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“The future belongs to those who believe in the  
beauty of their dreams.”

- Eleanor Roosevelt

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2011

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**Revenues** in 2011 were SAR4,727.7 million (USD1,260.7 million) as compared to SAR4,018.4 million (USD1,071.6 million) in 2010, a year-on-year growth of 17.7%.

**Gross Profits** in 2011 were SAR1,051.2 million (USD280.3 million) as compared to SAR995.4 million (USD265.5 million) in 2010, an increase of 5.6%.

**Operating Profits** for the twelve months were SAR258.3 million (USD68.9 million) compared with SAR287.4 million (USD76.6 million) over the same period in 2010, a decline of 10.1%.

**Net Profit after Zakat** in 2011 amounted to SAR154.2 million (USD41.1 million) compared to SAR211.1 million (USD56.3 million) in 2010, a year-on-year decline of 27%.

**Earnings per Share (from net income)** was SAR2.57 (USD0.69) in 2011.

**Shareholders' Equity** rose year-on-year by 13.2% to SAR1,582.8 million (USD422.1 million).

# BOARD OF DIRECTORS

- Dr. Abdulrahman A. Al Zamil, Chairman
- H.E. Dr. Soliman A. Al Solaim, Member
- Khaled S. Olayan, Member
- Abdullah S. Jum'ah, Member
- Ahmed A. Al Zamil, Member
- Abdulrahman F. Al-Suwailem, Member
- Khalid A. Al Zamil, Member
- Adib A. Al Zamil, Member
- Abdulla M. Al Zamil, Chief Executive Officer



# MISSION STATEMENT AND CORE VALUES

## Our Vision

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

## Our Mission

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

## Our Core Values

**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.

**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 & 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 LETTER



**Dr. Abdulrahman Abdullah Al Zamil**  
*Chairman of the Board*

## Dear Shareholder,

As Chairman of the Board of Directors, I am pleased to present to you the Annual Report of Zamil Industrial Investment Company (Zamil Industrial) for the financial year ended 31st December 2011.

In spite of the challenging global economic environment that has adversely impacted our portfolio of businesses, your company performed well in 2011. On the positive side, the government of Saudi Arabia announced a record budget for the year with considerable expenditure on infrastructure, including construction of schools, hospitals and universities. Other emerging markets such as India and South East Asia remained fairly buoyant. On the other hand, the global economy continued to face difficulties, raw material costs increased and remained volatile and the competitive landscape became more intense, adversely impacting margins. The social and political environments in many of our target markets in the Middle East and North Africa had a negative impact on business sentiment and investment. Despite this tough business environment, it is pleasing to report that your company generated gross revenues of SAR4,727.7 million (US\$1,260.7 million) during 2011 which is 17.7% higher than the figure of SAR4,018 million (US\$1,072 million) the previous year.

Net profit for the year, after payment of Zakat, was SAR154.2 million (US\$41.1 million) as compared to SAR211.1 million (US\$56.3 million) in 2010. Earnings per share amounted to SAR2.57 (US\$0.69) compared to SR 3.52 (US\$0.94) in 2010. Shareholders' Equity at 31st December 2011 had risen 13.2% over the previous year end to SAR1,582.8 million (US\$422.1 million). The decline in net profit was largely due to lower gross margins attributable to ongoing competition and pressure on selling prices in the steel sector. However, the air conditioning and insulation sectors sustained robust growth.

I am pleased to report that the Board of Directors is recommending the distribution of a final cash dividend for the year of SAR0.75 (US\$0.20) a share. This together with the interim dividend of SAR0.75 (US\$0.20) paid on 21st August 2011 makes a total for the year of SAR1.50 (US\$0.40) or SAR 90 million, which amounts to 15% of the company's paid-up capital. Shareholders' approval of the final dividend will be sought at the Annual General Meeting in 2012.

In recent years, your company has striven consistently to diversify its portfolio of products, services and markets both in Saudi Arabia and overseas. New joint ventures have been signed with international players, business has been diversified into the renewable energy sector and expanded into new customer segments and markets in countries as widespread as Australia, New Zealand, South Africa, Algeria, Morocco, Ethiopia, Zambia, Uganda and Congo. Your company has taken a number of steps toward horizontal and vertical expansion in order to position the company for sustained growth in the years to come.



At the end of 2010, we reported our decision to convert entities operating as branches within the Steel and HVAC sector into limited liability companies. The legal formalities for this realignment of our businesses were completed during 2011. Furthermore, our Precast business was fully consolidated with Zamil Industrial early in the year and our insulation businesses were merged with Gulf Insulation Group, under the management of Zamil Industrial, and now offer a complete range of insulation products.

Our HVAC sector continues to develop and expand its portfolio of products and solutions while maintaining its status as the largest supplier of air conditioning products and services in the Middle East.

In the steel sector, new partnerships have been forged to cater to high-end structural steel projects. Moving forward, we expect all the core as well as international operations to perform better, given our rich legacy and expertise in executing large scale and complex projects over the years.

The insulation sector saw growth, especially in exports, across most product areas following the merger with Gulf Insulation Group. Your company diversified into the concrete sector few years ago and in 2011 it registered a turnaround performance. As our business grows, social responsibility remains a vital element of our management philosophy. It is thus the case that we seek always to employ local nationals in our businesses. We pay close attention to all our staff and their families, to the communities in which we work, to health and safety in the workplace and to protection of the environment wherever we operate.

As a global company, we seek always to operate according to the highest ethical standards while ensuring transparency and full disclosure of our activities across all our businesses. Our Internal Audit team constantly ensures that we attain the highest corporate governance standards.

Looking ahead, your company remains optimistic that many of the economic, social and political events that have had a negative impact on business activities in 2011 are behind us and are receding in intensity. In Saudi Arabia, which is our core market, the government has again announced a record budget for the year with considerable expenditure on construction and infrastructure. Your company is very well positioned to capitalize on the opportunities available. Elsewhere, your company is well-positioned geographically with manufacturing facilities located in countries from which we are able to supply our customers across the globe.

In conclusion, I would like to take this opportunity to thank all our stakeholders for their enduring support and especially your Board of Directors for their wisdom and encouragement, our shareholders for their loyalty, our management and staff for their dedication and hard work, our customers for their confidence in our abilities and our suppliers for their continued support. Together we can and will make further progress, so ensuring the future success and profitability of your company.

**Dr. Abdulrahman Abdullah Al Zamil**  
*Chairman of the Board*



# CHIEF EXECUTIVE OFFICER'S LETTER



**Abdulla Mohammed Al Zamil**  
*Chief Executive Officer*

## Dear Shareholders and Colleagues,

During 2011, our company reported higher revenue growth across sectors, expanded the products and services portfolio and repositioned its business models for a profitable growth. Results achieved are indeed commendable given the challenges faced by economies across the globe and by the social unrest and political turmoil in the Middle East and North Africa (MENA) region. The level of competition in our core markets increased due to the global slowdown and relative attractiveness of our markets, resulting in margin squeeze across all sectors.

Global Economic performance in 2011 was very mixed. We had earlier estimated that the after effects of the 2008 global crisis would recede by the middle of 2010, and that the world would once again be on a path to growth. After initial signs of recovery, volatility returned to capital markets, commodity prices and global currencies due to Europe's sovereign debt crisis, and business sentiment was again affected across the globe. The problems persisted as the year came to an end. Looking ahead, the US economy can be expected to sustain its slow recovery in 2012, but Europe's debt situation, if not resolved with urgency, could seriously undermine growth in the world economy.

The emerging economies, especially those in the BRIC (Brazil, Russia, India and China) countries, look stronger, but the European debt challenge could slow down the momentum even in the developing countries.

For our region, 2011 was better than a year earlier. The Saudi economy grew and posted surpluses in both its current and fiscal accounts, while private sector investments started to pick up. Bank lending has recovered with high government spending continuing to be the engine of the non-oil economy.

The construction sector will be the main beneficiary of government spending and will be the fastest growing sector of the economy in 2012. The demand for our products and services in Saudi Arabia will likely be healthy, although there will be, in all probability, an increase in competitive intensity as the Kingdom and the wider Middle East are among the most attractive regions in the global economy today.

As to commodity prices, they are expected to remain stable or more likely to hover around current levels while the US Dollar is expected to weaken against most of the global currencies. In both the pre- and post-crisis eras, Zamil Industrial's HVAC sector has performed consistently over a six-year period, thanks to our focus on business fundamentals, while continuously repositioning our business model to ensure attention to the right profit zones, excellence in execution and the building of a performance-based culture. I am confident that together we will make 2012 another successful year for our company.

Overall, however, our diverse but cohesive group of businesses has succeeded in generating a level of turnover that is 17.7% higher than a year earlier at SAR4,727.7 million (US\$1,260.7 million). Such growth is very much due to the intensive efforts of every member of our staff, from newly inducted recruit to the most senior manager. Such commitment is greatly appreciated.

Of particular note this year has been the repositioning and realignment of some of our businesses, the most evident being the consolidation of Ranco Zamil



Concrete Industries Co. Ltd. into Zamil Industrial, following which the business has been transformed and has achieved growth in production and sales. The merger of all our insulation businesses with Gulf Insulation Group, under Zamil Industrial management, has enabled us to supply a comprehensive range of insulation products for the building, construction, HVAC and process applications.

In 2011, in addition to offering its comprehensive existing portfolio of air conditioners and heat exchangers, HVAC introduced new air-cooled chillers, precision air conditioners and water-cooled centrifugal chillers and a new range of anti-corrosion coatings. In 2011, we designed and manufactured largest ever air handling unit, demonstrating our innovative engineering capabilities.

Overall, our HVAC business had another good year despite the challenging environment in many of the markets that it serves. Many major projects were awarded and successfully completed during the year, including one of the first district cooling plants in Saudi Arabia for a major industrial company. Prime factors in our success in the HVAC sector over the years have been its engineering and execution capabilities, along with a robust business model.

As part of our policy of diversification and in order to broaden our capabilities and our areas of opportunity in the steel sector, a strategic alliance was forged with a major British company to provide enhanced structural steelwork design, fabrication and erection capabilities in high-engineering content projects such as stadiums, airports and transportation infrastructure. A memorandum of agreement has been signed with a Chinese company to fabricate and execute niche projects. In support of our export activities, an umbrella strategic partnership with an Ethiopian governmental corporation was signed for pre-engineered buildings and transmission towers.

As construction activity continues to grow rapidly, especially in Saudi Arabia, our insulation and concrete industries are positioned to derive maximum benefit.

While our primary base is in Saudi Arabia, our business operates throughout the world with manufacturing facilities in Egypt, India, Vietnam, Italy and the United Arab Emirates (Ras Al Khaimah). Success in overseas markets is best exemplified by the growth in export sales of 27.5% year-on-year to SAR1,304.4 million (US\$347.8 million), a figure that equates to 27.5% of gross revenues.

As a leading industrial group of companies, we seek always to be a responsible corporate citizen. Thus, we ensure the health and safety of all our employees in their workplaces; employ local nationals, both males and females and the physically challenged in our manufacturing facilities; ensure protection of the environment wherever we operate; and provide support wherever possible to local communities. An initiative in 2011 that deserves a special mention is our role as a co-founder and financial supporter of the Saudi Food Bank, to address hunger among the less-fortunate in Saudi Arabia.

