

SAUDI INDUSTRIAL SERVICES COMPANY
(A Saudi Joint Stock Company)

**UNAUDITED INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS**
For the three-month period and year ended December 31, 2013

**KPMG Al Fozan & Al Sadhan**

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REVIEW REPORT ON THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Shareholders
Saudi Industrial Services Company
Jeddah, Kingdom of Saudi Arabia.

Scope of review

We have reviewed the accompanying interim consolidated balance sheet of Saudi Industrial Services Company and its subsidiaries ("collectively referred as the Group") as at December 31, 2013, the related interim consolidated statement of income for the three-month period and the year then ended, interim consolidated statements of cash flows and changes in equity for the year then ended and the attached notes 1 to 17 which form an integral part of these interim condensed consolidated financial statements. These interim condensed consolidated financial statements are the responsibility of the Group's management and have been prepared by them and submitted to us together with all the information and explanations which we required. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

We conducted our review in accordance with the Auditing Standard on Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants (SOCPA). A review consists principally of applying analytical procedures to financial data and information and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim condensed consolidated financial statements for them to be in conformity with accounting standards generally accepted in the Kingdom of Saudi Arabia.

For KPMG Al Fozan & Al Sadhan

Ebrahim Oboud Baeshen
License No. 382

Rabi Al-Awwal 19, 1435H
Corresponding to January 20, 2014



SAUDI INSUTRIAL SERVICES COMPANY
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED BALANCE SHEET

As at December 31, 2013

(Expressed in Saudi Arabian Riyals)

	<u>Notes</u>	<u>2013</u> (Unaudited)	<u>2012</u> (Audited)
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents		209,418,166	163,051,365
Accounts and other receivables		102,640,328	100,078,385
Inventories		18,959,084	14,912,033
Total current assets		331,017,578	278,041,783
Non-current assets:			
Investments	4	87,984,296	67,591,867
Property, plant and equipment	5	606,755,716	565,766,267
Intangible assets - quay project	6	1,491,716,746	1,561,300,954
Goodwill	7	8,776,760	8,776,760
Assets classified as held for disposal	12	620,426	--
Total non-current assets		2,195,853,944	2,203,435,848
Total assets		2,526,871,522	2,481,477,631
<u>LIABILITIES AND EQUITY</u>			
Current liabilities:			
Accounts payable and other current liabilities		114,972,713	121,252,100
Current portion of long-term loans and bank facilities	8	102,566,595	89,870,593
Total current liabilities		217,539,308	211,122,693
Non-current liabilities:			
Long-term loans and bank facilities, non-current portion	8	1,038,556,684	1,096,520,241
Other long-term obligations	6	30,786,188	26,372,097
Employees' end of service benefits		13,755,942	11,204,387
Derivative financial instruments	9	6,407,680	13,371,293
Liabilities classified as held for disposal	12	120,980	--
Total non-current liabilities		1,089,627,474	1,147,468,018
Total liabilities		1,307,166,782	1,358,590,711
Equity:			
Share capital		680,000,000	680,000,000
Share premium		36,409,063	36,409,063
Statutory reserve		13,690,853	8,086,871
Special reserve		6,835,883	4,033,892
Effect of reducing the ownership percentage in a subsidiary		4,653,218	4,653,218
Cash flow hedging reserve		(3,923,156)	(8,103,003)
Retained earnings		88,739,737	41,105,886
Equity attributable to the shareholders' of Parent Company		826,405,598	766,185,927
Non-controlling interests		393,299,142	356,700,993
Total equity		1,219,704,740	1,122,886,920
Total liabilities and equity		2,526,871,522	2,481,477,631

The accompanying notes 1 to 17 form an integral part of these unaudited interim condensed consolidated financial statements.

SAUDI INSUTRIAL SERVICES COMPANY
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF INCOME
For the three-month period and year ended December 31, 2013
(Expressed in Saudi Arabian Riyals)

	Notes	<u>Three-month period ended</u>		<u>For the year ended</u>	
		<u>December 31,</u>	<u>December 31,</u>	<u>December 31,</u>	<u>December 31,</u>
		<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
		<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Audited)</u>
Continuing operations:					
Revenue	10	125,596,199	122,829,739	520,023,921	473,441,399
Cost of revenue		(63,412,252)	(60,570,723)	(257,516,810)	(257,660,676)
Gross profit		62,183,947	62,259,016	262,507,111	215,780,723
Selling and distribution expenses		(1,570,105)	(2,916,699)	(12,443,006)	(11,887,101)
General and administrative expenses		(28,316,514)	(27,120,604)	(108,122,597)	(92,499,229)
Operating profit		32,297,328	32,221,713	141,941,508	111,394,393
Share of results from equity accounted associates, net		(525,478)	(3,327,702)	(1,254,882)	(8,072,270)
Other income / (expenses), net	11	1,073,297	(1,230,216)	594,015	10,597,627
Financial charges		(9,353,348)	(10,168,372)	(36,702,510)	(33,398,630)
Net income before Zakat and non- controlling interests from continued operations		23,491,799	17,495,423	104,578,131	80,521,120
Discontinued operations:					
Net loss for the period / year from discontinued operation	12	(1,485,520)	(362,291)	(1,485,520)	(183,519)
Net income before Zakat and non- controlling interests		22,006,279	17,133,132	103,092,611	80,337,601
Zakat		(987,345)	(171,226)	(6,465,227)	(5,584,251)
Net income before non-controlling interests		21,018,934	16,961,906	96,627,384	74,753,350
Income attributable to non- controlling interests		(9,255,148)	(8,107,057)	(40,587,560)	(36,527,120)
Net income for the period		11,763,786	8,854,849	56,039,824	38,226,230
Earnings per share on operating Profit from operating	13	0.47	0.47	2.09	1.64
Earnings per share from net income for the period	13	0.17	0.13	0.82	0.56

