

SAUDI INDUSTRIAL SERVICES COMPANY
(A Saudi Joint Stock Company)

CONDENSED CONSOLIDATED
INTERIM FINANCIAL STATEMENTS (UNAUDITED)
For the three-months and six-months period ended 30 June 2017

SAUDI INDUSTRIAL SERVICES COMPANY
(A Saudi Joint Stock Company)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three-months and six-months period ended 30 June 2017

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INDEPENDENT AUDITORS' REPORT ON REVIEW OF INTERIM FINANCIAL STATEMENTS

The Shareholders
Saudi Industrial Services Company
(A Saudi Joint Stock Company)
Jeddah, Kingdom of Saudi Arabia.

Introduction

We have reviewed the accompanying 30 June 2017 condensed consolidated interim financial statements of Saudi Industrial Services Company and its subsidiaries (collectively referred to as "the Group") which comprises:

- the condensed consolidated statement of financial position as at 30 June 2017;
- the condensed consolidated statements of profit or loss and other comprehensive income for the three-months and six-months period ended 30 June 2017;
- the condensed consolidated statement of changes in equity for the six-months period ended 30 June 2017;
- the condensed consolidated statement of cash flows for the six-months period ended 30 June 2017; and
- the notes to the condensed consolidated interim financial statements.

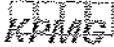
Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with IAS 34, 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 June 2017 condensed consolidated interim financial statements of Saudi Industrial Services Company and its subsidiaries are not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia.



Emphasis of matter

We draw attention to Note (10) to the accompanying 30 June 2017 condensed consolidated interim financial statement which states that the proposed amendments in the Company's Bylaws in respect of the increase in Company's share capital were completed during the quarter ended 30 June 2017, and subsequently, the Commercial Registration was revised on 23 July 2017. Accordingly, the share capital balance was increased in the accompanying condensed consolidated statement of financial position as at 30 June 2017 to reflect such increase in share capital. Our conclusion is not modified in respect of this matter.

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

Ebrahim Oboud Baeshen
License No. 382



**Jeddah on Dhul Qadah 18, 1438H
Corresponding August 10, 2017**

SAUDI INDUSTRIAL SERVICES COMPANY
(A Saudi Joint Stock Company)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)
As at 30 June 2017
(Expressed in Saudi Arabian Riyals)

	Notes	30 June 2017	31 December 2016	1 January 2016
ASSETS				
Non-current assets:				
Property, plant and equipment	4	809,507,818	739,709,191	536,822,298
Intangible assets	5	1,272,876,893	1,307,563,131	1,372,407,207
Investment properties	6	144,046,431	147,754,208	153,971,188
Investments	7	177,087,136	117,919,663	114,084,965
Derivative financial instruments	8	--	--	4,236
Total non-current assets		2,403,518,278	2,312,946,193	2,177,289,894
Current assets:				
Inventories		38,109,483	41,178,880	37,172,077
Derivative financial instruments	8	3,398	24,930	--
Trade and other receivables		105,809,357	113,936,782	118,565,253
Cash and cash equivalents	9	178,523,565	195,404,320	252,669,021
Total current assets		322,445,803	350,544,912	408,406,351
Total assets		2,725,964,081	2,663,491,105	2,585,696,245
EQUITY AND LIABILITIES				
Equity:				
Share capital	10	816,000,000	680,000,000	680,000,000
Share premium		36,409,063	36,409,063	36,409,063
Statutory reserve	11	64,251,250	39,758,712	30,549,496
Special reserve	12	1,106,310	19,869,813	15,265,205
Other reserves		10,811,597	8,446,560	13,151,743
Retained earnings		131,762,379	227,264,162	187,163,064
Equity attributable to the shareholders' of Parent Company		1,060,340,599	1,011,748,310	962,538,571
Non-controlling interests		495,743,244	478,196,792	457,564,214
Total equity		1,556,083,843	1,489,945,102	1,420,102,785
Non-current liabilities:				
Long-term loans and bank facilities	15	835,773,750	836,401,581	838,185,086
Employees' end of service benefits	16	22,542,152	22,004,420	20,635,597
Long term provisions	17	59,729,355	54,602,445	44,661,233
Derivative financial instruments	8	--	--	17,276
Total non-current liabilities		918,045,257	913,008,446	903,499,192
Current liabilities:				
Current portion of long-term loans and bank facilities	15	125,063,142	116,017,870	112,482,638
Zakat and income tax payable	19	5,998,794	7,536,803	11,100,178
Trade payables and other current liabilities		120,773,045	136,473,154	138,511,452
Derivative financial instruments	8	--	509,730	--
Total current liabilities		251,834,981	260,537,557	262,094,268
Total liabilities		1,169,880,238	1,173,546,003	1,165,593,460
Total equity and liabilities		2,725,964,081	2,663,491,105	2,585,696,245

The accompanying notes 1 through 27 form an integral part of these condensed consolidated interim financial statements.

SAUDI INDUSTRIAL SERVICES COMPANY
(A Saudi Joint Stock Company)

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME (UNAUDITED)**

For the three-months and six-months period ended 30 June 2017

(Expressed in Saudi Arabian Riyals)

	Notes	Three-months period ended 30 June		Six-months period ended 30 June	
		2017	2016	2017	2016
Revenue	20	149,291,776	182,505,237	321,249,219	354,145,611
Costs of revenue		(87,416,540)	(96,946,735)	(184,173,528)	(191,653,366)
Gross profit		61,875,236	85,558,502	137,075,691	162,492,245
Selling and distribution expenses		(3,596,553)	(3,272,004)	(7,232,933)	(6,703,087)
General and administrative expenses		(27,296,891)	(31,554,269)	(60,201,002)	(63,280,419)
Other income	21	11,475,561	421,940	12,433,294	3,222,711
Operating profit		42,457,353	51,154,169	82,075,050	95,731,450
Finance costs		(8,654,939)	(8,287,712)	(17,223,140)	(16,791,402)
Finance income		206,744	356,597	409,178	919,264
Share in results from equity accounted associates, net	7	5,401,527	3,873,362	9,950,286	7,339,537
Profit before Zakat and income tax		39,410,685	47,096,416	75,211,374	87,198,849
Zakat and income tax	19	(3,096,636)	(4,077,648)	(6,236,837)	(6,249,714)
Profit for the period		36,314,049	43,018,768	68,974,537	80,949,135
Other comprehensive income					
<i>Items that are or may be reclassified subsequently to profit or loss</i>					
Cash flow hedges – effective portion of changes in fair value		(532,860)	3,690,587	488,198	2,827,989
Available for sale financial assets – net change in fair value		2,087,006	--	2,087,006	(1,287,914)
Other comprehensive income for the period		1,554,146	3,690,587	2,575,204	1,540,075
Total comprehensive income for the period		37,868,195	46,709,355	71,549,741	82,489,210

The accompanying notes 1 through 27 form an integral part of these condensed consolidated interim financial statements.

SAUDI INDUSTRIAL SERVICES COMPANY
(A Saudi Joint Stock Company)

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME (UNAUDITED)**

For the three-months and six-months period ended 30 June 2017
(Expressed in Saudi Arabian Riyals)

	Note	Three-months period ended 30 June		Six-months period ended 30 June	
		2017	2016	2017	2016
Profit for the period attributable to:					
- Shareholders' of the Parent Company		24,101,052	29,036,417	46,227,252	53,248,339
- Non-controlling interests' share of net income in subsidiaries		<u>12,212,997</u>	<u>13,982,351</u>	<u>22,747,285</u>	<u>27,700,796</u>
Profit for the period		<u>36,314,049</u>	<u>43,018,768</u>	<u>68,974,537</u>	<u>80,949,135</u>
Total comprehensive income for the period attributable to:					
- Shareholders' of the Parent Company		25,847,559	31,277,801	48,592,289	53,685,261
- Non-controlling interests' share of net income in subsidiaries		<u>12,020,636</u>	<u>15,431,554</u>	<u>22,957,452</u>	<u>28,803,949</u>
Total comprehensive income for the period		<u>37,868,195</u>	<u>46,709,355</u>	<u>71,549,741</u>	<u>82,489,210</u>
Earnings per share	22				
Basic and diluted earnings per share from net profit for the period attributable to the Shareholders' of the Parent Company		<u>0.30</u>	<u>0.36</u>	<u>0.57</u>	<u>0.65</u>

The accompanying notes 1 through 27 form an integral part of
these condensed consolidated interim financial statements.