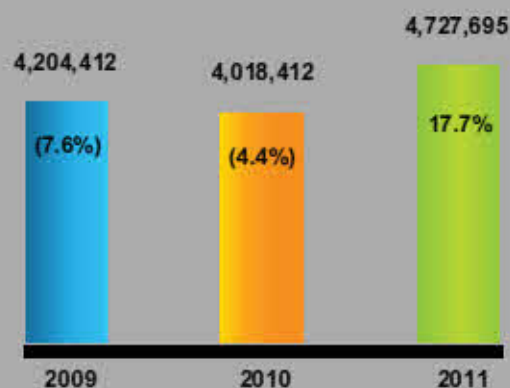
In pursuing our well-defined strategy of broadening our portfolios to achieve sustainable growth, we are working towards creating a solid and diverse corporate system on the foundation that we have built over the years. I am optimistic and confident about the future we are creating to enhance value to all our stakeholders.

**Abdulla Mohammed Al Zamil**  
*Chief Executive Officer*

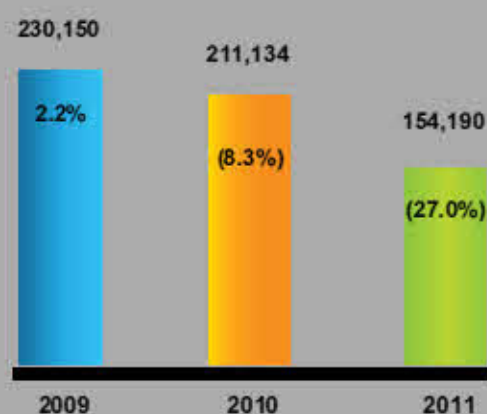


# FINANCIAL HIGHLIGHTS

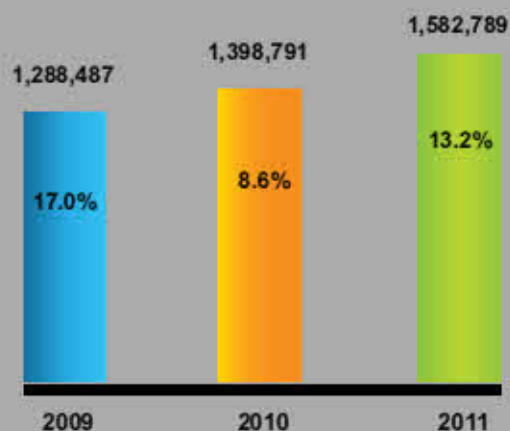
Revenues in 2011 grew by 17.7 % to SAR 4,727.7 million



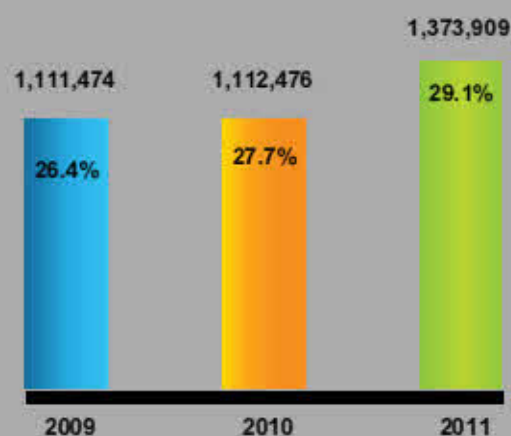
Revenues  
(SAR 000's) % Increase (Decrease)



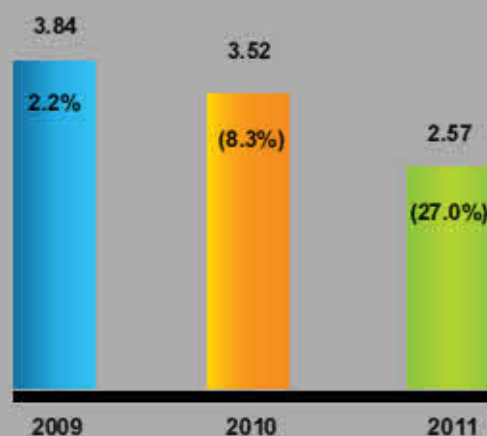
Net Profit  
(SAR 000's) % Increase (Decrease)



Shareholder's Equity  
(SAR 000's) % Increase

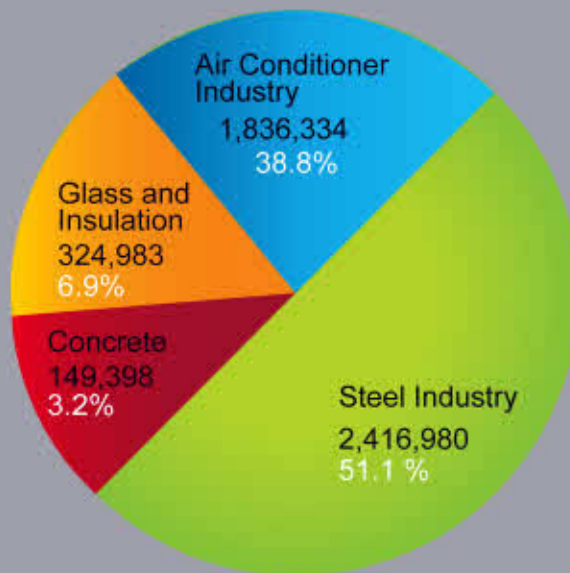


Export Sales  
(SAR 000's) % of Revenues

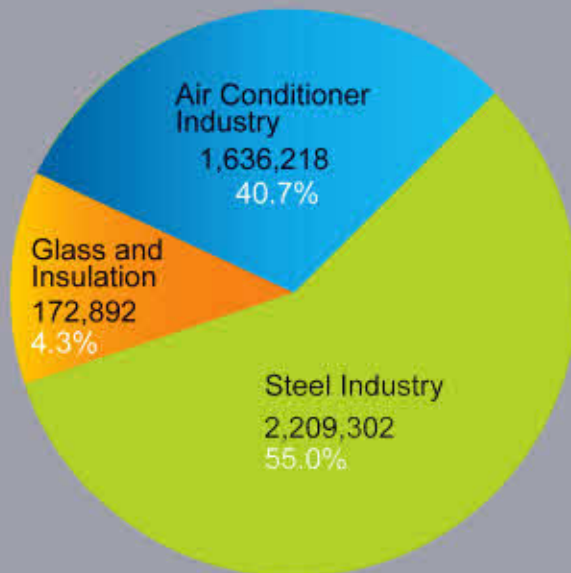


Earnings per Share  
% Increase (Decrease)

## Analysis of Sales by Activities

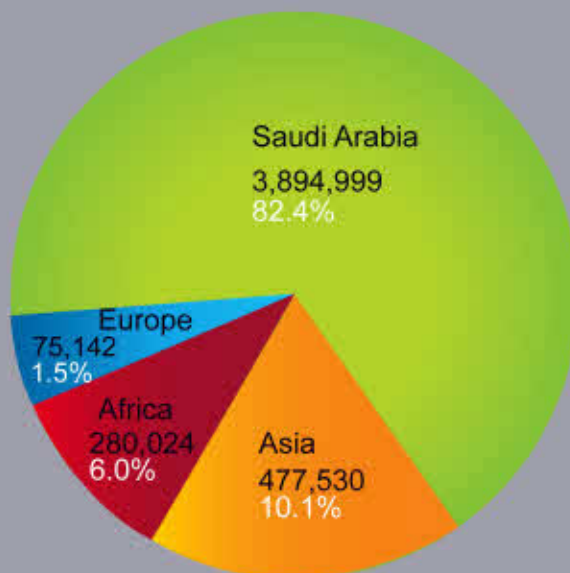


**Sales 2011**  
(SAR 000's)

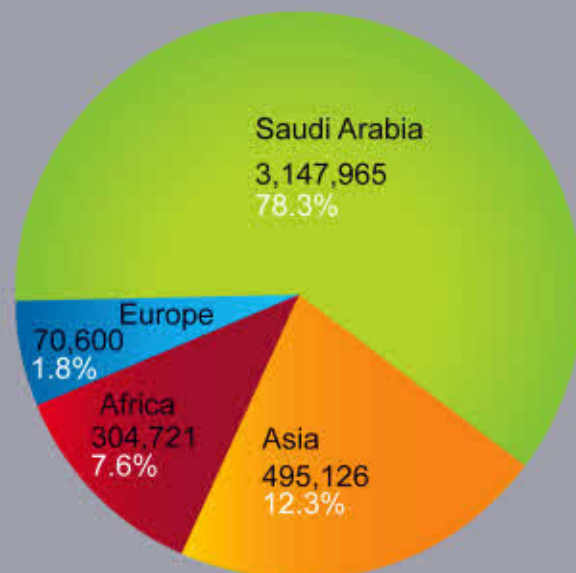


**Sales 2010**  
(SAR 000's)

## Analysis of Sales by Geographical Location



**Sales 2011**  
(SAR 000's)



**Sales 2010**  
(SAR 000's)





# Business Operations Review

# Steel Sector



Zamil Industrial is the premier supplier of structural steel products and process equipment, transmission and telecommunications towers, open web steel joists, and roof and floor decks and a leading provider of steel-related engineering services in the MENA, Indian sub-continent and Asia Pacific regions. Together they provide the foundations for Zamil Industrial's total building solutions methodology.

Although temporarily affected by the slowdown in economic activity across the region early in the year, Zamil Industrial's initiative and desire for diversification in both its manufacturing base and in the markets it serves have ensured its ability to maintain its leadership role.

Diversification of its portfolio and markets is a major facet of Zamil Industrial's current strategy. Integral to this approach, a strategic alliance agreement was signed between Zamil Industrial and Severfield-Rowen Plc, a leading United Kingdom-based group in the field of specialized steel structures, to provide enhanced structural steelwork design, fabrication and erection capabilities to clients across the MENA region. The focus of the collaboration is high engineering content projects such as stadiums, high-rise buildings, airports, power plants and transport infrastructure. A further initiative has been the signing of a memorandum of understanding in relation to pre-engineered buildings with Zhejiang Dadi Steel Structure Co. Ltd. of China for special project fabrication.

The year has also seen Zamil Industrial take the initiative, encouraged by the government of Saudi Arabia, to enter into a five-year umbrella strategic partnership with Metals and Engineering Corporation (METEC), which is wholly owned by the Federal Democratic Republic of Ethiopia, for the supply of Zamil Industrial products for ambitious expansion and development projects in that country. The total value of the agreement is US\$300 million with Zamil Industrial providing the related project financing. The first elements to be shipped were pre-engineered buildings for six sugar factories, with orders subsequently received for the supply of transmission towers.

Zamil Industrial's activities in the steel sector are global in nature with operations in countries as diverse as Saudi Arabia, Egypt, India, Vietnam and, more recently, the UAE (Ras Al Khaimah).

The supply of more than 20,000MT of galvanized steel towers to New Zealand and Australia was completed during the year and in the light of a paucity of business in this sector in Saudi Arabia considerable efforts were exerted to broaden the client base and generate additional business by seeking out other overseas markets. These proved most rewarding as orders were won or commissioned for clients in Morocco, South Africa and Ethiopia in addition to further orders from New Zealand. In support of Zamil Industrial's activities in this sector the new, environmentally friendly, galvanizing plant became fully operational to its optimal capacity following accreditation to ISO9001:2008 and CFE (Mexico).

