Annual Report 2020

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**
- Member, Nomination & Remuneration Committee

Abdallah Saleh Jum'ah

- **Vice-Chairman**
- Chairman, Nomination & Remuneration Committee

Ahmed Abdullah Al Zamil

Adib Abdullah Al Zamil

- A representative of Zamil Group Holding Company

Mohammed A. Al Ghaith

- A representative of the Public Pension Agency
- Member, Audit Committee

Mohammad S. Al Harbi

- Chairman, Audit Committee
- Member, Nomination & Remuneration Committee

Khalid M. Al Fuhaid

- Member, Audit Committee

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

Dear Shareholders,

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.

Zamil Industrial recorded less revenues in the fiscal year ended 31 December 2020, as compared to the same period in 2019 despite the challenges facing the construction industry in particular and the domestic industrial sector in general due to the effects of the coronavirus pandemic and the resulting economic situation and market conditions that we had to overcome. During 2020, Zamil Industrial witnessed a reduction in sales across all sectors and a lower operating margin in the Steel and Insulation sectors, which adversely affected the company's net profits.

Under the current economic situation, especially in light of the global coronavirus pandemic, the slowdown in global growth, and the increase in debt levels by which most companies in the region have been affected during the past year, 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 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; to maintaining an effective, low-cost structure; and to seriously considering opportunities to reduce costs and increase productivity at all of the company's manufacturing facilities, all the while maintaining the highest standards of governance, transparency, risk management, ethics, and core values.

While the domestic economy is undergoing a period of transformation that offers emerging opportunities as well as new challenges, an improvement in the performance of the Saudi economy is expected in the coming period. The IMF expects the Saudi economy to grow by 2.6% in 2021, while the Saudi government estimates that the economy may grow by 3.2% during 2021 after shrinking by 3.7% during 2020. Additionally, the launch of the vaccination initiative by Saudi Arabia and most countries during 2021 is bolstering global hopes for the end of the pandemic despite the uncertainties that the global economy is still facing.

Chairman's Message (continued)

Growth is expected to improve even in the nonpetroleum sector, thanks to an expansionary budget featuring a number of incentive packages designed to support growth, with revenues in the 2021 budget amounting to SAR 849 billion (USD 226.4 billion). This new Saudi budget is the third largest in the history of the Kingdom, reflecting the government's optimistic outlook. The new budget confirms the government's keenness to continue implementing major spending plans; executing major projects, vision realization programs, infrastructure development, and social protection network programs; and developing services provided to citizens in accordance with the Kingdom Vision 2030. Also, the budget focuses on developing non-oil sectors so that they can contribute to building the country's economy, which remains completely dependent on oil revenues.

Consequently, the Kingdom's overall economic situation has stabilized, and structural changes to the economy are making their way toward Vision 2030. The Kingdom's economic diversification strategy, with the aim of expanding the country's investment base, is an important element in Vision 2030. Additionally, the recent initiatives announced by the Ministry of Industry

and Mineral Resources – which include the Saudi government's decision to bear the cost of expatriates working in industrial firms for five years, to study energy and electricity prices for factories, and to make the ministry a main point of reference for all industrial sectors – will support the industrial sector and enable it to achieve its goals.

The fact that Kingdom of Saudi Arabia held the presidency of the G20 summit in 2020, which took place under exceptional circumstances, presented an opportunity to lead global efforts to reform the global economic system in order to achieve sustainable economic and social development, both for the Middle East region and worldwide. The opportunity to exercise this office is an indication of the Kingdom's leadership and position in the international community and the pivotal role it has assumed through its participation in important issues at the global level, and represents an affirmation of the strength of its economy, which in turn affects the stability of the global economy. We are confident that the wise steps taken by our government and the Council of Economic and Development Affairs will bear fruit in the foreseeable future in ways that support the company's businesses in achieving greater returns and maximizing the value of shareholders' equity.

Regarding our export markets, construction and infrastructure projects remain acceptable in general, especially in the Gulf Cooperation Council countries, as well as in other regions where we operate. However, the continuous decline in the value of the local currency in both Egypt and India, along with the economic slowdown, the new taxes levied during the recent period, and the effects of the coronavirus pandemic on global supply chains, are adversely affecting production costs.

Zamil Industrial has, however, continued to conduct its usual activities in those markets and has increased its exports to various other countries. Even as governments seek to stem the economic slowdown with new financial steps and the possibility of various new business opportunities, profit margins remain under severe pressure due to strong competition in all markets.

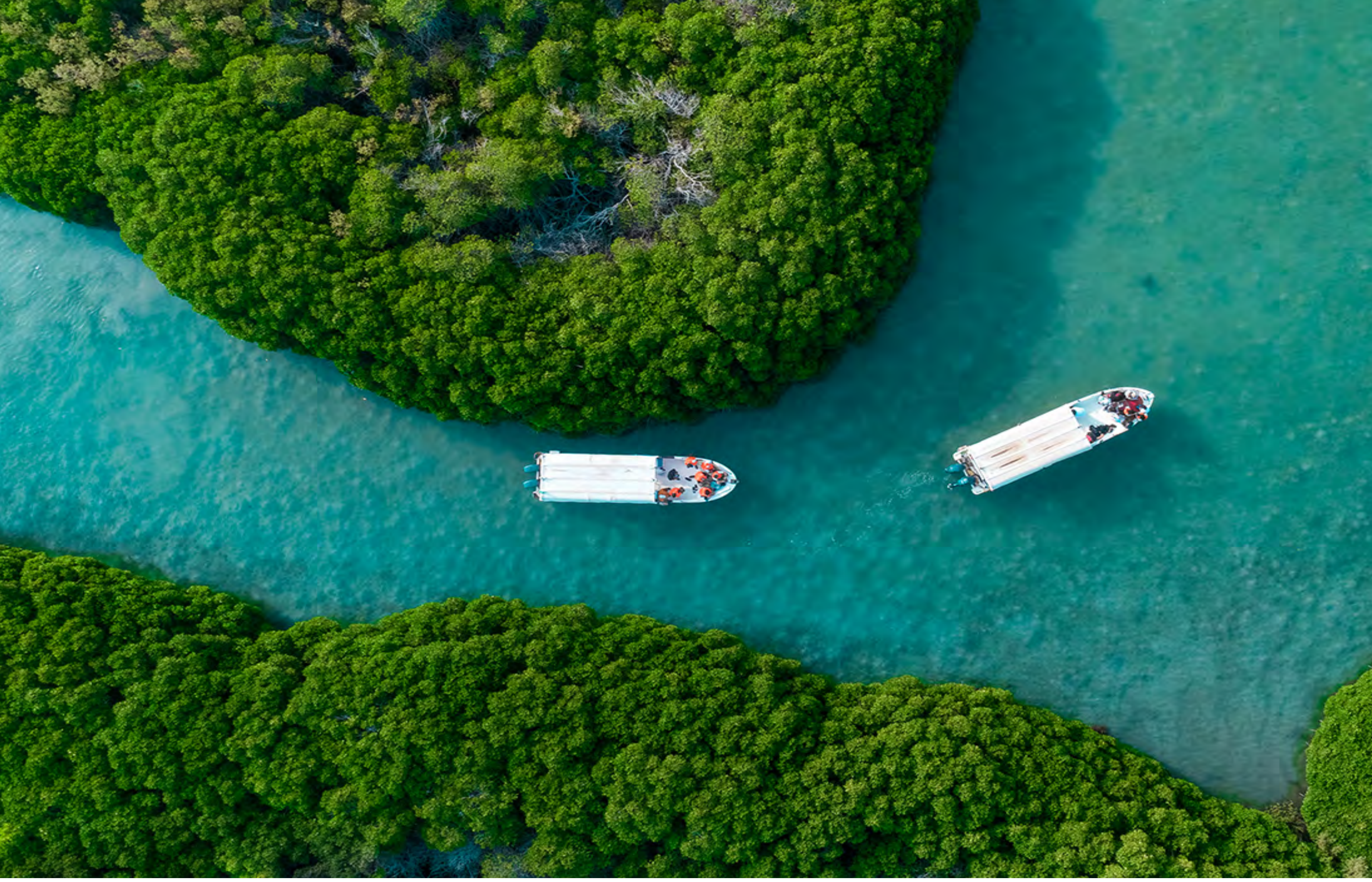
Revenues amounted to SAR 3383 million as of 31 December 2020, a decrease of SAR 655.6 million (16.2%) from SAR 4,038.6 million in 2019. Net loss for the year, after deducting Zakat and tax, was SAR (159.9) million, compared with a net loss of SAR (138.8) million in 2019, an increase of 15.2%. Loss per share, after deducting Zakat and tax, was SAR (2.66), compared with SAR 2.31 during the same period in 2019.

The net loss increased for the year due to the impairment in certain capital assets and goodwill in the amount of SAR 43.2 million, an increase in the provisions for the expected credit loss of financial assets by SAR 24.2 million, a reduction in sales across all sectors, and a lower operating margin in the Steel and Insulation sectors.

Despite the aforementioned, the company succeeded in achieving the following during an exceptional year by all standards: continued diligent efforts toward cost-cutting and control of expenses, which resulted in a savings of SAR 220 million in operating expenses in 2020; a decrease in financial charges by SAR 39 million; an improved operating margin in the AC sector; and higher profits from associated companies and other income.

Shareholders' equity saw an (9.8%) decrease to SAR 1,334.9 million from SAR 1,479.8 million in 2019.

Our financial results are expected to be affected by the turbulent economic climate prevailing in the region, the challenges of macroeconomic positioning, fluctuating commodity and materials prices, shipping costs, and exchange rates, declining support, and intensifying competition, and it is difficult to comprehensively estimate the potential negative impacts of these factors on the company's businesses. There is no doubt that the government's prudent policies 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, and we expect the company to return to profitability in 2021.



We will continue our focus on operational and business excellence, as the executive management of the company and all of its employees strive to achieve the strategic goals of the Kingdom Vision 2030. The company's management systems, policies, and procedures are regularly updated, and new and global digital transformation technologies are being adopted to gain more flexibility and competitiveness and to enhance efficiency across the company's sectors.

Furthermore, the Board of Directors has elected to seek social achievements and prioritize social responsibility. The company has taken on a number of social initiatives in order to enhance its role in the service of our community, and we expect to continue making progress in the field of social responsibility.

Corporate governance has also been an integral part of our core values. Throughout 2020 Zamil Industrial's Board of Directors was keen to fulfill its duties and ensure that the company's operations were conducted according to the best methods of corporate governance. We are determined to adhere to governance and transparency principles and to continue guiding the company's Secretariat and Internal Audit

Department, which works continuously to ensure that the best available practices and the highest 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 products. My grateful thanks and appreciation are also extended to our shareholders for their precious trust and steadfast belief in us, even during these very difficult times. This trust motivates us to put forth 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 2020

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 the Kingdom of Saudi Arabia and an overview of the company's overall status for the year 2020 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 that ended on 31 December 2020, 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 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 9,000 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

9,000+
people

55
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 (both resident and qualified). 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

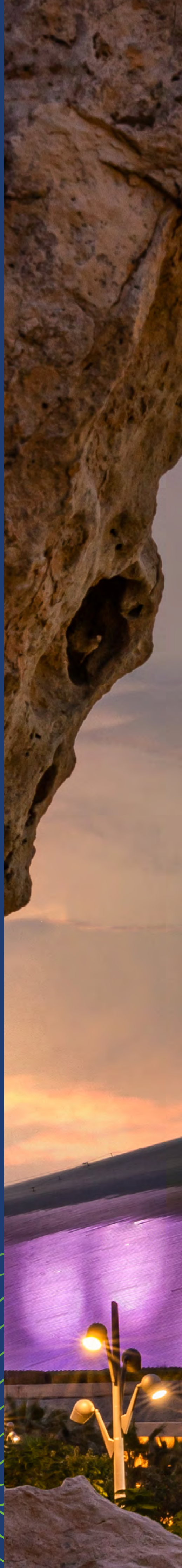
HVAC

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 engineering and manufacturing of various quality steel products and the Middle East's premier supplier of pre-engineered steel buildings, structural steel products and process equipment, transmission and telecommunications towers, open web steel joists and roof and floor steel decks.



Zamil Steel engineers and produces 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 nearly 55 area offices located in 34 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.

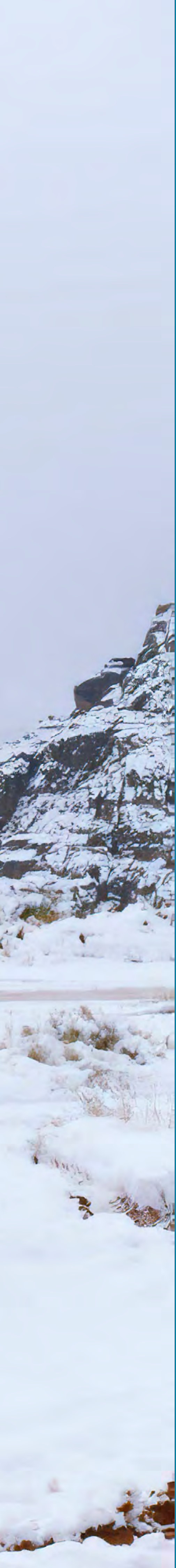
Zamil Steel's main factories are based in Dammam, Saudi Arabia. Additional facilities are located in Egypt, Vietnam, India, and the UAE. The company employs hundreds of engineers in its engineering departments in Saudi Arabia, Egypt, Vietnam, and India. Zamil Steel utilizes state-of-the-art engineering and manufacturing software and machinery in the design, estimating, shop detailing, and manufacturing of each of its products.

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.



HVAC
Sector

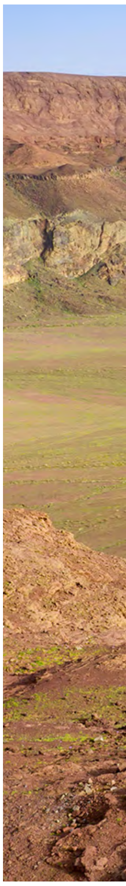
Zamil Industrial’s HVAC Sector is represented by **Zamil Air Conditioners Holding Co. Ltd.** Founded in 1974 as a pioneer in the Saudi Arabian air conditioning industry, the company has expanded over the past five decades to become a leading international manufacturer of air conditioning systems and 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.

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.

The Group's production capacity reaches 65,000 tons per annum. It currently owns about 80% of the rock wool production capacity in Saudi Arabia and 55% of the 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	**Arabian Stonewool Insulation Co.**	SAR 10 million	100%	Stonewool insulation	KSA	KSA
	Second Insulation Co. Ltd.	SAR 50,000	100%	Insulation materials marketing	KSA	KSA
	Gulf Insulation Group (CJSC).	SAR 21.1 million	51%	Holdings	KSA	KSA
	Saudi Preinsulated Pipes Industries.	SAR 7.2 million	51%	Pre-insulated pipes	KSA	KSA
4	**Zamil Steel Buildings Co.**	EGP 100 million	100%	Steel buildings	Egypt	Egypt
5	**Zamil Steel Buildings (Shanghai) Co. Ltd.**	RMB 12,5 million	100%	Steel buildings	China	China
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	**Zamil Industrial Investment Co. (LLC)**	AED 5 million	100%	Holdings	UAE	UAE
9	**Zamil Steel Industries (LLC)**	AED 20 million	100%	Steel buildings	UAE	UAE
10	**Zamil Structural Steel Co. Ltd.**	USD 10 million	100%	Structural steel	Egypt	Egypt
11	**Zamil Construction India Pvt. Ltd.**	INR 13.7 million	100%	Steel industry project management	India	India
12	**Zamil Information Technology Global Pvt. Ltd.**	INR 23.5 million	100%	Information technology	India	India
13	**Zamil Higher Institute for Industrial Training**	SAR 8.14 million	100%	Industrial training	KSA	KSA
14	**Zamil Air Conditioners India Pvt. Ltd**	INR 1,372.7 million	100%	Air conditioners	India	India
15	**Saudi Central Energy Co. Ltd.**	SAR 1 million	100%	District cooling project management	KSA	KSA
16	**Zamil Industrial Investment Co. Asia Pvt. Ltd.**	SGD 1	100%	Holdings	Singapore	Singapore
17	**Zamil Steel Buildings Vietnam Co. Ltd.**	SAR 13.2 million	92.27%	Steel buildings	Vietnam	Vietnam

A portion of the parent company's shares in the subsidiaries outside 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.

