سيسكو
SISCO
الشركة السعودية للخدمات الصناعية
Saudi Industrial Services Company

# Annual Report 2018

**Your Partner in**
**Ports & Terminals | Logistics Parks & Services | Water Solutions**

This report has been prepared in line with the requirements of the Capital Markets Authority (CMA) particularly with regards to Corporate Governance guidelines and Listing rules. In addition, special consideration has been given to the applicable laws of the Ministry of Commerce and Investment (MoCI) and international best practices of good governance and transparency.

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## Board Of Directors

Mohamed Ahmed Alireza
(Chairman)

Aamer Abdullah Alireza
(Vice Chairman)

Adnan Abdullah Maimani

Alawi M. Saeed Kamil

Saleh Ahmed Hefni

Abdulaziz Abdullateef Jazzar

Abdulaziz Hamad Al-Meshal

## Management

Mohammed M. Kamal Al-Mudarres
(Chief Executive Officer)

Farooq Ahmed Shaikh
(Chief Finance Officer)

Saleem Raza Sheikh
(Chief Legal Officer)

Hesham El Gindy
(Chief Audit Executive)

Richard Fourie
(Chief Corporate Affairs Officer)

Maqbool O. Aswni
(Admin & Shareholder Affairs Manager)

Youssef M. Abu Olyyan
(Board Secretary)

Abdullah M. Habadi
(Group Head of IT)

## Banks

Al-Jazira Bank
National Commercial Bank
Saudi British Bank
Riyadh Bank

## Registered Office

SISCO,
Saudi Business Centre, Suite #501
Al-Madina Road, Al-Sharafiyyah District
P. O. Box 14221
Jeddah 21424
Kingdom of Saudi Arabia
Phone: +966 12 661 9500
Fax: +966 12 657 4270

## Auditors

Ernst & Young
13th Floor, King's Road Tower,
King Abdulaziz Road (Malek Road)
Al Shatea District
P. O. Box 1994
Jeddah 21441
Kingdom of Saudi Arabia
Phone: +966 12 221 8400
Fax: +966 12 221 8575

## Share Registrar

Securities Depository Center Co.
6897 King Fahad Road, Al Olaya
Unit No. 15
Riyadh 12211-3388
Kingdom of Saudi Arabia
Phone:  +966 11 920 001 919
Fax: +966 11 2189326
Email: sdc.is@edaa.com.sa

# Chairman's Letter to Shareholders

*In the Name of Allah,*
*the Most Compassionate, the Most Merciful.*
*Praise be to Allah, prayer and peace be upon*
*the Messenger of Allah.*

On behalf of my fellow members of the Board of Directors of Saudi Industrial Services Company (SISCO), I am pleased to present to you the annual report for 2018. The report contains detailed information on the company's financial performance and accomplishments during 2018, as well as providing a glimpse of the company's future strategic direction.

The company continues to work towards the long-term strategy agreed in 2015. The executive management, under the direction of the Board of Directors, have implement structured reporting system, effective corporate governance, internal audit and disclosure systems to ensure that the strategy is followed through and value delivered to our shareholders. We continue to ensure that companies in the group continue to implement best practices and correct academic and technical skills are available to the companies to help ensure the quality of work is appropriate and adequate in delivering the strategic objective of the group.

Despite the changing economic conditions, our group companies have continued to exert every effort to maintain a high-level of performance, maintaining the balance between growth and sustainability in our business sectors.

We continue to develop our market sectors to leverage the skill and expertise the management in the group possess. SISCO continues to support the operation entities of the group by providing strategic high-level advisory services, i.e., financial, legal, human capital development and IT. The Board of Directors along with the executive management are actively seeking new opportunities to grow and increase our presence in our defined sectors.

Due to this challenging environment, although SISCO's revenue has increased by 0.5% to reach 565 million Saudi Riyals, however the net income was 46.7 million Saudi Riyals with a decrease of 20.3% compared to last year 2017. A detailed variance analysis is presented later in the report, shedding the light on some factors, which were mainly driven by external influence.

The ports sector however has experienced 16% increase in total volume mainly in trans-shipment volume. Even with the volume increase, the sector experienced lower revenue due to decrease of inspection tariff by the Port Authority, which had a direct impact on our financial results. The inspection rates will be adjusted fairly from the 1st March 2019 which will have a positive impact on future revenue. The management of our port company "RSGT" is actively seeking to grow and expand operations in developing other ports locally and internationally.

As for the logistics and industrial services sectors, "LogiPoint" has developed a strategy focusing on e-commerce client base. Operational and value-added services provided to tenants have increased over this year as well. Demand for open yard leasing has declined due to drop in automobile import to KSA, but this has been offset by a higher demand for warehouse leasing. "LogiPoint" is committed to expanding its existing investment base by developing other integrated logistics facilities in Saudi Arabia and by attracting international investors in the Kingdom and extend their operations for specialized services. Our affiliate Saudi Aljabr Talke Co. "S-A-Talke" has managed to maintain its business growth as well by renewing several of the existing contracts and signing new contracts with the petrochemical logistic industry, expanding its footprint in both Eastern & Western regions of Saudi Arabia.

With regards to the water sector, SISCO is actively seeking to take advantage of the vision 2030 privatization programs in this sector. As additional projects are released by the authorities the company is ensuring we are best positioned to take advantage of these as well as actively engaging the authorities to ensure that SISCO's affiliate companies, namely "Kindasa" and "Tawzea", are at the forefront of the appropriate PPP contracts released for tenders or negotiations.

The Board of Directors and the Executive Management are actively engaged in increasing our market share of the business sectors targeted in our strategy both in Saudi Arabia and internationally, employing state-of-the-art technological and industrial expertise. We will continue to meet the challenges and maintain strong leadership of the Group by ensuring the appropriate corporate governance and strategic objectives are set and achieved. We are committed to helping realize the vision 2030 for Saudi Arabia and at the same time returning value to our shareholders.

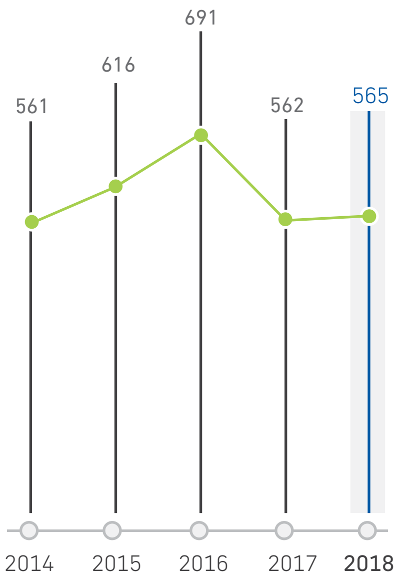
Finally, we would like to extend our sincere thanks and gratitude to our shareholders and all those who contributed to ensuring 2018 overall was a successful year. I wish to thank my colleagues on the Board of Directors, the members of the committees and the executive management for their dedication, hard work and commitment in ensuring the continued stability and growth of the group.

Chairman of the Board
Mohamed Ahmed Alireza

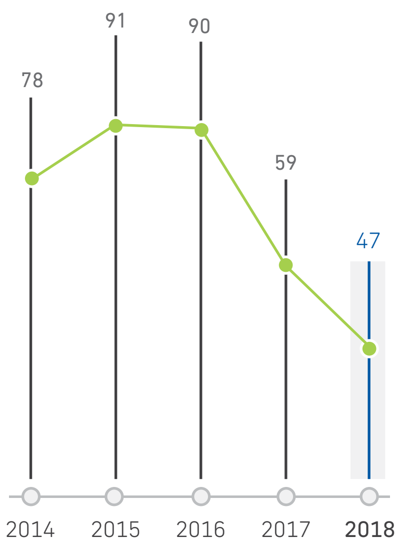
# Performance at A Glance

(in SAR million)

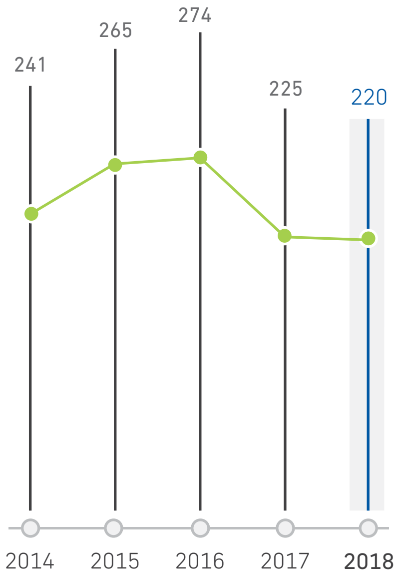
Revenue



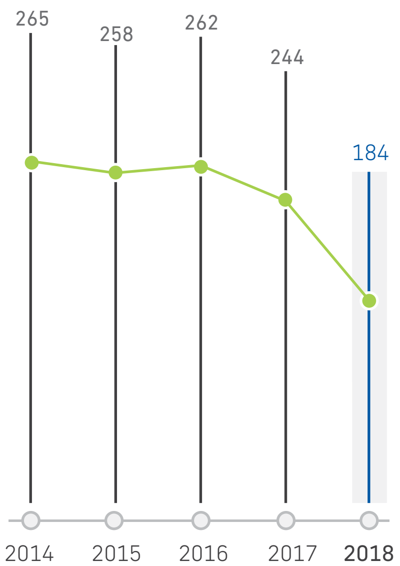

Net Income



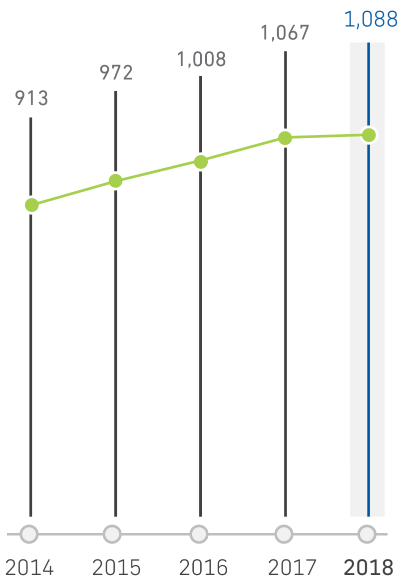

EBITDA



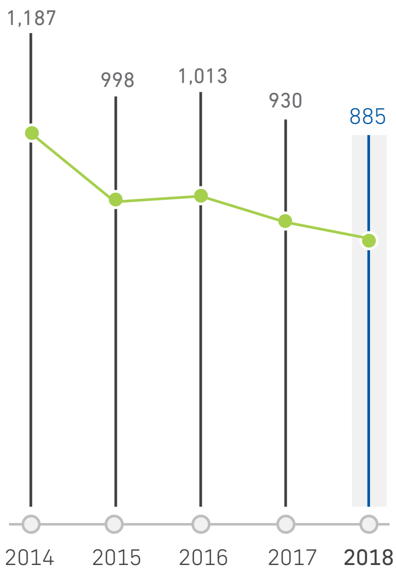

Cash Flow From Operations




Shareholders' Equity




Market Capitalization

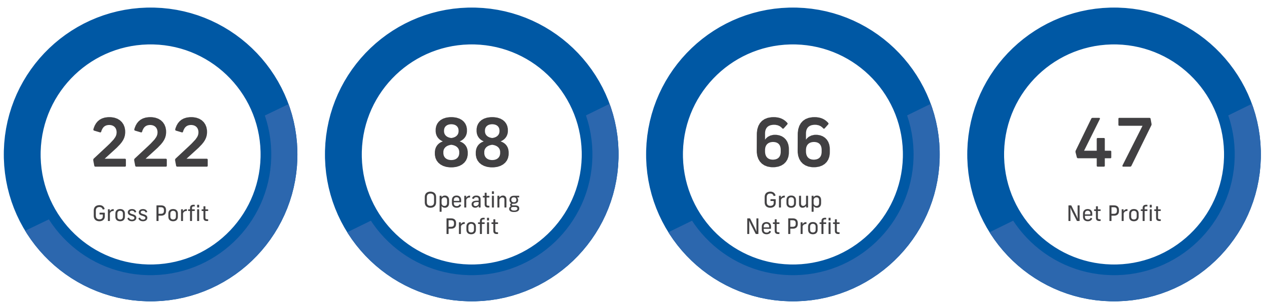


# Analysis of Financial Results

SISCO's financial results were affected by overall prevailing difficult economic conditions. All business segments were faced with pressures of decreasing demand and increasing costs. Despite this challenging environment, SISCO was still able to generate satisfactory results, posting a net profit of SAR 46.7 million.

A summarized analysis of the 2018 results and its comparison with 2017 is presented in the table below:

| (SAR million) | 2018 | 2017 | VARIANCE | % | NOTES |
|---|---|---|---|---|---|
| Revenue | **565** | 562 | 3 | 0.5 | Revenue of the port segment increased due to increase in the business volume, revenues of logistics segment decreased due to lower occupancy and water segments also decreased due to temporary plant shutdown and decline in demand from the industrial cities. |
| Cost of Revenue | **(343)** | (364) | 21 | 5.8 | |
| **Gross Profit** | **222** | **198** | **24** | **12.1** | Gross profit is higher than last year due to better cost control and revision in estimates for Asset Replacement Provision |
| Selling / G&A Expenses | **(134)** | (124) | (10) | (8.1) | |
| **Operating Profit** | **88** | **74** | **14** | **18.9** | |
| Net Finance Cost | **(50)** | (34) | (16) | (47.1) | Financial Charges is increased due to higher interest rate |
| Share of Result of Associates | **24** | 21 | 3 | 14.3 | improvement in results of associated companies |
| Other Income | **9** | 27 | (18) | (66.7) | Last year's other income included one off item amounting to SAR 24 million |
| Zakat & Income Tax | **(5)** | (7) | 2 | 28.6 | |
| **Group Net Profit** | **66** | **81** | **(15)** | **(18.5)** | |
| Non-Controlling Interest | (19) | (22) | 3 | 13.6 | |
| **Net Profit** | **47** | **59** | **(12)** | **(20.3)** | |



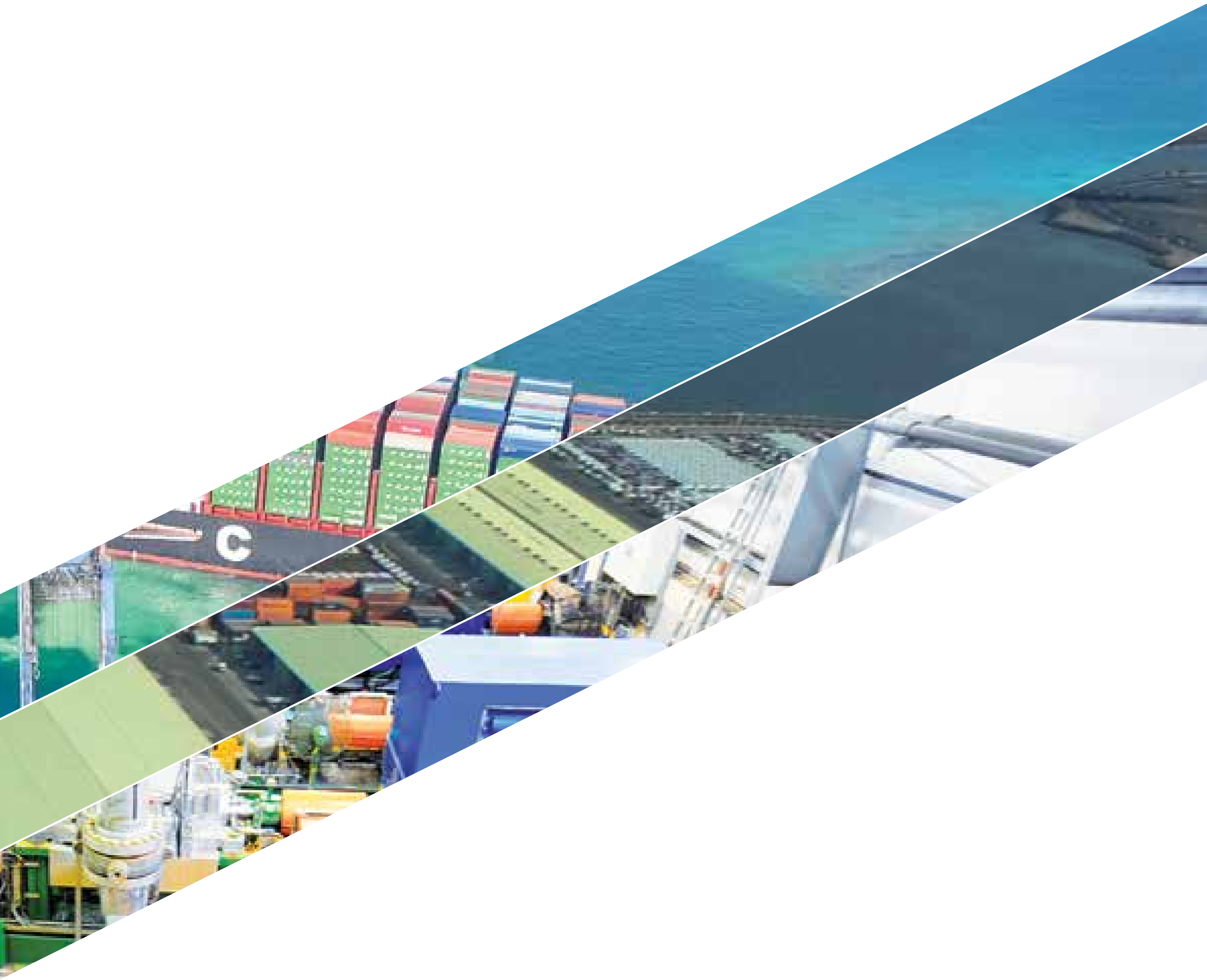

(in SAR million)

# BUSINESS REVIEW

# 01

# Business Sectors

Over the past few years, SISCO has adopted the strategy of becoming a strategic investment holding company. This has been achieved through implementing and applying strategy and growth management policies, as well as being responsible for the operating companies' results in performance, decision-making and corporate governance framework that govern the relationship between the Group and its operating companies.

# Subsidiary Companies

Consolidated companies are those where in which SISCO either owns directly or through other subsidiaries, more than half of the capital of the company or control the composition of the board.

Details of the subsidiary companies are as follows:

| COMPANY & ITS BUSINESS | SHARE CAPITAL | DIRECT OWNERSHIP | HEAD OFFICE | COUNTRY OF INCORPORATION |
|---|---|---|---|---|
| Red Sea Ports Development Company<br><br>Development, construction, operation and maintenance of container terminals, handling and unloading services and shipping, navigation and marine support services necessary to provide ships with water, energy, sewage treatment and the excavation and backfill and investment in these activities. | SAR 333 million | 53 % | Jeddah | Saudi Arabia |
| Red Sea Gateway Terminal Company<br><br>Development, construction, operation and maintenance of container terminals, handling and unloading services and shipping, navigation and marine support services necessary to provide ships with water, energy, sewage treatment and the excavation and backfill and investment in these activities. | SAR 555 million | 21.2 % | Jeddah | Saudi Arabia |
| Saudi Trade and Export Development Company<br><br>Storage and Re-export of cars / containers provide container storage yards and perform container handling operation, examination of customs for export and re-export, provide warehouses for different types of goods, and provide packaging and re-handling services for goods in warehouses and open yards. | SAR 140 million | 76 % | Jeddah | Saudi Arabia |
| Kindasa Water Services Company<br><br>Construction and operation of sea-water desalination plants. | SAR 77 million | 65 % | Jeddah | Saudi Arabia |
| Support Services Operations Co. Ltd.<br><br>Services to projects in the industrial cities; operate gas stations and vehicle maintenance shops; logistics support services for ports; water transport services; trade in industrial machinery and spare parts. | SAR 15 million | 97 % | Jeddah | Saudi Arabia |

# Associated Companies

Associated companies are those where SISCO has substantial long-term interest and where SISCO is in a position to exercise a significant influence over the associated company by participating in their financial and operating policy decisions.

Details of the associated companies are as follows:

| COMPANY & ITS BUSINESS | SHARE CAPITAL | DIRECT OWNERSHIP | HEAD OFFICE | COUNTRY OF INCORPORATION |
|---|---|---|---|---|
| International Water Distribution Co.<br><br>Construction of public works of water, sewage, irrigation and sanitation (water and storm water drainage); and mechanical works, waterworks, sewage technology and pumping stations; maintenance and operation of water facilities, sewage and running channeling water to various networks. | SAR 146 million | 50 % | Jeddah | Saudi Arabia |
| Saudi Al-Jabr Talke Company<br><br>Implementation of contracting construction, operation and maintenance of warehouses and logistics for the petrochemical sector contracts. | SAR 21 million | 33.33 % | Jubail | Saudi Arabia |
| Saudi Stork Technical Services Company*<br><br>Maintenance and operation of power plants and oil and gas, water desalination and petrochemical plants and calibration of precision machining and provide mechanical and electrical related services. | SAR 20 million | 45 % | Jubail | Saudi Arabia |

** In December 2017, Saudi Stork Technical Services Holding B.V. ("Stork Netherlands") and Saudi Industrial Services Company ("SISCO") had entered into a settlement agreement, wherein SISCO has agreed to sell and transfer its entire 45% stake in Stork Saudi Arabia to Stork Netherlands against consideration of SR 6 million. The agreement provides Stork Netherlands full management and control of Stork Saudi Arabia and SISCO relinquishes all its rights and claims against Stork KSA and Stork Netherlands. Legal formalities in respect of updating commercial registration and articles of association have not been completed. Saudi Stork Technical Services has yet to liquidated and, the finial financial payment is yet to be received.*

## OTHER DIRECT INVESTMENTS

SISCO has invested USD 2.5 million (SAR 9.4 million) in Growth Gate Corporation BSC (Bahrain). SISCO's investment represents 1.17% of Growth Gate's total share capital of USD 213.3 million.

## OTHER INDIRECT INVESTMENTS

SISCO has indirect investment in Water and Environment Saudi Service Company Limited ("WESSCO") through its subsidiary Kindasa Water Services Company, which owns 49% of WESSCO.

SISCO has indirect investment in Xenmet SA, Vaduz ("Xenmet") through its subsidiary Saudi Trade and Export Development Company, which owns 25% of Xenmet SA.

# Consolidated & Associate Companies Review

No. of Shares
33,312,500 of SAR 10 each

Share Capital
SAR 333,125 million

Main Business
Development, Management and Operation of Container Terminals.

Principal Place of Operations
Jeddah, Saudi Arabia

Company Type
Closed Joint Stock Company

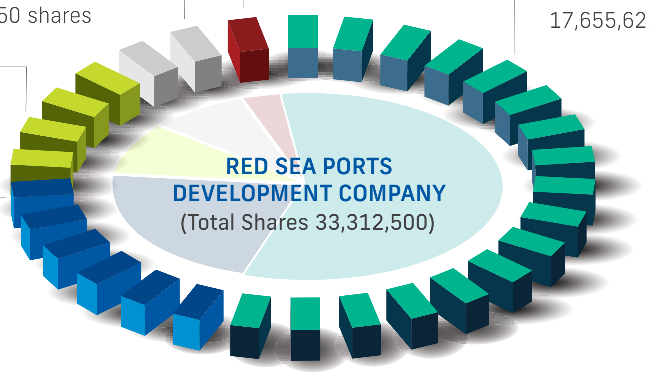
Established
2009

Saudi Trade and Export Development Co.
10.0%
3,331,250 shares

Xenel Maintenance
1.0%
333,125 shares

SISCO
53.0%
17,655,625 shares

Xenel Industries
16.0%
5,330,000 shares




City Island Holding
20.0%
6,662,500 shares

## Impact on SISCO Financials

RSPD owns 60% of RSGT, which is eliminated in group consolidation. Therefore, there is no impact on SISCO financials.

محطة بوابة البحر الأحمر
RED SEA GATEWAY TERMINAL

Established
2007

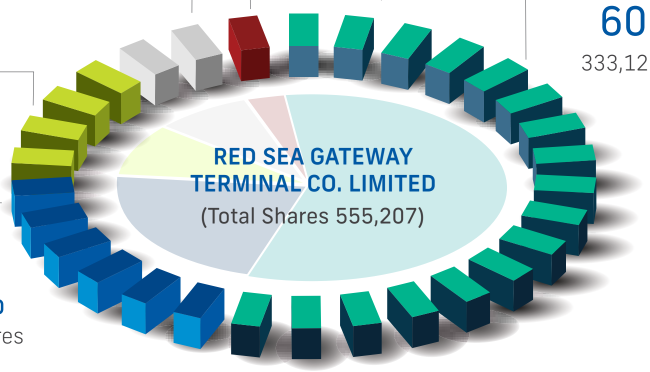
Company Type
Limited Liability Co.

Principal Place of Operations
Jeddah, Saudi Arabia

Main Business
Development, Management and Operation of Container Terminals

Share Capital
SAR 555,207 million

No. of Shares
555,207 of SAR 1,000 each




Impact on SISCO Financials

Revenue
68.8%

Assets
69.2%

Net Income
40.6%

After completion of the terminal's expansion, RSGT regained market share and posted a growth of 16%, handling 1.56 million TEUs in 2018. RSGT market share in JIP increased to 37% in 2018 from 32% in 2017. Gateway volume grew by 15% to 0.8 million TEUs, with import and export volumes increasing by 25% and 6% respectively. Transshipment volumes grew by 20% in 2018 to 0.8 million TEU.

2018 total volume of 1.56 million TEUs also marks the 2nd highest annual volume handled by RSGT. RSGT bid farewell to the year in December 2018 registering the highest monthly volume since the start of its operations in 2009.

RSGT has also managed to diversify its customer base by attracting China COSCO Shipping and CMA CGM, in addition to its anchor customer Maersk.

RSGT new berth extension is already in full operation; it included four (4) new Quay Cranes (QC). With the new expansion, RSGT's annual handling capacity increased from 1.8 million TEUs to 2.5 million TEUs. In 2018, RSGT handled 720 vessel calls, which marks the second highest number of ships handled in a year, since the start of the operations.

In 2018, the number of mega vessel calls increased by 77% to a total of 170 calls from 96 calls in 2017. Since Q2 of 2018, the number of mega vessel calls has increased to 4 calls per week, which have surpassed the monthly number of calls in 2016-2017. In fact, the number of mega vessel calls is expected to further increase in the coming years, as shipping lines are proceeding with the upgrade to bigger vessels, which will cascade into the routes calling through the Red Sea and Jeddah.

In 2018, RSGT has started a number of initiatives focusing on the local importers and traders. These initiatives are the foundation towards building a better value proposition that will improve our customer experience and loyalty, while also paving the way to increase RSGT market share. These initiatives include implementation of customer relations management system, increased face-to-face customers' meetings, door-to-door solutions and digitalization of our service offering.

## Business Analysis:

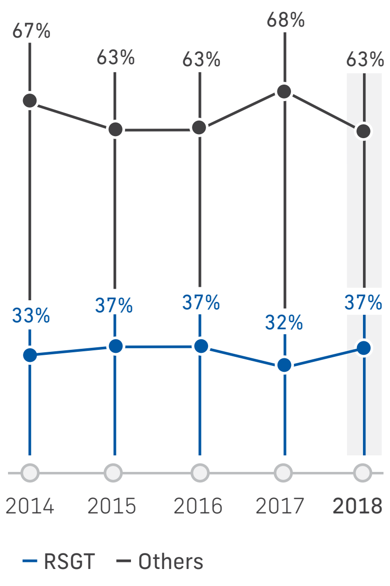
The Kingdom experienced relative stability in GDP growth during 2018 after a tumultuous 2017. However, the GDP growth is still yet to translate in to country's trade growth as most of GDP growth was on the back of relatively stronger oil price.

Total container volumes handled in 2018 by major container terminals in the country were approximately 8.64 million TEUs, registering 7% growth over the previous year. This growth was driven primarily by 22% increase in trans-shipment cargoes. Import/Export containers, which accounted for about 55% of the total volume, declined by about 3%.

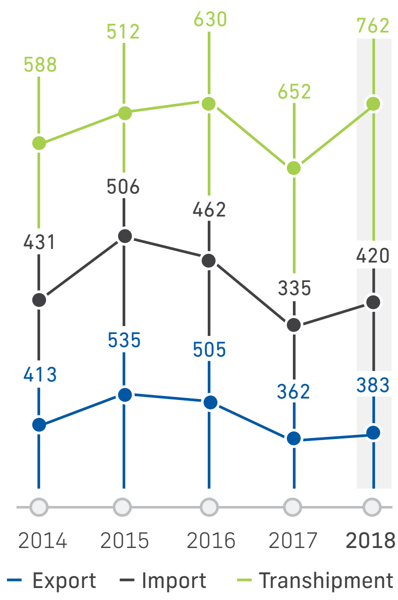
The total number of import containers coming through the Jeddah Wider Area (Jeddah Islamic Port and King Abdullah Port) declined by 3.5% to 1.24 million TEUs in 2018 from 1.29 million TEUs in 2017. Export containers handling (empty and full) witnessed a decline of 7.9% to 1.23 million TEUs in 2018 from 1.33 million TEUs in 2017. However, the decline in gateway cargo (import/export) was offset by growth in transshipment volume, which increased by 22.4% to 3.9 million TEUs in 2018 from 3.2 million TEUs in 2017.

In 2018, volume handled in Jeddah Islamic Port decreased by 0.9% as compared to 2017, with a total of 4.12 million TEUs. Transshipment volume grew by 7.1% partially offsetting the 8.1% decline in gateway volumes during 2018.

RSGT Market Share




RSGT Throughput



# LogiPoint
تمكين الخدمات اللوجستية

Established
1999

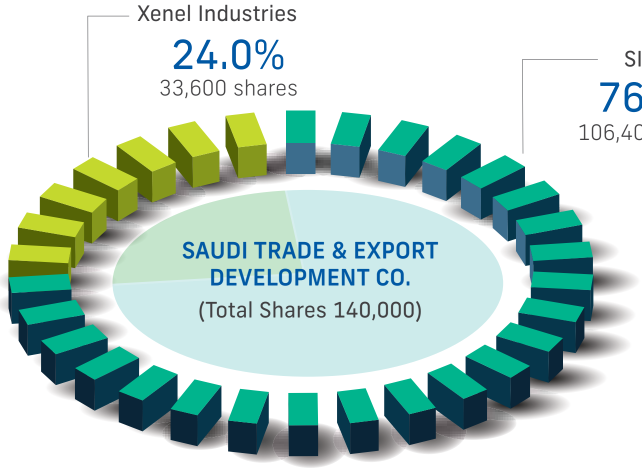
Company Type
Limited Liability Co.