In Saudi Arabia, Zamil Industrial has been successful in generating substantial projects across most sectors of its business. Structural steel projects totaling in excess of 65,000MT were won or commissioned, including two, Shoaiba Power Plant Stage 3 and Karan Gas Facilities, in excess of 10,000MT. Other projects which deserve special mention were those for the Saudi Aramco Mobil Refinery Company Clean Fuels



Project in Yanbu Al-Sinaiyah, the South Steel Plant in Jazan and the Maaden Aluminum Rolling Mill in Ras AlKhair, all of which are in Saudi Arabia; the Shah Gas Development Project in Sharjah, UAE; and two other export projects in Abu Dhabi and Algeria.

Eighteen projects for pre-engineered buildings of more than 1,000MT have been won or commissioned by Zamil Industrial in 2011. In addition to the order for Ethiopia, major orders in excess of 3,500MT were received from Almarai Hadco in Hail, Global Pipe Company in Jubail and the Saudi Arabian National Guard (SANG) Aviation Project at Khashm Alaan.

Elsewhere, Zamil Industrial won a number of major building components projects in Saudi Arabia including Al Jomaih Bottling Plants in Riyadh and Qassim; Saudi Acrylic Polymer Company in Jubail; the Eastern Coast Poultry Farm; HATCO in Hail; PP10 Extension Project in Riyadh; Saudi Railroad in AlKharj; and Jareer in Riyadh.

Zamil Industrial also shipped a record 13,396 tons of process equipment during the year, a figure more than double that of a year earlier. Included amongst the projects won or commissioned were five large storage bullets, 87 meters long and 9.1 meters in diameter for Saudi Aramco Total Refining and Petrochemical Company (SATORP) in Jubail. Further substantial tonnages of process equipment were supplied to SK Engineering for the Wasit Project, Fluor for Maaden and Samsung for the Shaybah NGL Project.

Zamil Industrial has also enjoyed a most successful year in the shutdown and maintenance sector in Saudi Arabia, where it leads the way as a reliable heat exchanger maintenance contractor. Zamil Industrial's status in this sector was confirmed during the year when Saudi Aramco evidenced confidence in the company's capabilities by awarding the company the Ras Tanura Refinery "Mega Turnaround" Project for implementation during 2012. Other activities in the sector included the overhauling of heat exchangers for Jubail United Petrochemical Company (JUPC), the construction of field assembled storage tanks, the replacement of tank roof plates, repair work on flare tips and the erection of storage tanks. Looking to the future, Zamil Industrial has negotiated a tie-up with an Italian company for the repair of flare tips for Saudi Aramco and SABIC while bidding jointly with Yokogawa for Engineering & Installation (E & I) contracts in Jubail.

Operations in Egypt were impacted, albeit only to a limited extent, by the social and political events there and elsewhere in North Africa over the course of the year. Nevertheless, 58 projects were won or commissioned, many of which were in Egypt but with others in Zambia, Uganda, the Democratic Republic of Congo and Morocco. The latter order clearly evidences Zamil Industrial's deeply rooted determination to succeed in the markets it seeks to serve, as it has taken eight years to obtain the company's first business sourced from Egypt.

In India, Zamil Industrial enjoyed solid success during the year. In the pre-engineered sector, 14 projects were won of which two, for Thermax Babcock & Wilcox Energy Solutions Private Ltd. and Shimzu Corporation, were each for buildings in excess of 2,000MT.

Through Zamil Industrial's operations in Vietnam two new branches have been formed, one in Singapore and the other in Malaysia, while the initiative was taken to expand the range of products to be made available by constructing facilities for the manufacture of new pipe structures, trusses, fabricated roof members and special architectural fabricated pipes for long span roofs. Nineteen pre-engineered buildings and three structural steel projects were won by factories in Vietnam in 2011, most of which were for the domestic market with the others exported to Singapore, Indonesia, Myanmar, the Philippines and Guam.

The new manufacturing facility in Ras Al Khaimah produces a full range of composite and non-composite roof decks. The factory provides additional flexibility and increased production capacity to other facilities in the Group as and when required.





# HVAC Sector



Zamil Industrial is the largest supplier of air conditioning systems for residential, commercial and industrial application in the Middle East from its manufacturing facilities in Saudi Arabia. Two additional plants in Italy and India cater to their respective European and Indian markets. Zamil Industrial also manufactures, assembles and maintains air-cooled heat exchangers for use by utilities and in chemical, petroleum, oil, gas and industrial facilities in Saudi Arabia.

The company's manufacturing facilities in Saudi Arabia sustained the levels of production attained in previous years to achieve overall growth in both revenues and export sales during the year.

Further growth is anticipated in the coming year as Saudi Arabia remains one of the most attractive countries in the global economy, especially on the back of yet another record national budget for the year that foresees increased expenditure on construction and infrastructural projects across the Kingdom.

A number of major projects were completed or commissioned during the year. Having been awarded the prestigious Saudi Iron and Steel Company (Hadeed) District Cooling Project in Jubail Industrial City in 2007, Zamil Industrial completed the construction early in 2011, ready for commissioning by the end of the first quarter of the year. Zamil Industrial will operate the plant for 20 years. Implementation of this project, which is one of the first of its kind, strengthens the trust placed in the company by its customers. Once in operation, this environmentally friendly plant is expected to reduce considerably both power consumption and the emission of greenhouse gases.

Zamil Industrial was awarded a number of major HVAC projects in 2011, one of which was a SAR142.25 million project for Doosan Heavy Industries and Construction Company to provide EPC services and mechanical works for the HVAC systems and equipment at Saudi Electricity Company's Rabigh Power Plant Stage 2. Another major project won was a SAR33 million contract for the Royal Commission for Jubail and Yanbu for the renovation of the air conditioning systems at public facilities in Jubail Industrial City.

Zamil Industrial won a substantial number of other major projects during the year. These included school projects in Riyadh, a housing project at King Abdulaziz Base in Dhahran, a Saudi Aramco project in Dammam and building projects in Makkah and Taif. A large order was also received from Iran. In the Unitary & Applied sector, 31 large projects were won, including those from the UAE, Bahrain and Kuwait, the biggest being for the KAPSARC R&C Complex Project (King Abdullah Petroleum Studies and Research Center) and also for AlMarai Company, both in Riyadh, and the King Faisal Medical Tower in Makkah. Furthermore, Zamil Industrial's in-house air conditioning equipment service and maintenance provider won seventeen projects, mainly for supply and installation works and EPC or retrofit projects.

Innovation has been a major factor in Zamil Industrial's success over many years and prevailed again in 2011 as a number of new air conditioning products were introduced. The following products were launched during the year: ResisTec environmentally-friendly, anti-corrosion coatings, AquaChill chillers, as an addition to the existing line of air-cooled water chillers, "Precision Air Conditioners" offering comprehensive environmental control systems for temperature and humidity



and Turbocor water-cooled centrifugal chillers. Finally, Zamil Industrial designed and manufactured its largest ever air handling unit (AHU) measuring 21.1 meters in length for supply to King Abdulaziz University in Jeddah.

Dedicated to ensuring all operations are pursued to the highest international standards, all room air conditioners and wall-mounted mini-split units have been certified to European Safety Standards, thereby opening up that market. All the company's window air conditioners have attained the now mandatory approval from the Emirates Authority for Standardization and Metrology that permits their import and sale into the United Arab Emirates. ISO9001:2008 certification was renewed while Zamil Industrial's in-house laboratory successfully renewed its SASO certification to ISO17025.



## Glass Sector



2011 has been a year of intense competition in the Middle East glass sector, partly because of the arrival of many new participants in Zamil Industrial's target markets, a situation that has been exacerbated by the social and political climates in some prime destination countries resulting in a slowdown in construction activity.

Nevertheless, Zamil Industrial continued to derive business in the market for architectural glass, including tempered, heat strengthened, laminated, insulating, high performance heat mirror and fire resistant glass. Major projects undertaken included those for the Royal Commission for Jubail and Yanbu, King Fahd University, the Al-Khobar Gate Tower and Ramzi Projects in Saudi Arabia, and the Kuwait Police College in Kuwait.

Desirous of maintaining the standards to which it aspires, ISO 9000 certification was successfully renewed during the year.





# Insulation Sector



With an increased focus on energy conservation in the construction sector and Zamil Industrial's desire to diversify to provide total building solutions, the company has given considerable attention to developing its insulation sector over the past five years. This culminated in 2011 with the merger of select insulation companies within Zamil Industrial with Gulf Insulation Group (GIG). The net result is that Zamil Industrial now produces a comprehensive suite of insulation products comprising fiberglass, rubber insulation products, Rockwool and pre-insulated pipes. The total cash investment of Zamil Industrial in the newly merged company, of which Zamil Industrial is the managing partner, is SAR150 million, while the enterprise value of the new company will be SAR830 million, excluding the stake of the foreign partners in some of the merged companies.

During the year the insulation sector has seen a 10% rise in its level of production, in part due to automation in the rigid pipe and Rockwool factories, while overall export sales, especially to the wider GCC, grew by 16%.

Rubber insulation products proved to be especially in demand in 2011, with production more than doubling while export sales increased significantly, to the extent that by the end of the year some 80% of total sales were exports. Major clients during the year have included the new Presidential Palace in Abu Dhabi, the airport in Dubai, and Rafal Tower and King Abdullah Financial District in Riyadh. To ensure maintenance of international standards, ISO14001:2004 certification was attained.

As evidence of the quality of the company's industrial facilities, a delegation from Saudi Electricity Company toured the new glass wool facility in Dammam and reviewed the state-of-the-art power generation design. They immensely appreciated the technology.

Looking to the future, construction of a second fiberglass factory was well under way on 31 December 2011, on track for expected commissioning in January 2013. The production capacity of the new factory will be three times that of the existing plant.





# Concrete Sector



In support of Zamil Industrial's clearly defined diversification strategy, the company expanded into the concrete sector some years ago. Today, Zamil Industrial designs, manufactures and erects Precast concrete buildings with a wide range of uses, and also produces wall panels, columns, plinth foundations, pre-stressed beams, pre-stressed, flat and hollow core slabs, boundary walls and supplies for use in road construction. For those situations where heavy duty but lightweight building units offering thermal and sound insulation are required, Zamil Industrial produces autoclaved aerated concrete at its plant in Jubail.

In 2011, Zamil Industrial produced in excess of 62,384 cubic meters of Precast concrete. This was achieved following implementation of a transformation road map that followed a comprehensive review of the business, addressed a series of manpower and structural issues and installed a new panel manufacturing plant and ten new panel casting tables. The plan called for the introduction of an exclusive steel fabrication area, and the commissioning of new facilities including a batching plant, a pallet circulation factory and two new cranes. Also, older equipment was refurbished and reintroduced to the production line.

The year has seen more than 50 orders received for Precast panels from clients across the Kingdom, the largest of which was for supply to Saudi Oger Ltd. for 900 villas for the Saudi Arabian National Guard (SANG). Other substantial projects included Fad Company for Trading & Contracting for a parking facility at King Faisal Hospital in Riyadh; Precast works for Samsung Engineering for the Shaybah Natural Gas Liquids (NGL) project; a water transmission project at Ras AlZour; and works at Qassim and Najran Universities.

Looking to the future, considerable funds have been budgeted by the Saudi government for expenditure on housing, hospitals and infrastructure development, which provides a solid outlook for the concrete sector and high potential growth for Zamil Industrial. However, the competitive landscape becomes increasingly intense as new players enter the market with the net result that margins are likely to face increasing pressure. Zamil Industrial's concrete sector is, nevertheless, moving up to the next level of operation by building strong project management and erection teams to ensure maintenance of a leadership position in the industry.



