

**SAUDI INDUSTRIAL SERVICES COMPANY
(A SAUDI JOINT STOCK COMPANY)**

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (UNAUDITED)**

**FOR THE THREE MONTH AND SIX MONTH PERIODS ENDED
30 JUNE 2018**

**SAUDI INDUSTRIAL SERVICES COMPANY
(A SAUDI JOINT STOCK COMPANY)**

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three month and six month periods ended 30 June 2018

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INDEPENDENT AUDITORS' REVIEW REPORT

To the shareholders
Saudi Industrial Services Company
(A Saudi Joint Stock Company)

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Saudi Industrial Services Company ("the Company") and its subsidiaries (collectively referred to as "the Group") as at 30 June 2018, and the related interim condensed consolidated statements of income and comprehensive income for the three month and six month periods then ended, and the interim condensed consolidated statements of changes in equity and cash flows for the six month period then ended and the explanatory notes which form an integral part of these interim condensed consolidated financial statements. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" (IAS 34) as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" that are endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34, as endorsed in the Kingdom of Saudi Arabia.

Other matter

The consolidated financial statements of the Group for the year ended 31 December 2017 were audited by another auditor who expressed an unmodified opinion on those financial statements on 27 March 2018. Further, the interim condensed consolidated financial statements of the Group for the three month period ended 31 March 2018 were reviewed by another auditor who expressed an unmodified review conclusion on those financial statements on 2 May 2018.

for Ernst & Young

H i A

Hussain Saleh Asiri
Certified Public Accountant
License No. 414

26 July 2018
13 Dhul-Qi'dah 1439H
Jeddah

18/1/NA



**SAUDI INDUSTRIAL SERVICES COMPANY
(A SAUDI JOINT STOCK COMPANY)**

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	<i>Note</i>	<i>30 June 2018 Unaudited SR</i>	<i>31 December 2017 Audited SR</i>
ASSETS			
NON CURRENT ASSETS			
Property, plant and equipment	6	914,419,669	927,089,954
Intangible assets	7	1,204,694,620	1,238,841,157
Investment properties		147,848,242	152,430,488
Investments	8	188,797,823	180,297,457
Trade receivables, long term		7,716,471	8,376,771
TOTAL NON CURRENT ASSETS		2,463,476,825	2,507,035,827
CURRENT ASSETS			
Inventories		21,221,011	25,502,589
Trade receivables, prepayments and other receivables		113,758,991	101,588,415
Cash and cash equivalents	9	108,897,087	150,707,941
TOTAL CURRENT ASSETS		243,877,089	277,798,945
TOTAL ASSETS		2,707,353,914	2,784,834,772
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital	10	816,000,000	816,000,000
Share premium		36,409,062	36,409,063
Statutory reserve		67,876,626	66,615,976
Effect of changes in shareholding percentage in subsidiaries		1,133,474	1,133,474
Actuarial valuation reserves		(3,467,662)	(3,467,662)
Cash flow hedging reserve		(1,847,826)	
Unrealized gain on investments as FVOCI		8,937,284	9,563,788
Retained earnings		127,902,722	141,036,870
Equity attributable to the shareholders' of the Parent		1,052,943,680	1,067,291,509
Non-controlling interests		477,170,918	476,769,749
TOTAL SHAREHOLDERS' EQUITY		1,530,114,598	1,544,061,258
NON CURRENT LIABILITIES			
Long term loans and bank facilities	11	774,343,528	839,710,326
Employees' end of service benefits		28,264,513	26,693,232
Long term provisions	12	71,426,314	66,040,748
Derivative financial instrument	11(a)	3,049,217	-
TOTAL NON CURRENT LIABILITIES		877,083,572	932,444,306
CURRENT LIABILITIES			
Current portion of long term loans and bank facilities	11	148,716,478	146,391,442
Trade payables and other current liabilities		147,707,920	156,841,685
Zakat and income tax payable		3,731,346	5,096,081
TOTAL CURRENT LIABILITIES		300,155,744	308,329,208
TOTAL LIABILITIES		1,177,239,316	1,240,773,514
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		2,707,353,914	2,784,834,772

The attached notes 1 to 21 form an integral part of these interim condensed consolidated financial statements.

**SAUDI INDUSTRIAL SERVICES COMPANY
(A SAUDI JOINT STOCK COMPANY)**

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

For the three month and six month periods ended 30 June 2018

		<i>For the three month period ended 30 June 2018 Unaudited SR</i>	<i>For the three month period ended 30 June 2017 Unaudited SR</i>	<i>For the six month period ended 30 June 2018 Unaudited SR</i>	<i>For the six month period ended 30 June 2017 Unaudited SR</i>
Revenues	15	154,043,281	149,291,776	272,017,978	321,249,219
Direct costs		(98,217,108)	(87,416,540)	(179,052,259)	(184,173,528)
GROSS PROFIT		55,826,173	61,875,236	92,965,719	137,075,691
OPERATING EXPENSES					
Selling and distribution expenses		(4,012,957)	(3,596,553)	(8,177,265)	(7,232,933)
General and administrative expenses		(27,225,336)	(27,296,891)	(56,353,632)	(60,201,002)
TOTAL OPERATING EXPENSES		(31,238,293)	(30,893,444)	(64,530,897)	(67,433,935)
OPERATING INCOME		24,587,880	30,981,792	28,434,822	69,641,756
Finance cost		(11,542,172)	(8,654,939)	(21,335,136)	(17,223,140)
Finance income		113,750	206,744	113,750	409,178
Other income	16	(299,416)	11,475,561	(58,362)	12,433,294
Share of results of associates, net	8.2	6,132,389	5,401,527	11,724,087	9,950,286
PROFIT BEFORE ZAKAT AND INCOME TAX		18,992,431	39,410,685	18,879,161	75,211,374
Zakat and income tax	14	(1,770,984)	(3,096,636)	(3,064,439)	(6,236,837)
NET PROFIT FOR THE PERIOD		17,221,447	36,314,049	15,814,722	68,974,537
Attributable to:					
Shareholders' of the parent		12,036,361	24,101,052	12,606,502	46,227,252
Non-controlling interests		5,185,086	12,212,997	3,208,220	22,747,285
		17,221,447	36,314,049	15,814,722	68,974,537
Earnings per share					
Basic and diluted earnings per share from net profit for the period attributable to the shareholders' of the Parent	17	0.15	0.30	0.15	0.57

The attached notes 1 to 21 form an integral part of these interim condensed consolidated financial statements.

