

**ZAMIL INDUSTRIAL INVESTMENT COMPANY (ZAMIL INDUSTRIAL)  
AND ITS SUBSIDIARIES (A Listed Saudi Joint Stock Company)**

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE  
THREE MONTH PERIOD ENDED 31 MARCH 2019 AND INDEPENDENT  
AUDITORS' REVIEW REPORT**

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## Independent auditor's review report on the interim condensed consolidated financial statements to the shareholders of Zamil Industrial Investment Company (A Saudi Joint Stock Company)

### Introduction:

We have reviewed the accompanying interim condensed consolidated statement of financial position of Zamil Industrial Investment Company, A Saudi Joint Stock Company ("the Company") and its subsidiaries (collectively referred to as "the Group") as at 31 March 2019 and the related interim condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the three-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

### Scope of Review:

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion:

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 endorsed in the Kingdom of Saudi Arabia.

for Ernst & Young

Waleed G. Tawfiq  
Certified Public Accountant  
Registration No. 437

20 Sha'aban 1440H  
25 April 2019

Alkhobar



Zamil Industrial Investment Company (A Saudi Joint Stock Company) and its Subsidiaries

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the three-month period ended 31 March 2019

	Notes	For the three-month period ended 31 March	
		2019	2018
		SR'000 (Unaudited)	SR'000 (Unaudited)
<b>REVENUES</b>			
Revenue from contracts with customers	4	1,017,143	965,932
Finance lease income		3,834	4,064
		<b>1,020,977</b>	<b>969,996</b>
<b>DIRECT COSTS</b>			
Cost of sales		(680,614)	(628,528)
Contracts cost		(216,275)	(164,437)
		<b>(896,889)</b>	<b>(792,965)</b>
<b>GROSS PROFIT</b>		<b>124,088</b>	<b>177,031</b>
<b>EXPENSES</b>			
Selling and distribution		(42,972)	(38,158)
General and administration		(89,875)	(95,558)
<b>OPERATING (LOSS) PROFIT</b>		<b>(8,759)</b>	<b>43,315</b>
Share in results of associates and a joint venture		720	(11)
Other income, net		2,849	746
Financial charges		(29,546)	(20,774)
<b>(LOSS) PROFIT BEFORE ZAKAT AND INCOME TAX</b>		<b>(34,736)</b>	<b>23,276</b>
Zakat and income tax	5	(5,862)	(4,134)
<b>NET (LOSS) PROFIT FOR THE PERIOD</b>		<b>(40,598)</b>	<b>19,142</b>
<b>ATTRIBUTABLE TO:</b>			
Shareholders of the parent company		(47,152)	15,568
Non-controlling interests		6,554	3,574
		<b>(40,598)</b>	<b>19,142</b>
<b>EARNINGS PER SHARE:</b>			
Basic and diluted, earnings per share attributable to the shareholders of the parent company	6	<b>(0.79)</b>	0.26

The attached notes 1 to 13 form part of these interim condensed consolidated financial statements.

Zamil Industrial Investment Company (A Saudi Joint Stock Company) and its Subsidiaries

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three-month period ended 31 March 2019

	<i>For the three-month period ended 31 March</i>	
	<i>2019</i>	<i>2018</i>
	<i>SR'000</i>	<i>SR'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
<b>Net (loss) profit for the period</b>	<b>(40,598)</b>	19,142
<b>Other comprehensive income</b>		
<i>Other comprehensive income to be reclassified to income in subsequent periods:</i>		
Exchange differences on translation of foreign operations	137	1,344
<b>Net other comprehensive income to be reclassified to income in subsequent periods</b>	<b>137</b>	1,344
<i>Other comprehensive income not to be reclassified to income in subsequent periods:</i>		
Net (loss) on equity instruments at fair value through other comprehensive income	-	(4,389)
<b>Net other comprehensive income not to be reclassified to income in subsequent periods</b>	<b>-</b>	(4,389)
<b>Other comprehensive income (loss) for the period</b>	<b>137</b>	(3,045)
<b>TOTAL COMPREHENSIVE (LOSS) INCOME</b>	<b>(40,461)</b>	16,097
<b>ATTRIBUTABLE TO:</b>		
Shareholders of the parent company	(47,015)	12,523
Non-controlling interests	6,554	3,574
	<b>(40,461)</b>	16,097



