

**SAUDI INDUSTRIAL SERVICES COMPANY**  
(A Saudi Joint Stock Company)

**UNAUDITED INTERIM  
CONSOLIDATED FINANCIAL STATEMENTS**  
For the three-months and twelve-months period ended  
December 31, 2016



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License No. 46/11/323 issued 11/3/1992

## REVIEW REPORT ON THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The Shareholders  
Saudi Industrial Services Company  
(A Saudi Joint Stock 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, 2016, the related interim consolidated statement of income for the three-months and twelve-months period then ended, the interim consolidated statements of cash flows and changes in equity for the twelve-months period then ended and the attached notes 1 to 19 which form an integral part of these interim consolidated financial statements. These interim 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 provide a conclusion on the review of these interim 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 analytical procedures applied to financial data and information and making inquiries of Group's personnel 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 financial statements taken as a whole. Accordingly, we do not express such an opinion.

### Review conclusion

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

**KPMG Al Fozan & Partners**  
Certified Public Accountants

Ebrahim Oboud Baeshen  
License No. 382



Rabi Al Thani 21, 1438H  
Corresponding to January 19, 2017

**SAUDI INDUSTRIAL SERVICES COMPANY**  
(A Saudi Joint Stock Company)

**INTERIM CONSOLIDATED BALANCE SHEET**

As at December 31, 2016

(Expressed in Saudi Arabian Riyals)

	<u>Notes</u>	<u>2016</u> (Unaudited)	<u>2015</u> (Audited)
<b><u>ASSETS</u></b>			
<b>Current assets:</b>			
Cash and cash equivalents	4	195,404,320	252,669,021
Accounts and other receivables		113,936,782	118,565,253
Derivative financial instrument	10	24,930	--
Inventories		41,178,880	37,172,077
<b>Total current assets</b>		<b>350,544,912</b>	<b>408,406,351</b>
<b>Non-current assets:</b>			
Investments	5	118,776,922	114,541,576
Property, plant and equipment	6	911,134,352	707,653,503
Intangible assets - quay project	7	1,293,484,306	1,361,120,885
Derivative financial instrument	10	--	4,236
Goodwill	8	8,776,760	8,776,760
<b>Total non-current assets</b>		<b>2,332,172,340</b>	<b>2,192,096,960</b>
<b>Total assets</b>		<b>2,682,717,252</b>	<b>2,600,503,311</b>
<b><u>LIABILITIES AND EQUITY</u></b>			
<b>Current liabilities:</b>			
Accounts payable and other current liabilities		144,009,957	149,611,630
Derivative financial instrument	10	509,730	--
Current portion of long-term loans and bank facilities	9	116,017,870	112,482,638
<b>Total current liabilities</b>		<b>260,537,557</b>	<b>262,094,268</b>
<b>Non-current liabilities:</b>			
Non-current portion of long-term loans and bank facilities	9	836,401,581	838,185,086
Other long-term liabilities	7	54,602,445	44,661,233
Employees' end of service benefits		23,374,817	21,638,938
Derivative financial instrument	10	--	17,276
<b>Total non-current liabilities</b>		<b>914,378,843</b>	<b>904,502,533</b>
<b>Total liabilities</b>		<b>1,174,916,400</b>	<b>1,166,596,801</b>
<b>Equity attributable to the shareholders' of Parent Company</b>			
Share capital		680,000,000	680,000,000
Share premium		36,409,063	36,409,063
Statutory reserve		39,758,712	30,549,496
Special reserve		19,869,813	15,265,205
Other reserves		8,446,560	13,151,743
Retained earnings		239,516,540	196,638,201
<b>Total equity attributable to the shareholders' of Parent Company</b>		<b>1,024,000,688</b>	<b>972,013,708</b>
Non-controlling interests		483,800,164	461,892,802
<b>Total equity</b>		<b>1,507,800,852</b>	<b>1,433,906,510</b>
<b>Total liabilities and equity</b>		<b>2,682,717,252</b>	<b>2,600,503,311</b>

The accompanying notes 1 to 19 form an integral part of these unaudited interim consolidated financial statements.

**SAUDI INDUSTRIAL SERVICES COMPANY**  
(A Saudi Joint Stock Company)

**INTERIM CONSOLIDATED STATEMENT OF INCOME**

For the three-months and twelve-months period ended December 31, 2016  
(Expressed in Saudi Arabian Riyals)

