Gross profit	**281,651**	**328,559**	**90,012**	**(5,458)**	**694,764**	**11,651**	**706,415**
Operating income (loss)	**(29,216)**	**(3,676)**	**21,796**	**(9,353)**	**(20,449)**	**1,782**	**(18,667)**

For the year ended 31 December 2018 (SR '000)

Business segments	Air conditioner industry	Steel industry	Insulation industry	Corporate and others	Total segments	Adjustments and eliminations	Consolidated
Unallocated income (expenses):							
Share in results of associates and a joint venture							**(3,964)**
Other income, net							**6,256**
Financial charges							**(97,619)**
Reversal of impairment losses on non-current assets							**47,967**
Loss before zakat and income tax and discontinued operations							**(66,027)**
Zakat and income tax							**(13,631)**
Discontinued operations							**(54,328)**
Net loss for the year							**(133,986)**

For the year ended 31 December 2017 (SR '000)

Business segments	Air conditioner industry	Steel industry	Insulation industry	Corporate and others	Total segments	Adjustments and eliminations	Consolidated
Revenue from contracts with customers:							
External customer	2,123,353	1,969,399	286,536	7,749	4,387,037	-	4,387,037
Inter-segment	4,625	242	13,064	11,246	29,177	(29,177)	-
	2,127,978	1,969,641	299,600	18,995	4,416,214	(29,177)	4,387,037
Finance lease income	16,813	-	-	-	16,813	-	16,813
Total revenue	2,144,791	1,969,641	299,600	18,995	4,433,027	(29,177)	4,403,850
Timing of revenue recognition:							
At a point in time	1,356,854	1,523,646	286,536	2,147	3,169,183	-	3,169,183
Over time	766,499	445,753	-	5,602	1,217,854	-	1,217,854
	2,123,353	1,969,399	286,536	7,749	4,387,037	-	4,387,037
Gross profit	414,993	387,915	90,654	6,915	900,477	7,722	908,199
Operating income (loss)	135,388	90,355	20,775	(21,576)	224,942	1,598	226,540
Unallocated income (expenses):							
Share in results of associates and a joint venture							
							(893)
Other (expenses) income, net							(1,405)
Financial charges							(87,102)
Impairment losses on non-current assets							(10,880)
Income before zakat and tax							126,260
Zakat and income tax							(15,813)
Net income for the year							110,447

Notes to the Consolidated Financial Statements (continued)

At 31 December 2018

At 31 December 2018 (SR '000)

Business segments	Air conditioner industry	Steel industry	Insulation industry	Corporate and others	Total segments	Adjustments and eliminations	Consolidated
Total assets	**2,792,442**	**2,113,405**	**547,063**	**700,355**	**6,153,265**	**(390,054)**	**5,763,211**
Total liabilities	**1,988,533**	**1,293,060**	**230,754**	**998,922**	**4,511,269**	**(372,173)**	**4,139,096**
Others:							
Investment in associates and a joint venture	**11,136**	**-**	**-**	**74,248**	**85,384**	**-**	**85,384**
Capital expenditure	**11,690**	**15,528**	**7,273**	**1,051**	**35,542**	**-**	**35,542**

At 31 December 2017 (SR '000)

Business segments	Air conditioner industry	Steel industry	Insulation industry	Corporate and others	Total segments	Adjustments and eliminations	Consolidated
Total assets	2,777,894	2,006,235	558,098	889,549	6,231,776	(550,053)	5,681,723
Total liabilities	1,933,192	1,191,888	244,935	960,341	4,330,356	(525,013)	3,805,343
Others:							
Investment in associates and a joint venture	29,528	-	-	51,245	80,773	-	80,773
Capital expenditure	20,842	40,633	23,218	5,614	90,307	-	90,307

Capital expenditure consists of additions of property, plant and equipment and intangible assets.

Geographic information

Revenue from external customers:	**2018**	2017
Saudi Arabia	**3,365,138**	3,552,091
Other Asian countries	**611,873**	575,380
Africa	**336,638**	276,379
	4,313,649	4,403,850

Non-current operating assets:	**2018**	2017
Saudi Arabia	**853,188**	908,967
Other Asian countries	**95,648**	108,496
Africa	**74,705**	78,000
	1,023,541	1,095,463

Non-current assets for this purpose consist of property, plant and equipment and other intangible assets.

39 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise loans and borrowings and accounts payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include accounts receivables, net investment in finance lease, short-term deposits, cash and bank balances that derive directly from its operations. The Group also holds investment in unquoted shares that is classified as equity investment at fair value through other comprehensive income.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks. The Group's senior management regularly review the policies and procedures to ensure that all the financial risks are identified, measured and managed in accordance with the Group's policies and risk objectives. The Group does not engage into any hedging activities. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarized below.

A) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: commission rate risk, currency risk and other price risk, such as equity price risk and commodity risk. Financial instruments affected by market risk include loans and borrowings, short-term deposits and equity instruments at fair value through other comprehensive income. The sensitivity analyses in the following sections relate to the position as at 31 December 2018 and 2017.

Commission rate risk

Commission rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market commission rates. The Group's exposure to the risk of changes in market commission rates relates primarily to the Group's long-term and short-term loans and its short-term deposits. The Group manages its exposure to commission rate risk by continuously monitoring movements in commission rates. At 31 December 2018 and 2017, the Group's exposure to commission rate risk was not significant as its major long-term and short-term loans were subject fixed commission rates.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a foreign currency) and the Group's net investments in foreign subsidiaries and associates. 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. At 31 December 2018 and 2017, the Group's exposure to foreign currency changes for its accounts receivable and accounts payable was not material.

The Group is exposed to significant foreign currency changes on its net investment in foreign operations in Egyptian Pounds and India Rupees. The following tables demonstrate the sensitivity to a reasonably possible change in Egyptian Pound and Indian Rupee exchange rates, with all other variables held constant. The impact on the Group's pre-tax equity is due to changes in the fair value of monetary assets and liabilities. The Group's exposure to foreign currency changes for all other currencies is not material.

Notes to the Consolidated Financial Statements (continued)

At 31 December 2018

	Change in Egyptian Pound rate	Effect on other components in equity SR '000
31 December 2018	**+ 9%**	**1,438**
	- 9%	**(1,438)**
31 December 2017	+ 13%	2,416
	- 13%	(2,416)

	Change in Indian Rupee rate	Effect on other components in equity SR '000
31 December 2018	**+ 2%**	**53**
	- 2%	**(53)**
31 December 2017	+ 2%	(1,321)
	- 2%	1,321

Commodity risk

The Group is exposed to the impact of market fluctuations of the price of various inputs to production including steel, electric parts, glass materials and electricity. The Group prepares annual budgets and periodic forecasts including sensitivity analyses in respect of various levels of such materials to manage the risk.

Equity price risk

The Group's unlisted equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Group manages the equity price risk through diversification and by placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Group's senior management on a regular basis. The Group's Board of Directors reviews and approves all equity investment decisions

At the reporting date, the exposure to unlisted equity securities at fair value was SR 40,538 thousands (2017: SR 77,466 thousands).

B) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk on its bank balances, short-term deposits, accounts receivables, contract assets, net investment in finance lease and some other receivables as follows:

	2018 SR '000	2017 SR '000
Bank balances	**126,892**	180,242
Short-term deposits	**21,805**	31,471
Accounts receivable	**2,043,156**	1,951,955
Contract assets	**413,369**	361,412
Net investments in finance lease	**363,283**	384,946
Other receivables	**152,752**	136,605
	3,121,257	3,046,631

Accounts receivable and contract assets

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. The Group seeks to manage its credit risk with respect to customers by setting credit limits for individual customers, monitoring outstanding receivables and ensuring close follow ups.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses for each business unit of the Group. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e. geographical region, product type, customer type and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The provision matrix is initially based on the Group's historical observed loss rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in a particular sector, the historical loss rates are adjusted. At every reporting date, the historical observed loss rates are updated and changes in the forward-looking estimates are analysed. The assessment of the correlation between historical observed loss rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual loss in the future.

Generally, accounts receivables are written-off if past due for more than three years and are not subject to enforcement activity. It is not the practice of the Group to obtain collateral over receivables and the vast majority are, therefore, unsecured. At 31 December 2018, the Group has obtained letter of credits as collateral over its receivables amounting to SR 245.8 million (2017: 225.2 million) from its certain customers. The Group determined that such receivable are not exposed to significant credit risk and therefore have not been considered in ECL assessment. The Group evaluates the concentration of risk with respect to trade accounts receivables as low, as its customers are located in several jurisdictions and industries and operate in largely independent markets.

Set out below is the information about the credit risk exposure at 31 December 2018 on the Group's accounts receivables, net investment in finance lease and contract assets:

Accounts receivable:	**2018** SR '000
Current	**540,223**
Less than 30 days	**207,969**
31 - 60 days	**146,249**
61 - 90 days	**93,284**
91 - 180 days	**177,362**
181-360 days	**186,398**
More than 360 days	**490,617**
	1,842,102
Receivables from related parties	**95,051**
Retention receivable	**171,852**
Net investment in finance lease	**363,283**
Contract assets	**415,397**
	2,887,685

Notes to the Consolidated Financial Statements (continued)
At 31 December 2018

Based on a provision matrix, the Group's expected credit losses at 31 December 2018 against its accounts receivable and contract assets exposed to credit risk amounted to SR 311.6 million and SR 2.02 million respectively. Accordingly, in 2018, the Group recognised an amount of SR 124.08 million as provision for expected credit losses in its consolidated statement of income for its continuing operations. Related parties receivable include an amount of SR 37.9 million (2017: SR nil) attributable to discontinued operations. The Group recognised an amount of SR 23.2 million as provision for expected credit losses as part of its net loss on discontinued operations in the consolidated statement of income.