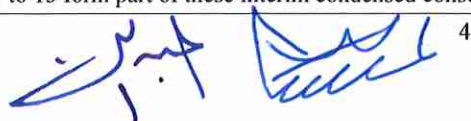
Zamil Industrial Investment Company (A Saudi Joint Stock Company) and its Subsidiaries

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2019

		<i>31 March</i> <i>2019</i> <i>SR'000</i> <i>(Unaudited)</i>	<i>31 December</i> <i>2018</i> <i>SR'000</i> <i>(audited)</i>
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		999,363	1,018,511
Right-of-use assets	2	84,188	-
Other intangible assets		4,584	5,030
Investments in associates and a joint venture		86,104	85,384
Equity instruments at fair value through other comprehensive income	11	40,538	40,538
Net investments in finance lease		334,881	340,683
Goodwill		21,126	21,126
Deferred tax assets		10,326	10,231
<b>TOTAL NON-CURRENT ASSETS</b>		<u>1,581,110</u>	<u>1,521,503</u>
<b>CURRENT ASSETS</b>			
Inventories		1,391,447	1,344,767
Accounts receivable		1,977,346	2,043,156
Contract assets		409,065	413,369
Advances, other receivables and prepayments		298,314	265,359
Current portion of net investment in finance lease		22,841	22,600
Cash and cash equivalents		176,773	152,457
<b>TOTAL CURRENT ASSETS</b>		<u>4,275,786</u>	<u>4,241,708</u>
<b>TOTAL ASSETS</b>		<u>5,856,896</u>	<u>5,763,211</u>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Share capital	7	600,000	600,000
Statutory reserve		180,000	180,000
Retained earnings		621,425	668,577
Foreign currency translation reserve		(26,446)	(26,583)
Fair value reserve		(6,048)	(6,048)
<b>EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT COMPANY</b>		<u>1,368,931</u>	<u>1,415,946</u>
<b>NON-CONTROLLING INTERESTS</b>		214,723	208,169
<b>TOTAL EQUITY</b>		<u>1,583,654</u>	<u>1,624,115</u>
<b>NON-CURRENT LIABILITIES</b>			
Term loans		39,001	38,734
Lease liabilities	2	57,847	-
Employees' defined benefit liabilities		238,041	246,979
Deferred tax liabilities		4,982	4,982
<b>TOTAL NON-CURRENT LIABILITIES</b>		<u>339,871</u>	<u>290,695</u>
<b>CURRENT LIABILITIES</b>			
Accounts payable		415,867	456,521
Accruals and provisions		442,173	383,911
Short term loans		2,673,179	2,624,548
Current portion of term loans		43,903	43,703
Current portion of lease liabilities	2	20,638	-
Contract liabilities		285,291	292,350
Zakat and income tax provision	5	52,320	47,368
<b>TOTAL CURRENT LIABILITIES</b>		<u>3,933,371</u>	<u>3,848,401</u>
<b>TOTAL LIABILITIES</b>		<u>4,273,242</u>	<u>4,139,096</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>5,856,896</u>	<u>5,763,211</u>

The attached notes 1 to 13 form part of these interim condensed consolidated financial statements.



Zamil Industrial Investment Company (A Saudi Joint Stock Company) and its Subsidiaries

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three-month period ended 31 March 2019