The accompanying notes 1 to 17 form an integral part
of these unaudited interim condensed consolidated financial statements.

SAUDI INDUSTRIAL SERVICES COMPANY
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INTERIM CONSOLIDATED STATEMENT OF CASHFLOWS

For the year ended December 31, 2013

(Expressed in Saudi Arabian Riyals)

	<u>Notes</u>	<u>2013</u> (Unaudited)	<u>2012</u> (Audited)
Operating activities:			
Income before Zakat and non-controlling interests from continued operations		104,578,131	80,521,120
Adjustments for:			
Depreciation and amortization		105,954,933	103,713,265
Provision for employees' end of service benefits		3,932,089	3,166,930
Loss on disposal of property, plant and equipment		1,417,088	5,062,256
Share of loss from equity accounted associates		1,254,882	8,072,270
Other long-term obligations		--	9,332,835
Impairment loss	5	9,359,646	--
Financial charges		36,702,510	33,398,630
Write back of provision no longer required		--	(10,000,000)
Impairment loss on assets classified as held for sale		793,280	--
Loss on discontinued operations	12	(1,485,520)	(183,519)
		<u>262,507,039</u>	<u>233,083,787</u>
Changes in operating assets and liabilities:			
Accounts and other receivables		(2,582,369)	(34,246,885)
Inventories		(4,047,051)	(3,837,527)
Accounts payable and other current liabilities		(8,474,191)	17,579,031
Cash generated from operating activities		<u>247,403,428</u>	<u>212,578,406</u>
Employees' end of service benefits paid		(1,370,480)	(594,904)
Deferred charges		--	47,710
Financial charges paid		(36,702,510)	(33,398,630)
Zakat paid		(4,159,496)	(5,438,127)
Net cash generated from operating activities		<u>205,170,942</u>	<u>173,194,455</u>
Investing activities:			
Investment in associates		(21,647,311)	6,679,971
Additions to property, plant and equipment and intangible assets		(90,894,496)	(99,373,408)
Dividend from an associate		--	2,450,000
Proceeds from disposal of property, plant and equipment		1,364,307	461,793
Net cash used in investing activities		<u>(111,177,500)</u>	<u>(89,781,644)</u>
Financing activities:			
Net change in loans and bank facilities		(45,267,555)	(136,372,419)
Net change in other long-term obligations		4,414,091	--
Net movement in non-controlling interests		(6,773,177)	(3,893,576)
Net cash used in financing activities		<u>(47,626,641)</u>	<u>(140,265,995)</u>
Net change in cash and cash equivalents		46,366,801	(56,853,184)
Cash and cash equivalents at the beginning of the year		<u>163,051,365</u>	<u>219,904,549</u>
Cash and cash equivalents at the end of the year		<u>209,418,166</u>	<u>163,051,365</u>
Non-cash supplementary information:			
Change in fair value of derivative financial instruments		<u>(6,963,613)</u>	<u>13,371,293</u>

The accompanying notes 1 to 17 form an integral part of these unaudited interim condensed consolidated financial statements.

SAUDI INSUTRIAL SERVICES COMPANY
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INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the year ended December 31, 2013
(Expressed in Saudi Arabian Riyals)

	Equity attributable to the shareholders' of the Parent Company							Total equity		
	Share capital	Share premium	Statutory reserve	Special reserve	Effect of reducing the ownership percentage in a subsidiary	Cash flow hedging reserve	Retained earnings		Total	Non-controlling interests
Balance at January 1, 2013	680,000,000	36,409,063	8,086,871	4,033,892	4,653,218	(8,103,003)	41,105,886	766,185,927	356,700,993	1,122,886,920
Net income	--	--	--	--	--	--	56,039,824	56,039,824	40,587,560	96,627,384
Transfer to reserves	--	--	5,603,982	2,801,991	--	--	(8,405,973)	--	--	--
Net movement in non-controlling interests	--	--	--	--	--	--	--	--	(6,773,177)	(6,773,177)
Change in fair value of derivative financial instruments	--	--	--	--	--	4,179,847	--	4,179,847	2,783,766	6,963,613
Balance at December 31, 2013	680,000,000	36,409,063	13,690,853	6,835,883	4,653,218	(3,923,156)	88,739,737	826,405,598	393,299,142	1,219,704,740
Balance at January 1, 2012	680,000,000	36,409,063	4,264,248	2,122,581	4,653,218	--	8,613,590	736,062,700	329,335,739	1,065,398,439
Net income	--	--	--	--	--	--	38,226,230	38,226,230	36,527,120	74,753,350
Transfer to reserves	--	--	3,822,623	1,911,311	--	--	(5,733,934)	--	--	--
Net movement in non-controlling interests	--	--	--	--	--	--	--	--	(3,893,576)	(3,893,576)
Change in fair value of derivative financial instruments	--	--	--	--	--	(8,103,003)	--	(8,103,003)	(5,268,290)	(13,371,293)
Balance at December 31, 2012	680,000,000	36,409,063	8,086,871	4,033,892	4,653,218	(8,103,003)	41,105,886	766,185,927	356,700,993	1,122,886,920

The accompanying notes 1 to 17 form an integral part of these unaudited interim condensed consolidated financial statements.