2 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 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 (Closed Joint Stock Company). Its principal activity is investment in real estate.

3 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, thus maximizing the company's 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.

4 Performance Highlights

Revenues amounted to SAR 3383 million as of 31 December 2020, a decrease of SAR 655.6 million (16.2%) from SAR 4,038.6 million in 2019. Net loss for the year, after deducting Zakat and tax, was SAR (159.9) million, compared with a net loss of SAR (138.8) million in 2019, an increase of 15.2%. Loss per share, after deducting Zakat and tax, was SAR (2.66), compared with SAR 2.31 during the same period in 2019. Comparative figures have been reclassified to conform with the presentation in the current period.

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

Item	2020	2019	Change
Air Conditioning Industry	**45.9%**	43.4%	-11.5%
Steel Industry	**48.6%**	50.2%	-18.8%
Insulation Industry	**6.2%**	7.1%	-26.9%
Head Office and Others	**-0.7%**	-0.7%	+18.7%
	100%	**100%**	

A) Statement of Income:

Item (SAR '000)	2020	2019	2018	2017	2016
Sales	**3,382,962**	4,038,583	4,313,649	4,403,850	4,929,230
Cost of sales	**2,919,850**	3,451,737	3,598,279	3,495,651	3,858,159
Gross profit	**463,112**	586,846	715,370	908,199	1,071,071
Total expenses	**672,926**	738,568	843,864	785,070	932,755
Other income, net	**63,394**	30,735	2,292	(2,298)	30,677
Zakat	**13,453**	17,822	13,631	15,813	22,612
Net income / (loss)	**(159,873)**	(138,809)	(139,833)	105,018	146,381

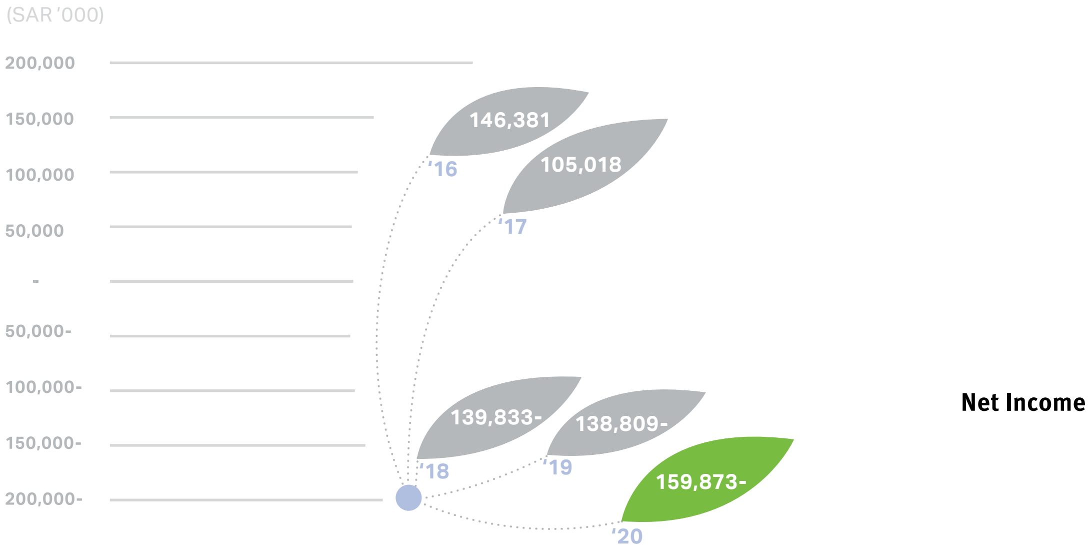
B) Balance Sheet:

Item (SAR '000)	2020	2019	2018	2017	2016
Current assets	3,867,073	4,100,238	4,241,708	4,036,713	4,093,137
Current liabilities	3,647,001	3,696,223	3,848,401	3,434,758	3,392,681
Working capital	**220,072**	404,015	393,307	601,955	700,456
Other long-term assets	539,794	582,452	502,992	555,122	584,704
Fixed assets	868,553	960,708	1,018,511	1,089,888	1,132,783
Total assets	**5,275,420**	5,643,398	5,763,211	5,681,723	5,810,624
Current liabilities	3,647,001	3,696,223	3,848,401	3,434,758	3,392,681
Long-term loans	14,510	144,986	38,734	67,255	195,246
Other liabilities	279,001	322,354	251,961	303,330	334,514
Total liabilities	**3,940,512**	4,163,563	4,139,096	3,805,343	3,922,441
Paid capital	600,000	600,000	600,000	600,000	600,000
Reserves and retained earnings	533,469	678,767	815,946	1,064,703	1,078,199
Minority interest	201,439	201,068	208,169	211,677	209,984
Shareholders' equity	**1,334,908**	1,479,835	1,624,115	1,876,380	1,888,183
Total liabilities and shareholders' equity	**5,275,420**	5,643,398	5,763,211	5,681,723	5,810,624

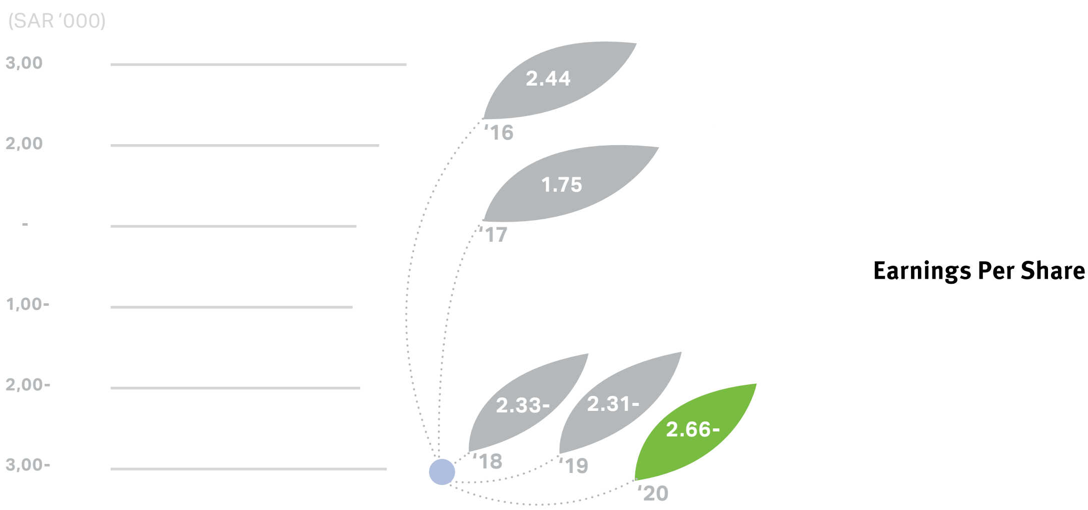
C) Outcome of Operation Activities:

Item (SAR '000)	2020	2019	Change	%
Sales	**3,382,962**	4,038,583	(655,621)	(16,2)
Cost of sales	**2,919,850**	3,451,737	(531,887)	(15,4)
Total operating profits	**(60,754)**	(27,265)	(33,489)	122,8
Expenses of main operations	**523,866**	614,111	(90,245)	(14,7)
Losses of main operations	**-**	-	-	-
Other revenue/expenses	**85,666**	93,722	(8,056)	(8,6)
Deductions: Zakat or tax	**13,453**	17,822	(4,369)	(24,5)
Net profits (loss)	**(159,873)**	(138,809)	(21,064)	15,2

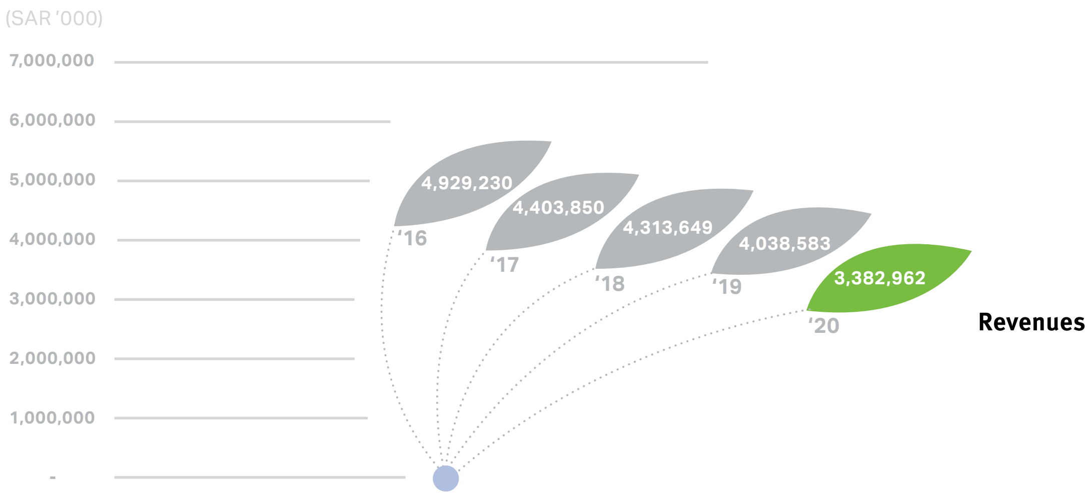
The following chart shows net incomes between 2016 and 2020:



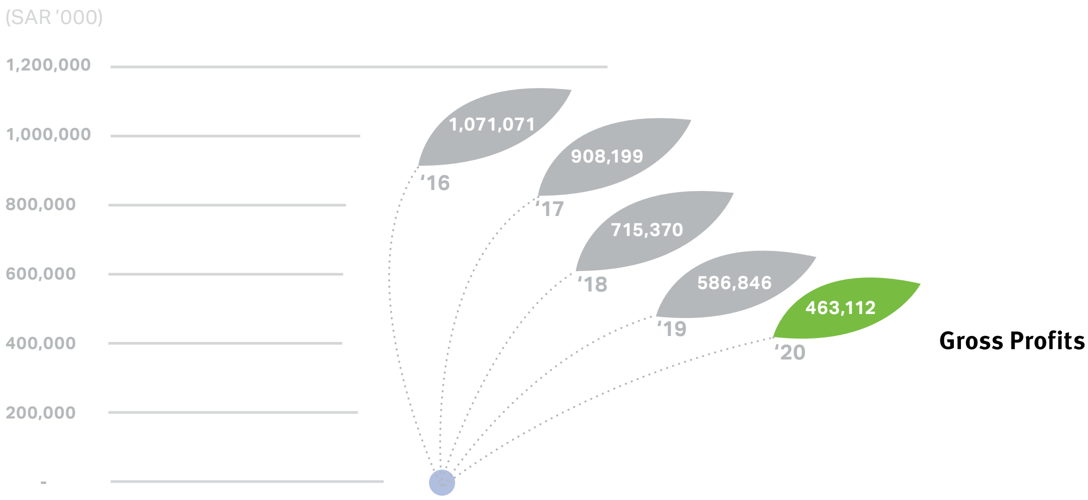
The following chart shows earnings per share between 2016 and 2020:



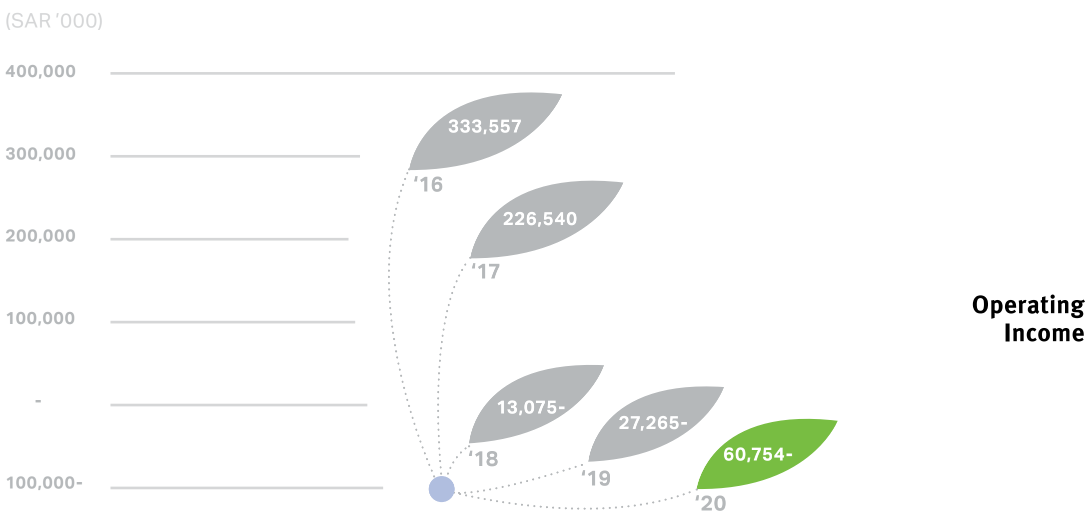
The following chart shows consolidated revenues over the past five years:



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

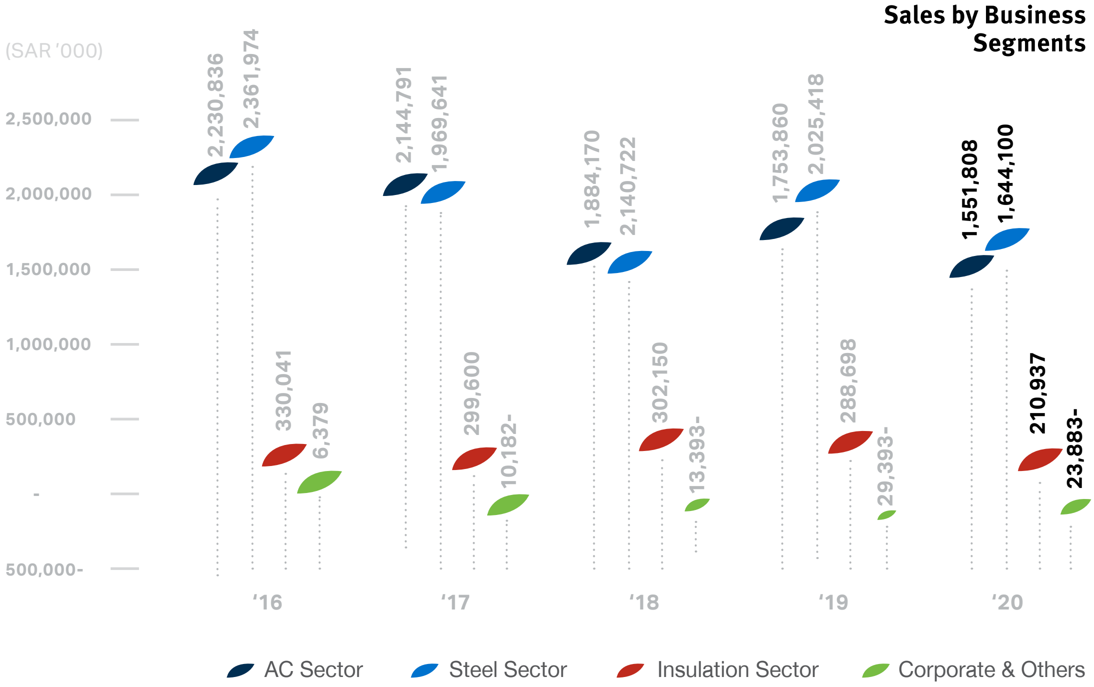


The following chart shows operating incomes over the past five years:



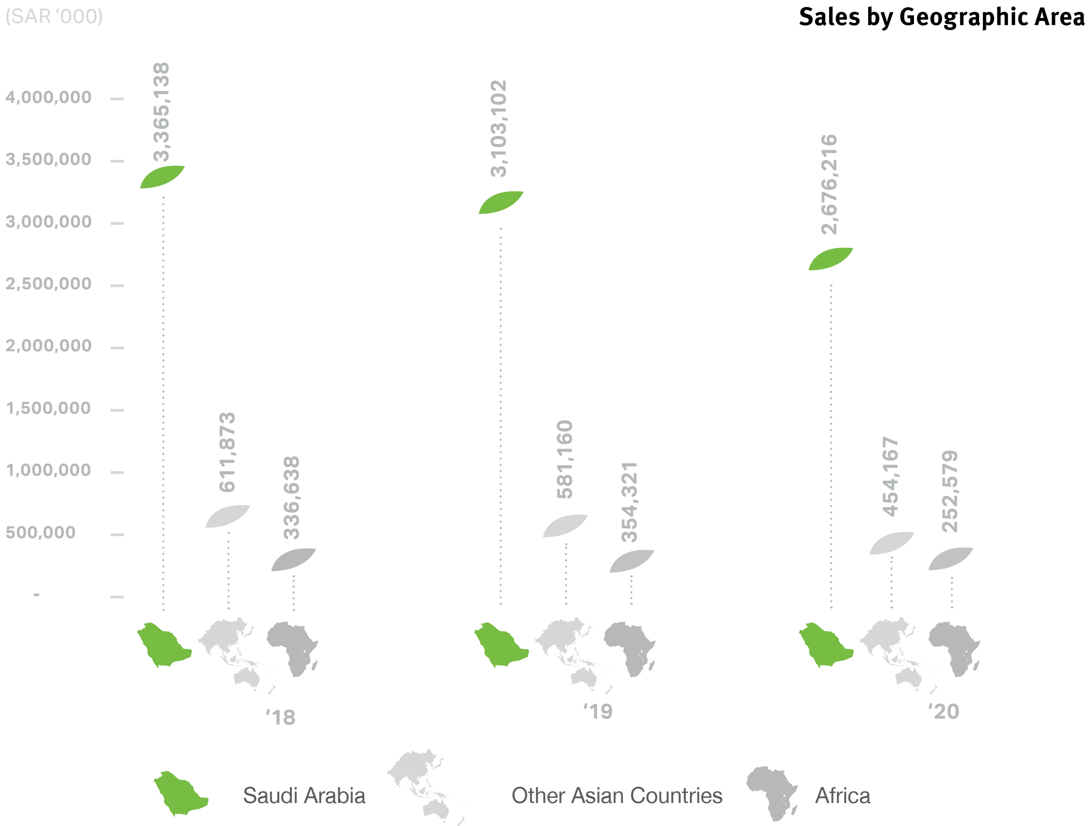
The Steel sector's revenue in 2020 was SAR 2,025.4 million, a decrease of 18.8%. The AC sector's revenue decreased 11.5% to SAR 1,551.8 million. The Insulation sector's revenue also saw a 26.9% decrease to SAR 210.9 million

Sales by Business Segments

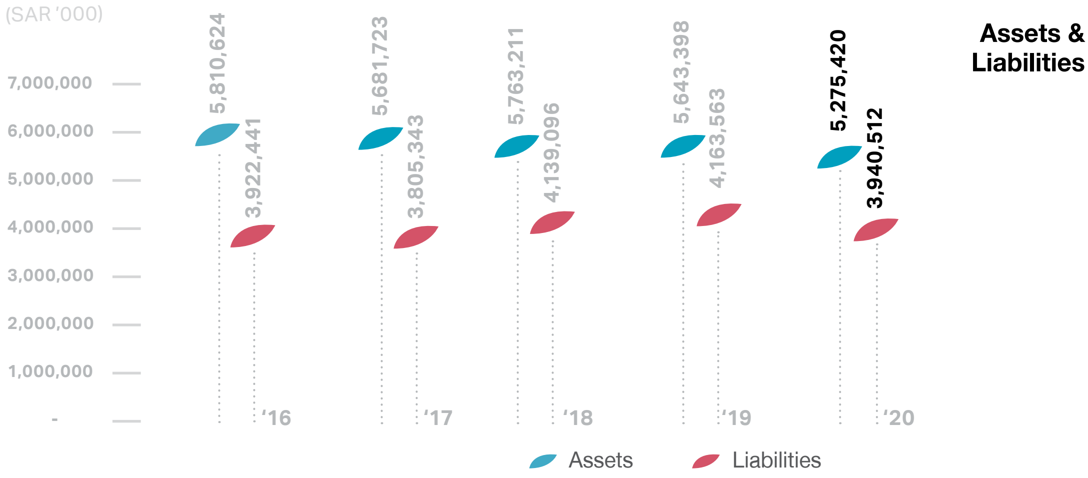


Geographically, the company's revenues based on operations in the Kingdom of Saudi Arabia totaled SAR 2,676.2 million. Revenues of the company's subsidiary factories outside the Kingdom of Saudi Arabia totaled SAR 706.8 million. This analysis, however, does not include exports, which are detailed in the exports section of the report.

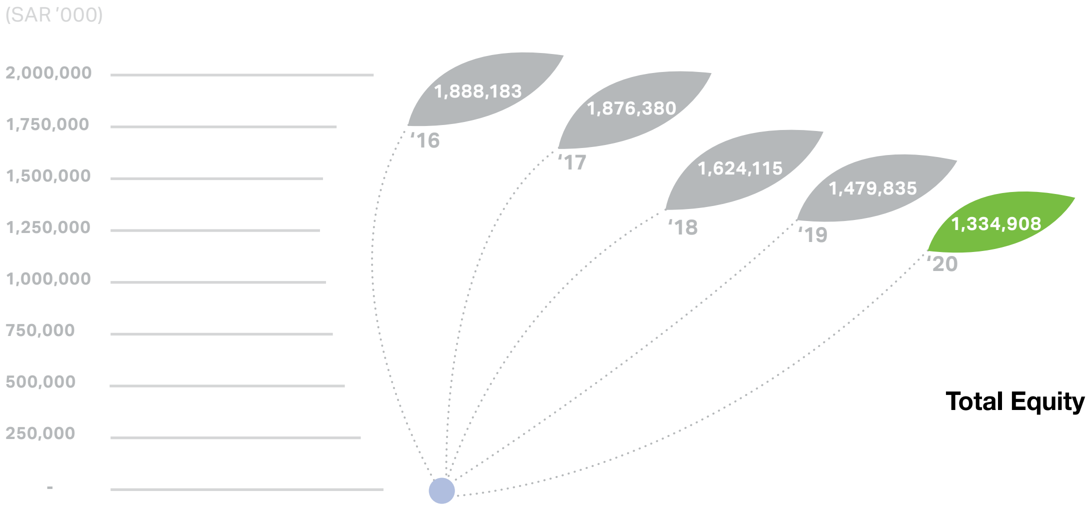
Sales by Geographic Area



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



Shareholders' equity saw a drop of 9.8% to SAR 1,334.9 million, compared with SAR 1,479.8 million in 2019, as shown in the following chart:



The company's exports amounted to about SAR 492 million in 2020, compared with SAR 567 million in 2019. Exports constituted about 14.6% of total sales in 2020. The company's products are exported to more than 90 countries by means of a network of sales and representative offices in more than 55 countries around the world.

5 On inconsistencies with the Saudi Organization for Certified Public Accountants' Accounting Standards

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) endorsed in the Kingdom of Saudi Arabia, as well as other standards and versions endorsed by the Saudi Organization for Certified Public Accountants. The Board of Directors declares that no inconsistencies exist with the approved accounting standards. All comparative figures have been reclassified in accordance with the new International Financial Reporting Standards.

6 Loans

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

Item	2020 (SAR '000)	2019 (SAR '000)	Date Obtained	Due Date	Base Loan Amount (SAR '000)	Lender
Loan No. 1	**181,242**	195,422	29/08/2012	24/04/2024	**257,317**	Saudi Industrial Development Fund
Less: Current instalment	**181,242** **(165,803)**	195,422 (47,400)				
Less: Fund administrative fees	**(929)**	(3,036)				
	14,510	144,986				

7 Financial Risk Management Objectives and Policies

The Group's principal financial liabilities comprise loans and borrowings and accounts payable. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include accounts receivable, 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 an 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 2020 and 2019.

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 2020 and 2019, 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, Indian Rupees, Bahraini dinar and Euros during the year. As Saudi Riyals are pegged to US Dollars, balances in US Dollars are not considered to represent a significant currency risk. The Group is exposed to currency risk on transactions and balances in Euros, Japanese Yen, Indian Rupees, Bahraini dinar 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 2020 and 2019, 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 2020	**+3%**	**1,133**
	-3%	(1,133)
31 December 2019	**+9%**	**1,086**
	-9%	(1,086)

	Change in **Indian Rupee** rate	Effect on other components in equity (SAR '000)
31 December 2020	**+2%**	**1,768**
	-2%	(1,768)
31 December 2019	**+2%**	**1,953**
	-2%	(1,953)

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 SR 53,650 thousands (2019: SR 39,140 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:

	31/12/2020	31/12/2019
	(SAR '000)	
Bank balances	**128,194**	167,381
Short-term deposits	**24,921**	26,016
Accounts receivable	**1,718,629**	1,895,662
Contract assets	**596,653**	494,756
Net investments in finance lease	**317,105**	340,682
Other receivables	**80,997**	87,652
	2,866,499	3,012,149

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 receivable 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 2020, the Group obtained a letter of credit as collateral over its receivables amounting to SAR 109.2 million (2019: 145.3 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 receivable as low, as its customers are located in several jurisdictions and industries and operate in largely independent markets.

Presented below is the information about the credit risk exposure on 31 December for the Group's accounts receivable, net investment in finance lease and contract assets:

Accounts receivable	**2020** (SAR '000)	2019 (SAR '000)
Current	**500,064**	563,495
Less than 30 days	**153,913**	115,783
31 - 60 DAYS	**64,831**	100,271
61 - 90 DAYS	**55,477**	96,280
91 - 180 DAYS	**88,396**	162,108
181-360 DAYS	**193,219**	172,090
More than 360 days	**611,984**	555,268
	1,667,884	1,765,295
Receivables from related parties	**67,573**	102,706
Retention receivable	**187,631**	207,664
Net investment in finance lease	**317,105**	340,682
Contract assets	**606,292**	501,695
	2,846,485	2,918,042

Based on a provision matrix, the Group's expected credit losses on 31 December 2020 against its accounts receivable and contract assets exposed to credit risk amounted to SR 313.7 million and SR 9.6 million (2019: SR 325.3 million and SR 6.9 million), respectively. Accordingly, the Group recognized an amount of SR 46.5 million (2019: SR 22.3 million) as a provision for expected credit losses in its consolidated statement of income for its continuing operations. Related parties receivable include an amount of SR 11.3 million (2019: 145.3 million) attributable to discontinued operations. The Group recognized an amount of SR 857 thousand (2019: 14.5 million) as a provision for expected credit losses as part of its net loss on discontinued operations in the consolidated statement of income.

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, are engaged in 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 2020						
(SAR '000)						
Accounts payable	16,178	440,413	-	-	-	**456,591**
Lease liabilities	-	20,685	10,865	39,656	48,330	**119,536**
Other financial liabilities	-	374,149	-	-	-	**374,149**
Interest bearing loans and borrowings	8,000	2,182,550	137,042	15,200	-	**2,342,792**
	24,178	**3,017,797**	**147,907**	**54,856**	**48,330**	**3,293,068**

Item	on demand	< 6 months	6 - 12 months	1 - 5 years	> 5 years	Total
As at 31 December 2019						
(SAR '000)						
Accounts payable	5,408	386,811	-	-	-	**392,219**
Lease liabilities	-	10,430	14,289	56,684	55,328	**136,731**
Other financial liabilities	-	399,699	-	-	-	**399,699**
Interest bearing loans and borrowings	28,542	2,200,721	302,700	147,180	-	**2,679,143**
	33,950	**2,997,661**	**316,989**	**203,864**	**55,328**	**3,607,792**

8 Due Statutory Payments

The following table shows paid and due statutory payments for 2020:

Item	2020	2019
	(SAR '000)	
Custom charges	**34,052**	31,607
Visas and passports	**33,171**	42,787
Zakat and tax	**133,452**	58,715
General Organization for Social Insurance	**30,178**	40,005
Other	**-**	-
Total government charges:	**230,854**	173,114

9 Awards, Certifications and Quality

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

In June, Zamil Construction India Pvt. Ltd., a subsidiary of Zamil Industrial, received Integrated Management System (IMS) certification for its facilities in Pune, Maharashtra, India. 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. This subsidiary also received a certificate of appreciation for achieving 1 Million Safe Man-Hours with Zero Lost Time Injuries, awarded by ITC Ltd., for its AMLF-Project Kapurthala, Punjab, India.

In July, Zamil Central Air Conditioners was recognized by the Air-Conditioning, Heating and Refrigeration Institute (AHRI) certification program for achieving three consecutive years of a 100 percent success rate in the performance testing of a variety of industry-leading, innovative HVAC solutions. The AHRI certification demonstrates Zamil Central Air Conditioners' commitment to industry leadership and to providing properly rated products to the marketplace.

In November, Zamil Process Equipment Co. (ZPEC) received a special certificate of appreciation from the Onshore Maintain Potential Project Department at Saudi Aramco in recognition and appreciation of ZPEC's partnership. This award also noted ZPEC's outstanding dedication to repairing three oil stabilizer columns for the client's Abqaiq plants in a record time of four months and manufacturing and delivering two new stabilizer columns for the Abqaiq and Khurais plants in an unprecedented seven months.

Lastly, Saudi Aramco honored Zamil Air Conditioners and Zamil Steel at the 2020 Local Manufacturers Quality Awards Ceremony, organized by Saudi Aramco for the third consecutive year in December 2020. The Zamil companies were honored for providing high-quality products despite the effects of the COVID-19 pandemic. Zamil Air Conditioners received the Quality Award in the Large Manufacturers category, while Zamil Steel was honored in the Most Improved Manufacturers category for having undergone a remarkable development in quality.

10 Human Resources and Workforce Localization

Zamil Industrial attaches great importance to its human resources as being the most important elements in managing and operating its business and as 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. Further, the company 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 2020, the total Zamil Industrial headcount in Saudi Arabia was nearly 7,000 employees, a decrease of 13.1% from the previous year as a result of the coronavirus pandemic's effects on various business sectors as well as the restructuring and organizing of some business units in the company. The percentage of job localization in 2020 reached about 27.8% of the total employees of the company, an increase of 3% from 2019. The steel and AC sectors in particular witnessed an increase in the rate of job localization by 3.26% and 1.65%, respectively, compared to the previous year thanks to the Talent Acquisition program that continues to focus on attracting and recruiting new Saudi employees.

The number of Saudi females working in the various sections and departments dropped to 48, a decrease of 15.8% from 2019, due to decreases in the number of employees in the various sectors of 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.

During the year, the Corporate Human Resources department implemented several online workshops to address the "new normal" of social distancing. A total of 1,234 participants enrolled in learning sessions on Zamil Industrial core values, business communication, management-related topics, and job competencies.

In addition, select employees were nominated to the training programs of the Ministry of Communications and Information Technology, HRDF Academy, and the Doroob learning platform.

For Talent Management, three main activities were completed this year. The first was the Talent Review, which documented critical positions and identified potential successors and individuals targeted for leadership development. In support of this, the second initiative was competency activity, which evaluated the continuing relevance of core competencies for technical positions. Over 1,400 samples of competencies were documented and classified in this exercise. The third was the release of the Organizational Culture Assessment survey, which secured managers' feedback on six dimensions in order to assess areas of future emphasis for human resources initiatives.

Programs to promote the growth of Saudi managers and professionals were linked to nominating select individuals for training as well as continuing the profiling that began last year.

As an integral part of Zamil Industrial's commitment to diversity in the workplace, the company created a sustainable program to employ persons with disabilities. The company now employs more than 60 people with disabilities across various business units and functional areas, whether in attendance or remotely, 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 people with disabilities in the workplace.

It is worth mentioning that Zamil Industrial was awarded the Bronze category and Zamil Structural Steel Co. and Zamil Air Conditioning & Refrigeration Services Co. were awarded the Silver category of "Mowaamah Certification" in recognition of their efforts to provide a supportive and motivational work environment for people with disabilities. The "Mowaamah Certification", launched by the Ministry of Human Resources and Social Development in Saudi Arabia, recognizes companies that adopt best practices and standards to create 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 entertainment and educational programs, health & wellness campaigns, blood donation campaigns, and more.

11

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.

During the year 2020, the company was keen to implement the highest preventive safety measures to prevent the spread of the emerging coronavirus pandemic, preserve the human element, and follow all occupational safety and health guidelines and instructions to ensure a safe and risk-free work environment. The company also made use of digital learning resources and available modern training and professional development technologies.

In this context, throughout the year, the Human Resources Department at Zamil Industrial launched a series of virtual workshops running online. More than 650 employees representing a cross section of Zamil Industrial sectors, business units, and functional areas participated in these online workshops and training sessions.