**SAUDI INDUSTRIAL SERVICES COMPANY
(A SAUDI JOINT STOCK COMPANY)**

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three month and six month periods ended 30 June 2018

	<i>For the three month period ended 30 June 2018 Unaudited SR</i>	<i>For the three month period ended 30 June 2017 Unaudited SR</i>	<i>For the six month period ended 30 June 2018 Unaudited SR</i>	<i>For the six month period ended 30 June 2017 Unaudited SR</i>
<i>Note</i>				
Net income for the period	17,221,447	36,314,049	15,814,722	68,974,537
OTHER COMPREHENSIVE INCOME				
<i>Items that can be reclassified to consolidated statement of income in subsequent periods</i>				
Cash flow hedges – effective portion of changes in fair value	(3,049,217)	(532,860)	(3,049,217)	488,198
<i>Items that cannot be reclassified to consolidated statement of income in subsequent periods</i>				
FVOCI investments– net change in fair value 8.4	(661,221)	2,087,006	(423,776)	2,087,006
OTHER COMPREHENSIVE INCOME FOR THE PERIOD	(3,710,438)	1,554,146	(3,472,993)	2,575,204
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	13,511,009	37,868,195	12,341,729	71,549,741
Attributable to:				
- Shareholders of the Parent Company	9,418,139	25,847,559	10,132,172	48,592,289
- Non-controlling interests	4,092,870	12,020,636	2,209,557	22,957,452
	13,511,009	37,868,195	12,341,729	71,549,741

The attached notes 1 to 21 form an integral part of these interim condensed consolidated financial statements.

SAUDI INDUSTRIAL SERVICES COMPANY
(A SAUDI JOINT STOCK COMPANY)
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six month period ended 30 June 2018

	Equity attributable to the shareholders' of the Parent										
	<i>Share Capital SR</i>	<i>Share Premium SR</i>	<i>Statutory Reserve SR</i>	<i>Effect of changes in shareholding percentage in subsidiaries SR</i>	<i>Actuarial valuation reserves SR</i>	<i>Cash flow hedging reserve SR</i>	<i>Unrealized gain on FVOCI investments SR</i>	<i>Retained Earnings SR</i>	<i>Total SR</i>	<i>Non- controlling Interests SR</i>	<i>Total Equity SR</i>
Balance at 1 January 2018 - audited	816,000,000	36,409,062	66,615,976	1,133,474	(3,467,662)	-	9,563,788	141,036,870	1,067,291,508	476,769,749	1,544,061,257
Profit for the period	-	-	-	-	-	-	-	12,606,502	12,606,502	3,208,220	15,814,722
Other comprehensive income	-	-	-	-	-	(1,847,826)	(626,504)	-	(2,474,330)	(998,663)	(3,472,993)
Total comprehensive income for the period	-	-	-	-	-	(1,847,826)	(626,504)	12,606,502	10,132,172	2,209,557	12,341,729
Transfer to statutory reserve	-	-	1,260,650	-	-	-	-	(1,260,650)	-	-	-
Dividends paid (note 10)	-	-	-	-	-	-	-	(24,480,000)	(24,480,000)	(1,847,809)	(26,327,809)
Net movement in non-controlling interest	-	-	-	-	-	-	-	-	-	39,421	39,421
Balance at 30 June 2018 – unaudited	<u>816,000,000</u>	<u>36,409,062</u>	<u>67,876,626</u>	<u>1,133,474</u>	<u>(3,467,662)</u>	<u>(1,847,826)</u>	<u>8,937,284</u>	<u>127,902,722</u>	<u>1,052,943,680</u>	<u>477,170,918</u>	<u>1,530,114,598</u>

The attached notes 1 to 21 form an integral part of these interim condensed consolidated financial statements.

SAUDI INDUSTRIAL SERVICES COMPANY
(A SAUDI JOINT STOCK COMPANY)
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six month period ended 30 June 2018

	Equity attributable to the shareholders' of the Parent Company										
	Share Capital SR	Share Premium SR	Statutory Reserve SR	Special Reserve SR	Effect of changes in shareholding percentage in subsidiaries SR	Cash flow hedging reserve SR	Unrealized gain on FVOCI investments SR	Retained earnings SR	Total SR	Non- controlling Interests SR	Total equity SR
Balance at 1 January 2017 - audited	680,000,000	36,409,062	39,758,712	19,869,813	1,518,649	(289,950)	7,217,861	227,264,163	1,011,748,310	478,196,792	1,489,945,102
Issue of bonus shares (note 10)	136,000,000	-	-	-	-	-	-	(136,000,000)	-	-	-
Profit for the period	-	-	-	-	-	-	-	46,227,252	46,227,252	22,747,285	68,974,537
Other comprehensive income	-	-	-	-	-	292,532	2,072,505	-	2,365,037	210,167	2,575,204
Total comprehensive income for the period	-	-	-	-	-	292,532	2,072,505	46,227,252	48,592,289	22,957,452	71,549,741
Transfer to statutory reserve	-	-	19,869,813	(19,869,813)	-	-	-	-	-	-	-
Transfer to reserves	-	-	4,622,725	1,106,310	-	-	-	(5,729,035)	-	-	-
Dividends paid to non-controlling interests' by a subsidiary	-	-	-	-	-	-	-	-	-	(5,411,000)	(5,411,000)
Balance at 30 June 2017 - unaudited	<u>816,000,000</u>	<u>36,409,062</u>	<u>64,251,250</u>	<u>1,106,310</u>	<u>1,518,649</u>	<u>2,582</u>	<u>9,290,366</u>	<u>131,762,380</u>	<u>1,060,340,599</u>	<u>495,743,244</u>	<u>1,556,083,843</u>

The attached notes 1 to 21 form an integral part of these interim condensed consolidated financial statements.

**SAUDI INDUSTRIAL SERVICES COMPANY
(A SAUDI JOINT STOCK COMPANY)**

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months period ended 30 June 2018