	<i>Attributed to shareholders of the parent company</i>							<i>Non-controlling interests</i>	<i>Total equity</i>
	<i>Share capital</i>	<i>Statutory reserve</i>	<i>Retained earnings</i>	<i>Foreign currency translation reserve</i>	<i>Fair value reserve</i>	<i>Total</i>			
	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>	
Balance at 1 January 2019 ( <i>Audited</i> )	600,000	180,000	668,577	(26,583)	(6,048)	1,415,946	208,169	1,624,115	
Net (loss) profit for the period	-	-	(47,152)	-	-	(47,152)	6,554	(40,598)	
Other comprehensive income	-	-	-	137	-	137	-	137	
Total comprehensive (loss) income	-	-	(47,152)	137	-	(47,015)	6,554	(40,461)	
<b>Balance at 31 March 2019 (<i>Unaudited</i>)</b>	<b>600,000</b>	<b>180,000</b>	<b>621,425</b>	<b>(26,446)</b>	<b>(6,048)</b>	<b>1,368,931</b>	<b>214,723</b>	<b>1,583,654</b>	
Balance at 1 January 2018 ( <i>Audited</i> )	600,000	180,000	912,614	(25,433)	(10,880)	1,656,301	208,597	1,864,898	
Net profit for the period	-	-	15,568	-	-	15,568	3,574	19,142	
Other comprehensive income (loss)	-	-	-	1,344	(4,389)	(3,045)	-	(3,045)	
Total comprehensive income (loss)	-	-	15,568	1,344	(4,389)	12,523	3,574	16,097	
<b>Balance at 31 March 2018 (<i>Unaudited</i>)</b>	<b>600,000</b>	<b>180,000</b>	<b>928,182</b>	<b>(24,089)</b>	<b>(15,269)</b>	<b>1,668,824</b>	<b>212,171</b>	<b>1,880,995</b>	

The attached notes 1 to 13 form part of these interim condensed consolidated financial statements.

Zamil Industrial Investment Company (A Saudi Joint Stock Company) and its Subsidiaries

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the three-month period ended 31 March 2019

	<i>For the three-month period ended 31 March</i>	
	<i>2019</i>	<i>2018</i>
	<i>SR'000</i>	<i>SR'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
<b>OPERATING ACTIVITIES</b>		
(Loss) profit before zakat and income tax	(34,736)	23,276
Adjustments to reconcile profit before zakat and income tax to net cash flows:		
Depreciation of property, plant and equipment	31,640	31,078
Depreciation of right-of-use assets	4,689	-
Amortization of other intangible assets	446	423
Amortization of prepaid financial charges	467	300
Employees' defined benefit liabilities	(8,938)	(4,050)
Financial charges	29,546	20,774
Share in results of associates and a joint venture	(720)	11
	<u>22,394</u>	<u>71,812</u>
Working capital adjustments:		
Inventories	(46,680)	(103,688)
Accounts receivable	65,810	14,022
Contract assets	4,304	23,407
Advances, other receivables and prepayments	(42,724)	(24,515)
Net investment in finance lease	5,561	5,329
Accounts payable	(40,654)	(20,121)
Accruals and provisions	58,262	45,548
Contract liabilities	(7,059)	12,212
Cash from operations	<u>19,214</u>	<u>24,006</u>
Financial charges paid	(28,653)	(20,774)
Zakat and income tax paid	(963)	-
Net cash (used in) from operating activities	<u>(10,402)</u>	<u>3,232</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(12,478)	(12,939)
Proceeds from disposal of property, plant and equipment	2	74
Net cash used in investing activities	<u>(12,476)</u>	<u>(12,865)</u>
<b>FINANCING ACTIVITIES</b>		
Net movement in short term loans	48,631	(24,290)
Net movement in term loans	-	(3,269)
Payments against lease liabilities	(1,516)	-
Net cash from (used in) financing activities	<u>47,115</u>	<u>(27,559)</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>24,237</u>	<u>(37,192)</u>
Cash and cash equivalents at the beginning of the period	152,457	215,524
Movement in foreign currency translation reserve, net	79	1,081
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<u>176,773</u>	<u>179,413</u>

"Continued"

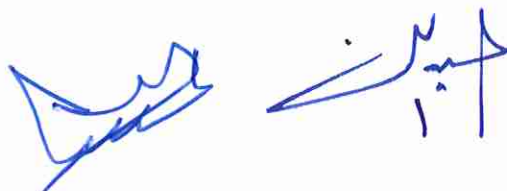


Zamil Industrial Investment Company (A Saudi Joint Stock Company) and its Subsidiaries

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the three-month period ended 31 March 2019