The workshops covered various key topics, including Zamil Industrial's core values, critical business skills, transformative change, absence management, diversity at work, stress management, customer service orientation, communication skills, financial and commercial awareness, people management, results orientation, technological awareness, and more. Workshops also included policy refresher sessions so that employees could better comprehend the nature and functions of certain policies.

The workshops aimed to create a platform for learning within the "new normal" by taking advantage of technological advances and making learning tools readily available for Zamil Industrial employees. These workshops also aimed to help employees develop the critical skills they need to efficiently carry out their everyday functions at work and to support the development of critical competencies and employee credibility. The workshops were tailored to reflect the demands of the organization and to increase team effectiveness and productivity toward maximizing return on investment.

During the year, several groups of employees representing a cross-section of Zamil Industrial sectors, business units, and functional areas successfully completed the Human Resources Development Fund (HRDF) Leadership Development Program, which was hosted by the HRDF Academy for Leadership in Saudi Arabia and included direct training and virtual meetings. The 12-week program prepares and develops future leaders in the private sector and ensures they lead their organizations in accordance with the Kingdom's Vision 2030, which corroborates the qualitative localization of leadership in terms of providing high-caliber leaders with excellent planning and innovation capabilities.

Lastly, as part of its efforts to ensure that all employees are aware of the relevance and importance of their activities and how they contribute to the achievement of the ISO standards quality objectives, Zamil Steel Buildings Vietnam Co. organized several training sessions on ISO 14001 and ISO 45001 for all its staff and workers.

12

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, however. Zamil Industrial encourages all employees to volunteer and participate in various community-based activities and initiatives

During the year 2020, Zamil Industrial focused on implementing initiatives that contributed to containing the repercussions of the coronavirus (COVID-19) pandemic. All Zamil Industrial business sectors implemented precautions and preventive measures to address the potential risks of the spread of the emerging coronavirus, making every effort to protect employees and members of society from this pandemic.

Some of the most prominent precautionary measures include launching intensive campaigns to raise awareness and protection from the emerging coronavirus at all Zamil Industrial companies' facilities, with an emphasis on the importance of commitment to apply precautionary and preventive measures at all times and in all workplaces; utilizing available advanced technologies to conduct virtual meetings and communications necessary to get work done; keeping all employees continuously informed about the decisions and information issued by government agencies and relevant bodies in this regard and notifying them of any amendments to work plans and other significant developments; and continuous follow-ups on the part of all business units and department heads to ensure proper implementation and strict compliance of all precautionary and preventive measures to restrict the spread of the virus in the workplace.

In solidarity with the Saudi government and the Ministry of Health's efforts to combat the emerging coronavirus, Zamil Air Conditioners provided free maintenance and technical support services to hospitals and healthcare facilities in the eastern region of Saudi Arabia. This effort included providing 30 skilled technicians for maintenance and repairs of air conditioning and refrigeration systems of various brands and cooling capacities at government hospitals in the region. The company also provided free engineering and technical support services to check on the performance of air conditioning systems in health isolation rooms in the region's hospitals due to their essential and vital role in caring for people infected with coronavirus to provide a healthy and suitable workplace for medical staff.

Additionally, the company provided free technical support services to study the possibility of upgrading air conditioning systems in hospitals to meet the requirements for reconfiguring patient rooms and converting them into health isolation rooms when needed.

In India, as the country battles the coronavirus crisis, Zamil Steel Buildings India Pvt. Ltd. distributed thousands of face masks to nearby police stations. The company earlier pledged funds to the Prime Minister's Citizen Assistance and Relief in Emergency Situation (PM CARES) Fund and Chief Ministers Relief Fund (CMRF) to fight against the coronavirus pandemic.

In Vietnam, the Zamil Steel Buildings Vietnam Co. team paid a visit to the "Thuy An Rehabilitation Centre for Handicapped Children" to hand over the funds collected from the Charity Bazaar. The trip was memorable, as the team managed to meet with many children who, despite their disabilities, have shown incredibly positive life attitudes. Additionally, Zamil Steel Vietnam employees supported the government's call for a national blood donation campaign (Le Hoi Xuan Hong). This comes in response to the Vietnam National Institute of Hematology & Blood Transfusion's call for support from eligible donors to help ensure blood is available throughout the year to meet patient needs, especially in light of the fact that, due to the coronavirus pandemic, the blood supply has fallen far below the current demand.

Zamil Industrial participated in the Exhibition of SABIC Conference 2020, which was held under the patronage of his Royal Highness the Prince of the Eastern region, Prince Saud bin Naif Al Saud, on February 16–20, 2020, at the King Abdullah Cultural Center in Jubail Industrial City. The theme of the SABIC Conference 2020 was Chemistry 4.0, reflecting a new era of development – the fourth phase – that is evolving in the chemical industry, where digitalization, the circular economy, sustainability, and innovation are the key characteristics.

Additionally, Zamil Air Conditioners, along with Zamil Air Conditioning & Refrigeration Services Co., participated as a Gold Sponsor of HVAC-R Expo Saudi 2020, the region's largest dedicated event for commercial heating, air conditioning, ventilation, and refrigeration.

In related developments, the Director of Information Technology at Zamil Industrial, Abdulbary Atassi, participated as a speaker at Oracle OpenWorld Middle East 2020, held in January 2020, at the World Trade Center in Dubai, UAE. He highlighted two aspects of Zamil Industrial's digital transformation program. The first aspect was about how to enhance the quality of the companys' current services and reduce operational costs by consolidating the infrastructure landscape and centralizing controls using Oracle Cloud Infrastructure. The second aspect was about how Zamil Industrial is changing its entire financial and operational model by transforming to Oracle's latest applications technology (Fusion) through the "ASaaS" program and how it is handling all the implementation and change management activities.

In October, Zamil Industrial, in cooperation with the Saudi German Hospital-Dammam and the Zahra Association, organized an awareness campaign for its female employees about the early detection of breast cancer during Breast Cancer Awareness Month in October. The campaign aimed to define breast cancer types, identify their dangers, and educate employees on self-examination methods and the necessity of preventing the disease through regular screenings.

Zamil Industrial has a commitment to the continual improvement of the standards of health and safety of its employees at all levels within the organization and to providing employees with all the information and support necessary to work safely at all times. In collaboration with the Saudi Ministry of Health, Zamil Industrial launched its annual seasonal flu vaccination campaign at the start of the winter season. The campaign took place in November 2020 in both the First and Second Industrial Cities in Dammam.

13 Capital and Shares' Details

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

Item	2020	2019	(%) 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 20.76**	SAR 18.16	SAR 2.6
Market value	**SAR 1,245,600,000**	SAR 1,089,600,000	14.3%

14 Corporate Governance Controls

The company has adhered to all mandatory provisions of the Corporate Governance Regulations, while it disclosed in general terms the details in subparagraph (b) of Paragraph (4) of Article (93) of the Corporate Governance Regulations according to the table contained in Paragraph (3) of Clause (26) of this report below and the note on it. The company communicated with the Capital Market Authority requesting the exemption from disclosure in accordance with the provisions of Paragraph (b) of Article (61) of the Rules on the offer of Securities and Continuing Obligations.

15 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

The members of the Board of Directors were elected for the eighth term during the company's general assembly meeting on 28/04/2019, at which a vote was taken on the election of a new Board of Directors from among the candidates for Board membership for the eighth term, which runs from 01/05/2019 through 30/04/2022.

16 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.

17 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	1,000	0	1,000	0	0	0%
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	*60,636	0	0	0	(60,636)	(100%)
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 represented by the member.

18 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	Number of shares	Debt instruments	Net change	Change percentage
Osama Fahad Al Bunyan	200,000	0	0	0	200,000	100%
Said Fahad Al Daajani	10,000	0	10,000	0	0	0%

19 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	%	Number of shares	%	Net change	Change percentage
Zamil Group Holding Company	11,999,989	19.99	11,999,989	19.99	0	0%
Waleed Abdullah Hamad Al Zamil	3,168,066	5.28	3,168,066	5.28	0	0%
Zamil Group Investment Company Ltd.	3,091,528	5.15	3,091,528	5.15	0	0%

20 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 of the Board, 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 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

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 Affairs; Corporate Secretary	• 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

*Early retirement at the end of December 2020.

21 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	• SAHARA international Petrochemical Company • 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 • In KSA	• Listed • Limited Liability • Limited Liability • Limited Liability • Unlisted • Limited Liability	• Gulf Insulation Group	• In KSA	• Unlisted
Abdallah Saleh Jum'ah Al Dossari	• Hassana Investment Co. • Saudi Investment Bank • Saudi Arabian Mining Company (Ma'aden)	• In KSA • In KSA • In KSA	• Unlisted • Listed • Listed	• Halliburton • Saudi Arabian Oil Company (Saudi Aramco) • Motiva • Motor Oil Hellas • Petron • S-Oil Corporation • Saudi Petroleum International, Inc. • Saudi Arabian Airlines	• Abroad • In KSA • Abroad • Abroad • Abroad • Abroad • Abroad • In KSA	• Listed • Listed • Limited Liability • Listed • Listed • Listed • Unlisted • 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
Khalid Mohammed Saleh Al Fuhaid	• Manafea Arabia Holding Co. • Manafea Holding (Health Care) • Manafea Industrial Co. • Life Lines Medical Co. • First United Medical Co. • Al-Narjes Real Estate Development Co.	• 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	• Midad Holdings • Manafea Al-Bahr Co. • Manafea Al-Jazeera Co. • Manafea Al Sharq Co. • Aluminum Rolling Shutter Co. • Designs and IT Co. • Cherish Cosmetics • Manafea Gulf Co.	• In KSA • In KSA • In KSA • In KSA • In KSA • In KSA • In KSA • Abroad	• Limited Liability • Limited Liability • Limited Liability • Limited Liability • Limited Liability • Limited Liability • Limited Liability • Limited Liability

Name	Current companies	Location	Legal entity	Former companies	Location	Legal entity
Abdulla Mohammed Abdullah Al Zamil	• Gulf International Bank (Bahrain) • Gulf International Bank (KSA) • Gulf International Bank Capital • Saudi Global Ports Co. • Rabiah & Nassar and Zamil Concrete Industries Co. • Gulf Insulation Group • Dhahran Ahliyya Schools	• Abroad • In KSA • In KSA • In KSA • In KSA • In KSA • In KSA	• Unlisted • Unlisted • Unlisted • Limited Liability • Limited Liability • Unlisted • Limited Liability	• Saudi Food Bank • Endeavor Saudi Arabia • Gulf International Bank (UK) • VIVA Bahrain • Dammam Airport Co.	• In KSA • In KSA • Abroad • Abroad • In KSA	• Limited Liability • Limited Liability • Unlisted • Unlisted • Limited Liability

22 Board Meeting Attendance Record

In 2020, the Board of Directors convened (4) times during its eighth term. Members of the Board of Directors are paid Sitting Fees for each meeting attended. Any member who did not attend a Board of Directors meeting has appointed another member as a proxy to attend in their stead and vote on their behalf. The following is an attendance sheet.

	8th Term				
Name	No. (4/8) on 23/03	No. (5/8) on 22/06	No. (6/8) on 30/09	No. (7/8) on 16/12	Total
Khalid Abdullah Hamad Al Zamil	√	√	√	√	4
Abdallah Saleh Jum'ah Al Dossari	x	√	√	√	3
Ahmed Abdullah Hamad Al Zamil	√	√	x	√	3
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

23 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 doing so 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.

24 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, 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 28 April 2019.

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, and 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 with respect to significant matters that are contained in the financial reports.
6. Examining the accounting policies followed by the company and expressing its opinion and recommendations thereon to the Board of Directors.

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 with respect to 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 external auditors' independence, their objectivity and the fairness and effectiveness of the audit activities, taking into account the relevant rules and standards.
3. Reviewing the plan for the company's external auditors 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 the company's external auditor's queries.
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 it necessary to take action, and providing recommendations as to the steps that should be taken.

In 2020, the committee convened (7) times during the Board's eighth term. An attendance sheet is shown below:

Meeting No.	Mohammad Sulaiman Mohammad Al Harbi (Chairman)	Mohammed Ahmed Mahmoud Al-Ghaith	Khalid Mohammed Saleh Al Fuhaid
8th Term			
No. (4/8) on 19/03	√	√	√
No. (5/8) on 20/05	√	√	√
No. (6/8) on 27/07	√	√	√
No. (7/8) on 29/07	√	√	√
No. (8/8) on 25/10	√	√	√
No. (9/8) on 02/11	√	√	√
No. (10/8) on 12/24	√	√	√
Total	7	7	7

2) Nomination and Remuneration Committee

The Nomination and Remuneration Committee comprises (3) members 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 remuneration 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 with respect to the remunerations of its members, committee members and senior executives, in accordance with the approved policy.
5. Suggesting clear policies and standards for Board of Directors and Executive Management membership.
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 nominations shall not include any person convicted of a crime involving dishonesty.
7. Preparing a description of the capabilities and qualifications required for membership on the Board of Directors and Executive Management positions.
8. Determining the amount of time that the member shall allocate to Board of Directors activities.
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 make decisions with regard to 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 committee meeting minutes; the minutes shall state the name of the expert and his or her relation to the company or its Executive Management.

The committee convened twice in 2020 during the Board's eighth term. An attendance sheet is shown below:

Meeting No.	Abdallah Saleh Jum'ah Al Dossari (Chairman)	Khalid Abdullah Hamad Al Zamil	Mohammad Sulaiman Mohammad Al Harbi
8th Term			
No. (2/8) on 30/06	√	√	√
No. (3/8) on 30/11	√	√	√
Total	2	2	2

25 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 2020, and the Nomination and Remuneration Committee will review this matter.

26 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 2020. 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	9	6	0	0	**0**	**215**	0	0	0	0	0	**0**	0	**215**	0
Ahmed Abdullah Al Zamil	200	9	0	0	0	**0**	**209**	0	0	0	0	0	**0**	0	**209**	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	21	0	0	**0**	**233**	0	0	0	0	0	**0**	0	**233**	0
Second: Non-Executive Directors																
Adib Abdullah Al Zamil	200	12	0	0	0	**0**	**212**	0	0	0	0	0	**0**	0	**212**	0
Mohammed Ahmed Al-Ghaith	200	12	21	0	0	**0**	**233**	0	0	0	0	0	**0**	0	**233**	0
Third: Executive Directors																
Abdulla Mohammed Abdullah 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 Mohammad Al Harbi	0	21	**21**
Mohammed Ahmed Mahmoud Al-Ghaith	0	21	**21**
Khalid Mohammed Saleh Al Fuhaid	0	21	**21**
Nomination and Remuneration Committee members:			
Abdallah Saleh Jum'ah Al Dosari	0	6	**6**
Khalid Abdullah Hamad Al Zamil	0	6	**6**
Mohammad Sulaiman Mohammad 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 received the highest remunerations, including the CEO and the CFO	4,450	959	0	**5,409**	0	0	0	0	0	**0**	0	200	**5,609**

Note: The company compiled and disclosed the total remuneration of its senior executives in accordance with the statutory requirements contained in subparagraph (b) of Paragraph (4) of Article (93) of the Corporate Governance Regulations. An exemption request has also been submitted in accordance with Paragraph (b) of Article (61) of the Rules on the offer of Securities and Continuing Obligations.

It is worth mentioning that members of the Board of Directors will only receive their annual remunerations for the fiscal year that ended 31 December 2020 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.

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Remuneration policy

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

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 with respect to determining remunerations and practices common to 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, as well as 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 contribute to the success of the company and its long-term development by, for example, linking the variable part of the remuneration to long-term performance.
8. To prevent abuse of power to obtain unmerited remunerations, 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.
9. The granting 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 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 a 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 be entitled to any remunerations for the period following the last meeting that they attended, and they shall refund any 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, a percentage of net profits or 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 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 organization.
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 in the form of 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 on 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 types 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 to attract and retain qualified, skilled employees and maintain the skillfulness that the company requires.

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.

28 The company's policy on profit distribution

The decision to distribute any cash profits shall be made 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 provided in Article 41 of the company's bylaws stipulates as follows:

Net profits of the company shall be distributed as deemed reasonable by the Board, provided that the General Assembly delegates distribution of periodic payouts, and are 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 that doing so fulfills the company interest or guarantees continuous cash dividend 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.