	<i>For the six month period ended 30 June 2018</i>	<i>For the six month period ended 30 June 2017</i>
	<i>Unaudited SR</i>	<i>Unaudited SR</i>
<i>Note</i>		
OPERATING ACTIVITIES		
Profit before zakat and income tax	18,879,161	75,211,374
<i>Adjustments for:</i>		
Depreciation and amortization	75,280,239	67,296,861
Provision for employees' end of service benefits	2,026,572	2,460,849
Losses / (gains) on disposal of property, plant and equipment	742,599	(4,805)
Share of results of associates, net	(11,724,087)	(9,950,286)
Provision for doubtful debts	23,863	129,594
Provision for inventories	810,647	2,556,952
Amortization of advance rentals	3,859,413	2,051,519
Provision for asset replacement cost	5,385,566	4,046,894
Financial cost	21,335,136	17,223,140
	116,619,109	161,022,092
Changes in operating assets and liabilities:		
Inventories	3,470,931	512,445
Trade receivables, prepayments and other receivables	(10,755,420)	7,997,831
Trade payable, accrued and other liabilities	(9,234,471)	(15,831,101)
Cash generated from operating activities	100,100,149	153,701,267
Employees' end of service benefits paid	(455,291)	(1,923,117)
Zakat and income tax paid	(5,207,893)	(7,774,846)
Financial charges paid	(21,234,431)	(16,012,132)
Net cash flow from operating activities	73,202,535	127,991,172
INVESTING ACTIVITIES		
Additions to property, plant and equipment	(24,623,770)	(98,993,735)
Dividends received from an associate	2,799,945	2,869,819
Additions to investments classified as FVOCI	-	(50,000,000)
Proceeds from disposal of property, plant and equipment	-	297,067
Net cash used in investing activities	(21,823,825)	(145,826,849)
FINANCING ACTIVITIES		
Borrowings of loans and bank facilities	8,414,010	63,633,617
Repayment of loans and bank facilities	(75,315,185)	(57,267,695)
Dividends	(26,327,809)	-
Dividends paid to non-controlling interests by subsidiaries	-	(5,411,000)
Net movement in non-controlling interests	39,421	-
Net cash (used in) / from financing activities	(93,189,563)	954,922
NET DECREASE IN CASH AND BANK BALANCES	(41,810,854)	(16,880,755)
Cash and bank balances at the beginning of the period	150,707,941	195,404,320
CASH AND BANK BALANCES AT THE END OF THE PERIOD	108,897,087	178,523,565

The attached notes 1 to 21 form an integral part of these interim condensed consolidated financial statements.

**SAUDI INDUSTRIAL SERVICES COMPANY
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2018

1. ORGANISATION AND 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). The objective of the Company is to invest in and manage subsidiaries in addition to maintenance, operations and management of factories, industrial facilities, construction, transportation, warehousing, customs clearance and related services, water desalination, distribution and treatment and all its facilities and services, construction and operation of fuel stations and maintenance services, marketing factory products locally and worldwide, and investing in all previous activities. The principal activity of the Company is investment and management of subsidiaries.

The registered head office of the Parent Company is located at the following address:

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

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

<u>Company</u>	<u>Country of incorporation</u>	<u>Effective shareholding</u>		<u>Principal activities</u>
		<u>2018</u>	<u>2017</u>	
Saudi Trade and Export Development Company Limited (“LogiPoint”)	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 – Closed Joint Stock Company (“Kindasa”)	Saudi Arabia	65%	65%	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
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 30 June 2018

2. BASIS OF PREPARATION

2.1 Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with IAS 34 – “Interim Financial Reporting”, as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants (“SOCPA”).

These interim condensed consolidated financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2017.

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

The Group has adopted IFRS 9 "Financial Instruments" and IFRS 15" Revenue from Contracts with Customers" from 1 January 2018 and accounting policies for these new standards are disclosed in note 5. In preparing these interim condensed consolidated financial statements, significant judgments made by the management in applying the Group’s accounting policies and the key sources of estimation were the same as those that were applied to the consolidated financial statements as at and for the year ended 31 December 2017 except for the new significant judgments and estimates related to the application of IFRS 9 as disclosed in note 4.2.

2.2 Basis of measurement

These interim condensed consolidated financial statements have been prepared under the historical cost basis, except for financial assets at fair value (equity investments at fair value through other comprehensive income (FVOCI) and derivative financial instruments).

2.3 Functional and presentation currency

These interim condensed consolidated financial statements are presented in Saudi Arabian Riyals (“SR”) which is the Group’s functional and presentation currency.

3. BASIS OF CONSOLIDATION

These interim condensed consolidated financial statements comprising the financial statements the Company and its subsidiaries as set out in note 1. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Company.

3.1 Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. To meet the definition of control, all of the following three criteria must be met:

- i) the Group has power over an entity;
- ii) the Group has exposure, or rights, to variable returns from its involvement with the entity; and
- iii) the Group has the ability to use its power over the entity to affect the amount of the entity’s returns.

The Group re-assesses whether or not it controls an investee in case facts and circumstances indicate that there are changes to one or more of the criteria of control.

Subsidiaries are consolidated from the date on which control commences until the date on which control ceases. The results of subsidiaries acquired or disposed of during the period, if any, are included in the interim condensed consolidated statement of income from the date of the acquisition or up to the date of disposal, as appropriate.

3.2 Non-controlling interests

Non-controlling interests represent the portion of net income and net assets of subsidiaries not owned, directly or indirectly, by the Group in its subsidiaries and are presented separately in the interim condensed consolidated statement of income and within equity in the interim condensed consolidated statement of financial position, separately from the Group’s equity. Any losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance. Changes in the Group’s interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

**SAUDI INDUSTRIAL SERVICES COMPANY
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 30 June 2018

3. BASIS OF CONSOLIDATION (CONTINUED)

3.3 Transactions eliminated on consolidation

Balances between the Group entities, and any unrealized income and expenses arising from intragroup transactions, are eliminated in preparing the interim condensed consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

3.4 Investment in an associates and jointly controlled entities

The Group's interest in equity-accounted investee comprises interest in a joint venture and investments in associates.

Associates are entities over which the Group exercises significant influence. Investments in associates are initially recognized at cost and subsequently accounted for under the equity method of accounting and are carried in the interim condensed consolidated statement of financial position at the lower of the equity-accounted value or the recoverable amount.

A joint venture is an arrangement in which the Company has joint control whereby the Company has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Equity-accounted value represents the cost plus post-acquisition changes in the Group's share of net assets of the associate (share of the results, reserves and accumulated gains/ (losses) based on the latest available financial information) less impairment, if any.

After application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss on its investment in its associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in 'share in net income / (loss) of an associate' in the interim condensed consolidated statement of income.

The previously recognized impairment loss in respect of investment in associate can be reversed through the interim condensed consolidated statement of income, such that the carrying amount of the investment in the interim condensed consolidated statement of financial position remains at the lower of the equity-accounted (before allowance for impairment) or the recoverable amount.

Unrealized gains and losses on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates.

4. NEW STANDARDS, AMENDMENTS AND STANDARDS

4.1 New standards, amendments and standards issued and not yet effective

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

**SAUDI INDUSTRIAL SERVICES COMPANY
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 30 June 2018

4. NEW STANDARDS, AMENDMENTS AND STANDARDS (continued)

4.1 New standards, amendments and standards issued and not yet effective (continued)

IFRS 16 Leases (continued)

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. The Group is carrying impact assessment and will make more detailed assessments of the effect in the future to determine the impact of IFRS 16.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The Group is carrying impact assessment and will make more detailed assessments of the effect in the future to determine the impact of IFRIC 22.

Amendments to IAS 40 Transfers of Investment Property

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The Group is carrying impact assessment and will make more detailed assessments of the effect in the future to determine the impact of IAS 40.