Principal Place of Operations
Jeddah, Saudi Arabia

Main Business
Development, Management, and Operation of Logistics Parks and Zones

Share Capital
SAR 140 million

No. of Shares
140,000 of SAR 10,000 each




Impact on SISCO Financials

Revenue
8.2%

Assets
11.8%

Net Income
20.7%

## Business Analysis:

During the year, LogiPoint started trial operations in Jeddah Logistics Hub – MODON 1, but its business remained pre-dominantly dependent on the bonded re-export at Jeddah Islamic Port and auxiliary services complementing its operations.

The trade at Jeddah Islamic Port recorded its third straight year of decline, especially in the automobile segment. Auto distributors experienced strong headwinds due to a dramatic slowdown in demand for new vehicle imports and transit movement, and consequently significantly trimmed their logistics presence in the bonded zone.

Decline in automobile import / re-export and reduction in construction activity exposed the open yard segment to lower demand and downward pressure on lease rates. This slowdown resulted in 62% occupancy rate for open yards at the year-end.

On the contrary, warehouse occupancy increased from 94% in 2017 to 100% in 2018, with the entry of regional and global e-commerce players into the zone.

Continued interest in additional warehousing space and lower demand for open yards have created an opportunity for the company to increase its service offering for warehouse and also add variety with built-to-suit cold storage or food / pharma grade warehousing space.

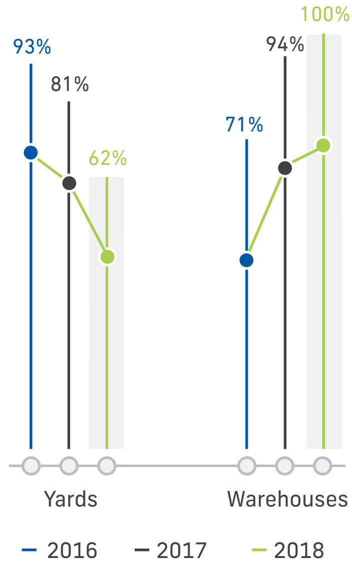
As the occupancy of open yards declined due to weak demand from automotive sector, LogiPoint adapted its focus towards provision of value-added services. This was achieved through vertical integration of Support Services Operation Company (ISNAD), a SISCO sister entity, as its strategic operational service provider for all logistics operations, moving away from the multiple outsourced providers model and retaining within the SISCO group additional economic value down the logistics value chain.

2018 was a year of transition for the Kingdom's Logistics sector and LogiPoint became a focal point for key governmental initiatives in fine-tuning rules, regulations, processes, and procedures by General Authority of Customs before rolling them out across the nation. As part of that, LogiPoint has started offering labelling / re-packaging services, multi-model through transport options, through transport from country's land borders to the bonded zone, and port-to-door services. These services were previously done in free zones of neighboring countries, which are now being arranged through LogiPoint bonded zone.

LogiPoint operates the only bonded reefer container storage facility in the Kingdom and a specialized reefer container staging facility for inspection and sample collection. This new service offering is gaining traction among pharmaceutical and food and beverage distributors as it the most cost effective and compliant storage solution for temperature-controlled shipments.

LogiPoint's successful year from operational perspective the recognition awarded by the Transport and Logistics Middle East as the Middle East's Logistics Zone Operator of the Year for 2018.

| ITEM | 2018 | 2017 | % CHANGE |
|---|---|---|---|
| Total Containers (TEUs) | 4,116,935 | 4,154,041 | (0.9 %) |
| Import Containers (TEUs) | 1,028,675 | 1,104,716 | (6.9 %) |
| Discharged RO/RO Vehicles | 315,880 | 348,082 | (9.3 %) |



ISNAD Support Services Operation Company

Established
2004

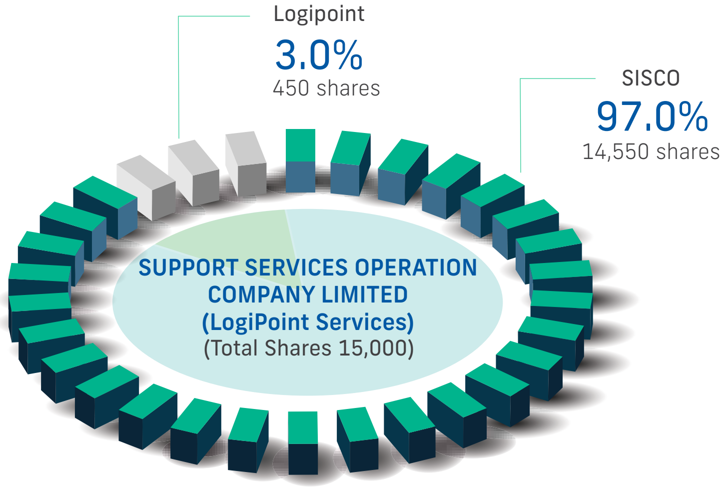
Company Type
Limited Liability Co.

Principal Place of Operations
Jeddah, Saudi Arabia

Main Business
Logistics Operation Management and services including investing and developing logistics services hubs, logistics operations, and, value added services.

Share Capital
SAR 15 Million

No. of Shares
15,000 of SAR 1,000 each




Impact on SISCO Financials

Revenue
6.6%

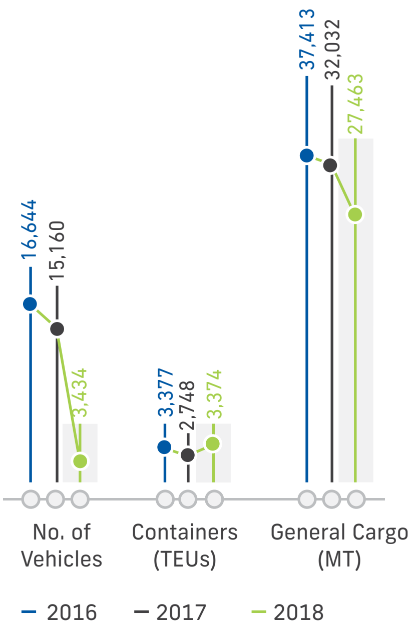
Assets
1.1%

Net Income
18.2%

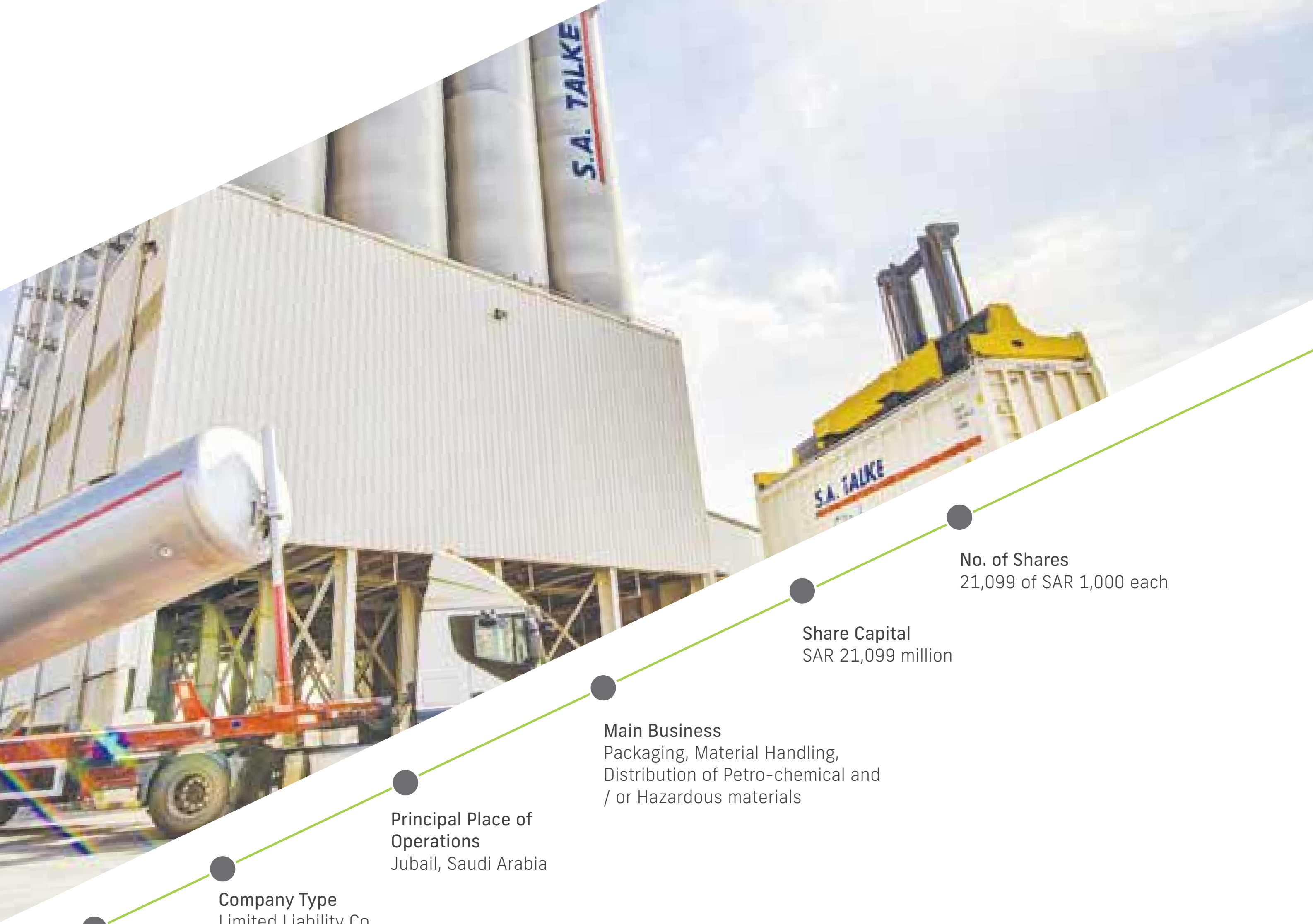
## Business Analysis:

After the vertical integration with LogiPoint, Support Services Operation Company (ISNAD) became the strategic operations service provider and is rebranded **LogiPoint Services**. LogiPoint Services undertook a comprehensive transformation of its business model, organization structure and operating procedures to deliver on its increased business expectations. Furthermore, the company expanded "Port to Door" business line to include other regions in the country, providing attractively priced lead logistics services to major importers by leveraging its strategic location as a service provider in the bonded zone. Volumes in the co-packing services at the bonded and re-export zone have nearly doubled with the increase in demand due to new regulatory requirements for labelling and packaging materials.

With 2018 being the start of operations for a new Logistics Hub in Modon 1, Jeddah, the utilization of the truck yard was at 40%.



S.A. TALKE
س.أ.تالكي




Established
2004

Company Type
Limited Liability Co.

Principal Place of Operations
Jubail, Saudi Arabia

Main Business
Packaging, Material Handling, Distribution of Petro-chemical and / or Hazardous materials

Share Capital
SAR 21,099 million

No. of Shares
21,099 of SAR 1,000 each

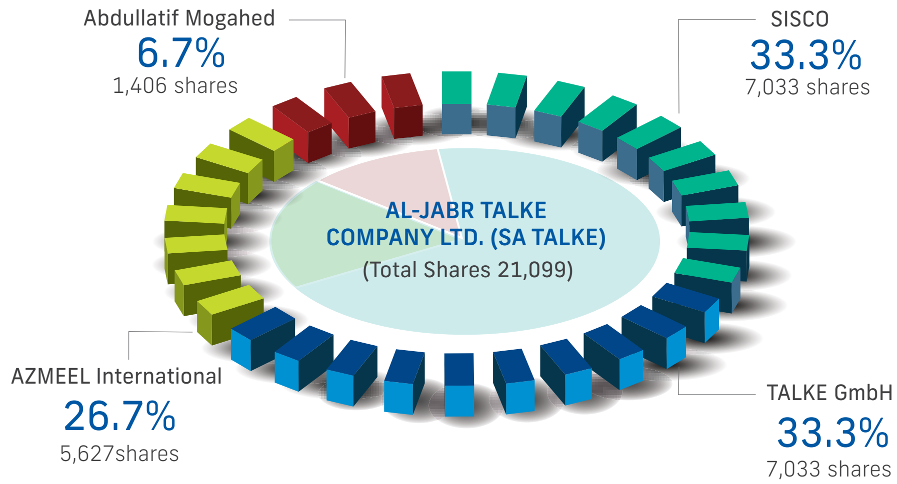
### Impact on SISCO Financials

S.A. TALKE is not a consolidated subsidiary of SISCO group; therefore, there is no direct contribution towards SISCO's Consolidated Assets or Revenues.

Revenue
SAR 249.7 million

Assets
SAR 154.8 million

Net Income
SAR 35.4 million



## Business Analysis:

Despite the challenging environment and tough competition, 2018 was again a favourable year for SAT growth as it continued its ascending trend by securing four projects (3 new i.e SABIC Truck Terminal, Tasnee-SAPCO & PRC Maintenance, 1 renewal Tasnee – Carbon Black), and every time it is only through the spirit of teamwork and strong sense of vision that we stride towards achieving our goals.

Organic growth has been also put on top of our priorities, as we strive to establish good relationships with our existing customers based on a win-win situation and try to always deliver value added solutions enabling us to widen the current scope and get additional business.

The company also received its SQAS Assessments for Transportation and Warehousing, proudly obtaining high scores for both categories. As part of our commitment to Corporate Social Responsibility, the company held Waste Free Environment and Sustainability campaigns at Jubail, Rabigh and Jeddah by collaborating with our clients and local schools.

Keeping Safety as one of the top priorities, the company rolled out a new Safety initiative "ASP – Act Safety Program" throughout all our project sites within KSA. In November, SABIC awarded SAT with the certificate of appreciation on their 5th Annual Contractor Safety day.

As the company acquired new projects, the demand of manpower has increased. Presently, we saw our headcount increasing by 37% from 1296 persons to 1774 persons.

Kindasa WATER SERVICES كنداسة لخدمات المياه

No. of Shares
7,730,000 of SAR 10 each

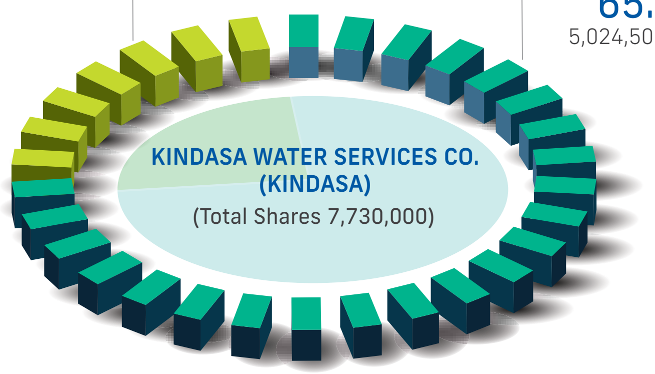
Share Capital
SAR 77.3 million

Main Business
Construction and Operation of Water Desalination Plants and Water Distribution

Principal Place of Operations
Jeddah, Saudi Arabia

Company Type
Closed Joint Stock Co.

Established
2000




Impact on SISCO Financials

Revenue
16.4%

Assets
8.2%

Net Income
11.2%

## Business Analysis:

Kindasa is the first private desalination plant producing & distributing potable water in the Kingdom of Saudi Arabia established in 2000 at Jeddah city. Kindasa continues to a hold leadership position in Jeddah private sector water industry for potable water production and distribution to Jeddah Industrial Cities and other industries / commercial facilities in the city. Kindasa retains approximately 65% market share of all water supplied to industrial customers in Jeddah and planning to reach 80% within the coming five years after completing new projects.

Total quantity sold during 2018 was 17.24 million cubic meters compared to 18.30 million cubic meters sold in 2017 due to economic situation and a decline in demand for the industrial cities.

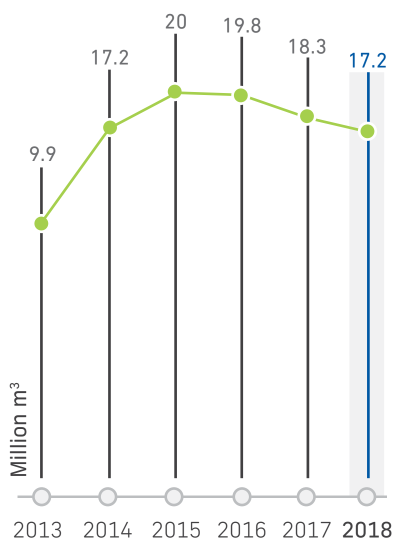
Kindasa's design capacity is 22 million cubic meters per year, and during 2018 the plant operated at 78% utilization.

Kindasa has expanded its business in 2018 through the sale of water to third industrial zone in Jeddah, and it is seeking to invest in new projects to compensate for the decline in first industrial city in Jeddah sales in addition to finalizing Rabigh Project.

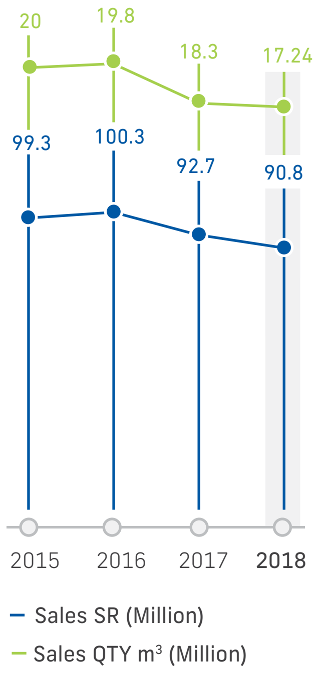
Kindasa uses cost-effective Reverse Osmosis (RO) desalination technology, which has minimal environmental impact. Further, Kindasa has commissioned hybrid pre-treatment system consisting of conventional Dual Media Filtration in conjunction with state-of-the-art Ultra Filtration (UF) process to produce stable RO feed-water quality that remains unaffected by seasonal changes in sea water quality. In fact, Kindasa's water quality is implying World Health Organization (WHO) and Saudi Arabian Standards Organization (SASO).

During the year, Kindasa started the work in building new desalination plant in Rabigh city with design capacity of 6,000 cubic meters per day expandable to 12,000 cubic meters per day. This plant is expected to start operations in January 2019.

| | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|
| Sales SR (Million) | 99.3 | 100.3 | 92.7 | 90.8 |
| Sales QTY m³ (Million) | 20.0 | 19.8 | 18.3 | 17.24 |




Water Sales



الشركة الدولية لتوزيع المياه المحدودة
International Water Distribution Co. Ltd.

Established
2006

Company Type
Limited Liability Co.

Principal Place of Operations
Jeddah, Riyadh, Qassim
Saudi Arabia

Main Business
Potable Water Distribution and Wastewater Treatment and use of re-cycled water for irrigation

Share Capital
SAR 146 million

No. of Shares
146,000 of SAR 1,000 each

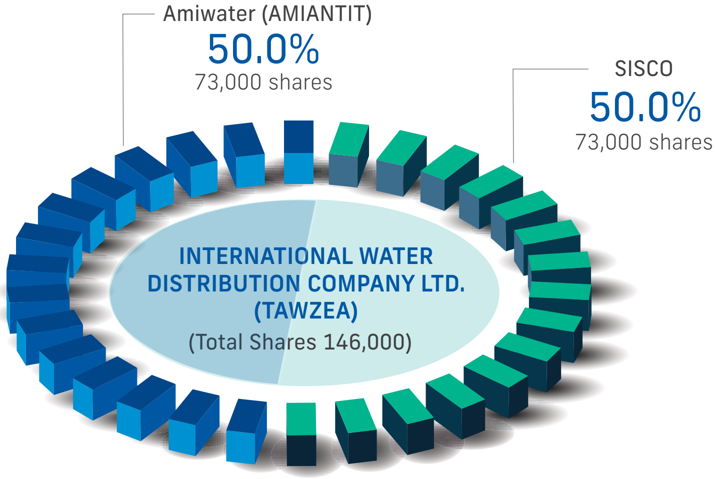
### Impact on SISCO Financials

TAWZEA is not a consolidated subsidiary of SISCO group; therefore, there is no direct contribution towards SISCO's Consolidated Assets or Revenues.

Revenue
SAR 257.1 million

Assets
SAR 266.1 million

Net Income
SAR 15.6 million

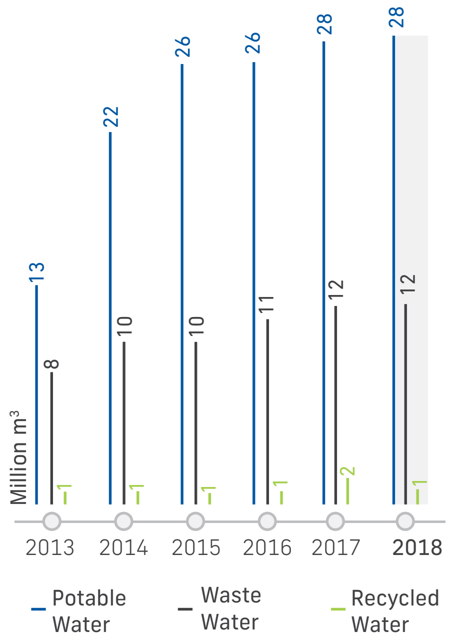


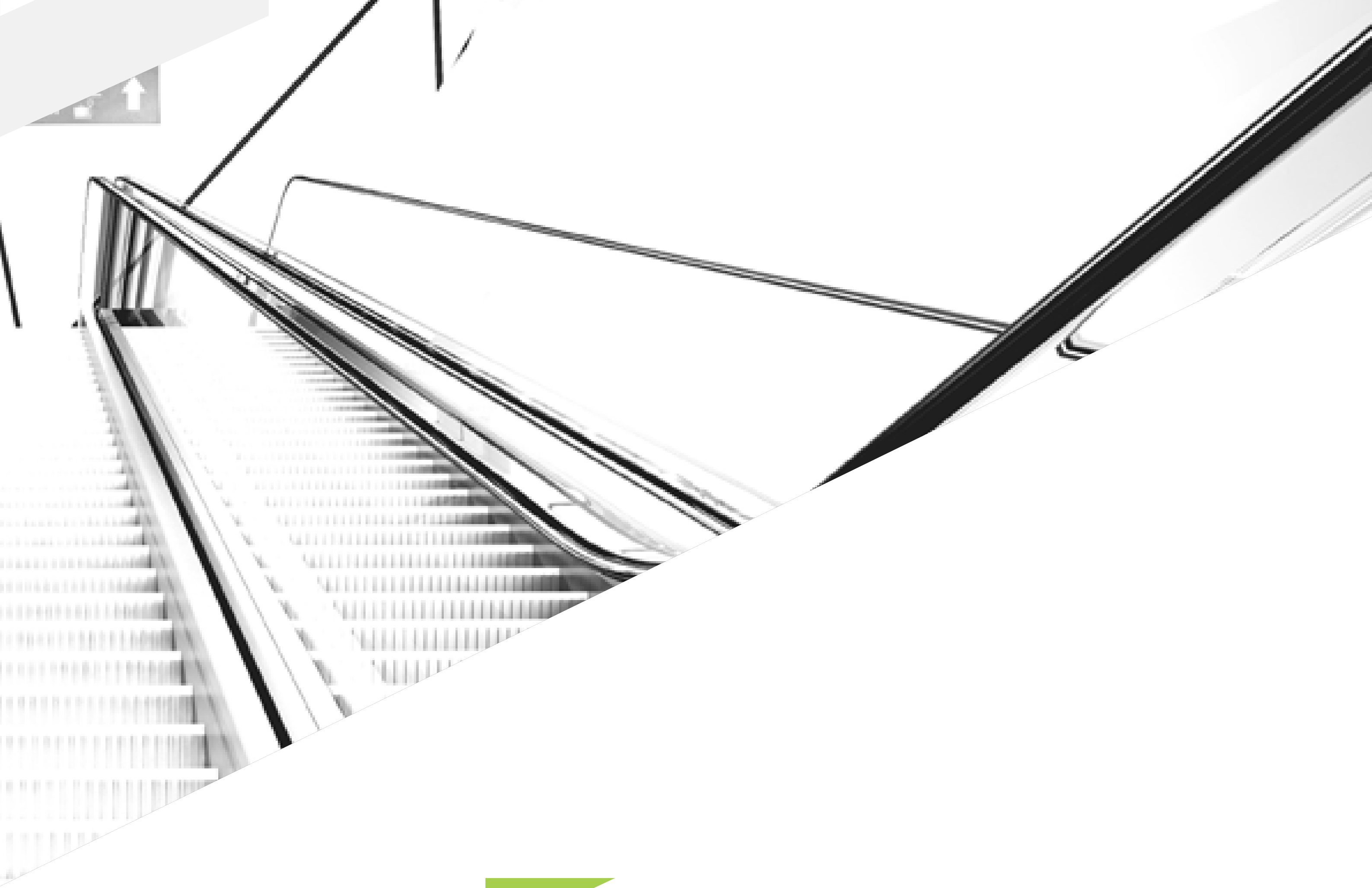
## Business Analysis:

TAWZEA is engaged in providing potable and wastewater services to industrial cities under concession agreement from Saudi Industrial Property Authority (MODON). TAWZEA specializes in Management of industrial cities, operation and maintenance of Potable Water and Waste Water facilities in cities like Jeddah, Riyadh and Qassim. It is also one of the first companies that have been successful in the privatization of the water sector in the Kingdom of Saudi Arabia and PPP projects.

TAWZEA's joint venture with Aquapur Company to secure supply and maintenance concession for Jeddah Industrial City 2 and 3 at the end of 2016 has contributed in increasing the revenue of 2018.

TAWZEA is now looking to expand and to have a key role in Saudi Arabia's vision 2030 by sharing their experience in PPP of Water & Wastewater projects.



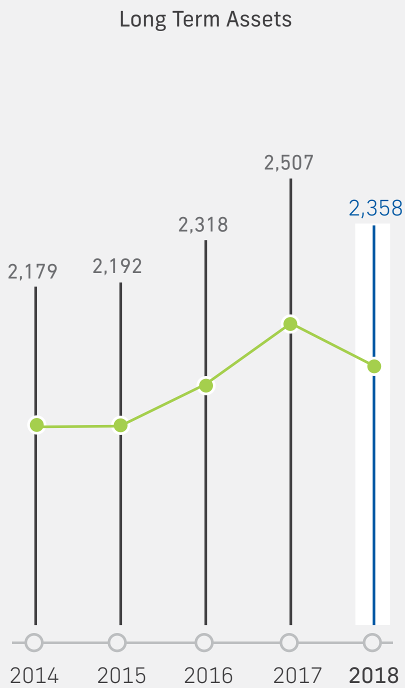


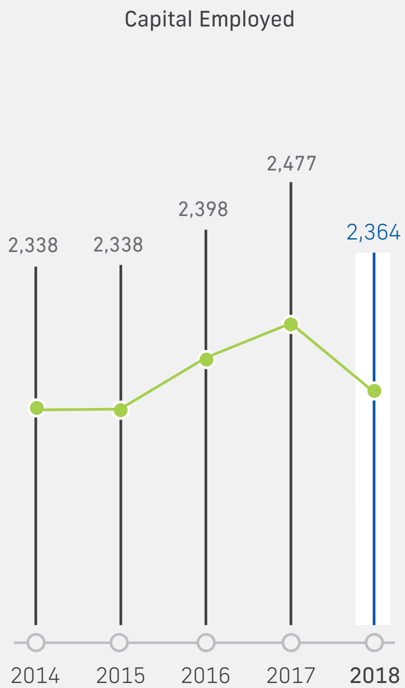
# FINANCIAL REVIEW

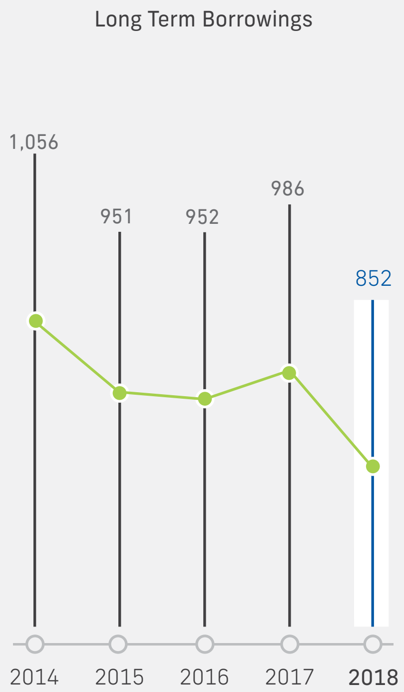
02

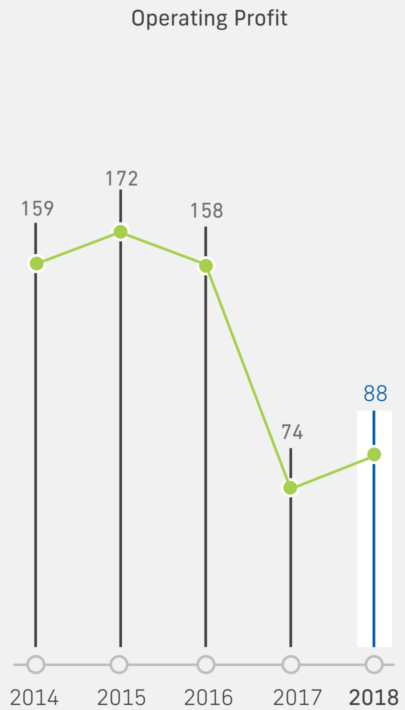
# Key Financial Indicators

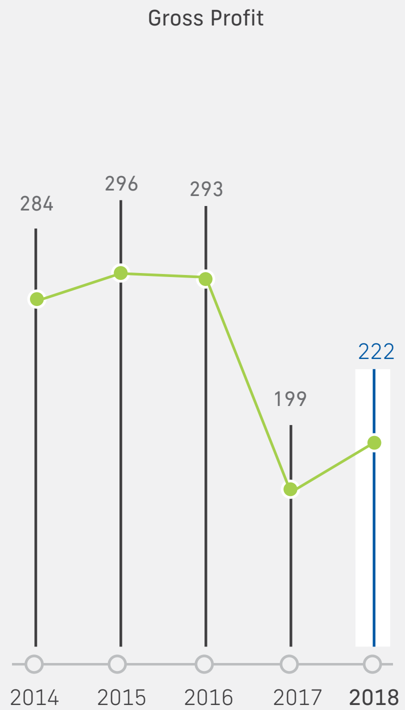
(SAR '000)