SAUDI INDUSTRIAL SERVICES COMPANY
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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

For the three-month and year ended December 31, 2013
(Expressed in Saudi Arabian Riyals)

1. ORGANISATION AND PRINCIPAL ACTIVITIES

Saudi Industrial Services Company (“the Company” or “the Parent Company” or “SISCO”) is a joint stock company incorporated in accordance with Saudi Arabian Regulations for Companies under the Ministry of Commerce Resolution No. 223 of Rabi Awwal 7, 1409 H (corresponding to October 18, 1988) and registered under Commercial Registration No. 4030062502 dated Rabi Thani 10, 1409H (corresponding to November 20, 1988) to engage in maintenance, operations and management of factories, industrial facilities, construction of residential buildings and all related facilities such as entertainment centers, malls, restaurants, catering projects, construction of hospitals and buildings to provide health services to factory and industrial company workmen, marketing factory products locally and worldwide, provide services and participate in formation of companies. The principal activity of the Company is investment and management of subsidiaries. The registered head office of the Company is located at the following address:

Saudi Business Center
P. O. Box 14221,
Jeddah 21424,
Kingdom of Saudi Arabia.

These consolidated financial statements include assets, liabilities and the results of the operations of the Company and its following subsidiaries (“the Group”):

<u>Company</u>	<u>Country of incorporation</u>	<u>Effective shareholding</u>		<u>Principal activities</u>
		<u>2013</u>	<u>2012</u>	
Saudi Trade and Export Development Company Limited (“Tusdeer”)	Saudi Arabia	76%	76%	Management and operation of storage and re-export project situated on the land leased from Jeddah Islamic Port.
Kindasa Water Services Company Limited	Saudi Arabia	60%	60%	Water desalination and treatment plant and sale of water.
Support Services Operation Limited Company (“ISNAD”)	Saudi Arabia	99.28%	99.28%	Development and operation of industrial zones, construction and operation of restaurants, catering and entertainment centers, construction of gas stations, auto servicing and maintenance workshops, and purchase of land for the construction of building thereon and investing the same through sale or lease.
Red Sea Gateway Terminal Company Limited (“RSGT”)	Saudi Arabia	60.6%	60.6%	Development, construction, operation and maintenance of container terminals and excavation and back filling works.
Red Sea Port Development Company – Closed Joint Stock Company (“RSPD”)	Saudi Arabia	60.6%	60.6%	Development, construction, operation and maintenance of container terminals and excavation and back filling works.

SAUDI INDUSTRIAL SERVICES COMPANY
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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

For the three-month and year ended December 31, 2013
(Expressed in Saudi Arabian Riyals)

2. BASIS OF PREPARATION

Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with the accounting standards generally accepted in the Kingdom of Saudi Arabia and the Accounting Standard on Interim Financial Reporting issued by Saudi Organization for Certified Public Accountants (SOCPA).

Functional and presentation currency

These accompanying interim condensed consolidated financial statements are presented in Saudi Arabian Riyals (SR) which is the functional currency of the Group.

The interim results may not be an indicator of the annual results of the Group. These consolidated interim condensed financial statements should be read in conjunction with the latest annual audited consolidated financial statements of the Group.

Comparatives for twelve months presented in the financial statements have been taken from the audited financial statements for the year ended December 31, 2012. Certain comparative figures have been regrouped/reclassified to conform to the presentation in the current period. Furthermore, the comparative interim consolidated statement of income has been re-presented as if an operation that was discontinued during the current year had been discontinued from the beginning of the comparative year (see Note 12).

Accounting convention

The interim condensed consolidated financial statements have been prepared under the historical cost convention, except for available for sale investments and derivative financial instruments which are measured at fair value, using accrual basis of accounting and going concern assumption.

Use of estimates and judgements

The preparation of interim condensed consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected. The key areas requiring significant management judgements and estimates are as follows:

Impairment of accounts receivable

An estimate of the collectible amount of accounts receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and an allowance applied according to the length of time past due.

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

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2. BASIS OF PREPARATION (continued)

Use of estimates and judgements (continued)

Provision for slow moving inventory items

The Group makes a provision for slow moving inventory items. Estimates of net realizable value of inventories are based on the most reliable evidence at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly related to events occurring subsequent to the balance sheet date to the extent that such events confirm conditions existing at the end of year.