Amendments to IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice

The amendments clarify that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The Group is carrying impact assessment and will make more detailed assessments of the effect in the future to determine the impact of amendments to IAS 28.

IFRIC 23 Uncertainty over Income Tax Treatments

Seeks to bring clarity to the accounting for income tax treatments that have yet to be accepted by tax authorities. The key test is whether it's probable that the tax authority will accept the Group's chosen tax treatment.

4.2 Impact of changes in accounting policies due to adoption of new standards

Effective 1 January 2018 the Group has adopted following IFRSs. The impact of the adoption of these standards is explained below:

IFRS 15 Revenue from Contracts with Customers

The Group adopted IFRS 15 'Revenue from Contracts with Customers' resulting in a change in the revenue recognition policy of the Company in relation to its contracts with customers. IFRS 15 was issued in May 2014 and is effective for annual periods commencing on or after 1 January 2018. IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue guidance, which is found currently across several standards and interpretations within IFRSs. It established a new five-step model that apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

4. NEW STANDARDS, AMENDMENTS AND STANDARDS (continued)

4.2 Impact of changes in accounting policies due to adoption of new standards (continued)

IFRS 15 Revenue from Contracts with Customers (continued)

However, since the customers of the Group obtains control of the goods or services at a point in time i.e. on delivery and acknowledgement of goods or services rather than over period of time, therefore, there is no material impact of applying IFRS 15 on the recognition of revenue by Group during the period and prior periods. Accordingly, the information presented for prior periods as previously reported, under IAS 18 and related interpretations has not been restated.

IFRS 9 Financial Instruments

The Group has adopted IFRS 9 - Financial Instruments issued in July 2014 with a date of initial application of 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

Classification and measurement of financial assets and financial liabilities

Financial assets

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost (“AC”), fair value through other comprehensive income (“FVOCI”) and fair value through statement of income (“FVIS”). This classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. For an explanation of how the Group classifies financial assets under IFRS 9, see respective section of significant accounting policies.

Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all the fair value changes of liabilities designated under the fair value option were recognised in interim condensed statement of income, under IFRS 9 fair value changes are generally presented as follows:

- The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- The remaining amount of change in the fair value is presented in interim condensed consolidated statement of income.

For an explanation of how the Group classifies financial liabilities under IFRS 9, see respective section of significant accounting policies.

Hedging

The Group applied hedge accounting prospectively. At the date of the initial application, all of the Group’s existing hedging relationships were eligible to be treated as continuing hedging relationships. Consistent with prior periods, the Group has continued to designate the change in fair value of the entire forward contract in the Group’s cash flow hedge relationships and, as such, the adoption of the hedge accounting requirements of IFRS 9 had no significant impact on the Group’s financial statements.

Impairment of financial assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ model (“ECL”). IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVIS, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Group applies the impairment requirements of IFRS 9, see respective section of significant accounting policies (note 5).

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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4. NEW STANDARDS, AMENDMENTS AND STANDARDS (continued)

4.2 Impact of changes in accounting policies due to adoption of new standards (continued)

IFRS 9 Financial Instruments (continued)

Transition

The Group has taken an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are not recognised in retained earnings as at 1 January 2018 as amount was not material.

Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 but rather those of IAS 39.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designated financial assets and financial liabilities as measured at FVIS.
- The designation of certain investments in equity instruments not held for trading as FVOCI.

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities. The impact of IFRS 9 on the classification and measurement of financial assets is set out below.

The following table explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for the class of the Group's financial assets as at 1 January 2018:

	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under AS 39	New carrying amount under IFRS 9
Equity investment	a	Available for sale	FVOCI — Equity instrument	18,838,212	18,838,212
Investment in mutual funds	a	Available for sale	FVOCI — Equity instrument	50,487,996	50,487,996
Trade and other receivables	b	Loans and receivables	Amortised cost	101,588,415	101,588,415
Cash and bank balances		Loans and receivables	Amortised cost	150,707,941	150,707,941
				<u>321,622,564</u>	<u>321,622,564</u>

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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4. NEW STANDARDS, AMENDMENTS AND STANDARDS (continued)

4.2 Impact of changes in accounting policies due to adoption of new standards (continued)

IFRS 9 Financial Instruments (continued)

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9 (continued)

- a) These equity securities represent investments that the Group intends to hold for the long-term for strategic purposes. As permitted by IFRS 9, the Group has designated these investments at the date of initial application as measured at FVOCI. Unlike IAS 39, the accumulated fair value reserve related to these investments will never be reclassified to profit or loss.
- b) Trade and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortised cost. An decrease of SR 0.106 million in the allowance for impairment over these receivables was not recognised in the opening retained earnings at 1 January 2018 on transition to IFRS 9 as the amount was not considered material to the overall financial position of the Group.

5. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Group in the preparation of the interim condensed consolidated financial statements are consistent with those applied by the Group in the annual consolidated financial statements for the year ended 31 December 2017, except for changes in accounting policies explained below:

Revenue recognition from Contracts with Customers and related assets and liabilities

Revenue is measured on the consideration specified in the contract with the customer and excludes amount collected on behalf of the third parties.

Principles of IFRS 15 are applied by identifying each specified distinct goods or services promised to the customer in the contract and evaluating whether the entity under the consideration obtains control of the specified good or service before it is transferred to the customer.

Under IFRS 15, Revenue is recognized when obligations under the terms of a contract with the customer are satisfied; generally, this occurs with the transfer of control of the products or services. Revenue is measured at the amount of consideration the Group expects to receive in exchange for transferring goods or providing services. Sales, value add, and other taxes collected concurrent with revenue-producing activities are excluded from revenue. The Group does not have any material significant payment terms as payment is received in advance, at or shortly after the point of sale.

The Group generally recognizes revenue at a point in time except for lease rental revenue which is recognized on time proportionate basis over future periods. The Group transfers control and recognizes a sale when the product is delivered to the customer, for the majority of the revenue contracts. Management uses an observable price to determine the stand-alone selling price for separate performance obligations or a cost-plus margin approach when one is not available. The Group has elected to recognize the cost for freight and shipping, if any, when control is transferred to the customer as an expense in cost of revenue.

If a contract is separated into more than one performance obligation, the total transaction price is allocated to each performance obligation in an amount based on the estimated relative standalone selling prices of the promised goods or services underlying each performance obligation. The Group mostly sells standard products with observable standalone sales with single performance obligation.

Cash received in advance of revenue being recognized is classified as current deferred / unearned revenue, except for the portion expected to be settled beyond 12 months of the consolidated statement of financial position date, which is classified as non-current deferred revenue.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 30 June 2018

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Classification and measurement of financial assets and financial liabilities

Rendering of services

The Group is involved in the provision of operational services in relation to its port operations, as well as provision of logistical and maintenance services. If the services under a single arrangement are rendered in different reporting periods, then the consideration is allocated on a relative fair value basis between the different services. The Group recognises revenue from rendering of services based on the assessment of the work performed / completed (i.e. delivered and acknowledged / accepted) under the contractual obligation undertaken to be performed as per the work order / contract / sales order.