SAUDI INDUSTRIAL SERVICES COMPANY
(A Saudi Joint Stock Company)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six-months period ended 30 June 2017
(Expressed in Saudi Arabian Riyals)

	Equity attributable to the shareholders' of the Parent Company											
	Share capital	Share premium	Statutory reserve	Special reserve	Effect of reducing ownership percentage in a subsidiary (Note 13)	Effect of transaction with non-controlling interests without change in control (Note 14)	Cash flow hedging reserve	Unrealized gain or loss available for sale investment	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2017	680,000,000	36,409,063	39,758,712	19,869,813	4,653,218	(3,134,569)	(289,950)	7,217,861	227,264,162	1,011,748,310	478,196,792	1,489,945,102
Total comprehensive income												
Profit for the period	--	--	--	--	--	--	--	--	46,227,252	46,227,252	22,747,285	68,974,537
Other comprehensive income	--	--	--	--	--	--	292,552	2,072,505	--	2,365,037	210,167	2,575,204
Transactions with owners of the Company												
Issuance of bonus shares (Note 10)	136,000,000	--	--	--	--	--	--	--	(136,000,000)	--	--	--
Other transactions / changes												
Transfer to statutory reserve (Note 12)	--	--	19,869,813	(19,869,813)	--	--	--	--	--	--	--	--
Dividends paid to non-controlling interests' by a subsidiary	--	--	--	1,106,310	--	--	--	--	(5,729,035)	--	(5,411,000)	(5,411,000)
Transfer to reserves (Note 11 and 12)	--	--	4,622,725	--	--	--	--	--	--	--	--	--
Balance at 30 June 2017	816,000,000	36,409,063	64,251,250	1,106,310	4,653,218	(3,134,569)	2,582	9,290,366	131,762,379	1,060,340,599	495,743,244	1,556,083,843

The accompanying notes 1 through 27 form an integral part of these condensed consolidated interim financial statements.

SAUDI INDUSTRIAL SERVICES COMPANY
(A Saudi Joint Stock Company)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
For the six-months period ended 30 June 2017
(Expressed in Saudi Arabian Riyals)

	Equity attributable to the shareholders' of the Parent Company											
	Share capital	Share premium	Statutory Reserve	Special Reserve	Effect of reducing ownership percentage in a subsidiary (Note 13)	Effect of transaction with non-controlling interests without change in control (Note 14)	Cash flow hedging reserve	Unrealized gain on available for sale investment	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2016	680,000,000	36,409,063	30,549,496	15,265,205	4,653,218	--	(7,250)	8,505,775	187,163,064	962,538,371	457,564,214	1,420,102,785
Total comprehensive income	--	--	--	--	--	--	--	--	53,248,339	53,248,339	27,700,796	80,949,135
Profit for the period	--	--	--	--	--	--	--	(1,287,914)	--	436,921	1,103,154	1,540,075
Other comprehensive income	--	--	--	--	--	--	1,724,835	--	--	--	--	--
Transactions with owners of the Company	--	--	--	--	--	--	--	--	--	--	--	--
Transaction with non-controlling interests without change in control	--	--	--	--	--	--	--	--	--	(3,134,569)	(11,865,431)	(15,000,000)
Dividends paid	--	--	--	--	--	--	--	--	(34,000,000)	(34,000,000)	--	(34,000,000)
Other distributions	--	--	--	--	--	--	--	--	(1,400,000)	(1,400,000)	--	(1,400,000)
Other transactions / changes	--	--	5,391,071	2,695,535	--	--	--	--	(8,086,606)	--	--	--
Transfer to reserves (Note 11 and 12)	--	--	--	--	--	--	--	--	--	--	--	--
Dividends paid to non-controlling interests' by subsidiaries	--	--	--	--	--	--	--	--	--	--	(8,771,000)	(8,771,000)
Net movement in non-controlling interests'	--	--	--	--	--	--	--	--	--	--	(254,929)	(254,929)
Balance at 30 June 2016	680,000,000	36,409,063	35,940,567	17,960,740	4,653,218	--	1,717,585	7,217,861	196,924,797	977,689,262	465,476,804	1,443,166,066

The accompanying notes 1 through 27 form an integral part of these condensed consolidated interim financial statements.

SAUDI INDUSTRIAL SERVICES COMPANY
(A Saudi Joint Stock Company)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

For the six-months period ended 30 June 2017

(Expressed in Saudi Arabian Riyals)

	Notes	30 June 2017	30 June 2016
Operating activities:			
Profit before Zakat and income tax		75,211,374	87,198,850
<i>Adjustments for:</i>			
Depreciation and amortization		67,296,861	62,608,520
Provision for employees' end of service benefits	16.2	2,460,849	2,415,472
Gain on disposal of property, plant and equipment		(4,805)	(84,528)
Share in results from equity accounted associates, net	7.2	(9,950,286)	(7,339,537)
Provision / (reversal) for doubtful debts		129,594	(579,422)
Provision for inventories		2,556,952	--
Amortization of advance rentals		2,051,519	2,051,519
Provision for asset replacement cost	17	4,046,894	4,932,687
Financial charges		17,223,140	16,791,402
		<u>161,022,092</u>	<u>167,994,963</u>
<i>Changes in:</i>			
Trade and other receivables		7,997,831	839,501
Inventories		512,445	(4,697,359)
Trade payable and other current liabilities		(15,831,101)	26,804,269
Cash generated from operating activities		<u>153,701,267</u>	<u>190,941,374</u>
Employees' end of service benefits paid	16.2	(1,923,117)	(1,825,743)
Zakat and income tax paid	19	(7,774,846)	(8,148,851)
Financial charges paid		(16,012,132)	(16,811,836)
Net cash generated from operating activities		<u>127,991,172</u>	<u>164,154,944</u>
Investing activities:			
Additions to property, plant and equipment		(98,993,735)	(108,747,938)
Dividends received from an associate	7.2	2,869,819	--
Effect of transaction with non-controlling interest without change in control		--	(15,000,000)
Additions to investments classified as available for sale		(50,000,000)	--
Proceeds from disposal of property, plant and equipment		297,067	106,700
Net cash used in investing activities		<u>(145,826,849)</u>	<u>(123,641,238)</u>
Financing activities:			
Borrowings of loans and bank facilities		63,633,617	--
Repayment of loans and bank facilities		(57,267,695)	(56,080,402)
Dividends and other distributions		--	(35,400,000)
Dividends paid to non-controlling interests by subsidiaries		(5,411,000)	(8,771,000)
Net movement in non-controlling interests		--	(254,929)
Net cash generated from / (used in) financing activities		<u>954,922</u>	<u>(100,506,331)</u>
Net change in cash and cash equivalents		(16,880,755)	(59,992,625)
Cash and cash equivalents at the beginning of the period	9	<u>195,404,320</u>	<u>252,669,021</u>
Cash and cash equivalents at the end of the period	9	<u>178,523,565</u>	<u>192,676,396</u>

The accompanying notes 1 through 27 form an integral part of these condensed consolidated interim financial statements.