	<i>For the three-month period ended 31 March</i>	
	<i>2019</i>	<i>2018</i>
	<i>SR'000</i>	<i>SR'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
<b><u>NON-CASH TRANSACTIONS:</u></b>		
Recognition of right-of-use assets on first time adoption of IFRS 16	<b>88,877</b>	-
Recognition of lease liabilities on first time adoption of IFRS 16	<b>79,108</b>	-
Derecognition of prepayments on first time adoption of IFRS 16	<b>9,769</b>	-
Financial charges on lease liabilities against right-of-use assets	<b>893</b>	-
Increase in impairment loss against accounts receivable on adoption of IFRS 9	-	7,515
Adjustment to contract assets on adoption of IFRS 15	-	3,967
Exchange differences on investment in associates	-	233
Exchange differences on property, plant and equipment	<b>16</b>	31
Exchange differences on income and deferred taxes	<b>42</b>	61



The attached notes 1 to 13 form part of these interim condensed consolidated financial statements.

# Zamil Industrial Investment Company (A Saudi Joint Stock Company) and its Subsidiaries

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2019

### 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:

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

The Company has investment in the following subsidiaries:

	<i>Effective ownership percentage</i>	
	<i>31 March 2019</i>	<i>31 December 2018</i>
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 Limited - 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%	-
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%
- Ikhteban 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 Building 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%
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%

**1 CORPORATE INFORMATION (continued)**

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 interim condensed consolidated financial statements of the Group as of 31 March 2019 were authorised for issuance in accordance with the Board of Directors resolution on 25 April 2019 (corresponding to 20 Sha'aban 1440H).

**2 SIGNIFICANT ACCOUNTING POLICIES**

**Basis of preparation**

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as endorsed in Kingdom of Saudi Arabia (KSA). The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2018. In addition the results of the operations for the period ended 31 March 2019 do not necessarily represent an indicator for the results of the operations for the year ending 31 December 2019.

These interim condensed 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 interim condensed 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.

**New standards, interpretation and amendments adopted by the Group**

The accounting policies adopted in the preparation of the interim condensed 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 2018, except for the adoption of new standards effective as of 1 January 2019. 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 16 Leases that requires restatement of previous financial statements. Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the interim condensed consolidated financial statements of the Group. As required by IAS 34, the nature and effect of these changes are disclosed below:

***IFRS 16 Leases***

IFRS 16 supersedes 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. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. Since, the Group recognised the right-of-use assets at the amount equal to the lease liabilities, adjusted by the amount of any prepaid lease payments relating to that lease recognised in the consolidated statement of financial position immediately before the date of initial application. Therefore, no adjustments were required in the retained earnings at the date of initial application.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**New standards, interpretation and amendments adopted by the Group (continued)**

***IFRS 16 Leases (continued)***

The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The effect of adoption of IFRS 16 as at 1 January 2019 (increase/(decrease)) is as follows:

	<i>SR'000</i>
<b>Assets</b>	
Right-of-use assets	<b>88,877</b>
Prepayments	<b>(9,769)</b>
<b>Total assets</b>	<b>79,108</b>
<b>Liabilities</b>	
Lease liabilities	<b>79,108</b>
<b>Total liabilities</b>	<b>79,108</b>

The Group has lease contracts for land and other equipment. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Finance leases were capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognised as finance costs) and reduction of the lease liability. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent were recognised under prepayments.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Group.

*Leases previously classified as finance leases*

The Group did not have any liabilities recognised as finance lease liabilities at the date of initial application of IFRS 16.

*Leases previously accounted for as operating leases*

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease



**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**New standards, interpretation and amendments adopted by the Group (continued)**

***IFRS 16 Leases (continued)***

*Leases previously accounted for as operating leases (continued)*

- By class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

	<i>SR'000</i>
Operating lease commitments as at 31 December 2018	<b>106,720</b>
Discounting impact for gross lease liabilities	<b>(27,612)</b>
Lease liabilities as at 1 January 2019	<b>79,108</b>

Gross lease liabilities at 1 January 2019 have been discounted using a weighted average incremental borrowing rate of 5.43%.

