

**ZAMIL INDUSTRIAL INVESTMENT COMPANY
AND SUBSIDIARIES
(SAUDI JOINT STOCK COMPANY)**

**CONSOLIDATED FINANCIAL STATEMENTS AND
AUDITORS' REPORT
YEAR ENDED DECEMBER 31, 2013**

**ZAMIL INDUSTRIAL INVESTMENT COMPANY AND SUBSIDIARIES
(SAUDI JOINT STOCK COMPANY)**

**CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' REPORT
YEAR ENDED DECEMBER 31, 2013**

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AUDITORS' REPORT

To the stockholders
Zamil Industrial Investment Company
Dammam, Saudi Arabia

Scope of Audit

We have audited the consolidated balance sheet of Zamil Industrial Investment Company ("the parent company"), a Saudi joint stock company, and its subsidiaries ("the Group") as of December 31, 2013 and the related consolidated statements of income, cash flows and stockholders' equity for the year then ended, and notes 1 to 29 which form an integral part of these consolidated financial statements as prepared by the Company in accordance with Article 123 of the Regulations for Companies and presented to us with all the necessary information and explanations. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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 statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Unqualified Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2013 and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting standards in the Kingdom of Saudi Arabia appropriate to the nature of the Group, and comply with the relevant provisions of the Regulations for Companies and the Articles of the Company as these relate to the preparation and presentation of these consolidated financial statements.

Deloitte & Touche
Bakr Abulkhair & Co.

Nasser M. Al-Sagga
License No. 322
20 Rabi' II, 1435
February 20, 2014



ZAMIL INDUSTRIAL INVESTMENT COMPANY AND SUBSIDIARIES
(SAUDI JOINT STOCK COMPANY)

CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2013

	Note	2013 SR 000	2012 SR 000
ASSETS			
Current assets			
Cash and cash equivalents		268,557	338,820
Accounts receivable and prepayments	3	2,239,165	2,097,665
Advances to an unconsolidated subsidiary	1	-	338,870
Current portion of net investment in finance lease	6	18,287	-
Inventories	4	1,950,734	1,820,265
Amounts due from related parties	10	35,234	83,309
Total current assets		4,511,977	4,678,929
Non-current assets			
Investments	5	168,852	257,489
Net investment in finance lease	6	444,692	-
Property, plant and equipment	7	1,608,385	1,592,890
Deferred charges	8	15,410	16,706
Goodwill	9	158,543	169,906
Total non-current assets		2,395,882	2,036,991
TOTAL ASSETS		6,907,859	6,715,920
LIABILITIES, STOCKHOLDERS' EQUITY AND NON-CONTROLLING INTERESTS			
Current liabilities			
Notes and accounts payable, accruals and provisions	11	1,128,304	1,058,249
Amounts due to related parties	10	35,448	78,588
Advances from customers		420,934	361,768
Murabaha and tawarruq finances	13	2,751,901	2,591,748
Short term loans	14	80,893	97,398
Current portion of term loans	15	91,160	313,227
Total current liabilities		4,508,640	4,500,978
Non-current liabilities			
Term loans	15	170,988	218,962
Employees' terminal benefits		310,625	272,063
Long term payables		36,925	15,795
Total non-current liabilities		518,538	506,820
TOTAL LIABILITIES		5,027,178	5,007,798
Stockholders' equity and non-controlling interests			
Share capital	16	600,000	600,000
Statutory reserve	26	228,136	204,600
Retained earnings		728,024	623,204
Proposed cash dividends	17	60,000	45,000
Unrealised loss on investments		-	(1,916)
Translation loss on consolidation		(7,618)	(21,708)
Total stockholders' equity		1,608,542	1,449,180
Non-controlling interests	18	272,139	258,942
Total stockholders' equity and non-controlling interests		1,880,681	1,708,122
TOTAL LIABILITIES, STOCKHOLDERS' EQUITY AND NON-CONTROLLING INTERESTS		6,907,859	6,715,920

The accompanying notes form an integral part of these consolidated financial statements