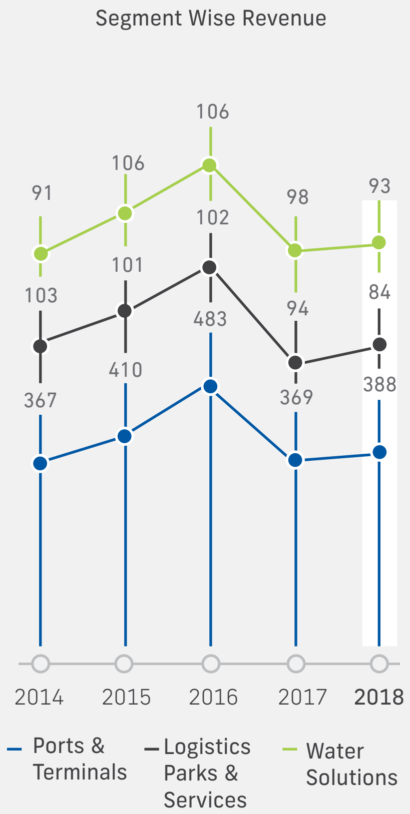


## Segment Wise Revenue

# Balance Sheet

| (SAR '000) | 2018 | 18 VS. 17 % CHANGE | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|---|
| ASSETS | | | | | | |
| CURRENT ASSETS | | | | | | |
| Bank Balances and Cash | 180,584 | 19.8 | 150,708 | 195,404 | 252,669 | 273,438 |
| Receivables | 117,953 | 16.1 | 101,588 | 113,962 | 118,565 | 101,304 |
| Inventories | 21,303 | -16.5 | 25,503 | 31,120 | 37,172 | 27,496 |
| | **319,840** | **15.1** | **277,799** | **340,486** | **408,406** | **402,239** |
| NON-CURRENT ASSETS | | | | | | |
| Investments | 147,792 | -18.0 | 180,297 | 117,473 | 114,542 | 107,766 |
| Property, Plant and Equipment | 1,039,960 | -3.7 | 1,079,520 | 892,863 | 707,654 | 633,922 |
| Other Non-Current Assets | 1,170,143 | -6.2 | 1,247,218 | 1,307,795 | 1,369,898 | 1,437,526 |
| | **2,357,895** | **-5.9** | **2,507,036** | **2,318,131** | **2,192,093** | **2,179,214** |
| | | | | | | |
| TOTAL ASSETS | **2,677,735** | **-3.8** | **2,784,835** | **2,658,617** | **2,600,499** | **2,581,452** |
| LIABILITIES AND EQUITY | | | | | | |
| CURRENT LIABILITIES | | | | | | |
| Payables | **160,605** | **-0.8** | **161,938** | **144,520** | **149,612** | **133,527** |
| Short-term Loans | 153,414 | 4.8 | 146,391 | 116,018 | 112,483 | 109,795 |
| | **314,019** | **1.8** | **308,329** | **260,538** | **262,094** | **243,321** |
| NON-CURRENT LIABILITIES | | | | | | |
| Long Term Bank Loans | 699,027 | -16.8 | 839,710 | 836,402 | 838,185 | 946,160 |
| Other Non-Current Liabilities | 66,042 | - | 66,041 | 54,602 | 44,674 | 44,167 |
| Employees' End of Service Benefits | 27,216 | 2.0 | 26,693 | 21,884 | 21,639 | 17,936 |
| | **792,285** | **-15.0** | **932,444** | **912,888** | **904,498** | **1,008,263** |
| SHAREHOLDERS' EQUITY | | | | | | |
| Share Capital | 816,000 | - | 816,000 | 680,000 | 680,000 | 680,000 |
| Share Premium | 36,409 | - | 36,409 | 36,409 | 36,409 | 36,409 |
| Reserves | 71,290 | 7.0% | 66,616 | 59,629 | 45,815 | 32,238 |
| Other Non-Distributable Reserves | 5,907 | -44.8 | 10,697 | 8,061 | 13,152 | 9,344 |
| Retained Earnings / (Loss) | 158,627 | 15.3 | 137,569 | 224,218 | 196,638 | 155,106 |
| **Equity Attributable to Parent Company** | **1,088,233** | **2.0** | **1,067,292** | **1,008,317** | **972,014** | **913,098** |
| Non-Controlling Interest | 483,198 | 1.3 | 476,769 | 476,875 | 461,893 | 416,770 |
| **Total Equity** | **1,571,431** | **1.8** | **1,544,061** | **1,485,192** | **1,433,907** | **1,329,868** |
| | | | | | | |
| TOTAL LIABILITIES AND EQUITY | **2,677,735** | **-3.8** | **2,784,835** | **2,658,617** | **2,600,499** | **2,581,452** |

# Balance Sheet
(Horizontal Analysis)

Horizontal analysis is done using 2014 as the base year, and shows the development in key elements of the balance sheet over last 5 years.

| (2014 as base year) | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| CURRENT ASSETS | | | | | |
| Bank Balances and Cash | 66 | 55 | 71 | 92 | 100 |
| Receivables | 116 | 100 | 112 | 117 | 100 |
| Inventories | 77 | 93 | 113 | 135 | 100 |
| | **80** | **69** | **85** | **102** | **100** |
| NON-CURRENT ASSETS | | | | | |
| Investments | 137 | 167 | 109 | 106 | 100 |
| Property, Plant and Equipment | 164 | 170 | 141 | 112 | 100 |
| Other Non-Current Assets | 81 | 87 | 91 | 95 | 100 |
| | **108** | **115** | **106** | **101** | **100** |
| | | | | | |
| TOTAL ASSETS | **104** | **108** | **103** | **101** | **100** |
| LIABILITIES AND EQUITY | | | | | |
| CURRENT LIABILITIES | | | | | |
| Payables | 120 | 121 | 108 | 112 | 100 |
| Short-term Loans | 140 | 133 | 106 | 102 | 100 |
| | **129** | **127** | **107** | **108** | **100** |
| NON-CURRENT LIABILITIES | | | | | |
| Long Term Bank Loans | 74 | 89 | 88 | 89 | 100 |
| Other Non-Current Liabilities | 150 | 150 | 124 | 101 | 100 |
| Employees' End of Service Benefits | 152 | 149 | 122 | 121 | 100 |
| | **79** | **93** | **91** | **90** | **100** |
| SHAREHOLDERS' EQUITY | | | | | |
| Share Capital | 120 | 120 | 100 | 100 | 100 |
| Share Premium | 100 | 100 | 100 | 100 | 100 |
| Reserves | 221 | 207 | 185 | 142 | 100 |
| Other Non-Distributable Reserves | 63 | 114 | 86 | 141 | 100 |
| Retained Earnings / (Loss) | 102 | 89 | 145 | 127 | 100 |
| **Equity Attributable to Parent Company** | **119** | **117** | **110** | **106** | **100** |
| Non-Controlling Interest | 116 | 114 | 114 | 111 | 100 |
| **Total Equity** | **118** | **116** | **112** | **108** | **100** |
| | | | | | |
| TOTAL LIABILITIES AND EQUITY | **104** | **108** | **103** | **101** | **100** |

# Balance Sheet
(Vertical Analysis)

Vertical analysis is done using Total Assets of the year as base and reflects the proportion of key balance sheet elements as compared to Total Assets of that year.

| (Total Assets as the base) | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| CURRENT ASSETS | | | | | |
| Bank Balances and Cash | 6.7 | 5.4 | 7.3 | 9.7 | 10.6 |
| Receivables | 4.4 | 3.6 | 4.3 | 4.6 | 3.9 |
| Inventories | 0.8 | 1.0 | 1.2 | 1.4 | 1.1 |
| | **11.9** | **10.0** | **12.8** | **15.7** | **15.6** |
| NON-CURRENT ASSETS | | | | | |
| Investments | 5.5 | 6.5 | 4.4 | 4.4 | 4.2 |
| Property, Plant and Equipment | 38.8 | 38.8 | 33.6 | 27.2 | 24.5 |
| Other Non-Current Assets | 43.8 | 44.7 | 49.2 | 52.7 | 55.7 |
| | **88.1** | **90.0** | **87.2** | **84.3** | **84.4** |
| | | | | | |
| TOTAL ASSETS | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| LIABILITIES AND EQUITY | | | | | |
| CURRENT LIABILITIES | | | | | |
| Payables | 6.0 | 5.7 | 5.4 | 5.8 | 5.1 |
| Short-term Loans | 5.7 | 5.3 | 4.4 | 4.3 | 4.3 |
| | **11.7** | **11.0** | **9.8** | **10.1** | **9.4** |
| NON-CURRENT LIABILITIES | | | | | |
| Long Term Bank Loans | 26.1 | 30.2 | 31.5 | 32.1 | 36.7 |
| Other Non-Current Liabilities | 2.5 | 2.4 | 2.1 | 1.7 | 1.7 |
| Employees' End of Service Benefits | 1.0 | 1.0 | 0.8 | 0.8 | 0.7 |
| | **29.6** | **33.6** | **34.4** | **34.6** | **39.1** |
| SHAREHOLDERS' EQUITY | | | | | |
| Share Capital | 30.5 | 29.3 | 25.6 | 26.1 | 26.3 |
| Share Premium | 1.4 | 1.3 | 1.4 | 1.4 | 1.4 |
| Reserves | 2.7 | 2.4 | 2.2 | 1.8 | 1.2 |
| Other Non-Distributable Reserves | 0.2 | 0.4 | 0.3 | 0.5 | 0.5 |
| Retained Earnings / (Loss) | 5.9 | 4.9 | 8.4 | 7.6 | 6.0 |
| **Equity Attributable to Parent Company** | **40.7** | **38.3** | **37.9** | **37.4** | **35.4** |
| Non-Controlling Interest | 18.0 | 17.1 | 17.9 | 17.9 | 16.1 |
| **Total Equity** | **58.7** | **55.4** | **55.8** | **55.3** | **51.5** |
| | | | | | |
| TOTAL LIABILITIES AND EQUITY | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

# Statement of Income

| (SAR '000) | 2018 | 18 VS. 17 % CHANGE | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|---|
| Revenue | 564,705 | 0.4 | 562,407 | 690,772 | 616,084 | 560,999 |
| Direct Costs | (342,639) | -5.8 | (363,720) | (398,063) | (320,276) | (277,375) |
| **GROSS PROFIT** | **222,066** | **11.8** | **198,687** | **292,709** | **295,808** | **283,624** |
| | | | | | | |
| Selling & Distribution Expenses | (16,395) | -15.8 | (19,467) | (13,287) | (14,220) | (13,621) |
| General & Administrative Expenses | (117,592) | 11.7 | (105,300) | (121,439) | (109,444) | (110,801) |
| **OPERATING PROFIT** | **88,078** | **19.2** | **73,920** | **157,983** | **172,145** | **159,203** |
| | | | | | | |
| Finance Costs | (50,780) | 45.1 | (34,994) | (36,279) | (34,353) | (36,532) |
| Share of Results From Associates | 23,745 | 14.5 | 20,736 | 11,650 | 9,066 | (305) |
| Other Income / (Loss) | 9,283 | -67.0 | 28,162 | 12,013 | 2,124 | 7,939 |
| **Income from Continuing Operations** | **70,327** | **-19.9** | **87,824** | **145,367** | **148,981** | **130,305** |
| | | | | | | |
| Net result of discontinued operations | - | - | - | - | 1,074 | 893 |
| **Net Income before Zakat** | **70,327** | **-19.9** | **87,824** | **145,367** | **150,055** | **131,198** |
| Zakat & Income Tax | (4,806) | -28.3 | (6,702) | (9,330) | (8,120) | (7,566) |
| **Group Net Income** | **65,520** | **-19.2** | **81,122** | **136,037** | **141,936** | **123,632** |
| | | | | | | |
| **Group Net Income Attributable to:** | | | | | | |
| Non-Controlling Interest | 18,775 | -15.8 | 22,311 | 45,781 | 51,427 | 45,555 |
| **Parent Company** | **46,745** | **-20.5** | **58,811** | **90,256** | **90,509** | **78,077** |

*Notes:*
1. *Certain comparative figures in the financial statements have been reclassified to conform to this year's presentation.*
2. *Main variances in profitability and operating results are explained in the sections of 'Analysis of Financial Results' and for each business under each company's profile.*

# Statement of Income

(Horizontal Analysis)

Horizontal analysis is done using 2014 as the base year, and shows the development in key elements of the income statement over the last 5 years.

| (2014 as base year) | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Revenue | 101 | 100 | 123 | 110 | 100 |
| Direct Costs | 124 | 131 | 144 | 115 | 100 |
| **GROSS PROFIT** | **78** | **70** | **103** | **104** | **100** |
| | | | | | |
| Selling & Distribution expenses | 120 | 143 | 98 | 104 | 100 |
| General & Administrative expenses | 106 | 95 | 110 | 99 | 100 |
| **OPERATING PROFIT** | **55** | **46** | **99** | **108** | **100** |
| | | | | | |
| Finance Costs | 139 | 96 | 99 | 94 | 100 |
| Share of results from associates | (7,798) | (6,810) | (3,826) | (2,977) | - |
| Other Income / (Loss) | 117 | 355 | 151 | 27 | 100 |
| **Income from Continuing Operations** | **54** | **67** | **112** | **114** | **100** |
| | | | | | |
| Net Result of discontinued operations | - | - | - | 120 | 100 |
| **Net Income before Zakat** | **54** | **67** | **112** | **114** | **100** |
| Zakat & Income Tax | 64 | 89 | 123 | 107 | 100 |
| **Group Net Income** | **53** | **66** | **110** | **115** | **100** |
| | | | | | |
| **Group Net Income Attributable to:** | | | | | |
| Non-Controlling Interest | 41 | 49 | 100 | 113 | 100 |
| **Parent Company** | **60** | **75** | **116** | **116** | **100** |

# Statement of Income
(Vertical Analysis)

Vertical analysis is done using Revenue of the year as base and reflects the proportion of key income statement elements as compared to Total Revenue of that year.

| (Revenue as the base) | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Revenue | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Direct Costs | (60.7) | (64.7) | (57.6) | (52.0) | (49.4) |
| **GROSS PROFIT** | **39.3** | **35.3** | **42.4** | **48.0** | **50.6** |
| | | | | | |
| Selling & Distribution Expenses | (2.9) | (3.5) | (1.9) | (2.3) | (2.4) |
| General & Administrative Expenses | (20.8) | (18.7) | (17.6) | (17.8) | (19.8) |
| **OPERATING PROFIT** | **15.6** | **13.1** | **22.9** | **27.9** | **28.4** |
| | | | | | |
| Finance Costs | (9.0) | (6.2) | (5.3) | (5.6) | (6.5) |
| Share of Results from Associates | 4.2 | 3.7 | 1.7 | 1.5 | (0.1) |
| Other Income / (Loss) | 1.6 | 5.0 | 1.7 | 0.3 | 1.4 |
| **Income from Continuing Operations** | **12.5** | **15.6** | **21.0** | **24.2** | **23.2** |
| | | | | | |
| Net Result of Discontinued Operations | - | - | - | 0.2 | 0.2 |
| **Net Income before Zakat** | **12.5** | **15.6** | **21.0** | **24.4** | **23.4** |
| Zakat & Income Tax | (0.9) | (1.2) | (1.4) | (1.4) | (1.4) |
| **Group Net Income** | **11.6** | **14.4** | **19.6** | **23.0** | **22.0** |
| | | | | | |
| **Group Net Income Attributable to:** | | | | | |
| Non-Controlling Interest | 3.3 | 4.0 | 6.6 | 8.3 | 8.1 |
| **Parent Company** | **8.3** | **10.4** | **13.0** | **14.7** | **13.9** |

# Key Ratios

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| **Liquidity Ratios** | | | | | |
| Current Ratio | **1.0** | 0.9 | 1.3 | 1.6 | 1.7 |
| Quick Ratio | **1.0** | 0.8 | 1.2 | 1.4 | 1.5 |
| Cash to Current Liabilities | **0.6** | 0.5 | 0.8 | 1.0 | 1.1 |
| Cash Flow from Operations to Sales | **0.3** | 0.4 | 0.4 | 0.4 | 0.5 |
| | | | | | |
| **Capital Structure Ratios** | | | | | |
| Debt-Equity Ratio | **0.5** | 0.6 | 0.6 | 0.7 | 0.8 |
| Financial Leverage Ratio | **1.4** | 1.2 | 1.3 | 1.2 | 1.0 |
| Interest Cover Ratio | **2.4** | 3.5 | 5.0 | 5.3 | 4.6 |
| | | | | | |
| **Activity Ratios** | | | | | |
| Average Collection Period | **55.6** | 48.3 | 47.3 | 55.1 | 47.0 |
| Fixed Assets Turnover | **0.3** | 0.2 | 0.3 | 0.3 | 0.3 |
| Total Assets Turnover | **0.2** | 0.2 | 0.3 | 0.2 | 0.2 |
| Accounts Receivables Turnover | **4.8** | 5.5 | 6.1 | 5.2 | 5.5 |
| | | | | | |
| **Profitability Ratios** | | | | | |
| Gross Profit Margin (%) | **39.3** | 35.3 | 42.4 | 48.0 | 50.6 |
| Operating Profit Margin (%) | **17.2** | 18.0 | 24.4 | 27.9 | 28.4 |
| Net Profit Margin (%) | **12.5** | 15.6 | 21.0 | 24.4 | 23.4 |
| Return on Assets (%) | **2.4** | 2.9 | 5.1 | 5.5 | 4.8 |
| Return on Equity (%) | **4.2** | 5.3 | 9.2 | 9.9 | 9.3 |
| EBITDA Margin to Sales (%) | **39.0** | 40.1 | 39.6 | 43.0 | 42.9 |
| | | | | | |
| **Investment / Market Ratio** | | | | | |
| Price Earnings Ratio | **19.0** | 15.8 | 13.4 | 11.0 | 15.2 |
| **Market Price per Share (SAR)** | | | | | |
| *At the end of the year* | **10.8** | 11.4 | 14.9 | 14.7 | 17.5 |
| *Highest during the year* | **16.2** | 13.5 | 16.9 | 20.4 | 20.7 |
| *Lowest during the year* | **10.8** | 9.9 | 9.5 | 13.0 | 15.2 |
| Book Value per Share (SAR) | **13.3** | 13.1 | 14.8 | 14.1 | 13.3 |
| EBITDA Multiple | **4.0** | 4.1 | 3.7 | 3.8 | 4.9 |
| EV / EBITDA | **9.3** | 9.9 | 8.2 | 8.2 | 9.9 |

# Key Financial Data

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| **Balance Sheet (SAR '000)** | | | | | |
| Share Capital | **816,000** | 816,000 | 680,000 | 680,000 | 680,000 |
| Reserves | **71,290** | 66,616 | 59,629 | 45,815 | 32,238 |
| Shareholders` Equity | **1,088,234** | 1,067,292 | 1,008,317 | 972,014 | 913,098 |
| Long-term Borrowing | **699,027** | 839,710 | 836,402 | 838,185 | 946,160 |
| Capital Employed | **2,363,717** | 2,476,506 | 2,398,080 | 2,338,405 | 2,338,130 |
| Property, Plant, & Equipment | **1,039,960** | 1,079,520 | 892,863 | 707,654 | 633,922 |
| Other Non-Current Assets | **1,162,103** | 1,238,841 | 1,307,795 | 1,369,898 | 1,437,526 |
| **Profit & Loss (SAR '000)** | | | | | |
| Sales | **564,705** | 562,407 | 690,772 | 616,084 | 560,999 |
| Gross Profit | **222,066** | 198,687 | 292,709 | 295,808 | 283,624 |
| Operating Profit | **88,078** | 73,920 | 157,983 | 172,145 | 159,203 |
| Profit before Zakat and NCI | **70,327** | 87,824 | 145,367 | 150,055 | 131,198 |
| Net Profit | **46,745** | 58,811 | 90,256 | 90,509 | 78,077 |
| EBITDA | **220,193** | 225,416 | 273,685 | 264,687 | 240,981 |
| Earnings per Share | **0.57** | 0.72 | 1.11 | 1.33 | 1.15 |
| **Cash-flow (SAR '000)** | | | | | |
| Cash Flows from Operating Activities | **183,951** | 243,550 | 262,440 | 257,984 | 264,880 |
| Cash Flows from Investing Activities | **20,742** | (296,071) | (268,930) | (125,023) | (89,322) |
| Cash Flows from Financing Activities | **(174,817)** | 7,824 | (50,775) | (153,731) | (111,538) |
| Change in Cash and Cash Equivalents | **29,876** | (44,696) | (57,265) | (20,769) | 64,020 |
| Closing Cash and Cash Equivalents | **180,584** | 150,708 | 195,404 | 252,669 | 273,439 |
| **Capitalization** | | | | | |
| Closing Price (SAR per Share) | **10.84** | 11.40 | 14.89 | 14.67 | 17.45 |
| Market Capitalization (SAR million) | **884,544** | 930 | 1,013 | 998 | 1,187 |
| Enterprise Value (SAR million) | **2,040** | 2,242 | 2,246 | 2,157 | 2,386 |
| Numbers of Shares Issued (SAR million) | **81,600** | 81,600 | 68,000 | 68,000 | 68,000 |
| **Operational Statistics** | | | | | |
| Containers ('000 TEUs) | **1,568** | 1,363 | 1,614 | 1,554 | 1,411 |
| No. of Vehicles | **3,434** | 8,304 | 14,160 | 39,855 | 33,299 |
| General Cargo (metric tons) | **27,463** | 38,280 | 44,739 | 110,907 | 124,076 |
| Water Production (million m3) | **17.3** | 18.3 | 19.8 | 20.0 | 17.2 |

# Geographical Analysis of Revenue

The Group's consolidated subsidiaries principally operate in western region of the Kingdom.

| COMPANY (SAR '000) | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | WESTERN | CENTRAL | EASTERN | WESTERN | CENTRAL | EASTERN |
| RSGT | 388,351 | - | - | 369,057 | - | - |
| LOGIPOINT | 46,066 | - | - | 60,886 | - | - |
| KINDASA | 92,920 | - | - | 98,420 | - | - |
| ISNAD | 37,368 | - | - | 34,044 | - | - |
| TOTAL | 564,705 | - | - | 562,407 | - | - |
| | 564,705 | | | 562,407 | | |

SISCO's associated entities, whose revenues are not consolidated in SISCO's financial statements, operate across the Kingdom and their revenue break-down is as follows:

| COMPANY (SAR '000) | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | WESTERN | CENTRAL | EASTERN | WESTERN | CENTRAL | EASTERN |
| TAWZEA | 118,813 | 138,278 | | 103,034 | 165,872 | - |
| SA TALKE | 74,952 | | 174,811 | 53,866 | - | 154,509 |
| TOTAL | 193,765 | 138,278 | 174,811 | 156,900 | 165,872 | 154,509 |
| | 506,854 | | | 477,281 | | |

# Bank Loans and Debt Instruments

| COMPANY (SAR '000) | LENDER | START YEAR | ORIGINAL PRINCIPAL | BALANCE 1/1/2018 | DRAWDOWNS | REPAYMENTS | BALANCE 31/12/2018 |
|---|---|---|---|---|---|---|---|
| RSGT | Al Rajhi / BSF | 2016 | 260,000 | 260,000 | - | 37,440 | 222,560 |
| | | 2008 | 1,271,061 | 750,793 | - | 104,958 | 645,835 |
| KINDASA | SABB | 2016 | 24,000 | 3,994 | 8,414 | 4,879 | 7,528 |
| | TOTAL | | 1,555,061 | 1,014,787 | 8,414 | 147,277 | 875,923 |

# Repayment Profile

| COMPANY (SAR '000) | RSGT | | KINDASA | |
|---|---|---|---|---|
| Lender | Al-Rajhi / BSF (1) | Al-Rajhi / BSF (2) | SABB | TOTAL |
| Less than one year | 39,338 | 112,305 | 1,771 | 153,414 |
| From 1 to 2 years | 41,756 | 120,166 | 1,771 | 163,693 |
| From 2 to 5 years | 141,466 | 413,364 | 3,986 | 558,816 |
| More than 5 years | - | - | - | - |
| CLOSING BALANCE OF THE PERIOD | 222,560 | 645,835 | 7,528 | 875,923 |

# Payments to Government Authorities

| INSTITUTION (SAR '000) | 2018 | | DESCRIPTION |
|---|---|---|---|
| | PAID DURING THE YEAR | DUE UP TO END OF 2018 AND HAS NOT BEEN PAID | |
| General Authority of Zakat and Tax | 7,467 | 787 | Received after the year end. |
| General Organization of Social Insurance | 7,850 | 183 | Received after the year end. |
| Ministry of Interior for Passport / Visa Services | 1,911 | | |
| Department of Customs | 2,261 | | |
| Saudi Ports Authority | 45,066 | 4,648 | Received after the year end. |
| TOTAL | 64,555 | 5,618 | |

# Dividend Policy

The Company's dividend policy is governed by Articles (45) and (46) of its Articles of Association.

**Article 45 mandates the following regarding distribution of the company's annual Net Profits:**

1. The Company sets aside ten (10) percent of Net Profits after Zakat as statutory reserve until the reserve reaches thirty (30) percent of the company's paid up share capital.
2. Based on the Board's suggestion, The Company can set aside a special reserve from its Net Profits to be used for specific purposes.
3. The Company has the right to set aside other reserves to the extent that benefits the company and stabilizes the dividends paid to shareholders. In addition, the company can cut off some of the Net Profits to be used in either establishing or contributing to social institutions for the company's employees.
4. The remaining amount, if any, would be used in distributing at least ten (10) percent of the Company's annual Net Profits to shareholders based on Board's suggestion and partner's approval.

The Company may choose to distribute dividends quarterly or semi-annually if it meets the following requirements:

- The Board's resolution/ decision should be renewed annually.
- The company should maintain good/stable profits.
- The company should have adequate liquidity, and it should be able to anticipate its future profits clearly.
- The company should have an adequate amount of Profits, based on the final audited financial statements, to cover the amount proposed to be distributed as dividends after deducting what has been distributed or used as capital beyond the date of the financials.

Article (46) states that the shareholders are authorized to receive their dividends based on the Company's/ Board's resolution, which should include the ex-dividend date and the distribution/payment date for the dividends. Shareholders are eligible for the dividends if they are registered in the company's record by end of the ex-dividend date.

**Historical Dividends Paid by the Company:**

| | 2015 | 2016 | 2017 | 2018 (PROPOSED) |
|---|---|---|---|---|
| **Dividend/Share** | 0.5 | * | 0.3 | 0.4 |
| **Distribution %** | 5% of share capital which is SAR 680 Million | - | 3% of share capital which is SAR 816 Million | 4% of share capital which is SAR 816 Million |
| **TOTAL AMOUNT** | SAR 34 Million | * | SAR 24.4 Million | SAR 32.6 Million |

** Bonus shares were granted to all shareholders by issuing one bonus share for each five shares as approved by the General Assembly of Shareholders on 16 April 2017.*

# MANAGEMENT FRAMEWORK

03

# Management Structure and Philosophy

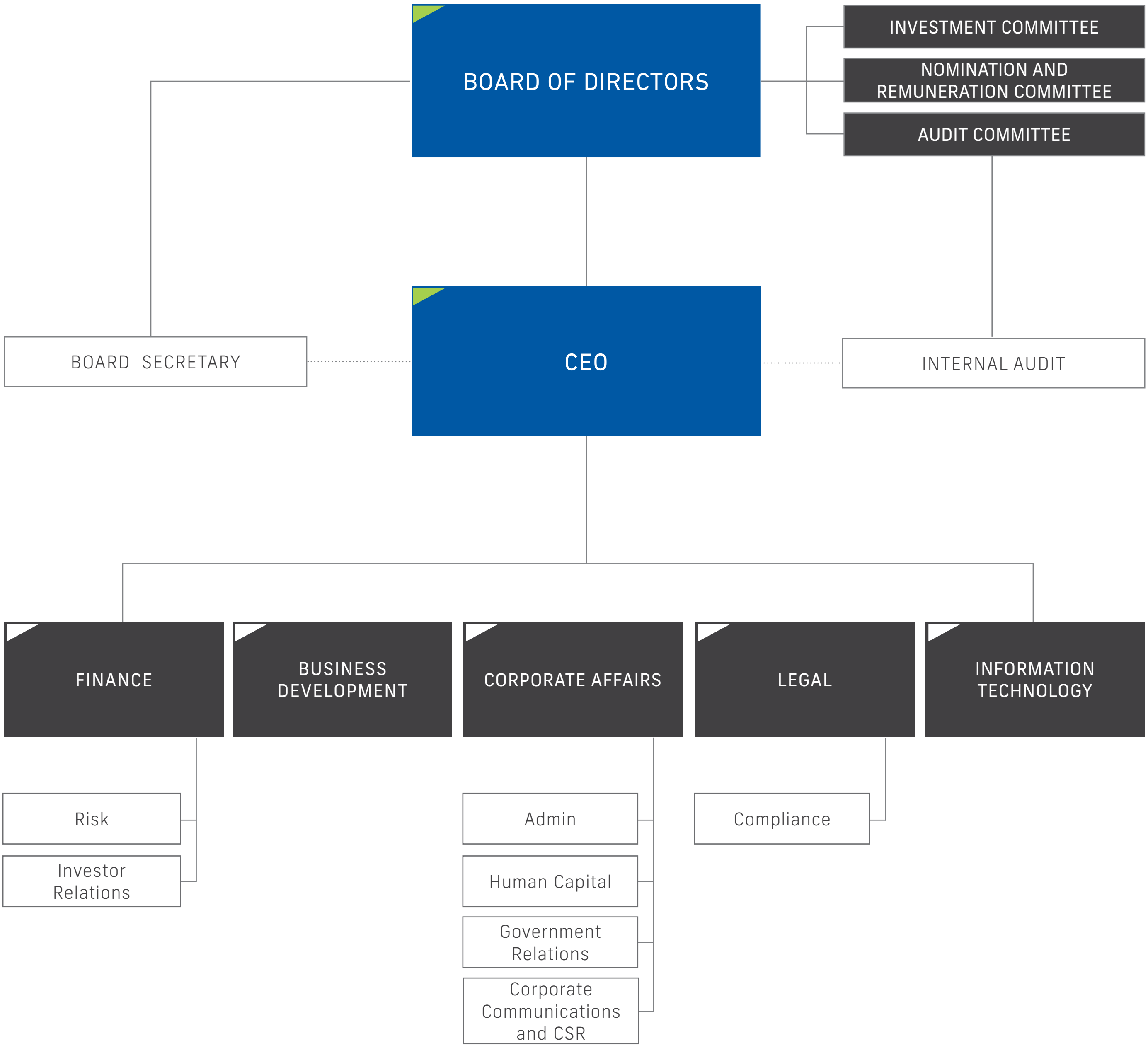
SISCO manages its group companies with the concept of strategic long-term investment, where the individual business companies focus on growth within their respective sector, and corporate center supports the unit through key advisory functions to bring in synergies.