Rental revenue

Revenue from investment properties is recognized on a straight line basis over respective lease periods. Lease revenue relating to subsequent years is deferred and recognised as income over future periods. Lease incentives granted are recognised as an integral part of the total rental, over the term of the lease.

Classification of financial assets

On initial recognition, a financial asset is classified as amortised cost, fair value through interim condensed consolidated other comprehensive income ("FVOCI") or fair value through interim condensed consolidated statement of income ("FVIS").

Financial asset at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVIS:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortised cost are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

Financial asset at FVOCI

i) Debt instruments

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVIS:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (HTCS); and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

ii) Equity instruments

On initial recognition, for an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

Financial asset at FVIS

All other financial assets are classified as measured at FVIS.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVIS if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Classification and measurement of financial assets and financial liabilities (continued)

Classification of financial assets (continued)

Business model assessment

The Group makes an assessment of the objective of a business model under which an asset is held, at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated- e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group stated objective for managing the financial assets is achieved and how cash flows are realized.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Financial assets that are held for trading and whose performance is evaluated on a fair value basis are measured at FVIS because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessments whether contractual cash flows are solely payments of principal and interest ("SPPI" criteria)

For the purposes of this assessment, 'principal' is the fair value of the financial asset on initial recognition. 'Interest' is the consideration for the time value of money, the credit and other basic lending risk associated with the principal amount outstanding during a particular period and other basic lending costs (e.g. liquidity risk and administrative costs), along with profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money- e.g. periodical reset of interest rates.

Classification of financial liabilities

Upon initial recognition, the Group classifies its financial liabilities, as measured at amortised cost.

Subsequently, financial liabilities are measured at amortised cost, unless they are required to be measured at fair value through income statement or an entity has opted to measure a liability at fair value through interim condensed consolidated statement of income as per the requirements of IFRS 9.

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in the interim condensed consolidated statement of income. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

Financial liabilities

The Group derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in interim condensed statement of income.

Impairment

The Group recognizes loss allowances for Expected Credit Loss (“ECL”) on the following financial instruments that are not measured at FVIS:

- financial assets that are debt instruments; and
- loan commitments issued, if any.

No impairment loss is recognised on equity investments.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD)
- Loss given default (LGD)
- Exposure at default (EAD)

The Group categorizes its financial assets into following three stages in accordance with the IFRS-9 methodology:

- Stage 1 – Financial assets that are not significantly deteriorated in credit quality since origination. The impairment allowance is recorded based on 12 months Probability of Default (PD).
- Stage 2 – Financial assets that has significantly deteriorated in credit quality since origination. The impairment allowance is recorded based on lifetime ECL. The impairment allowance is recorded based on life time PD.
- Stage 3 – For Financial assets that are impaired, the Group is recognize the impairment allowance based on life time PD.

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment (continued)

The Group also considers the forward-looking information in its assessment of significant deterioration in credit risk since origination as well as the measurement of ECLs.

The forward-looking information will include the elements such as expert judgement, macroeconomic factors (e.g., unemployment, GDP growth, inflation, profit rates and house prices) and economic forecasts obtained through internal and external sources.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive); and
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original special commission rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred.

A loan that has been renegotiated due to deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Group considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

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6. PROPERTY, PLANT AND EQUIPMENT

	<i>30 June 2018 Unaudited SR</i>	<i>31 December 2017 Audited SR</i>
Property, plant and equipment	308,367,696	298,137,823
Property and equipment of bonded and re-export project	31,828,749	32,637,572
Property and equipment – port terminal operations	574,223,224	596,314,559
	<u>914,419,669</u>	<u>927,089,954</u>

During the six month period ended 30 June 2018, additions amounting to SR 24.6 million (30 June 2017: SR 98.9 million) were made to the property, plant and equipment.

7. INTANGIBLE ASSETS

	<i>30 June 2018 Unaudited SR</i>	<i>31 December 2017 Audited SR</i>
Port concession rights (note 7.1)	1,165,892,934	1,198,629,009
Right to use land (note 7.2)	26,702,999	27,298,792
Goodwill (note 7.3)	8,776,760	8,776,760
Other intangible assets	3,321,927	4,136,596
	<u>1,204,694,620</u>	<u>1,238,841,157</u>

7.1 Port concession rights

The movement in port concession rights is as follows:

	<i>30 June 2018 Unaudited SR</i>	<i>31 December 2017 Audited SR</i>
Cost		
Balance at 1 January	1,711,145,484	1,711,145,484
Amortisation		
Balance at 1 January	512,516,475	446,093,761
Charge for the period / year	32,736,075	66,422,714
	<u>545,252,550</u>	<u>512,516,475</u>
Net book value	<u>1,165,892,934</u>	<u>1,198,629,009</u>

7.2 Right to use land

Saudi Trade and Export Development Company (LogiPoint) 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 LogiPoint to RSGT, effective from Shawal 22, 1428H (corresponding to 3 November 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.

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7. INTANGIBLE ASSETS (continued)

7.3 Goodwill

Goodwill represents the carrying amount of excess of consideration paid on the acquisition of Kindasa Water Services Company, a subsidiary.

8. INVESTMENTS

	<i>30 June 2018 Unaudited SR</i>	<i>31 December 2017 Audited SR</i>
Investment in associates (note 8.1)	119,895,391	110,971,249
Investments held at FVOCI (note 8.3)	68,902,432	69,326,208
	188,797,823	180,297,457

8.1 Investment in associates

<i>Associates</i>	<i>Principal activities</i>	<i>Country of incorporation</i>	<i>Effective shareholding Percentage</i>		<i>Carrying amount</i>	
			<i>30 June 2018</i>	<i>31 December 2017</i>	<i>30 June 2018 Unaudited SR</i>	<i>31 December 2017 Audited SR</i>
International Water Distribution Company Limited	Water/waste works, water treatment and lease of water equipment	Kingdom of Saudi Arabia	50%	50%	68,326,792	63,825,428
Saudi Water and Environmental Services Company (note 'a')	Electrical, water and mechanical works and related operation and maintenance	Kingdom of Saudi Arabia	31.85%	31.85%	17,652,044	15,976,838
Al Jabr Talke Company Limited (note 'b')	Contracting, construction, operation and maintenance of factories and warehouses	Kingdom of Saudi Arabia	33.33%	33.33%	33,187,244	30,502,211
Xenmet SA, Vaduz (note 'c')	Trading, storage and brokerage of commodities	Principality of Liechtenstein	19%	19%	729,311	666,772
					119,895,391	110,971,249

a) Saudi Water and Environmental Services Company is 49% (31 December 2017: 49%) owned by Kindasa Water Services Company (a subsidiary), which is 65% (31 December 2017: 65%) owned by the Parent Company.

b) A goodwill amounting to SR 3.6 million (31 December 2017: 3.6 million) has been included in the carrying value of the investment.

c) Xenmet SA, Vaduz is 25% (31 December 2017: 25%) owned by Saudi Trade and Export Development Company Limited (a subsidiary), which is 76% (31 December 2017: 76%) owned by the Parent Company.