ZAMIL INDUSTRIAL INVESTMENT COMPANY AND SUBSIDIARIES
(SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 2013

	Note	2013 SR 000	2012 SR 000
Net sales	10,23	5,399,103	5,354,874
Income from finance lease	6	14,881	-
Total revenue		5,413,984	5,354,874
Cost of operations	10	(4,107,170)	(4,189,754)
Gross profit		1,306,814	1,165,120
Expenses			
Selling and distribution	19	499,266	419,792
General and administration	20	404,520	377,303
Amortisation of deferred charges	8	2,591	2,831
		906,377	799,926
Income from main operations	23	400,437	365,194
Permanent translation loss on consolidation		(29,249)	-
Other income, net	21	11,817	12,467
Impairment of goodwill	9	(11,363)	-
Financial charges	22	(85,800)	(89,413)
Income before share in results of associates and non-controlling interests, zakat and taxes		285,842	288,248
Share of profit (loss) in associates, net	5	1,564	(4,081)
Income before non-controlling interest, zakat and taxes		287,406	284,167
Non-controlling interests		(17,143)	(35,732)
Income before zakat and taxes		270,263	248,435
Foreign taxes		(12,299)	(3,047)
Zakat	12	(22,608)	(43,934)
NET INCOME FOR THE YEAR		235,356	201,454
Earnings per share from net income		SR 3.92	SR 3.36
Earnings per share from continuing main operations		SR 3.72	SR 3.15
Earnings per share from other operations		SR 0.20	SR 0.21
Weighted average number of shares		60,000,000	60,000,000

The accompanying notes form an integral part of these consolidated financial statements

ZAMIL INDUSTRIAL INVESTMENT COMPANY AND SUBSIDIARIES
(SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2013

	2013 SR 000	2012 SR 000
OPERATING ACTIVITIES		
Income before zakat and taxes	270,263	248,435
Adjustments for:		
Depreciation	139,141	146,006
Employees' terminal benefits, net	38,562	22,528
Loss (gain) on disposals of property, plant and equipment	536	(1,206)
Loss (gain) on sale of investments	369	(3,197)
Non-controlling interests	17,143	35,732
Share in results in associates, net	(1,564)	4,081
Amortisation of deferred charges	2,591	3,037
Impairment of goodwill	11,363	-
Permanent translation loss on consolidation	29,249	-
Financial charges	85,800	89,413
	<u>593,453</u>	<u>544,829</u>
Changes in operating assets and liabilities:		
Inventories	(130,469)	66,374
Receivables	(118,902)	(314,957)
Net investment in finance lease	(19,852)	-
Payables	85,654	167,764
Cash from operations	<u>409,884</u>	<u>464,010</u>
Financial charges paid	(85,800)	(89,413)
Zakat and foreign taxes paid	(22,464)	(67,701)
Net cash from operating activities	<u>301,620</u>	<u>306,896</u>
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(190,927)	(228,800)
Proceeds from disposals of property, plant and equipment	18,608	2,051
Proceed from sale of investments	18,883	9,537
Deferred charges incurred	(1,804)	(8,283)
Net cash used in investing activities	<u>(155,240)</u>	<u>(225,495)</u>
FINANCING ACTIVITIES		
Dividends paid	(90,000)	(90,000)
Term loans, net	(270,041)	(142,849)
Change in short term loans, murabaha and tawarruq finances	143,648	204,912
Non-controlling interests, net	(3,946)	(8,771)
Net cash used in financing activities	<u>(220,339)</u>	<u>(36,708)</u>
Net increase (decrease) in cash and cash equivalents	<u>(73,959)</u>	<u>44,693</u>
Cash and cash equivalents at the beginning of the year	338,820	285,867
Cash and cash equivalents acquired during the year	-	10,827
Cash and cash equivalents of a consolidated subsidiary (Note 1)	1,000	-
Movement in translation loss, net	2,696	(2,567)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>268,557</u>	<u>338,820</u>
Non-cash transaction:		
Capitalisation of front end fee	<u>1,220</u>	-

The accompanying notes form an integral part of these consolidated financial statements

ZAMIL INDUSTRIAL INVESTMENT COMPANY AND SUBSIDIARIES
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CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
YEAR ENDED DECEMBER 31, 2013