## Other Sectors



Concurrently, timely diversification into the renewable energy facility fabrication and erection sector by Zamil Industrial's infrastructure company in the subcontinent led to the award of one of the largest Photo-Voltaic Solar EPC contracts on record, with a value of SAR256.8 million. This project, which saw completion of a 20MW solar site in just 112 days, the fastest time on record for such a project, provides a firm foothold for Zamil Industrial in the renewable energy sector, adding considerable value to the company's activities in the Indian subcontinent.

As the role of renewable energy is expected to grow exponentially in India in the years to come, the expertise and capabilities derived in fulfilling this assignment ensure that Zamil Industrial is well placed to seek leadership in the sector in the near future. Furthermore, in pursuing its activities in India, Zamil Industrial broadened its portfolio of clients by developing special relationships with solar panel manufacturer Kyocera and the US renewable energy solutions company Power One, as well as building manufacturing relationships with Ozkam to produce 60° towers, and with Ericsson, for patented capsule towers for supply across the globe.

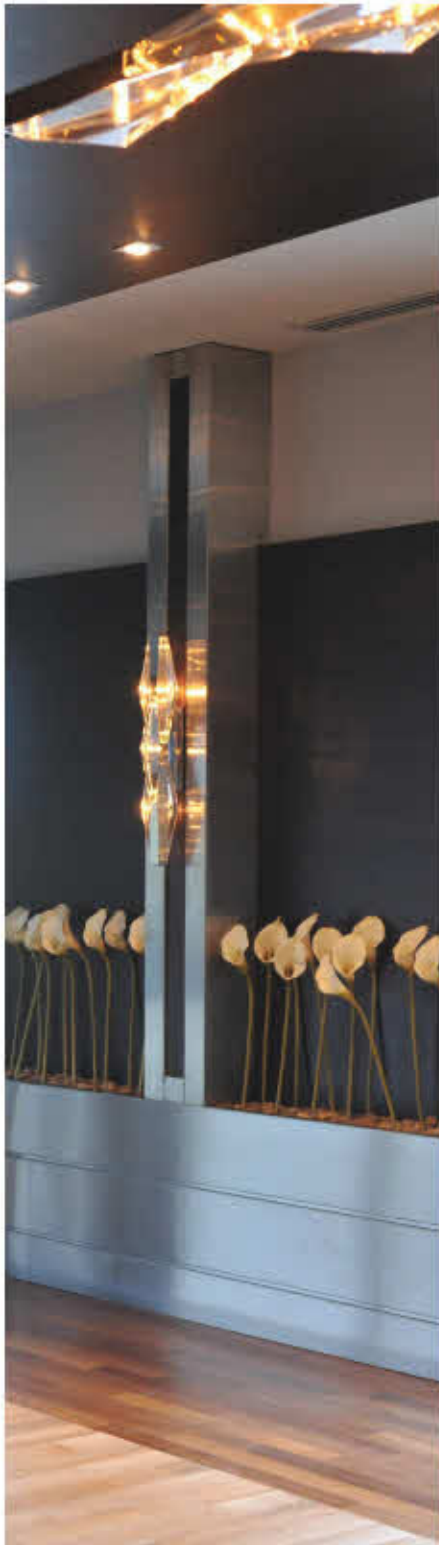
Furthermore, the company strengthened its position by attaining ISO14000 certification during the year, while also moving towards ISO 9000 accreditation in the near future.





# Corporate and Shared Services Review





## Internal Audit

Internal Audit's role is to assist operational management in achieving Zamil Industrial's financial and operating goals. This is done by evaluating controls to ensure that systems function adequately by identifying weaknesses and providing systematic and strategic recommendations.

During 2011, a total of 196 audit assignments were conducted, resulting in the issuance of 2,980 audit recommendations for improvements. The recommendations implemented over the 12 months have included cost reductions, strengthened control over materials and fixed assets and operational efficiency improvements.

Internal audit also sought to avoid malpractices by identifying failures in procedures and weaknesses in control and by overseeing improvements in inventory control.

## Human Resources

During the year, Human Resources (HR) recruited 1,568 employees to Zamil Industrial member companies, of whom 632 were Saudi nationals. An important highlight was the introduction of females and the physically challenged into the workforce. Recruitment skills training was provided to Zamil Industrial managers and HR participated in three career days at Saudi universities during the year.

Reviews and updates of job classifications were conducted for the steel, HVAC and shared services sectors. Considerable effort was made to ensure compliance with the Saudi government's Saudization program (Nitaqat), which seeks to ensure that local businesses and industries raise the number of Saudi nationals in their employ.

Outstanding performers within Group companies, divisions and business units were recognized under the Zamil Industrial Employee Recognition Program, known as the "Achievers Club".

As part of a program to unite employees and to instill and promote Group-wide corporate spirit, HR conducted the fourth major Sports Fest and a Quran reading competition during the year.

In October, the company participated in the third annual HR Summit in Bahrain. The conference addressed the concerns and challenges of human resources professionals as they relate to the current business environment.



## Training

Desirous of ensuring the highest level of competence of its employees, the Zamil Industrial Training Center has conducted comprehensive training programs throughout the year. Many courses have also been provided for clients and management. Included amongst these have been programs specifically oriented to new Saudi employees in the steel sector that provided training in welding, fabrication and machine operation technology; specialized computer related and English language courses; and site and factory training for employees of the HVAC sector. A total of 677 Zamil Industrial employees successfully completed courses and programs, of which 331 were Saudi nationals.

Overall, 67 courses were presented in 2011. In addition to those highlighted above, employees were trained in a diverse range of career related topics that included: Advanced Selling and Negotiation Skills, Advanced Presentation Skills, First Aid, Management Skills for the IT Environment, Inventory Planning and Material Control, Oracle 11g: RAC and Grid Infrastructure Administration, People Management Skills, Corporate Fraud Detection Control, LEED Green Associate, Effective Communication Skills, and Finance for Non-financial Professionals.

A major activity in 2011 was the construction and commissioning of the newly established Zamil Higher Institute for Industrial Training, which opened its doors during the year and anticipates commencement of Diploma Programs in compliance with the UK Qualifications Awarding Body Edexcel standards during the second quarter of 2012. Integral to this exercise has been the submission and approval of five differing two year Diploma Training Programs to the Technical and Vocational Training Corporation. The Institute is now fully authorized in Saudi Arabia to conduct these programs.

An important element of Zamil Industrial's approach to training is to encourage young Saudi nationals to enter industry. As a result, the Institute provided on-site, career-focused summer and cooperative training opportunities to 96 university and college of technology students from across the Kingdom, while 60 secondary school students, both male and female, were accepted onto a business-oriented two-month summer training program featuring Microsoft Office applications and the English language.





Also during the year, the company provided periodical training for its certified builders. The training programs serve as a portal for mutual communication on industry practices, innovations and developments. In addition, they refresh the builders' technical knowledge of the steel building systems and help the company to provide solutions for various problems and challenges that builders may encounter, both onsite and throughout the setup and service process.







## Information Technology

During the year, Zamil Industrial Information Technology Global Division (ITG) has undertaken 109 projects. The total time spent on these projects amounted to nearly 49,000 hours, with marked improvement experienced in the resolution of incidents reported. Zamil ITG was re-certified for ISO20000-1:2005. Zamil Industrial is one of the few companies in Saudi Arabia to have attained such certification, reflecting its best-in-class systems and processes.

## Loss Prevention and Safety

A fundamental purpose of the Zamil Industrial Loss Prevention Department (LPD) is to instill the highest level of Safety, Health and Environment (SHE) standards and awareness in every individual at work across the spectrum of all Zamil Industrial businesses.

Loss Prevention and Safety (LPS) saw a marked improvement of 17% over the year in Safety, Health and Environment rates, a reflection of the detailed implementation of LPD programs. LPD ensures full compliance of Zamil Industrial companies with the regulations of certifying bodies in Saudi Arabia, such as Civil Defense, the General Organization for Social Insurance and the Presidency of Metrology and Environment, as well as internationally, including ISO and OHSAS.

The LPD technical studies team completed assignments across Zamil Industrial group companies during the year that included safety and fire surveys, technical assessments and reviews, safety pre-qualification requirements and continuous updates of Zamil Industrial's safety procedures and guidelines. Furthermore, LPD teams support fire, safety and equipment upgrades in all business units and provide training sessions in both Arabic and English for employees with the ultimate aim of creating and maintaining safe and healthy working environments while reducing workplace accidents and increasing productivity.

## Legal Affairs

Legal Affairs experienced an active twelve months providing support to companies and business units across Zamil Industrial. The prime activity was related to the merger of Zamil Industrial group companies with Gulf Insulation Group (GIG). Other matters pursued included the conversion of three entities with branch status within Zamil Industrial into independent limited liability companies, following decisions made a year earlier, the amendment of the articles of association of five group companies, and the obtaining of a new investment license from the Saudi Arabian General Investment Authority (SAGIA) as well as a service investment license.

Legal Affairs also handled two loan applications to the Saudi Industrial Development Fund (SIDF), both of which had been initiated in 2010 but were finalized late in 2011.







## Corporate Social Responsibility

Corporate social responsibility (CSR) forms an integral part of Zamil Industrial's philosophy and strategy as a business enterprise. The company recognizes its role as part of society and is dedicated to acting as a responsible corporate citizen.

In pursuing its activities, Zamil Industrial constantly seeks to address environmental and social issues. This year, an HCFC blowing agent has been phased out from the steel sector in favor of a more environmentally friendly, indeed 100% green, hydro-carbon product while businesses throughout the Group have pursued policies that ensure the recycling of waste materials and, wherever possible, a reduction in the use of electricity.

Integral to Zamil Industrial's corporate philosophy is full support for the communities in which the company operates by employing local people and providing support to those in need. Employees of Group businesses also take the initiative to become involved, for example, by participating in blood donation campaigns and providing training for university students in Saudi Arabia; making donations to hospitals and mosques while offering support to the Arab Academy for Science, Technology and Maritime Transportation in Egypt; employing villagers and funding a school for local children in India; and participating in Children's Day in Vietnam.

Of particular importance to Zamil Industrial are occupational health, safety and quality of environment in its workplaces. Thus, Zamil Industrial seeks constantly to ensure that working conditions in all its manufacturing facilities are safe and clean and that air quality and noise levels attain the strict standards laid down by the relevant environmental authorities. The company also pursues a policy of employing local staff wherever possible, including those who are physically challenged.

In 2011, Zamil Industrial became a co-founder of and pledged full support for the newly formed Saudi Food Bank, a charitable venture that seeks to aid the poor and needy by addressing hunger. The participants in this most worthy initiative recognized all too clearly that across the globe there are 925 million people who do not have enough to eat and therefore suffer from hunger and malnutrition and that, every day, nearly 16,000 children die from hunger-related causes – one child every five seconds. During 2011, the Saudi Food Bank, a Non-Governmental Organization (NGO), was formed and obtained offices, vehicles, equipment and, most importantly, staff and donors of food such that it was able to make a first distribution during Ramadan, with more than 10,000 meals being delivered by the end of that month. Zamil Industrial's role in the venture is to assist the Bank financially by paying the salaries, medical insurance and allowances of some staff as well as defined operational expenses to a pre-agreed amount in 2011.

So successful has the venture been that by the year end many agreements had been signed with suppliers of food, including with major hotels and restaurants, and with



a distributor for special vehicles to ensure that food remains fresh and healthy while being distributed; with the Egyptian Food Bank for consultancy services; and with the Princess Jawaher Center for mutual cooperation. Furthermore, educational courses were arranged for the staff responsible for packing food, and such was their success that late in the year Bank staff were able to pack all meals on their own.