SAUDI INDUSTRIAL SERVICES COMPANY
(A Saudi Joint Stock Company)

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)**

For the three-months and six-months period ended 30 June 2017
(Expressed in Saudi Arabian Riyals)

1. ORGANISATION AND PRINCIPAL ACTIVITIES

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

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

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

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

<u>Company</u>	<u>Country of incorporation</u>	<u>Effective shareholding</u>		<u>Principal activities</u>
		<u>2017</u>	<u>2016</u>	
Saudi Trade and Export Development Company Limited (“Tusdeer”)	Saudi Arabia	76%	76%	Management and operation of storage and re-export project situated on the land leased from Jeddah Islamic Port.
Kindasa Water Services Company – Closed Joint Stock Company (“Kindasa”)	Saudi Arabia	65%	65%	Water desalination and treatment plant and sale of water.
Support Services Operation Limited Company (“ISNAD”)	Saudi Arabia	99.28%	99.28%	Development and operation of industrial zones, construction and operation of restaurants, catering and entertainment centers, construction of gas stations, auto servicing and maintenance workshops, and purchase of land for the construction of building thereon and investing the same through sale or lease.
Red Sea Gateway Terminal Company Limited (“RSGT”)	Saudi Arabia	60.6%	60.6%	Development, construction, operation and maintenance of container terminals and excavation and back filling works.
Red Sea Port Development Company – Closed Joint Stock Company (“RSPD”)	Saudi Arabia	60.6%	60.6%	Development, construction, operation and maintenance of container terminals and excavation and back filling works.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)**

For the three-months and six-months period ended 30 June 2017
(Expressed in Saudi Arabian Riyals)

2. BASIS OF PREPARATION

2.1 Statement of compliance

The accompanying condensed consolidated interim financial statements (“the Financial Statements”) have been prepared in accordance with IAS 34 – “*Interim Financial Reporting*”, as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants (“SOCPA”). Up to and including the year ended December 31, 2016, the Group prepared and presented statutory financial statements in accordance with the generally accepted accounting standards (GAAP) in the Kingdom of Saudi Arabia issued by SOCPA and the requirements of the Saudi Arabian Regulations for Companies and the Company's Bylaws in so far as they relate to the preparation and presentation of the financial statements. In these financial statements, the term “SOCPA GAAP” refers to SOCPA GAAP before the adoption of International Financial Reporting Standards (“IFRS”).

For financial periods commencing 01 January 2017, the applicable regulations require the Group to prepare and present financial statements in accordance with IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by SOCPA. As part of this requirement, the Group has prepared these condensed consolidated interim financial statements.

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.

As these condensed consolidated interim financial statements prepared in accordance with IAS 34 Interim Financial Reporting are for part of a period covered by its first IFRS financial statements, IFRS 1 “*First-time Adoption of International Financial Reporting Standards*” has been applied. The accounting policies followed in these condensed consolidated interim financial statements are the same as those applied in the Group’s condensed consolidated interim financial statements for the period ended 31 March 2017. The Group has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect.

An explanation of how the transition to IFRS has affected the previously reported equity as at 30 June 2016; and comprehensive income of the Group for the three and six months ended 30 June 2016, including the nature and effect of significant changes in accounting policies from those used in the Group’s financial statements for the year ended 31 December 2016 is provided in Note 26.

The condensed consolidated interim financial statements should be read in conjunction with the Group’s SOCPA GAAP annual consolidated financial statements for the year ended 31 December 2016, and the Group’s interim financial statements for the quarter ended 31 March 2017 prepared in accordance with IFRS applicable to interim financial statements.

2.2 Basis of Measurement

These condensed consolidated interim financial statements have been prepared under the historical cost basis, except for available-for-sale investments and derivative financial instruments which are stated at fair value, defined benefit obligation which is recognised at the present value of future obligations using the Projected Unit Credit Method and provision for asset replacement cost which is recognised at the present value of depreciated cost of future replaceable assets as per contractual requirements of service concession arrangement.

2.3 Functional and presentation currency

These condensed consolidated interim financial statements are presented in Saudi Arabian Riyals (“SR”) which is the Group’s functional and presentation currency. All amounts have been rounded off to the nearest Riyals, unless otherwise stated.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)**

For the three-months and six-months period ended 30 June 2017
(Expressed in Saudi Arabian Riyals)

2. BASIS OF PREPARATION (continued)

2.4 Critical accounting estimates and judgments

The preparation of Financial Statements, in conformity with IAS 34 as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, requires the use of judgements, estimates and assumptions. Such estimates and assumptions may affect the balances reported for certain assets and liabilities as well as the disclosure of certain contingent assets and liabilities as at the condensed consolidated statement of financial position date. Any estimates or assumptions affecting assets and liabilities may also affect the reported revenues and expenses for the same reporting period. Although these estimates are based on managements best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

a) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustment in the following years are stated below:

- i) Impairment of non-derivative financial assets - (Note 3.10 (a)) (impairment of non-derivative financial assets) describes the key assumption and estimation uncertainties underlying recoverable amounts for non-derivative financial assets.
- ii) Impairment of non-financial assets - (Note 3.10 (b)) (impairment of non-financial assets) describes the key assumption and estimation uncertainties underlying recoverable amounts for non-financial assets.
- iii) Useful lives of property, plant and equipment

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

- iv) Employee benefits – defined benefit plan

Certain actuarial assumptions have been adopted as disclosed in Note 16 to the financial statements for valuation of present value of defined benefit obligations. Any changes in these assumptions in future years might affect gains and losses in those years.

- v) 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 17.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)**

For the three-months and six-months period ended 30 June 2017
(Expressed in Saudi Arabian Riyals)

2. BASIS OF PREPARATION (continued)

2.4 Critical accounting estimates and judgments (continued)

b) Judgements

Further, information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the Financial Statements is included in the following notes:

- i) Classification of investment property (Note 3.7)
- ii) Lease classification (Note 3.8)
- iii) Provision and contingencies (Note 3.12)
- iv) Consolidation: whether the Group has de facto control over an investee (Note 3.1)

c) Measurement of fair values

‘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 in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

A number of the Group’s accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. Group’s management has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the Chief Operating Decision Maker (CODM) of the Group.

Group’s management regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the evidence obtained from the third parties is assessed to support the conclusion that these valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which the valuations should be classified.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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2. BASIS OF PREPARATION (continued)

2.4 Critical accounting estimates and judgments (continued)

c) Measurement of fair values (continued)

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

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

When quoted prices are available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price.

Subsequently, that difference is recognised in condensed consolidated statement of profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

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3. SIGNIFICANT ACCOUNTING POLICIES

The accompanying accounting policies set out below were adopted by the Group for the preparation of condensed consolidated interim financial statements for the three-months and six-months period ended 30 June 2017. These accounting policies have been applied consistently to all periods presented in these condensed consolidated interim financial statements and in preparing the opening IFRS statement of financial position at 1 January 2016 for the purposes of the transition to the IFRSs as explained in Note 26, unless otherwise indicated. Certain comparative amounts have been reclassified to conform to the current period's presentation.

3.1 Basis of consolidation

These financial statements comprising the condensed consolidated statement of financial position, condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity, condensed consolidated statement of cash flows and notes to the condensed consolidated interim financial statements of the Group include assets, liabilities and results of the operations of the Company and its subsidiaries as set out in Note 1. The Company and its subsidiaries are collectively referred to as the Group. Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control commences until the date on which control ceases.

The Group accounts for the business combinations (except for entities under common control) using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. The excess of the cost of acquisition and the fair value of non-controlling interests ("NCI") over the fair value of the identifiable net assets acquired is recorded as goodwill in condensed consolidated statement of financial position. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss. NCI are measured at their proportionate share of the acquiree's net identifiable assets at the date of acquisition. The portion of profit or loss and net assets not controlled by the Group are presented separately in the condensed consolidated statement of profit or loss and other comprehensive income and within equity in the condensed consolidated statement of financial position. Intra-group balances and transactions, and any unrealized income and expenses arising from intra group transactions, are eliminated. Accounting policies of subsidiaries are aligned, where necessary to ensure consistency with the policies adopted by the Group. The Company and its subsidiaries have the same reporting periods.

Business combinations including entities or business under common control are measured and accounted for using book value. The assets and liabilities acquired are recognized at the carrying amounts as transferred from the controlling company's books of accounts. The components of equity of the acquired entities are added to the same components within the Group equity and any profit or loss arising is recognized directly in condensed consolidated statement of changes in equity.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 Basis of consolidation (continued)

Investments in associates and jointly controlled entity (equity accounted investees)

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

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

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. 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.

Investments in associates and joint ventures (equity accounted investees) are accounted for using the equity method and are recognised initially at cost. Subsequent to initial recognition, the condensed consolidated interim financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in equity accounted investees. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate and joint venture is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the investment in associate / joint venture and its carrying value and recognises the loss in the condensed consolidated statement of profit or loss.