SISCO's Board has a top down view as the custodian of shareholders' interests and works with the CEO in deciding overall strategic vision and direction of the company and implementation of that vision. The Board is assisted by number of Board Committees in making decisions related to Audit, Investments, Remunerations and Nomination.

Each SISCO company (both subsidiaries and associated) is governed by an independent board, which appoints an independent CEO to the respective company, who is responsible for implementing the direction set by the Board into tangible results. SISCO is represented in each consolidated and associated company's board in-line with its shareholding position. This approach of managing its investments ensures accountability without impeding the flexibility and entrepreneurial spirit within each company, translating in to SISCO group's continued growth.

Corporate functions provide the Board and CEO with a set of functional strengths and enable a 'portfolio-oriented' management of SISCO's investments. The core responsibility of the Corporate Center is to advise and support in establishing a system and mechanism across the group which is in accordance with highest standards of integrity, and provides a uniform set of reporting, risk management, and compliance procedures.

# Organization Chart



# Board Members

MOHAMED AHMED ALIREZA
Chairman of the Board

On SISCO Board Since 2003
Member in Investment Committee

MEMBERSHIP IN COMPANIES

Company Type : Closed Joint Stock
- Kindasa Water Services Co.
- APSCO Co.
- Red Sea Port Development Co.
- Tamlik Co.

Company Type : Limited Liability
- Xenel Industries Co.
- AMI Saudi Arabia
- Arab Group Services Limited
- Arabian Bulk Materials Trading Co.
- Saudi Bulk Transport Company
- Saudi Metal Scaffolding Company
- Gulf Pearl Co.
- Red Sea Gateway Terminal Co.
- Al Haj Abdullah Alireza & Partners Co.
- Sejel Technology Company
- Maghrabi Hospitals

CURRENT POSITION
- Chairman of the Board of Directors in Xenel Industries
- AMI and The Arabian Bulk Trade*

PREVIOUS POSITION
He has previously held several positions in many companies and official positions such as Consultative Council (Shoura Council), Jeddah City Council, The Saudi Fund for Development (SFD), Emaar The Economic City (Emaar EC) and Bank Al Bilad.

QUALIFICATIONS
- Bachelor's degree in Civil Engineering and,
- Master's degree in Civil Engineering from Cornell University

QUALIFICATIONS
Long experience in many companies as a member of board of directors.

AAMER A. ALIREZA
Vice Chairman of the Board

On SISCO Board Since 2003
Member in Investment Committee and Nomination & Remuneration Committee

Company Type : Closed Joint Stock
- Red Sea Ports Development Co.

Company Type : Limited Liability
- Xenel Industries Co.
- Saudi S. A. Talke
- Red Sea Gate Terminal Co.
- Saudi Trade & Export Development Co
- Support Services Operation Co.
- Aecom Arabia Ltd.

CURRENT POSITION
- Chairman of the board of directors (LogiPoint)
- Executive Vice Chairman of the Board of Directors RSGT
- Board Member of Xenel Industries Ltd. And Managing Director of its Services Division in Xenel Industries Co.
- Chairman of the Board of Aecom Arabia Ltd.

PREVIOUS POSITION
- CEO and Board Member of LogiPoint
- CEO and Board Member of RSGT

QUALIFICATIONS
- BA in Economics and Political Science.
- He has also taken part in various management executive programs at the University of California, Singularity University and Harvard University.

A Board Member of the Xenel Group of Companies, the Managing Director of Services Division, and a Board Member of a number of its subsidiaries and affiliates.

EXPERIENCE
A Board Member of the Xenel Group of Companies, the Managing Director of Services Division, and a Board Member of a number of its subsidiaries and affiliates.

He is the Chairman of the Board of AECOM Arabia Ltd. Previously a Board Member of Tabadul and BUPA Arabia. He also serves on the board of directors for Friends of Jeddah Parks, a non-profit organization.

He has taken part in various management executive programs at the University of California, Stanford University, Singularity University. He also attended the Advanced Management Program at Harvard University.

# Board Members

## ALAWI M. KAMEL

On SISCO Board Since 1994
Member in Audit Committee

MEMBERSHIP IN COMPANIES

Company Type : Limited Liability
- Arab Aircraft Service Company Limited
- United Gulf Jet Fuel Company Limited - YOGAFCO
- Star International Waste Management Services (Al Ain) UAE
- Multi-Link Environmental Services (Abu Dhabi) UAE
- Al - Droa General Contracting, Maintenance & Operation Company

CURRENT POSITION
Chairman of Al - Droa General Contracting, Maintenance & Operation Company

PREVIOUS POSITION
President of Dallah Group, Managing Director and Assistant vice president of the project sector.

QUALIFICATIONS
- Masters in International Relations
- Bachelors in Economics & Political Science

EXPERIENCE
Long standing association with Dallah group, where he has worked in various positions.

He is also a board member of International City Clean Company in Egypt, authorized board member of Traffic Signal Factory Company, Arab Petroleum Aviation Services Company. Chairman of Aviation Support Services Company (Lebanon) and Sunbulah Operations and Maintenance. He was also a member of National Operations and Industrial Services Co., contractors committee of Jeddah Chamber, and Dallah Transportation Company for pilgrims.

Extensive experience in the business of more than 38 years.

## SALEH A. HEFNI

On SISCO Board Since1998
Member in Nomination & Remuneration Committee

MEMBERSHIP IN COMPANIES

Company Type : Listed / Joint Stock
- Halwani Brothers Co.
- Al-Ahli Takaful
- Middle East Healthcare Company - MEAHCO

Company Type : Closed Joint Stock
- Kindasa Water Services Co.
- Halwani Brothers Co. (Egypt)

Company Type : LLC
- Saudi Trade & Export Development Co.

CURRENT POSITION
- Managing Director and CEO of Halwani Brothers Co.

PREVIOUS POSITION
CEO and Board Member in SISCO

QUALIFICATIONS
- Bachelor of Science in Civil Engineering
- Master’s degree in Civil Engineering

EXPERIENCE
Experience in management and aiding companies to structure and in business development.

## ADNAN A. MAIMANI

On SISCO Board Since 1999
Member in Audit Committee

### MEMBERSHIP IN COMPANIES

Company Type : Listed /Joint Stock
- Saudi Cable Co.
  (and Audit Committee Member)

Company Type : Closed Joint Stock
- National Petrochemical Industrial Co.
- Kindasa Water Services Co.

Company Type : Limited liability
- Sejel Technology Co.
- Saudi Technical Group of Companies

### CURRENT POSITION
- Senior Legal Counsel of Xenel Industries Limited

### PREVIOUS POSITION
General Manager for legal affairs for Saudi Arabian Airlines

### QUALIFICATIONS
- Masters in Aviation Law
- Bachelors in Law

### EXPERIENCE
Extensive experience in the legal field more than 39 years.

# Board Members

## ABDULAZIZ A. JAZZAR

On SISCO Board Since 2014
Member in Nomination & Remuneration Committee and Investment Committee

Company Type : Closed Joint Stock
- Malaz Capital

Company Type : Limited Liability
- Korom Ajyad Ltd.
- Malaz Group Co.

CURRENT POSITION
- Executive and Managing Partner of Malaz Capital
- Chairman of the Board of Directors (Malaz Group)

PREVIOUS POSITION
Managing Director of Saudi Research and Publishing Co (SRPC)

QUALIFICATIONS
- Doctorate in Computer Science
- Masters in System Engineering
- Bachelor Degree in Computer & Communications Engineering

EXPERIENCE
The President/CEO of International Systems Engineering Ltd (ISE) a company formed in partnership with The Boeing Company.

Between 1976-1993 he was an officer in the Royal Saudi Airforce. He retired as the Director of computing, HQ. His Public assignments include Board Membership of the Riyadh Chamber of Commerce & Industry (2000 -2004) and the chairman of the organizing committee for Riyadh Economic Forum (2002 – 2006). He was also a member of the board of Trustees of the Centennial Fund and a Member of the board of directors of the Economic Cities Authority and of the National Industrial Cluster Development Program.

## ABDULAZIZ H. AL-MISHAL

On SISCO Board Since 2017

CURRENT POSITION
- Chairman of the Board of Directors of the Murbiha Holding Co.

PREVIOUS POSITION
University Professor

QUALIFICATIONS
- PhD in Islamic Sharia

EXPERIENCE
He has been a member of several boards of directors of listed and non-listed companies such as Riyadh Development Company, Saudi Automobile and Equipment Services Company (SASCO) and National Glass Industries Company (Glass). Wealth of experience in the field of investment.

# Committee Members

WALEED A. KAYYAL
Audit Committee Chairman

Investment Committee member

MEMBERSHIP IN COMPANIES:

Company Type : Closed Joint Stock
- Kinan International Co. (Member of Remuneration Committee)

Company Type : Listed /Joint Stock
- Middle East Healthcare Company – MEAHCO (and Audit Committee member)

CURRENT POSITION
Businessman

PREVIOUS POSITION
Regional Director in Saudi British Bank

QUALIFICATIONS
Bachelor`s degree in Commerce

EXPERIENCE
Depth experience of banking business gained through his employment with Saudi British Bank, and other companies.

THAMER AL-HARTHI
Nomination and Remuneration Committee member

CURRENT POSITION
- Independent Senior Consultant

PREVIOUS POSITION
- Executive Manager
- Human Capital Management in Fakeeh Care

QUALIFICATIONS
- Bachelor's degree in Law

EXPERIENCE
Long experience in Human Capital Management gained through his employment with several entities as Bupa Arabia, Fonterra, NCB, and Nicholson International.

ABUBAKER A. BAGABIR
Audit Committee member

MEMBERSHIP IN COMPANIES:

Company Type : Listed /Joint Stock
- SABB Takaful
- Anfal Capital (and Audit Committee Member)

Company Type : Limited liability
- Al-Nahdi Medical Company
- Abdel Latif Jameel Finance Company

CURRENT POSITION
- Associable Professor in University of Business and Technology
- Financial and Management Consulting Office (Dr. Abu Bakr Bajabir Office)

PREVIOUS POSITION
Head of Finance & Accounting Division (Group Responsibilities) in The National Commercial Bank (NCB)

QUALIFICATIONS
- Doctor of Philosophy (Ph.D.), Strathclyde Business School
- Master's degree (M. Soc. Sc.) – Accounting
- Bachelor of Science (B.Sc.) – Accounting (1st Division)
- Certified Financial Consultant (CFC),
- Fellow (FCCA),
- Associate (ACCA)

EXPERIENCE
Depth experience of banking business gained through his employment with The National Commercial Bank (NCB)

# Executive Members

**MOHAMMED K. AL-MUDARRES**
Chief Executive Officer

PREVIOUS POSITION
- Stork Cooperheat, ME Regional Manager
- SIEMENS, GM Power General Division

QUALIFICATIONS
- M.Sc. & B.Sc. Electrical Engineering, Colorado (USA)

EXPERIENCE
Extensive experience (25+ years) in Management of National and International Companies.

**FAROOQ AHMED SHAIKH**
Chief Financial Officer

PREVIOUS POSITION
- CFO and Director Business Performance Management – Maersk Middle East

QUALIFICATIONS
- MBA
- CFA
- ACCA

EXPERIENCE
Extensive experience (19+ years) in Financial Management and Analysis with National and International Companies.

# Human Capital Development

We at SISCO and our group of companies have worked hard to develop a culture of respecting and valuing our people. We are constantly looking for ways to improve and develop our people and processes to ensure that we become the employer of choice for top Saudi talent, as well as needed expert expatriate talent. We pride ourselves on our high rate of retention but are always looking to improve.

Our ability to create and develop high performance teams in a culture of transparency, inclusiveness, professionalism and excellence is what drives our success more than any other factor. We place great emphasis on the pursuit of knowledge and training - a commitment that we have designed to motivate and inspire our people in delivering unbeatable quality, value and services to the company.

As a parent company, SISCO strives to create a 'one firm' culture to ensure that we leverage the most in terms of the synergies between our businesses. To this end, a unified talent management model has been developed to ensure that the firm is maximizing its ability to attract, retain and nurture highly skilled employees with diverse skills and abilities across the board.

Nationalization of operational and managerial positions has been the cornerstone of the group's HR philosophy. SISCO has driven forward the nationalization of numerous positions in all its companies by training and developing Saudi nationals, this will remain a priority for the coming years.

Today SISCO companies increased the number of Saudi Nationals employed has increased from 634 to 724 of our total workforce. We have focused on employing Saudi women, where appropriate, and have 47 women currently employed, not only in traditional roles but as engineers and planning functions. In addition, 85% of SISCO companies have a Platinum Nitaqat status, with the remaining 15% at high green.

SISCO entities pride themselves in maintaining the highest standards in health and safety at our facilities, monitoring carefully potential risks to our employees and our operations, so that we could provide a safe working environment for our team members, contractors, suppliers, and customers.

HR Performance

Committed to our resolve to establish a sustainable institutional mechanism to hire and retain people, the group inculcates the culture of employee engagement at all levels of the work force.

# OUR HR PHILOSOPHY

Talent Assessment & Development

Employee Engagement

Continuous Improvement

Performance Management & Rewards

Diversity & Inclusion

A culture of continuous improvement is now part of the SISCO way and as such, SISCO, as a group of companies, engaged in 82853-man hours of training during 2018, compared to 2266 hours in 2017. Included in this training is behavioral training, English, professional development and operational excellence training, and plan to increase this number even further in 2019 by implementing the SISCO management development program (LEAD), the start of our graduate program and continued English language training.

SISCO carries out a summer internship program, and this year we had 6 female interns in our IT department over the summer.

At SISCO we face an exciting and challenging time in the Kingdom, the 2030 vision positions SISCO in a very favorable place to be able to take advantage of a number of the government initiatives. As we prepare the group to be in the best position to benefit from the 2030 vision, and to best leverage the group position, we see an opportunity to grow and develop our future leaders and managers.

We have, at a group level, put together a program that would train and develop the future leaders and managers who have been identified as those who we want to retain and develop for our future expansion.

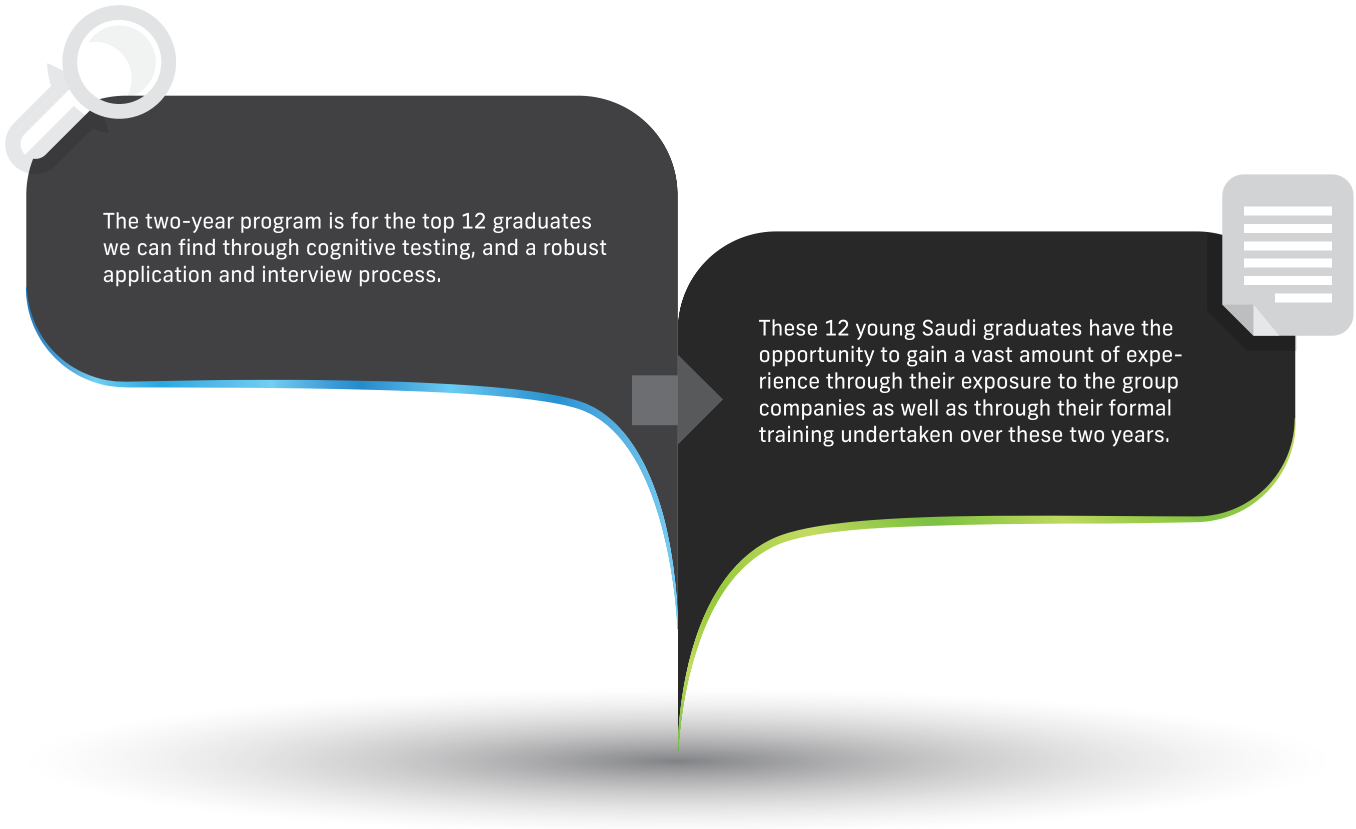
In achieving our goal of being the employer of choice, we recognize the importance of talent development and meet it through various managerial and skills-based training programs. SISCO launched The LEAD management training program, which aims at training talented Saudi employees from the group companies and prepare them for future managerial and leadership positions within the group.

LEAD

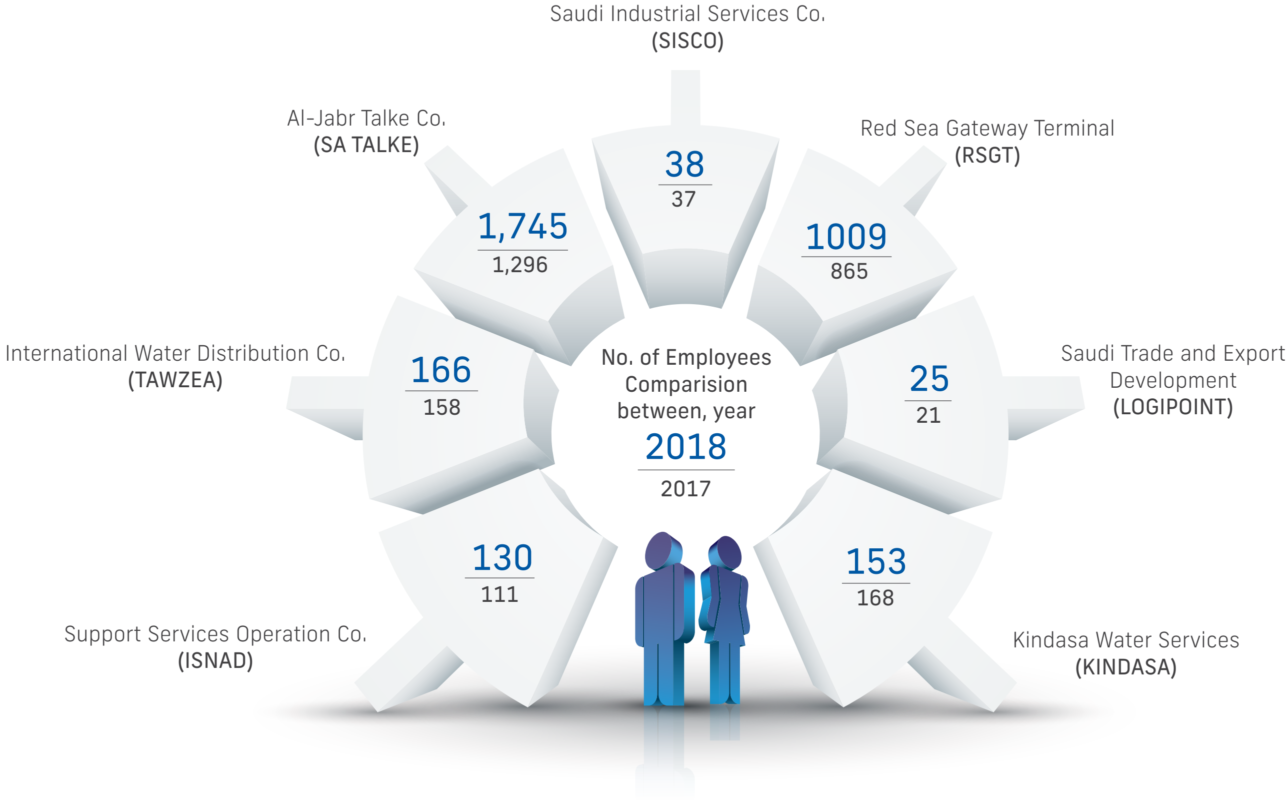
Leadership • Excellence • Action • Development

## Overview of SISCO Graduate Training Program

As a group of companies, we are aware of our responsibility to help develop the future work force of SISCO, our subsidiaries and associate companies, but also of the Kingdom as a whole. We have decided to therefore implement a robust 2-year graduate program for Saudi nationals who have recently graduated; both from Saudi Universities and universities abroad.



## Composition of Total Employees by Companies




Comparision between year 2018 and 2017

| | 2018 | 2017 |
|---|---|---|
| Total Employees | 3,266 | 2,656 |
| Total Numbers of Saudi Nationals | 724 | 634 |
| Total Numbers of Expatriate Nationals | 2,542 | 2,022 |

## Corporate Social Responsibility (CSR)

SISCO is pleased to announce the formation of the "Making a Difference" CSR program. We are aware that as a contributor to the economic future of the Kingdom of Saudi Arabia we also need to contribute to the community and environment we find ourselves in.

**2018 saw the SISCO group participate in number of CSR activities.**

- We organised and executed a blood donation drive for the National Guard for our brave soldiers on the Southern Boarder, the program was run over 3 day on the premises of JIP, all SISCO companies along with the Coast Guard, Customs and JIP donated blood, giving one of the single largest quantity of donated blood received to date by the National Guard.

- We continued to clean up the beaches around the Kingdom, with clean-up activities taking place in Jubail, Rabigh and Jeddah.

- A large sum of money was spent on creating an artificial reef in front of RSGT. This reef continues to thrive and provide a base for coral growth and have become a home for a vast array of sea life.

- We have worked closely with the Ministry of Health, over the last few years, to ensure that the vaccination program they run is taken to the people who need it most.

We as a group, focus our energy on three areas:

The ocean and coast line boarded on the Kingdom, both the Red Sea and the Arabian Gulf.

Community development and up lift, making the lives of people better through our engagement.

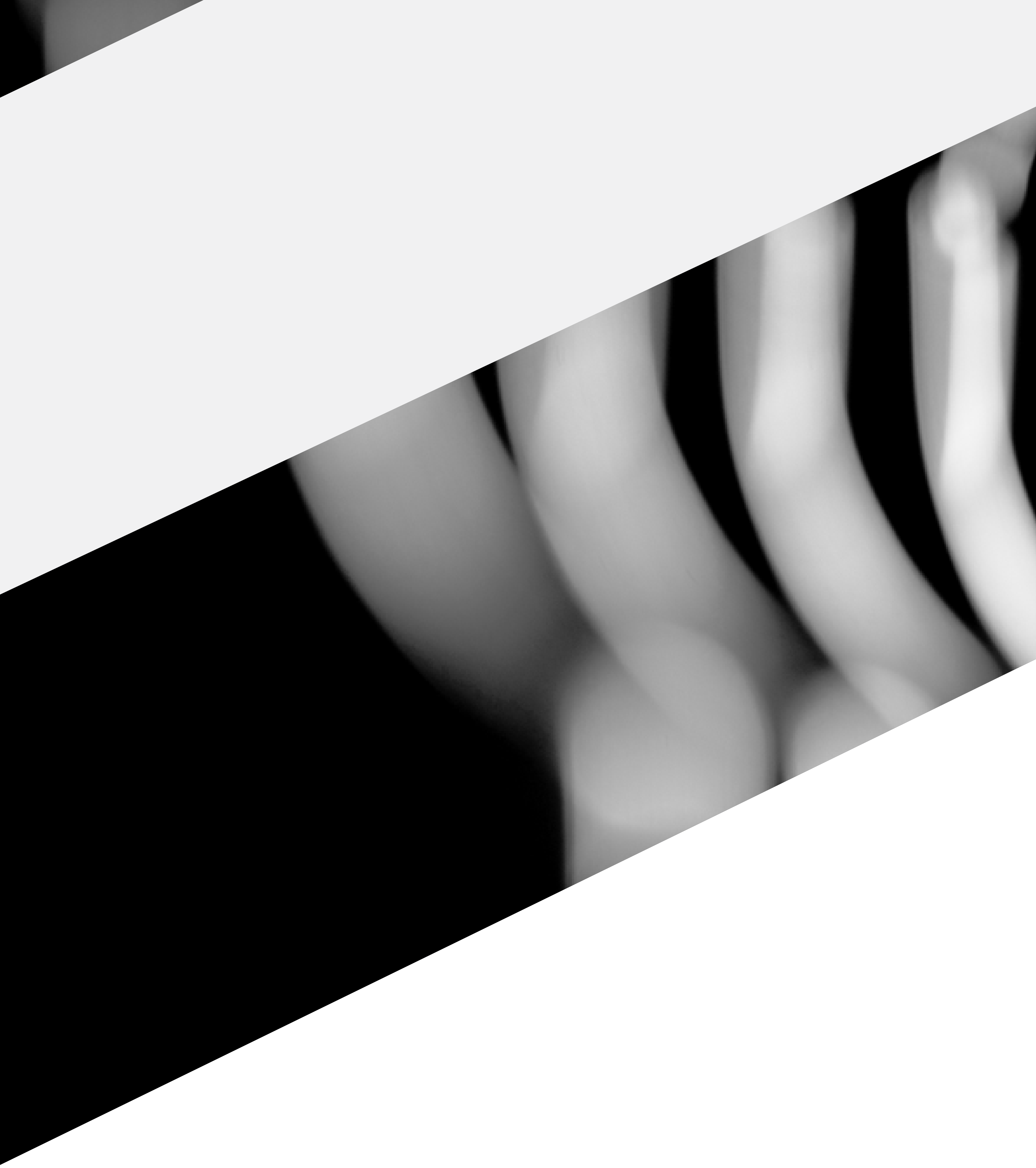
Regular one-off high participation low cost activities (blood drives, charity help, etc.,).

## Health and Safety (HSSE)

As a group we believe that Health and Safety is a priority. All employees and visitors to our places of work have the right to:

- Return home safely
- Not suffer any long-term effects from working for a SISCO company
- To an environment where profit is not put above the wellbeing of our people
- Earn a living in an environment that is safe

We have worked hard this year to ensure that the companies have the appropriate level of expertise to develop and strengthen our HSSE systems and programmes. The culture we endeavour to install is one of “Safety First” where we are all responsible for ensuring that work is carried out in a safe manner, and to ensue any unsafe act is reported, investigated and changes made as needed.



# CORPORATE GOVERNANCE

04

# Governance Performance

A robust Corporate Governance structure ensures the Group’s continued high performance and integrity, while retaining the trust of its stake-holders. Maintaining effective corporate governance is, therefore, a key priority for the board, and this is achieved through implementing the principles and best practices and guidelines promulgated by the Capital Markets Authority of Saudi Arabia and other relevant regulations as well as international best practices.

## The Board

Every three years the shareholders elect a new board of directors that is responsible to the shareholders for the direction of the Group. The board has the ultimate and overall responsibility to set up a robust corporate governance structure, to envisage the Group’s strategic direction and help in achieving the business objectives. The CEO, with the direction of the board, is responsible for implementing the acquisition and divestment policies, major capital expenditures and the consideration of significant financial matters while the board monitors the Group’s key business risks and reviews the direction of individual business units, and other investments.

Article (15) of SISCO’s Articles of Association states that the Board of Directors is to comprise 7 members, which complies with paragraph (a), Article (12) of the Corporate Governance Regulation issued by the Capital Market Authority.

A total of three meetings of the board of directors were held during the financial year 2018 , and the attendance record of each of the directors was as follows:

| NAME OF THE BOARD MEMBER | DATE AND ATTENDANCE OF THE BOARD MEETINGS | | |
|---|---|---|---|
| | 27 MARCH | 02 MAY | 25 OCTOBER |
| Mohamed A. Alireza | ◢ | ◢ | |
| Aamer A. Alireza | ◢ | | ◢ |
| Adnan A. Maimani | ◢ | ◢ | ◢ |
| Alawi M. Kamel | ◢ | ◢ | ◢ |
| Saleh A. Hefni | ◢ | ◢ | ◢ |
| Abdul-Aziz A. Jazzar | | ◢ | ◢ |
| Abdul-Aziz H. Al-Meshal | ◢ | ◢ | ◢ |

The Board was appointed by the Shareholders’ General Assembly on 18 May 2017 for period of three years, starting 1 July 2017.

The dates of the General Assembly Meeting (GAM) held in 2018 and the board of director's attendance:

| NAME OF THE BOARD MEMBER | GAM NO. 27 ON 23 MAY |
|---|---|
| Mohamed A. Alireza | |
| Aamer A. Alireza | ◢ |
| Adnan A. Maimani | ◢ |
| Saleh A. Hefni | ◢ |
| Alawi M. Kamel | ◢ |
| Abdul-Aziz A. Jazzar | |
| Abdul-Aziz H. Al-Meshal | |

## Board Balance

SISCO's board is balanced and complies with the independent members criteria set out under the requirements of the Capital Markets Authority. All the seven board members are non-executive and three of them are independent members with expertise in different fields, bringing independent judgment on matters of strategy, performance and utilization of resources of the Group. They provide unbiased views and their presence improves corporate accountability.

The following table provides the classification of each member of the board of directors:

| NAME OF THE BOARD MEMBER | TITLE | INDEPENDENT | EXECUTIVE | NON-EXECUTIVE |
|---|---|---|---|---|
| Mohamed A. Alireza | Chairman | | | ✓ |
| Aamer A. Alireza | Vice Chairman | | | ✓ |
| Adnan A. Maimani | Member | | | ✓ |
| Alawi M. Kamel | Member | ✓ | | ✓ |
| Saleh A. Hefni | Member | | | ✓ |
| Abdulaziz H. Al-Meshal | Member | ✓ | | ✓ |
| Abdulaziz A. Jazzar | Member | ✓ | | ✓ |

Overall, the board comprises an appropriate mix of diverse academic and professional backgrounds to provide a collective range of skills, expertise and experience relevant to support the growth and address the complexities, competition and changes in SISCO's business environment.