	Share capital SR	Statutory reserve SR	Retained earnings SR	Proposed cash dividends SR	Unrealised loss on investment SR	Translation loss on consolidation SR	Total SR
January 1, 2012	600,000	184,455	533,695	45,000	(1,075)	(12,403)	1,349,672
Net income for the year	-	-	201,454	-	-	-	201,454
Transfer to statutory reserve	-	20,145	(20,145)	-	-	-	-
Directors' remuneration (note 10)	-	-	(1,800)	-	-	-	(1,800)
Dividends paid (note 17)	-	-	(45,000)	(45,000)	-	-	(90,000)
Proposed cash dividends (note 17)	-	-	(45,000)	45,000	-	-	-
Movement during the year, net	-	-	-	-	(841)	(9,305)	(10,146)
December 31, 2012	600,000	204,600	623,204	45,000	(1,916)	(21,708)	1,449,180
Net income for the year	-	-	235,356	-	-	-	235,356
Transfer to statutory reserve	-	23,536	(23,536)	-	-	-	-
Directors' remuneration (note 10)	-	-	(2,000)	-	-	-	(2,000)
Dividends paid (note 17)	-	-	(45,000)	(45,000)	-	-	(90,000)
Proposed cash dividends (note 17)	-	-	(60,000)	60,000	-	-	-
Movement during the year, net	-	-	-	-	1,916	14,090	16,006
December 31, 2013	600,000	228,136	728,024	60,000	-	(7,618)	1,608,542

The accompanying notes form an integral part of these consolidated financial statements

ZAMIL INDUSTRIAL INVESTMENT COMPANY AND SUBSIDIARIES
(SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013

1. ORGANIZATION 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 Glass Industries, engaged in the production of glass.

Subsidiaries:

	Effective ownership percentage	
	2013	2012
Universal Building Systems Limited – Jersey	100	100
Zamil Steel Holding Company and subsidiaries - Saudi Arabia	100	100
Zamil Air Conditioners and Household Appliances - Saudi Arabia	100	100
Zamil Cool Care Services – Saudi Arabia	100	100
Zamil Central Air Conditioners – Saudi Arabia	100	100
Zamil Air Conditioners Holding Company – Saudi Arabia	100	100
Zamil Steel Buildings Company – Egypt	100	100
Zamil Steel Buildings (Shanghai) Company Limited – China	100	100
Zamil Steel, Polska – Poland	-	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
Ikhteban – 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 Construction 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 Higher Institute for Industrial Training Company Limited – Saudi Arabia	100	100

ZAMIL INDUSTRIAL INVESTMENT COMPANY AND SUBSIDIARIES
(SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2013

1. ORGANIZATION AND ACTIVITIES (Continued)

Subsidiaries: (Continued)	Effective ownership percentage	
	2013	2012
Zamil Industrial Investment Company Asia Pte. Ltd. – Singapore	100	100
Second Insulation Company Limited – Saudi Arabia	100	100
Eastern District Cooling Company Limited	100	100
Zamil Air Conditioner India Private Limited – India (formerly known as Advantec Coils Private Limited)	100	100
Canam Asia Limited – Saudi Arabia	100	100
Gulf Insulation Group and subsidiaries	51	51
Zamil Steel Buildings – Vietnam Company Limited	92.27	92.27
Middle East Air Conditioners Company Limited – Saudi Arabia	51	51
Zamil Hudson Company Limited – Saudi Arabia	50	50
Petro-Chem Zamil Company Limited – Saudi Arabia	50	50
Rabiah and Nasser and 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.

In 2012, the parent company acquired controlling interest in an existing investee company, Zamil Air Conditioner India Private Limited (formerly known as Advantec Coils (Pvt) Ltd., India), which has become a wholly owned subsidiary effective January 1, 2012. The operations of Zamil Air Conditioner India Private Limited with a carrying value of net assets amounting to SR 23.2 million as at January 1, 2012 have been consolidated in the consolidated financial statements resulting in an initial goodwill recognition of SR 36.9 million after translation loss effect. Based on additional information obtained and after purchase price allocation to the identifiable assets of the acquiree, the Goodwill has been adjusted down to SR 26.3 million. During the year, the Company has recorded an impairment loss of SR 11.36 million against the goodwill considering the market condition in India and the depreciation of Indian rupee.

In 2012, the parent company disposed off 45% interest in Geoclimate S.r.l., Italy (a subsidiary) and recognized a gain of SR 3.2 million. The investee company has been deconsolidated and recognized as an investment in associates by using equity method.

In 2011, Second Insulation Company, a wholly owned subsidiary of the parent Company, acquired 51% of controlling interest in Gulf Insulation Group, a Saudi closed joint stock company registered in Saudi Arabia. Gulf Insulation Group (GIG) has the following subsidiaries and an associate:

	Ownership of GIG %
Saudi Preinsulated Pipes Industries Company Limited (SPPI)	100%
First Insulation Company Limited (FIC)	100%
Arabian Fiberglass Insulation Company Limited (AFICO)	51%
Armacell Zamil Middle East Company Limited	49%

In 2012, the Company acquired the remaining non-controlling interests in Canam Asia to make it as a wholly owned subsidiary without any additional cost to the Company.