***Summary of new accounting policies***

Set out below are the new accounting policies of the Group upon adoption of IFRS 16, which have been applied from the date of initial application:

*Right-of-use assets*

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

*Lease liabilities*

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

# Zamil Industrial Investment Company (A Saudi Joint Stock Company) and its Subsidiaries

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 March 2019

### 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### New standards, interpretation and amendments adopted by the Group (continued)

##### IFRS 16 Leases (continued)

##### Summary of new accounting policies (continued)

##### Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below USD 5,000). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

##### Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

	<i>Right-of-use assets SR'000</i>	<i>Lease liabilities SR'000</i>
As at 1 January 2019	88,877	79,108
Depreciation expense	(4,689)	-
Interest expense	-	893
Payments	-	(1,516)
As at 31 March 2019	<u>84,188</u>	<u>78,485</u>

Right-of-use assets represent lease hold lands and buildings.

### 3 SIGNIFICANT ACCOUNTING ESTIMATES, JUDGEMENTS AND ASSUMPTIONS

The preparation of the Group's interim condensed 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.

The significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual consolidated financial statements, except for new significant judgments and key sources of estimation uncertainty related to the application of IFRS 16, as described in note 2 above.

### 4 REVENUE FROM CONTRACTS WITH CUSTOMERS

Set out below is the disaggregation of the Group's revenue from contracts with customers:

	<i>2019 SR '000</i>	<i>2018 SR '000</i>
Sale of goods	693,254	677,922
Rendering of services	69,689	78,814
Revenue from long-term contracts	254,200	209,196
Total revenue from contracts with customers	<u>1,017,143</u>	<u>965,932</u>

Reconciliation of the Group's disaggregate revenue for its reportable segments and timing of revenue recognition is disclosed in note 10.

## Zamil Industrial Investment Company (A Saudi Joint Stock Company) and its Subsidiaries

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 March 2019

#### 5 ZAKAT AND INCOME TAX

##### a) Zakat

The provision for the period 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 (2018: same).

The zakat assessments of the Company and its wholly owned Saudi subsidiaries as a whole have been agreed with the General Authority of Zakat and Tax ("the GAZT") up to 2013. The zakat declarations for the years 2014 to 2017 have been filed with the GAZT. However, the assessments have not yet been raised by the GAZT. The Zakat 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.

##### b) Income tax

Income tax provision is provided for in accordance with authorities in which the Group's subsidiaries operate outside the Kingdom of Saudi Arabia. Income tax has been computed based on the managements' understanding of the income tax regulations enforced in their respective countries. The income tax regulations are subject to different interpretations, and the assessments to be raised by the tax authorities could be different from the income tax returns filed by the respective company.

##### c) Deferred tax

During the period, the Group has booked a net deferred tax benefit of SR 53 thousands (31 March 2018: SR 333 thousands).

#### 6 EARNINGS PER SHARE

Basic and diluted earnings per share is calculated by dividing the net income for the period attributable to the shareholders of the parent company by the weighted average number of outstanding shares during the period as follows:

	<i>Three-month period ended 31 March (Unaudited)</i>	
	<u>2019</u>	<u>2018</u>
Net (loss) profit for the period attributable to the shareholders of the parent company (SR '000)	(47,152)	15,568
Weighted average number of outstanding shares during the period (share '000)	60,000	60,000
Basic and diluted earnings per share attributable to the shareholders of the parent company	<u>(0.79)</u>	<u>0.26</u>

## Zamil Industrial Investment Company (A Saudi Joint Stock Company) and its Subsidiaries

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 March 2019

#### 7 SHARE CAPITAL

The authorised, issued and fully paid share capital of the Company is divided into 60 million shares (31 December 2018: same) of SR 10 each.

#### 8 CONTINGENT LIABILITIES

The Group's bankers have issued performance and payments guarantees, on behalf of the Group, amounting to SR 1,181 million (31 December 2018: SR 1,079 million).