## Environmental Protection

Zamil Industrial businesses implement the essential elements of 'green thinking' in every aspect of the construction industry that we serve. We began with the Research and Development that led to energy efficient air conditioning systems, and over the years have directed our resources into the development of innovative HVAC products, insulation materials and concrete products that substantially increase the energy efficiency of a broad range of structures.

We also focus on initiatives that minimize adverse environmental impacts of all company-owned and operated facilities. We evaluate every opportunity to expand our 'green potential' and apply it to the overall building and construction industry. In 2011, Zamil Air Conditioners' product design engineers began working on using new refrigerants that are much more environmentally friendly in order to meet the Kyoto protocol before its implementation date.

As part of Energy Efficiency initiatives, Zamil Air Conditioners has collaborated with the Saudi Arabian Standards Organization (SASO) in drafting new standards that have been implemented for consumer air conditioners, and the company has started to work with SASO on Unitary products. This will lead to a reduction of pressure on the Saudi Electricity Company grids and savings to the end user and the country at large.

## Sponsorships and Culture

Social engagement is a prominent component of the company's philosophy. Accordingly, during the past year Zamil Industrial supplied several key sponsorships for community-minded events. The first was a Platinum Sponsorship of the Industrial City's Marathon 2011, organized by the Saudi Industrial Property Authority (Modon) in the Second Industrial City in Dammam in March 2011.

The sponsorship is part of the company's initiative to support community and social services programs and activities organized by Modon in an effort to strengthen the relationship between the Authority and its customers, and to enhance the quality of life for those who work at factories located in the industrial cities.

Zamil Industrial also sponsored the Dhahran Ahlyia Schools (DAS) student robotics team, representing the Kingdom of Saudi Arabia at the World Championship Finals in Delft, Netherlands. The team was second in the 'Best Robot Design Award' at the 'FIRST LEGO League Open European Championships 2011'. The team also achieved the Second Place Teamwork Award in the overall tournament championship ranking. This year's Saudi team also gained the distinction of being the first team ever to win two awards in this competition since its inception in 1998.

The company also served as Gold Sponsor for the Champions Breakfast, which was held on 6 October 2011 at Holiday Inn Hotel in Al-Khobar, as well as the Champions Breakfast gathering that was held on 29 September 2011. Champions Breakfast is a weekly gathering held every Thursday morning at various coffee shops in Al-Khobar and features a different interview each week with a prominent figure in business, including both local and international guests.





During the year, Zamil Industrial employees competed, with great success, in the annual Prince Mohammed Bin Fahd Soccer Tournament for Local Companies 2011, which was organized by Asharqia Chamber and took place at the Al-Raka Sports Green Hall in Al-Khobar, amid great fanfare and under the auspices of the Governor of the Eastern Province, HRH Prince Mohammed Bin Fahd Bin Abdulaziz.

The tournament strengthens fraternal ties and social communication among the staff of the companies in the region, increasing opportunities for networking and cooperation in additional charitable and community-oriented events.

## Recognition

Intent on supporting the Saudi government and the national economy while actively fulfilling its role as a responsible corporate citizen, Zamil Industrial continued to encourage Saudi nationals into the HVAC workforce, including people with disabilities. Our close attention to employing Saudi nationals resulted in Zamil Industrial receiving a letter of appreciation for its efforts from the Saudi government's Human Resource Development Fund.

In 2011, our fiberglass insulation facility was honored by the Saudi Electricity Company (SEC) in recognition of its successful reduction of electrical power usage during the peak period of Summer 2010. Zamil Industrial's deep sense of responsibility toward both the Saudi economy and community compelled the company to find ways to lower its consumption of electricity during summer of 2010, without adversely affecting the company's levels of production and profit results.

Also, our Steel operations received a Letter of Appreciation from GS Construction Arabia Company for the company's work as the main fabricator of steel used in the construction of the Manifa Gas Facilities project in Khursaniyah. The letter expressed the GS E&C project management team's complete satisfaction with the product and services supplied by the company, and for the cooperative working relationship created and maintained by Zamil Industrial during the length of the contract.

Always desirous of ensuring maximum safety in the workplace, two teams within Zamil Industrial's equipment service and maintenance provider were honored to receive awards in 2011: the first from the Saudi Iron and Steel Company (Hadeed) on completion of more than one million consecutive working hours without lost time injury at the Hadeed District Cooling Plant, and the other an outstanding safety performance from Jubail United Petrochemical Company (JUPC), at which Zamil Industrial has been an HVAC maintenance services provider since 2005, in recognition of outstanding maintenance services on HVAC equipment at its facilities. Zamil Industrial was also recognized by Saudi Aramco as one of its top outstanding maintenance service providers during the summer season of 2011.

Our operations in Vietnam were acknowledged again this year when they were awarded the "Golden Dragon Award" for "Best Product in the Construction and Construction Materials Category" by The Vietnam Economic Times in collaboration with the Ministry of Planning and Investment.





**AUDITORS' REPORT TO THE SHAREHOLDERS OF  
ZAMIL INDUSTRIAL INVESTMENT COMPANY  
(SAUDI JOINT STOCK COMPANY)****Scope of Audit:**

We have audited the accompanying consolidated balance sheet of Zamil Industrial Investment Company (Saudi joint stock company) ("the parent company") and its subsidiaries (collectively referred to as "the group") as at 31 December 2011 and the related consolidated statements of income, consolidated cash flows and consolidated changes in shareholders' equity for the year then ended. These consolidated financial statements are the responsibility of the parent company's board of directors and have been prepared by them in accordance with the provisions of Article 123 of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the consolidated financial statements.

**Unqualified Opinion:**

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

- 1) present fairly, in all material respects, the consolidated financial position of the group as at 31 December 2011 and the consolidated results of its operations and its consolidated cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.
- 2) comply with the requirements of the Regulations for Companies and the parent company's bye-laws in so far as they affect the preparation and presentation of the consolidated financial statements.



Abdulaziz Saud Atshobaibi  
Certified Public Accountant  
Registration No. 339

28 Rabi' Awal 1433H  
20 February 2012

Alkhobar



**CONSOLIDATED BALANCE SHEET**  
As At 31 December 2011

	Note	2011 SR 000	2010 SR 000
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Bank balances and cash		285,867	296,171
Accounts receivable and prepayments	3	1,743,295	1,306,275
Advances to an unconsolidated subsidiary	4	228,876	76,420
Inventories	5	1,878,550	1,654,176
Amounts due from related parties	10	107,599	91,714
<b>TOTAL CURRENT ASSETS</b>		<b>4,244,187</b>	<b>3,424,756</b>
<b>NON-CURRENT ASSETS</b>			
Investments	6	336,456	324,153
Property, plant and equipment	7	1,444,502	1,118,839
Deferred charges	8	11,777	11,838
Goodwill	9	176,251	27,730
<b>TOTAL NON-CURRENT ASSETS</b>		<b>1,968,986</b>	<b>1,482,560</b>
<b>TOTAL ASSETS</b>		<b>6,213,173</b>	<b>4,907,316</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Notes and accounts payable, accruals and provisions	11	874,518	861,316
Amounts due to related parties	10	91,881	15,257
Advances from customers		272,142	246,568
Murabaha and tawarruq finances	13	2,362,191	1,339,233
Short term loans	14	72,952	49,744
Current portion of term loans	15	287,334	243,105
<b>TOTAL CURRENT LIABILITIES</b>		<b>3,961,018</b>	<b>2,755,223</b>
<b>NON-CURRENT LIABILITIES</b>			
Term loans	15	393,914	530,995
Employees' terminal benefits		251,366	213,386
Long term payables		24,086	8,921
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>669,366</b>	<b>753,302</b>
<b>TOTAL LIABILITIES</b>		<b>4,630,384</b>	<b>3,508,525</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	16	600,000	600,000
Statutory reserve		184,455	169,036
Retained earnings		533,695	486,924
Proposed cash dividends	17	45,000	45,000
Unrealized (loss)/gain on investment		(1,075)	1,368
Translation loss on consolidation		(12,403)	(13,428)
		1,349,672	1,288,900
Minority interests	18	233,117	109,891
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>1,582,789</b>	<b>1,398,791</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>6,213,173</b>	<b>4,907,316</b>

The attached notes 1 to 28 form part of these consolidated financial statements.



CONSOLIDATED STATEMENT OF INCOME  
Year Ended 31 December 2011

	Note	2011 SR 000	2010 SR 000
Net sales	23	4,727,695	4,018,412
Cost of sales		(3,676,460)	(3,022,982)
<b>GROSS PROFIT</b>		<b>1,051,235</b>	<b>995,430</b>
<b>EXPENSES</b>			
Selling and distribution	19	414,640	369,667
General and administration	20	375,414	333,491
Amortization of deferred charges	8	2,866	4,843
		<b>792,920</b>	<b>708,001</b>
<b>INCOME FROM MAIN OPERATIONS</b>	23	<b>258,315</b>	<b>287,429</b>
Permanent translation loss on consolidation		(13,428)	
Other income, net	21	23,221	30,125
Financial charges	22	(61,166)	(56,359)
<b>INCOME BEFORE SHARE IN RESULTS OF ASSOCIATES AND AN UNCONSOLIDATED SUBSIDIARY, ZAKAT, TAXES AND MINORITY INTERESTS</b>		<b>206,942</b>	<b>261,195</b>
Share in results in associates and an unconsolidated subsidiary, net	6	(4,142)	2,263
<b>INCOME BEFORE ZAKAT, TAXES AND MINORITY INTERESTS</b>		<b>202,800</b>	<b>263,458</b>
Net minority interests in results of subsidiaries		(24,757)	(18,812)
<b>INCOME BEFORE ZAKAT AND TAXES</b>		<b>178,043</b>	<b>244,646</b>
Foreign taxes		(1,535)	(8,517)
Zakat	12	(22,318)	(24,995)
<b>NET INCOME FOR THE YEAR</b>		<b>154,190</b>	<b>211,134</b>
Earnings per share (from main operations)		<b>SR 4.31</b>	<b>SR 4.79</b>
Earnings per share (from net income)		<b>SR 2.57</b>	<b>SR 3.52</b>
Weighted average number of shares		<b>60,000,000</b>	<b>60,000,000</b>

The attached notes 1 to 28 form part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
Year Ended 31 December 2011

	2011 SR 000	2010 SR 000
<b>OPERATING ACTIVITIES</b>		
Income before zakat, taxes and minority interests	202,800	263,458
Adjustments for:		
Depreciation	138,356	112,348
Employees' terminal benefits, net	22,700	53,949
Loss/(gain) on disposal of property, plant and equipment	886	(79)
Gain on sale of investments	-	(791)
Share in results in associates and unconsolidated subsidiary,		(2,263)
Net	4,142	
Amortization of deferred charges	3,188	5,916
Financial charges	61,166	56,359
	433,238	488,897
Changes in operating assets and liabilities:		
Inventories	(162,765)	(143,822)
Receivables	(423,494)	(58,866)
Payables	(102,651)	(60,239)
Cash (used in) from operations	(255,672)	225,970
Financial charges paid	(61,166)	(56,359)
Zakat and foreign taxes paid	(20,948)	(30,475)
Net cash (used in) from operating activities	(337,786)	139,136
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(240,545)	(147,380)
Proceeds from disposal of property, plant and equipment	2,451	3,855
Proceed from sale of investments	-	14,677
Deferred charges incurred	(3,137)	(779)
Investments acquired	(94,190)	(87,203)
Acquisition of subsidiary	(150,000)	-
Net cash used in investing activities	(485,421)	(216,830)
<b>FINANCING ACTIVITIES</b>		
Dividends paid	(90,000)	(112,500)
Term loans, net	(92,852)	(236,919)
Change in short term loans, murabaha and tawarruq finances	976,458	372,118
Minority interests, net	(7,653)	(1,937)
Net cash from financing activities	785,953	20,762
<b>NET DECREASE IN BANK BALANCES AND CASH</b>	(37,254)	(56,932)
Bank balances and cash at the beginning of the year	296,171	353,878
Bank balances and cash acquired during the year	15,993	-
Movement in translation loss, net	10,957	(775)
<b>BANK BALANCES AND CASH AT THE END OF THE YEAR</b>	285,867	296,171