ZAMIL INDUSTRIAL INVESTMENT COMPANY AND SUBSIDIARIES
(SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2013

1. ORGANIZATION AND ACTIVITIES (Continued)

The parent company's investment in Eastern District Cooling Company Limited ("EDCC"), has been consolidated effective January 1, 2013 as EDCC started its commercial operations in 2013 and the net assets of EDCC as at December 31, 2012 was SR 72.67 million as detailed below:

	<u>SR 000</u>
Cash and cash equivalent	1,000
Accounts receivables, prepayments and other current assets	7,741
Long term lease receivable	<u>443,127</u>
Total assets	451,868
Less: Accounts payable and accruals	<u>379,202</u>
Net assets of subsidiaries acquired at January 1, 2013	<u>72,666</u>

As at December 31, 2012, one of the subsidiaries of the parent company has given an advance of SR 338.87 million to EDCC to finance the project cost.

During the year, Zamil Steel, Polska – Poland, a wholly owned subsidiary of the Company was liquidated.

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. SUMMARY OF 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.

Inventories

Inventories are stated at the lower of cost and net realisable 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 labour plus attributable overheads based on normal level of activity.

**ZAMIL INDUSTRIAL INVESTMENT COMPANY AND SUBSIDIARIES
(SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2013**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 consolidated 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.

Net investment in finance lease

Leases in which the Group transfers substantially all the risks and rewards incidental to the ownership of an asset to the lessee are classified as finance leases. A receivable is recognized at an amount equal to the present value of the lease payments which is included in the consolidated financial statements as "net investment in finance lease".

Business combination and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the acquirer measures the non-controlling interests 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 recognised in the consolidated statement of income.

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

**ZAMIL INDUSTRIAL INVESTMENT COMPANY AND SUBSIDIARIES
(SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2013**

2. SUMMARY OF 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 recognised 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.

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

	<u>Years</u>
Buildings on leasehold land	20 – 40
Plant, equipment, furniture, fixtures and vehicles	2 – 20

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

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 recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Where an impairment loss subsequently reverses, the carrying value of the asset (or 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 (or cash-generating unit) in prior years. The reversal of impairment loss other than goodwill is recognized as income once identified.

**ZAMIL INDUSTRIAL INVESTMENT COMPANY AND SUBSIDIARIES
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2013**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred charges

Expenses which have a long term future benefit are treated as deferred charges and are amortised 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.

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 directly to the consolidated statement of income. The zakat charge and income tax, assessable on the non-controlling stockholders is included in non-controlling interests.

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 and pressure vessels jobs, revenue and proportionate profit are recognised 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 stockholders' equity. Translation loss that is considered permanent is charged to the consolidated statement of income.

**ZAMIL INDUSTRIAL INVESTMENT COMPANY AND SUBSIDIARIES
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2013**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Earnings per share

Earnings per share are computed by dividing net income for the year by the weighted average number of shares outstanding during the year ended December 31, 2013 of 60 million shares (2012: 60 million shares).

Earnings per share from the continuing main operations are computed by dividing the operating income adjusted with zakat and tax, finance charges, net share of loss from associates and non-controlling interests for the period by the weighted average number of shares outstanding.

Earnings per share from other operations are computed by dividing the other income for the periods by the weighted average number of shares outstanding.

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 finance 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

	2013 SR 000	2012 SR 000
Trade accounts and notes receivable	1,585,216	1,559,119
Prepaid expenses	43,315	38,356
Retentions receivable	36,317	47,077
Advances, deposits and other receivables	218,205	211,993
Revenue recognised in excess of billings	356,112	241,120
	<u>2,239,165</u>	<u>2,097,665</u>

4. INVENTORIES

	2013 SR 000	2012 SR 000
Materials, supplies and stores	1,113,931	1,053,250
Work-in-progress	165,945	205,994
Finished goods	545,999	399,906
Goods-in-transit	124,859	161,115
	<u>1,950,734</u>	<u>1,820,265</u>

ZAMIL INDUSTRIAL INVESTMENT COMPANY AND SUBSIDIARIES
(SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2013

5. INVESTMENTS

	2013	2012
	SR 000	SR 000
Investments in listed companies	-	8,796
Unrealised loss on revaluation	-	(1,916)
Available for sale investments	-	6,880
Investment in associates	122,266	131,357
Investment in an unconsolidated subsidiary	-	72,666
Other investments	46,586	46,586
	168,852	257,489