	Notes	<b>Three-months period ended</b>		<b>Twelve-months period ended</b>	
		<b>December 31,</b>	December 31,	<b>December 31,</b>	December 31,
		<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
		<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Audited)</b>
<b>Continuing Operations:</b>					
Revenue	11	<b>160,324,153</b>	152,068,633	<b>640,318,392</b>	616,084,082
Costs of revenue		<b>(87,940,263)</b>	(73,462,156)	<b>(334,923,838)</b>	(309,509,851)
<b>Gross profit</b>		<b>72,383,890</b>	78,606,477	<b>305,394,554</b>	306,574,231
Selling and distribution expenses		<b>(3,124,412)</b>	(3,762,885)	<b>(13,287,456)</b>	(14,219,801)
General and administrative expenses		<b>(35,202,223)</b>	(31,345,412)	<b>(130,687,081)</b>	(120,209,798)
<b>Operating profit</b>		<b>34,057,255</b>	43,498,180	<b>161,420,017</b>	172,144,632
Share of results from equity accounted associates, net		<b>445,056</b>	1,135,563	<b>11,253,367</b>	9,066,007
Other income, net	12	<b>7,503,446</b>	733,932	<b>12,013,369</b>	2,123,823
Financial charges		<b>(10,533,172)</b>	(9,213,269)	<b>(36,279,222)</b>	(34,353,449)
<b>Income before Zakat from Continuing Operations</b>		<b>31,472,585</b>	36,154,406	<b>148,407,531</b>	148,981,013
<b>Discontinued Operations:</b>					
Net income for the period from Discontinued Operations	13	--	106,513	--	1,074,322
<b>Income before Zakat</b>		<b>31,472,585</b>	36,260,919	<b>148,407,531</b>	150,055,335
Reversal / (provision) for Zakat		<b>443,164</b>	(480,937)	<b>(5,513,222)</b>	(8,119,685)
<b>Net income for the period</b>		<b>31,915,749</b>	35,779,982	<b>142,894,309</b>	141,935,650
<b>Net income attributable to:</b>					
- Shareholders' of the Parent Company		<b>21,890,869</b>	22,026,779	<b>92,092,163</b>	90,508,970
- Non-controlling interests' share of net income in subsidiaries		<b>10,024,880</b>	13,753,203	<b>50,802,146</b>	51,426,680
<b>Net income for the period</b>		<b>31,915,749</b>	35,779,982	<b>142,894,309</b>	141,935,650
Earnings per share on operating profit for the period	14	<b>0.50</b>	0.64	<b>2.37</b>	2.53
Earnings per share from net income for the period attributable to the Shareholders' of the Parent Company	14	<b>0.32</b>	0.32	<b>1.35</b>	1.33

The accompanying notes 1 to 19 form an integral part  
of these unaudited interim consolidated financial statements.

**SAUDI INDUSTRIAL SERVICES COMPANY**  
(A Saudi Joint Stock Company)

**INTERIM CONSOLIDATED STATEMENT OF CASHFLOWS**

For the twelve-months period ended December 31, 2016

(Expressed in Saudi Arabian Riyals)

	<u>Notes</u>	<b>2016</b> <b>(Unaudited)</b>	<b>2015</b> <b>(Audited)</b>
<b>Operating activities:</b>			
Income before Zakat and non-controlling interests from continuing operations		<b>148,407,531</b>	148,981,013
Adjustments for:			
Depreciation and amortization		<b>123,680,651</b>	114,631,996
Provision for employees' end of service benefits		<b>5,910,350</b>	5,738,385
Loss / (gain) on disposal of property, plant and equipment	12 & 13	<b>135,569</b>	(167,533)
Share of results from equity accounted associates, net		<b>(11,253,367)</b>	(9,066,007)
Other provisions		--	6,414,767
(Reversal) / provision for doubtful debts		<b>(360,163)</b>	969,538
Provision for inventories		--	100,000
Net income from discontinued operations	13	--	1,074,322
Provision for asset replacement cost		<b>8,073,456</b>	5,574,853
Financial charges		<b>36,279,222</b>	34,353,449
		<b>310,873,249</b>	308,604,783
Changes in operating assets and liabilities:			
Accounts and other receivables		<b>4,988,634</b>	(18,230,880)
Inventories		<b>(4,006,803)</b>	(9,776,361)
Accounts payable and other current liabilities		<b>1,709,688</b>	19,399,163
Cash generated from operating activities		<b>313,564,768</b>	299,996,705
Employees' end of service benefits paid		<b>(4,174,471)</b>	(2,035,702)
Financial charges paid		<b>(34,342,352)</b>	(32,347,275)
Zakat and income tax paid		<b>(12,893,697)</b>	(11,732,715)
Net cash generated from operating activities		<b>262,154,248</b>	253,881,013
<b>Investing activities:</b>			
Effect of transaction with non-controlling interests without change in control	1	<b>(15,000,000)</b>	--
Dividends received from equity accounted associates		<b>5,730,107</b>	1,960,000
Additions to property, plant and equipment	6	<b>(259,859,141)</b>	(127,462,177)
Proceeds from disposal of property, plant and equipment		<b>198,651</b>	479,559
Net cash used in investing activities		<b>(268,930,383)</b>	(125,022,618)
<b>Financing activities:</b>			
Borrowings of loans and bank facilities	9.4	<b>114,329,781</b>	--
Repayment of loans and bank facilities		<b>(112,578,054)</b>	(105,286,999)
Dividend and other distributions	18	<b>(35,400,000)</b>	(35,400,000)
Dividends paid to non-controlling interests by subsidiaries		<b>(12,131,000)</b>	(6,720,000)
Net movement in non-controlling interests		<b>(4,709,293)</b>	(2,220,875)
Net cash used in financing activities		<b>(50,488,566)</b>	(149,627,874)
<b>Net change in cash and cash equivalents</b>		<b>(57,264,701)</b>	(20,769,479)
Cash and cash equivalents at the beginning of the period		<b>252,669,021</b>	273,438,500
<b>Cash and cash equivalents at the end of the period</b>	4	<b>195,404,320</b>	252,669,021
<b>Non-cash supplementary information:</b>			
Changes in fair value of derivative financial instruments	10	<b>(471,760)</b>	6,774,950
Changes in fair value of available for sale investments		<b>(1,287,914)</b>	(330,293)

The accompanying notes 1 to 19 form an integral part of these unaudited interim consolidated financial statements.