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8. INVESTMENTS (continued)

8.2 Movement in investment in associates is as follows:

	<i>30 June 2018 Unaudited SR</i>	<i>31 December 2017 Audited SR</i>	<i>30 June 2017 Unaudited SR</i>
Balance at beginning of the period / year	110,971,249	100,685,270	100,685,270
Dividends received during the period / year	(2,799,945)	(9,928,474)	(2,869,819)
Share in other comprehensive income of associates	-	(521,236)	-
Share of results of associates, net	11,724,087	20,735,689	9,950,286
Balance at end of the period / year	119,895,391	110,971,249	107,765,737

8.3 Investments at FVOCI comprise of the following:

	<i>30 June 2018 Unaudited SR</i>	<i>31 December 2017 Audited SR</i>
Investment in commodity fund – quoted	51,002,535	50,487,996
Equity securities - unquoted	17,899,897	18,838,212
	68,902,432	69,326,208

Investments in mutual fund represents investment by one of the subsidiaries of the Parent Company by utilizing the funds available in the debt service reserve account, held with a commercial bank, in accordance with the term of the Ijarah financing agreement. The investment and realization / redemption decision rests with the management of the subsidiary. However, the amount invested / redeemed can only be deposited back into debt service reserve account.

8.4 Movement in equity securities classified as FVOCI is as follows:

	<i>30 June 2018 Unaudited SR</i>	<i>31 December 2017 Audited SR</i>	<i>30 June 2017 Unaudited SR</i>
Balance at beginning of the period / year	69,326,208	16,788,011	16,788,011
Additions during the period / year	-	50,000,000	50,000,000
Changes in fair value	(423,776)	2,538,197	2,087,006
Balance at end of the period / year	68,902,432	69,326,208	68,875,017

9. CASH AND CASH EQUIVALENTS

	<i>30 June 2018 Unaudited SR</i>	<i>31 December 2017 Audited SR</i>
Cash in hand	308,961	352,924
Cash at banks (note 9.1)	93,588,126	135,355,017
Murabaha term deposits (note 9.2)	15,000,000	15,000,000
	108,897,087	150,707,941

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9. CASH AND CASH EQUIVALENTS (continued)

9.1 Cash at banks include restricted balances amounting to:

- SR 13.12 million (31 December 2017: SR 13.12 million) held in debt service reserve account with a local commercial bank, held in accordance with the terms of Ijarah financing arrangement.
- SR 0.54 million (31 December 2017: SR 0.54 million) held with a local commercial bank in respect of accumulated unclaimed dividends.

9.2 Term deposits are placed with a local commercial banks having maturity of less than three months and yields finance income at prevailing market rates.

10. SHARE CAPITAL

As at 30 June 2018, the authorised and paid up capital of the Group is divided into 81.6 million shares (31 December 2017: 81.6 million shares) of SR 10 each.

On 24 May 2018, the General Assembly approved a distribution of cash dividend amounting SR 24.48 million (SR 0.3 per share) for the year 2017. The dividend has been paid in full.

During the meeting held on 26 February 2017, the Board of Directors recommended an increase in the share capital from SR 680 million to SR 816 million, through issuance of one bonus share for every five ordinary shares held by utilizing SR 136 million from the Group's existing retained earnings.

On 14 March 2017, the CMA issued its resolution approving the increase in Group's share capital. Thereafter, the shareholders' of the Group, in their extraordinary general meeting held on 16 April 2017 approved the capital increase by the issuance of bonus shares and the related changes in the Parent Company's Bylaws. The transaction related to the issuance of bonus shares was brought into effect at Tadawul on 17 April 2017. Legal formalities related to the proposed amendments in the Parent Company's Bylaws were completed during the six month period ended 30 June 2017. Subsequent to the period ended 30 June 2017, the Group received the revised Commercial Registration on 23 July 2017.

11. LONG TERM LOANS AND BANK FACILITIES

	<i>30 June 2018 Unaudited SR</i>	<i>31 December 2017 Audited SR</i>
Ijara facilities obtained from banks (note a)	676,635,078	726,174,839
Long term loans (note b)	238,010,918	255,933,204
Long term loans (note c)	8,414,010	3,993,725
Total long term loans	923,060,006	986,101,768
Less: current portion	(148,716,478)	(146,391,442)
	774,343,528	839,710,326

11. LONG TERM LOANS AND BANK FACILITIES (continued)

- a) 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 property and equipment – port terminal operations and intangible assets – port concession rights of RSGT (note 6). The remaining amount of loan is repayable in eleven semi-annual installments, with maturity of up to December 2023. The loan bears commission rate of SIBOR plus an agreed margin. The facility includes unamortised portion of the advance rentals and other fees paid to the banks, this will be amortised over the remaining period of the Ijara facility.

Further, during the ended 30 June 2018, the Group entered into an other Profit Rate Swap (PRS) arrangement with a local bank to hedge its exposure to the variability in the cash flows arising from the loan. The arrangement has been classified as a hedge instrument under cash flow hedges.

- b) 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 by the property and equipment – port terminal operations of RSGT (note 6). The loan carries commission at commercial rates (SIBOR plus an agreed margin) and is repayable in eleven semi-annual installments ending in December 2023.
- c) 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 one year after the first drawdown. The loan is secured by secondary mortgage over Kindasa's property and equipment. The loan agreement includes certain covenants such as capital expenditure, routing of proceeds, dividend payments and maintenance of certain financial ratios. As at 30 June 2018, Kindasa has drawn down SR 8.4 million out of total facility of SR 24 million.

12. LONG TERM PROVISIONS

As per the Build Operate and Transfer (BOT) agreement with SEAPA, RSGT (one of the subsidiaries of the Group) 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 (31 December 2017: SR 429 million) to replace the Equipment. As at 30 June 2018, an amount of SR 71.2 million (31 December 2017: SR 65.84 million) has been recorded as provision for asset replacement cost.

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At 30 June 2018

13. RELATED PARTY TRANSACTIONS

Related parties represent associated companies, major shareholders, directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management.