29 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 2020, 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. They are also approved and authorized annually for each upcoming year by the shareholders' General Assembly.

Such transactions include:

1. The purchase of SAR 1,918,625 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 6,850,267 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 12,518,494 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 8,406,244 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.

30 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 obtained by the Audit Committee, there were no major remarks for the year 2020 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.

31 The Audit Committee's recommendation regarding the need to appoint an internal auditor for the company in the absence of an internal auditor

The company has a department concerned with internal auditing that is headed by the general auditor. The general auditor continually and periodically keeps the Audit Committee informed by means of regular reports. Therefore, the Audit Committee has not made any recommendations regarding the need to appoint 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.

32 The Audit Committee's recommendations that 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.

33 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.

34 Share Buy Back

On March 26, 2020, the Board of Directors announced its recommendation to the General Assembly that the company buy its own shares. The recommendation was for the company to purchase up to a maximum of three million shares, or no more than 5% of the issued shares, with a value not exceeding 50 million riyals. They would be retained as Treasury Shares, with the purpose of maintaining the stability of the share price, as the Board of Directors saw at that time that the share price was lower than its fair value. The Board indicated that the financing of the purchase would be from the company's internal sources, through the cash available to the company. The General Assembly authorized the Board of Directors, or whomever the Board authorizes, to complete the purchase within twelve months from the date of the Extraordinary General Assembly's decision. The General Assembly also authorized the retention of the Treasury Shares, without selling them or allocating them to the Employee Shares Program, for a maximum period of five years. The Extraordinary General Assembly held on 7 May 2020 approved this recommendation.

The company appointed a financial advisor to manage the portfolio. However, by the end of the fiscal year on 31 December 2020, the company's purchase of its shares had not been completed. This was due to the rise in the share price, to a level above the fair value at the time the recommendation was made.

35 Company announcements and disclosures in 2020

During 2020, the company posted announcements and disclosures of material events through the Saudi Stock Exchange website (Tadawul). They included the following.

#	Announcement Date	Announcement Title
1	22/03/2020	The company's announcement of its annual financial results for the fiscal year ending 31 December 2019
2	26/03/2020	The company announced its intention to buy its own shares
3	15/04/2020	The company invited shareholders to attend the Extraordinary General Assembly (first meeting)
4	20/04/2020	The company announced the effects on its businesses of the precautionary measures taken to combat COVID-19
5	10/05/2020	The company announced the results of the Extraordinary General Assembly (first meeting)
6	21/05/2020	The company announced its interim condensed financial results for the three months period ending 31 March 2020
7	28/07/2020	The company announced its interim condensed financial results for the six months period ending 30 June 2020
8	25/10/2020	The company announced its interim condensed financial results for the nine months period ending 30 September 2020
9	28/10/2020	The company announced that one of its subsidiaries had signed a cooperation agreement with the Local Content and Government Procurement Authority to support local content in the manufacturing sector
10	17/12/2020	The company announced that it had received letters from the General Authority for Zakat & Tax (GAZT) amending the Zakat declarations submitted for the years from 2014 to 2018, demanding additional payments

36 Substantial events

On 17 December 2020 the company announced that it had received letters from the General Authority of Zakat & Tax (GAZT) amending the Zakat declarations submitted for the years from 2014 to 2018. The letters demand the payment of Zakat differences for those years, for a total amount of SAR 229,252,852. The company indicated that it submitted its Zakat declarations and paid the Zakat based on audited financial statements for the respective fiscal years. Zamil Industrial has the right to object and file an appeal to these amendments during the statutory period of sixty days from the date of receiving the letters. Accordingly, the company will prepare its list of objections to the amendments and submit its appeal within the statutory period.

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

In 2020, the company's Investor Relations Department requested shareholder records (14) times using the Tadawulaty service, in the following manner and for the following reasons.

Req.	Date of request	Date of ownership	Reason
1	06/01/2020	02/01/2020	Preparation of annual analysis report
2	03/02/2020	02/02/2020	Preparation of monthly analysis report
3	03/03/2020	02/03/2020	Preparation of monthly analysis report
4	08/04/2020	02/04/2020	Preparation of monthly analysis report
5	05/05/2020	04/05/2020	Preparation of monthly analysis report
6	07/05/2020	07/05/2020	Record attendance of the General Assembly meeting
7	02/06/2020	02/06/2020	Preparation of monthly analysis report
8	05/07/2020	02/07/2020	Preparation of monthly analysis report
9	09/08/2020	06/08/2020	Preparation of monthly analysis report
10	03/09/2020	02/09/2020	Preparation of monthly analysis report
11	05/10/2020	04/10/2020	Preparation of monthly analysis report
12	12/10/2020	12/10/2020	Preparation of monthly analysis report
13	02/11/2020	02/11/2020	Preparation of monthly analysis report
14	07/12/2020	02/12/2020	Preparation of monthly analysis report

38 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 2020, the company convened only 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 (07/05/2020)
Khalid Abdullah Hamad Al Zamil (Chairman)	√
Abdallah Saleh Jum'ah Al Dossari (Vice Chairman)	√
Ahmed Abdullah Hamad Al Zamil	√
Adib Abdullah Hamad Al Zamil	√
Mohammed Ahmed Mahmoud Al-Ghaith	√
Mohammad Sulaiman Mohammad Al Harbi	√
Abdulla Mohammed Abdullah Al Zamil	√
Khalid Mohammed Saleh Al Fuhaid	√

39 Statement regarding 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

40 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 with regard to 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, contract-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, contract-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 2020.
9. There have been no transactions between the company and related parties.
10. Aside from what has been listed in 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 the above.
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/call from the certified public accountant for the convention of the General Assembly in 2020.
14. The company has not received a request/call from shareholders holding shares equal to at least 5% of the share capital of the company for the convention of the General Assembly in 2020.
15. There have been no procedures that may lead to the impediment of shareholders' voting rights.
16. The company has not provided any member of its Board of Directors or its senior executives with loans or credit facilities

41 Conclusion

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 received 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 also tenders grateful thanks 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 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 Independent Auditors' Report

31 December 2020

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 2020, 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 2020, 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 matters 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
Impairment of trade receivables The Group has gross accounts receivable of SR 2,032 million as at 31 December 2020 including certain overdue balances amounting to SR 1,168 million against which the Group has recorded an allowance for expected credit losses amounting to SR 314 million. Assessment of allowance 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 judgements related particularly related to the calculation of expected credit losses, we considered this area as a key audit matter. Refer to note 23 for further details.	In order to assess the appropriateness of the management's judgment and estimates, 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 and assumptions used in the in the estimates made by the management. • We analysed the accounting policies and assessed the methodology developed to calculate the expected loss rate. • 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 stream is 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 estimation of material and labour costs. Accounting policies for revenue recognition related to long-term contracts are given in note 2 to the consolidated financial statements. 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. Considering the above, revenue recognition from construction contracts has been determined as a key audit matter.	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 fluctuations, and obtaining explanations from management about such fluctuations. • Reviewed estimation 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 contracts 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.

Key audit matter	How our audit addressed the key audit matter
Uncertain zakat provision During the year, the General Authority of Zakat and Tax ("GAZT") issued the zakat assessments for the years from 2014 to 2018 with an additional liability of SA 229.3 million. The Group has filed an appeal against the assessments. The Group's management is of view that they will win this appeal and based on that they did not account for the additional zakat liability. The accounting for this uncertain zakat provisions comprises significant judgment by the management mainly in the areas whether to recognise this uncertain position as a contingent liability or as a provision. Given the high level of management's judgment we considered this area to be important for our audit.	We performed the following procedures in relation to the additional assessed zakat liability: • Evaluated this zakat case by evaluating the report issued by the GAZT; • Gained the understanding of the process management followed to assess the impact of the assessment; • Evaluated the zakat opinion of management's expert obtained by the Group on the respective case; • Evaluated the reasonableness of management's assessment for the accounting of the uncertain zakat provision in the light of zakat regulations, recent practices of GAZT and merits of the appeals filed with the GAZT against the assessments raised; and • Assessed the appropriateness of the disclosure made in relation to the contingent liability in respect of the additional liability for zakat assessed and the status of the related appeal.

Other information included in The Group's 2020 Annual Report

Other information consists of the information included in the Group's 2020 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 2020 annual report is expected to be made available to us after the date of this auditor's 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 2020 annual report, if we conclude that there is a 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 judgment 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 risk 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.

- Obtain 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 have 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, actions taken to eliminate threats or safeguards applied.

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

5 Sha'aban 1442H
18 March 2021

Al Khobar

Consolidated Statement Of Income

For the year ended 31 December 2020

Continuing Operations	Notes	SR'000	SR'000
REVENUES		**2020**	2019
Revenue from contracts with customers	6	3,368,962	4,023,606
Finance lease income		14,000	14,977
		3,382,962	4,038,583
DIRECT COSTS			
Cost of sales	7	(2,125,237)	(2,482,549)
Contracts cost	8	(794,613)	(969,188)
		(2,919,850)	(3,451,737)
GROSS PROFIT		**463,112**	586,846
EXPENSES			
Selling and distribution	9	(161,701)	(220,023)
General and administration	10	(362,165)	(394,088)
OPERATING LOSS		(60,754)	(27,265)
Share in results of associates and a joint venture	18	24,836	9,195
Other income, net	11	38,558	21,540
Finance costs	12	(77,782)	(117,195)
Impairment loss reversal on non-current assets	13	(43,182)	34,584
LOSS BEFORE ZAKAT AND INCOME TAX FROM CONTINUING OPERATIONS		**(118,324)**	(79,141)
Zakat and income tax	35	(13,045)	(21,703)
Deferred tax	35	(1,975)	(7,005)
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		**(133,344)**	(107,849)
Discontinued Operations			
Loss after zakat and income tax for the period from discontinued operations	14	(16,494)	(21,861)
NET (LOSS) INCOME FOR THE YEAR		**(149,838)**	(129,710)
NET LOSS FOR THE YEAR ATTRIBUTABLE TO:			
Shareholders of the parent company		(159,873)	(138,809)
Non-controlling interests		10,035	9,099
		(149,838)	(129,710)
EARNINGS PER SHARE FROM NET LOSS			
Basic and diluted earnings per share attributable to the shareholders of the parent company	15	(2.66)	(2.31)
EARNINGS PER SHARE FOR CONTINUING OPERATIONS			
Basic and diluted, earnings per share attributable to the shareholders of the parent company	15	(2.39)	(1.95)

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

Consolidated Statement Of Comprehensive Income

For the year ended 31 December 2020

	Notes	SR'000	SR'000
		2020	2019
NET LOSS FOR THE YEAR		**(149,838)**	(129,710)
Other comprehensive income			
Other comprehensive income to be reclassified to income in subsequent periods:			
Foreign currency differences on translation of foreign operations		(1,654)	154
Net other comprehensive income to be reclassified to income in subsequent periods		**(1,654)**	154
Other comprehensive income not to be reclassified to income in subsequent periods:			
Net gain (loss) on equity instruments at fair value	19	14,510	(1,398)
Actuarial gains on employees' defined benefit liabilities	30	1,825	3,067
Share in other comprehensive income of an associate	18	30	193
Net other comprehensive income not to be reclassified to income in subsequent periods		16,365	1,862
Other comprehensive income for the year		14,711	2,016
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(135,127)**	(127,694)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO:			
Shareholders of the parent company		(145,298)	(136,619)
Non-controlling interests		10,171	8,925
		(135,127)	(127,694)

Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2020

	Notes	SR'000	SR'000
ASSETS		**2020**	2019
NON-CURRENT ASSETS			
Property, plant and equipment	16	868,553	960,708
Right-of-use assets	17	96,189	119,186
Investments in associates and a joint venture	18	94,738	79,872
Equity instruments at fair value through other comprehensive income	19	53,650	39,140
Net investments in finance lease	20	292,507	317,104
Goodwill	21	-	21,126
Deferred tax assets	35	2,710	6,024
TOTAL NON-CURRENT ASSETS		**1,408,347**	1,543,160
CURRENT ASSETS			
Inventories	22	1,167,785	1,239,391
Accounts receivable	23	1,718,629	1,895,662
Contract assets	24	596,653	494,756
Advances, other receivables and prepayments	25	203,316	249,599
Current portion of net investment in finance lease	20	24,598	23,578
Cash and cash equivalents	26	156,092	197,252
TOTAL CURRENT ASSETS		**3,867,073**	4,100,238
TOTAL ASSETS		**5,275,420**	5,643,398

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

Consolidated Statement of Financial Position (continued)

As at 31 December 2020

	Notes	SR'000	SR'000
EQUITY AND LIABILITIES		**2020**	2019
EQUITY			
Share capital	27	**600,000**	600,000
Statutory reserve		**180,000**	180,000
Retained earnings		**375,048**	533,202
Foreign currency translation reserve		**(28,643)**	(26,989)
Fair value reserve		**7,064**	(7,446)
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT COMPANY		**1,133,469**	1,278,767
NON-CONTROLLING INTERESTS	28	**201,439**	201,068
TOTAL EQUITY		**1,334,908**	1,479,835
NON-CURRENT LIABILITIES			
Term loans	29	**14,510**	144,986
Employees' defined benefit liabilitie	30	**213,236**	234,332
Lease liabilities	17	**59,688**	80,634
Deferred tax liabilities	35	**6,077**	7,388
TOTAL NON-CURRENT LIABILITIES		**293,511**	467,340
CURRENT LIABILITIES			
Accounts payable	31	**456,591**	392,219
Accruals and provisions	32	**386,138**	413,053
Short term loans	33	**2,161,550**	2,481,828
Current portion of term loans	29	**165,803**	47,400
Current portion of lease liabilities	17	**31,550**	22,886
Contract liabilities	34	**402,771**	294,028
Zakat and income tax provision	35	**42,598**	44,809
TOTAL CURRENT LIABILITIES		**3,647,001**	3,696,223
TOTAL LIABILITIES		**3,940,512**	4,163,563
TOTAL EQUITY AND LIABILITIES		**5,275,420**	5,643,398

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 2020

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 2019	600,000	180,000	668,577	(26,583)	(6,048)	1,415,946	208,169	1,624,115
Net (loss) income for the year	-	-	(138,809)	-	-	(138,809)	9,099	(129,710)
Other comprehensive income (loss)	-	-	3,434	154	(1,398)	2,190	(174)	2,016
Total comprehensive (loss) income	-	-	(135,375)	154	(1,398)	(136,619)	8,925	(127,694)
Reclassification to income on disposal of discontinued operations (note 14.2)	-	-	-	(560)	-	(560)	-	(560)
Movement in non-controlling interests	-	-	-	-	-	-	(16,026)	(16,026)
Balance at 31 December 2019	600,000	180,000	533,202	(26,989)	(7,446)	1,278,767	201,068	1,479,835
Net (loss) income for the year	-	-	(159,873)	-	-	(159,873)	10,035	(149,838)
Other comprehensive income	-	-	1,719	(1,654)	14,510	14,575	136	14,711
Total comprehensive (loss) income	-	-	(158,154)	**(1,654)**	14,510	(145,298)	10,171	(135,127)
Movement in non-controlling interests	-	-	-	-	-	-	(9,800)	(9,800)
Balance at 31 December 2020	**600,000**	**180,000**	**375,048**	**(28,643)**	**7,064**	**1,133,469**	**201,439**	**1,334,908**