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

1. During the year, the parent company has sold its investment of 27.5% share in Saudi Aerated Concrete Industries Company, a Saudi limited liability company, and recognized a gain of SR 0.22 million.
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. 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.
5. 51% share in Zamil Infra Private Limited. 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.
6. 20.83% 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. In 2012, 45% shares in Geoclima S.r.l was disposed off out of 85% share held as at December 31, 2011 and therefore, Geoclima S.r.l. deconsolidated during 2012 and remaining 40% shares in Geoclima S.r.l. is recognized as an investment in associates.

ZAMIL INDUSTRIAL INVESTMENT COMPANY AND SUBSIDIARIES
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2013

5. INVESTMENTS (continued)

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

	2013 SR 000	2012 SR 000
Working capital	106,733	141,897
Other assets - net of liabilities	138,000	126,575
Net assets	<u>244,733</u>	<u>268,472</u>
The group's equity in net assets	<u>122,266</u>	<u>134,290</u>
Revenue	<u>290,157</u>	<u>244,389</u>
Net gain (loss)	<u>2,057</u>	<u>(26,446)</u>
The group's share of profit (loss)	<u>1,564</u>	<u>(4,081)</u>

Investment in an unconsolidated subsidiary comprised of 100% share in Eastern District Cooling Company Limited, a Saudi limited liability company. The Company's investment in Eastern District Cooling Company Limited ("EDCC") has been consolidated effective January 1, 2013 as the subsidiary started its commercial operations in 2013 (note 1).

Other investments comprise of 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.

During the year, the parent company sold its available for sale investments and recognized a gain of SR 1.12 million.

6. NET INVESTMENT IN FINANCE LEASE

Eastern District Cooling Company ("EDCC"), a subsidiary of the Company, has entered into a Energy Performance Contract wherein it has agreed to design, construct, own, operate and maintain a District Cooling Plant (DCP) at the plant premises of a customer for a fixed term as stipulated in the contract. At the end of the contract term, the ownership of DCP will be transferred to the customer. Under the agreement, the customer has to make monthly payments to the Eastern District Cooling Company over the contract term. This agreement has been considered as a finance lease under IFRIC-4 and SOCPA and the total estimated minimum lease payments will be SR 654.5 million at December 31, 2013.

Net investment in finance lease comprises of the following:

	2013 SR 000
Minimum lease payments (gross investment in lease)	654,522
Less: unearned income	<u>191,543</u>
Net finance lease receivables	462,979
Less: current portion	<u>18,287</u>
Non-current portion	<u>444,692</u>

ZAMIL INDUSTRIAL INVESTMENT COMPANY AND SUBSIDIARIES
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2013

6. NET INVESTMENT IN FINANCE LEASE (continued)

Minimum lease payments under finance lease are as follows:

	2013 SR 000
Within one year	37,578
Year two	37,578
Year three	37,578
Year four	37,578
Year five	37,578
Later than five years	466,632
	<u>654,522</u>

Finance lease income earned during the year was SR 14.88 million. The total finance lease income is allocated to the accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding with respect to the lease. The periodic rate of return used by the Company is 4.24% per annum.

7. PROPERTY, PLANT AND EQUIPMENT

	Freehold land SR 000	Buildings on leasehold land SR 000	Plant, equipment, furniture, fixtures and vehicles SR 000	Capital work-in- progress SR 000	Total 2013 SR 000	Total 2012 SR 000
Cost:						
January 1	93,797	783,601	1,593,808	486,584	2,957,790	2,673,294
Additions	-	14,770	75,922	101,455	192,147	228,800
Purchase price allocations	-	-	-	-	-	384,22
Acquisition of subsidiaries	-	-	-	-	-	62,551
Disposals	-	(3,218)	(78,142)	(2,115)	(83,475)	(35,952)
Transfers	-	48,445	46,657	(96,925)	(1,823)	-
Translation loss	(1,163)	(7,087)	(17,673)	(118)	(26,041)	(9,325)
December 31	<u>92,634</u>	<u>836,511</u>	<u>1,620,572</u>	<u>488,881</u>	<u>3,038,598</u>	<u>2,957,790</u>
Depreciation:						
January 1	-	334,670	1,030,230	-	1,364,900	1,228,792
Charge for the year	-	32,690	106,451	-	139,141	146,006
Acquisition of subsidiaries	-	-	-	-	-	19,611
Transfers	-	-	(1,112)	-	(1,112)	-
Disposals	-	(1,728)	(62,603)	-	(64,331)	(26,484)
Translation loss	-	(1,180)	(7,205)	-	(8,385)	(3,025)
December 31	<u>-</u>	<u>364,452</u>	<u>1,065,761</u>	<u>-</u>	<u>1,430,213</u>	<u>1,364,900</u>
Net book value						
At 31 December 2013	<u>92,634</u>	<u>472,059</u>	<u>554,811</u>	<u>488,881</u>	<u>1,608,385</u>	<u>-</u>
At 31 December 2012	93,797	448,931	563,578	486,584	-	1,592,890