## Board Committees

The Board has established three committees, comprising of board members, and external independent experts,. These committees have specific charters approved by the Board.

These committees are:

| AUDIT COMMITTEE | | | | | | |
|---|---|---|---|---|---|---|
| NAME | 28 FEBRUARY | 27 MARCH | 01 MAY | 24 JULY | 24 OCTOBER | 10 DECEMBER |
| Waleed A. Kayyal (Chairman) | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Adnan A. Maimani | ✓ | | ✓ | | ✓ | ✓ |
| Alawi M. Kamel | | ✓ | ✓ | ✓ | ✓ | ✓ |
| Abu Baker Bagabir | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |

Responsibilities
The committee meets at least once every quarter and assists the Board in fulfilling its oversight responsibilities; primarily in reviewing quarterly and annual financial statements, reporting financial and non-financial information, reviewing systems of internal controls, risk management, the audit process, and the related party transactions.

The Audit Committee was appointed by the Shareholders' General Assembly on 18 May 2017 for period of three years, starting 1 July 2017.

Internal Control Framework

The Board is responsible for SISCO's system of internal control and for reviewing its effectiveness. The Board, while maintaining its overall responsibility for managing risk within the Group, has delegated the review of the detailed design and operation of the system to Audit Committee which comprising of board members and external experts while the responsibility of maintaining a robust framework of internal controls rests with SISCO management.

The Group maintains an effective internal control framework comprising clear structures, authority limits, accountabilities, well understood policies and procedures, and annual budgets. The Board meets regularly to consider SISCO's financial performance, business growth and development plans, capital expenditure proposals and other key performance indicators.

Internal Audit Function

The Audit Committee annually reviews the appropriateness of resources and capabilities of the internal audit function. The Chief Audit Executive functionally reports to the Audit Committee. The Audit Committee approves the annual audit plan, based on an annual risk assessment. The internal audit function undertakes audit of financial, operational, and compliance controls, and reports the audit results to the Audit Committee.

The boards of all subsidiary and associated companies have established their own audit committees with dedicated internal audit resources. SISCO monitors their internal audit functions by having its nominated members in the respective audit committees of those companies.

## INVESTMENT COMMITTEE

| NAME | 26 MARCH | 18 DECEMBER |
|---|---|---|
| Aamer A. Alireza (Chairman) | ◢ | ◢ |
| Mohamed Ahmed Alireza | ◢ | ◢ |
| Waleed A. Kayyal | ◢ | ◢ |
| Abdul-Aziz A. Jazzar | | ◢ |

Responsibilities
The committee assists the Board in reviewing the Group's major investment transactions and performances, oversees the Group's financial resources and advises on future financial strategy. The Committee meets on as needed basis.

## NOMINATION AND REMUNERATION COMMITTEE

| NAME | 29 JANUARY | 26 MARCH | 18 DECEMBER |
|---|---|---|---|
| Abdul-Aziz A. Jazzar (Chairman) | ◢ | | ◢ |
| Aamer A. Alireza | ◢ | ◢ | ◢ |
| Saleh Hefni | ◢ | ◢ | ◢ |
| Thamer Al-Harthi | ◢ | ◢ | ◢ |

Responsibilities
The committee meets at least twice a year, to assist the Board of Directors in reviewing and approving the compensation to be provided to SISCO Corporation, Board members, Chief Executive Officer and employees. In addition, the Committee is responsible for overseeing the development, screening and nomination of qualified individuals for membership of the Board and its committees.

# Audit Committee Report

The Audit Committee met for six times during the year 2018. Audit committee's primary role was to assists the Board in fulfilling its oversight responsibilities by recommending the approval of the company's quarterly and annual financial statements after discussing it the company's management, and reviewing systems of internal controls, risk management, and recommend the approval of the related party transactions.

Audit Committee also met with external auditors to obtain their feedback about their evaluation of the Group's internal control systems and other matters related to the audit process.

- Additionally, The Committee performed the following:
- Overseeing the company's internal audit function and verifying its effectiveness by reviewing the submitted internal audit reports and Following-up on the corrective action included in these reports.
- And analyzing the summited external audit proposals, submit recommendations to the Board of Directors and the General Assembly regarding the appointment of the company's external auditors for next year based on the applicable requirements.
- Review and approve the annual internal audit plan.
- Review external audit plan and makes necessary comments (if any).
- Discussing and follow up on the observations included in the company's external auditor management report.

Governance Performance And Internal Audit Results

SISCO follows a comprehensive approach towards corporate governance to ensure maximum transparency and disclosure. The internal audit functions designs audit programs to timely detect internal control and monitor follow up mechanisms to take the corrective measures in reasonable time.

The Audit Committee confirms that nothing came to its attentions to caused it to believe that there is any significant deficiency in the internal control systems established by the Group and its subsidiaries. The Audit Committee's efforts are continuously focused to develop and improve the effectiveness and efficiency of the established internal controls systems.

During 2018, on an aggregate basis, 49 out of 125 audit findings across the Group were rated as 'Management Attention Required' (MARs).

| NAME OF THE COMPANY | SATISFACTORY | MAR | TOTAL | MAR % |
|---|---|---|---|---|
| SISCO | 14 | 3 | 17 | 18% |
| RSGT | 17 | 15 | 32 | 47% |
| LogiPoint | 40 | 30 | 70 | 42% |
| Kindasa | 5 | 1 | 6 | 17% |
| TOTAL | 76 | 49 | 125 | 39% |

* Most of these findings have been resolved during first quarter of 2019.

# Risk Management

Risk Management is an integral part of SISCO's overall management philosophy. SISCO follows a combination of top-down and bottom-up approaches to identify and assess the risks faced by its group and develops mitigation plans accordingly. During 2018, management teams of all group companies participated in this process and risk-register was updated incorporating recent market / economic conditions and trends.

Risks across the group companies were monitored throughout the year and appropriate actions were taken to ensure that the risks are properly mitigated.

| POTENTIAL RISK | MITIGATING ACTIONS |
|---|---|
| **Strategic Risks – Risk of high level objectives not being met** | |
| Regulatory Changes | Rapidly changing regulatory environment with little advance notice or information may render groups offerings uncompetitive, for which management dedicates significant amount of time with stakeholders to mitigate any negative outcome. |
| Increased Competition | Management monitors the competitive environment and makes necessary investment to enhance its capability and capacity to meet the competition. |
| New government fees on the group workforce and dependent fee on expat employees | General and administration costs will increase and there will be possibility of losing some of our skillful employees. The group is discussing number of Human Resource alternatives to mitigate this risk. |
| Lack of liquidity in traditional sources of financing. | Group is evaluating number of non-traditional financing options to be used in the future. |
| Limited diversification in the group operations | Group is continuously reviewing its portfolio of investments to diversify in sectors that could provide a hedge against drop in performance of its existing business units. |
| Increasing borrowing cost | Increasing repo and reverse repo rates will result in higher borrowing cost for the company for which limited mitigation option are available without immediately increasing the financial cost. A major portion of liabilities is on fixed rate basis, and any impact of increase/decrease in borrowing rates is disclosed in notes to annual audited financial statements. |
| **Operational Risks – Risk of ineffective and inefficient utilization of resources** | |
| Increasing energy cost | Increase in energy cost will lead to increase of operational cost at the group. The group's companies are in the process of reviewing their pricing strategy and contracts with suppliers. |
| Production and productivity losses | Maintenance and inspection strategies are put in place across all facilities. The Group continues to carry out necessary capital investment for equipment / plant reliability and availability. Further, it is ensured that operators are properly trained to carry out their roles efficiently. |
| Health and safety risk | Group's operational facilities are aligned with international safety standards including OSHA. Safety, along with, ethics, remain top priority for the organization. |
| Loss of trained and high potential employees, and employees in critical positions | Strategies have been developed and rolled out for top talent hiring and retention. Employee engagement and succession planning strategies have been put in place throughout the organization. |
| Environmental pollution e.g. pollution in seawater | Management continuously reviews its mitigation plans in conjunction with its legal and insurance consultants to protect against this risk. |

# Liquidity Management Policy

Cash is managed, controlled, and carried out in accordance with the policies approved by the Board after thorough consultation. The purpose of the policies is to ensure that adequate cost-effective funding is available at all times and exposure to financial risk is minimized. The risks managed are liquidity risk, interest rate risk, and currency exchange rate risk. Derivative financial instruments like hedging strategies are applied to manage exposure to interest rate risk and currency risk. Derivative financial instruments are not used for speculative or profiteering purposes.

SISCO's liquidity policy objectives include implementation of good business practices such as repayment of obligations on a timely basis that assist in building the image of the company for future funding requirements and meeting business commitments on a timely basis. Liquidity risk is mitigated by careful monitoring of cash flow needs, regular communication with our credit providers, and careful selection of financial strategies and appropriate financial partners.

# Related Party Transactions

Various group companies had transactions with related parties of the Group. These transactions follow the same conditions and principles as dealing with third parties. The related parties include: The Group board members, major shareholders, senior executives and any of their first-degree relatives pursuant to the CMA and Ministry of Commerce and Investment regulations. All related party transaction are carried out according to best practices and as per the companies approved procurement procedures and policies.

**The following table sets out all related party transactions where the relation is through the Board Member of SISCO and are required to be approved by the General Assembly in accordance with Article 71 of the Saudi Company Law:**

| RELATED PARTY | RELATIONSHIP | NATURE OF TRANSACTION | AMOUNT OF TRANSACTION |
|---|---|---|---|
| Karam Fedics | Xenel Industries (SISCO shareholder) is also a shareholder of Karam Fedics. Also, Mr. Aamer A. Alireza (SISCO Vice Chairman) is a board member of Karam Fedics. | - Purchase of goods and services including catering and employee housing by RSGT. | 9,413,894 |
| Ali Reza Travel and Tourism Co. Ltd. | Mr. Mohammed A. Alireza (SISCO Chairman) is also a board member of the parent company of Alireza Travel. | - Purchase of air tickets by RSGT. | 130,931 |
| Xenel Industries Limited (XIL) | XIL is a shareholder of SISCO and Mr. Mohammed A. Alireza (SISCO Chairman) and Mr. Aamer A. Alireza (SISCO Vice Chairman) are also board members of XIL. | - Payments made by the Group on behalf of shareholder.<br>- Expenses incurred by shareholder on behalf of the Group.<br>- Dividend paid by LogiPoint to XIL. | 135,729<br>468,750<br>3,360,000 |
| Al Jabr Talke Co. Ltd. (SA Talke) | SA Talke is an associated company of SISCO and Mr. Aamer A. Alireza (SISCO Vice Chairman) is a board member of SA Talke. | - Expenses incurred by Group on behalf of associate.<br>-Dividend received from associate. | 498,785<br>6,799,945 |
| Saudi Cables Co. | Xenel Industries (SISCO shareholder) is also a significant shareholder in Saudi Cable. Also, Mr. Adnan A. Maimani (SISCO board member) is a board member of Saudi Cables. | - Lease of land and warehouses by LogiPoint. | 366,492 |
| Arabian Bulk Trade Co. Ltd (ABT) | ABT is owned by Xenel Industries (SISCO shareholder). Mr. Mohammed A. Alireza (SISCO Chairman) and Mr. Aamer A. Alireza (SISCO Vice Chairman) are also board members of ABT. | - Warehouse lease by LogiPoint. | 241,022 |
| Haji Abdullah Ali Reza & Co. (GENTEC) | Mr. Mohammed A. Alireza (SISCO Chairman) is a shareholder of the holding company of GENTEC. | - Purchase of Goods by RSGT. | 36,081 |

In addition to the above table, following are the additional related party transactions required to be disclosed in accordance with Listing Rules and Corporate Governance Guideline issued by Capital Market Authority.

| RELATED PARTY | RELATIONSHIP | NATURE OF TRANSACTION | AMOUNT OF TRANSACTION |
|---|---|---|---|
| International Water Distribution Co. Ltd. (Tawzea) | SISCO owns 50% of Tawzea. Mr. Mohammed Mudarres (SISCO CEO) is board member of TAWZEA. | - Sales of water by Kindasa. | 57,220,639 |
| | | - Expenses incurred by SISCO on behalf of associate. | 869,893 |
| | | - Expenses incurred by associate on behalf of SISCO. | 30,469 |
| | | - Provision of management services by SISCO | 2,000,000 |
| Water & Environmental Services Saudi Co. Ltd. | Kindasa (SISCO subsidiary) owns 49% of WESSCO. | - Sale of operation and management services by Kindasa | 4,574,610 |
| | | - Dividend received from associate | 7,595,000 |
| Red Sea Gateway Terminal Company Limited ("RSGT") | RSGT is a subsidiary of SISCO.<br>Mr. Mohammed A. Alireza (SISCO Chairman), Mr. Aamer A. Alireza (SISCO Vice Chairman) and Mr. Mohammed Mudarres (SISCO CEO) are board members of RSGT. | - Expenses incurred by SISCO on behalf of subsidiary. | 876,296 |
| | | - Expenses incurred by subsidiary on behalf of SISCO. | 47,456 |
| Saudi Trade and Export Development Company Limited ("LogiPoint") | LogiPoint is a subsidiary of SISCO.<br>Mr. Aamer A. Alireza (SISCO Vice Chairman), Mr. Saleh A. Hefni (SISCO board member) and Mr. Mohammed Mudarres (SISCO CEO) are board members of LogiPoint. | - Expenses incurred by SISCO on behalf of subsidiary. | 1,152,200 |
| | | - Expenses incurred by subsidiary on behalf of SISCO. | 133,412 |
| Kindasa Water Services Company ("Kindasa") | Kindasa is a subsidiary of SISCO.<br>Mr. Mohammed A. Alireza (SISCO Chairman), Mr. Saleh A. Hefni, Mr. Adnan Maimani (SISCO board members) and Mr. Mohammed Mudarres (SISCO CEO) are board members of Kindasa. | - Expenses incurred by SISCO on behalf of subsidiary. | 685,856 |
| Support Services Operation Company Limited ("ISNAD") | ISNAD is subsidiary of SISCO.<br>Mr. Aamer A. Alireza (SISCO Vice Chairman)) and Mr. Mohammed Mudarres (SISCO CEO) are board members of ISNAD. | - Expenses incurred by SISCO on behalf of subsidiary. | 56,107 |
| | | - Expenses incurred by subsidiary on behalf of SISCO. | 1,796 |
| Ambro Limited | Ambro is an affiliate of Xenmet which is 25% owned by SISCO subsidiary Tusdeer. | Purchase of services from LogiPoint | 80,898 |

# Board and Management Remuneration

SISCO' Board and committee members are compensated through annual remuneration and meeting attendance fee based on the rules and regulations stipulated by the Ministry of Commerce and Investment and in accordance with the Company's Articles of Association.

Compensation paid to Board Members during 2018 is as follows:

| NAME | FIXED REMUNERATION | | | | VARIABLE REMUNERATION | | END OF SERVICE BENEFITS | TOTAL |
|---|---|---|---|---|---|---|---|---|
| | MEETING ATTENDANCE FEE | COMMITTEE ATTENDANCE | COMMITTEE RE-MUNERATION | TOTAL | BOARD REMU-NERATION | TOTAL | | |
| Independent Members | | | | | | | | |
| Alawi M. Kamel | 20,000 | 60,000 | 75,000 | **155,000** | 200,000 | **200,000** | - | **355,000** |
| AbdulAziz Jazzar | 20,000 | 30,000 | 150,000 | **200,000** | 200,000 | **200,000** | - | **400,000** |
| Abdul-Aziz Al-Meshal | 30,000 | - | - | **30,000** | 200,000 | **200,000** | - | **230,000** |
| TOTAL | 70,000 | 90,000 | 225,000 | 385,000 | 600,000 | 600,000 | - | 985,000 |
| Non-Executive Members | | | | | | | | |
| Mohamed A. Zainal | 30,000 | 10,000 | 75,000 | **115,000** | 300,000 | **300,000** | - | **415,000** |
| Aamer A. Alireza | 20,000 | 50,000 | 150,000 | **220,000** | 200,000 | **200,000** | - | **420,000** |
| Adnan Abdullah Maimani | 30,000 | 40,000 | 75,000 | **145,000** | 200,000 | **200,000** | - | **345,000** |
| Saleh A. Hefni | 30,000 | 30,000 | 75,000 | **135,000** | 200,000 | **200,000** | - | **335,000** |
| TOTAL | 110,000 | 130,000 | 375,000 | 615,000 | 900,000 | 900,000 | - | 1,515,000 |
| Committee Members | | | | | | | | |
| Waleed A. Kayyal | - | 80,000 | 150,000 | **230,000** | - | - | - | **230,000** |
| Abubaker Ali Bagabir | - | 60,000 | 75,000 | **135,000** | - | - | - | **135,000** |
| Thamer Al-Harthi | | 30,000 | 75,000 | **105,000** | - | - | - | **105,000** |
| TOTAL | | 170,000 | 300,000 | 470,000 | | | | 470,000 |

## Management Remuneration

Executives of the company are compensated in the form of salaries, allowances, bonus and benefits in kind according to contracts signed with them.

Compensation and benefits paid to Senior Executives (including CEO & CFO) during 2018 are as follows:

| FIXED REMUNERATION | | | | VARIABLE REMUNERATION | | END OF SERVICE BENEFITS | TOTAL |
|---|---|---|---|---|---|---|---|
| BASIC SALARY | ALLOWANCES | OTHER BENEFITS | TOTAL | BONUS | TOTAL | | |
| 3,420,000 | 1,203,876 | 536,520 | **5,160,396** | 776,500 | **776,500** | 1,775,009 | **7,711,905** |

Remuneration Policy

The Company pays annual bonuses and expenses for attendance and any other relevant expenses for Board of Directors and Committee members in accordance with regulations stipulated by Ministry of Commerce and Investment and in accordance with Company Bylaws and approved charters.

Article (19) of the Company Bylaw's states that:

The remuneration of the Board of Directors consists of a combination of, attendance fees for the required meetings or a percentage of the net profits. Two or more of the benefits may be combined as approved by the Board of Directors and within the limits stipulated by the Companies Law and its regulations as specified by relevant authorities. The report of the Board of Directors to the General Assembly should include a comprehensive statement of all remuneration, fees, and other benefits received by the members during the fiscal year. The report should also include a statement of payments to the members as an employee, administrator or otherwise for technical, administrative or consulting service for the Company. The report should include a statement of the number of meetings, list of attendees of Board and General Assembly meetings.

Remuneration and Allowances Policy of the Board members and Board secretary in accordance with the Board charter:

- Based on Article 19 of the Articles of Association of the Company and the Company Law, the total remuneration of each member including all benefits shall not exceed five hundred thousand Saudi Riyals annually.
- Ten Thousand Saudi Riyals for each member for attending each Board meeting and Committee meeting.
- The company provides first class travel tickets, transportation, and accommodation for non-resident members.
- The Board of Directors determines the annual remuneration of the Secretary of the Board. The Company also covers the expenses such as travel tickets, accommodation, and all matters pertaining to the Board.
- The remuneration, attendance fees, and other allowances as mentioned above should be paid at the end of the financial year, except in the case of termination of membership before the end of the financial year; where remuneration is paid at termination.

Executive Remuneration

The Company pays salaries, allowances and any other remuneration and benefits for its executive based on their contracts and performance.

- The benefits paid are in compliance with the Company's reward and benefit policy.
- Members of the Board of Directors have not taken any amount from the Company for any administrative, technical or advisory work. All members of the Board of Directors are non-executive.

## Board and Management Perfomance

The Nomination and Remuneration Committee evaluates the Board performance through an annual review of the necessary skills and expertise required for board membership and executive management functions to:

- Verify annually that there are no conflicts of interest
- Identify weaknesses and strengths of the Board
- Propose solutions to address the weaknesses of the Board
- Verify independency of the independent members

# Board Declaration / Confirmation

In accordance with the requirements of Article (90) of the Corporate Governance Regulations, and Articles (76-4) and (126-2) of the Companies Law and Articles 7 – 15 - 40 of the Regulatory Rules and Procedures issued pursuant to the Companies Law relating to Listed Joint Stock Companies. To ensure the Board's commitment to highlight the applicable and non-applicable requirements under these Articles, the Board confirms the following:

Not applicable items from Article (90) of the Corporate Governance Regulations:

| ARTICLE NO. | DESCRIPTION | REASON FOR NON-COMPLIANCE |
|---|---|---|
| 9 | Any punishment, penalty, precautionary procedure or preventive measure imposed on the Company by the Authority or any other supervisory, regulatory or judiciary authority, describing the reasons for non-compliance, the imposing authority and the measures undertaken to remedy and avoid such non-compliance in the future; | Not Applicable |
| 11 | The audit committee's recommendation on the need for appointing an internal auditor for the Company, if there is no internal auditor | Not Applicable |
| 12 | The audit committee's recommendation with conflict with Board resolution or those which the Board disregards relating to the appointment, dismissal, assessment or determining the remuneration of an external auditor, as well as justifications for those recommendations and reasons for disregarding them. | Not Applicable |
| 21 | Any inconsistency with the standards approved by the Saudi Organizations for Certified Public Accountant. | Not Applicable |
| 25 | A description of any interest in a class of voting shares held by persons (other than the company's directors, Senior Executives and their relatives) who have notified the company of their holdings pursuant to Article 45 of Listing Rules, together with any change to such interests during the last fiscal year; | |
| 26 | A description of any interest, contractual securities or rights issue of the Board members, Senior Executives and their relatives on shares or debt instruments of the company or its affiliates, and any change on these interest or rights during the last fiscal year. | Not Applicable |
| 28 | A description of the class and number of any convertible debt instruments, contractual securities, preemptive right or similar rights issued or granted by the company during the fiscal year, as well as stating any compensation obtained by the company in this regard. | Not Applicable |
| 29 | A description of any conversion or subscription rights under any convertible debt instruments, contractually based securities, warrants or similar rights issued or granted by the company; | Not Applicable |
| 30 | Description of any redemption, purchase or cancellation by the company of any redeemable debt instruments and the value of such securities outstanding, distinguishing between those listed securities purchased by the company and those purchased by its affiliates. | Not Applicable |
| 35 | A description of any arrangement or agreement under which a director or a Senior Executive of the company has waived any remuneration. | Not Applicable |
| 36 | A description of any arrangement or agreement under which a shareholder of the company has waived any rights to dividends. | Not Applicable |
| 38 | A statement as to the value of any investments made or any reserves set up for the benefit of the employees of the company. | Not Applicable |
| 40 | If the external auditor's report contains reservations on the annual financial statements, the Board report shall highlight this mentioning the reasons and any relevant information. | Not Applicable |
| 41 | If the Board recommended replacing the external auditor before the end of its term, the report shall indicate this mentioning the reasons for the replacement recommendation. | Not Applicable |

Pursuant to sub-clause (39) of article (90) of Corporate Governance Regulations, the Board of Directors of the Company hereby declare that:

- The Group's accounting records were properly prepared.
- The Group's internal control systems and procedures were properly developed and effectively executed.
- There are no doubts about the Group's ability to continue its business activities.

Not applicable items from the Regulatory Rules and Procedures issued pursuant to the Companies Law relating to Listed Joint Stock Companies:

| ARTICLE NO. | DESCRIPTION | REASON FOR NON-COMPLIANCE |
|---|---|---|
| 15 | The Board annual report must contain details relating to Treasury Shares retained by the company and details on the use of these shares. | Not Applicable |

# Shareholding Interests

Information of the shareholding required under the reporting framework is as follows:

Number and dates of shareholders requests

| REQUEST NO. | REQUEST DATE | SHAREHOLDER LIST DATE | REQUEST REASON |
|---|---|---|---|
| 1 | 01/01/2018 | 31/12/2017 | Other |
| 2 | 01/01/2018 | 31/12/2017 | Company procedures |
| 3 | 18/03/2018 | 18/03/2018 | Company procedures |
| 4 | 24/04/2018 | 23/04/2018 | Company procedures |
| 5 | 13/05/2018 | 13/05/2018 | Company procedures |
| 6 | 23/05/2018 | 23/05/2018 | General Assembly |
| 7 | 28/05/2018 | 27/05/2018 | Dividend File |
| 8 | 30/05/2018 | 27/05/2018 | Dividend File |
| 9 | 08/07/2018 | 08/07/2018 | Other |
| 10 | 16/09/2018 | 16/09/2018 | Company procedures |
| 11 | 31/12/2018 | 31/12/2018 | Company procedures |
| 12 | 31/12/2018 | 30/06/2018 | Company procedures |

Shareholders holding more than 5% of the paid-up voting share capital of the Company

| COMPANY NAME | NO. OF SHARE AS OF 01/01/2018 | % OF CAPITAL | NO. OF SHARE AS OF 31/12/2018 | % OF CAPITAL | CHANGE | |
|---|---|---|---|---|---|---|
| | | | | | NO. | % |
| Xenel Industries Limited | 11,992,924 | 14.7 | 11,992,924 | 14.7 | 0 | - |

Board Members and Senior Executives Interest and changes during the year

| NAME | NO. OF SHARE AS OF 01/01/2018 | % OF CAPITAL | NO. OF SHARE AS OF 31/12/2018 | % OF CAPITAL | CHANGE | |
|---|---|---|---|---|---|---|
| | | | | | SHARES | % |
| Mohamed A. Alireza | 837,800 | 1.03 | 933,345 | 1.14% | 95,545 | 0.12% |
| Adnan A. Maimani | 544,102 | 0.67 | 544,102 | 0.67% | - | 0.00% |
| Alawi M. Kamel | 243,600 | 0.30 | 35,513 | 0.04% | (208,087) | -0.26% |
| Saleh A. Hefni | 1,200 | 0.00 | 1,200 | 0.00% | - | 0.00% |
| Aamer A. Alireza | 31,677 | 0.04 | 31,677 | 0.04% | - | 0.00% |
| Abdulaziz Al-Meshal | 2,760,000 | 3.38 | 1,013,000 | 1.24% | (1,747,000) | -2.14% |
| Abdulaziz A. Jazzar | 20,400 | 0.03 | 20,400 | 0.03% | - | 0.00% |

# Shareholding Statistics

Shareholding Pattern as of 31 December 2018

| OWNERSHIP OF SHARES | SHAREHOLDERS | | SHARES | |
|---|---|---|---|---|
| | NO. | % | NO. | % |
| Less than 20 shares | 1,369 | 12.0% | 6,128 | 0.01% |
| From 20 to 99 shares | 1,288 | 11.3% | 71,425 | 0.09% |
| From 100 to 499 shares | 3,245 | 28.4% | 808,547 | 0.99% |
| From 500 to 999 shares | 1,434 | 12.6% | 985,865 | 1.21% |
| From 1,000 to 19,999 shares | 3,669 | 32.1% | 14,305,057 | 17.53% |
| From 20,000 to 99,999 shares | 318 | 2.8% | 13,101,886 | 16.06% |
| From 100,000 to 999,999 shares | 91 | 0.8% | 21,507,775 | 26.36% |
| From 1,000,000 to 4,999,999 shares | 11 | 0.1% | 18,820,393 | 23.06% |
| More than 5,000,000 shares | 1 | 0.0% | 11,992,924 | 14.70% |
| TOTAL | 11,426 | 100.0% | 81,600,000 | 100.00% |

Shareholder Categories as of 31 December 2018

| CATEGORY OF SHAREHOLDER | NO. OF INVESTORS | TOTAL SHARES OWNED | % |
|---|---|---|---|
| Companies | 19 | 19,982,906 | 24 |
| Funds | 13 | 4,000,217 | 5 |
| Individuals | 11,394 | 57,616,877 | 71 |
| TOTAL | 11,426 | 81,600,000 | 100.00% |

Nationality of shareholders as of 31 December 2018

| NATIONALITY | CURRENT BALANCE | % |
|---|---|---|
| Saudi | 80,646,425 | 98.83 |
| USA | 185,477 | 0.23 |
| UAE | 126,234 | 0.15 |
| Others (22 Countries) | 518,796 | 0.79 |
| TOTAL | 81,600,000 | 100.00% |

Top ten shareholders as of 31 December 2018 – COMPANIES

| NAME | CURRENT BALANCE | % |
|---|---|---|
| Xenel Industries Limited | 11,992,924 | 14.70 |
| Public Pension Agency | 3,074,640 | 3.77 |
| Sanad Investment Company | 2,902,000 | 3.56 |
| Saudi Services and Operation Company | 1,280,892 | 1.57 |
| Gulf Pearl Trading Co | 1,080,000 | 1.32 |
| Arabian Bulk Trading | 701,400 | 0.86 |
| Arabian Risan Co. | 357,086 | 0.44 |
| Haji Abdullah Alireza &, Co. Ltd | 306,000 | 0.38 |
| King Abdullah Petroleum Studies and Research Center | 252,708 | 0.31 |
| Saudi Fransi Capital | 219,731 | 0.27 |
| TOTAL | 22,167,381 | 27.17% |

### Shareholder Proposal

If the company receives any proposal, note or enquiry from a shareholder, the liaison officer directly informs executive management to address and respond to the enquiry. The Secretary of the Board shall notify the Board for discussion, if necessary.

# OUTLOOK

# 05

# Future At a Glance

The kingdom continues through a period of transformation, reducing its reliance on vagaries of oil price and creating a more stable non-oil economic base. This necessitated a re-callibration in business behavior and lately, it is observed that the country has started adjusting to new economic realities.

This was evident from a very strong close to year 2018, where container volume in the Kingdom's largest port bucked the declining trend and posted a growth for the very first time during last three years. This momentum has carried in to 2019 suggesting a cautious settling of the impact from tough government reforms.

We expect this optimism to yield better operational results for all our business segments during 2019, as compared to the last year. The year 2019 is also expected to be a launch pad for the future, where some of the initiatives announced over the last three years will start taking shape in the form of concrete investments. We are already witnessing this in the water and wastewater treatment sector where tendering process of new plants has already started.

On 28 January 2019, Saudi Ports Authority ("Mawani") and SISCO subsidiary Red Sea Gateway Terminal, signed a Memorandum of understanding (MOU) to acquire the neighboring North Terminal Container once its concession expires in January 2020. Merging of both Red Sea Gateway Terminal and North Container Terminal will create the largest container terminal operator in the country and enable Jeddah Islamic Port to become a key enabler for the Kingdom's objectives; to become a key logistics hub in international trade. This will also provide seamless operations and capability to ever increasing shipping alliances and their mega vessels in one location deal-

National **Transformation Program** 2020

** This section of the annual report includes statements subject to risks and uncertainties that are based on several economic and political factors out of SISCO's control.*

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ing with a single terminal operator instead of forcing them to split their services with multiple operators costing them time, money, and loss of efficiency. The negotiations for the binding terms and a new concession terms are currently ongoing between Mawani and RSGT

Separately, Mawani has also revised back the Customs Inspection Tariff from 1 March 2019, which was reduced on 1 December 2017, resulting in a loss of approximately SR 25 million for the year 2018. We expect this revision to add to the improvement in financial performance of the port segment, as well.