**SAUDI INDUSTRIAL SERVICES COMPANY**  
(A Saudi Joint Stock Company)  
**INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
For the twelve-months period ended December 31, 2016  
(Expressed in Saudi Arabian Riyals)

	Equity attributable to the shareholders' of the Parent Company											
	Share capital	Share premium	Statutory reserve	Special reserve	Other reserves				Retained earnings	Total	Non-controlling interests	Total equity
					Effect of reducing ownership percentage in a subsidiary	Effect of transaction with non-controlling interests without change in control	Cash flow hedging reserve	Unrealized gain on available for sale investment				
Balance at January 1, 2016 (audited)	680,000,000	36,409,063	30,549,496	15,265,205	4,653,218	--	(7,250)	8,505,775	196,638,201	972,013,708	461,892,802	1,433,906,510
Net income	--	--	--	--	--	--	--	--	92,092,163	92,092,163	50,802,146	142,894,309
Transfer to reserves	--	--	9,209,216	4,604,608	--	--	--	--	(13,813,824)	--	--	--
Dividends paid (Note 18)	--	--	--	--	--	--	--	--	(34,000,000)	(34,000,000)	(12,131,000)	(46,131,000)
Other distributions (Note 18)	--	--	--	--	--	--	--	--	(1,400,000)	(1,400,000)	--	(1,400,000)
Transaction with non-controlling interests without change in control (Note 1)	--	--	--	--	--	(3,134,569)	--	--	--	(3,134,569)	(11,865,431)	(15,000,000)
Net movement in non-controlling interests	--	--	--	--	--	--	--	--	--	--	(4,709,293)	(4,709,293)
Changes in fair value of available for sale investments	--	--	--	--	--	--	--	(1,287,914)	--	(1,287,914)	--	(1,287,914)
Change in fair value of derivative financial instruments (note 10)	--	--	--	--	--	--	(282,700)	--	--	(282,700)	(189,060)	(471,760)
<b>Balance at December 31, 2016 (unaudited)</b>	<b>680,000,000</b>	<b>36,409,063</b>	<b>39,758,712</b>	<b>19,869,813</b>	<b>4,653,218</b>	<b>(3,134,569)</b>	<b>(289,950)</b>	<b>7,217,861</b>	<b>239,516,540</b>	<b>1,024,000,688</b>	<b>483,800,164</b>	<b>1,507,800,852</b>
Balance at January 1, 2015 (audited)	680,000,000	36,409,063	21,498,599	10,739,756	4,653,218	--	(4,144,715)	8,836,068	155,105,577	913,097,566	416,769,512	1,329,867,078
Net income	--	--	--	--	--	--	--	--	90,508,970	90,508,970	51,426,680	141,935,650
Transfer to reserves	--	--	9,050,897	4,525,449	--	--	--	--	(13,576,346)	--	--	--
Dividends paid (Note 18)	--	--	--	--	--	--	--	--	(34,000,000)	(34,000,000)	(6,720,000)	(40,720,000)
Other distributions (Note 18)	--	--	--	--	--	--	--	--	(1,400,000)	(1,400,000)	--	(1,400,000)
Net movement in non-controlling interests	--	--	--	--	--	--	--	--	--	--	(2,220,875)	(2,220,875)
Changes in fair value of available for sale investment	--	--	--	--	--	--	--	(330,293)	--	(330,293)	--	(330,293)
Change in fair value of derivative financial instruments (note 10)	--	--	--	--	--	--	4,137,465	--	--	4,137,465	2,637,485	6,774,950
Balance at December 31, 2015 (audited)	680,000,000	36,409,063	30,549,496	15,265,205	4,653,218	--	(7,250)	8,505,775	196,638,201	972,013,708	461,892,802	1,433,906,510

The accompanying notes 1 to 19 form an integral part of these unaudited interim consolidated financial statements.

# SAUDI INDUSTRIAL SERVICES COMPANY

(A Saudi Joint Stock Company)

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three-months and twelve-months period ended December 31, 2016

(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 Al Awal 7, 1409 H (corresponding to October 18, 1988) and registered under Commercial Registration No. 4030062502 dated Rabi Al 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 interim 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>2016</u>	<u>2015</u>	
Saudi Trade and Export Development Company Limited (“Tusdeer”)	Saudi Arabia	<b>76%</b>	76%	Management and operation of storage and re-export project situated on the land leased from Jeddah Islamic Port.
Kindasa Water Services Company – Closed Joint Stock Company (“Kindasa”)*	Saudi Arabia	<b>65%</b>	60%	Water desalination and treatment plant and sale of water.
Support Services Operation Limited Company (“ISNAD”)	Saudi Arabia	<b>99.28%</b>	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	<b>60.6%</b>	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	<b>60.6%</b>	60.6%	Development, construction, operation and maintenance of container terminals and excavation and back filling works.

\* During the twelve months period ended December 31, 2016, the Parent Company acquired additional 5% stake in Kindasa from other shareholders in the entity amounting to SR 11,865,431 against considerations of SR 15,000,000. The Group has accounted for this transaction as an equity transaction with non-controlling interests without change in control.

# SAUDI INDUSTRIAL SERVICES COMPANY

(A Saudi Joint Stock Company)

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three-months and twelve-months period ended December 31, 2016

(Expressed in Saudi Arabian Riyals)

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### 2. **BASIS OF PREPARATION**

#### **Statement of compliance**

These interim 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 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 interim consolidated financial statements should be read in conjunction with the latest annual audited consolidated financial statements of the Group.

Certain comparative figures have been regrouped / reclassified to conform to the presentation in the current period.

#### **Accounting convention**

The interim 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 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 and other current assets***

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.