Useful lives of property, plant and equipment

The management determines the estimated useful lives of property, plant and equipment for calculating depreciation. This estimate is determined after considering expected usage of the assets or physical wear and tear. Management reviews the residual value and useful lives annually and change in depreciation charges, if any, are adjusted in current and future periods.

Impairment of property, plant and equipment

Property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable in part or full. Whenever the carrying amount of these assets exceeds their recoverable amount, an impairment loss is recognized in the consolidated statement of income. The recoverable amount is the higher of an asset's net selling price and the value in use. The net selling price is the amount obtained from the sale of an asset in an arm's length transaction while value in use is present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

Impairment of available for sale investments

The Group exercises judgement to consider the impairment of available for sale investments as well as their underlying assets. This includes the assessment of objective evidence which causes other than temporary decline in the value of investments. Any significant and prolonged decline in the fair value of equity investment below its cost is considered as objective evidence for the impairment. The determination of what is 'significant' and 'prolonged' requires judgement. The Group also considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Impairment of intangible assets

Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at lowest levels for which there are separately identifiable cash flows (cash-generating units). Impairment losses once recognized are not reversible.

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For the three-month and year ended December 31, 2013
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2. BASIS OF PREPARATION (continued)

Use of estimates and judgements (continued)

Impairment of non-financial assets

The Group assesses, at each reporting date or more frequently if events or changes in circumstances indicate, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less cost to sell, and its value in use, and is determined for the individual asset, unless the asset does not generate cash inflows which are largely independent from other assets or groups. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining the fair value less costs to sell, an appropriate source is used, such as observable market prices or, if no observable market prices exist, estimated prices for similar assets or if no estimated prices for similar assets exist, it is based on discounted future cash flow calculations.

3. SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies used by the Group for the preparation of these interim condensed consolidated financial statements are consistent with those used for the preparation of the annual consolidated financial statements:

Basis of consolidation

These interim condensed consolidated financial statements include the financial statements of the Company and its subsidiaries.

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries, which are prepared for the same reporting period as the Parent Company using consistent accounting policies, are included in the interim condensed consolidated financial statements from the date that control commences until the date control ceases.

All intra-group balances and financial transactions resulting from transactions between the Company and the subsidiaries and those arising between the subsidiaries are eliminated in preparing these interim condensed consolidated financial statements. Also, any unrealized gains and losses arising from intra-group transactions are eliminated on consolidation.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

Non-controlling interests

The Group applies a policy of treating transactions with non-controlling interest transactions with parties external to the Group. Disposals to non-controlling interests, if any, result in gains and losses for the Group that are recorded in the consolidated statement of income if control is lost. Purchase of non-controlling interest result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, cash with banks and other short-term highly liquid investments, if any, with original maturities of three months or less.

Accounts receivable

Accounts receivable are stated at original invoice amount less allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Inventories

Inventories are stated at the lower of cost and net realizable value. The cost of inventories is principally based on the weighted average principle, and includes expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses. Provision is made where necessary for obsolete and slow moving inventories.

Investment in associates

The Group's investment in associates is accounted for under the equity method of accounting. There are entities over which the Group exercises significant influence and which is neither a subsidiary nor a joint venture. Investment in associates are carried in the consolidated balance sheet at cost, plus post-acquisition changes in the Group's share of net assets of the associate, less any impairment in value based on its latest financial statements at each reporting date. The consolidated statement of income reflects the Group's share of the results of its associate. Where there has been a change recognized directly in the equity of associate, the Group recognizes its share of any changes and discloses this when applicable in the consolidated statement of changes in equity.

Unrealised gains and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate. The financial statements of the associates are prepared for the same period as the Parent Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

Dividends are recorded when received and credited to the investment.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Available for sale investments

Investments purchased neither with the intention of being held to maturity nor for trading purposes are designated as available for sale investments and initially recorded at cost and subsequently measured at fair value. Unrealised gains and losses reported as a separate component of equity until the investment is derecognized or the investment is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported in equity, is included in the consolidated statement of income for the period.

Fair value is determined by reference to the market value in the open market. If fair value is not available, cost is considered to be the most appropriate objective and reliable measurement of the fair value of investments.

Dividend income is recognized when the right to receive the dividend is established.

Property, plant and equipment

Free hold land is not depreciated. The development cost of leasehold land and the buildings constructed thereon is amortized over the shorter of estimated useful life or the remaining period of lease net of accumulated depreciation and any impairment in value. Property, plant and equipment and property and equipment of the quay project are stated at cost net of accumulated depreciation and any impairment in value. Depreciation is calculated on the basis of estimated useful lives of property, plant and equipment using straight line method. Finance costs on borrowings to finance the construction of the assets are capitalized during the period of time that is required to complete and prepare those assets for its intended use.