SISCO's presence in Logistics segments continues to grow on the back of LogiPoint and Isnad integration. Trial operations in Jeddah Logistics Hub – MODON 1 have already started and construction is planned to be completed by mid-2020 with full service offering.

The water sector in the Kingdom is currently undergoing major changes as the 2030 vision is implemented. SISCO is actively seeking to take advantage of this vision 2030 privatization program in this sector. As additional projects are released by the authorities the company is ensuring we are best positioned to take advantage of these as well as actively engaging the authorities to ensure that SISCO's affiliate companies, namely "Kindasa" and "Tawzea", are at the forefront of the appropriate PPP contracts released for tenders or negotiations. We continue to develop consortiums of both international and local partners to ensure we have both technical and structural capacity to ensure we are favorably placed to take advantage of the PPP contracts as and when they are released.

Artistic rendition of the combined new terminal. Actual area and dimensions will vary based on agreed terms as negotiated between Mawani and RSGT.

CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

# FINANCIAL STATEMENT

06

Building a better
working world

**INDEPENDENT AUDITORS' REPORT**
**TO THE SHAREHOLDERS OF SAUDI INDUSTRIAL SERVICES COMPANY**
**(A SAUDI JOINT STOCK COMPANY)**

**Report on the Audit of the Consolidated Financial Statements**

**Opinion**
We have audited the consolidated financial statements of Saudi Industrial Services Company (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants ("SOCPA").

**Basis for Opinion**
We conducted our audit in accordance with International Standards on Auditing ("ISAs") that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with professional code of conduct and ethics endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**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.

**Key Audit Matters**
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

**INDEPENDENT AUDITORS' REPORT**
**TO THE SHAREHOLDERS OF SAUDI INDUSTRIAL SERVICES COMPANY**
**(A SAUDI JOINT STOCK COMPANY) (continued)**

**Report on the Audit of the Consolidated Financial Statements (continued)**

**Key audit matter (continued)**

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Impairment assessment of intangible assets and property, plant and equipment*<br><br>At 31 December 2018, the carrying value of the Group's intangible assets amounted to SR 1,162 million (2017: SR 1,230 million) and its property, plant and equipment amounted to SR 897 million (2017: SR 927.1 million). Intangible assets mainly comprise of port concession rights and right to use land resulting from Build-Operate-Transfer (BOT) agreement (the Agreement) with Saudi Ports Authority ("SPA" or "MAWANI") for construction and operation of a container terminal at Jeddah Islamic Port. The Group's property, plant and equipment comprise of container terminals, berths, cranes, storage facilities, desalination plants and related assets.<br><br>For impairment assessment, the Group grouped combined the intangible assets and property, plant and equipment as smallest group of assets that generates cash flow from continuing use (cash generating unit or CGU) that are largely independent of cash flows of other assets or other CGUs. The present value of estimated cash flows from CGUs (recoverable amount) are then compared with the carrying values to arrive at an impairment amount.<br><br>The Group's assessment of the recoverable amount of CGU involves use of significant judgement. This involves use of modelling techniques and requires a significant amount of judgement and estimation uncertainty. It also requires estimates of future cash flows and associated discount and growth rates based on management's view of future business prospects at the time of assessment.<br><br>We considered impairment assessment of intangible assets and property plant and equipment as a key audit matter due to involvement of significant judgements and estimation uncertainty. | In order to evaluate management's assessment of impairment estimate of the CGU, we performed, among other audit procedures, the following:<br><br>• discussed with the management the overall process and key inputs of the impairment estimation;<br>• tested, on a sample basis, the design and implementation and effectiveness of the controls around estimation of recoverable amount;<br>• evaluated and tested the assumptions, methodologies, CGU determination, the discount rates and other data used by the Group, for example by comparing them to external data;<br>• evaluated the financial forecast, the methodology of the financial forecast preparation process and the reasonability of the forecasts at the level of individual entities as well as at the Group level;<br>• evaluated management's outlook in the explicit period as well as the long term growth rate, in particular around forecasted revenues, earnings and capital expenditures; and<br>• assessed whether the CGU structure is aligned with the organizational structure<br><br>Assessed the adequacy of the financial statement disclosures in terms of the applicable accounting standards, including disclosures of key assumptions, judgements and sensitivities. |

**INDEPENDENT AUDITORS' REPORT**
**TO THE SHAREHOLDERS OF SAUDI INDUSTRIAL SERVICES COMPANY**
**(A SAUDI JOINT STOCK COMPANY) (continued)**

**Report on the Audit of the Consolidated Financial Statements (continued)**

**Key audit matter (continued)**

| Key audit matter | How our audit addressed the key audit matter |
| --- | --- |
| *Refer to notes: 3.4 and 3.5 for the accounting policy relating to property, plant and equipment and intangible assets respectively and to notes 6 and 7 respectively for their related disclosures.* | |
| *Impairment loss on trade receivables:*<br><br>The gross balance of trade receivables as at 31 December 2018 amounted to SR 88.17 million (31 December 2017: 54 million), against which an allowance for impairment of SR 1.4 million (31 December 2017: 5.5 million) was made.<br><br>Significant judgement is involved to determine the impairment allowance against trade receivables. These judgements included the interpretation of the IFRS 9 requirements to determine impairment, assumptions used by the Group's in the expected credit loss model, identification of the exposures as well as the time value of money.<br><br>Given the significance of the impact of IFRS 9 on the Group's trade receivables, the complexity and judgements related particularly to the calculation of expected credit losses we considered this area as a key audit matter.<br><br>*Refer to Note: 3.10 for the accounting policy relating to trade receivables and note: 13 and 32 for the related disclosure.* | Our audit procedures included the following:<br><br>• assessed the design and tested, for a selected sample, the operating effectiveness of relevant controls in relation to granting of credit terms and subsequent monitoring of trade receivables and review of credit risks of the customers.<br>• assessed the significant judgements, estimates and assumptions made by the management.<br>• assessed methodologies implemented by the Group with reference to the requirements of the IFRS 9 and assumptions used. Particularly we assessed the Group's:<br>  • approach regarding assessment of the default;<br>  • forward-looking information in the calculation of expected credit losses, and<br>  • changes in the customer payment history.<br><br>We also assessed the disclosures in the consolidated financial statements as required by IFRS 9 and IFRS 7 Financial instruments: Disclosure. |
| *Provision for assets replacement costs*<br><br>At 31 December 2018, the carrying amount of the Group's provision for its obligation to maintain and replace certain equipment ("the Equipment") in accordance with the terms of the Agreement with MAWANI, amounted to SR 59.7 million (2017: SR 65.8 million).<br><br>The Group estimated the amount of the provision for asset replacement by ascertaining the present value of expected cash flows in relation to replace | Our audit procedures included the following:<br><br>• discussed the overall approach and controls put in place by management to build a model and estimate the provision;<br>• assessed the model used by management to determine the provision for asset replacement cost;<br>• tested on a sample basis, the completeness of the assets included in the calculation of the |

**INDEPENDENT AUDITORS' REPORT**
**TO THE SHAREHOLDERS OF SAUDI INDUSTRIAL SERVICES COMPANY**
**(A SAUDI JOINT STOCK COMPANY) (continued)**

**Report on the Audit of the Consolidated Financial Statements (continued)**

**Key audit matter (continued)**

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| those assets and costs to be incurred to maintain them in agreed condition.<br>We identified the provision for asset replacement cost as a key audit matter because of the estimation and judgements involved for the amount and timing of the cash outflows, inflation rates applicable in the future and selection of appropriate discount rates to arrive at the present value of the obligation.<br><br>*Refer to Note: 3.12 for the accounting policy relating to provision for assets replacement costs and note: 19 for the related disclosure.* | • provision to supporting Agreement and other documents;<br>• reviewed the timing of cash outflows estimated by the management based on the remaining useful life of existing similar assets currently in use;<br>• assessed the amount of cash outflow estimates through comparison with existing market prices of such equipment factored for inflation and depreciation in future periods;<br>• involved our internal valuation specialist to assist in evaluating the discount rates and inflation rates applied and performed a sensitivity analysis on key assumptions;<br>• compared key assumptions against industry benchmarks, applied our understanding of the business, and compared forecast cash outflows to historical experience; and<br>• checked the mathematical accuracy of the provision for asset replacement cost using the methodology adopted by the management and assumptions used.<br><br>Assessed the financial statement disclosures, including disclosures of key assumptions, judgements and sensitivities. |

Other information included in the group's 2018 annual report

Other information consists of the information included in the Group's 2018 annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information in its annual report. The Group's 2018 annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

When we read the Group's 2018 annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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**INDEPENDENT AUDITORS' REPORT**
**TO THE SHAREHOLDERS OF SAUDI INDUSTRIAL SERVICES COMPANY**
**(A SAUDI JOINT STOCK COMPANY) (continued)**

**Report on the Audit of the Consolidated Financial Statements (continued)**

**Responsibilities of management and those charged with governance for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the SOCPA and the provisions of Companies' Law and the Company's By-laws, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

**Auditors' responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs that are endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial

**INDEPENDENT AUDITORS' REPORT**
**TO THE SHAREHOLDERS OF SAUDI INDUSTRIAL SERVICES COMPANY**
**(A SAUDI JOINT STOCK COMPANY) (continued)**

**Report on the Audit of the Consolidated Financial Statements (continued)**

**Auditors' responsibilities for the audit of the consolidated financial statements (continued)**

statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

for Ernst & Young

Ahmed I. Reda
Certified Public Accountant
Licence No. 356

26 Jumada II 1440H
3 March 2019

Jeddah

18/39/MNA

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2018

| | Notes | *31 December 2018 SR* | *31 December 2017 SR* |
|---|---|---|---|
| **ASSETS** | | | |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 6 | **896,943,951** | 927,089,954 |
| Intangible assets | 7 | **1,162,102,614** | 1,230,064,397 |
| Investment properties | 8 | **143,015,640** | 152,430,488 |
| Investment in associates | 9 | **121,114,973** | 110,971,249 |
| Financial assets at FVOCI | 10 | **17,899,897** | 69,326,208 |
| Goodwill | 11 | **8,776,760** | 8,776,760 |
| Trade receivables, long term | 13 | **8,041,252** | 8,376,771 |
| **TOTAL NON-CURRENT ASSETS** | | **2,357,895,087** | 2,507,035,827 |
| **CURRENT ASSETS** | | | |
| Inventories, net | 12 | **21,302,655** | 25,502,589 |
| Trade receivables, prepayments and other receivables | 13 | **108,032,996** | 88,801,554 |
| Cash and cash equivalents | 14 | **180,584,183** | 150,707,941 |
| Due from related parties | 29 | **9,920,006** | 12,245,174 |
| **TOTAL CURRENT ASSETS** | | **319,839,840** | 277,257,258 |
| **TOTAL ASSETS** | | **2,677,734,927** | 2,784,293,085 |
| **SHAREHOLDERS' EQUITY AND LIABILITIES** | | | |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital | 15 | **816,000,000** | 816,000,000 |
| Share premium | | **36,409,063** | 36,409,063 |
| Statutory reserve | 16 | **71,290,485** | 66,615,976 |
| Other components of equity | | **5,907,331** | 7,229,600 |
| Retained earnings | | **158,627,451** | 141,036,870 |
| **Equity attributable to the shareholders' of the Parent** | | **1,088,234,330** | 1,067,291,509 |
| Non-controlling interests | | **483,198,445** | 476,769,749 |
| **TOTAL SHAREHOLDERS' EQUITY** | | **1,571,432,775** | 1,544,061,258 |
| **NON-CURRENT LIABILITIES** | | | |
| Long term loans and bank facilities | 17 | **699,026,622** | 839,710,326 |
| Employees' end-of-service benefits | 18 | **27,215,717** | 26,693,232 |
| Long term provisions | 19 | **61,503,570** | 66,040,748 |
| Derivative financial instrument | 20 | **4,537,974** | - |
| **TOTAL-NON CURRENT LIABILITIES** | | **792,283,883** | 932,444,306 |
| **CURRENT LIABILITIES** | | | |
| Current portion of long term loans and bank facilities | 17 | **153,414,129** | 146,391,442 |
| Trade payables, accrued and other current liabilities | 21 | **159,711,795** | 158,356,053 |
| Due to related parties | 29 | **892,345** | 3,040,026 |
| **TOTAL CURRENT LIABILITIES** | | **314,018,269** | 307,787,521 |
| **TOTAL LIABILITIES** | | **1,106,302,152** | 1,240,231,827 |
| **TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES** | | **2,677,734,927** | 2,784,293,085 |

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2018

| | Notes | *2018* *SR* | *2017* *SR* |
|---|---|---|---|
| Revenues | 22 | **564,704,864** | 562,406,807 |
| Direct costs | 23 | **(342,639,116)** | (363,719,899) |
| **GROSS PROFIT** | | **222,065,748** | 198,686,908 |
| **OPERATING EXPENSES** | | | |
| Selling and distribution expenses | 24 | **(16,395,376)** | (19,467,177) |
| General and administrative expenses | 25 | **(117,592,131)** | (105,299,727) |
| **TOTAL OPERATING EXPENSES** | | **(133,987,507)** | (124,766,904) |
| **OPERATING INCOME** | | **88,078,241** | 73,920,004 |
| Finance costs | | **(50,779,637)** | (34,993,996) |
| Finance income | | **500,897** | 608,742 |
| Other income | 26 | **8,781,688** | 27,553,350 |
| Share in results from equity accounted associates, net | | **23,745,408** | 20,735,689 |
| **PROFIT BEFORE ZAKAT AND INCOME TAX** | | **70,326,597** | 87,823,789 |
| Zakat and income tax | 27 | **(4,806,109)** | (6,702,089) |
| **NET PROFIT FOR THE YEAR** | | **65,520,488** | 81,121,700 |
| **ATTRIBUTABLE TO:** | | | |
| Shareholders' of the parent | | **46,745,090** | 58,811,404 |
| Non-controlling interests | | **18,775,398** | 22,310,296 |
| | | **65,520,488** | 81,121,700 |

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2018

| | *Notes* | ***2018*** ***SR*** | *2017* *SR* |
|---|---|---|---|
| **NET PROFIT FOR THE YEAR** | | **65,520,488** | 81,121,700 |
| **OTHER COMPREHENSIVE INCOME** | | | |
| ***Items that will not be reclassified to profit or loss*** | | | |
| Gain / (loss) re-measurement of employees' end-of-service benefits | 18 | **2,976,034** | (2,999,425) |
| Net change in fair value of financial assets at FVOCI | 10 | **(1,426,311)** | 2,538,197 |
| Share of actuarial losses of equity accounted associates | | **793,260** | (521,236) |
| ***Items that are or may be reclassified subsequently to profit or loss*** | | | |
| Cash flow hedges – effective portion of changes in fair value | 20 | **(4,537,974)** | 484,800 |
| **OTHER COMPREHENSIVE LOSS** | | **(2,194,991)** | (497,664) |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **63,325,497** | 80,624,036 |
| **ATTRIBUTABLE TO:** | | | |
| Shareholders' of the parent | | **45,422,821** | 58,974,105 |
| Non-controlling interests | | **17,902,676** | 21,649,931 |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **63,325,497** | 80,624,036 |
| **EARNINGS PER SHARE** | | | |
| Basic and diluted earnings per share from net profit for the year attributable to the Shareholders' of the Parent | 28 | **0.57** | 0.72 |

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended 31 December 2018

| | Equity attributable to the shareholders' of the Parent | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | -------------Other components of equity------------ | | | | | | | |
| | *Share Capital* **SR** | *Share Premium* **SR** | *Statutory Reserve* **SR** | *Effect of changes in shareholding percentage in subsidiaries* **SR** | *Actuarial valuation reserves* **SR** | *Cash flow hedging reserve* **SR** | *Fair value reserve on financial assets at FVOCI* **SR** | *Retained Earnings* **SR** | *Total* **SR** | *Non-controlling interests* **SR** | *Total equity* **SR** |
| Balance at 1 January 2018 | 816,000,000 | 36,409,063 | 66,615,976 | 1,133,474 | (3,467,662) | - | 9,563,788 | 141,036,870 | 1,067,291,509 | 476,769,749 | 1,544,061,258 |
| Profit for the year | - | - | - | - | - | - | - | 46,745,090 | 46,745,090 | 18,775,398 | 65,520,488 |
| Other comprehensive income | - | - | - | - | 2,661,784 | (2,750,012) | (1,234,041) | - | (1,322,269) | (872,722) | (2,194,991) |
| Total comprehensive income | - | - | - | - | 2,661,784 | (2,750,012) | (1,234,041) | 46,745,090 | 45,422,821 | 17,902,676 | 63,325,497 |
| Transfer to statutory reserve | - | - | 4,674,509 | - | - | - | - | (4,674,509) | - | - | - |
| Dividends paid (note 15) | - | - | - | - | - | - | - | (24,480,000) | (24,480,000) | (11,476,500) | (35,956,500) |
| Net movement in non-controlling interest | - | - | - | - | - | - | - | - | - | 2,520 | 2,520 |
| **Balance at 31 December 2018** | **816,000,000** | **36,409,063** | **71,290,485** | **1,133,474** | **(805,878)** | **(2,750,012)** | **8,329,747** | **158,627,451** | **1,088,234,330** | **483,198,445** | **1,571,432,775** |

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (continued)
For the year ended 31 December 2018

| | *Equity attributable to the shareholders' of the Parent Company* | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | *Other components of equity* | | | | | | | |
| | *Share Capital SR* | *Share Premium SR* | *Statutory Reserve SR* | *Special Reserve (note 16) 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 | 680,000,000 | 36,409,063 | 39,758,712 | 19,869,813 | 1,133,474 | (289,950) | 7,217,861 | 224,218,431 | 1,008,317,404 | 476,874,551 | 1,485,191,955 |
| Issue of bonus shares (note 15) | 136,000,000 | - | - | - | - | - | - | (136,000,000) | - | - | - |
| Profit for the year | - | - | - | - | - | - | - | 58,811,404 | 58,811,404 | 22,310,296 | 81,121,700 |
| Other comprehensive income | - | - | - | - | - | 289,950 | 2,345,927 | (2,473,176) | 162,701 | (660,365) | (497,664) |
| Total comprehensive income | - | - | - | - | - | 289,950 | 2,345,927 | 56,338,228 | 58,974,105 | 21,649,931 | 80,624,036 |
| Transfer to statutory reserve | - | - | 5,881,141 | 1,106,310 | - | - | - | (6,987,451) | - | - | - |
| Transfer to reserves | - | - | 20,976,123 | (20,976,123) | - | - | - | - | - | - | - |
| Dividends paid to non-controlling interests' by a subsidiary | - | - | - | - | - | - | - | - | - | (21,754,733) | (21,754,733) |
| Balance at 31 December 2017 | 816,000,000 | 36,409,063 | 66,615,976 | - | 1,133,474 | - | 9,563,788 | 137,569,208 | 1,067,291,509 | 476,769,749 | 1,544,061,258 |

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2018

| | Notes | *2018* *SR* | *2017* *SR* |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Profit for the year before zakat and income tax | | **70,326,597** | 87,823,789 |
| Adjustments for: | | | |
| Depreciation and amortization | 6, 7 & 8 | **149,866,024** | 137,592,260 |
| Provision for employees' end-of-service benefits | 18 | **5,497,529** | 5,709,749 |
| (Gain) / loss on disposal of property, plant and equipment | 26 | **(1,100,000)** | 160,506 |
| Amortisation of advance rentals | | **5,202,099** | 4,103,037 |
| Share of results from equity accounted associates, net | 9 | **(23,745,408)** | (20,735,689) |
| Impairment allowance | 32 | **393,378** | 3,777,935 |
| Capital work in progress written-off | 6 | **2,897,171** | 625,250 |
| Amortization of deferred revenue | | **(17,591)** | (18,910) |
| Provision for dismantling cost | 19 | **1,662,887** | - |
| Allowance for slow moving and obsolete inventories | | **2,139,526** | 3,203,831 |
| Provision for asset replacement cost | 19 | **(6,182,474)** | 9,416,666 |
| Financial charges | | **50,779,637** | 34,993,996 |
| | | **257,719,375** | 266,652,420 |
| Changes in operating assets and liabilities | | | |
| Trade receivables, prepayments and other receivables | | **(16,964,133)** | 81,525 |
| Inventories | | **2,060,408** | 2,413,798 |
| Trade payables, accrued and other current liabilities | | **(390,156)** | 20,483,650 |
| Cash from operating activities | | **242,425,494** | 289,631,393 |
| Employees' end-of-service benefits paid | 18 | **(1,999,010)** | (3,981,921) |
| Finance costs paid | | **(51,267,634)** | (32,414,745) |
| Zakat and income tax paid | 27 | **(5,207,892)** | (9,684,498) |
| Net cash from operating activities | | **183,950,958** | 243,550,229 |
| **INVESTING ACTIVITIES** | | | |
| Dividends received from equity accounted associates | 9 | **14,394,945** | 9,928,474 |
| Purchase of property, plant and equipment | 6, 7 & 8 | **(46,953,161)** | (257,004,033) |
| Redemption of investments classified as available for sale | 10 | **50,487,996** | (50,000,000) |
| Proceeds from disposal of property, plant and equipment | | **2,812,600** | 1,004,404 |
| Net cash from / (used in) investing activities | | **20,742,380** | (296,071,155) |
| **FINANCING ACTIVITIES** | | | |
| Long term loans and bank facilities (paid) / received, net | | **(138,863,116)** | 29,579,280 |
| Dividend paid | | **(24,480,000)** | - |
| Dividends paid to non-controlling interests by subsidiaries | | **(11,476,500)** | (21,754,733) |
| Net movement in non-controlling interests | | **2,520** | - |
| Net cash (used in) / from financing activities | | **(174,817,096)** | 7,824,547 |
| Net increase / (decrease) in cash and cash equivalents | | **29,876,242** | (44,696,379) |
| Cash and cash equivalents at the beginning of the year | 14 | **150,707,941** | 195,404,320 |
| **Cash and cash equivalents at the end of the year** | 14 | **180,584,183** | 150,707,941 |

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements.

## 1 ORGANIZATION 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 7 Rabi Al Awal 1409 H (corresponding to 18 October 1988) and registered under Commercial Registration No. 4030062502 dated 10 Rabi Al Thani 1409H (corresponding to 20 November 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 Parent 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 consolidated financial statements include assets, liabilities and the results of the operations of the Parent Company and its following subsidiaries collectively referred to as "the Group":

| Company | Country of incorporation | Effective shareholding 2018 | 2017 | Principal activities |
|---|---|---|---|---|
| Saudi Trade and Export Development Company Limited ("Tusdeer") | Saudi Arabia | **76%** | 76% | Management and operation of storage and re-export project situated on the land leased from Jeddah Islamic Port. |
| Kindasa Water Services Company – Closed Joint Stock Company ("Kindasa") | Saudi Arabia | **65%** | 65% | Water desalination and treatment plant and sale of water. |
| Support Services Operation Company Limited ("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. |

## 2 BASIS OF PREPARATION

### 2.1 Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards "IFRS" that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants ("SOCPA").

## 2 BASIS OF PREPARATION (continued)

### 2.2 Basis of measurement

These consolidated financial statements have been prepared under the historical cost basis, except for financial assets at fair value through other comprehensive income (FVOCI), employees end-of-services benefits and derivative financial instruments.

As required by the Capital Market Authority ("CMA") through its circular dated 16 October 2016 the Group needs to apply the cost model to measure the property, plant and equipment, investment property and intangible assets upon adopting the IFRS for three years period starting from the IFRS adoption date.

### 2.3 Functional and presentation currency

The consolidated financial statements are presented in Saudi Arabian Riyals (SR), which is the functional and presentation currency of the Group.

### 2.4 Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

**Judgements**

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

- Decision related to control over investee (note 3.1)
- Classification of investment property (note 3.5)
- Lease classification (note 3.6)
- Provision and contingencies (3.11)

***Volume rebate***

Certain contracts for the provision of services include volume rebates that give rise to variable consideration. In estimating the variable consideration, the Group is required to use either the expected value method or the most likely amount method based on which method better predicts the amount of consideration to which it will be entitled.

The Group determined that the most likely amount method is the appropriate method to use in estimating the variable consideration for the provision of services with volume rebate as the selected method better predicts the amount of variable consideration driven by customers' rebate entitlement based on volume thresholds.

Before including any amount of variable consideration in the transaction price, the Group considers whether the amount of variable consideration is constrained. The Group determined that the estimates of variable consideration are not constrained based on its historical experience, business forecast and the current economic conditions. In addition, the uncertainty, if any, on the variable consideration will be resolved within a short time frame.

***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 consolidated financial statements continue to be prepared on the going concern basis.

**Estimates and assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur. Information about the assumptions and estimation uncertainties is included in the following areas:

***Useful lives and residual value of property, plant and equipment***

The Group's management determines the estimated useful lives of its property, plant and equipment for calculating depreciation. These estimates are determined after considering the expected usage of the assets or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charges would be adjusted where the management believes the useful lives differ from previous estimates.

## 2 BASIS OF PREPARATION (continued)

### 2.4 Significant accounting judgements, estimates and assumptions (continued)

***Allowance for inventory losses***
The Group recognizes an allowance for inventory losses due to factors such as obsolescence, technical faults, physical damage etc. The estimation of such losses includes the consideration of factors including but not limited to introduction of new models or technology by the specific manufacturer and both existing and emerging market conditions.

***Provision for expected credit losses (ECLs) of trade receivables***
The Group uses a provision matrix to calculate ECLs for trade receivables. The provision matrix is initially based on the Group's historical observed default rates. The Group calibrates the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customers' actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 32.

***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 rate reflective of the term of the obligation. Significant assumptions included in the determination of this estimate are disclosed in note 19.

***Impairment of non-financial assets***
Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

***Defined benefit plan***
The cost of the defined benefit plan and the present value of the obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and employee turnover rate. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers the market yield on high quality Corporate/Government bonds. The mortality rate is based on publicly available mortality tables for the country. Those mortality tables tend to change only at intervals in response to demographic changes. Future salary increases are based on expected future inflation rates for the country. Further details about employee benefits obligations are provided in note 18.

***Fair value measurement of financial instruments***
When the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the DCF model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments. Contingent consideration, resulting from business combinations, is valued at fair value at the acquisition date as part of the business combination. When the contingent consideration meets the definition of a financial liability, it is subsequently re-measured to fair value at each reporting date. The determination of the fair value is based on discounted cash flows. The key assumptions take into consideration the probability of meeting each performance target and the discount factor.

***Provisions***
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 benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently, except for new standards adopted during the year as disclosed in note 4, in the preparation of these consolidated financial statements.

### 3.1 Basis of consolidation

The Group's consolidated financial statements comprise the financial statements of the Parent Company and its subsidiary is as at 31 December 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of Other Comprehensive Income ("OCI") are attributed to the equity holders of the Parent Company of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in the consolidated statement of profit or loss. Any investment retained is recognised at fair value.

These 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.

***Business combinations and goodwill***

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in general and administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in the statement of profit or loss.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.1 Basis of consolidation (continued)

***Business combinations and goodwill (continued)***

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in the consolidated statement of profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

***Investments in associates and jointly controlled entities***

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investment in its associate and joint venture are accounted for using the equity method.

Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment separately.

The statement of profit or loss reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognises the loss as 'Share of profit of an associate and a joint venture' in the statement of profit or loss.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When the Group's share of losses exceeds its interest in associates, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Group has a corresponding obligation.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.2 Foreign currencies

The Group's consolidated financial statements are presented in Saudi Riyals, which is also the Parent Company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to consolidated statement of profit or loss reflects the amount that arises from using this method.

***Transactions and balances***

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised as profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment in a foreign operation. These are recognised as OCI until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss in the consolidated statement of profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item.

***Foreign operations***

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Saudi Riyals at exchange rates at the reporting date. Dividends received from foreign associates are translated at the exchange rate in effect at the transaction date and related currency translation differences are realized in the consolidated statement of other comprehensive income.

When a foreign operation is disposed of, the relevant amount in the translation reserve is transferred to the consolidated statement of profit or loss as part of the profit or loss on disposal. On the partial disposal (without loss of control) of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in the foreign exchange translation reserve via other comprehensive income.

### 3.3 Current versus non-current classification

***Assets***

The Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification. An asset is current when:

- It is expected to be realised or intended to be sold or consumed in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is expected to be realised within twelve months after the reporting period; or
- It is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

***Liabilities***

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

## 3.4 Property, plant and equipment

***Recognition and measurement***
Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within other income in consolidated statement of profit or loss.

***Subsequent costs***
The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the consolidated statement of profit or loss as incurred.

***Capital work-in-progress***
Capital work-in-progress are carried at cost less any recognised impairment loss and is capitalized as property, plant and equipment when ready for the intended use.

***Depreciation***
Depreciation represents the systematic allocation of the depreciable amount of an asset over its estimated useful life. Depreciable amount represents cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognised in the consolidated statement of profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets, development cost of leasehold land and building on leasehold land are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

Depreciation methods, useful lives and residual values are reviewed at least annually and adjusted prospectively if required. For discussion on impairment assessment of property and equipment, please refer note 6.

The estimated useful lives are as follows:

| | |
|---|---|
| Buildings | Shorter of lease / concession period or 10 – 50 years |
| Leasehold improvements | Shorter of lease / concession period or 10 – 28 years |
| Plant and equipment | Shorter of lease / concession period or 5 – 20 years |
| Machinery and equipment | 2 – 25 years |
| Motor vehicles and tankers | 5 – 10 years |
| Fixtures and furnishing | 5 – 10 years |
| Computers and equipment | 2 - 5 years |

## 3.5 Intangibles
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in consolidated statement of profit or loss in the period in which the expenditure is incurred. The useful lives of intangible assets are assessed as either finite or indefinite.

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.5 Intangibles (continued)**

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

***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 recognises an intangible asset arising from a service concession arrangement when it has a right to charge for use of the concession infrastructure. An intangible asset received as consideration for providing construction or upgrade services in a service concession arrangement is measured at fair value on initial recognition with reference to the fair value of the services provided.