13.1 Significant related party transactions entered during the period are as follows:

<i>Name</i>	<i>Relationship</i>	<i>Nature of transactions</i>	<i>Amount of transactions</i>				
			<i>Three month period ended</i>		<i>Six month period ended</i>		
			<i>30 June</i>	<i>30 June</i>	<i>30 June</i>	<i>30 June</i>	
			<i>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>	
			<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>	
			<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	
International Water Distribution Company Limited	Associate	Sales of goods and services	14,642,296	15,304,639	29,466,191	30,158,875	
		Services rendered	178,500	165,000	346,500	330,000	
Arabian Bulk Trade Limited	Affiliate	Lease of land and warehouses	5,858	500,427	230,089	985,146	
Ambro Limited	Affiliate	Services rendered	59,114	248,644	59,114	284,297	
Saudi Cable Company	Affiliate	Lease of land and warehouses	20,048	44,530	101,761	442,044	
Al Jabr Talke Compan Limited	Associate	Services rendered	163,215	131,685	232,500	271,753	
		Dividend received	-	2,869,819	2,799,945	2,869,819	
Saudi Water and Environmental Services Company Limited	Associate	Sales of goods and services	1,189,408	1,109,777	2,267,999	2,369,915	
Xenel Industries Limited	Shareholder	Payment made on behalf of the shareholder	17,865	87,681	36,410	202,154	
		Expenses incurred on behalf of the Group	210,159	389,842	319,607	1,150,952	
Al Karam Fedics Services Company	Affiliate	Purchase of goods and services	2,212,285	2,144,295	4,427,453	4,332,688	
Alireza Tourism and Aviation Company	Affiliate	Purchase of goods and services	63,325	32,922	151,256	666,079	

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13. RELATED PARTY TRANSACTIONS (continued)

13.2 Key management personnel remuneration and compensation comprised of the following:

	<i>Three months period ended 30 June 2018 Unaudited SR</i>	<i>Three months period ended 30 June 2017 Unaudited SR</i>	<i>Six months period ended 30 June 2018 Unaudited SR</i>	<i>Six months period ended 30 June 2017 Unaudited SR</i>
Short-term employee benefits	1,276,688	1,643,891	4,922,689	4,668,190

Short-term employee benefits of the Group's key management personnel include salaries and bonuses.

13.3 Board of Directors remuneration and compensation comprised of the following:

	<i>Three months period ended 30 June 2018 Unaudited SR</i>	<i>Three months period ended 30 June 2017 Unaudited SR</i>	<i>Six months period ended 30 June 2018 Unaudited SR</i>	<i>Six months period ended 30 June 2017 Unaudited SR</i>
Meeting attendance fees	394,000	370,000	400,000	482,000
Other remuneration	1,710,000	2,501,000	1,710,000	2,618,000
	2,104,000	2,871,000	2,110,000	3,100,000

14. ZAKAT AND INCOME TAX

Parent Company

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 Parent 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. The Company has filed an appeal against the decision issued by the Higher Appeal Committee with the Board of Grievances. In addition, the Parent 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 and paid the imposition of Zakat amounting to SR 0.016 million. 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.

Moreover, the GAZT raised assessments for the years 2014 and 2015 with an additional liability of SR 0.69 million. The Company has filed an appeal against the GAZT's assessments.

The Company has filed its Zakat returns for the years upto 31 December 2017. Up to the date of these interim condensed consolidated financial statements, GAZT is yet to raise the assessment for the years 2016 and 2017.

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14. ZAKAT AND INCOME TAX (continued)

Subsidiaries

Red Sea Gateway Terminal Company Limited and Red Sea Ports Development Company (“the Subsidiaries”)

For RSGT, the GAZT has raised final assessment for the years 2011 through 2013 and claimed an additional tax, withholding tax and Zakat differences amounting to SR 4.8 million. An appeal has been filed against these assessments. During the year, the GAZT issued the revised assessment by reducing the liability to SR 1.2 million. Taking into account the earlier payment made by the Company amounting to SR 0.27 million, the total outstanding liability decreased to SR 0.9 million. RSGT has accepted the GAZT revised assessments and has settled the liability.

RSGT has finalized its Zakat and tax assessments with GAZT up to 2013 and have filed their Zakat and income tax returns up to 2017. Upto the date of these interim condensed consolidated financial statements, GAZT is yet to raise the assessment for the years from 2014 to 2017.

Deferred tax asset has not been recognised in respect of tax losses of RSGT, as at this stage it is uncertain that future taxable income would be sufficient to allow the benefit of the loss to be realised.

RSPD has filed its Zakat and income tax returns up to the year 2017. Up to the date of these interim condensed consolidated financial statements, GAZT is yet to raise assessments.

Saudi Trade and Export Development Company Limited (“the Subsidiary”)

The Subsidiary has finalized its Zakat assessments with GAZT up to 2008 and has filed its Zakat returns up to 2017. Upto the date of these interim condensed consolidated financial statements, GAZT is yet to raise the assessment for the years from 31 December 2009 to 31 December 2017.

Support Services Operation Company Limited (“the Subsidiary”)

The Subsidiary has filed its Zakat returns up to 2017. Upto the date of these interim condensed consolidated financial statements, no assessments have been received from GAZT.

Kindasa Water Service Company (“the Subsidiary”)

The Subsidiary has finalized its Zakat assessments with GAZT up to 2008 and has filed its Zakat returns up to 2017. Upto the date of these interim condensed consolidated financial statements, GAZT is yet to raise the assessment for the years from 31 December 2009 to 31 December 2017.

15. REVENUES

	<i>Three months period ended 30 June 2018 Unaudited SR</i>	<i>Three months period ended 30 June 2017 Unaudited SR</i>	<i>Six months period ended 30 June 2018 Unaudited SR</i>	<i>Six months period ended 30 June 2017 Unaudited SR</i>
Shipping and unloading services	100,736,954	102,754,464	176,948,317	221,789,087
Sale of potable water	26,059,878	24,981,372	50,281,078	49,727,075
Rentals and support services	27,246,449	21,555,940	44,788,583	49,733,057
	154,043,281	149,291,776	272,017,978	321,249,219

16. OTHER INCOME

During the six month period ended 30 June 2017, one of the subsidiaries of the Group received SR 11.19 million as full and final compensation from a contractor. This related to claims made against the contractor in prior years for the terminal design and supervision consultancy services.

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At 30 June 2018

17. EARNINGS PER SHARE

Basic earnings per share (EPS) is calculated by dividing profit for the period attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares in issue outstanding during the period.

	<i>Three months period ended 30 June 2018 Unaudited SR</i>	<i>Three months period ended 30 June 2017 Unaudited SR</i>	<i>Six months period ended 30 June 2018 Unaudited SR</i>	<i>Six months period ended 30 June 2017 Unaudited SR</i>
Profit for the period attributable to ordinary equity holders of the Parent	12,036,361	24,101,052	12,606,502	46,227,252
Weighted average number of ordinary shares in issue	81,600,000	81,600,000	81,600,000	81,600,000
Basic and diluted earnings per share	0.15	0.30	0.15	0.57

The diluted EPS is same as the basic EPS as the Group does not have any dilutive instruments in issue.