#### ***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 period.



# SAUDI INDUSTRIAL SERVICES COMPANY

(A Saudi Joint Stock Company)

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three-months and twelve-months period ended December 31, 2016

(Expressed in Saudi Arabian Riyals)

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### 2. **BASIS OF PREPARATION (continued)**

#### **Use of estimates and judgements (continued)**

##### ***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 interim 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 losses once recognized are not reversible.

##### ***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.

##### ***Going concern***

The Group's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the interim consolidated financial statements continue to be prepared on the going concern basis.

# SAUDI INDUSTRIAL SERVICES COMPANY

(A Saudi Joint Stock Company)

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three-months and twelve-months period ended December 31, 2016

(Expressed in Saudi Arabian Riyals)

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### 2. **BASIS OF PREPARATION (continued)**

#### **Use of estimates and judgements (continued)**

##### ***Provision for equipment replacement cost***

Provision for equipment replacement cost is assessed periodically based on the Build, Operate and Transfer Agreement and is discounted at a date reflective of the term of the obligation.

##### ***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 consolidated financial statements are consistent with those used for the preparation of the annual consolidated financial statements:

#### **Basis of consolidation**

These interim consolidated financial statements include the financial statements of the Company and its subsidiaries as set out in note 1.

#### ***Subsidiaries***

Subsidiaries are entities controlled by the Group. 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, the right to variability of return from its involvement with the investee and its ability to affect those returns through its power over the investee, is considered. 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 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 consolidated financial statements. Also, any unrealized gains and losses arising from intra-group transactions are eliminated on consolidation.

Changes in a Group's ownership interest in a subsidiary while retaining control, are accounted for as transactions with equity holders in their capacity as equity holders and gain or loss on such transactions are recognised directly in equity. The carrying amount of the non-controlling interests is adjusted against the fair value of the consideration paid and any difference is recognised directly in equity under "Effect of transactions with non-controlling interests without change in control".

# SAUDI INDUSTRIAL SERVICES COMPANY

(A Saudi Joint Stock Company)

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three-months and twelve-months period ended December 31, 2016

(Expressed in Saudi Arabian Riyals)

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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 interim 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**

Trade receivables are stated at original invoice amount less provisions made for doubtful debts. A provision against doubtful debts is established when there is objective evidence that the Group will not be able to collect the amounts due according to the original terms of receivables. Bad debts are written off when identified, against its related provisions. The provisions are charged to consolidated statement of income and any subsequent recovery of receivable amounts previously written off are credited to income.

#### **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. In the case of manufactured inventories, cost includes an appropriate share of production overheads based on normal operating capacity.

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 interim consolidated balance sheet at cost, plus post-acquisition changes in the Group's share of net assets of the investee, less any impairment in value based on its latest financial statements at each reporting date. The interim consolidated statement of income reflects the Group's share of the results of its associates. 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 interim consolidated statement of changes in equity. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

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### 3. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **Investment in associates (continued)**

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.

#### **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 interim 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 interim consolidated statement of income. Improvements that increase the value or materially extend the life of the related assets are capitalized.

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### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Property, plant and equipment (continued)**

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.

#### **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.

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### 3. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **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.

The impairment is determined by reviewing the realizable amount of cash generating unit (subsidiary), the acquisition of which has given rise to goodwill. Where the realizable amount of a subsidiary is less than its carrying value, an impairment loss is recognized in the interim consolidated statement of income.

#### **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.

#### **Accounts payable and accruals**

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**

Employees' end of service benefits, calculated in accordance with Saudi Arabian labour regulations, are accrued and charged to the consolidated statement of income. The liability is calculated at the current value of the vested benefits to which the employee is entitled, should his services be terminated at the balance sheet date.

For companies operating outside the Kingdom of Saudi Arabia, employees' end of service benefits, calculated in accordance with labour regulations of the countries of incorporation of the Group member companies, are accrued and charged to the consolidated statement of income.

#### **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.

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### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **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 interim consolidated statement of income in financial charges.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documents include identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed in an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

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

#### **Revenue recognition**

Revenue is recognized to the extent of the following recognition requirements:

- it is probable that the economic benefits will flow to the Group
- it can be reliably measured, regardless of when the payment is being made
- the cost incurred to date and expected future costs are identifiable and can be measured reliably.

Revenue is measured at the fair value of the consideration received or the contractually defined terms of payment.

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.

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.

Lease revenue from leased spaces and warehouses is recognised over respective lease periods. Lease revenue relating to subsequent years is deferred and recognised as income over future periods.

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### 3. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **Revenue recognition (continued)**

Revenue from sale of goods, including water, is recognized upon delivery or distribution of water by which the significant risks and rewards of ownership of the goods have been transferred to the buyer and the Group has no effective control or continuing managerial involvement to the degree usually associated with ownership over the goods.

#### **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. Allocations of common expenses between cost of revenue and selling and distribution, general and administration expenses, when required, are made on a consistent basis.

#### **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 interim consolidated statement of income.

#### **Operating leases**

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

#### **Zakat and income tax**

The Company and its subsidiaries are subject to zakat and income tax in accordance with the regulations of General Authority for Zakat and Tax ("GAZT"). Company's zakat and its share in zakat of subsidiaries are charged to consolidated statement of income. Zakat and income tax attributable to other Saudi and foreign shareholders of the consolidated subsidiaries are charged to minority interest in the accompanying consolidated statement of balance sheet. Additional zakat and income tax liability, if any, related to prior years' assessments arising from GAZT are accounted for in the period in which the final assessments are 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 consolidated financial statements.