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. The estimated useful life of an intangible asset in a service concession arrangement is the period from when the Group is able to charge the public for the use of the infrastructure to the end of the concession period.

**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.

***Other intangible assets***

Other intangible assets, including softwares, that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the consolidated statement of profit or loss as incurred.

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value. The estimated useful lives of other intangibles is from 2 to 5 years.

**3.6 Investment properties**

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment properties are measured initially at cost, including transaction costs. Subsequently investment properties are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing parts of the investment properties and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of investment properties are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. All repairs and maintenance costs are recognised in the consolidated statement of profit or loss as incurred.

Investment properties are derecognised either when they have been disposed of (i.e., at the date the recipient obtains control) or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in consolidated statement of profit or loss in the period of derecognition. The amount of consideration to be included in the gain or loss arising from the derecognition of investment property is determined in accordance with the requirements for determining the transaction price in IFRS 15.

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.6 Investment properties (continued)**

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the depreciated value at the date of change in use. If owner-occupied property becomes an investment property, the Group account for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

**3.7 Leases**

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset and the arrangement conveys a right to use the asset, even if that asset is not explicitly specified in an arrangement.

***Group as a lessee***

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease. Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the consolidated statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the consolidated statement of profit or loss on a straight-line basis over the lease term.

***Group as a lessor***

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

**3.8 Inventories**

Inventories represent spare parts and other supplies. These are measured at lower of cost and net realisable value. The cost of inventories is principally based on the weighted average principle, and includes expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale. The Group recognizes an allowance for inventory losses due to factors such as obsolescence, technical faults, physical damage etc.

**3.9 Cash and cash equivalents**

Cash and cash equivalents in the consolidated statement of financial position comprise cash on hand, cash at banks and other short-term highly liquid deposits / investments with original maturities of three month or less, if any, which are available to the Group without any restrictions. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash on hand, bank balances and Murabaha deposits.

**3.10 Financial instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

***Initial recognition and measurement***

The Group's financial assets consist of cash and bank balances, trade receivables, investments at fair value through other comprehensive income, investment in associates, due from related parties and financial liabilities consist of long term loans and bank facilities, trade and other payables.

Financial assets at initial recognition, are measured at their fair values. Subsequent measurement of a financial asset is dependent on its classification and is either at amortised cost or fair value through other comprehensive income (OCI) or fair value through profit or loss.

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.10 Financial instruments (continued)**

***Initial recognition and measurement (continued)***
The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price determined under IFRS 15 Revenue from contracts with customers.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

***Subsequent measurement***
For purposes of subsequent measurement, financial assets are classified in following categories:

a) Financial assets at amortised cost
b) Financial assets at fair value through OCI (FVOCI)
c) Financial assets at fair value through profit or loss (FVTPL)

***a) Financial assets at amortised cost (debt instruments)***
The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order 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 at amortised cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognised in consolidated statement of profit or loss when the asset is derecognised, modified or impaired.

***b) Financial assets at fair value through OCI***

***Debt instruments***
The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; 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.

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the consolidated statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

***Equity instruments***
Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the consolidated statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

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

**3.10 Financial instruments (continued)**

**i) Financial assets (continued)**

***c) Financial assets at fair value through profit or loss***
Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including consolidated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch. Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recognised in the consolidated statement of profit or loss.

**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 profit ("SPPP" criteria)**
For the purposes of this assessment, 'principal' is the fair value of the financial asset on initial recognition. 'Profit' 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 financing 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 profit, 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 profit rates.

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

**3.10 Financial instruments (continued)**

**ii) Financial liabilities**

***Initial recognition and measurement***
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss or at amotised cost. All financial liabilities are recognised initially at fair value and, in the case of financing and payables, net of directly attributable transaction costs.

***Subsequent measurement***
The measurement of financial liabilities depends on their classification, as described below:

***Financial liabilities at fair value through profit or loss***
Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term.

Gains or losses on liabilities held for trading are recognised in the consolidated statement of profit or loss. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied.

***Financial liabilities at amortised cost***
After initial recognition, financial liabilities, other than at fair value through profit or loss are measured at amortised cost using the EIR method. Gains and losses as a result of unwinding of profit cost through EIR amortization process and on de-recognition of financial liabilities are recognized in the consolidated statement of profit or loss.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the consolidated statement of profit or loss.

***iii) Derecognition***

***Financial assets***
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

***Financial liabilities***
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of profit or loss.

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.10 Financial instruments (continued)**

**iv) Offsetting of financial instruments**
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

**3.11 Impairment of financial and non-financial assets**

***Financial assets***
The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and a loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter into bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as economic conditions that correlate with defaults.

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

***Non-financial assets***
The Group assesses, at each reporting date, 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 CGU's fair value less costs of disposal and its value in use. The fair value less costs of disposal is determined by taking into account recent market transactions. If no such transactions can be identified, an appropriate valuation model is used. The value in use is assessed by discounting the estimated future cash flows 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. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. When 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.

Impairment losses are recognised in the statement of profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGUs, and then to reduce the carrying amounts of the other assets in the CGU (group of units) on a pro rata basis.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

**3.12 Provisions**
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the consolidated statement of profit or loss and other comprehensive income net of any reimbursement.

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

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.13 Employee benefits

***Short-term employee benefits***
Short-term employee benefits are expensed as the related services are provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

***Post-employment benefits***
The Group's obligation under employee end of service benefit is accounted for as an unfunded defined benefit plan and is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods and discounting that amount. The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. Re-measurement of the net defined benefit liability, which comprise actuarial gains and losses are recognised immediately in OCI. The Group determines the net interest expense on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability, taking into account any changes in the net defined benefit liability during the period as a result of benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in employee costs in the statement of profit or loss.

### 3.14 Cash dividend and non-cash distribution to equity holders of the Parent
The Group recognises a liability to pay a dividend when the distribution is authorised and no longer at the discretion of the Group. As per the bye-laws of the Group, a distribution is authorised when it is approved by the shareholders. 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.
A corresponding amount is recognised directly in equity.

Non-cash distributions are measured at the fair value of the assets to be distributed with fair value re-measurement recognised directly in equity.

Upon distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognised in the consolidated statement of profit or loss.

### 3.15 Revenue
The Group through its subsidiaries, jointly controlled entity and associates is engaged in the following businesses:

- Development, construction, operation and maintenance of container terminals and excavation and back filling works.
- Management and operation of storage and re-export project situated on the land leased from Jeddah Islamic Port.
- Water desalination and treatment plant and sale of water.

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 direct cost.

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.

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.

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.15 Revenue (continued)**

***Sale of goods***
Revenue from sale of goods is recognised at the point in time when control of the goods is transferred to the customer, generally on delivery of the goods. The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the sale of goods, the Group considers the effects of variable consideration, the existence of significant financing components, non-cash consideration, and consideration payable to the customer (if any).

***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.

***Volume rebates***
The Group provides volume rebates to certain customers once their purchase during the period exceeds a threshold specified in the contract. To estimate the variable consideration for the expected future rebates, the Group applies the most likely amount method as the selected method better predicts the amount of variable consideration driven by customers' rebate entitlements based on volume thresholds and purchase made by them during the period. The Group then applies the requirements on constraining estimates of variable consideration and recognises a liability for the expected future rebates.

**3.16 Expenses**

***Direct cost***
Direct cost represents all expenses directly attributable or incidental to the core operating activities of the Group including but not limited to: depreciation of property, plant and equipment, amortization of intangibles, directly attributable employee related costs etc.

***Selling and distribution expenses***
These include any costs incurred to carry out or facilitate selling activities of the Company. These costs typically include salaries of the sales staff, marketing, distribution and logistics expenses. These also include allocations of certain general overheads.

***General and administrative expenses***
These pertain to operation expenses which are not directly related to the production of any goods or services. These also include allocations of general overheads which are not specifically attributed to direct cost or selling and distribution expenses.

Allocation of overheads between cost of revenue, selling and distribution expenses, and general and administration expenses, where required, is made on a consistent basis.

**3.17 Borrowing costs**
Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs comprise of interest expense on loans and bank facilities, unwinding of the discount on long term provisions.

**3.18 Finance income**
Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in consolidated statement of profit or loss, using the effective interest method.

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.18 Zakat**

***Zakat***
The Group is subject to zakat in accordance with the regulations of the General Authority of Zakat and Tax ("GAZT"). Provision for zakat for the Group and zakat related to the Group's ownership in the Saudi Arabian subsidiaries is charged to the consolidated statement of profit or loss.

***Current income tax***
Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid for the current year to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted at the reporting date in the Kingdom of Saudi Arabia.

***Deferred income tax***
Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the brought forward unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in OCI or directly in equity.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss.

The Group offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.18 Zakat and tax (continued)**

***Withholding tax***
The Group companies withhold taxes on transactions with non-resident parties and on dividends paid to foreign shareholders in accordance with GAZT regulations, which is not recognized as an expense being the obligation of the counter party on whose behalf the amounts are withheld.

**3.19 Segment reporting**
Business segment is group of assets, operations or entities:

- engaged in business activities from which it may earn revenue and incur expenses including revenues and expenses that relate to transactions with any of the Group's other components;
- the results of its operations are continuously analyzed by Group's Chief Operating Decision Maker (CODM) in order to make decisions related to resource allocation and performance assessment; and
- for which financial information is discretely available.

Segment results that are reported to the CODM include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

A geographical segment is group of assets, operations or entities engaged in revenue producing activities within a particular economic environment that are subject to risks and returns different from those operating in other economic environments.

For management purposes, the Group is organised into business units based on its products and services and has three reportable segments, as follows:

- Port development and operations
- Logistic parks and support services
- Water desalination and distribution

**4 IMPACT OF ADOPTION OF NEW STANDARDS**

Effective 1 January 2018 the Group has adopted following IFRSs, the impact of the adoption of which 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 Group 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.

The Group adopted IFRS 15 using the modified retrospective method of adoption with the date of initial application of 1 January 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group elected to apply the standard to all contracts, if any, as at 1 January 2018.

The cumulative effect of initially applying IFRS 15 is recognised at the date of initial application as an adjustment to the opening balance of retained earnings. 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 comparative information was not restated and continues to be reported under IAS 18 and related interpretations.

**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.

**4 IMPACT OF ADOPTION OF NEW STANDARDS (continued)**

**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 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 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**
The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to record an allowance for ECLs for all debt instruments not held at fair value through profit or loss.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate. For trade and other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses.

However, the adoption of the ECL requirements of IFRS 9 did not result in any material change in impairment allowance of the Group's trade receivables because the Group has used provision matrix for ECL and there is no change from historical credit loss experience of the Group and insignificant impact of forward-looking information.

***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 I 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 lAS 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.

## 4 IMPACT OF ADOPTION OF NEW STANDARDS (continued)

**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 lAS 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 IAS 39* | *New carrying amount under IFRS 9* |
|---|---|---|---|---|---|
| Equity investment | a | Available for sale | Financial assets at FVOCI – Equity | 18,838,212 | 18,838,212 |
| Investment in a mutual funds | a | Available for sale | Financial assets at FVOCI – Equity | 50,487,996 | 50,487,996 |
| Trade and other receivables | b | Loans and receivables | Amortised cost | 97,178,325 | 97,178,325 |
| Cash and bank balances | | Loans and receivables | Amortised cost | 150,707,941 | 150,707,941 |
| | | | | 317,212,474 | 317,212,474 |

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 1AS 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 STANDARDS ISSUED BUT NOT YET EFFECTIVE

### 5.1 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.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

The Group is in process of carrying detailed impact assessment of IFRS 16.

## 5 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

### 5.2 IFRIC Interpretation 23 - Uncertainty over Income Tax Treatment

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available.

### 5.3 Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted.

### 5.4 Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.

### 5.5 Amendments to IAS 28: Long-term interests in associates and joint ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted. Since the Group does not have such long-term interests in its associate and joint venture, the amendments currently not applicable to the Group's consolidated financial statements.

## 5 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

### 5.6 Annual Improvements 2015-2017 Cycle (issued in December 2017)

These improvements include:

IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments will apply on future business combinations of the Group.

*IFRS 11 Joint Arrangements*

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.

*IAS 12 Income Taxes*

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. This interpretation no applicable to the Group.

*IAS 23 Borrowing Costs*

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. This interpretation has no impact on the Group.

## 6 PROPERTY, PLANT AND EQUIPMENT

| | ***31 December 2018 SR*** | *31 December 2017 SR* |
|---|---|---|
| Property, plant and equipment | **312,038,100** | 298,137,823 |
| Property and equipment of bonded and re-export project (note 6.1) | **30,916,200** | 32,637,572 |
| Property and equipment – port terminal operations (note 6.2) | **553,989,651** | 596,314,559 |
| | **896,943,951** | 927,089,954 |

## 6 PROPERTY, PLANT AND EQUIPMENT (continued)

The movement in property, plant and equipment is as follows:

| | *Land* *SR* | *Leasehold improvements* *SR* | *Motor vehicles & tankers* *SR* | *Tools & equipment's* *SR* | *Furniture & fixtures* *SR* | *Computers* *SR* | *Desalination plants* *SR* | *Capital work-in-progress* *SR* | ***31 December 2018*** ***SR*** | *31 December 2017* *SR* |
|---|---|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | | | |
| At the beginning of the year | 66,808,150 | 131,943 | 13,573,640 | 15,185,789 | 11,948,511 | 6,060,171 | 320,241,251 | 67,845,211 | **501,794,666** | 472,945,731 |
| Additions during the year | - | - | 2,595,153 | 45,065 | 134,102 | 132,952 | 60,406 | 37,789,364 | **40,757,042** | 47,046,646 |
| Disposals during the year | - | - | - | - | - | - | (917,493) | (457,190) | **(1,374,683)** | (4,570,977) |
| Written off during the year (note 25) | - | - | - | - | - | - | - | (2,897,171) | **(2,897,171)** | (625,250) |
| Transfer to investment property (note 8) | - | - | - | - | - | - | - | (217,092) | **(217,092)** | (13,001,484) |
| Transfer to Intangibles (note 7.3) | - | - | - | - | - | - | - | (211,846) | **(211,846)** | - |
| Transfers during the year | - | - | - | - | - | - | 1,188,517 | (1,188,517) | **-** | - |
| At the end of the year | 66,808,150 | 131,943 | 16,168,793 | 15,230,854 | 12,082,613 | 6,193,123 | 320,572,681 | 100,662,759 | **537,850,916** | 501,794,666 |
| **Accumulated depreciation** | | | | | | | | | | |
| At the beginning of the year | - | 131,943 | 10,568,124 | 9,637,398 | 7,684,700 | 2,920,609 | 172,714,069 | - | **203,656,843** | 183,700,430 |
| Charge for the year | - | - | 910,921 | 593,530 | 1,143,212 | 889,542 | 19,245,474 | - | **22,782,679** | 23,363,307 |
| Disposals during the year | - | - | - | - | - | - | (626,706) | - | **(626,706)** | (3,406,894) |
| At the end of the year | - | 131,943 | 11,479,045 | 10,230,928 | 8,827,912 | 3,810,151 | 191,332,837 | - | **225,812,816** | 203,656,843 |
| Net book amounts | | | | | | | | | | |
| **As at 31 December 2018** | **66,808,150** | **-** | **4,689,748** | **4,999,926** | **3,254,701** | **2,382,972** | **129,239,844** | **100,662,759** | **312,038,100** | |
| As at 31 December 2017 | 66,808,150 | - | 3,005,516 | 5,548,391 | 4,263,811 | 3,139,562 | 147,527,182 | 67,845,211 | | 298,137,823 |

**6. PROPERTY, PLANT AND EQUIPMENT (continued)**

a) The desalination plant and filling stations are situated on land leased from the Jeddah Islamic Port for a period of 20 years from 7 March 2000 corresponding to 1 Dhul Hijjah 1420H. Kindasa Water Services Company has the option of renewing the lease agreement on expiry of the initial lease term.

b) Capital work-in-progress mainly represents extension and upgradation of desalination facilities and construction work on Rabigh desalination facility and new logistic hub and logistic park projects in Jeddah.

**6.1 Property and equipment of bonded and re-export project**

The movement in property and equipment of bonded and re-export project is as follows:

| | *Leasehold improvements SR* | *Buildings on leasehold land SR* | *Equipment SR* | *31 December 2018 SR* | *31 December 2017 SR* |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At the beginning of the year | 27,078,690 | 20,564,261 | 1,203,875 | **48,846,826** | 46,836,606 |
| Additions during the year | 203,100 | - | - | **203,100** | 2,010,220 |
| At the end of the year | 27,281,790 | 20,564,261 | 1,203,875 | **49,049,926** | 48,846,826 |
| **Accumulated depreciation** | | | | | |
| At the beginning of the year | 11,597,833 | 3,407,546 | 1,203,875 | **16,209,254** | 14,483,303 |
| Charge for the year | 1,022,283 | 902,189 | - | **1,924,472** | 1,725,951 |
| At the end of the year | 12,620,116 | 4,309,735 | 1,203,875 | **18,133,726** | 16,209,254 |
| Net book value | | | | | |
| **31 December 2018** | **14,661,674** | **16,254,526** | - | **30,916,200** | |
| 31 December 2017 | 15,480,857 | 17,156,715 | - | | 32,637,572 |

The buildings and leasehold improvements are situated on a plot of land leased from Jeddah Islamic Seaport Authority for a nominal annual rental. The initial lease agreement is for 20 Hijra years starting from 15 Muharram 1419H (corresponding to 11 May 1998) with a grace period of two Hijra years. On 22 Ramadan 1424H (corresponding to 16 November 2003) the lease agreement was extended to 40 Hijra years.

## 6. PROPERTY, PLANT AND EQUIPMENT (continued)

### 6.2 Property and equipment – port terminal operations

The movement in property and equipment – port terminal operations is as follows:

| | *Leasehold improvements SR* | *Motor vehicles SR* | *Furniture and fixtures SR* | *Computers and equipment's SR* | *Machinery and equipment's SR* | *Capital work-in-progress SR* | ***31 December 2018 SR*** | *31 December 2017 SR* |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| At the beginning of the year | 332,650,830 | 4,852,828 | 17,885,995 | 8,260,708 | 349,164,235 | 960,450 | **713,775,046** | 507,239,803 |
| Additions during the year | 365,037 | 371,400 | 596,929 | 547,974 | 3,182,230 | 625,565 | **5,689,135** | 206,794,140 |
| Disposals during the year | - | (858,900) | (23,500) | - | (3,345,165) | - | **(4,227,565)** | (258,897) |
| Transfers during the year | 455,769 | - | - | - | 448,526 | (904,295) | **-** | - |
| Transfers to intangibles (note 7.3) | - | - | - | - | - | (86,176) | **(86,176)** | - |
| At the end of the year | 333,471,636 | 4,365,328 | 18,459,424 | 8,808,682 | 349,449,826 | 595,544 | **715,150,440** | 713,775,046 |
| **Accumulated depreciation** | | | | | | | | |
| At the beginning of the year | 22,025,801 | 2,895,799 | 9,385,508 | 6,020,636 | 77,132,743 | - | **117,460,487** | 83,729,941 |
| Charge for the year | 20,199,748 | 588,834 | 2,044,263 | 1,100,118 | 23,082,860 | - | **47,015,823** | 33,988,616 |
| Disposals during the year | - | (858,900) | (20,758) | - | (2,435,863) | - | **(3,315,521)** | (258,070) |
| **At the end of the year** | 42,225,549 | 2,625,733 | 11,409,013 | 7,120,754 | 97,779,740 | - | **161,160,789** | 117,460,487 |
| Net book value | | | | | | | | |
| **At 31 December 2018** | **291,246,087** | **1,739,595** | **7,050,411** | **1,687,928** | **251,670,086** | **595,544** | **553,989,651** | |
| At 31 December 2017 | 310,625,029 | 1,957,029 | 8,500,487 | 2,240,072 | 272,031,492 | 960,450 | | 596,314,559 |

a) RSGT's Ijara facility has been secured against property and equipment – port terminal operations (note 17).

**6. PROPERTY, PLANT AND EQUIPMENT (continued)**

**6.3** Depreciation charge for the year has been allocated as follows:

| | ***31 December 2018 SR*** | *31 December 2017 SR* |
|---|---|---|
| Direct costs | **52,113,242** | 47,246,026 |
| Selling and distribution expenses (note 23) | **7,566,797** | 7,482,663 |
| General and administrative expenses (note 24) | **12,042,935** | 4,349,185 |
| | **71,722,974** | 59,077,874 |

## 7 INTANGIBLE ASSETS

Intangible assets comprise of the following:

| | ***31 December 2018 SR*** | *31 December 2017 SR* |
|---|---|---|
| Port concession rights (note 7.1) | **1,133,082,390** | 1,198,629,009 |
| Right to-use-land (note 7.2) | **26,162,608** | 27,298,792 |
| Other intangible assets (note 7.3) | **2,857,616** | 4,136,596 |
| | **1,162,102,614** | 1,230,064,397 |

RSGT's Ijara facility has been secured against intangible assets – port concession rights (note 18).

### 7.1 Port concession rights

Saudi Trade and Export Development Company (Tusdeer), a subsidiary of the Group, had an agreement with Saudi Ports Authority ("SPA" or "MAWANI") for the construction of a container terminal at the Re-export Zone of Jeddah Islamic Port. This Build-Operate-Transfer (BOT) Service Concession Agreement ("the Agreement") with MAWANI has been novated by Tusdeer to another subsidiary of the Group i.e. RSGT, effective from 22 Shawal 1428 H (corresponding to 3 November 2007), and the duration of this agreement is 32 years. As per BOT agreement, at the end of the concession period, the property and equipment underlying the port concession rights shall be transferred to MAWANI. The subsidiary commenced its initial commercial operations effective from 22 December 2009 (corresponding to 5 Muharram 1431 H). Port concession rights are being amortised over the useful lives of the underlying assets (representing the property and equipment) or the remaining term of concession, whichever is shorter. All amortization charge for the year has been allocated to direct cost.

The movement in port concession rights is as follows:

| **Cost** | ***31 December 2018 SR*** | *31 December 2017 SR* |
|---|---|---|
| At the beginning of the year | **1,711,145,484** | 1,711,145,484 |
| Disposal | **(589,846)** | - |
| End of the year | **1,710,555,638** | 1,711,145,484 |
| **Amortization** | | |
| At the beginning of the year | **512,516,475** | 446,093,761 |
| Charge for the year | **65,494,040** | 66,422,714 |
| Disposal | **(537,267)** | - |
| End of the year | **577,473,248** | 512,516,475 |
| **Net book value** | **1,133,082,390** | 1,198,629,009 |

## 7 INTANGIBLE ASSETS (continued)

### 7.2 Right to use land

Saudi Trade and Export Development Company ("Tusdeer"), a subsidiary of the Group had obtained a land on lease from MAWANI. The subsidiary transferred the right to use land to another subsidiary at original contract price. The right obtained for use of land is for a period of 31 years and 2 months ending on 14 Muharram 146I H (corresponding to 8 February 2039) and is being amortized on straight line basis.

### 7.3 Other intangible assets

Other intangible assets comprise of computer software and software licenses used by the Group companies to manage their financial and operational activities. The movement in other intangible assets is as follows:

| | ***31 December 2018 SR*** | *31 December 2017 SR* |
|---|---|---|
| **Cost** | | |
| At the beginning of the year | **20,230,480** | 19,714,440 |
| Additions during the year | **263,406** | 516,040 |
| Transfers from capital work-in-progress (notes 6 and 6.2) | **298,022** | - |
| At the end of the year | **20,791,908** | 20,230,480 |
| **Amortization** | | |
| At the beginning of the year | **16,093,884** | 14,180,352 |
| Charge for the year | **1,840,408** | 1,913,532 |
| **At the end of the year** | **17,934,292** | 16,093,884 |
| **Net book value** | **2,857,616** | 4,136,596 |

Amortization charge for the year has been allocated as follows:

| | ***31 December 2018 SR*** | *31 December 2017 SR* |
|---|---|---|
| General and administrative expenses (note 26) | **1,622,825** | 1,813,386 |
| Selling and distribution expenses (note 25) | **101,172** | 87,062 |
| Direct costs | **116,411** | 13,084 |
| | **1,840,408** | 1,913,532 |

## 8 INVESTMENT PROPERTIES

The movement in investment property is as follows:

| | ***Leasehold improvements*** | ***Buildings on leasehold land*** | ***31 December 2018*** | *31 December 2017* |
|---|---|---|---|---|
| **Cost** | | | | |
| At the beginning of the year | 107,741,107 | 132,532,824 | 240,273,931 | 226,553,302 |
| Additions during the year | 40,478 | - | 40,478 | 719,145 |
| Transfer from property and equipment (note 6.1) | 217,092 | - | 217,092 | 13,001,484 |
| | 107,998,677 | 132,532,824 | 240,531,501 | 240,273,931 |
| **Accumulated depreciation** | | | | |
| At the beginning of the year | 36,877,802 | 50,965,641 | 87,843,443 | 78,799,094 |
| Charge for the year | 3,399,514 | 6,272,904 | 9,672,418 | 9,044,349 |
| At the end of the year | 40,277,316 | 57,238,545 | 97,515,861 | 87,843,443 |
| Net book value: | | | | |
| **At 31 December 2018** | **67,721,361** | **75,294,279** | **143,015,640** | |
| At 31 December 2017 | 70,863,305 | 81,567,183 | | 152,430,488 |

**8 INVESTMENT PROPERTIES (continued)**

Investment properties represent warehouses rented to customers for storage and warehousing purposes, for a minimum period of 12 months.

The buildings and leasehold improvements are situated on a plot of land leased from Jeddah Islamic Seaport Authority for a nominal annual rental. The initial lease agreement is for 20 Hijra years starting from 15 Muharram 1419H (corresponding to 11 May 1998) with a grace period of two Hijra years, on 22 Ramadan 1424H (corresponding to 16 November 2003) the lease agreement was extended to 40 Hijra years.

Depreciation charge for the year has been allocated to direct cost.

**9 INVESTMENT IN ASSOCIATES**

| | ***31 December 2018 SR*** | *31 December 2017 SR* |
|---|---|---|
| As at 1 January | **110,971,249** | 100,685,270 |
| Share in results of associates, net | **23,745,408** | 20,735,689 |
| Share of actuarial losses of associates recognized in OCI | **793,261** | (521,236) |
| Dividend received during the year | **(14,394,945)** | (9,928,474) |
| As at 31 December | **121,114,973** | 110,971,249 |

9.1 As at 31 December 2018, the investment in associates comprises the following:

| ***Associates*** | ***Principal activity*** | ***Country of incorporation*** | ***Effective shareholding percentage*** | | ***Carrying amount*** | |
|---|---|---|---|---|---|---|
| | | | ***2018*** | ***2017*** | ***31 December 2018*** | ***31 December 2017*** |
| International Water Distribution Company Limited (note a) | Water/waste works, water treatment and lease of water equipment | Kingdom of Saudi Arabia | **50%** | 50% | **71,909,835** | 63,825,428 |
| Saudi Water and Environmental Services Company(note b) | Electrical, water and mechanical works and related operation and maintenance | Kingdom of Saudi Arabia | **31.85%** | 31.85% | **11,337,843** | 15,976,838 |
| Saudi Al Jabr Talke Company Limited | Contracting, construction, operation and maintenance of factories and warehouses | Kingdom of Saudi Arabia | **33.3%** | 33.3% | **37,007,775** | 30,502,211 |
| Xenmet SA, Vaduz (note c) | Trading, storage and brokerage of commodities | Principality of Liechtenstein | **19%** | 19% | **859,520** | **666,772** |
| | | | | | **121,114,973** | 110,971,249 |

## 9 INVESTMENT IN ASSOCIATES (continued)

a) The Parent Company does not have any direct control over management and operations of "International Water Distribution Company" accordingly, it is classified as associates and accounted for as such.

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

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

Summarized financial information of equity accounted investees are as follows:

| *Associates* | *International Water Distribution Company Limited* | *Saudi Water and Environmental Services Company* | *Al Jabr Talke Company Limited* | *Xenmet SA, Vaduz* |
|---|---|---|---|---|
| | *SR* | *SR* | *SR* | *SR* |
| **31 December 2018** | | | | |
| **Assets** | **266,055,658** | **24,547,429** | **153,774,721** | **4,193,708** |
| **Liabilities** | **122,098,362** | **1,410,543** | **58,647,572** | **615,019** |
| **Revenues** | **257,091,101** | **24,466,404** | **249,763,193** | **1,008,041** |
| **Net income** | **15,539,279** | **5,617,303** | **35,446,989** | **548,243** |
| 31 December 2017 | | | | |
| Assets | 268,879,118 | 34,188,991 | 138,176,610 | 3,345,278 |
| Liabilities | 141,228,627 | 1,584,769 | 60,482,241 | 673,320 |
| Revenues | 268,906,397 | 25,659,809 | 208,376,131 | 1,971,971 |
| Net income / (loss) | 18,177,972 | 6,064,892 | 27,629,172 | (824,499) |

## 10 FINANCIAL ASSETS AT FVOCI

| | ***31 December 2018*** | *31 December 2017* |
|---|---|---|
| Equity investment (note a) | **17,899,897** | 18,838,212 |
| Mutual fund | **-** | 50,487,996 |
| | **17,899,897** | 69,326,208 |

a) Equity investment comprise of investment in shares of Growth Gate Capital Corporation B.S.C. Movement in investment is as follows:

| | ***31 December 2018*** | *31 December 2017* |
|---|---|---|
| Balance at beginning of the year | **18,838,212** | 16,788,011 |
| Changes in fair value | **(938,315)** | 2,050,201 |
| Balance at end of the year | **17,899,897** | 18,838,212 |

b) Investments in mutual fund represents investments made by one of the subsidiaries of the Company by utilizing the funds available in the debt service reserve account, held with a commercial bank, in accordance with the terms of Ijara financing arrangement. During the year ended 31 December 2018, the subsidiary redeemed in full the investment in mutual fund.

## 11 GOODWILL

The Group recorded a Goodwill of SR 9.3 on acquisition of Kindasa Water Services Company (Kindasa), a subsidiary of the Group. Subsequently, an impairment of SR 0.5 million was recorded resulting in net carrying value of SR 8.8 million (31 December 2017: SR 8.8 million).

The management reviews goodwill for impairment annually and when there is an indicator of impairment. For the purposes of impairment testing, goodwill has been allocated to the subsidiary (i.e. cash generating unit). The recoverable amount of the cash generating unit has been determined based on a value in use calculation, using cash flow projections based on financial budgets approved by the senior management and Board of Directors of Kindasa.

During the year ended 31 December 2018, goodwill has been reviewed for indicators of impairment and no indicators for impairment have been identified.