The attached notes 1 to 28 form part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**Year Ended 31 December 2011**

**EQUITY ATTRIBUTABLE TO SHAREHOLDERS' OF THE PARENT COMPANY**

	Share capital	Statutory reserve	Retained earnings	Proposed stock dividends	Proposed cash dividends	Unrealized gain (loss) investment	Translation (losses) gains on consolidation	Total
	SR 000	SR 000	SR 000	SR 000	SR 000	SR 000	SR 000	SR 000
Balance at 31 December 2009	450,000	147,923	388,903	150,000	67,500	-	(8,855)	1,195,471
Net income for the year	-	-	211,134	-	-	-	-	211,134
Transfer to statutory reserve	-	21,113	(21,113)	-	-	-	-	-
Increase in share capital (note 16)	150,000	-	-	(150,000)	-	-	-	-
Directors' remuneration	-	-	(2,000)	-	-	-	-	(2,000)
Dividends paid (note 17)	-	-	(45,000)	-	(67,500)	-	-	(112,500)
Proposed cash dividends (note 17)	-	-	(45,000)	-	45,000	-	-	-
Movement during the year, net	-	-	-	-	-	1,368	(4,573)	(3,205)
Balance at 31 December 2010	600,000	169,036	486,924	-	45,000	1,368	(13,428)	1,288,900
Net income for the year	-	-	154,190	-	-	-	-	154,190
Transfer to statutory reserve	-	15,419	(15,419)	-	-	-	-	-
Directors' remuneration	-	-	(2,000)	-	-	-	-	(2,000)
Dividends paid (note 17)	-	-	(45,000)	-	(45,000)	-	-	(90,000)
Proposed cash dividends (note 17)	-	-	(45,000)	-	45,000	-	-	-
Movement during the year, net	-	-	-	-	-	(2,443)	1,025	(1,418)
Balance at 31 December 2011	600,000	184,455	533,695	-	45,000	(1,075)	(12,403)	1,349,672

The attached notes 1 to 28 form part of these consolidated financial statements.



## 1. STATUS AND ACTIVITIES

Zamil Industrial Investment Company ("the parent company") was converted into a closed Saudi Joint Stock Company in accordance with Ministerial Resolution 407 dated 14.3.1419H (corresponding to 8 July 1998). Prior to that, the parent company was operating as a limited liability company under the name of Zamil Steel Buildings Company Limited. On 9 February 2002, the parent company was officially listed on the Saudi Stock Exchange.

The parent company is registered in Saudi Arabia under Commercial Registration number 2050004215.

The consolidated financial statements include the financial statements of the parent company's head office, its branches and its subsidiaries, collectively referred to as "the group" in these consolidated financial statements, as listed below:

### Branches:

- Zamil Air Conditioners engaged in the manufacture and assembly of room and central air conditioners and other related activities.
- Zamil Glass Industries, engaged in the production of glass.

### Subsidiaries:

	Effective ownership percentage	
	2011	2010
Universal Building Systems Limited – Jersey	100	100
Zamil Steel Company- Saudi Arabia (previously: a branch)	100	100
Zamil Steel Buildings Company – Egypt	100	100
Zamil Steel Buildings (Shanghai) Company Limited – China	100	100
Zamil Steel, Polska – Poland	100	100
Cooline Europe Holdings GmbH- Austria	100	100
Clima Tech Airconditioners GmbH – Austria	100	100
Zamil Steel Buildings India Private Limited	100	100
Zamil Steel Engineering India Private Limited	100	100
Arabian Stonewool Insulation Company- Saudi Arabia	100	100
Ikhtabar – Saudi Arabia	100	100
Zamil Energy Services Company (ZESCO) – Saudi Arabia	100	100
Zamil Industrial Investment Company, Emirates	100	100
Zamil Steel Industries Abu Dhabi (LLC) – UAE	100	100
Zamil Steel Buildings (Thailand) Co. Ltd.	100	100
Al Zamil for Inspection and Maintenance of Industrial Projects Co. Ltd – Saudi Arabia	100	100
Al Zamil Steel Installations Company – Saudi Arabia	100	100
Zamil Structural Steel Company – Egypt	100	100
Zamil Construction India Pvt. Ltd.	100	100
Building Components Solutions – Saudi Arabia	100	100
Zamil Information Technology Global Private Limited – India	100	100
Zamil Industrial Training Institute Company Limited	100	100
Zamil Industrial Investment Company Asia Pte. Ltd. – Singapore	100	-
Second Insulation Company Limited – Saudi Arabia (refer note below)	100	-
Zamil Steel Buildings - Vietnam Company Limited	92.27	92.27
Geoclima S.r.l. – Italy	85	85
Canam Asia Limited – Saudi Arabia	65	65
Middle East Airconditioners Company Limited – Saudi Arabia	51	51

The attached notes 1 to 28 form part of these consolidated financial statements.

## 1. STATUS AND ACTIVITIES

### Subsidiaries – continued

	Effective ownership percentage	
	2011	2010
Zamil Hudson Company Limited – Saudi Arabia	50	50
Petro-Chem Zamil Company Limited – Saudi Arabia	50	50
Rabiah and Nasser & Zamil Concrete Industrial Co. Ltd – Saudi Arabia	50	50

The group exercises control on the above mentioned entities and are therefore considered the subsidiaries of the group.

During the year, Second Insulation Company Limited acquired 51% of controlling interest in Gulf Insulation Company, a Saudi Closed Joint Stock Company registered in Saudi Arabia (also refer note 9). Gulf Insulation Company has following subsidiaries which are collectively referred to as "Gulf Insulation Group":

	Effective ownership percentage
Saudi Preinsulated Pipes Industries Company Limited (SPPI)	100
First Insulation Company Limited (FIC)	100
Arabian Fiberglass Insulation Company Limited (AFICO) (refer note 9)	51

Portion of the parent company's shares in the above subsidiaries, is registered in the names of certain directors or employees as nominee shareholders on behalf of the parent company in order to comply with the regulations in which the above subsidiaries are operating.

The consolidated financial statements have been presented in Saudi Riyals.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia. The significant accounting policies adopted are as follows:

### Basis of consolidation

Operating entities controlled by the parent company are classified as subsidiaries and consolidated regardless of the country of their registration. Significant inter-group balances and transactions are eliminated upon consolidation. Entities under formation are accounted for at cost.

### Accounting convention

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

### Accounts receivable

Accounts receivable include sales made on trade credit which are outstanding at the balance sheet date, net of provision for amounts estimated to be uncollectible.

The attached notes 1 to 28 form part of these consolidated financial statements.



## 2. SIGNIFICANT ACCOUNTING POLICIES - continued

### Inventories

Inventories are stated at the lower of cost and market value. Cost is determined as follows:

Raw materials	-	Purchase cost on weighted average basis.
Work in process and finished goods	-	Cost of direct materials and labor plus attributable Overheads based on normal level of activity.

### Investments

Investments in marketable equity securities are classified according to the group's intent with respect to those securities. Marketable equity securities held to maturity are stated at amortized cost, adjusted for the related premium or discount. Marketable equity securities held for trading are stated at fair value and unrealized gains and losses thereon are included in the consolidated statement of income. Marketable equity securities available for sale are stated at fair value and unrealized gains and losses thereon are included in consolidated stockholders' equity. Where the fair value is not readily determinable, such marketable equity securities are stated at cost less allowance for impairment in value.

Income from the investments in marketable equity securities is recognized when dividends are received.

An associate is an enterprise over which the group is in a position to exercise significant influence, through participation in the financial and operating policy decisions of the investee. The results of associates are incorporated in these financial statements using the equity method of accounting. The carrying amount of such investments is reduced to recognize any impairment in the value of the individual investments.

Subsidiaries and associates which are dormant or under development stage or where the information is not available are stated at cost.

### Business combination and goodwill

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

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

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

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

The attached notes 1 to 28 form part of these consolidated financial statements.



## 2. SIGNIFICANT ACCOUNTING POLICIES - continued

### Business combination and goodwill - continued

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed off, the goodwill associated with the operation disposed off is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed off in this circumstance is measured based on the relative values of the operation disposed off and the portion of the cash-generating unit retained. When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognized in the consolidated statement of income.

### Property, plant and equipment/depreciation

Property, plant and equipment are initially recorded at cost and are stated at cost less accumulated depreciation and any impairment in value. Freehold land and capital work in progress are not depreciated. Depreciation is provided on other property, plant and equipment at rates calculated to write off the cost of each asset over its expected useful life.

Expenditure for repair and maintenance are charged to income. Improvements that increase the value or materially extend the life of the related assets are capitalized.

### Permanent impairment of non-current assets

At each balance sheet date, the group reviews the carrying values of property, plant and equipment and other non-current assets to determine whether there is any indication that those assets have suffered impairment. If such indicators exist, the recoverable amount of the asset is estimated in order to determine the extent of impairment (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash generating unit to which the asset belongs.

The carrying value of the asset (or cash generating unit) is reduced to the recoverable value when the recoverable value is below the carrying value. Impairment loss is recognized as expense when incurred.

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

Where an impairment loss subsequently reverses, the carrying value of the asset (cash generating unit) other than goodwill is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash generating unit) in prior years. The reversal of impairment loss other than goodwill is recognized as income once identified.

### Deferred charges

Expenses which have a long term future benefit are treated as deferred charges and are amortized over the estimated periods of benefit not exceeding five years.

Loans front-end fees represents the fee relating to the loans from Saudi Industrial Development Fund ("SIDF"). These costs are being amortized over the period of the loans and the amortization is capitalized as part of capital work-in-progress (if applicable) up to the date of commencement of commercial operations and subsequently it is charged to the consolidated statement of income.

## 2. SIGNIFICANT ACCOUNTING POLICIES - continued

### Warranties

Amounts are provided on an estimated basis to meet probable future costs under warranty commitments.

### Zakat and income tax

Zakat is provided for in accordance with Saudi Arabian fiscal regulations. Income tax is provided for in accordance with foreign fiscal authorities in which the group's foreign subsidiaries operate. The liabilities are charged direct to the consolidated statement of income. The zakat charge and income tax, assessable on the minority shareholders is included in minority interest.

### Employees' terminal benefits

Provision is made for amounts payable under the employment contracts applicable to employees' accumulated periods of service at the balance sheet date.

Foreign subsidiaries make provision in accordance with the laws of countries in which subsidiaries operate.

### Revenue recognition

Net sales represent the invoiced value of goods supplied, services rendered and work executed by the group during the year. For central air conditioning jobs, revenue and proportionate profit are recognized when the outcome of the contract can be determined with reasonable certainty. If losses are foreseen, they are provided for in full.