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### 3. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **Assets and liabilities classified as held for disposal and discontinued operations**

Non-current assets, or a disposal group comprising assets and liabilities, are classified as 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 re-measurement are recognised in the interim 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; or
- 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 period.

#### **Offsetting**

Financial assets and liabilities are offset and the net amount reported in the interim consolidated balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the interim consolidated statement of income unless required or permitted by generally accepted accounting principles in Kingdom of Saudi Arabia.

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Segmental reporting**

A segment is a distinguishable component of the Group that is engaged either in providing products or services (a business segment) or in providing products or services within a particular economic environment (a geographic segment), which is subject to risks and rewards that are different from those of other segments. As the Group carries out its business activities mainly in the Kingdom of Saudi Arabia, reporting is provided by business segment only (see note 16).

**Dividends**

Interim dividends are recorded as liability in the period in which they are approved by the Board of Directors. Final dividends are recorded in the period in which they are approved by the shareholders.

**4. CASH AND CASH EQUIVALENTS**

	<u>2016</u>	<u>2015</u>
Cash on hand	<b>300,778</b>	284,146
Cash at banks	<b>173,849,042</b>	146,384,875
Murabaha term deposits with maturity of 3 months or less	<b>21,254,500</b>	106,000,000
	<b><u>195,404,320</u></b>	<u>252,669,021</u>

**5. INVESTMENTS**

	<u>2016</u>	<u>2015</u>
Available for sale investment – unquoted	<b>16,788,011</b>	18,075,925
Investment in associates (see note ‘a’ below)	<b>101,988,911</b>	96,465,651
	<b><u>118,776,922</u></b>	<u>114,541,576</u>

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### 5. INVESTMENTS (continued)

a) The investment in associates comprises the following:

<u>Associates</u>	<u>Principal activity</u>	<u>Country of incorporation</u>	<u>Effective shareholding percentage</u>	<u>2016</u>	<u>2015</u>
- International Water Distribution Company Limited	Water/waste works, water treatment and lease of water equipment	Kingdom of Saudi Arabia	50%	<b>55,579,270</b>	48,123,318
- Saudi Water and Environmental Services Company (see note 'i' below)	Electrical, water and mechanical works and related operation and maintenance	Kingdom of Saudi Arabia	29.4%	<b>18,150,041</b>	17,516,874
- Al Jabr Talke Company Limited	Contracting, construction, operation and maintenance of factories and warehouses	Kingdom of Saudi Arabia	33.3%	<b>27,378,212</b>	23,032,422
- Stork Technical Services Saudi Arabia limited (see note 'ii' below)	Maintenance and operations of power, oil, gas, desalination and petrochemical plants and calibration of machinery and electrical equipment	Kingdom of Saudi Arabia	45%	--	6,012,269
- Xenmet SA, Vaduz (see note 'iii' below)	Trading, storage and brokerage of commodities	Principality of Liechtenstein	19%	<b>881,388</b>	1,780,768
				<b><u>101,988,911</u></b>	<u>96,465,651</u>

i) Saudi Water and Environmental Services Company is 49% (2015: 49%) owned by Kindasa Water Service Company (Subsidiary) which is 60% owned by the Parent Company (2015: 60%).

ii) During the twelve-months period ended December 31, 2016, the Company has recognized a provision for impairment loss amounting to SR 4,195,416 in addition to share of losses amounting to SR 1,816,853.

iii) Xenmet SA, Vaduz is 25% (2015: 25%) owned by Saudi Trade and Export Development Company Limited, which is 76% owned by the Parent Company (2015: 76%).

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### 6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment comprise of the following:

	<u>2016</u>	<u>2015</u>
Property, plant and equipment	252,565,682	265,913,579
Property, plant and equipment of bonded and re-export project	221,538,489	200,257,224
Property and equipment – quay project	437,030,181	241,482,700
	<u>911,134,352</u>	<u>707,653,503</u>

During the twelve-months period ended December 31, 2016, additions amounting to SR 259.86 million (2015: SR 127.46 million) have been made to property, plant and equipment.

### 7. INTANGIBLE ASSETS – QUAY PROJECTS

Saudi Trade and Export Development Company (Tusdeer) 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 429 million (2015: SR 429 million) to replace the Equipment. Useful life of this equipment shall extend beyond the expiry of the BOT agreement and the remaining net book value of that Equipment at the end of the concession agreement is estimated to be SR 304.9 million (2015: SR 304.9 million). As at December 31, 2016, an amount of SR 54.39 million (2015: SR 44.43 million) has been recorded as provision for equipment replacement cost. For discounting purposes, the management uses annualized rate of 3.9218% (2015: 3.8806%). The management believes that the discount rate is reflective of the term of the obligation.

### 8. GOODWILL

Goodwill of SR 9.3 million (2015: SR 9.3 million) was recognised on acquisition of Kindasa Water Services Company, a subsidiary; and its carrying value as of December 31, 2016 is SR 8.8 million (2015: SR 8.8 million).

During the twelve-months period ended December 31, 2016, goodwill has been reviewed for impairment and the management has ascertained that no impairment is required.