#### 9 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 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. Transactions with related parties' included in the interim condensed consolidated statement of income are as follows:

<i>Relationship and name of related party</i>	<i>Nature of transactions</i>	<i>Three-month period ended 31 March (Unaudited)</i>	
		<i>2019</i>	<i>2018</i>
		<i>SR '000</i>	<i>SR '000</i>
<i>Ultimate parent company</i>			
Zamil Group Holding Company	Sales	369	326
	Purchases	219	-
<i>Joint venture</i>			
Middle East Air Conditioners Company Limited	Sales	10,934	1,653
<i>Other related parties</i>			
	Sales	7	2,741
	Purchases	2,158	3,277

The compensation to the key management personnel during the period amounted to SR 1,764 thousands (31 March 2018: SR 1,718 thousands).

Pricing policies and terms of payments of transactions with related parties are approved by the Board of Directors. Outstanding balances at the period-end are unsecured, interest free and settled in cash.

Amounts due from related parties at 31 March 2019 amounting to SR 101,080 thousands (31 December 2018: SR 95,051 thousands) have been included in the accounts receivable in interim condensed consolidated statement of financial position. Amounts due to related parties at 31 March 2019 amounting to SR 20,846 thousands (31 December 2018: SR 21,841 thousands) have been included in the accounts payable in interim condensed consolidated statement of financial position.



## Zamil Industrial Investment Company (A Saudi Joint Stock Company) and its Subsidiaries

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 March 2019

#### 10 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.

No operating segments have been aggregated to form the above reportable operating segments. 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 interim condensed consolidated financial statements.

#### Business segments

*For the three-month period ended 31 March 2019 (SR '000)*

	<i>Air conditioner industry</i>	<i>Steel industry</i>	<i>Insulation industry</i>	<i>Corporate and others</i>	<i>Total segments</i>	<i>Adjustments and eliminations</i>	<i>Consolidated</i>
<i>Revenue from contracts with customers:</i>							
External customer	370,306	560,358	84,376	2,103	1,017,143	-	1,017,143
Inter-segment	-	-	3,273	685	3,958	(3,958)	-
	<b>370,306</b>	<b>560,358</b>	<b>87,649</b>	<b>2,788</b>	<b>1,021,101</b>	<b>(3,958)</b>	<b>1,017,143</b>
Finance lease income	3,834	-	-	-	3,834	-	3,834
Total revenue	<b>374,140</b>	<b>560,358</b>	<b>87,649</b>	<b>2,788</b>	<b>1,024,935</b>	<b>(3,958)</b>	<b>1,020,977</b>
<i>Timing of revenue recognition:</i>							
At a point in time	176,071	432,276	87,649	1,216	697,212	(3,958)	693,254
Over time	194,235	128,082	-	1,572	323,889	-	323,889
	<b>370,306</b>	<b>560,358</b>	<b>87,649</b>	<b>2,788</b>	<b>1,021,101</b>	<b>(3,958)</b>	<b>1,017,143</b>
Gross profit	<b>26,439</b>	<b>68,997</b>	<b>27,731</b>	<b>564</b>	<b>123,731</b>	<b>357</b>	<b>124,088</b>
Operating profit (loss)	<b>(20,582)</b>	<b>1,241</b>	<b>13,397</b>	<b>(3,172)</b>	<b>(9,116)</b>	<b>357</b>	<b>(8,759)</b>
<i>Unallocated income (expenses):</i>							
Share in results of associates and a joint venture							720
Other income, net							2,849
Financial charges							(29,546)
Loss before zakat and income tax							(34,736)
Zakat and income tax							(5,862)
Net loss for the period							<b>(40,598)</b>

Zamil Industrial Investment Company (A Saudi Joint Stock Company) and its Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 March 2019

10 SEGMENTAL INFORMATION (continued)

For the three-month period ended 31 March 2018 (SR '000)