Costs in excess of progress billings are disclosed under accounts receivable and prepayments in the consolidated balance sheet. Whereas billings in excess of cost are disclosed under notes and accounts payable, accruals and provisions in the consolidated balance sheet.

### Expenses

Selling and distribution expenses are those that specifically relate to salesmen, warehousing, delivery vehicles and warranty cost as well as provision for doubtful debts. All other expenses other than direct cost, amortization of deferred charges and financial charges are classified as general and administration expenses.

### Foreign currencies

Transactions in foreign currencies are recorded in Saudi Riyals at the rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the consolidated statement of income.

Financial statements of foreign operations are translated into Saudi Riyals using the exchange rate at the balance sheet date for assets and liabilities and the average exchange rate for revenues, expenses, gains and losses. Components of equity, other than retained earnings, are held at the historical rates. Translation adjustments are recorded as a separate component of consolidated shareholders' equity. Translation loss that is considered permanent is charged to the consolidated statement of income.

### Earnings per share

Basic earnings per share from net income are calculated by dividing the net income for the year by the weighted average number of shares outstanding during the year.

Basic earnings per share from main operation are calculated by dividing income from main operations for the year by the weighted average number of shares outstanding during the year.

The attached notes 1 to 28 form part of these consolidated financial statements.



## 2. SIGNIFICANT ACCOUNTING POLICIES - continued

### Segmental reporting

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

### Leasing

Leases are classified as capital leases wherever the terms of the lease transfer substantially all the rights and rewards of ownership to the lessee. All other leases are classified as operating leases. Rentals payable under operating leases are charged to consolidated statement of income on a straight line basis over the term of the operating lease.

## 3. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2011 SR 000	2010 SR 000
Trade accounts and notes receivable	1,388,391	965,270
Prepaid expenses	29,529	36,010
Retentions receivable	40,003	5,094
Advances, deposits and other receivables	173,242	168,640
Costs in excess of billings	112,130	131,261
	<b>1,743,295</b>	<b>1,306,275</b>

## 4. ADVANCES TO AN UNCONSOLIDATED SUBSIDIARY

The parent company has given advance to Eastern District Cooling Company Limited, an unconsolidated subsidiary. The subsidiary is in the process of obtaining project financing loan from a commercial bank. Accordingly, the balance is expected to be recovered during 2012.

## 5. INVENTORIES

	2011 SR 000	2010 SR 000
Materials, supplies and stores	1,166,334	1,034,709
Work-in-progress	193,378	127,695
Finished goods	386,583	327,039
Goods-in-transit	132,255	164,733
	<b>1,878,550</b>	<b>1,654,176</b>

The attached notes 1 to 28 form part of these consolidated financial statements.



**6. INVESTMENTS**

	<b>2011</b>	<b>2010</b>
	<b>SR 000</b>	<b>SR 000</b>
Investments in listed companies	<b>8,796</b>	8,796
Unrealized (loss)/gain on revaluation	<b>(1,075)</b>	1,368
Available for sale investments	<b>7,721</b>	10,164
Investment in associates	<b>187,203</b>	162,457
Investment in subsidiaries	<b>85,568</b>	95,568
Other investments	<b>55,964</b>	55,964
	<b>336,456</b>	324,153

Investment in associates comprise of the following which are equity accounted:

1. 27.5% share in Saudi Aerated Concrete Industries Company (a Saudi limited liability company). The principal activities of the company are the production of aerated concrete blocks and partitions.
2. 25% share in Energy Central Company B.S.C. (Bahrain). The principal activities of the company are to provide metered energy, central refrigeration and other support and environmental services for large-scale infrastructure development in the Gulf region. Energy Central Company owns 49% share in Saudi Central Energy Company.
3. 51% Share in Saudi Central Energy Company (a Saudi limited liability company). The principal activities of the company are to undertake and execute the contracts for the installation and treatment of energy and water plants, electricity generating stations and their operation and maintenance, and laying networks for its transportation and distribution. Saudi Central Energy Company is controlled by Energy Central Company B.S.C. (Bahrain) and is therefore considered as an associate of the group.
4. 30% share in Advantec Coils Private Ltd. (India) ("Advantec"). The principal activities of the company are to manufacture and assembly of room and central air conditioners.
5. 49% share of Gulf Insulation Group in Armacell Zamil Middle East Company Limited (also refer note 9). The principal activities of the company are to manufacture rubber adhesive, foam rubber insulation and related accessories and sundries.
6. 51% share in Zamil New Delhi Infrastructure Pvt. Ltd. The principal activities of the company are supply of telecom towers, accompanying shelters fitted with the appropriate sandwich panels, customized air conditioning equipment and power interface units. It will also supply a range of related support products, along with comprehensive installation and maintenance services.

The attached notes 1 to 28 form part of these consolidated financial statements.

## 6. INVESTMENTS - continued

Combined summarized financial information of the above associated companies as of the consolidated balance sheet date is as follows:

	2011 SR 000	2010 SR 000
Working capital	135,033	155,027
Other assets - net of liabilities	106,365	75,480
Net assets	241,398	230,507
The group's equity in net assets	145,926	86,869
Revenue	533,525	440,348
Net gain/(loss)	10,647	(4,479)
The group's share of (loss)/income	(4,142)	2,263

The difference of SR 38.9 million between the group's equity in net assets and reported investment in associates represents goodwill recognized on acquiring Advantec of SR 38.9 million.

Investment in subsidiaries comprise of the following:

1. 100% share in Eastern District Cooling Company Limited, a Saudi limited liability company. The principal activity of the company is production of industrial cooling water.

Other investments comprise of the following:

1. 2.11% Share in Kinan International For Real Estate Development Company Limited (a Saudi limited liability company). The principal activities of the company are to invest in real estates like buying, construction and leasing of land and buildings.
2. 10% share in IIB Paper Company Limited (Limited Liability Company registered in Cayman Islands). The principal activity of the company is the production of tissue paper.

**7. PROPERTY, PLANT AND EQUIPMENT**

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

Buildings on leasehold land	20 to 40 years
Plant, equipment, furniture, fixtures and vehicles	2 to 20 years

	<i>Freehold land SR 000</i>	<i>Buildings on leasehold land SR 000</i>	<i>Plant, equipment, furniture, fixtures and vehicles SR 000</i>	<i>Capital work-in- progress SR 000</i>	<i>Total 2011 SR 000</i>	<i>Total 2010 SR 000</i>
<b>Cost:</b>						
At the beginning of the year	77,739	595,792	1,273,982	137,728	<b>2,085,241</b>	1,950,328
Additions	-	7,378	50,747	182,420	<b>240,545</b>	147,380
Acquisition of subsidiaries	-	84,750	169,389	134,770	<b>388,909</b>	-
Disposals	-	(224)	(27,362)	-	<b>(27,586)</b>	(14,596)
Transfers (note 8)	-	34,731	26,122	(60,853)	-	6,283
Translation loss	(260)	(4,625)	(8,930)	-	<b>(13,815)</b>	(4,154)
<b>At the end of the year</b>	<b>77,479</b>	<b>717,802</b>	<b>1,483,948</b>	<b>394,065</b>	<b>2,673,294</b>	2,085,241
<b>Depreciation:</b>						
At the beginning of the year	-	234,743	731,659	-	<b>966,402</b>	864,177
Charge for the year	-	30,408	107,948	-	<b>138,356</b>	112,348
Acquisition of subsidiaries	-	38,695	113,481	-	<b>152,176</b>	-
Disposals	-	(67)	(24,182)	-	<b>(24,249)</b>	(10,820)
Transfer (note 8)	-	-	-	-	-	298
Translation (loss)/gain	-	(663)	(3,230)	-	<b>(3,893)</b>	399
<b>At the end of the year</b>	<b>-</b>	<b>303,116</b>	<b>925,676</b>	<b>-</b>	<b>1,228,792</b>	966,402
<b>Net book amounts:</b>						
At 31 December 2011	<b>77,479</b>	<b>414,686</b>	<b>558,272</b>	<b>394,065</b>	<b>1,444,502</b>	
At 31 December 2010	77,739	361,049	542,323	137,728		1,118,839

Capital work-in-progress represents mainly the cost incurred in respect of new building, expansion, upgrading of production facilities, plant and equipment acquired for general modernization for Zamil Steel Company (Saudi Arabia) and Zamil Air Conditioners (Saudi Arabia). It also includes costs related to the buildings, plant and new production lines under construction related to Gulf Insulation Group, Zamil Industrial Training Institute Company Limited and Rabiah and Nasser & Zamil Concrete Industrial Company Ltd.

Certain property plant and equipment of the branches and a consolidated subsidiary are mortgaged with the financial institutions (see note 15).



**8. DEFERRED CHARGES**

	<b>2011</b>	<b>2010</b>
	<b>SR 000</b>	<b>SR 000</b>
At the beginning of the year	<b>11,838</b>	22,360
Incurred during the year	<b>3,137</b>	779
Transfers, net	-	(5,382)
Amortized during the year	<b>(3,188)</b>	(5,916)
Translation loss	<b>(10)</b>	(3)
At the end of the year	<b>11,777</b>	11,838

**9. GOODWILL**

	<b>2011</b>	<b>2010</b>
	<b>SR 000</b>	<b>SR 000</b>
Goodwill recognized on acquiring subsidiaries	<b>176,251</b>	27,730

Pursuant to the board of directors' meeting of Rabiah and Nassar & Zamil Concrete Industrial Co. Ltd. ("RANCO"), the parent company assumed the control of RANCO effective from 1 January 2011. Goodwill of SR 34.5 million pertains to the acquisition of RANCO in previous year. Accordingly, it has been consolidated in these consolidated financial statements (Previously: considered as an associate).

In April 2011, the group signed an agreement with shareholders of Gulf Insulation Company, effective from 1 January 2011, to acquire 51% of the voting shares of Gulf Insulation Company for cash consideration of SR 150 million which includes contingent consideration of SR 50 million. Additionally, as part of the agreement, the group transferred its ownership interest of 51% and 49% in Arabian Fiberglass Insulation Company and Armacell Zamil Middle East Company, respectively to Gulf Insulation Company.

Based on certain clauses of the agreement relating to contingent consideration which have not been met by Gulf Insulation Company, the contingent consideration of SR 50 million is recoverable from the previous shareholders of Gulf Insulation Company by the group as at 31 December 2011. Accordingly, the amount has been included in the current assets in these consolidated financial statements.

At the balance sheet date, purchase consideration exceeded net book value of Gulf Insulation Group by SR 138.5 million. The residual amount has been recognized as goodwill in the consolidated balance sheet. The group management is in the process of allocating the excess consideration paid to the respective assets. The allocation will be completed during 2012.

## 10. RELATED PARTY TRANSACTIONS

Related parties represent associated companies, key personnel of the group, and entities controlled, jointly controlled or significantly influenced by such parties. The following are the details of major related party transactions during the year:

	2011 SR 000	2010 SR 000
Companies affiliated to Al Zamil Group:		
Purchase of goods and services	91,577	74,638
Sale of goods and services	23,374	14,392

The group also paid SR 5.95 million (2010: SR 5.74 million) to certain directors as salary and other benefits in their capacity as executives of the group.

Directors' remuneration amounted to SR 2.0 million (2010: SR 2.0 million).

Prices and terms of payment for these transactions are approved by the directors.

Amounts due from and due to related parties are shown in the consolidated balance sheet under current assets and current liabilities respectively and consist of amounts due from/to Al Zamil Group of companies.