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	SR'000	SR'000
OPERATING ACTIVITIES	**2020**	2019
Loss before zakat and income tax from continuing operations	**(118,324)**	(79,141)
Loss before zakat and income tax from discontinued operations	**(15,414)**	(20,241)
Loss before zakat and income tax	**(133,738)**	(99,382)
Adjustments to reconcile income before zakat and income tax to net cash flows:		
Depreciation of property, plant and equipment	**107,248**	114,923
Depreciation of right-of-use assets	**21,916**	22,110
Provision for employees' defined benefit liabilities	**29,074**	31,639
Impairment loss (reversal) on non-current assets	**43,182**	(34,584)
Finance costs	**79,636**	121,379
Dividend income	**(891)**	(891)
Gains on disposal of property, plant and equipment	**(10,445)**	(5,162)
Share in results of associates and a joint venture	**(24,836)**	(9,195)
Loss on derecognition of leases	**100**	-
Loss on disposal of discontinued operations	**-**	13,997
	111,246	154,834
Working capital adjustments:		
Inventories	**71,606**	105,376
Accounts receivable	**177,033**	145,198
Contract assets	**(101,897)**	(81,387)
Advances, other receivables and prepayments	**46,283**	4,300
Net investment in finance lease	**23,577**	22,601
Accounts payable	**64,372**	(62,989)
Accruals and provisions	**(26,915)**	29,142
Contract liabilities	**108,743**	1,678
Cash from operations	**474,048**	318,753
Financial charges paid	**(63,156)**	(99,559)
Zakat and income tax paid	**(16,298)**	(25,867)
Employees' defined benefit liabilities paid	**(55,593)**	(52,253)
Net cash from operating activities	**339,001**	141,074
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(40,212)**	(28,676)
Proceeds from disposal of property, plant and equipment	**12,778**	9,053
Dividends received	**10,891**	891
Net cash used in investing activities	**(16,543)**	(18,732)
FINANCING ACTIVITIES		
Net movement in short term loans	**(322,170)**	(145,074)
Net movement in term loans	**(14,272)**	107,608
Payments against lease liabilities	**(16,442)**	(24,712)
Movement in non-controlling interests	**(9,800)**	(14,700)
Net cash used in financing activities	**(362,684)**	(76,878)

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 2020

	SR'000	SR'000
	2020	2019
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(40,226)**	45,464
Cash and cash equivalents at the beginning of the year	**197,252**	152,457
Movement in foreign currency translation reserve, net	**(934)**	(669)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**156,092**	197,252

	SR'000	SR'000
NON-CASH TRANSACTIONS	**2020**	2019
Net amounts receivable settled against disposal of discontinued operations	-	454
Remeasurement gains on employees' defined benefit liabilities	**1,825**	3,067
Reclassification of exchange difference on disposal of discontinued operations	-	560
Derecognition of accounts receivable on liquidation of subsidiaries	-	1,423
Derecognition of other receivable on liquidation of subsidiaries	-	1,327
Derecognition of non-controlling interests on liquidation of subsidiaries	-	1,326
Adjustment of cash held for liquidated subsidiaries against accounts payable	-	1,313
Recognition of right-of-use assets on first time adoption of IFRS 16	-	131,027
Recognition of lease liabilities on first time adoption of IFRS 16	-	119,567
Derecognition of prepayments on first time adoption of IFRS 16	-	(11,460)
Derecognition of other intangible assets on first time adoption of IFRS 16	-	5,030
Transfer of leasehold land to right-of-use assets on first time adoption of IFRS 16	-	2,665
Exchange differences on property, plant and equipment	**730**	(416)
Exchange differences on deferred tax assets	**28**	(392)
Exchange differences on zakat and income tax provision	**(38)**	(15)
Share in other comprehensive income of an associate	**(30)**	(193)

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

Notes to the Consolidated Financial Statements

At 31 December 2020

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 branch in the Kingdom of Saudi Arabia:

Commercial registration number	**Date**	**Location**
2050099363	8 Jumada' II 1435H	Dammam

The Company has investment in the following subsidiaries:	Effective ownership percentage	
	2020	2019
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%
Arabian Stonewool Insulation Company - Saudi Arabia	**100%**	100%
Second Insulation Company Limited - Saudi Arabia	**100%**	100%
Gulf Insulation Group - Saudi Arabia	**51%**	51%
Saudi Preinsulated Pipes Industries - Saudi Arabia	**51%**	51%
Zamil Steel Building Company - Egypt	**100%**	100%
Zamil Steel Buildings (Shanghai) Company Limited - China	**100%**	100%
Zamil Steel Buildings India Private Limited - India	**100%**	100%
Zamil Steel Engineering India Private Limited - India	**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%

The Company has investment in the following subsidiaries:	Effective ownership percentage	
	2020	2019
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%
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%

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 2020 were authorised for issuance in accordance with the Board of Directors' resolution on 18 March 2021 (corresponding to 5 Sha’ban 1442H).

2 SIGNIFICANT ACCOUNTING POLICIES

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

Basis of measurement
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 ‘ooo”), 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 2020. 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 2020

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 Group.

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.

Leases

Group as lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

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. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives.

Plots of land	Buildings
5 to 30 years	3 to 5 years

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

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 the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because 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 lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

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 to be low value. 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.

Extension and termination options

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Extension options or periods after termination options are only included in the lease term if the lease is reasonably certain to be extended or not terminated. Group assesses at lease commencement whether it is reasonably certain to exercise the extension options. Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within control.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they

Notes to the Consolidated Financial Statements (continued)

At 31 December 2020

occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

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 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 consolidated 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

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- 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.

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 9 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 reta.

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.

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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 Group 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.

Value-Added Tax ("VAT")
Revenues, expenses and assets are recognised net of the amount of VAT, except for:

- where the VAT incurred on a purchase of assets or services is not recoverable from the tax authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable ; and
- in case of receivables and payables that are stated with the amount of VAT included.

The net amount of VAT recoverable from or payable to the tax authority is classified as an asset or a liability, respectively, in the statement of consolidated financial position.

Withholding tax
The Group withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia, as required under Saudi Arabian Income Tax Law.

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 30% of the share capital. 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 the consolidated statement of income 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.

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Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized.

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.

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 at a point in time, generally upon completion of the service or 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.

Contract liabilities
A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

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 and delivery vehicles. All other expenses related to main operations are allocated on a consistent basis to direct costs and general and administration expenses in accordance with

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allocation factors determined as appropriate by the Group. Finance costs are presented separately in consolidated statement of income.

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 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 consolidated 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 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 consolidated statement of financial position.

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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 consolidated 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 2019, except for the adoption of new standards effective as of 1 January 2020. The Group has not early adopted any other standard, interpretation or amendment that has been issued but not yet effective.

New and amended standards and interpretations

Amendments to IFRS 3: Definition of a Business
The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the consolidated financial statements of the Group, but may impact future periods should the Group enter into any business combinations.

Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform
The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the consolidated financial statements of the Group as it does not have any interest rate hedge relationships.

Amendments to IAS 1 and IAS 8 Definition of Material
The amendments provide a new definition of material that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to the Group.

Amendments to IFRS 16 Covid-19 Related Rent Concessions
On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification.

The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. This amendment had immaterial impact on the consolidated financial statements of the Group.

Conceptual Framework for Financial Reporting issued on 29 March 2018
The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the consolidated financial statements of the Group.

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.

Capital management	Financial risk management objectives and policies	Sensitivity analyses disclosures
Note 40	Note 39	Note 39

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.

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, contract assets and net investment in finance lease
The Group uses a provision matrix to calculate expected credit losses (ECLs) for accounts receivables, contract assets and net investment in finance lease. 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

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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.

Zakat and income tax
At each reporting date, the Group is required to estimate zakat base and the income tax provision which is based on the Group'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.

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 managements best estimates at the reporting date after considering all the available and known factors.

Leases - Estimating the incremental borrowing rate
The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

Determining the lease term of contracts with renewal and termination options – Group as lessee
The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

Fair value measurement of financial instruments
When the fair values of financial assets recorded in the consolidated 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.

Reference to the Conceptual Framework – Amendments to IFRS 3
In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements. The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current
In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16
In May 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. The amendments are not expected to have a material impact on the Group.

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IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities
As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendments are not expected to have a material impact on the Group.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37
In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administration costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

6 REVENUE FROM CONTRACTS WITH CUSTOMERS

	SR'000 2020	SR'000 2019
Set out below is the disaggregation of the Group's revenue from contracts with customers:		
Sale of goods	2,250,526	2,692,055
Rendering of services	258,607	233,109
Revenue from long-term contracts	859,829	1,098,442
Total revenue from contracts with customers	**3,368,962**	4,023,606

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 2020	SR'000 2019
Group's contract balances comprise of following:		
Accounts receivable (note 23)	1,718,629	1,895,662
Contract assets (note 24)	596,653	494,756
Contract liabilities (note 34)	402,771	294,028

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.

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	SR'000
	2020	2019
Cost of inventories recognised as expense	**1,308,093**	1,502,954
Employees' and labour costs	**384,859**	457,958
Sub-contracting costs	**146,860**	196,592
Depreciation (note 16)	**82,522**	87,281
Depreciation of right-of-use assets (note 17)	**5,371**	5,091
Others direct costs	**197,532**	232,673
	2,125,237	2,482,549

8 CONTRACTS COST

Sub-contracting costs	**249,761**	413,448
Materials consumed	**394,304**	371,426
Employees' and labour costs	**118,414**	144,593
Depreciation (note 16)	**7,639**	9,876
Others direct costs	**24,495**	29,845
	794,613	969,188

9 SELLING AND DISTRIBUTION EXPENSES

Employees' costs	**72,969**	107,625
Transportation	**28,898**	45,380
Warranties	**18,385**	19,964
Depreciation of right-of-use assets (note 17)	**8,493**	8,580
Rent and utilities	**5,729**	7,500
Advertising and sales promotion	**4,651**	5,626
Business travel	**1,263**	4,722
Support services	**4,235**	3,415
Depreciation (note 16)	**2,715**	2,715
Communication and IT services	**962**	1,671
Repairs and maintenance	**690**	781
Others	**12,711**	12,044
	161,701	220,023

10 GENERAL AND ADMINISTRATION EXPENSES

Employees' costs	**227,036**	266,042
Allowance for expected credit losses (notes 23 and 24)	**46,513**	22,258
Communication and IT services	**22,799**	19,878
Depreciation (note 16)	**12,127**	10,854
Rent and utilities	**6,494**	9,862
Depreciation of right-of-use assets (note 17)	**6,650**	8,439
Professional fees	**6,781**	8,044
Support services	**3,406**	8,100
Business travel	**2,713**	5,791
Repairs and maintenance	**4,283**	5,662
Office supplies	**2,185**	3,402
Others	**21,178**	25,756
	362,165	394,088

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11 OTHER INCOME, NET

	SR'000	SR'000
	2020	2019
Foreign currency exchange gains (losses)	**(1,667)**	7,553
Gains on disposal of property, plant and equipment	**10,445**	5,162
Others	**29,780**	8,825
	38,558	21,540

12 FINANCE COSTS

	2020	2019
Interest on debts and borrowings	**61,775**	96,052
Interest cost on employees' defined benefit obligation (note 30)	**6,961**	10,589
Interest on lease liabilities (note 17)	**4,955**	5,859
Amortisation of loan upfront fees (note 29 and 33)	**4,091**	4,695
	77,782	117,195

13 IMPAIRMENT (LOSS) REVERSAL ON NON-CURRENT ASSETS

	SR'000	SR'000
	2020	2019
Impairment loss on goodwill (note 21)	**(21,126)**	-
Impairment loss on property, plant and equipment (note 16)	**(22,056)**	-
Reversal of impairment loss on property, plant and equipment (note 16)	**-**	34,584
	(43,182)	34,584

14 DISCONTINUED OPERATIONS

14.1 During the year, the executive management has decided to discontinue with one of the subsidiary's operations. The plan was approved by the management and the operations were discontinued by the year ended 31 December 2020. Therefore the results of the operations have been classified as discontinued operations in the consolidated statement of income. The results of the discontinued operations for the year are presented below:

	SR'000	SR'000
	2020	2019
Revenues	**131,110**	239,643
Expenses	**(144,670)**	(241,703)
Operating loss	**(13,560)**	(2,060)
FINANCE COSTS		
Interest expense on short-term borrowings (note 33)	**(1,381)**	(3,507)
Employees' defined benefit liabilities (note 30)	**(287)**	(445)
Lease liability (note 17)	**(186)**	(232)
Loss before zakat from discontinued operations	**(15,414)**	(6,244)
Zakat expense	**(1,080)**	(1,620)
Loss for the year from discontinued operations	**(16,494)**	(7,864)
AMOUNT INCLUDED IN OTHER COMPREHENSIVE INCOME		
Actuarial (losses) gains on defined benefit schemes	**(131)**	367
THE NET CASH FLOWS INCURRED ARE AS FOLLOWS		
Operating	**18,261**	(26,915)
Investing	**1,429**	(1,914)
Financing	**(1,317)**	(1,317)
Net cash inflow (outflow)	**18,373**	(30,146)

Net carrying value of the property, plant and equipment amounting to SR 790 thousands (2019: SR 4.8 million) relating to discontinued operations will be used in continuing operations and has not been classified as assets held for sale. The total depreciation charge includes SR 2.5 million (2019: SR 3.1 million) from that assets. The depreciation charge and interest expense for right-of-use assets and leases are amounted to SR 1,092 thousands (2019: SR 1,092 thousands) and SR 186 thousands (2019: SR 232 thousands), respectively. All other assets and liabilities are immaterial to the consolidated financial statements of the Group.

14.2 During prior year, the Group's investment in Zamil Hudson Company Limited and Petro-Chem Zamil Company Limited registered in Saudi Arabia and Cooling Europe Holdings GmbH - Austria (subsidiaries) were fully liquidated. Legal formalities with regard to liquidation were completed during last year and a net gain of SR 449 thousands had been recognised in the consolidated statement of income on liquidation.

	SR'000	SR'000
	2020	2019
Loss on liquidation of Group's share in the investee companies	-	111
Cumulative exchange gain reclassified from foreign currency translation reserve to consolidated statement of income on disposal	-	(560)
	-	(449)

14.3 During 2018, 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. During prior years, full provision of SR 37,740 thousands was recognised in the consolidated statement of income against the receivable amount. However during the current year, management has decided to write-off the full balance as the balance is not recoverable. Legal formalities with regard to disposal arrangement are in process and expected to be completed during year 2021.

	SR'000	SR'000
	2020	2019
Provision for impairment of amounts due from investee	-	14,446
	-	14,446

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15 EARNINGS PER SHARE

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:

	2020	2019
Net loss for the period attributable to the shareholders of the parent company (SR '000):		
Continuing operations	(143,379)	(116,948)
Discontinued operations	(16,494)	(21,861)
	(159,873)	(138,809)
Weighted average number of outstanding shares during the year (share '000)	60,000	60,000
Earning per share from net loss	SR	SR
Basic and diluted earnings per share attributable to the shareholders of the parent company	(2.66)	(2.31)
Earning per share for continuing operations		
Basic and diluted earnings per share attributable to the shareholders of the parent company	(2.39)	(1.95)
Earning per share for discontinued operations		
Basic and diluted earnings per share attributable to the shareholders of the parent company	(0.27)	(0.36)

16 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 2019	112,810	927,476	1,635,766	251,058	106,574	44,135	**3,077,819**
Additions	-	3,933	10,922	4,215	3,425	6,181	**28,676**
Transfer	-	16,182	31,109	735	-	(48,026)	**-**
Disposal	-	(1,612)	(38,443)	(18,197)	(2,569)	(838)	**(61,659)**
Transferred to right-of-use assets	-	(3,076)	-	-	-	-	(3,076)
Foreign currency translation	108	(41)	(177)	283	255	3	**431**
At 31 December 2019	112,918	942,862	1,639,177	238,094	107,685	1,455	**3,042,191**
Additions	-	10,549	9,166	2,967	1,321	16,209	**40,212**
Transfer	-	225	2,174	1,226	-	(3,625)	**-**
Disposal	(5,024)	(11,504)	(23,682)	(3,632)	(4,059)	-	**(47,901)**
Foreign currency translation	(133)	(833)	(705)	(401)	33	-	**(2,039)**
At 31 December 2020	**107,761**	**941,299**	**1,626,130**	**238,254**	**104,980**	**14,039**	**3,032,463**

16 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 2019	15,133	525,762	1,214,228	210,344	93,841	-	2,059,308
Charge for the year	-	37,232	59,075	13,649	4,967	-	114,923
Reversal of impairment losses	-	(22,179)	(9,205)	(3,194)	(6)	-	(34,584)
Disposal	-	(1,612)	(36,485)	(17,132)	(2,539)	-	(57,768)
Transferred to right-of-use assets	-	(411)	-	-	-	-	(411)
Foreign currency translation	(106)	(98)	(231)	221	229	-	15
At 31 December 2019	15,027	538,694	1,227,382	203,888	96,492	-	2,081,483
Charge for the year	-	32,921	58,102	12,911	3,314	-	107,248
Disposal	(4,222)	(11,078)	(22,623)	(3,592)	(4,053)	-	(45,568)
Impairment losses	-	19,458	721	1,877	-	-	22,056
Foreign currency translation	(150)	(502)	(393)	(294)	30	-	(1,309)
At 31 December 2020	**10,655**	**579,493**	**1,263,189**	**214,790**	**95,783**	**-**	**2,163,910**
Net book amounts:							
At 31 December 2020	**97,106**	**361,806**	**362,941**	**23,464**	**9,197**	**14,039**	**868,553**
At 31 December 2019	97,891	404,168	411,795	34,206	11,193	1,455	960,708

16.1 At 1 January 2016, the Group determined that the recoverable amount of its property, plant and equipment in a subsidiary, Zamil Steel Buildings India Private Limited, which is considered a CGU, was less than its carrying amount and accordingly an impairment loss of SR 59,590 thousands was recognised.