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### 9. LONG-TERM LOANS AND BANK FACILITIES

Long-term loans and bank facilities as at December 31 are as follows:

	<u>2016</u>	<u>2015</u>
Saudi Industrial Development Fund loans (Note 9.1)	<b>9,000,000</b>	18,000,000
Ijara facilities obtained from banks (Note 9.2)	<b>820,163,125</b>	907,734,221
Long-term loan (Note 9.3)	<b>8,926,545</b>	21,875,000
Long-term loan	--	1,558,503
Long-term loan	--	1,500,000
Long-term loan (Note 9.4)	<b>114,329,781</b>	--
Total long-term loans	<b>952,419,451</b>	950,667,724
Less: current portion	<b>(116,017,870)</b>	(112,482,638)
Non-current portion	<b>836,401,581</b>	838,185,086

- 9.1 During 2003, Kindasa obtained a loan of SAR 64.5 million from Saudi Industrial Development Funds (“SIDF”) to finance the extension of the desalination plant. During 2011, the facility amount was increased to SAR 109.1 million. The loan is secured by the mortgage over Kindasa's property and equipment and personal guarantees from its shareholders. The loan agreement include certain covenants such as limiting rents, capital expenditure, dividends and maintenance of certain financial ratios. The loan is repayable in twelve semi-annual installments with maturity of up to July 2017.
- 9.2 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 intangible assets – quay projects (Note 7) of RSGT. The remaining amount of loan is being repaid in twenty-seven semi-annual installments, ending in December 2023. The loan bears commission rate of SIBOR plus an agreed margin.
- 9.3 During 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. The loan carries commission at commercial rates and is repayable in eight equal half-yearly instalments ending in December 2017. The loan is secured by assigning rights of the rental income and through promissory notes.
- 9.4 During 2016, RSGT entered into an Ijara arrangement with two banks to obtain a loan of SR 260 million for expansion of its existing berths. The Ijara facility is secured against the assets of the Company. The loan carries commission at commercial rates (SIBOR plus an agreed margin) and is repayable in semi-annual installments ending in December 2023. The first installment of the loan facility is payable in June 2018.
- 9.5 During 2016, Kindasa entered into an agreement for a long-term facility with a commercial bank amounting to SR 24 million to finance the construction of a new water desalination facility at Rabigh. The loan carries commission at commercial rates (SIBOR plus an agreed margin) and is repayable in quarterly instalments commencing first installment at the end of twelfth month after the first drawdown. The loan is secured by secondary mortgage over Kindasa's property and equipment. The loan agreement include certain covenants such as capital expenditure, routing of proceeds, dividend payments and maintenance of financial ratios. As at 31 December 2016, Kindasa has not availed this facility.

The installments payable in the next twelve months are shown as current liabilities.

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### 10. DERIVATIVE FINANCIAL INSTRUMENTS

During 2012, a subsidiary "Red Sea Gateway Terminal Company Limited" entered into a Profit Rate Swap contract 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, 2016 is SR 0.51 million (2015: negative fair value SR 0.017 million). The maturity date of the instrument is June 30, 2017.

For the purposes of hedge accounting, hedging instrument is classified as a cash flow hedge. The fair value and notional amount of the hedge are as follows:

	<u>2016</u>		<u>2015</u>	
	<u>Negative Fair Value</u>	<u>Notional Amount</u>	<u>Negative Fair Value</u>	<u>Notional Amount</u>
Profit Rate Swap	<u>509,730</u>	<u>509,330,638</u>	<u>17,276</u>	<u>564,335,119</u>

Movement in derivative financial instruments is as follows:

	<u>2016</u>	<u>2015</u>
Balance at the beginning of the period	<u>17,276</u>	6,585,435
Change in fair value	<u>492,454</u>	<u>(6,568,159)</u>
Balance at the end of the period	<u>509,730</u>	<u>17,276</u>

During 2013, a subsidiary "Saudi Trade and Export Development Company Limited" entered into a Profit Rate Swap contract to hedge its exposure to the variability in cash flows arising from profit payments on long-term loan facilities obtained from banks. The positive fair value of this instrument as at December 31, 2016 is SR 0.025 million (2015: positive fair value SR 0.004 million). The maturity date of the instrument is December 31, 2017.

For the purposes of hedge accounting, hedging instrument is classified as a cash flow hedge. The fair value and notional amount of the hedge are as follows:

	<u>2016</u>		<u>2015</u>	
	<u>Positive Fair Value</u>	<u>Notional Amount</u>	<u>Positive Fair Value</u>	<u>Notional Amount</u>
Profit Rate Swap	<u>24,930</u>	<u>8,750,000</u>	<u>4,236</u>	<u>17,500,000</u>

Movement in derivative financial instruments is as follows:

	<u>2016</u>	<u>2015</u>
Balance at the beginning of the period	<u>(4,236)</u>	202,555
Change in fair value	<u>(20,694)</u>	<u>(206,791)</u>
Balance at the end of the period	<u>(24,930)</u>	<u>(4,236)</u>

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### 11. REVENUE

	<u>Three-months period ended</u>		<u>Twelve-months period ended</u>	
	<u>December 31,</u>	<u>December 31,</u>	<u>December 31,</u>	<u>December 31,</u>
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Audited)</u>
Shipping and unloading services	107,440,446	102,027,170	432,958,764	409,706,163
Rentals and support services	26,230,572	24,572,265	101,577,576	100,482,102
Sale of potable water	26,653,135	25,469,198	105,782,052	105,895,817
<b>Total</b>	<b>160,324,153</b>	<b>152,068,633</b>	<b>640,318,392</b>	<b>616,084,082</b>

### 12. OTHER INCOME, NET

	<u>Three-months period ended</u>		<u>Twelve-months period ended</u>	
	<u>December 31,</u>	<u>December 31,</u>	<u>December 31,</u>	<u>December 31,</u>
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Audited)</u>
(Loss) / gain on sale of property, plant and equipment	(8,803)	39,723	(135,569)	117,533
Other income (see note 'a' and 'b' below)	7,512,249	694,209	12,148,938	2,006,290
<b>Total</b>	<b>7,503,446</b>	<b>733,932</b>	<b>12,013,369</b>	<b>2,123,823</b>

Other income includes:

- SR 2.5 million pertaining to compensation received by one of the subsidiaries of the Company against claims made in prior years.
- SR 6.88 million pertaining to reversal of excess provision against Zakat contingencies made in prior years, on account of recent decisions and hearings of GAZT.