## 12 INVENTORIES, NET

Inventories comprise of following:

| | ***31 December 2018*** | *31 December 2017* |
|---|---|---|
| Spare parts | **26,652,756** | 28,497,994 |
| Raw materials and chemicals | **92,626** | 349,049 |
| Fuel, oil and desalinated water | **193,124** | 151,871 |
| | **26,938,506** | 28,998,914 |
| Less: Allowance for slow moving and obsolete inventories | **(5,635,851)** | (3,496,325) |
| | **21,302,655** | 25,502,589 |

## 13 TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES

| | ***31 December 2018 SR*** | *31 December 2017 SR* |
|---|---|---|
| Trade receivables, net (note 32) | **86,722,446** | 48,462,699 |
| Prepayments and other receivables | **25,002,691** | 28,301,081 |
| Margin deposits (note 30) | **1,454,980** | 12,427,722 |
| Receivable in respect of disposal of an associate | **-** | 6,000,000 |
| Advances to suppliers | **2,894,131** | 1,986,823 |
| | **116,074,248** | 97,178,325 |
| Non current portion of trade receivables | **(8,041,252)** | (8,376,771) |
| | **108,032,996** | 88,801,554 |

During the year ended 31 December 2017, one of the subsidiaries agreed to reschedule the outstanding balance due from a customer amounting to SR 10.3 million in respect of lease of land space at bonded and re-export zone. Under the rescheduling arrangement, the amounts are due over a period of next three to four years till January 2021. Accordingly, the amount is discounted at market profit rates and recorded as long-term receivables at their present values.

## 14 CASH AND CASH EQUIVALENTS

| | ***31 December 2018*** | *31 December 2017* |
|---|---|---|
| Cash on hand | **268,740** | 352,924 |
| Cash at banks (notes 14.1 and 14.2) | **99,664,648** | 135,355,017 |
| Murabaha deposits (note 14.3) | **80,650,795** | 15,000,000 |
| | **180,584,183** | 150,707,941 |

Cash at banks include restricted balances amounting to

14.1 SR 6.8 million (31 December 2017: SR 13.12 million) held in debt service reserve account with a commercial bank held in accordance with the terms of Ijara financing arrangement (note 17).

14.2 SR 0.54 million (31 December 2017: SR 0.54 million) held with a commercial bank in respect of accumulated unclaimed dividends.

14.3 Murabaha deposits are placed with local commercial banks having original maturity of less than three months and yield financial income at prevailing market rates.

## 15 SHARE CAPITAL

As at 31 December 2018, the authorized and paid up capital of the Company 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 Company's existing retained earnings.

On 14 March 2017, the CMA issued its resolution approving the increase in Company's share capital. Thereafter, the shareholders' of the Company, 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 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 Company's Bylaws were completed on 29 May 2017 and the revised Commercial Registration was received on 23 July 2017.

## 16 STATUTORY RESERVE AND SPECIAL RESERVE

***Statutory reserve***

In accordance with the Company's Bylaws, the Company sets aside 10% of its net income in each year to a statutory reserve until such reserve equals to 30% of the share capital. This reserve is currently not available for distribution to the shareholders of the Company.

***Special reserve***

Up to 16 April 2017, under the Company's old Bylaws, 5% of the net income for the year was required to be transferred to a special reserve to be spent on matters of benefit to the Company. The shareholders' of the Company in an extraordinary general meeting held on 16 April 2017 approved the new Bylaws and discontinuation of transfer to special reserve. The shareholders also resolved to transfer the outstanding balance as at 31 December 2016 and 30 September 2017 from special reserve to statutory reserve in their meetings held on 16 April 2017 and 29 November 2017 respectively. Legal formalities related to the proposed amendments in the Company's Bylaws were completed during 2017.

## 17 LONG-TERM LOANS AND BANK FACILITIES

| | ***31 December 2018*** | *31 December 2017* |
|---|---|---|
| Long-term loans | **852,440,751** | 986,101,768 |
| Less: current portion | **(153,414,129)** | (146,391,442) |
| Non-current portion | **699,026,622** | 839,710,326 |

a) During 2007, a subsidiary 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.

During 2016, a subsidiary 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 a subsidiary (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.

| | ***31 December 2018*** | *31 December 2017* |
|---|---|---|
| Long-term loans | **844,912,426** | 982,108,043 |
| Less: current portion | **(151,642,758)** | (142,397,717) |
| Non-current portion | **693,269,668** | 839,710,326 |

b) During 2016, Kindasa entered into an agreement for a long-term facility with a commercial bank for 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 31 December 2018, Kindasa has drawn down SR 7.9 million out of total facility of SR 24 million.

| | ***31 December 2018*** | *31 December 2017* |
|---|---|---|
| Long-term loan | **7,528,325** | 3,993,725 |
| Less: current portion | **(1,771,371)** | (3,993,725) |
| Long-term portion | **5,756,954** | - |

## 18 EMPLOYEES' END-OF-SERVICE BENEFITS

The Company and its subsidiaries operate an approved unfunded employees' end of service benefits scheme / plan for its permanent employees. The movement in the defined benefit obligation over the year is as follows:

| | ***31 December 2018*** | *31 December 2017* |
|---|---|---|
| Balance at 1 January | **26,693,232** | 21,883,821 |
| ***Included in statement of profit or loss*** | | |
| Current service cost | **4,381,747** | 4,688,404 |
| Interest cost | **1,115,782** | 1,021,345 |
| | **5,497,529** | 5,709,749 |
| ***Included in statement of other comprehensive income*** | | |
| Actuarial (gain) / loss | **(2,976,034)** | 2,999,425 |
| Benefits paid | **(1,999,010)** | (3,981,921) |
| Capitalized during the year | **-** | 82,158 |
| Balance at 31 December | **27,215,717** | 26,693,232 |

***Actuarial assumptions***

The defined benefit plan is exposed to many actuarial risks, the most significant of which are final salary risk, discount / interest rate fluctuation risk, longevity risk and inflation risk.

The following were the principal actuarial assumptions at the reporting date:

| | ***31 December 2018*** | *31 December 2017* |
|---|---|---|
| Discount rate | 4.61% | 3.71% |
| Future salary growth / Expected rate of salary increase | 3% | 3% |
| Price inflation rate | 2% | 2% |
| Retirement age | 60 years | 60 years |

The weighted average duration of the defined benefit obligation is 13.41 years (2017: 12.32 years).

The sensitivity of the defined benefit obligation to changes in the discount rate by 100 basis points is as follows:

| | ***31 December 2018*** | *31 December 2017* |
|---|---|---|
| Increase in discount rate | **23,918,452** | 23,750,662 |
| Decrease in discount rate | **30,512,983** | 30,392,296 |

## 19 LONG-TERM PROVISIONS

| | **31 December 2018** | 31 December 2017 |
|---|---|---|
| Provision for asset replacement cost (note a) | **59,661,353** | 65,843,827 |
| Provision for dismantling cost (note b) | **1,662,887** | |
| Others | **179,330** | 196,921 |
| | **61,503,570** | 66,040,748 |

**a) Provision for asset replacement cost**
As per the Build Operate and Transfer (BOT) agreement with MAWANI, RSGT, a subsidiary of the Group has an obligation to replace certain machinery and equipment ("the Equipment") during the tenure of the agreement. The management of the subsidiary has estimated that an amount of SR 534 million (31 December 2017: SR 429 million) will be incurred to replace the Equipment.

During 2018, RSGT has used 6.62% (31 December 2017: 3.92%) as discount rate for determining the present value of obligation. The management believes that the discount rate used is reflective of the term of obligation.

**b) Provision for dismantling cost**
It represents cost to remove the plant from land leased by Jeddah Islamic port for a period of 17 years.

## 20 DERIVATIVE FINANCIAL INSTRUMENT

During the year ended 31 December 2018, a subsidiary of the group 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. For the purposes of hedge accounting, hedging instrument is classified as a cash flow hedge.

As at 31 December 2018, the fair value of the hedging instrument was SR 4,537,974 and notional amount of the hedged item was SR 521,037,209.

## 21 TRADE PAYABLES, ACCRUED AND OTHER LIABILITIES

| | ***31 December 2018*** | *31 December 2017* |
|---|---|---|
| Accrued liabilities | **105,726,854** | 55,164,605 |
| Deferred revenue | **10,699,815** | 6,609,165 |
| Trade payables | **8,168,527** | 54,420,177 |
| Advances from customers | **4,007,638** | 1,465,067 |
| Zakat and tax payable | **4,152,611** | 4,554,394 |
| Other payables | **26,956,350** | 36,142,645 |
| | **159,711,795** | **158,356,053** |

## 22 REVENUES

| | ***31 December 2018*** | *31 December 2017* |
|---|---|---|
| Shipping and unloading services | **388,350,918** | 369,056,975 |
| Sale of potable water | **92,920,193** | 98,420,294 |
| Rentals and support services | **83,433,753** | 94,929,538 |
| | **564,704,864** | 562,406,807 |

**23 DIRECT COSTS**

| | ***31 December 2018*** | *31 December 2017* |
|---|---|---|
| Shipping and unloading services | **238,243,204** | 257,241,102 |
| Cost of sale of potable water | **65,308,715** | 66,319,660 |
| Rentals and support services | **39,087,197** | 40,159,137 |
| | **342,639,116** | 363,719,899 |

**24 SELLING AND DISTRIBUTION EXPENSES**

| | ***31 December 2018*** | *31 December 2017* |
|---|---|---|
| Depreciation (note 6) | **7,566,797** | 7,482,663 |
| Salaries, wages and benefits | **5,566,361** | 4,448,796 |
| Utilities and telecommunication | **751,791** | 500,278 |
| Advertising and marketing | **637,817** | 1,386,696 |
| Impairment allowance | **393,378** | 3,777,935 |
| Amortization (note 7) | **101,172** | 87,062 |
| Others | **1,378,060** | 1,783,747 |
| | **16,395,376** | 19,467,177 |

**25 GENERAL AND ADMINISTRATIVE EXPENSES**

| | ***31 December 2018*** | *31 December 2017* |
|---|---|---|
| Salaries, wages and benefits | **67,714,221** | 73,099,545 |
| Legal and professional fees | **7,005,300** | 10,056,851 |
| Utilities, telecommunication and office supplies | **4,438,925** | 4,776,579 |
| Depreciation (note 6) | **12,042,935** | 4,349,185 |
| Travelling | **4,119,996** | 4,068,699 |
| Amortization (note 7) | **1,622,825** | 1,813,386 |
| CWIP written-off (note 6) | **2,897,171** | - |
| Others | **17,750,758** | 7,135,482 |
| | **117,592,131** | 105,299,727 |

**26 OTHER INCOME**

a) During 2018, one of the subsidiaries of the Group received a full and final settlement offer for an amount of SR 2 million from a contractor with respect to claims made against the contractor in prior years for the terminal design and supervision consultancy services.

b) During 2018, the Group recorded gain on disposal of property and equipment amounting to SR 1.1 million (2017: Loss of SR 160,506).

c) During 2017, one of the subsidiaries of the Group received SR 11.19 million as full and final compensation from a contractor with respect to claims made against the contractor in prior years for the terminal design and supervision consultancy services.

**26 OTHER INCOME (continued)**

d) During 2017, Parent Company received SR 6 million as full and final settlement against disposal of 45% shareholding in "Stork Technical Services Saudi Company Limited".
e) During 2017, one of the subsidiaries of the Group reversed provision of SR 4.89 million with respect to litigation matter with Jeddah Islamic Port in relation to lease of land and warehouses in accordance with the advice of legal counsel.
f) During 2017, provision of SR 1.97 million made in prior years against zakat contingencies was reversed based on recent decisions and hearings of GAZT.

**27 ZAKAT AND INCOME TAX**

Movement in provision for zakat is as follows:

| | ***31 December 2018*** | *31 December 2017* |
|---|---|---|
| Balance at 1 January | **5,096,081** | 6,593,665 |
| Charge for the year | **3,992,582** | 4,378,881 |
| Amounts paid during the year | **(4,502,225)** | (5,876,465) |
| Balance at 31 December | **4,586,438** | 5,096,081 |

Movement in provision for tax is as follows:

| | ***31 December 2018*** | *31 December 2017* |
|---|---|---|
| Balance at 1 January | **(541,687)** | 943,138 |
| Charge for the year | **813,527** | 2,323,208 |
| Amounts paid during the year | **(705,667)** | (3,808,033) |
| Balance at 31 December | **(433,827)** | (541,687) |

Tax charge during the year relates to share of non-controlling interests in one of the subsidiaries.

***Zakat assessments status***

***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 Higher Appeal Committee (HAC). The Company has filed an appeal against the decision issued by the HAC with the Board of Grievances (BOG). In addition, the Parent Company has also requested the GAZT to reconsider their revised assessment. The BOG has recently issued their decision by rejecting to review the appeal filed by the Company. The company is in process of filing an appeal to second level of BOG.

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.

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 consolidated financial statements, GAZT is yet to raise the assessment for the years 2016 and 2017.

## 27 ZAKAT AND INCOME TAX (continued)

**ZAKAT ASSESSMENTS STATUS (continued)**

***Subsidiaries***
***Red Sea Gateway Terminal Company Limited and Red Sea Ports Development Company ("the Subsidiaries")***
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 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 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 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 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 consolidated financial statements, GAZT is yet to raise the assessment for the years from 31 December 2009 to 31 December 2017.

## 28 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 year.

| | ***31 December 2018*** | *31 December 2017* |
|---|---|---|
| Profit for the period attributable to ordinary equity holders of the Parent Company | **46,745,090** | 58,811,404 |
| Weighted average number of ordinary shares in issue | **81,600,000** | 81,600,000 |
| Basic and diluted earnings per share | **0.57** | 0.72 |

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

## 29 RELATED PARTY TRANSACTIONS AND BALANCES

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

a) Significant related party transactions for the year ended 31 December are as follows:

| ***Related party*** | ***Relationship*** | ***Description*** | ***Amount of transaction*** | | ***Balance as at*** | |
|---|---|---|---|---|---|---|
| | | | ***31 December 2018 SR*** | *31 December 2017 SR* | ***31 December 2018 SR*** | *31 December 2017 SR* |
| International Water Distribution Company | Associate | Sales of goods and services | **57,220,639** | 60,296,987 | **6,984,904** | 9,084,846 |
| | | Services rendered to associate | **693,000** | - | **2,105,597** | - |
| | | Expenses incurred by associate on behalf of the Group | **(30,469)** | - | - | - |
| | | Expenses incurred by Group on behalf of the associate | **2,176,893** | - | - | - |
| Arabian Bulk Trade Limited | Affiliate | Lease of land and warehouses | **241,022** | 597,573 | **4,003** | 111,978 |
| Ambro limited | Affiliate | Purchase of services | **(80,898)** | - | - | - |
| Stork Technical Services Saudi Arabia Limited | Associate | Payments made by the Group on behalf of associate | - | 1,046,956 | - | 365,063 |
| | | Expenses incurred by subsidiary on behalf of associate | - | 833,221 | - | 833,221 |
| Al Jabr Talke Company Limited | Associate | Services rendered to associate | **498,785** | 325,025 | **250,985** | - |
| | | Dividend received from associate | **6,799,945** | 4,783,474 | - | - |
| | | Expenses cross charged by associate | - | (18,016) | - | - |
| Saudi Water and Environmental Services Company Limited | Associate | Sales of goods and services | **4,574,610** | 5,128,654 | **331,625** | 234,010 |
| | | Dividend received from associate | **-** | 5,145,000 | **-** | **-** |
| | | Purchase of goods and services | **-** | (21,776,761) | **-** | (1,745,951) |
| Saudi Cable Company Limited | Affiliate | Lease of land and warehouses | **366,492** | 264,039 | **242,892** | 51,830 |

## 29 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

| *Related party* | *Relationship* | *Description* | *Amount of transaction* | | *Balance as at* | |
|---|---|---|---|---|---|---|
| | | | ***31 December 2018 SR*** | *31 December 2017 SR* | ***31 December 2018 SR*** | *31 December 2017 SR* |
| International Water and Distribution Company Limited | Associate | Services rendered to associate | **-** | 660,000 | **-** | - |
| | | Expenses incurred by associate on behalf of the Group | **-** | 5,540 | **-** | - |
| | | Expenses incurred by Group on behalf of the associate | **-** | 1,644,821 | **-** | 1,500,000 |
| Aecom Arabia Limited | Affiliate | Payments made by the Group on behalf of affiliate | **-** | - | **(64,226)** | - |
| Al Karam Fedics Services Company | Affiliate | Purchase of goods and services | **(9,413,894)** | (8,594,971) | **(807,873)** | (785,363) |
| Xenel Industries Limited | Shareholder | Payments made by the Group on behalf of the Shareholder | **135,729** | (365,429) | **-** | - |
| | | Expenses incurred by the shareholder on behalf of the Group | **(468,750)** | (2,119,136) | **(20,246)** | (482,452) |
| Haji Abdullah Ali Reza & Co. Limited | Affiliate | Purchase of goods | **(36,081)** | (271,997) | **-** | - |
| | | Purchase of air tickets | **130,931** | (881,227) | **-** | (26,260) |
| **Due from related parties** | | | | | **9,920,006** | 12,245,174 |
| **Due to related parties** | | | | | **(892,345)** | (3,040,026) |

**29 RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

b) Key management personnel remuneration and compensation comprised of the following:

| | ***31 December 2018*** | *31 December 2017* |
|---|---|---|
| Short term employee benefits | **8,472,440** | 10,676,126 |
| Post-employment benefits | **460,164** | 388,047 |
| | **8,932,604** | 11,064,173 |

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

c) Board of Directors / Committee members remuneration and compensation comprised of the following:

| | ***31 December 2018*** | *31 December 2017* |
|---|---|---|
| Meeting attendance Fees | **445,000** | 731,000 |
| Other remuneration | **4,260,000** | 7,783,000 |
| | **4,705,000** | 8,514,000 |

**30 COMMITMENTS AND CONTINGENCIES**

At 31 December 2018, the Group's bankers have issued letters of guarantee amounting to SR 42.1 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 deposited.

At 31 December 2018, the Group's bankers have issued letters of credit amounting to SR nil (31 December 2017: SR 29.6 million).

As at 31 December 2018, the Group has commitments for capital work in progress amounting to SR 2.9 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.

Future minimum rentals payable under non-cancellable operating leases are as follows:

| | ***31 December 2018*** | *31 December 2017* |
|---|---|---|
| Within one year | **19,097,099** | **19,097,099** |
| After one year but not more than five years | **84,893,528** | **84,874,536** |
| More than five years | **322,813,287** | **337,201,686** |
| | **426,803,914** | 441,173,321 |

## 31 BUSINESS SEGMENTS

The Group has the following main business segments:

- Port development and operations
- Water desalination and distribution
- Logistic parks and support services
- Unallocated: 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 Company'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 and for the year ended 31 December:

| | Reportable Segments | | | | | |
|---|---|---|---|---|---|---|
| **31 December 2018** | *Port development and operations (SR'000)* | *Logistic parks and support services (SR'000)* | *Water desalination and distribution (SR'000)* | *Total (SR'000)* | *Unallocated (SR'000)* | *Total (SR'000)* |
| External revenues | 388,666 | 83,504 | 93,740 | 565,910 | - | 565,910 |
| Inter-segment revenue | (315) | (70) | (820) | (1,205) | - | (1,205) |
| **Segment Revenue** | 388,351 | 83,434 | 92,920 | 564,705 | - | 564,705 |
| Direct costs | (239,133) | (39,402) | (65,309) | (343,844) | - | (343,844) |
| Inter-segment direct costs | 890 | 315 | - | 1,205 | - | 1,205 |
| **Segment cost** | 238,243 | 39,087 | 65,309 | 342,639 | - | 342,639 |
| Segment gross profit | 150,108 | 44,347 | 27,611 | 222,066 | - | 222,066 |
| Profit attributable to shareholders of the Parent Company | 18,963 | 18,174 | 5,230 | 42,367 | 4,378 | 46,745 |
| Segment assets | 1,853,822 | 346,662 | 219,331 | 2,419,815 | 257,920 | 2,677,735 |
| Segment liabilities | 1,017,108 | 37,813 | 24,444 | 1,079,365 | 26,937 | 1,106,302 |

**31 BUSINESS SEGMENTS (continued)**

| | Reportable Segments | | | | | |
|---|---|---|---|---|---|---|
| **31 December 2017** | *Port development and operations (SR'000)* | *Logistic parks and support services (SR'000)* | *Water desalination and distribution (SR'000)* | *Total (SR'000)* | *Unallocated (SR'000)* | *Total (SR'000)* |
| External revenues | 369,057 | 98,537 | 99,133 | 566,727 | - | 566,727 |
| Inter-segment revenue | - | (3,607) | (713) | (4,320) | - | (4,320) |
| Segment Revenue | 369,057 | 94,930 | 98,420 | 562,407 | - | 562,407 |
| Direct costs | 261,535 | 40,185 | 66,320 | 368,040 | - | 368,040 |
| Inter-segment direct costs | (4,294) | (26) | - | (4,320) | - | (4,320) |
| Segment cost | 257,241 | 40,159 | 66,320 | 363,720 | - | 363,720 |
| Segment gross profit | 111,816 | 54,771 | 32,100 | 198,687 | - | 198,687 |
| Profit attributable to shareholders of the Parent Company | 20,598 | 21,300 | 8,404 | 50,302 | 8,509 | 58,811 |
| Segment assets | 1,995,726 | 302,773 | 228,414 | 2,526,913 | 257,922 | 2,784,835 |
| Segment liabilities | 1,158,431 | 36,428 | 19,158 | 1,214,017 | 26,757 | 1,240,774 |

**32 FINANCIAL RISK MANAGEMENT**

The Group's activities expose it to a variety of financial risks: market risk (including interest rate risks, currency risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on robust liquidity management as well as monitoring of various relevant market variables, thereby consistently seeking to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

**Market risk**
Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk and commodity risk. Financial instruments affected by market risk include long term loans and long term liabilities.

***Interest rate risk***
Interest rate risk is the exposure to various risks associated with the effect of fluctuations in the prevailing interest rates on the Group's financial position and cash flows. The Group manages the interest rate risk by regularly monitoring the interest rate profiles of its interest bearing financial instruments.

Majority of the Group's borrowings are at floating rate of interest and are subject to re-pricing on a regular basis. Management regularly monitors the changes in interest rates. The Group enters into Interest Rate Swaps ("IRS") (Derivative financial instruments) to manage its exposure to interest rate risk. Such IRS is designated as a Cash flow hedge.

Increase / decrease in variable rate by 1% with all other variables held constant, the impact on the equity and profit before zakat and income tax for the year would have been SR 3.4 million (31 December 2017: SR 10.11 million).

**32 FINANCIAL RISK MANAGEMENT (continued)**

***Foreign currency risk***
Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's transactions are principally in Saudi Riyals and United States Dollar. Other transactions in foreign currencies are not material. The Group's management believes that their exposure to currency risk is limited as US Dollar is pegged to Saudi Riyal. Currency risk is managed on a regular basis and fluctuation in the exchange rates are monitored on a continuous basis.

***Other price risk***
The Group does not hold quoted instruments, accordingly not exposed to other price risk.

**Credit risk**
Credit risk is the risk that one party to financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. To reduce exposure to credit risk, the Group has developed a formal approval process whereby credit limits are applied to its customers. The management also continuously monitors the credit exposure towards the customers and makes provision against those balances considered doubtful of recovery. To mitigate the risk, the Group has a system of assigning credit limits to its customers based on an extensive evaluation based on customer profile and payment history.

The Groups gross maximum exposure to credit risk at the reporting date is as follows:

| | ***31 December 2018*** | *31 December 2017* |
|---|---|---|
| **Financial assets** | | |
| Trade receivables, net | **86,722,446** | 48,462,699 |
| Due from related parties | **9,920,006** | 12,245,174 |
| Balances with banks | **180,584,183** | 150,355,017 |
| | **277,226,635** | 211,062,890 |

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. As at 31 December 2018, 6 largest customers (31 December 2017: 6 largest customers) account for approximately 61% (31 December 2017: 76%) of outstanding trade receivables.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets. Outstanding customer receivables are regularly monitored. Some customers are also secured, where possible, by way of cash promissory note, security deposit or advance, which are considered integral part of trade receivables and considered in the calculation of impairment.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

| | ***31 December 2018*** | | | | | |
|---|---|---|---|---|---|---|
| | ***Current SR*** | ***<90 days SR*** | ***90–180 days SR*** | ***271–365 days SR*** | ***>1 year SR*** | ***Total SR*** |
| Exposure at default | 28,290,654 | 40,025,740 | 10,063,594 | 6,731,084 | 3,056,219 | 88,167,291 |
| Expected credit loss | 76,932 | 267,817 | 76,257 | 289,571 | 734,267 | 1,444,845 |

**32 FINANCIAL RISK MANAGEMENT (continued)**

**Credit risk (continued)**

Movement of impairment allowance against trade receivables is as follows:

| | ***31 December 2018*** | *31 December 2017* |
|---|---|---|
| Balance at beginning of the year | **5,550,939** | 2,648,799 |
| Charge during the year | **393,378** | 3,777,935 |
| Written off during the year | **(4,499,472)** | (875,795) |
| | **1,444,845** | 5,550,939 |

Credit risk on bank balances is limited as the bank balances are held with banks with sound credit ratings ranging from A2 to A1 based on Moody's credit rating. All bank accounts are held with banks within Saudi Arabia.

Financial position of related parties is stable. There were no past due or impaired receivables from related parties.

**Liquidity risk**

Liquidity risk is the risk that an enterprise will encounter difficulty in in meeting its obligations associated with financial liabilities that are settled by delivery of cash or another financial asset. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available through committed credit facilities to meet any future commitments as well as close monitoring of cash inflows and outflows from operations. The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

| **31 December 2018** | ***Within 1 year SR*** | ***1 to 5 years SR*** | ***More than 5 years SR*** | ***Total SR*** |
|---|---|---|---|---|
| Bank borrowings | **153,414,129** | **699,026,622** | **-** | **852,440,751** |
| Trade payables, accrued and other liabilities | **145,004,341** | **-** | **-** | **145,004,341** |
| Due to related parties | **892,345** | **-** | **-** | **892,345** |
| | **299,310,815** | **699,026,622** | **-** | **998,337,437** |

| 31 December 2017 | *Within 1 year SR* | *1 to 5 years SR* | *More than 5 years SR* | *Total SR* |
|---|---|---|---|---|
| Bank borrowings | 178,960,569 | 750,371,551 | 201,614,411 | 1,130,946,531 |
| Trade payables, accrued and other liabilities | 150,281,821 | - | - | 150,281,821 |
| Due to related parties | 3,040,026 | - | - | 3,040,026 |
| | 332,282,416 | 750,371,551 | 201,614,411 | 1,284,268,378 |

## 33 CAPITAL MANAGEMENT

For the purpose of the Group's capital management, capital includes issued capital, share premium, statutory reserve and retained earnings attributable to the equity holders of the Parent Company. The primary objective of the Group's capital management is to maximize the shareholder value.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus debt.

| | ***31* December 2018 SR** | *31 December 2017 SR* |
|---|---|---|
| Total liabilities | **1,106,302,152** | 1,240,231,827 |
| Less: Cash and cash equivalents | **(180,584,183)** | (150,707,941) |
| Net debt | **925,717,969** | 1,089,523,886 |
| Equity | **1,571,432,775** | 1,544,061,258 |
| Total capital | **2,497,150,744** | 2,633,585,144 |
| Gearing ratio | **37%** | 41% |

## 34 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 to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

If the inputs used to measure the fair value of an asset or liability falls into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest input level that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

**34 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.

| ***31 December 2018*** | ***Carrying value*** | ***Level 1*** | ***Level 3*** | ***Total*** |
|---|---|---|---|---|
| | ***SR*** | ***SR*** | ***SR*** | ***SR*** |
| **FINANCIAL ASSETS** | | | | |
| ***Amortised cost*** | | | | |
| Trade receivables | **116,074,248** | **-** | **-** | **-** |
| Due from related parties | **9,920,006** | | | |
| Cash and cash equivalents | **180,584,183** | **-** | **-** | **-** |
| ***FVOCI*** | | | | |
| Investment in equity securities | **17,899,897** | **-** | **17,899,898** | **17,899,898** |
| | **324,478,334** | **-** | **17,899,898** | **17,899,898** |
| **FINANCIAL LIABILITIES** | | | | |
| Loans and bank facility | **852,440,751** | - | - | - |
| Trade payables and other liabilities | **49,832,330** | - | - | - |
| Due to related parties | **892,345** | | | |
| Derivative financial instrument | **4,537,974** | - | **4,537,974** | **4,537,974** |
| | **907,703,400** | - | **4,537,974** | **4,537,974** |

| *31 December 2017* | *Carrying value* | *Level 1* | *Level 3* | *Total* |
|---|---|---|---|---|
| | *SR* | *SR* | *SR* | *SR* |
| FINANCIAL ASSETS | | | | |
| *Amortised cost* | | | | |
| Trade receivables | 97,178,325 | - | - | - |
| Due from related parties | 12,245,174 | - | - | - |
| Cash and cash equivalents | 150,707,941 | - | - | - |
| *FVOCI* | | | | |
| 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 |
| | 329,457,648 | 50,487,996 | 18,838,212 | 69,326,208 |
| FINANCIAL LIABILITIES | | | | |
| Loans and bank facility | 986,101,768 | - | - | - |
| Due to related parties | 3,040,026 | - | - | - |
| Trade payables and other liabilities | 98,637,054 | - | - | - |
| | 1,087,778,848 | - | - | - |

## 35 MATERIAL PARTLY-OWNED SUBSIDIARIES

| | ***31* December 2018 SR** | *31 December 2017 SR* |
|---|---|---|
| Non-controlling interest | **329,328,943** | 319,432,770 |

Summarised financial information of material non-controlling interest in "Red Sea Gateway Terminal Company Limited" and "Red Sea Ports Development Company Limited", is disclosed in note 31 to the consolidated financial statements under "Port development and operations" segment.

## 36 SUBSEQUENT EVENT

A Memorandum of Understanding (MoU) was signed on 28 January 2019 between a subsidiary of the Group and MAWANI, to further extend the scope of its concession agreement, the terms and conditions of which are under negotiation.

## 37 COMPARATIVE FIGURES

Certain of the prior year amounts have been reclassified to conform with the presentation in the current year. However, there was no impact on the total comprehensive income or equity of such reclassifications.

## 38 APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved and authorised to issue by the Board of Directors on 26 February 2019 (corresponding to 21 Jamada II 1440H).

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