The Group has applied the exemption for not to restate the comparative information for prior periods with respect to classification and measurement. Impairment analysis of the Group's trade accounts receivable was performed under IAS 39 on an individual basis for major customers. At 31 December 2017, trade accounts receivable at nominal value of SR 150.5 million were impaired. The ageing analysis of unimpaired trade accounts receivables as at 31 December 2017 is as follows.

Accounts receivable:	2017 SR '000
Neither past due nor impaired	540,800
Past due but not impaired:	
Less than 30 days	186,557
31 - 60 days	144,872
61 - 90 days	113,845
91 - 180 days	203,007
181-360 days	262,574
More than 360 days	242,311
	1,693,966

Bank balances and short term deposits
Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the Group's policy. The Group seeks to manage its credit risk with respect to banks by only dealing with reputable banks. At the reporting date, no significant concentration of credit risk were identified by the management.

C) 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 realize financial assets quickly at an amount close to its fair value. The Group manages its liquidity risk by monitoring working capital and cash flow requirements on regular basis. 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 90 days of the date of submitting the invoice. Trade payables are normally settled within 30 to 120 days of the date of purchase.

Excessive concentration risk
Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry.

In order to avoid excessive concentrations of risk, the Group's management focus on the maintenance of a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

	on demand	< 6 months	6 to 12 months	1 to 5 years	> 5 years	Total
			As at 31 December 2018			
			SR '000			
Accounts payable	**19,574**	**436,947**	**-**	**-**	**-**	**456,521**
Other financial liabilities	**-**	**374,431**	**-**	**-**	**-**	**374,431**
Interest bearing loans and borrowings	**30,000**	**2,630,648**	**8,400**	**39,442**	**1,700**	**2,710,190**
	49,574	**3,442,026**	**8,400**	**39,442**	**1,700**	**3,541,142**

	on demand	< 6 months	6 to 12 months	1 to 5 years	> 5 years	Total
			As at 31 December 2017			
			SR '000			
Accounts payable	18,173	347,701	-	-	-	365,874
Other financial liabilities	-	396,630	-	-	-	396,630
Interest bearing loans and borrowings	-	2,347,234	18,600	67,692	4,950	2,438,476
	18,173	3,091,565	18,600	67,692	4,950	3,200,980

40 CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in business conditions. No changes were made in the objectives, policies or processes during the year ended 31 December 2018 and the year ended 31 December 2017. Capital comprises share capital, statutory reserve, retained earnings and other reserves and is measured at SR 1,415,946 thousands as at 31 December 2018 (2017: SR 1,664,703 thousands).

39 FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair values
All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole, as follows:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

As of reporting date, there were no Level 1, 2 or 3 assets or liabilities except for equity investments through other comprehensive income in unquoted shares and these have been valued using Level 3 valuation technique.

Financial assets consist of cash and cash equivalents, equity investments at fair value through other comprehensive income, accounts receivable, net investment in finance lease and some other current assets. Financial liabilities consist of term loans, short term loan, accounts payable and some other current liabilities. The fair values of financial assets and financial liabilities approximate to their carrying amounts.

Set out below is a comparison, of the carrying amounts and fair values of the Group's equity investments at fair value through other comprehensive income:

			Fair value measurement using		
	Carrying value	Fair value	Level 1	Level 2	Level 3
31 December 2018			SR '000		
Equity instruments at fair value through other comprehensive income					
At fair value	**40,538**	**40,538**	**-**	**-**	**40,538**
	40,538	**40,538**	**-**	**-**	**40,538**

The fair value of the Group's investments in unquoted equity shares at 31 December 2018 have been measured using Level 3 (significant unobservable inputs). The Group estimated the fair value of the investment using adjusted net asset method at 31 December 2018. The adjusted net asset method involves deriving the fair value of an investee's equity instruments by reference to the fair value of its assets and liabilities.

			Fair value measurement using		
	Carrying value	Fair value	Level 1	Level 2	Level 3
31 December 2017			SR '000		
AFS investments					
At cost	46,586	-	-	-	-
At fair value	-	30,880	-	-	30,880
	46,586	30,880	-	-	30,880

42 COMPARATIVE FIGURES

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

43 SUBSEQUENT EVENTS

In the opinion of management, there have been no further significant subsequent events since the year ended 31 December 2018 that would have a material impact on the financial position of the Group as reflected in these consolidated financial statements.