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

The estimated economic useful lives of assets are as follows:

Buildings	Shorter of lease period or 10 - 40 years
Leasehold improvements	Shorter of lease period or 35 years for bonded and re-export projects, 10 years for Quay projects and 5 years for others.
Plant and equipment	7 - 25 years
Desalination plants, water filling stations and accessories	8 - 21 years
Machinery and equipment	8 - 25 years
Motor vehicles and tankers	4 - 10 years
Fixtures and furnishing	2 - 10 years
Computers and equipment	2 - 7 years

Capital work-in-progress

Capital work-in-progress is measured at cost less impairment losses, if any, and not depreciated until such time the assets are ready for intended use and transferred to the respective category under property, plant and equipment.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible asset - quay project

Port concession rights

The Group's port terminal operations are conducted pursuant to a long-term concession arrangement. The Group recognises port concession rights arising from a service concession arrangement, in which the public sector ("the grantor") controls or regulates the services provided, the prices charged and also controls any significant residual interest in the infrastructure such as property and equipment if the infrastructure is existing infrastructure of the grantor or the infrastructure is constructed or purchased by the Group as part of the service concession arrangement.

The Group has adopted the guidance in International Financial Reporting Standards which is included in IFRIC 12 – Service concession arrangements ("IFRIC 12") issued by the International Financial Reporting Interpretations Committee of the International Accounting Standards Board to account for the costs incurred for the construction of container terminal (port concession rights) as there is no related guidance available under accounting standards issued by SOCPA. Pursuant to IFRIC 12, costs incurred under service concession arrangements are recognized as an intangible asset.

The port concession rights include all costs incurred towards construction of the container terminal. The port concession rights are stated at cost, less amortization of cost over the useful lives of the assets from the date of commencement of operations and impairment losses, if any.

Right to use land

Right to use land is measured on initial recognition at cost. Following initial recognition, right to use land is carried at cost less any accumulated amortisation and any accumulated impairment losses. Right to use land is amortized over the concession period on straight line basis.

Goodwill

Goodwill represents the increase in the cost of investment over the Company's share in the net fair value of investee's net assets, liabilities and contingencies as at acquisition date. Goodwill is subsequently recognized at cost, net of any accumulated impairment losses. The carrying value of goodwill is reviewed annually to determine whether any objective indicator of impairment exists, unless an event or change in circumstances occurs during the year indicating an impairment of the carrying value which requires a valuation of goodwill during the year. Goodwill includes Company's share and the minority share.

For impairment test, the goodwill for subsidiaries is determined individually, as each subsidiary is considered an independent cash generating unit.

Deferred charges

Deferred charges primarily comprise pre-incorporation and pre-operating expenses incurred during pre-incorporation period and prior to commencement of commercial operations of the Company and its subsidiaries, net of non-operating revenue earned during incorporation period. Deferred charges for which future economic benefits are certain and evident are stated at cost less amortization using straight line method over seven years and impairment losses, if any.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts payable and other payables

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Employees' end of service benefits

Provision is made for amounts payable to employees for their accumulated periods of service at the consolidated balance sheet date under the Saudi Arabian labour law.

Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic resources embodying will be required to settle the obligation.

If the effect of the time value of money is material, provisions are discounted using a current pre-Zakat rate that reflects, where appropriate, current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Derivative financial instruments

The Group is using Profit Rate Swap contracts as hedging instruments to hedge its exposure to the variability in cash flows arising from profit payments on Ijara Facilities obtained from banks. Hedging instruments are initially recognised at fair value on the date on which a contract is entered into and are subsequently remeasured at fair value. Hedging instrument is carried as financial asset when the fair value is positive and as financial liability when the fair value is negative.

For the purpose of hedge accounting, hedging instrument is classified as cash flow hedge. The effective portion of the gain or loss on the hedging instrument is recognised directly in shareholders' equity in hedging reserve, while any ineffective portion is recognised immediately in the consolidated statement of income in financial charges.

Amount recognised in equity is transferred to the consolidated statement of income when the hedged transaction affects profit or loss, such as when the hedged financial expense is recognized.

Revenue recognition

Sale is recognized when the goods are delivered and when risk and rewards are transferred. Lease revenue from leased spaces and warehouses is recognised over respective lease periods. Lease revenue relating to subsequent years is deferred and recognised in appropriate years.

Service revenue represents the invoiced value of services rendered by the Group during the period, net of trade discounts and Saudi Arabian Seaports Authority's ("SEAPA") share of revenue and are recognized when the amount of revenue can be measured reliably, on rendering of services to customers.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Construction revenue pertaining to construction of Port terminal is recognized using the percentage of completion method. Percentage of completion is determined by comparison of costs incurred to date with estimated total costs. When it is probable that the total costs will exceed the total contract revenue, the expected loss is recognized immediately.

Expenses

Selling and distribution expenses are those arising from the Group's efforts underlying their marketing, selling and distribution functions. All other expenses, except cost of sales and operations, are classified as general and administration expenses.

Finance costs

Finance costs except for those, that are directly attributable to the construction of an asset are capitalised using capitalised rate up to the stage when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed, are charged to the consolidated statement of income.

Operating leases

Operating lease payments are recognized as an expense in the consolidated statement of income on a straight line basis over the lease term.

Zakat

The Company and its subsidiaries are subject to the requirements of Saudi Arabian Zakat and Income Tax Department. Zakat provision is charged to the consolidated statement of income. Additional amounts, if any, that may become due on finalization of an assessment are accounted for in the year in which assessment is finalized.