When the Group's share of losses exceeds its interest in an equity accounted investee, 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 an obligation or has made payments on behalf of the investee.

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

Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Foreign currency

i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in condensed consolidated statement of profit or loss except for foreign currency differences arising on translation of available for sale investments and effective portion of qualifying cash flow hedge, which are recognized in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the initial recognition. Foreign currency gains and losses are reported on a net basis in statement of profit or loss.

ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Saudi Riyals at the exchange rates at the reporting date. The income and expenses of foreign operations are translated to Saudi Riyals at exchange rates at the dates of the transactions.

Foreign currency differences arising on translation of foreign operations are recognized in other comprehensive income and accumulated in the translation reserve except to the extent that the translation difference is allocated to non-controlling interests.

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 profit or loss.

When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to condensed consolidated statement of profit or loss as part of the gain or loss on disposal. If the Group disposes of part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to NCI.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Financial instruments

a) Non-derivative financial assets

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group has the following non-derivative financial assets: loans and receivables, available-for-sale financial assets and cash and cash equivalents.

i) Loans and receivables

Loans and receivables comprise trade and other receivables that are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses and allowance for any doubtful debts. Allowance for doubtful debts is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Such allowances are charged to statement of profit or loss. When account receivable is uncollectible, it is written-off against the allowances for doubtful debts. Any subsequent recoveries of amounts previously written-off are credited in the statement of profit or loss.

ii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified as loans and receivables, held to maturity financial assets or financial asset at fair value through profit or loss. The Group's investments in equity securities are classified as available-for-sale financial assets. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value (unless the fair value for equity securities cannot be reliably measured and they are carried at cost). Changes in fair value, other than impairment losses on available-for-sale equity instruments, are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised, the cumulative gain or loss in equity is transferred to condensed consolidated statement of profit or loss.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Financial instruments (continued)

b) Non-derivative financial liabilities

Financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. Such financial liabilities are recognised initially at fair value minus, in case of financial liability not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method except for financial liabilities at fair value through profit or loss, which are measured at fair value. Changes in fair value of liabilities at fair value through profit or loss, along with any interest expense, are recognized in condensed consolidated statement of profit or loss.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group has the following non-derivative financial liabilities: long term loans and bank facilities, accounts payable and other current liabilities and other long term liabilities.

c) Derivative financial instruments, including hedge accounting

The Group holds derivative financial instruments to hedge its interest rate risk exposures.

On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be “highly effective” in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent.

Derivatives are recognised initially at fair value; any directly attributable transaction costs are recognized in condensed consolidated statement of profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

d) Cash flow hedge

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect net income, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve within condensed consolidated statement of changes in equity. The amount recognised in other comprehensive income is removed and included in condensed consolidated statement of profit or loss in the same period as the hedged cash flows affect net income, under the same line item in the statement of comprehensive income as the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in condensed consolidated statement of profit or loss.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Financial instruments (continued)

d) Cash flow hedge (continued)

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss.

e) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

3.4 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, cash at banks in current accounts and other short-term highly liquid investments with original maturities of three month or less, if any, which are available to the Group without any restrictions.

3.5 Property, Plant and Equipment

a) 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 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 condensed consolidated statement of profit or loss.

b) 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 condensed consolidated statement of profit or loss as incurred.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 Property, Plant and Equipment (continued)

c) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognised in condensed consolidated statement of profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant 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.

The estimated useful lives for the current and comparative periods are as follows:

	<u>Useful life</u>
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

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

Capital work-in-progress are carried at cost less any recognised impairment loss. When the assets are ready for intended use, the capital work in progress is transferred to the appropriate property, plant and equipment category and is accounted for in accordance with the Group's policies.

3.6 Intangibles

a) 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Intangibles (continued)

a) Port Concession Rights (continued)

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.

b) 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.

c) Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity accounted investee.

The carrying value of goodwill is reviewed annually to determine whether any objective indicator of impairment exists, unless an event or change in circumstances occurs during the year indicating an impairment of the carrying value which requires a valuation of goodwill during the year. Goodwill includes Company's share and share of non-controlling interests.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Intangibles (continued)

d) 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 condensed 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.

Amortisation is recognised in condensed consolidated statement of profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

	<u>Useful life</u>
Computer software	2 – 5 years

3.7 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 condensed consolidated statement of profit or loss as incurred.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7 Investment Properties (continued)

Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Realized gains or losses on disposal of investment properties, representing the difference between the net disposal proceeds and the carrying amount, are included in condensed consolidated statement of profit or loss in the period in which they arise.

Transfers are made to (or from) investment properties 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.

3.8 Operating leases

Payments made under operating leases are recognised in condensed consolidated statement of profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

3.9 Inventories

Inventories are stated at the lower of cost and net realizable value. The cost of inventories is principally based on the weighted average principle, and includes expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

3.10 Impairment

a) Non derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (excluding equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10 Impairment (continued)

a) Non derivative financial assets (continued)

i) Loans and receivables

The Group considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in net income and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through net income.

ii) Available for sale investments

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve to condensed consolidated statement of profit or loss. The amount reclassified is the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in profit or loss. If the fair value of an impaired available-for-sale debt security subsequently increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through profit or loss. However, any subsequent increase in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

iii) Investment in associates and joint venture

An impairment loss in respect of an equity-accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognised in condensed consolidated statement of profit or loss, and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10 Impairment (continued)

b) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories, investment properties and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU"). For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the group of CGUs that is expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level at which that goodwill is monitored for internal reporting purposes.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in condensed consolidated 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 units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Goodwill that forms part of the carrying amount of an investment in an associate is not recognised separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11 Employee Benefits

Employee benefits are payable to all employees employed under the terms and conditions of the Labor Laws applicable on the Company and its subsidiaries, on termination of their employment contracts.

The Group's obligation in respect of defined benefit plan is calculated by estimating the amount of future benefits that employees have earned in current and prior periods and discounting that amount to arrive at present value.

The Group sets assumptions used in determining the key elements of the costs of meeting such future obligations. These assumptions are set after consultation with the Group's actuaries and include those used to determine regular service costs and the financing elements related to the liabilities. The calculation of defined benefit obligation is performed by a qualified actuary using the projected unit credit method.

Re-measurement of defined benefit liability, which comprise of actuarial gains and losses are recognized immediately in other comprehensive income. The Group determines net interest expense on the defined benefit obligation for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to then net defined benefit, taking into account any change in the net defined benefit obligation during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in condensed consolidated statement of profit or loss.

3.12 Provisions

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

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.13 Revenue

Revenue represents the gross inflow of economic benefits arising in the course of the ordinary activities of the Group when those inflows result in increases in equity, other than increases relating to contributions from equity participants.

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

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

Revenue is measured at the fair value of the consideration received or receivable under contractually defined terms of payment. The specific recognition criteria described below must also be met before the revenue is recognized.

i) Sale of goods

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

The timing of the transfer of risks and rewards varies depending on the individual terms of the sales agreement. For sales of goods including water, the transfer usually occurs when the product is delivered to the customer.

ii) Rendering of services

The Group is involved in provision of operational services at Jeddah Islamic Port, 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 in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed based on the assessment of the work performed / completed under the contractual obligation undertaken to be performed as per the work order / contract / sales order.

Service revenue represents the invoiced value of services rendered by the Group during the period, net of trade discounts and Saudi Arabian Seaports Authority's ("SEAPA") share of revenue, wherever applicable.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.13 Revenue (continued)

iii) 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.

iv) Contract revenue

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably.

If the outcome of a construction contract can be estimated reliably, then contract revenue is recognised in profit or loss in proportion to the stage of completion of the contract. The stage of completion is assessed with reference to surveys of work performed. Otherwise, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

Contract expenses are recognised as incurred unless they create an asset related to future contract activity. An expected loss on a contract is recognised immediately in statement of profit or loss.