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 40,184 thousands was reversed during the prior period. The recoverable amount as at 31 December 2019 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 18.82% on a pre-tax basis.

16.2 During the prior period, the Group determined that the recoverable amount of property, plant and equipment of a subsidiary, Building Component Solutions Limited, which is considered a cash generating unit (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 13.65%. This resulted in an impairment loss of SR 5,600 thousands which was recognised in the consolidated statement of income of prior year.

16.3 During the year, the management has performed the valuation exercise for property, plant and equipment of one of its subsidiaries based in United Arab Emirates due to the indications for the impairment. The management followed the fair value less costs of disposal approach. As a result of the valuation, an impairment loss of SR 22,056 thousands was recognised in consolidated statement of income. The valuation exercise was carried out by ValuStrat, an independent valuer, not related to the Group, holding a license number 743808. ValuStrat is a firm registered under Royal Institute of Chartered Surveyors. The fair value has been determined based on the market comparative approach that reflects recent transaction prices for similar properties. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

16.4 Any significant movement in the assumptions used for fair valuation of property, plant and equipment would result in significantly lower or higher fair value of the assets.

16.5 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 2019. The Group has right to renew these lease agreements.

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16.6 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.

16.7 Property, plant and equipment amouting to SR 78 million net book value are mortgaged as a security against the loans obtained from the financial institutions (notes 29 and 33).

17 LEASES

The Group has lease contracts for plots of land and buildings used in its operations. Leases of plots of land and buildings generally have lease terms between 5 and 20 years. Generally, the Group is restricted from assigning and subleasing the leased assets and some contracts require the Group to maintain certain financial ratios.

The Group also has certain leases with lease terms of 12 months or with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the year:

	Plots of land	Buildings	Total
	SR'000	SR'000	SR'000
At the beginning of the year	93,204	45,518	**138,722**
Additions	2,574	-	**2,574**
Depreciation expense	(9,015)	(13,095)	**(22,110)**
As at 31 December 2019	86,763	32,423	**119,186**

	Plots of land	Buildings	Total
	SR'000	SR'000	SR'000
Derecognition	(1,081)	-	**(1,081)**
Depreciation expense	(8,822)	(13,094)	**(21,916)**
At the end of the year	76,860	19,329	**96,189**

Set out below are the carrying amounts of lease liabilities and the movements during the year:

	SR'000	SR'000
	2020	2019
At the beginning of the year	103,520	119,567
Interest expense	5,141	6,091
Additions	-	2,574
Derecognition	(981)	-
Payments	(16,442)	(24,712)
At the end of the year	**91,238**	103,520
Analysed as:		
Current	31,550	22,886
Non-current	59,688	80,634
	91,238	103,520

The maturity analysis of lease liabilities are disclosed in note 39.

The following are the amounts recognised in consolidated statement of income:

	SR'000	SR'000
	2020	2019
Depreciation expense of right-of-use assets	**21,916**	22,110
Interest expense on lease liabilities	**5,141**	6,091
Total amount recognised in consolidated statement of income	**27,057**	28,201

The Group has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised.

18 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:

	2020	2019	**2020**	2019
Associates	Percentage of ownership		SR'000	SR'000
Rabiah Nassar and Zamil Concrete Industries Company Limited - Saudi Arabia ("RANCO") (note 18.2)	**50%**	50%	**83,964**	68,793
IIB Paper Company Limited - Cayman Islands (note 18.2)	**20.83%**	20.83%	**-**	68,793
			68,793	74,248

	2020	2019	**2020**	2019
Joint venture	Percentage of ownership		SR'000	SR'000
Middle East Air Conditioners Company Limited (note 18.3)	**51%**	51%	**10,774**	11,079
	-	11,079	**10,774**	11,079
			94,738	79,872

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

Summarised statement of financial position	RANCO	IIB Paper Company Limited - Cayman Islands	Total
31 DECEMBER 2020	SR'000		
Current assets	225,422	2	
Non-current assets	148,937	-	
Current liabilities	(181,472)	(1,006)	
Non-current liabilities	(24,959)	-	
Net assets	167,928	(1,004)	
Proportion of the Group's ownership	50%	20.83%	
Group's share of net assets	83,964	-	
Group's carrying amount of the investment	83,964	-	83,964
31 December 2019			
Current assets	209,844	-	
Non-current assets	161,833	26	
Current liabilities	(200,252)	(894)	
Non-current liabilities	(26,188)	-	
Net assets	145,237	(868)	
Proportion of the Group's ownership	50%	20.83%	
Group's share of net assets	68,793	-	
Group's carrying amount of the investment	68,793	-	68,793

RANCO's banker has provided guarantees to various third parties on behalf of the Company, amounting to SR 92 million (2019: SR 99 million).

Summarised statements of comprehensive income for associates	RANCO	IIB Paper Company Limited - Cayman Islands	Total
31 DECEMBER 2020	SR'000		
Revenue	290,231	-	
Operating income	43,893	-	
Net income (loss) for the year	42,033	(136)	
Other comprehensive income	59	-	
Total comprehensive income for the year	42,092	(136)	
Group's share of total comprehensive income (loss)	24,864	(28)	24,836

Summarised statements of comprehensive income for associates (continued)	RANCO	IIB Paper Company Limited - Cayman Islands	**Total**
31 DECEMBER 2019		SR'000	
Revenue	235,875	-	
Operating income	27,051	-	
Net income (loss) for the year	24,610	(15,516)	
Other comprehensive income	385	-	
Total comprehensive income (loss) for the year	24,995	(15,516)	
Group's share of total comprehensive income (loss)	12,498	(3,232)	9,266

18.1 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.

18.2 IIB Paper Company Limited is registered in Cayman Islands and is engaged in the production of tissue paper. During prior year, the Group recognised its share in loss for the year up to the carrying value of the investment.

18.3 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 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	**2020**	2019
	SR'000	SR'000
Current assets (including bank balances and cash of SR 1.2 million, 2019: SR 2.4 million)	**41,274**	43,011
Non-current assets	**7**	23
Current liabilities (including zakat and income tax provision of SR 0.3 million, 2019: SR 0.89 million)	**(20,039)**	(22,483)
Non-current liabilities	**(420)**	(132)
Net assets	**20,822**	20,419
Proportion of the Group's ownership	**51%**	51%
Group's share of net assets	**10,619**	10,414
Other adjustments	**155**	665
Group's carrying amount of the investment	**10,774**	11,079

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Summarised statement of comprehensive income for joint venture	2019	2018
	SR'000	SR'000
Revenues	**36,164**	40,344
Cost of sales	**(31,724)**	(33,646)
Selling and distribution expenses	**(2,950)**	(3,270)
General and administrative expenses	**(1,577)**	(2,006)
Other income	**260**	-
Income before zakat and income tax	**173**	1,422
Zakat and income tax	**(312)**	(896)
Total comprehensive income for the year	**(139)**	526
Group's share of total comprehensive income for the year	**(71)**	(58)

19 EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2020	2019
	SR'000	SR'000
Kinan International For Real Estate Development Company Limited	**53,650**	39,140

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

	2020	2019
	SR'000	SR'000
At the beginning of the year	**39,140**	40,538
Remeasurement recognised in consolidated statement of comprehensive income	**14,510**	(1,398)
At the end of the year	**53,650**	39,140

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.

20 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:

a) Net investment in finance lease consists of:	**2020**	2019
	SR'000	SR'000
Gross investments in lease (see (b) below)	**391,480**	429,057
Less: Unearned finance income	**(74,375)**	(88,375)
	317,105	340,682
Analysed as:		
Net investment in finance lease, current	**24,598**	23,578
Net investment in finance lease, non-current	**292,507**	317,104
	317,105	340,682

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	**166,014**	203,591
	391,480	429,057

21 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.

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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 2.3% (2019: 2.3%) 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 pretax discount rates of 15.5% to 16.3% (2019: 12.3% to 12.5%).

As a result of the analysis at 31 December 2020, the carrying amount exceeded the estimated recoverable amount of CGU by approximately SR 21.1 million and the full impairment has been allocated to goodwill.

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.

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 an 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.

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 2.3%.

22 INVENTORIES

	2020	2019
	SR'000	SR'000
Raw materials	**623,094**	730,102
Finished goods	**365,862**	359,607
Work in progress	**127,909**	126,154
Goods in transit	**50,920**	23,528
	1,167,785	1,239,391

23 ACCOUNTS RECEIVABLE

	2020	2019
	SR'000	SR'000
Trade accounts receivable	**1,777,093**	1,910,603
Receivables from related parties (note 36)	**67,573**	102,706
Retentions receivable	**187,631**	207,664
	2,032,297	2,220,973
Less: allowance for impairment of receivables	**(313,668)**	(325,311)
	1,718,629	1,895,662

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:

	2020	2019
	SR'000	SR'000
At the beginning of the year	**325,311**	311,618
Allowance for expected credit losses - continuing operations	**43,722**	17,400
Allowance for expected credit losses - discontinued operations	**857**	14,446
Written-off during the year	**(55,926)**	(18,267)
Exchange differences	**(296)**	114
At the end of the year	**313,668**	325,311

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

24 CONTRACT ASSETS

	2020	2019
	SR'000	SR'000
Value of the work executed to date	**2,021,400**	2,227,713
Less: Amounts received and receivable as progress billings	**(1,415,108)**	(1,726,018)
	606,292	501,695
Less: allowance for expected credit losses	**(9,639)**	(6,939)
	596,653	494,756

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

Notes to the Consolidated Financial Statements (continued)

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25 ADVANCES, OTHER RECEIVABLES AND PREPAYMENTS

	2020	2019
	SR'000	SR'000
Advances to suppliers	**77,009**	60,264
Prepaid expenses	**25,748**	31,670
Unbilled revenues	**19,562**	70,013
Other receivables	**80,997**	87,652
	203,316	249,599

26 CASH AND CASH EQUIVALENTS

	2020	2019
	SR'000	SR'000
Bank balances and cash	**131,171**	171,236
Short-term deposits	**24,921**	26,016
	156,092	197,252

The average interest rate on the short-term deposits during the year was 4% to 6% per annum (2019: 5% to 6.5% per annum).

27 SHARE CAPITAL

The authorised, issued and fully paid share capital of the Company is divided into 60 million shares (2019: same) of SR 10 each (2019: same).

28 MATERIAL PARTIALLY-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	SR'000
Name	**Country of incorporation**	**2020**	2019
Gulf Insulation Group	Kingdom of Saudi Arabia	**49%**	49%
Accumulated balances of material non-controlling interest:			
Gulf Insulation Group		**184,547**	185,320
Income allocated to material non-controlling interest:		**2020**	2019
Gulf Insulation Group		**8,918**	11,772

28 MATERIAL PARTIALLY-OWNED SUBSIDIARIES (continued)

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

Summarised statement of income	2020	2019
Revenues	182,664	256,881
Cost of sales	(120,715)	(167,288)
Other operating expenses	(46,605)	(56,632)
Other income	1,732	1,515
Finance costs	(3,745)	(6,659)
Profit before zakat	13,331	27,817
Zakat and income tax	365	(5,439)
Net income for the year	13,696	22,378
Other comprehensive income for the year	168	362
Total comprehensive income for the year	13,864	22,740
Attributable to non-controlling interests	8,918	11,772
Dividends paid to non-controlling interests	9,800	14,700

Summarised statement of financial position:	2020	2019
Non-current assets	289,268	309,185
Current assets	115,324	148,448
Non-current liabilities	(26,716)	(38,079)
Current liabilities	(98,134)	(133,675)
Total Equity	279,742	285,879
Attributable to:		
Shareholders of the parent company	95,195	100,559
Non-controlling interests	184,547	185,320

Summarised cash flow information for year ended:	2020	2019
Cash flows from operating activities	60,601	49,088
Cash (used in) from investing activities	(3,920)	1,371
Cash used in financing activities	(60,047)	(51,373)
Net decrease in the cash and cash equivalents	(3,366)	(914)

Notes to the Consolidated Financial Statements (continued)
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29 TERM LOANS

	SR'000 2020	SR'000 2019
Saudi Industrial Development Fund ("SIDF")	**181,242**	195,422
	181,242	195,422
Less: SIDF prepaid financial charges	**(929)**	(3,036)
	180,313	192,386
Less: Current portion:		
Saudi Industrial Development Fund ("SIDF")	**(165,803)**	(47,400)
	(165,803)	(47,400)
Non-current portion	**14,510**	144,986

During the year, the Group obtained further conventional loan facilities of SR 2.3 million from SIDF to finance a construction of air condition laboratory test facility and to finance the working capital of its subsidiaries. During the prior years, the Group obtained loan facilities of SR 269 million from SIDF to finance the construction of a plant.

The loans are secured by a mortgage on the Group's property, plant and equipment (note 16). The loans are repayable in unequal instalments. The loans carry financial charges at prevailing market borrowing rates.

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.

During the year, the Group has charged an amortization of SR 2.2 million (2019: SR 2.3 million) in respect of prepaid financing cost.

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

Year	2021	2022	2023	2024	
SR'000	166,042	9,700	3,500	2,000	**181,242**

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 2020 and 31 December 2019 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:

	2020	2019
Discount rate	**2.20%**	3.10%
Expected rate of salary increase	**1.70%**	2.60%

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

	SR'000	SR'000
	2020	2019
Current service cost	**29,074**	31,639
Interest cost on benefit obligation	**7,248**	11,034
Net benefit expense	**36,322**	42,673

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

	SR'000	SR'000
	2020	2019
At the beginning of the year	**234,332**	246,979
Net benefit expense	**36,322**	42,673
Benefits paid	**(55,593)**	(52,253)
Remeasurement gains on employees' defined benefit liabilities	**(1,825)**	(3,067)
At the end of the year	**213,236**	234,332

Employees' defined benefit obligations due to a reasonable possible change in the significant actuarial assumptions, as at 31 December 2020 and 2019 is, as show below:

	SR'000	SR'000
	2020	2019
Discount rate:		
0.5% increase	**198,339**	223,839
0.5% decrease	**218,701**	245,681
Future salary increase:		
0.5% increase	**218,205**	245,187
0.5% decrease	**198,697**	224,188

The sensitivity analysis above have 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 are 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	SR'000
	2020	2019
Within the next 12 months (next annual reporting period)	**14,184**	15,061
Between 2 and 5 years	**70,427**	88,081
Beyond 5 years but less than 10 years	**122,102**	145,744

The average duration of the defined benefit plan obligation at the end of the reporting period is 9.71 years (2019: 9.41 years).

Notes to the Consolidated Financial Statements (continued)
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31 ACCOUNTS PAYABLE

	SR'000	SR'000
	2020	2019
Trade accounts payable	**410,012**	361,168
Retentions payable	**30,401**	25,643
Related parties (note 36)	**16,178**	5,408
	456,591	392,219

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	SR'000
	2020	2019
Accrued expenses	**246,273**	255,215
Accrued contract costs	**127,876**	144,484
Warranties provision	**11,989**	13,354
	386,138	413,053

33 SHORT TERM LOANS

	SR'000	SR'000
	2020	2019
Short term loans - conventional	**45,527**	45,817
Murabaha and tawarruq finances - non conventional	**2,116,023**	2,154,904
Saudi Industrial Development Fund ("SIDF")	**-**	281,107
	2,161,550	2,481,828

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 corporate guarantees and a mortgage on the Group's property, plant and equipment (note 16). These borrowings carry commission charges at prevailing market borrowing rates. The effective commission rate for the year ended 31 December 2020 is 2.5% per annum (2019: 3.52% per annum).