Foreign currencies

Foreign currency transactions

Transactions in foreign currencies are recorded in Saudi Arabian Riyals at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the interim balance sheet date. All differences are taken to the interim consolidated statement of income. Non-monetary items measured at historical cost denominated in a foreign currency are translated at the exchange rate at the date of initial recognition.

Foreign operations

Assets and liabilities of foreign consolidated subsidiaries are converted into Saudi Arabian Riyals at the exchange rates in effect at the balance sheet date. The equity components of foreign subsidiaries with the exception of retained earnings of subsidiaries are translated at the exchange rates in effect at the dates the related items originated. The elements of foreign subsidiaries' income statements are translated using the weighted-average exchange rate for the period. Adjustments resulting from the translation of foreign subsidiaries' financial statements into Saudi Arabian Riyals are reported as a separate component of equity (foreign currency translation reserve) attributable to shareholders of the Company in the interim condensed consolidated financial statements.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets held for sale and discontinued operations

Classified under non-current assets, represents assets and liabilities held-for-sale if it is highly probable that they will be recovered primarily through sale or distribution rather than through continuing use.

Immediately before classification as held-for-sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's other accounting policies. Thereafter, generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis. Impairment losses on initial classification as held-for-sale and subsequent gains and losses on remeasurement are recognised in the consolidated statement of income. Gains are not recognised in excess of any cumulative impairment loss.

Once classified as held-for-sale intangible assets and property, plant and equipment are no longer amortised or depreciated, and any equity-accounted investee is no longer equity accounted.

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs on abandonment or when the operation meets the criteria to be classified as held-for-sale, if earlier.

When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.

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. As the Group carries out its business activities mainly in the Kingdom of Saudi Arabia, reporting is provided by business segment only (see note 15).

4. INVESTMENTS

	<u>2013</u>	<u>2012</u>
Available for sale investment - unquoted	9,570,150	9,570,150
Investment in associates (see note 'b' below)	<u>78,414,146</u>	<u>58,021,717</u>
	<u>87,984,296</u>	<u>67,591,867</u>

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4. INVESTMENTS (continued)

a) The investment in associates comprises the following:

<u>Associates</u>	<u>Principal activity</u>	<u>Country of incorporation</u>	<u>Shareholding percentage</u>	<u>2013</u>	<u>2012</u>
- International Water Distribution Company Limited	Water/waste works, water treatment and lease of water equipment	Kingdom of Saudi Arabia	50%	44,340,722	26,979,657
- Saudi Water and Environmental Services Company (see note 'i' below)	Electrical, water and mechanical works and related operation and maintenance	Kingdom of Saudi Arabia	Indirect ownership	14,189,490	11,252,294
- Al Jabr Talke Company Limited	Contracting, construction, operation and maintenance of factories and warehouses	Kingdom of Saudi Arabia	33.33%	11,398,692	11,094,612
- Xenmet SA, Vaduz (see note 'ii' below)	Trading, storage and brokerage of commodities	Principality of Liechtenstein	Indirect ownership	8,485,242	8,695,154
				<u>78,414,146</u>	<u>58,021,717</u>

- i) Saudi Water and Environment Services Company is 49% (2012: 49%) owned by Kindasa Water Service Company (Subsidiary) which is 60% (2012: 60%) owned by the Company.
- ii) Xenmet SA, Vaduz is 25% (2012: Nil) owned by Saudi Trade and Export Development Company Limited, which is 76% owned by the Company (2012: 76%)

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5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment comprises of the following:

	<u>2013</u>	<u>2012</u>
Property, plant and equipment	292,404,522	300,541,022
Property, plant and equipment of bonded and re-export project	191,028,272	146,971,414
Projects in progress – bonded and re-export project	4,492,994	17,647,059
Property and equipment – quay project	118,829,928	100,606,772
	<u>606,755,716</u>	<u>565,766,267</u>

The cost of projects in progress – bonded and re-export project is net-off impairment amounting to SR 9,359,646.

6. INTANGIBLE ASSETS – QUAY PROJECTS

Saudi Trade and Export Development Company (Tusdeer) (“parent of RSGT”) had an agreement with Saudi Arabian Seaport Authority (“SEAPA”) for the construction of a container terminal at the re-export zone of Jeddah Islamic Port. This Build-Operate-Transfer (“BOT”) Service Concession Agreement with SEAPA has been novated by Tusdeer to RSGT, effective from Shawal 22, 1428H (corresponding to November 3, 2007), and the duration of this agreement is 32 years. As per the BOT agreement, at the end of the concession period, the property and equipment underlying the quay project’s intangible assets shall be transferred to SEAPA.

Provision for equipment replacement cost

As per the BOT agreement with SEAPA, RSGT (one of the subsidiaries of the Company) has an obligation to replace certain machinery and equipment (the “Equipment”) during the tenure of the agreement. The management of RSGT has estimated that RSGT will be required to incur an amount of SR 304.9 million (2012: SR 304.9 million) to replace the Equipment. During the year ended December 31, 2013, an amount of SR 26.08 million (2012: SR 9.34 million) has been recorded as provision for equipment replacement cost.

7. GOODWILL

Goodwill of SR 8.8 million (2012: SR 8.8 million) was recognised on acquisition of Kindasa Water Services Company, a subsidiary.