ZAMIL INDUSTRIAL INVESTMENT COMPANY AND SUBSIDIARIES
(SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2013

7. PROPERTY, PLANT AND EQUIPMENT (continued)

Capital work-in-progress represents mainly the cost incurred in respect of new building, expansion, upgrading of production facilities, new production line under construction, plant and equipment acquired for general modernisation for Zamil Steel Holding Company (Saudi Arabia), Zamil Air Conditioners (Saudi Arabia), Gulf Insulation Group (Saudi Arabia) and its subsidiaries, Zamil Structure Steel – Egypt, Rabiah and Nassar & Zamil Concrete Industrial Co. Ltd. (Saudi Arabia) and for other subsidiaries.

Certain property plant and equipment of the consolidated subsidiaries are mortgaged as a security against the loans obtained from the financial institutions (see note 15).

8. DEFERRED CHARGES

	2013 SR 000	2012 SR 000
At the beginning of the year	16,706	11,777
Incurred during the year	1,804	8,283
Transfers, net	(509)	(317)
Amortised during the year	(2,591)	(3,037)
At the end of the year	<u>15,410</u>	<u>16,706</u>

9. GOODWILL

	2013 SR 000	2012 SR 000
Goodwill recognized on acquiring subsidiaries	<u>158,543</u>	<u>169,906</u>

At the December 31, 2011, purchase consideration exceeded net book value of Gulf Insulation Group (“GIG”) by SR 114 million. The group’s management allocated the consideration paid to the respective assets based on the additional information obtained during the measurement period and the resultant amount was reduced from the goodwill of the Group amounting to SR 27.8 million.

In 2012, 45% shares in Geoclima S.r.l was disposed off out of 85% share held as at December 31, 2011 and therefore, Geoclima S.r.l. deconsolidated in 2012 onwards and consequently related goodwill amounted to SR 3.2 million was derecognised.

In 2012, the Company acquired additional 70% shares in Zamil Air Conditioner India Private Limited (formerly known as Advantec Coils (Pvt) Ltd., India) that resulted in an initial recognition of goodwill amounting to SR 36.9 million after translation loss effect. Based on the additional information obtained and after purchase price allocation to the identifiable assets of the acquiree, the Goodwill has been adjusted down to SR 26.3 million. During the year, the Company has recorded an impairment loss of SR 11.36 million against the goodwill considering the market condition in India and the depreciation of Indian rupee.

ZAMIL INDUSTRIAL INVESTMENT COMPANY AND SUBSIDIARIES
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2013

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:

	2013 SR 000	2012 SR 000
Companies affiliated to Al Zamil Group:		
Purchase of goods and services	99,557	110,085
Sale of goods and services	<u>(11,963)</u>	<u>(45,878)</u>

The group also paid SR 5.7 million (2012: SR 6.0 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 (2012: SR 1.8 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

	2013 SR 000	2012 SR 000
Trade accounts and notes payable	387,222	357,286
Accrued contractual costs	116,320	103,776
Accrued expenses and provisions	493,815	503,094
Zakat provision (note 12)	50,639	38,196
Billings in excess of value of work executed	80,308	55,897
	<u>1,128,304</u>	<u>1,058,249</u>

12. ZAKAT

The zakat charge for the year consists of:

	2013 SR 000	2012 SR 000
Current year provision	<u>22,608</u>	<u>43,934</u>

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

	2013 SR 000	2012 SR 000
Equity	1,337,604	1,228,150
Opening provisions and other adjustments	363,943	366,413
Book value of long term assets net of long term liabilities	<u>(1,567,192)</u>	<u>(1,446,424)</u>
	134,355	148,139
Zakatable profit for the year	<u>295,669</u>	<u>273,961</u>
Zakat base	<u>430,024</u>	<u>422,100</u>