### 13. DISCONTINUED OPERATION

- During 2015, Support Services Operations Company (ISNAD) (a subsidiary of SISCO) received a notice from Saudi Industrial Property Authority (the Authority) No. 2/1/2733 issued on Dhul – Qadah 11, 1436H, corresponding to August 26, 2015, confirming the completion of the contract of Riyadh Services Station at the end of the lease term (Safar 20, 1437H, corresponding to December 2, 2015). As this resulted in the discontinuation of activity of the station, the net value of the buildings and other assets relating to the Riyadh Service Station were disposed off.

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**13. DISCONTINUED OPERATION (continued)**

Net results of the discontinued operation were as follows:

	<u>Three-months period ended</u>		<u>Twelve-months period ended</u>	
	<u>December 31,</u>	December 31,	<u>December 31,</u>	December 31,
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
Sales	--	1,740,749	--	14,563,019
Cost of sales	--	(1,300,381)	--	(11,822,245)
<b>Gross Profit</b>	--	440,368	--	2,740,774
Selling and distribution expenses	--	(110,886)	--	(612,708)
General and administrative Expenses	--	(274,469)	--	(1,105,244)
<b>Net operating profit</b>	--	55,013	--	1,022,822
Gain on disposal of property and equipment of discontinued operations	--	--	--	50,000
Other income	--	51,500	--	1,500
<b>Net income from discontinued operation</b>	--	106,513	--	1,074,322

**14. 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 attributable to the shareholders of the Parent Company 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.



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#### 15. COMMITMENTS AND CONTINGENCIES

- 15.1 The General Authority for Zakat and Tax (GAZT) raised assessments for the years 2002 through 2008 with an additional liability of SR 25.8 million. The Company had filed an objection against the GAZT's assessment. The Higher Appeal Committee issued their decision during the year. Following the issuance of the decision, the GAZT raised a revised assessment amounting to SR 9.5 million. The assessment does not take into consideration SR 3.9 million paid "under protest" at the time of filing an appeal with HAC.

SISCO has filed an appeal against the decision issued by the Higher Appeal Committee with the Board of Grievances. In addition, the Company has also requested the GAZT to reconsider their revised assessment.

Furthermore, the GAZT raised assessments for the years 2009 through 2013 with an additional Zakat and withholding tax liability of SR 10.95 million. The Company accepted the imposition of Zakat amounting to SR 0.016 million and made payment there-against. An appeal against the remaining amount was filed by the Company with the GAZT. The Preliminary Appeal Committee (PAC) issued their decision reducing the liability to SR 7.1 million. The Company has filed an appeal with the Higher Appeal Committee (HAC) and submitted a bank guarantee of SR 7.1 million, based on their understanding of the PAC Decision.

Further, till date the GAZT is yet to raise the assessment for the years ended 31 December 2014 and 2015.

- 15.2 In respect of one of the subsidiaries of the Company, Red Sea Gateway Terminal Company Limited, the GAZT raised final assessment for the years 2011 through 2013 and claimed an additional tax, withholding tax and Zakat differences amounting to SR 4,761,905. The subsidiary has filed an appeal against the assessments.
- 15.3 At December 31, 2016, the Group's bankers have issued letters of guarantee of SR 41.1 million (2015: SR 32.88 million) against which cash margin of SR 19.73 million (2015: SR 11.51 million) was paid.
- 15.4 As at December 31, 2016, the Group has commitments for capital work in progress of SR 245.4 million (2015: SR 26.09 million) relating to capital expenditures.

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### 16. BUSINESS SEGMENTS

The Group has the following main business segments:

- Port development and operations
- Water desalination and distribution
- Logistic parks and support services
- Corporate office: Consists of investment activities and head office functions.

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

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

	<u>Port development and operations</u> (SR'000)	<u>Logistic parks and support services</u> (SR'000)	<u>Water desalination and distribution</u> (SR'000)	<u>Corporate office</u> (SR'000)	<u>Total</u> (SR'000)
<b><u>2016</u></b>					
<b>Assets</b>	<b>1,902,083</b>	<b>312,472</b>	<b>269,797</b>	<b>198,365</b>	<b>2,682,717</b>
<b>Liabilities</b>	<b>1,081,166</b>	<b>41,333</b>	<b>24,961</b>	<b>27,456</b>	<b>1,174,916</b>
<b>Revenue</b>	<b>432,959</b>	<b>101,577</b>	<b>105,782</b>	<b>--</b>	<b>640,318</b>
<b>Net income / (loss) before non-controlling interests</b>	<b>83,127</b>	<b>40,104</b>	<b>20,643</b>	<b>(980)</b>	<b>142,894</b>
<b>Net income / (loss) for the year</b>	<b>52,838</b>	<b>26,729</b>	<b>13,505</b>	<b>(980)</b>	<b>92,092</b>
	<u>Port development and operations</u> (SR'000)	<u>Logistic parks and support services</u> (SR'000)	<u>Water desalination and distribution</u> (SR'000)	<u>Corporate office</u> (SR'000)	<u>Total</u> (SR'000)
<b><u>2015</u></b>					
<b>Assets</b>	<b>1,778,356</b>	<b>318,005</b>	<b>279,010</b>	<b>225,132</b>	<b>2,600,503</b>
<b>Liabilities</b>	<b>1,033,487</b>	<b>61,649</b>	<b>38,742</b>	<b>32,719</b>	<b>1,166,597</b>
<b>Revenue</b>	<b>409,706</b>	<b>100,482</b>	<b>105,896</b>	<b>--</b>	<b>616,084</b>
<b>Net income / (loss) before non-controlling interests</b>	<b>92,154</b>	<b>44,485</b>	<b>13,942</b>	<b>(8,645)</b>	<b>141,936</b>
<b>Net income / (loss) for the year</b>	<b>58,543</b>	<b>30,631</b>	<b>9,980</b>	<b>(8,645)</b>	<b>90,509</b>