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8. LONG-TERM LOANS AND BANK FACILITIES

- 8.1 During 2003, Kindasa signed an agreement with Saudi Industrial Development Fund ("SIDF") for obtaining a loan of SR 64.5 million to finance the extension of the desalination plant. The loan is secured by the mortgage over Kindasa's property and equipment and personal guarantees from its partners. The purpose of the loans is to finance the extension of the desalination plant. The loans agreements include certain covenants such as limiting rents, capital expenditure, dividends and maintenance of certain financial ratios. The loans are repayable over semi-annual installments.
- 8.2 During 2007, RSGT entered into an Ijara arrangement with two banks to obtain a loan of SR 1,271 million. The Ijara facility is secured by the assets of RSGT. The remaining amount of loan is being repaid in six monthly installments, ending in December 2023. The loan bears commission rate of SIBOR plus an agreed margin.
- 8.3 During the quarter ended September 30, 2013, Tusdeer entered into an agreement for a long-term loan facility with a commercial bank up to a maximum aggregate amount of SR 35 million. As at December 31, 2013 amount of SR 35 million has been utilised. The loan carries commission at commercial rates and is repayable in eight equal half yearly instalments. The loan is secured by assigning rights of the rental income, above SR 8.75 million and through promissory notes.

9. DERIVATIVE FINANCIAL INSTRUMENTS

During 2012, a subsidiary "Redsea Gateway Terminal Company Limited" entered into a Profit Rate Swap agreement with a commercial bank to hedge its exposure to the variability in cash flows arising from profit payments on Ijara facilities obtained from banks. The negative fair value of this instrument as at December 31, 2013 is SR 6.14 million (2012: SR 13.37 million)

During the quarter ended December 31, 2013, a subsidiary "Saudi Export Development Company Limited" entered into a Profit Rate Swap agreement to hedge its exposure to the variability in cash flows arising from profit payments on long-term loan facilities obtained from banks. The negative fair value of this instrument as at December 31, 2013 is SR 0.26 million.

10. REVENUE

	<u>Three-month period ended</u>		<u>For the year ended</u>	
	<u>December 31,</u>	<u>December 31,</u>	<u>December 31,</u>	<u>December 31,</u>
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
Sale of potable water revenue	18,562,517	16,122,984	67,707,274	65,704,142
Sale of fuel and transport and support services revenue	3,318,553	6,804,556	24,140,346	37,195,009
Shipping and unloading services revenue	82,451,154	81,326,338	352,521,824	305,455,453
Rent income	21,263,975	18,555,861	75,654,477	65,086,795
Total	125,596,199	122,809,739	520,023,921	473,441,399

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11. OTHER INCOME / (EXPENSES), NET

	<u>Three-month period ended</u>		<u>For the year ended</u>	
	<u>December 31,</u> <u>2013</u> (Unaudited)	<u>December 31,</u> <u>2012</u> (Unaudited)	<u>December 31,</u> <u>2013</u> (Unaudited)	<u>December 31,</u> <u>2012</u> (Audited)
Write back of provision no longer required	--	--	--	10,000,000
Other (expenses) / income, net	<u>1,073,297</u>	<u>(1,230,216)</u>	<u>594,015</u>	<u>597,627</u>
Total	<u>1,073,297</u>	<u>(1,230,216)</u>	<u>594,015</u>	<u>10,597,627</u>

The above provision represents the reversal of an accrual in respect of a claim from contractor, which is no longer required to be paid based on the final settlement with the contractor.

12. DISPOSAL GROUP HELD FOR SALE AND DISCONTINUED OPERATIONS

During the year, the Board of Directors' of a subsidiary of Kindasa Water Services Company Limited "Bahar Kindasa Water Services Company Limited", had decided to liquidate the company and appointed a liquidator to perform the liquidation. Efforts to sell the disposal group have already commenced.

Results of the discontinued operation were as follows:

	<u>Three-month period ended</u>		<u>For the year ended</u>	
	<u>December 31,</u> <u>2013</u> (Unaudited)	<u>December 31,</u> <u>2012</u> (Unaudited)	<u>December 31,</u> <u>2013</u> (Unaudited)	<u>December 31,</u> <u>2012</u> (Audited)
Revenue	--	233,540	--	1,810,953
Cost of sales	--	(21,710)	--	(980,155)
Expenses	<u>(1,485,520)</u>	<u>(568,803)</u>	<u>(1,485,520)</u>	<u>(1,003,599)</u>
Loss before Zakat	<u>(1,485,520)</u>	<u>(356,973)</u>	<u>(1,485,520)</u>	<u>(172,801)</u>
Zakat	--	(5,318)	--	(10,718)
Net loss from discontinued operation	<u>(1,485,520)</u>	<u>(362,291)</u>	<u>(1,485,520)</u>	<u>(183,519)</u>

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12. DISPOSAL GROUP HELD FOR SALE AND DISCONTINUED OPERATIONS
(continued)

Assets of disposal group held for sale	<u>2013</u>
Property, plant and equipment	600,000
Accounts and other receivables	<u>20,426</u>
Total assets	<u>620,426</u>
Liabilities of disposal group held for sale	
Accounts and other payables	110,926
End of service benefits	<u>10,054</u>
Total liabilities	<u>120,980</u>

13. EARNINGS PER SHARE

Earnings per share from operating profit for the period is calculated by dividing operating profit by the weighted average number of outstanding shares during the period. Earnings per share has been calculated on operating profit attributable to the Group (including non-controlling interests).