3.14 Finance income and finance costs

Finance income comprises interest income on funds invested and dividend income. Interest income is recognised as it accrues in condensed consolidated statement of profit or loss, using the effective interest method. Dividend income is recognised in condensed consolidated statement of profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, and impairment losses recognised on financial assets and foreign currency gain or loss on financial assets and liabilities. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in condensed consolidated statement of profit or loss using the effective interest method.

The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.15 Segment reporting

a) Business segment is group of assets, operations or entities:

- i) 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;
- ii) 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
- iii) 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.

b) Geographical segment

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.

3.16 Dividends

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

3.17 Zakat and income tax

Zakat is provided for in accordance with General Authority of Zakat and Tax ("GAZT") regulations. Income tax for foreign entities is provided for in accordance with the relevant income tax regulations of the countries of incorporation. Adjustments arising from final Zakat and income tax assessments are recorded in the period in which such assessments are made.

3.18 Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities in Financial Statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary differences arise from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.19 New Standards, Amendments and Standards issued and not yet effective

a) New Standards, Amendment to Standards and Interpretations

The Group has adopted, as appropriate, the following new and amended IASB Standards, effective 1 January 2017.

i. Disclosure Initiative (Amendments to IAS 7)

The amendments require disclosures that enable users of Financial Statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

Group's financing activities, as disclosed in condensed consolidated statement of cash flows, represents only cash flow changes.

ii. Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)

The amendments clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value.

Group does not hold any debt instruments measured at fair value; therefore, there is no impact of this amendment on Financial Statements.

iii. Annual Improvements to IFRSs 2014–2016 Cycle (Amendments to IFRS 12 Disclosure of Interests in Other Entities)

The amendments clarify that disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution. There is no impact of this amendment on these condensed consolidated interim financial statements.

b) Standards issued but not yet effective

Following are the new standards and amendments to standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted; however, the Group has not early adopted them in preparing these Financial Statements.

i. IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs.

IFRS 15 is effective for annual periods beginning on or after 1 January 2018. There is not going to be a significant impact on the Group's revenue recognition policy.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.19 New Standards, Amendments and Standards issued and not yet effective (continued)

b) Standards issued but not yet effective (continued)

ii. IFRS 9 Financial Instruments

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 Financial Instruments. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

Classification – Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Impairment – Financial Assets and Contract Assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with a forward-looking ‘expected credit loss’ (ECL) model. This will require considerable judgment as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs are those that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs are those that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset’s credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; an entity may choose to apply this policy also for trade receivables and contract assets with a significant financing component.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.19 New Standards, Amendments and Standards issued and not yet effective (continued)

b) Standards issued but not yet effective (continued)

ii. IFRS 9 Financial Instruments (continued)

Classification – Financial Liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these 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 profit or loss.

Hedge accounting

When initially applying IFRS 9, the Group may choose as its accounting policy to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements in IFRS 9.

IFRS 9 will require the Group to ensure that hedge accounting relationships are aligned with the Group's risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. IFRS 9 also introduces new requirements regarding rebalancing of hedge relationships and prohibiting voluntary discontinuation of hedge accounting. Under the new model, it is possible that more risk management strategies, particularly those involving hedging a risk component (other than foreign currency risk) of a non-financial item, will be likely to qualify for hedge accounting.

Under IAS 39, for all cash flow hedges, the amounts accumulated in the cash flow hedge reserve are reclassified to profit or loss as a reclassification adjustment in the same period as the hedged expected cash flows affect profit or loss. However, under IFRS 9, for cash flow hedges of foreign currency risk associated with forecast non-financial asset purchases, the amounts accumulated in the cash flow hedge reserve and the cost of hedging reserve will instead be included directly in the initial cost of the non-financial asset when it is recognised.

Disclosures

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and expected credit losses.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.19 New Standards, Amendments and Standards issued and not yet effective (continued)

b) Standards issued but not yet effective (continued)

ii. IFRS 9 Financial Instruments (continued)

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The Group plans to take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognised in retained earnings and reserves as at 1 January 2018.
- New hedge accounting requirements should generally be applied prospectively. However, the Group may elect to apply the expected change in accounting for forward points retrospectively.

iii. IFRS 16 Leases

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance including 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. The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.

Determining whether an arrangement contains a lease

On transition to IFRS 16, the Group can choose whether to:

- Apply the IFRS 16 definition of a lease to all its contracts; or
- Apply a practical expedient and not reassess whether a contract is, or contains, a lease.

Transition

As a lessee, the Group can either apply the standard using a:

- Retrospective approach; or
- Modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases. The Group currently plans to apply IFRS 16 initially on 1 January 2019. The Group has not yet determined which transition approach to apply.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.19 New Standards, Amendments and Standards issued and not yet effective (continued)

b) Standards issued but not yet effective (continued)

iii. IFRS 16 Leases (continued)

As a lessor, the Group is not required to make any adjustments for leases in which it is a lessor except where it is an intermediate lessor in a sub-lease.

iv. Annual Improvements to IFRSs 2014–2016 Cycle

IFRS 1 First-time Adoption of IFRS- Outdated exemptions for first-time adopters of IFRS are removed. Effective for annual periods beginning on or after 1 January 2018.

IAS 28 Investments in Associates and Joint Ventures - A venture capital organisation, or other qualifying entity, may elect to measure its investments in an associate or joint venture at fair value through profit or loss. This election can be made on an investment-by-investment basis. A non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries. This election can be made separately for each investment entity associate or joint venture. Effective retrospectively for annual periods beginning on or after 1 January 2018; early application is permitted.

v. Other Amendments

The following new or amended standards are not yet effective and neither expected to have a significant impact on the Group's consolidated financial statements.

- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4) Amendments respond to industry concerns about the impact of differing effective dates.
- Transfers of Investment Property (Amendments to IAS 40) – A property asset is transferred when, and only when, there is evidence of an actual change in its use.
- IFRIC 22 Foreign Currency Transactions and Advance Consideration - clarifies the transaction date used to determine the exchange rate.

4. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net comprises of the following:

	30 June <u>2017</u>	31 December <u>2016</u>	1 January <u>2016</u>
Property, plant and equipment (Note 4.1)	250,805,898	250,778,520	259,848,443
Property and equipment of bonded and re-export project (Note 4.2)	74,995,297	65,277,575	43,649,517
Property and equipment – port terminal operations (Note 4.3)	483,706,623	423,653,096	233,324,338
	<u>809,507,818</u>	<u>739,709,191</u>	<u>536,822,298</u>

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4. PROPERTY, PLANT AND EQUIPMENT, NET (continued)

4.1 Property, plant and equipment

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

	<u>Land</u>	<u>Leasehold improvements</u>	<u>Motor vehicles & tankers</u>	<u>Plant & equipment</u>	<u>Furniture & fixtures</u>	<u>Computers</u>	<u>Desalination plants</u>	<u>Capital work-in- progress</u>	<u>Total</u>
<u>Cost:</u>									
Balance at 1 January 2017	66,808,150	131,943	14,133,966	6,098,310	12,202,676	2,374,697	315,222,087	13,789,800	430,761,629
Additions during the period	--	--	653,748	28,899	181,724	79,941	124,191	10,602,005	11,670,508
Disposals during the period	--	--	(762,390)	(20,852)	(213,048)	--	(36,069)	--	(1,032,359)
Transfers during the period	--	--	--	--	11,615	--	--	(11,615)	--
Balance at 30 June 2017	<u>66,808,150</u>	<u>131,943</u>	<u>14,025,324</u>	<u>6,106,357</u>	<u>12,182,967</u>	<u>2,454,638</u>	<u>315,310,209</u>	<u>24,380,190</u>	<u>441,399,778</u>
<u>Depreciation:</u>									
Balance at 1 January 2017	--	131,943	10,527,986	5,676,925	6,754,965	2,083,807	154,807,483	--	179,983,109
Charge for the period	--	--	592,941	111,349	646,398	87,878	9,912,302	--	11,350,868
Disposals during the period	--	--	(632,966)	(2,262)	(88,069)	--	(16,800)	--	(740,097)
Balance at 30 June 2017	<u>--</u>	<u>131,943</u>	<u>10,487,961</u>	<u>5,786,012</u>	<u>7,313,294</u>	<u>2,171,685</u>	<u>164,702,985</u>	<u>--</u>	<u>190,593,880</u>
<u>Net book value:</u>									
As at 30 June 2017	<u>66,808,150</u>	<u>--</u>	<u>3,537,363</u>	<u>320,345</u>	<u>4,869,673</u>	<u>282,953</u>	<u>150,607,224</u>	<u>24,380,190</u>	<u>250,805,898</u>
As at 31 December 2016	<u>66,808,150</u>	<u>--</u>	<u>3,605,980</u>	<u>421,385</u>	<u>5,447,711</u>	<u>290,890</u>	<u>160,414,604</u>	<u>13,789,800</u>	<u>250,778,520</u>
As at 1 January 2016	<u>66,808,150</u>	<u>--</u>	<u>3,871,673</u>	<u>594,587</u>	<u>5,383,584</u>	<u>279,734</u>	<u>176,371,876</u>	<u>6,538,839</u>	<u>259,848,443</u>