18. COMMITMENTS AND CONTINGENCIES

At 30 June 2018, the Group's bankers have issued letters of guarantee amounting to SR 43.09 million (31 December 2017: SR 50.27 million) against which cash margin of SR 1.05 million (31 December 2017: SR 12.43 million) was paid.

At 30 June 2018, the Group's bankers have issued letters of credit amounting to SR 29.6 million (31 December 2017: SR 29.6 million) against which cash margin of SR 0.15 million (31 December 2017: SR nil) was paid.

As at 30 June 2018, the Group has commitments for capital work in progress amounting to SR 7.08 million (31 December 2017: SR 14.71 million) mainly relating to new logistic hub and park construction project and new desalination plant construction and development project.

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At 30 June 2018

19. 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 business segments are located within the Kingdom of Saudi Arabia and are the Group's strategic business units.

The Group's top management reviews internal management reports of each strategic business unit at least quarterly. Segment results that are reported to the top management include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment revenues, as included in the internal management reports that are reviewed by the top management. The following table presents segment information (assets, liabilities, revenue and net income) for each of the business segments as at end for the six months period ended 30 June:

	<i>Reportable segments</i>			<i>Total (SR'000)</i>	<i>Unallocated (SR'000)</i>	<i>Total (SR'000)</i>
	<i>Port development and Operations (SR'000)</i>	<i>Logistic parks and support Services (SR'000)</i>	<i>Water desalination and distribution (SR'000)</i>			
30 June 2018						
External revenues	176,948	46,817	50,644	274,409	-	274,409
Inter segment revenue	-	(2,028)	(363)	(2,391)	-	(2,391)
Segment revenue	176,948	44,789	50,281	272,018	-	272,018
Direct cost	(123,254)	(25,490)	(32,699)	(181,443)	-	(181,443)
Inter-segment direct cost	363	2,028	-	2,391	-	2,391
Segment cost	122,891	23,462	32,699	179,052	-	179,052
Segment gross profit	54,057	21,327	17,582	92,966	-	92,966
Profit attributable to shareholders of the parent	(2,746)	9,861	5,229	12,344	262	12,606
30 June 2018						
Segment assets	1,892,507	342,588	237,921	2,473,016	233,017	2,706,033
Segment liabilities	1,088,210	30,987	26,394	1,145,591	26,778	1,172,369

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At 30 June 2018

19. BUSINESS SEGMENTS (continued)

	<i>Reportable segments</i>			<i>Total (SR '000)</i>	<i>Unallocated (SR '000)</i>	<i>Total (SR '000)</i>
	<i>Port development and Operations (SR '000)</i>	<i>Logistic parks and support Services (SR '000)</i>	<i>Water desalination and distribution (SR '000)</i>			
30 June 2017						
External revenues	221,789	58,896	50,055	330,740	-	330,740
Inter segment revenue	-	(9,163)	(328)	(9,491)	-	(9,491)
<i>Segment revenue</i>	221,789	49,733	49,727	321,249	-	321,249
Cost of revenue	(136,035)	(23,922)	(33,708)	(193,665)	-	(193,665)
Inter-segment cost of revenue	3,955	5,536	-	9,491	-	9,491
<i>Segment cost</i>	(132,080)	(18,386)	(33,708)	(184,174)	-	(184,174)
Segment gross profit	89,709	31,347	16,019	137,075	-	137,075
Profit attributable to shareholders of the parent	27,600	14,371	4,112	46,083	(144)	46,227
31 December 2017						
Segment assets	1,995,726	302,773	228,414	2,526,913	257,921	2,784,834
Segment liabilities	1,158,431	36,428	19,158	1,214,017	26,756	1,240,773

20. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction takes place either:

- In the accessible principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous accessible market for the asset or liability
- Fair value information of the Group's financial instruments is analysed below:

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted prices in active markets for the same or identical instrument that an entity can access at the measurement date;

Level2:quoted prices inactive markets for similar assets and liabilities or valuation techniques for which all significant inputs are based on observable market data; and

Level 3: valuation techniques for which any significant input is not based on observable market data.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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20. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

The following table shows the carrying amount and fair values of the financial assets and financial liabilities, including their levels and fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying value is a reasonable approximation of fair value.

<i>30 June 2018</i>	<i>Carrying value SR</i>	<i>Level 1 SR</i>	<i>Level 2 SR</i>	<i>Level 3 SR</i>	<i>Total SR</i>
FINANCIAL ASSETS					
<i>Amortised cost</i>					
Trade receivables	103,506,091	-	-	-	-
Cash and cash equivalents	108,897,087	-	-	-	-
<i>Held as FVOCI</i>					
Investment in mutual fund	51,002,535	51,002,535	-	-	51,002,535
Investment in equity securities	17,899,897	-	-	17,899,897	17,899,897
	281,305,610	51,002,535	-	17,899,897	68,902,432
FINANCIAL LIABILITIES					
Long term loans and bank facility	923,060,006	-	-	-	-
Trade payables and other liabilities	75,033,414	-	-	-	-
	998,093,420	-	-	-	-
<i>31 December 2017</i>	<i>Carrying value SR</i>	<i>Level 1 SR</i>	<i>Level 2 SR</i>	<i>Level 3 SR</i>	<i>Total SR</i>
FINANCIAL ASSETS					
<i>Amortised cost</i>					
Trade receivables	101,818,166	-	-	-	-
Cash and cash equivalents	150,707,941	-	-	-	-
<i>Held as FVOCI</i>					
Investment in mutual fund	50,487,996	50,487,996	-	-	50,487,996
Investment in equity securities	18,838,212	-	-	18,838,212	18,838,212
	321,852,315	50,487,996	-	18,838,212	69,326,208
FINANCIAL LIABILITIES					
Long term loans and bank facility	986,101,768	-	-	-	-
Trade payables and other liabilities	127,595,963	-	-	-	-
	1,113,697,731	-	-	-	-

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20. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENT (continued)

Fair value of quoted investments is based on price quoted on the reporting date. Level 3 financial assets comprise investment in unquoted Company.

There were no transfers between level 1 and level 3 during the six month period 30 June 2018 (31 December 2017: nil and 30 June 2017: nil). There were no financial assets or financial liabilities classified under level 2.

There were no changes in valuation techniques during the period.

21. APPROVAL OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

These interim condensed consolidated financial statements were approved and authorised to issue by the Board of Directors on 25 July 2018 (corresponding to 12 Dhul-Qi'dah 1439H).