The Group mainly operates in the Kingdom of Saudi Arabia.

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**17. RELATED PARTY TRANSACTIONS AND BALANCES**

- a) Parties are considered to be related if one party has the ability to control the other party or exercise significant influence on the other party in making financial and operating decisions.

Related parties include the shareholders', directors, associated companies and key management personnel of the Group. Pricing policies and terms of these transactions are approved by the Company's Board of Directors.

Related party transactions mainly represent services, expenses and other transactions which are undertaken at mutually agreed terms and approved by the board of directors.

Significant related party transactions for the twelve-months period December 31, 2016 are described as under:

<u>Related party</u>	<u>Nature of transaction</u>	<u>2016</u>		<u>2015</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	<b>64,309,157</b>	<b>10,442,000</b>	59,777,135	14,984,937
	Services rendered to associate	<b>660,000</b>	--	660,000	--
	Expenses incurred by associate on behalf of the Group	<b>(16,600)</b>	--	--	--
	Expenses incurred by Group on behalf of the associate	<b>144,235</b>	<b>797,779</b>	99,050	1,543,544
Karam Fedics	Purchase of goods and services	<b>(8,590,778)</b>	<b>(2,155,204)</b>	(10,514,876)	(889,907)
Saudi Water and Environmental Services Company Limited	Sale of goods and services	<b>4,765,535</b>	<b>348,539</b>	1,151,739	383,850
	Dividend received from associate	<b>1,960,000</b>	--	1,960,000	--
	Payments made by Group on behalf of the Affiliate	--	--	6,441,476	--
Ali Reza Travel and Tourism Company Limited	Purchase of goods and services	<b>(2,021,846)</b>	<b>(314,105)</b>	(2,140,910)	(142,845)
Aecom Arabia Limited (formerly Resource Science Arabia Limited)	Payments made by the Group on behalf of affiliate	<b>36,939</b>	<b>64,226</b>	27,287	27,287
	Purchase of goods and services	--	--	(93,533)	--
Xenel Industries Limited	Payments made by the Group on behalf of affiliate	<b>799,202</b>	<b>212,782</b>	680,988	--
	Expenses incurred by affiliate on behalf of the Group	<b>(1,783,825)</b>	--	(2,108,884)	(143,894)

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### 17. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

<u>Related party</u>	<u>Nature of transaction</u>	<u>2016</u>		<u>2015</u>	
		<u>Amount of transaction</u>	<u>Balance receivable / (payable)</u>	<u>Amount of transaction</u>	<u>Balance receivable / (payable)</u>
Stork Technical Services Saudi Arabia Limited	Expenses incurred by subsidiary on behalf of associate	2400	2400	626,560	144,157
	Payments made by the Group on behalf of affiliate	1,388,754	--	1,869,550	1,358,843
	Service charges charged to affiliate	--	--	34,209	--
Al Jabr Talke Company Limited	Services rendered to associate	333,332	--	617,533	13,755
	Dividend received from associate	3,770,107	--	--	--
	Repayment of advances by affiliate	--	--	(5,146,825)	--
	Expenses cross charged by associate	(1,727)	--	(603,778)	--
Halwani Bros Co.	Sale of goods	186,870	2,640	753,432	168,720
Hidada Limited	Purchase of goods and services	(3,161,333)	(722,868)	(950,604)	(722,868)
Arabian Bulk Trade Limited	Lease of land and warehouses	769,290	67,318	1,494,372	485,649
Saudi Cable Company Limited	Lease of land and warehouses	990,828	174,236	854,179	128,244
	Purchase of goods	(1,068,699)	--	--	--
Water and Environmental Services Company Limited	Purchase of goods and services	(21,874,814)	(3,266,309)	(21,782,741)	(3,138,566)

#### b) Remuneration

Remuneration, compensation and bonuses of the key management personnel / executive directors and attendance fee and bonuses of Board Directors and members of Board Committees paid during the twelve-months period December 31, 2016 was approximately SR 17,327,345 (2015: SR 17,715,610).

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**18. DIVIDEND AND DISTRIBUTION**

In the Annual General Meeting of the Company held on May 2, 2016, the shareholders authorized a final dividend of SR 0.5 per share (2015: SR 0.5 per share) amounting to SR 34 million (2015: SR 34 million) and remuneration to Board of Directors amounting to SR 1.4 million (2015: SR 1.4 million), which was appropriated from the retained earnings and paid during the period.

**19. APPROVAL OF THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

The interim consolidated financial statements were approved and authorised to issue by the Board of Directors on Rabi Al Thani 21, 1438H, corresponding to January 19, 2017.