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4. PROPERTY, PLANT AND EQUIPMENT, NET (continued)

4.1 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) The property, plant and equipment of Kindasa Water Services Company are mortgaged to Saudi Industrial Development Fund (Note 15 (a)).
- c) Capital work-in-progress mainly represents extension and upgradation of desalination facilities and construction work on Rabigh desalination facility and new logistic hub project in Jeddah.

4.2 Property and equipment of bonded and re-export project

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

	<u>Leasehold improvements</u>	<u>Buildings on leasehold land</u>	<u>Equipment</u>	<u>Capital work-in- progress</u>	<u>Total</u>
<u>Cost:</u>					
Balance at 1 January 2017	25,068,470	20,564,261	1,203,875	32,924,272	79,760,878
Additions during the period	--	--	--	10,579,755	10,579,755
Balance at 30 June 2017	<u>25,068,470</u>	<u>20,564,261</u>	<u>1,203,875</u>	<u>43,504,027</u>	<u>90,340,633</u>
<u>Depreciation:</u>					
Balance at 1 January 2017	10,777,404	2,505,457	1,200,442	--	14,483,303
Charge for the period	407,556	451,044	3,433	--	862,033
Balance at 30 June 2017	<u>11,184,960</u>	<u>2,956,501</u>	<u>1,203,875</u>	<u>--</u>	<u>15,345,336</u>
<u>Net book value:</u>					
At 30 June 2017	<u>13,883,510</u>	<u>17,607,760</u>	<u>--</u>	<u>43,504,027</u>	<u>74,995,297</u>
At 31 December 2016	<u>14,291,066</u>	<u>18,058,804</u>	<u>3,433</u>	<u>32,924,272</u>	<u>65,277,575</u>
At 1 January 2016	<u>13,865,500</u>	<u>18,960,894</u>	<u>30,688</u>	<u>10,792,435</u>	<u>43,649,517</u>

Capital-work-in progress mainly represents construction work on new logistic park project in Jeddah and upgradation and renovation of existing facilities at bonded and re-export zone.

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 Muharram 15, 1419H (corresponding to 11 May 1998) with a grace period of two Hijra years, On Ramadan 22, 1424H (corresponding to November 16, 2003) the lease agreement was extended to 40 Hijra years.

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4. PROPERTY, PLANT AND EQUIPMENT, NET (continued)

4.3 Property and equipment – port terminal operations

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

	Leasehold improvements	Motor vehicles	Furniture and fixtures	Computers and equipments	Machinery and equipments	Capital work- in-progress	Total
<u>Cost:</u>							
Balance at 1 January 2017	70,142,955	4,251,015	17,607,831	7,268,698	201,555,208	206,557,330	507,383,037
Additions during the period	635,285	254,609	347,207	573,775	513,049	73,564,902	75,888,827
Disposals during the period	--	--	--	--	(17,879)	--	(17,879)
Transfers during the period	647,760	310,000	--	--	--	(957,760)	--
Balance at 30 June 2017	<u>71,426,000</u>	<u>4,815,624</u>	<u>17,955,038</u>	<u>7,842,473</u>	<u>202,050,378</u>	<u>279,164,472</u>	<u>583,253,985</u>
<u>Depreciation:</u>							
Balance at 1 January 2017	9,144,159	2,327,765	7,529,763	4,795,314	59,932,940	--	83,729,941
Charge for the period	5,618,639	288,247	1,045,358	655,441	8,227,615	--	15,835,300
Disposals during the period	--	--	--	--	(17,879)	--	(17,879)
Balance at 30 June 2017	<u>14,762,798</u>	<u>2,616,012</u>	<u>8,575,121</u>	<u>5,450,755</u>	<u>68,142,676</u>	<u>--</u>	<u>99,547,362</u>
<u>Net book value:</u>							
At 30 June 2017	<u>56,663,202</u>	<u>2,199,612</u>	<u>9,379,917</u>	<u>2,391,718</u>	<u>133,907,702</u>	<u>279,164,472</u>	<u>483,706,623</u>
At 31 December 2016	<u>60,998,796</u>	<u>1,923,250</u>	<u>10,078,068</u>	<u>2,473,384</u>	<u>141,622,268</u>	<u>206,557,330</u>	<u>423,653,096</u>
At 1 January 2016	<u>32,262,138</u>	<u>1,005,583</u>	<u>9,848,481</u>	<u>2,223,956</u>	<u>106,984,065</u>	<u>81,000,115</u>	<u>233,324,338</u>

Capital-work-in progress mainly represents ongoing construction and expansion works on terminal berths.

RSGT's Ijara facility has been secured against property and equipment – port terminal operations (Note 15 (b)).

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5. INTANGIBLE ASSETS

Intangible assets comprise of the following:

	30 June <u>2017</u>	31 December <u>2016</u>	1 January <u>2016</u>
Port concession rights (Note 'a')	1,231,702,586	1,265,051,723	1,331,555,732
Right to use land (Note 'b')	27,840,652	28,432,583	29,565,153
Goodwill (Note 'c')	8,776,760	8,776,760	8,776,760
Other intangible assets (Note 'd')	<u>4,556,895</u>	<u>5,302,065</u>	<u>2,509,562</u>
	<u>1,272,876,893</u>	<u>1,307,563,131</u>	<u>1,372,407,207</u>

RSGT's Ijara facility has been secured against intangible assets – port concession rights (Note 15 (b)).

a) Port concession rights

The movement in port concession rights is as follows:

	30 June <u>2017</u>
<u>Cost:</u>	
Balance at 1 January and 30 June 2017	<u>1,710,965,046</u>
<u>Amortisation:</u>	
Balance at 1 January 2017	445,913,323
Charge for the period	<u>33,349,137</u>
Balance at 30 June 2017	<u>479,262,460</u>
<u>Net book value:</u>	
At 30 June 2017	<u>1,231,702,586</u>
At 31 December 2016	<u>1,265,051,723</u>
At 1 January 2016	<u>1,331,555,732</u>

b) Right to use land

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

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5. INTANGIBLE ASSETS (continued)

c) Goodwill

Goodwill of SR 9.3 million (31 December 2016: SR 9.3 million and 1 January 2016: SR 9.3 million) was recognised on acquisition of Kindasa Water Services Company, a subsidiary; and its carrying value as of 30 June 2017 is SR 8.8 million (31 December 2016: SR 8.8 million and 1 January 2016: 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.

During the six-months period ended 30 June 2017, goodwill has been reviewed for indicators of impairment and no indicators for impairment have been identified.

d) Other intangible assets

Other intangible assets comprise of computer softwares and software licenses used by the Group companies to manage their financial and operational activities.