ZAMIL INDUSTRIAL INVESTMENT COMPANY AND SUBSIDIARIES
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2013

12. ZAKAT (continued)

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:

	2013 SR 000	2012 SR 000
At the beginning of the year	38,196	58,916
Provided during the year	22,608	43,934
Payments during the year	(10,165)	(64,654)
At the end of the year	50,639	38,196

Status of assessments

Zakat assessments have been agreed with the Department of Zakat and Income Tax (the DZIT) up to 2010. The 2011 and 2012 assessments are under the DZIT's review.

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

	2013 SR 000	2012 SR 000
Loan No. 1	92,405	113,789
Loan No. 2	-	225,000
Loan No. 3	33,280	66,640
Loan No. 4	24,706	36,471
Loan No. 5	-	1,254
Loan No. 6	76,597	53,159
Loan No. 7	35,160	35,876
	262,148	532,189
Less: current portion	(91,160)	(313,227)
	170,988	218,962

**ZAMIL INDUSTRIAL INVESTMENT COMPANY AND SUBSIDIARIES
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2013**

15. TERM LOANS (continued)

Loan No. 1 represents the loans obtained by Zamil Steel Holding Company, Building Component Solutions and Arabian Fiberglass Insulation Company Limited from Saudi Industrial Development Fund ("SIDF"). These loans carry appraisal fees which are being amortised over the terms of the loans and are repayable in semi-annual unequal instalments, the last being payable on 15/10/1439H (corresponding to 29 June 2018). At 31 December 2013, the SIDF loans outstanding were SR 92.4 million (2012: SR 113.8 million) including current portion of SR 29.0 million (2012: SR 23.4 million). The loans are secured by mortgage over the property, plant and equipment of the consolidated subsidiaries. The loans agreements also contain certain covenants in respect of maintenance of financial ratios.

Loan No. 2 represents loans obtained by the parent company amounting to SR 1,000 million from local banks to finance its working capital requirements. These loans are repayable in half yearly and yearly unequal instalments. The loans carry finance charges at SIBOR plus a margin and these loans were secured by corporate guarantees and order notes. During the year, the parent company has repaid the amount in full.

Loan No. 3 represents a loan obtained by the parent company amounting to SR 100 million from a local bank. At 31 December 2013, the outstanding loan was SR 33.3 million (2012: SR 66.6 million) including a current portion of SR 33.3 million (2012: SR 33.4 million). The loan is payable in half yearly equal instalments.

Loan No. 4 represents the loan amounting to SR 40 million from a local bank obtained by Arabian Fiberglass Insulation Company Limited, a subsidiary of Gulf Insulation Group. At 31 December 2013, the loan outstanding was SR 24.7 million (2012: SR 36.5 million) including current portion of SR 16.5 million (2012: SR 14.1 million). The loan is repayable in 34 equal monthly instalments.

Loan No. 5 represents the term loan obtained by Saudi Preinsulated Pipes Industries Company ("SPPI"), a subsidiary of Gulf Insulation Group, amounting to SR 7.5 million from a local bank. The loan is repayable in six quarterly equal instalments. During the year, SPPI has repaid the amount in full.

Loan No. 6 represents short term loan obtained by Gulf Insulation Group which has an outstanding balance of SR 76.6 million (2012: SR 53.2 million) as at year end. The loan carries finance charges at commercial rate. The management has classified these loans as non-current liabilities in the consolidated financial statement as GIG committed to bridge these loans with SIDF loans.

Loan No. 7 represents various loans obtained by Rabiah-Nassar and Zamil Concrete Industries Company Limited, a subsidiary, from a local commercial bank for its working capital and capital expenditure requirements. At 31 December 2013, the loan outstanding was SR 35.2 million (2012: SR 35.9 million) including a current portion of SR 12.4 million (2012: SR 16.1 million). These loans are repayable in 1 to 3 years.

Loan instalments due in 2014 are shown as current liabilities.

16. SHARE CAPITAL

The share capital of the parent company amounting to SR 600 million (2012: SR 600 million) is divided into 60 million shares of SR 10 each (2012: 60 million share of SR 10 each).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2013

17. PROPOSED CASH DIVIDENDS

In 2013, the parent company paid a cash dividend of SR 0.75 per share totalling SR 45 million for the year 2012 (2012 – SR 0.75 per share totalling SR 45 million for the year 2011).