Earnings per share from net income for the period is calculated by dividing the net income attributable to the equity holders of the Parent Company for the period by the weighted average number of outstanding shares during the period.

The calculation of diluted earnings per share is not applicable to the Company.

14. COMMITMENTS AND CONTINGENCIES

14.1 The Department of Zakat and Income Tax (“DZIT”) has raised assessments for the years ended December 31, 2002 through 2008 with additional liability of SR 25.8 million. The Company filed an objection against the DZIT’s assessment. The Preliminary Objection Committee (“POC”) rendered its decision on the Company’s objection reducing the assessed liability to SR 3.9 million. The appeal is now with the Higher Appeal Committee (“HAC”). Moreover, DZIT raised initial assessments for the year ended December 31, 2010, 2011 and 2012 with an additional liability of SR 1.3 million. The Company has filed an objection against the DZIT’s initial assessment.

14.2 At December 31, 2013, the Group’s bankers have issued letters of guarantee of SR 35.3 million (2012: SR 38 million) against which cash margin of SR 14 million (2012: SR 14 million) was paid (December 31, 2012: SR 38 million against which cash margin of SR 14 million was paid).

14.3 As at December 31, 2013, the Company has commitments for capital work in progress of SR 41 million (December 31, 2012: SR 54 million).

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15. BUSINESS SEGMENTS

The Group has the following main business segments:

- Fuel station and maintenance
- Port development and Quay project
- Sea water desalination
- Storage and re-export
- Corporate office: Consists of operation activities and investment activities.

These form the basis of internal management reporting of main business segments.

Following are the assets, liabilities, sales and result of such segments for the year ended December 31:

	<u>Fuel stations and maintenance</u> (SR'000)	<u>Port development and quay projects</u> (SR'000)	<u>Sea water desalination</u> (SR'000)	<u>Storage and re-export</u> (SR'000)	<u>Corporate office</u> (SR'000)	<u>Total</u> (SR'000)
2013						
Assets	22,371	1,740,985	288,394	285,766	189,356	2,526,872
Liabilities	2,741	1,153,828	54,471	66,499	29,628	1,307,167
Revenue	24,140	352,522	67,708	75,654	--	520,024
Net income / (loss) before non-controlling interest	(3,205)	72,770	12,049	32,181	(17,168)	96,627
Net income / (loss) for the period	(3,205)	46,006	7,214	23,193	(17,168)	56,040
	<u>Fuel stations and maintenance</u> (SR'000)	<u>Port development and quay projects</u> (SR'000)	<u>Sea water desalination</u> (SR'000)	<u>Storage and re-export</u> (SR'000)	<u>Main office</u> (SR'000)	<u>Total</u> (SR'000)
2012						
Assets	23,930	1,752,643	286,362	225,829	192,714	2,481,478
Liabilities	2,831	1,245,358	55,906	26,123	28,373	1,358,591
Revenue	37,195	305,455	65,704	65,087	-	473,441
Net income / (loss) before non-controlling interest	(238)	56,296	17,563	31,760	(30,628)	74,753
Net income / (loss) for the period	(238)	35,466	10,707	22,919	(30,628)	38,226

The Group mainly operates in the Kingdom of Saudi Arabia.

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16. RELATED PARTY TRANSACTIONS AND BALANCES

- a) Related party transactions mainly represent services, expenses and other transactions which are undertaken at mutually agreed terms and approved by the management.

Significant related party transactions for the year ended December 31, 2013 are described as under:

<u>Related party</u>	<u>Nature of transaction</u>	<u>2013</u>		<u>2012</u>	
		<u>Amount of transaction</u>	<u>Balance receivable/ (payable)</u>	<u>Amount of transaction</u>	<u>Balance receivable/ (payable)</u>
International water distribution Company Limited	Sales of goods and services	31,091,729	7,424,551	29,908,383	8,902,200
Karam Fedics	Purchase of goods and services	8,891,815	(1,651,178)	7,925,711	--
Saudi Water and Electricity Company Limited	Sales of goods and services	3,095,043	413,230	2,993,392	340,005
	Advances	--	5,392,798	--	9,067,798
Alireza travel and tourism Company limited	Purchas of goods and services	2,221,001	1,251,507	--	--
Xenel industries Limited	Expenses incurred on behalf of group	1,868,948	680,832	(59,355)	(414,175)
Al Jabr Talke Company Limited	Advances	--	6,349,867	--	6,189,867

b) Remuneration to Key management

Remuneration, compensation and bonuses of the key management personnel / executive directors and attendance fee of Board Directors and members of Board Committees paid during the year ended December 31, 2013 was SR 9,721,971 (2012: SR 7,768,702)

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17. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements were approved and authorised to issue by the Board of Directors on Rabi Al-Awwal 19, 1435H , corresponding to January 20, 2014.