The movement in other intangible assets is as follows:

	30 June 2017
<u>Cost:</u>	
Balance at 1 January 2017	19,714,439
Additions during the period	<u>135,500</u>
Balance at 30 June 2017	<u>19,849,939</u>
<u>Amortisation:</u>	
Balance at 1 January 2017	14,412,374
Charge for the period	<u>880,670</u>
Balance at 30 June 2017	<u>15,293,044</u>
<u>Net book value:</u>	
At 30 June 2017	<u><u>4,556,895</u></u>
At 31 December 2016	<u><u>5,302,065</u></u>
At 1 January 2016	<u><u>2,509,562</u></u>

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6. INVESTMENT PROPERTIES

The movement in investment property is as follows:

	<u>Leasehold improvements</u>	<u>Buildings on leasehold land</u>	<u>Capital work- in-progress</u>	<u>Total</u>
<u>Cost:</u>				
Balance at 1 January 2017	94,739,623	129,336,624	2,477,055	226,553,302
Additions during the period	--	--	719,145	719,145
Transfers during the period	--	3,196,200	(3,196,200)	--
	<u>94,739,623</u>	<u>132,532,824</u>	<u>--</u>	<u>227,272,447</u>
<u>Depreciation:</u>				
Balance at 1 January 2017	34,036,249	44,762,845	--	78,799,094
Charge for the period	1,365,476	3,061,446	--	4,426,922
	<u>35,401,725</u>	<u>47,824,291</u>	<u>--</u>	<u>83,226,016</u>
<u>Net book value:</u>				
At 30 June 2017	<u>59,337,898</u>	<u>84,708,533</u>	<u>--</u>	<u>144,046,431</u>
At 31 December 2016	<u>60,703,374</u>	<u>84,573,779</u>	<u>2,477,055</u>	<u>147,754,208</u>
At 1 January 2016	<u>63,434,329</u>	<u>90,536,859</u>	<u>--</u>	<u>153,971,188</u>

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 Muharram 15, 1419H (corresponding to 11 May 1998) with a grace period of two Hijra years, On Ramadan 22, 1424H (corresponding to November 16, 2003) the lease agreement was extended to 40 Hijra years.

7. INVESTMENTS

Investments comprise of following:

	<u>30 June 2017</u>	31 December <u>2016</u>	1 January <u>2016</u>
Investment in equity accounted associates (Note 7.1)	<u>108,212,119</u>	101,131,652	96,009,040
Available for sale investments (Note 7.3)	<u>68,875,017</u>	<u>16,788,011</u>	<u>18,075,925</u>
	<u>177,087,136</u>	<u>117,919,663</u>	<u>114,084,965</u>

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7. INVESTMENTS (continued)

7.1 Investment in equity accounted associates

Investment in equity accounted associates comprise of the following:

<u>Associates</u>	<u>Principal activities</u>	<u>Country of incorporation</u>	<u>Effective shareholding Percentage</u>			<u>Carrying amount</u>		
			<u>30 June 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>	<u>30 June 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
International Water Distribution Company Limited	Water/waste works, water treatment and lease of water equipment	Kingdom of Saudi Arabia	50%	50%	50%	60,484,538	54,907,347	47,724,045
Saudi Water and Environmental Services Company (Note 'i' below)	Electrical, water and mechanical works and related operation and maintenance	Kingdom of Saudi Arabia	31.85%	31.85%	29.4%	19,586,119	18,150,041	17,516,874
Al Jabr Talke Company Limited	Contracting, construction, operation and maintenance of factories and warehouses	Kingdom of Saudi Arabia	33.3%	33.3%	33.3%	27,469,942	27,192,876	22,975,084
Stork Technical Services Saudi Arabia limited (Note 'iii' below)	Maintenance and operations of power, oil, gas, desalination and petrochemical plants and calibration of machinery and electrical equipment	Kingdom of Saudi Arabia	45%	45%	45%	--	--	6,012,269
Xenmet SA, Vaduz (Note 'ii' below)	Trading, storage and brokerage of commodities	Principality of Liechtenstein	19%	19%	19%	671,520	881,388	1,780,768
						108,212,119	101,131,652	96,009,040

- i. Saudi Water and Environmental Services Company is 49% (31 December 2016: 49% and 01 January 2016: 49%) owned by Kindasa Water Services Company (a subsidiary), which is 65% (31 December 2016: 65% and 01 January 2016: 60%) owned by the Parent Company.
- ii. Xenmet SA, Vaduz is 25% (31 December 2016: 25% and 01 January 2016: 25%) owned by Saudi Trade and Export Development Company Limited (a subsidiary), which is 76% (31 December 2016: 76% and 01 January 2016: 76%) owned by the Parent Company.

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7. INVESTMENTS (continued)

7.1 Investment in equity accounted entities (continued)

- iii. During 2016, the Company had recognized a provision for impairment loss amounting to SR 4.2 million against its investment in Stork Technical Services Saudi Arabia Limited and reduced the carrying amount to SR Nil. As at 30 June 2017, the investment in Stork Technical Services Saudi Arabia Limited is fully impaired in the books of the Company.

7.2 Movement in investment in associates is as follows:

	30 June <u>2017</u>	31 December <u>2016</u>	30 June <u>2016</u>
Balance at beginning of the period / year	101,131,652	96,009,040	96,009,040
Dividends received during the period / year	(2,869,819)	(5,730,107)	--
Share in other comprehensive income of associates	--	(525,569)	--
Share of results of associates, net	<u>9,950,286</u>	<u>11,378,288</u>	<u>7,339,537</u>
Balance at end of the period / year	<u>108,212,119</u>	<u>101,131,652</u>	<u>103,348,577</u>

7.3 Available for sale investments comprise of the following:

	30 June <u>2017</u>	31 December <u>2016</u>	1 January <u>2016</u>
Mutual fund – quoted (Note 7.3.1)	50,036,805	--	--
Equity securities - unquoted (Note 7.3.2)	<u>18,838,212</u>	<u>16,788,011</u>	<u>18,075,925</u>
	<u>68,875,017</u>	<u>16,788,011</u>	<u>18,075,925</u>

7.3.1 Investment in quoted mutual fund classified as available for sale comprises of:

<u>Mutual fund</u>	<u>30 June 2017</u>		
	<u>Units</u>	<u>Costs of investment</u>	<u>Fair value</u>
Al Rajhi Commodities Mudaraba Fund - SAR	<u>334,290</u>	<u>50,000,000</u>	<u>50,036,805</u>

- a) 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 Ijarah financing arrangement.
- b) The investment and realization / redemption decision rests with the management of the subsidiary. However, the amount invested and realized / redeemed can only be deposited back into debt service reserve account (Note 9.1).

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7. INVESTMENTS (continued)

7.3.2 Movement in unquoted equity securities classified as available for sale is as follows:

	30 June 2017	31 December 2016	30 June 2016
Balance at beginning of the period / year	16,788,011	18,075,925	18,075,925
Changes in fair value	2,050,201	(1,287,914)	(1,287,914)
Balance at end of the period / year	18,838,212	16,788,011	16,788,011

8. DERIVATIVE FINANCIAL INSTRUMENTS

During 2012, a subsidiary "Red Sea Gateway Terminal Company Limited" entered into a Profit Rate Swap contract with a commercial bank to hedge its exposure to the variability in cash flows arising from profit payments on Ijara facilities obtained from banks. The profit rate swap was settled on its maturity date of 30 June 2017.

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

	30 June 2017		31 December 2016		1 January 2016	
	Positive Fair Value	Notional Amount	Negative Fair Value	Notional Amount	Negative Fair Value	Notional Amount
Profit Rate Swap	--	--	(509,730)	509,330,638	(17,276)	564,335,119

Movement in derivative financial instruments is as follows:

	30 June 2017	31 December 2016	1 January 2016
Balance at beginning of the period / year	(509,730)	(17,276)	(6,585,435)
Changes in fair value / settlement on maturity	(509,730)	(492,454)	6,568,159
Balance at end of the period / year	--	(509,730)	(17,276)

During 2013, a subsidiary "Saudi Trade and Export Development Company Limited" entered into a Profit Rate Swap contract to hedge its exposure to the variability in cash flows arising from profit payments on long-term loan facilities obtained from banks. The positive fair value of this instrument as at 30 June 2017 is SR 0.0034 million (31 December 2016: positive fair value SR 0.025 million and 1 January 2016: positive fair value SR 0.004 million). The maturity date of the instrument is 31 December 2017.