In 2013, the parent company also paid an interim dividend of SR 0.75 per share totalling SR 45 million for the year 2013 (2012 – Interim dividend of SR 0.75 per share totalling SR 45 million).

The board of directors have proposed a final cash dividend of SR 1.00 per share for the year 2013 totalling SR 60 million being 10% of the share capital (2012: SR 0.75 per share totalling SR 45 million being 7.5% of the share capital) for the approval of the stockholders in their annual general assembly.

18. NON-CONTROLLING INTERESTS

Non-controlling interests are as follows:

	<u>2013</u>	<u>2012</u>
	%	%
Zamil Hudson Company Ltd.	50	50
Petro-Chem Zamil Company Limited	50	50
Rabiah and Nasser & Zamil Concrete Industrial Company Limited	50	50
Middle East Airconditioners Company Limited	49	49
Gulf Insulation Group	49	49
Zamil Steel Buildings - Vietnam Company Limited	7.73	7.73

19. SELLING AND DISTRIBUTION EXPENSES

	<u>2013</u>	<u>2012</u>
	SR 000	SR 000
Employee costs	254,029	220,852
Advertising and sales promotion	50,112	45,854
Services	23,605	14,806
Rent and utilities	7,248	6,219
Transportation, business travel and entertainment	73,655	52,174
Warranty	42,093	22,476
Depreciation	10,751	9,750
Repairs and maintenance	1,620	2,134
Provision for doubtful debts	14,939	12,854
Others	21,214	32,673
	<u>499,266</u>	<u>419,792</u>

20. GENERAL AND ADMINISTRATION EXPENSES

	<u>2013</u>	<u>2012</u>
	SR 000	SR 000
Employee costs	291,079	261,722
Depreciation	16,170	21,067
Services	70,911	68,194
Supplies	2,501	2,556
Others	23,859	23,764
	<u>404,520</u>	<u>377,303</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2013

21. OTHER INCOME, NET

	2013 SR 000	2012 SR 000
Exchange loss	(3,301)	(1,446)
(Loss) gain on sale of investments	(369)	3,197
Dividend income	1,784	2,076
(Loss) gain on disposal of property, plant and equipment	(536)	1,206
Others	14,239	7,434
	11,817	12,467

22. FINANCIAL CHARGES

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

23. SEGMENTAL ANALYSIS

(a) Analysis of revenue, operating income (loss) and net assets by activities:

	Revenue SR 000		Operating income (loss) SR 000		Net assets SR 000	
	2013	2012	2013	2012	2013	2012
Air conditioner industry	2,228,380	2,184,563	190,874	191,444	641,861	461,717
Steel industry	2,697,288	2,689,364	203,822	144,485	927,603	851,451
Insulation	298,649	322,970	29,017	40,282	100,118	114,672
Concrete	182,219	156,444	1,408	13,695	27,448	29,592
Head office and others	7,448	1,533	(24,684)	(24,712)	(88,488)	(8,252)
	5,413,984	5,354,874	400,437	365,194	1,608,542	1,449,180

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

	Revenue SR 000		Operating income SR 000	
	2013	2012	2013	2012
Saudi Arabia:				
Local sales	3,970,935	3,512,949	300,833	273,163
Export sales	508,352	838,163	40,585	54,802
Total sales of Saudi Arabia	4,479,287	4,351,112	341,418	327,965
Other Asian countries	611,791	677,683	42,454	25,389
Africa	310,270	310,980	17,074	12,614
Europe	12,636	15,099	(509)	(774)
	5,413,984	5,354,874	400,437	365,194

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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24. CONTINGENT LIABILITIES

The group's bankers have issued, on behalf of the group, performance bonds in respect of certain contracts and letters of credit amounting to SR 1,170 million (2012: SR 995 million) and SR 122 million (2012: SR 209 million) respectively.

25. CAPITAL COMMITMENTS

The directors have approved future capital expenditure amounting to SR 87.72 million (2012: SR 73.85 million).

26. STATUTORY RESERVE

In accordance with Regulations for Companies in Saudi Arabia, the Company has established a statutory reserve by the appropriation of 10% of net income until the reserve equals 50% of the share capital. This reserve is not available for dividend distribution.

27. 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.

28. 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 murabah, 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.

29. COMPARATIVE FIGURES

Certain figures for 2012 have been reclassified to conform with the presentation in the current year.