## 11. NOTES AND ACCOUNTS PAYABLE, ACCRUALS AND PROVISIONS

	2011 SR 000	2010 SR 000
Trade accounts payable	247,169	244,571
Notes payable under murabaha finances	25,006	33,554
Other notes payable	305	359
Accrued contractual costs	95,955	123,947
Accrued expenses and provisions	373,222	359,647
Zakat provision (note 12)	58,916	54,037
Billings in excess of value of work executed	73,945	45,201
	874,518	861,316

Notes payable under murabaha finances and other notes payable are secured by corporate guarantees and carry margin at commercial rates.

## 12. ZAKAT

### Charge for the year

The zakat charge for the year consists of:

	2011 SR 000	2010 SR 000
Current year provision	22,318	24,995

The current year's provision is based on the following:

	2011 SR 000	2010 SR 000
Equity	1,255,960	1,136,826
Opening provisions and other adjustments	328,445	242,557
Book value of long term assets net of long term liabilities	(1,254,421)	(693,066)
	329,984	686,317
Zakatable profit for the year	242,748	322,017
Zakat base	572,732	1,008,334

The differences between the financial and the zakat results are mainly due to elimination of the group's share of profit in foreign subsidiaries which are consolidated in the financial statements and adjustments for certain costs/claims based on the relevant fiscal regulations.

The group is settling its zakat based on the consolidated financials of its wholly owned subsidiaries.

The movement in the zakat provision was as follows:

	2011 SR 000	2010 SR 000
At the beginning of the year	54,037	51,000
Provided during the year	22,318	24,995
Acquired during the year	1,974	-
Payments during the year	(19,413)	(21,958)
At the end of the year	58,916	54,037

### Status of assessments

Zakat assessments have been agreed with the Department of Zakat and Income Tax (the DZIT) up to 2009. The 2010 assessment has not yet been raised by DZIT.



**13. MURABAHA AND TAWARRUQ FINANCES**

Murabaha and tawarruq finances were obtained from local commercial banks and are secured by credit agreements and corporate guarantees. The facilities carry financial charges at commercial rates and are repayable within one year from the consolidated balance sheet date.

**14. SHORT TERM LOANS**

Short term loans were obtained from local and foreign commercial banks. The loans are for duration of less than one year with an option to roll over and they carry commission at commercial rates.

**15. TERM LOANS**

	2011 SR 000	2010 SR 000
Loan No. 1	77,509	88,813
Loan No. 2	6,210	10,287
Loan No. 3	450,000	675,000
Loan No. 4	100,000	-
Loan No. 5	40,000	-
Loan No. 6	7,529	-
	681,248	774,100
Less: current portion	(287,334)	(243,105)
	393,914	530,995

Loan No. 1 represents the loans obtained by Zamil Steel Company, Building Component Solutions and Arabian Fiberglass Insulation Company Limited from Saudi Industrial Development Fund ("SIDF"). These loans carry appraisal fees which are being amortized over the terms of the loans and are repayable in semi-annual unequal installments, the last being payable on 15/10/1436H (corresponding to 31 July 2015). At 31 December 2011, the SIDF loans outstanding were SR 77.5 million (2010: SR 88.8 million) including current portion of SR 18.8 million (2010: SR 14.20 million). The loans are secured by mortgage over the property, plant and equipment of the branches and a consolidated subsidiary. The loans agreements also contain certain covenants in respect of maintenance of financial ratios.

Loan No. 2 represents various medium and long term loans obtained by Geoclima S.r.l. repayable in monthly, quarterly and half yearly unequal installments. These loans carry commission at normal commercial rates. At 31 December 2011, the loans outstanding were SR 6.2 million (2010: SR 10.3 million) including the current portion of SR 2.7 million (2010: SR 3.9 million).

Loan No. 3 represents loans obtained by parent company amounting to SR 1,000 million from local banks to finance its working capital requirements. At 31 December 2011, the loans outstanding were SR 450 million (2010: SR 675 million) including current portion of SR 225 million (2010: SR 225 million). The loans are repayable in half yearly and yearly unequal installments. The loans carry finance charges at SIBOR plus a margin and these loans are secured by corporate guarantees and order notes. The loans agreements contain certain financial covenants which the parent company is required to comply with.

Loan No: 4 represents a loan obtained by parent company amounting to SR 100 million from a local bank. At 31 December 2011, the loan outstanding was SR 100 million (2010: Nil) including a current portion of SR 33.4 million (2010: SR Nil). The loan is payable in quarterly equal installments.

Loan No: 5 represents loan obtained by Arabian Fiberglass Insulation Company Limited amounting to SR 40 million from a local bank. At 31 December 2011, the loan outstanding was SR 40 million (2010: Nil) including the current portion of SR 2.5 million (2010: Nil). The loan is repayable in 48 equal monthly installments.

Loan No: 6 represents the long term loan obtained by Saudi Preinsulated Pipes Industries Company amounting to SR 7.5 million from a local bank. At 31 December 2011, the loan outstanding was SR 7.5 million (2010: Nil) including current portion of SR 5 million (2010: Nil). This loan is repayable in six quarterly equal installments.

Loan installments due in 2012 are shown as current liabilities.

## 16. SHARE CAPITAL

The share capital of the parent company amounting to SR 600 million (2010: SR 600 million) is divided into 60 million shares of SR 10 each (2010: 60 million share of SR 10 each).

On 31 March 2010, in the extraordinary general assembly, the shareholders agreed on board of directors' proposal to increase the share capital of the parent company from SR 450 million to SR 600 million resulting in the increase in the number of shares from 45 million shares to 60 million shares through issuing one share for each three outstanding shares. The share capital was increased by transferring SR 150 million from retained earnings.

## 17. PROPOSED CASH DIVIDENDS

The board of directors have proposed cash dividends of SR 0.75 per share totaling SR 45 million being 7.5% of the share capital (2010: SR 0.75 per share totaling SR 45 million being 7.5% of the share capital) for the approval of the shareholders in their annual general assembly.

During the year ended 31 December 2011, the parent company paid an interim dividend of SR 0.75 per share totaling SR 45 million being 7.5% of the share capital (2010: SR 0.75 per share totaling SR 45 million being 7.5% of the share capital).

The shareholders in their annual general assembly approved and distributed a cash dividend for the year 2010.

## 18. MINORITY INTERESTS

Minority interests are as follows:

	2011 %	2010 %
Zamil Hudson Company Ltd.	50	50
Petro-Chem Zamil Company Limited	50	50
Rabiah and Nasser & Zamil Concrete Industrial Company Limited	50	-
Middle East Airconditioners Company Limited	49	49
Gulf Insulation Group	49	-
Canam Asia Limited	35	35
Geoclima S.r.l.	15	15
Zamil Steel Buildings - Vietnam Company Limited	7.73	7.73

## 19. SELLING AND DISTRIBUTION EXPENSES

	2011 SR 000	2010 SR 000
Employee costs	221,511	198,498
Advertising and sales promotion	41,285	43,458
Services	13,084	11,805
Rent and utilities	8,476	8,578
Transportation, business travel and entertainment	49,199	40,503
Warranty	21,777	20,143
Depreciation	9,487	9,930
Repairs and maintenance	1,706	1,454
Provision for doubtful debts	18,498	13,065
Others	29,617	22,233
	<b>414,640</b>	<b>369,667</b>

## 20. GENERAL AND ADMINISTRATION EXPENSES

	2011 SR 000	2010 SR 000
Employee costs	248,136	231,999
Depreciation	18,375	16,371
Services	69,097	59,831
Supplies	2,128	2,062
Others	37,678	23,228
	<b>375,414</b>	<b>333,491</b>

The attached notes 1 to 28 form part of these consolidated financial statements.



**21. OTHER INCOME, NET**

	2011 SR 000	2010 SR 000
Exchange gains, net	7,138	16,765
Gains on sale of investments	-	791
Dividend income	1,784	1,487
(Loss)/gain on sale of property, plant and equipment	(886)	79
Miscellaneous	15,185	11,003
	<b>23,221</b>	<b>30,125</b>

**22. FINANCIAL CHARGES**

Financial charges are incurred on notes payable, murabaha and tawaruq finances, short term loans, term loans and amortization of loans front end fees relating to loans from SIDF.

**23. SEGMENTAL ANALYSIS****(a) Analysis of sales, operating income/ (loss) and net assets by activities:**

	Sales SR 000		Operating income/ (loss) SR 000		Net assets SR 000	
	2011	2010	2011	2010	2011	2010
Air conditioner industry	1,836,334	1,636,218	160,197	149,399	384,357	296,005
Steel industry	2,416,980	2,209,302	89,604	116,324	759,434	780,006
Glass & insulation	324,983	172,892	39,355	30,070	100,403	116,509
Concrete	149,398	-	(11,644)	-	49,353	-
Head office	-	-	(19,197)	(8,364)	56,125	96,380
	<b>4,727,695</b>	<b>4,018,412</b>	<b>258,315</b>	<b>287,429</b>	<b>1,349,672</b>	<b>1,288,900</b>

**(b) Analysis of sales, and operating income by geographical location:**

	Sales SR 000		Operating income SR 000	
	2011	2010	2011	2010
Saudi Arabia:				
Local sales	2,923,650	2,392,382	189,483	199,865
Export sales	971,349	755,583	56,613	55,593
Total sales of Saudi Arabia	<b>3,894,999</b>	<b>3,147,965</b>	<b>246,096</b>	<b>255,458</b>
Other Asian countries	477,530	495,126	6,392	6,303
Africa	280,024	304,721	3,699	22,365
Europe	75,142	70,600	2,128	3,303
	<b>4,727,695</b>	<b>4,018,412</b>	<b>258,315</b>	<b>287,429</b>

The attached notes 1 to 28 form part of these consolidated financial statements.

## 24. CONTINGENT LIABILITIES

The group's bankers have issued, on behalf of the group, performance bonds in respect of certain contracts amounting to SR 826 million (2010: SR 672 million).

## 25. CAPITAL COMMITMENTS

The directors have approved future capital expenditure amounting to SR 52 million (2010: SR 72 million).

The group has total commitment for the unpaid authorized capital of approximately SR 17.1 million (2010: SR 17.1 million) relating to the investment in Zamil Steel Industries, Abu Dhabi LLC.

## 26. RISK MANAGEMENT

### Credit risk

Credit risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. The group seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and by monitoring outstanding receivables. At the balance sheet date, no significant concentrations of credit risk were identified by management. However, the trade receivables from foreign customers are secured by letters of credit.

### Liquidity risk

Liquidity risk is the risk that the group will encounter difficulty in raising funds to meet commitments associated with financial instruments. The group limits its liquidity risk by ensuring that bank facilities are available. The group's terms of sales require amounts to be paid within 90 days of the date of sale. Trade payables are normally settled within 90 days of the date of purchase.

### Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. As a result of investment in foreign countries, the consolidated balance sheet can be affected by movements in the exchange rate of Saudi Riyals against currencies of these foreign countries.

There are transactional currency exposures also. Such exposures arise mainly from sales or purchases by the foreign subsidiaries in currencies of their respective countries, which are not pegged with the functional currency of the parent company.

## 27. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. The group's financial assets consist of bank balances and cash, receivables and amounts due from related parties and affiliates and its financial liabilities consist of murabaha, short term loans, term loans, notes and payables and amounts due to related parties and affiliates.

The fair values of financial instruments are not materially different from their carrying values.

## 28. COMPARATIVE FIGURES

Certain figures for 2010 have been reclassified to conform with the presentation in the current year.

The attached notes 1 to 28 form part of these consolidated financial statements.