During prior year, the Group obtained loan facilities of SR 283 million from SIDF to finance the working capital of its subsidiaries. During the year, the Group has charged an amortization of SR 1.9 million (2019: SR 2.3 million) in respect of prepaid financing cost. The total prepaid financing costs amounted to SR 4.2 million is fully amortised by the year ended 31 December 2020.

34 CONTRACT LIABILITIES

	SR'000	SR'000
	2020	2019
Advances from customers	**300,313**	257,898
Billings in excess of value of work executed	**102,458**	36,130
	402,771	294,028

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

	SR'000	SR'000
	2020	2019
Progress billings received or receivable	**947,621**	945,147
Less: value of work executed	**(845,163)**	(909,017)
	102,458	36,130

35 ZAKAT AND INCOME TAX

The major components of zakat and income tax expense for the year ended 31 December 2020 and 2019 are:

Consolidated statement of income	SR'000	SR'000
Zakat and current income tax:	**2020**	2019
Zakat charge	**13,453**	17,822
Current income tax charge	**672**	5,501
Deferred taxes	**1,975**	7,005
	16,100	30,328

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

	2020	2019
At the beginning of the year	**44,809**	47,368
Current year provision	**14,125**	23,323
Payments during the year	**(16,298)**	(25,867)
Exchange differences	**(38)**	(15)
At the end of the year	**42,598**	44,809

The zakat charge from discontinued operations is amounted to SR 1,080,000 (2019: SR 1,620,000).

35.1 Zakat

Charge for the year	SR'000	SR'000
The zakat charge consists of:	**2020**	2019
Current year provision	**13,453**	17,822

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 GAZT issued the assessments for the years 2014 to 2018 with an additional liability of SR 229.3 million against which the Group has filed an appeal against the assessment. The management believes that the outcome will be in the favour of the Group, accordingly, no additional provision has been provided. Assessment for year 2019 has 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 2018. The zakat declaration for the year 2019 has been filed with the GAZT. However, the assessment has not yet been raised by the GAZT.

(iii) **Gulf Insulation Group**
Zakat and income tax assessments have been agreed with the GAZT up to 2018. The zakat declaration for the year 2019 has been filed with the GAZT. However, the assessment has not yet been raised by the GAZT.

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35.2 Income tax

Charge for the year	SR'000	SR'000
The income tax charge consists of:	**2020**	2019
Current year provision	**672**	5,501

Income tax provision is provided for in accordance with fiscal authorities in which the Group's subsidiaries operate.

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 2020 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 and 2019 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 2017. The income tax returns for the years ended 31 March 2018, 31 March 2019 and 31 March 2020 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 2018. The income tax returns of the company for the year ended 31 March 2020 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 Engineering India Private Limited - India
Income tax assessments have been agreed with the DIT up to the year ended 31 March 2019. The income tax returns of the company for the years ended 31 March 2019 and 31 March 2020 have been filed with the DIT. However, the final assessments have not yet been raised by the DIT for any of the years.

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. The income tax returns of the company for the year ended 31 December 2019 have been filed with the DIT.

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 2017. The income tax return for the year 2020 has 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	SR'000
Deferred tax asset	**2020**	2019
Accruals and provisions	3,742	6,863
Total deferred tax assets	3,742	6,863

	SR'000	SR'000
Deferred tax liability	**2020**	2019
Accelerated depreciation for tax purposes	(1,032)	(839)
Total deferred tax liability	(1,032)	(839)
Net deferred tax asset	2,710	6,024

Reconciliation of deferred tax assets, net was as follows:

	SR'000	SR'000
	2020	2019
At the beginning of the year	6,024	10,231
Tax expense during the year recognised in consolidated statement of income	(3,286)	(4,599)
Exchange differences	(28)	392
At the end of the year	2,710	6,024

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	SR'000
Deferred tax liability	**2020**	2019
Accelerated depreciation for tax purposes	8,088	9,233
Total deferred tax liability	8,088	9,233

	SR'000	SR'000
Deferred tax asset	**2020**	2019
Employees' defined benefit liabilities	740	684
Allowance for doubtful debts	1,209	1,098
Allowance for slow moving inventories	62	63
Total deferred tax assets	2,011	1,845
Net deferred tax liability	6,077	7,388

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Reconciliation of deferred tax liabilities, net was as follows:

	SR'000 2020	SR'000 2019
At the beginning of the year	**7,388**	4,982
Tax (benefit) expense recognised in consolidated statement of income	**(1,311)**	2,406
At the end of the year	**6,077**	7,388

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 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 accounts 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
Entity with significant influence over the Group			SR'000		
Zamil Group Holding Company	**2020**	**1,426**	**474**	**2,424**	**-**
	2019	1,836	113	3,216	-
Joint venture					
Middle East Air Conditioners Co. Ltd.	**2020**	**22,880**	**-**	**17,689**	**-**
	2019	32,078	-	19,853	-
Associates					
Rabiah Nasser & Zamil Concrete Industries Company Limited	**2020**	**-**	**-**	**19,236**	**-**
	2019	-	-	17,843	-
ZNA Infra Private Limited - India	**2020**	**-**	**-**	**12,657**	**-**
	2019	-	-	54,160	-

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	**2020**	**276**	**3,006**	**-**	**928**
	2019	804	1,099	-	213
Zamil Group Real Estate Company Ltd.	**2020**	**6,119**	**8,406**	**-**	**6,722**
	2019	8,066	3,933	547	-
Zamil Trade and Services Company Ltd.	**2020**	**50**	**2,940**	**-**	**5,011**
	2019	44	599	59	-
Zamil Architectural Holding Company	**2020**	**19**	**291**	**2,769**	**-**
	2019	220	1,013	-	1,444
Others	**2020**	**9,026**	**14,577**	**12,798**	**3,517**
	2019	12,891	23,072	7,028	3,751
Total					
	2020	**39,796**	**29,694**	**67,573**	**16,178**
	2019	55,939	29,829	102,706	5,408

The compensation to the key management personnel during the year ended 31 December 2020 amounted to SR 5.41 million (2019: SR 6.76 million). The directors' remuneration for the year ended 31 December 2020 amounted to SR 1.6 million (2019: 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. During the year, the Group recognised provision for expected credit losses of SR nil (2019: SR 14.5 million) relating to amounts owed by related parties 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 23 and 31).

37 CONTINGENCIES AND COMMITMENTS

Guarantees
The Group's bankers have issued performance and payments guarantees, on behalf of the Group, amounting to SR 989 million (2019: SR 1,080 million).

Capital commitments
The Board of Directors have approved future capital expenditure amounting to SR 21.5 million (2019: SR 30 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 2020 (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	**1,526,454**	**1,643,890**	**196,131**	**2,487**	**3,368,962**	**-**	**3,368,962**
Inter-segment	**11,354**	**210**	**14,806**	**-**	**26,370**	**(26,370)**	**-**
	1,537,808	**1,644,100**	**210,937**	**2,487**	**3,395,332**	**(26,370)**	**3,368,962**
Finance lease income	**14,000**	**-**	**-**	**-**	**14,000**	**-**	**14,000**
Total revenue	**1,551,808**	**1,644,100**	**210,937**	**2,487**	**3,409,332**	**(26,370)**	**3,382,962**
Timing of revenue recognition:							
At a point in time	1,110,367	1,200,148	196,131	2,487	2,509,133	-	2,509,133
Over time	416,087	443,742	-	-	859,829	-	859,829
	1,526,454	1,643,890	196,131	2,487	3,368,962	-	3,368,962
Gross profit (loss)	**159,575**	**233,446**	**69,419**	**(2,487)**	**459,953**	**3,159**	**463,112**
Operating (loss) income	**(49,469)**	**(19,301)**	**17,562**	**(12,705)**	**(63,913)**	**3,159**	**(60,754)**

For the year ended 31 December 2020(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							**24,836**
Other income, net							**38,558**
Finance costs							**(77,782)**
Impairment loss on non-current assets							**(43,182)**
Loss before zakat and income tax and discontinued operations							**(118,324)**
Zakat and income tax							**(15,020)**
Discontinued operations							**(16,494)**
Net loss for the year							**(149,838)**

For the year ended 31 December 2019 (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	1,720,834	2,025,184	271,257	6,331	4,023,606	-	4,023,606
Inter-segment	18,049	234	17,441	1,361	37,085	(37,085)	-
	1,738,883	2,025,418	288,698	7,692	4,060,691	(37,085)	4,023,606
Finance lease income	14,977	-	-	-	14,977	-	14,977
Total revenue	1,753,860	2,025,418	288,698	7,692	4,075,668	(37,085)	4,038,583
Timing of revenue recognition:							
At a point in time	1,214,053	1,433,523	271,257	6,331	2,925,164	-	2,925,164
Over time	506,781	591,661	-	-	1,098,442	-	1,098,442
	1,720,834	2,025,184	271,257	6,331	4,023,606	-	4,023,606
Gross profit (loss)	179,774	311,246	93,096	(11,400)	572,716	14,130	586,846
Operating (loss) income	(63,464)	22,678	29,644	(30,800)	(41,942)	14,677	(27,265)
Unallocated income (expenses):							
Share in results of associates and a joint venture							9,195
Other income, net							21,540
Finance costs							(117,195)
Reversal of impairment losses on non-current assets							34,584
Loss before zakat and income tax and discontinued operations							(79,141)
Zakat and income tax							(28,708)
Discontinued operations							(21,861)
Net loss for the year							(129,710)

Notes to the Consolidated Financial Statements (continued)

At 31 December 2020

At 31 December 2020 (SR '000)

Business segments	Air conditioner industry	Steel industry	Insulation industry	Corporate and others	Total segments	Adjustments and eliminations	Consolidated
Total assets	**2,522,873**	**2,072,108**	**444,979**	**420,330**	**5,460,290**	**(184,870)**	**5,275,420**
Total liabilities	**1,831,464**	**1,288,637**	**146,433**	**908,520**	**4,175,054**	**(234,542)**	**3,940,512**
Others:							
Investment in associates and a joint venture	**10,774**	**-**	**-**	**83,964**	**94,738**	**-**	**94,738**
Capital expenditure	**11,741**	**20,074**	**4,475**	**3,922**	**40,212**	**-**	**40,212**

At 31 December 2019 (SR '000)

Business segments	Air conditioner industry	Steel industry	Insulation industry	Corporate and others	Total segments	Adjustments and eliminations	Consolidated
Total assets	2,516,615	2,332,759	504,801	563,371	5,917,546	(274,148)	5,643,398
Total liabilities	1,759,422	1,476,866	201,812	1,031,271	4,469,371	(305,808)	4,163,563
Others:							
Investment in associates and a joint venture	11,079	-	-	68,793	79,872	-	79,872
Capital expenditure	7,212	12,362	8,807	295	28,676	-	28,676

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

Geographic information

Revenue from external customers:	2020	2019
Saudi Arabia	**2,676,216**	3,103,102
Other Asian countries	**454,167**	581,160
Africa	**252,579**	354,321
	3,382,962	4,038,583

Non-current operating assets:	2020	2019
Saudi Arabia	**732,147**	802,770
Other Asian countries	**161,662**	203,518
Africa	**70,933**	73,606
	964,742	1,079,894

Non-current assets for this purpose consist of property, plant and equipment, right-of-use 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 2020 and 2019.

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 2020 and 2019, 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 Pound, Indian Rupees, Bahraini Dinar, 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, Indian Rupees, Bahraini Dinar and Egyptian Pound. The Group manages currency risk exposure to Euros, Japanese Yen, Indian Rupees, Bahraini Dinar and Egyptian Pound by continuously monitoring the currency fluctuations. At 31 December 2020 and 2019, 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 2020

	Change in Egyptian Pound rate	Effect on other components in equity SR '000
31 December 2020	**+3%**	**1,133**
	-3%	**(1,133)**
31 December 2019	+3%	1,086
	-3%	(1,086)

	Change in Indian Rupee rate	Effect on other components in equity SR '000
31 December 2020	**+2%**	**1,768**
	-2%	**(1,768)**
31 December 2019	+2%	1,953
	-2%	(1,953)

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 53,650 thousands (2019: SR 39,140 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:

	2020 SR '000	2019 SR '000
Bank balances	**128,194**	167,381
Short-term deposits	**24,921**	26,016
Accounts receivable	**1,718,629**	1,895,662
Contract assets	**596,653**	494,756
Net investments in finance lease	**317,105**	340,682
Other receivables	**80,997**	87,652
	2,866,499	3,012,149

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 2020, the Group has obtained letter of credits as collateral over its receivables amounting to SR 109.2 million (2019: 145.3 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 on the Group's accounts receivable, net investment in finance lease and contract assets:

Accounts receivable:	**2020** SR '000	2019 SR '000
Current	**500,064**	563,495
Less than 30 days	**153,913**	115,783
31 - 60 days	**64,831**	100,271
61 - 90 days	**55,477**	96,280
91 - 180 days	**88,396**	162,108
181-360 days	**193,219**	172,090
More than 360 days	**611,984**	555,268
	1,667,884	1,765,295
Receivables from related parties	**67,573**	102,706
Retention receivable	**187,631**	207,664
Net investment in finance lease	**317,105**	340,682
Contract assets	**606,292**	501,695
	2,846,485	2,918,042

Notes to the Consolidated Financial Statements (continued)

At 31 December 2020

Based on a provision matrix, the Group's expected credit losses at 31 December 2020 against its accounts receivable and contract assets exposed to credit risk amounted to SR 313.7 million and SR 9.6 million (2019: R 325.3 million and SR 6.9 million) respectively. Accordingly, the Group recognised an amount of SR 46.5 million (2019: SR 22.3 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 11.3 million (2019: 145.3 million) attributable to discontinued operations. The Group recognised an amount of SR 857 thousands (2019: 14.5 million) as provision for expected credit losses as part of its net loss on discontinued operations in the consolidated statement of income.

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 2020			
			SR '000			
Accounts payable	**16,178**	**440,413**	**-**	**-**	**-**	**456,591**
Lease liabilities	**-**	**20,685**	**10,865**	**39,656**	**48,330**	**119,536**
Other financial liabilities	**-**	**374,149**	**-**	**-**	**-**	**374,149**
Interest bearing loans and borrowings	**8,000**	**2,182,550**	**137,042**	**15,200**	**-**	**2,342,792**
	24,178	**3,017,797**	**147,907**	**54,856**	**48,330**	**3,293,068**

	on demand	< 6 months	6 to 12 months	1 to 5 years	> 5 years	Total
			As at 31 December 2019			
			SR '000			
Accounts payable	5,408	386,811	-	-	-	392,219
Lease liabilities	-	10,430	14,289	56,684	55,328	136,731
Other financial liabilities	-	399,699	-	-	-	399,699
Interest bearing loans and borrowings	28,542	2,200,721	302,700	147,180	-	2,679,143
	33,950	2,997,661	316,989	203,864	55,328	3,607,792

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 2020 and the year ended 31 December 2019. Capital comprises share capital, statutory reserve, retained earnings and other reserves and is measured at SR 1,334,908 thousands as at 31 December 2020 (2019: SR 1,278,767 thousands).

41 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.

Notes to the Consolidated Financial Statements (continued)
At 31 December 2020

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:

	Carrying value	Fair value	Fair value measurement using Level 1	Level 2	Level 3
31 December 2020			SR '000		
Equity instruments at fair value through other comprehensive income					
At fair value	**53,650**	**53,650**	**-**	**-**	**53,650**
	53,650	**53,650**	**-**	**-**	**53,650**

	Carrying value	Fair value	Fair value measurement using Level 1	Level 2	Level 3
31 December 2019			SR '000		
Equity instruments at fair value through other comprehensive income					
At fair value	39,140	39,140	-	-	39,140
	39,140	39,140	-	-	39,140

The fair value of the Group's investments in unquoted equity shares at 31 December 2020 and 2019 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 2020 and 2019. 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.

42 COMPARATIVE FIGURES

Certain of the prior year numbers have been reclassified to conform with the presentation in the current period. The reclassification is mainly related to the discontinued operations as mentioned in the note 14.

43 SUBSEQUENT EVENTS

In the opinion of management, there have been no further significant subsequent events since the year ended 31 December 2020 that would have a material impact on the financial position of the Group as reflected in these consolidated financial statements.