	<i>Air conditioner industry</i>	<i>Steel industry</i>	<i>Insulation industry</i>	<i>Corporate and others</i>	<i>Total segments</i>	<i>Adjustments and eliminations</i>	<i>Consolidated</i>
<i>Revenue from contracts with customers:</i>							
External customer	408,137	482,421	73,188	2,186	965,932	-	965,932
Inter-segment	-	-	3,926	1,317	5,243	(5,243)	-
	408,137	482,421	77,114	3,503	971,175	(5,243)	965,932
Finance lease income	4,064	-	-	-	4,064	-	4,064
Total revenue	412,201	482,421	77,114	3,503	975,239	(5,243)	969,996
<i>Timing of revenue recognition:</i>							
At a point in time	218,334	386,185	77,114	1,532	683,165	(5,243)	677,922
Over time	189,803	96,236	-	1,971	288,010	-	288,010
	408,137	482,421	77,114	3,503	971,175	(5,243)	965,932
Gross profit	64,922	86,100	25,379	630	177,031	-	177,031
Operating profit (loss)	26,366	15,312	8,535	(6,898)	43,315	-	43,315
<i>Unallocated income (expenses):</i>							
Share in results of associates and a joint venture							(11)
Other income, net							746
Financial charges							(20,774)
Profit before zakat and income tax							23,276
Zakat and income tax							(4,134)
Net profit for the period							19,142

At 31 March 2019 (SR '000)

	<i>Air conditioner industry</i>	<i>Steel industry</i>	<i>Insulation industry</i>	<i>Corporate and others</i>	<i>Total segments</i>	<i>Adjustments and eliminations</i>	<i>Consolidated</i>
Total assets	2,617,834	2,180,202	547,480	719,428	6,064,944	(208,048)	5,856,896
Total liabilities	1,849,339	1,366,401	219,494	1,028,895	4,464,129	(190,887)	4,273,242
<i>Others:</i>							
Investment in associates and a joint venture	11,252	-	-	74,852	86,104	-	86,104
Capital expenditure	3,607	6,452	2,292	127	12,478	-	12,478

At 31 December 2018 (SR '000)

	<i>Air conditioner industry</i>	<i>Steel industry</i>	<i>Insulation industry</i>	<i>Corporate and others</i>	<i>Total segments</i>	<i>Adjustments and eliminations</i>	<i>Consolidated</i>
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
<i>Others:</i>							
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

## Zamil Industrial Investment Company (A Saudi Joint Stock Company) and its Subsidiaries

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 March 2019

#### 10 SEGMENTAL INFORMATION (continued)

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

##### Geographic information

	<i>For the three-month ended 31 March</i>	
	<i>2019</i>	<i>2018</i>
	<i>SR '000</i>	<i>SR '000</i>
<i>Revenue from external customers:</i>		
Saudi Arabia	<b>769,681</b>	736,455
Other Asian countries	<b>147,101</b>	155,949
Africa	<b>104,195</b>	77,592
	<b>1,020,977</b>	969,996
	<i>31 March</i>	<i>31 December</i>
	<i>2019</i>	<i>2018</i>
	<i>SR '000</i>	<i>SR '000</i>
<i>Non-current operating assets:</i>		
Saudi Arabia	<b>921,706</b>	853,188
Other Asian countries	<b>92,402</b>	95,648
Africa	<b>74,027</b>	74,705
	<b>1,088,135</b>	1,023,541

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

#### 11 FAIR VALUES OF FINANCIAL INSTRUMENTS

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 instruments at fair value through other comprehensive income representing unquoted shares and these have been valued using Level 3 valuation technique.

Financial assets consist of cash and cash equivalents, equity instruments 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 their carrying amounts.

At 31 March 2019

**11 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)**

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

	<i>Carrying value</i>	<i>Fair value</i>	<i>Fair value measurement using</i>		
			<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>
<b>31 March 2019</b>					
<i>Equity instruments at fair value through other comprehensive income</i>					
At fair value	<b>40,538</b>	<b>40,538</b>	-	-	<b>40,538</b>
	<b>40,538</b>	<b>40,538</b>	-	-	<b>40,538</b>
<b>31 December 2018</b>					
<i>Equity instruments at fair value through other comprehensive income</i>					
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 was 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. The management believes that there have been no significant changes in the value of investment from 31 December 2018.

**12 SUBSEQUENT EVENTS**

In the opinion of management, there have been no further significant subsequent events since the period ended 31 March 2019 that would have a material impact on the financial position of the Group as reflected in these interim condensed consolidated financial statements.

**13 COMPARATIVE FIGURES**

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