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

	30 June 2017		31 December 2016		1 January 2016	
	Positive Fair Value	Notional Amount	Positive Fair Value	Notional Amount	Positive Fair Value	Notional Amount
Profit Rate Swap	3,398	4,375,000	24,930	8,750,000	4,236	17,500,000

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8. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Movement in derivative financial instruments is as follows:

	30 June <u>2017</u>	31 December <u>2016</u>	1 January <u>2016</u>
Balance at beginning of the period / year	24,930	4,236	(202,555)
Changes in fair value	<u>(21,532)</u>	<u>20,694</u>	<u>206,791</u>
Balance at end of the period / year	<u>3,398</u>	<u>24,930</u>	<u>4,236</u>

9. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise of following:

	30 June <u>2017</u>	31 December <u>2016</u>	1 January <u>2016</u>
Cash on hand	429,496	300,778	284,146
Cash at banks (Note 9.1)	113,086,569	173,849,042	146,384,875
Murabaha term deposits (Note 9.2)	<u>65,007,500</u>	<u>21,254,500</u>	<u>106,000,000</u>
	<u>178,523,565</u>	<u>195,404,320</u>	<u>252,669,021</u>

9.1 Cash at banks include restricted balances amounting to:

- SR 13.04 million (31 December 2016: SR 61 million and 1 January 2016: SR 58.7 million) held in debt service reserve account with a commercial bank, held in accordance with the terms of Ijarah financing arrangement.
- SR 0.54 million (31 December 2016: SR 0.54 million and 1 January 2016: SR 0.25 million) held with a commercial bank in respect of accumulated unclaimed dividends.

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

10. SHARE CAPITAL

As at 30 June 2017, the authorised and paid up capital of the Company is divided into 81.6 million shares (31 December 2016: 68 million shares and 1 January 2016: 68 million shares) of SR 10 each.

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.

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10. SHARE CAPITAL (continued)

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 during the quarter ended 30 June 2017. Subsequent to the quarter ended, the Company received the revised Commercial Registration on 23 July 2017.

11. 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.

12. SPECIAL RESERVE

As required by the Company's old Bylaws, 5% of the net income for the year should be transferred to a special reserve to be spent on matters of benefit to the Company. The Company may resolve to discontinue such transfer when the reserve totals one half of its share capital.

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 and resolved to transfer the outstanding balance as at December 31, 2016 in special reserve account to statutory reserve. Legal formalities related to the proposed amendments in the Company's Bylaws were completed during the quarter ended 30 June 2017.

13. EFFECT OF REDUCING SHAREHOLDING PERCENTAGE IN A SUBSIDIARY

During 2005, Tusdeer increased its capital to SR 80 million. The Parent Company had contributed SR 17,300,000 (divided into 17,300 shares) for the increase in Tusdeer's capital. Subsequently to the capital increase, the Parent Company held 60,800 shares representing 76% of the Tusdeer's capital compared to a shareholding of 96.67% prior to capital increase.

Due to the decrease of the Parent Company's shareholding in Tusdeer, the Parent Company's share in the accumulated losses of Tusdeer consequently decreased as other shareholders of Tusdeer had partially absorbed accumulated losses of SR 4,641,143 in addition to SR 12,075 arising from decrease of shareholding percentage in other subsidiaries during 2008. The above transactions were included in Parent Company's equity in the condensed consolidated statement of financial position.

14. EFFECT OF INCREASING THE OWNERSHIP PERCENTAGE IN A SUBSIDIARY

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

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15. LOANS AND BANK FACILITIES

Loans and bank facilities are as follows:

	30 June <u>2017</u>	31 December <u>2016</u>	1 January <u>2016</u>
Saudi Industrial Development Fund loan (Note (a))	4,500,000	9,000,000	18,000,000
Ijara facilities obtained from banks (Note (b))	773,998,494	820,163,125	907,734,221
Long-term loans (Note (c))	4,375,000	8,926,545	21,875,000
Long-term loans	--	--	1,558,503
Long-term loans	--	--	1,500,000
Long-term loans (Note (d))	175,685,221	114,329,781	--
Long-term loans (Note (e))	2,278,177	--	--
	<hr/>	<hr/>	<hr/>
Total long-term loans	960,836,892	952,419,451	950,667,724
Less: current portion	(125,063,142)	(116,017,870)	(112,482,638)
	<hr/>	<hr/>	<hr/>
Non-current portion	835,773,750	836,401,581	838,185,086

- a) During 2003, Kindasa obtained a loan of SAR 64.5 million from Saudi Industrial Development Funds (“SIDF”) to finance the extension of the desalination plant. During 2011, the facility amount was increased to SAR 109.1 million. The loan is secured by the mortgage over Kindasa’s property, plant and equipment and personal guarantees from its shareholders. The loans agreements include certain covenants such as limiting rents, capital expenditure, dividends and maintenance of certain financial ratios. The remaining amount of loan is repayable in one installment with maturity of up to July 2017.
- b) During 2007, RSGT, entered into an Ijara arrangement with two banks to obtain a loan of SR 1,271 million. The Ijara facility is secured by property and equipment – port terminal operations and intangible assets – port concession rights of RSGT. The remaining amount of loan is repayable in thirteen 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.
- c) During 2013, Tusdeer entered into an agreement for a long-term loan facility with a commercial bank up to a maximum aggregate amount of SR 35 million. As at 30 June 2017, full amount of the loan has been utilised. The loan carries commission at commercial rates and the remaining amount of loan is repayable in one installment with maturity of up to December 2017. The loan is secured by assigning rights of the rental income and through promissory notes.
- d) During 2016, RSGT entered into an Ijara arrangement with two banks to obtain a loan of SR 260 million for expansion of its existing berths. The Ijara facility is secured by the property and equipment – quay project of RSGT. The loan carries commission at commercial rates (SIBOR plus an agreed margin) and is repayable in twelve semi-annual installments ending in December 2023. The first installment of the loan facility is payable in June 2018.

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15. LOANS AND BANK FACILITIES (continued)

- e) During 2016, Kindasa entered into an agreement for a long-term facility with a commercial bank amounting to SR 24 million to finance the construction of a new water desalination facility at Rabigh. The loan carries commission at commercial rates (SIBOR plus an agreed margin) and is repayable in quarterly instalments commencing one year after the first drawdown. The loan is secured by secondary mortgage over Kindasa's property and equipment. The loan agreement include certain covenants such as capital expenditure, routing of proceeds, dividend payments and maintenance of financial ratios. As at 30 June 2017, Kindasa has drawn down SR 2.28 million out of total facility of SR 24 million.

16. EMPLOYEES' END OF SERVICE BENEFITS

16.1 General Description of the plan

The Group operates an approved unfunded employees' end of service benefits scheme / plan for its permanent employees as required by the Saudi Arabian Labor law and in accordance with the local statutory requirements of the foreign subsidiaries.

The amount recognized in the condensed consolidated statement of financial position is as follows:

	<u>30 June</u> <u>2017</u>	31 December <u>2016</u>	1 January <u>2016</u>
Defined benefit obligation	<u>22,542,152</u>	<u>22,004,420</u>	<u>20,635,597</u>

16.2 Movement in net defined benefit liability

The movement in the defined benefit obligation is as follows:

	<u>30 June</u> <u>2017</u>	31 December <u>2016</u>
Balance at beginning of the period / year	22,004,420	20,635,597
<i>Included in profit or loss</i>		
Current service costs	2,460,849	3,851,378
Interest costs	--	979,567
	2,460,849	4,830,945
<i>Included in other comprehensive income</i>		
<u>Re-measurement (gain) / loss:</u>		
Actuarial loss arising from changes in assumptions	--	712,349
<i>Cash movements</i>		
Benefits paid	(1,923,117)	(4,174,471)
Balance at end of the period / year	<u>22,542,152</u>	<u>22,004,420</u>

16.3 Actuarial assumptions:

The following were the principal actuarial assumptions:

	31 December <u>2016</u>
Discount rate	4.22%
Future salary growth / expected rate of salary increase	3%
Price inflation rate	2%
Retirement age	60 years

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17. LONG TERM PROVISIONS

Other long-term liabilities are as follows:

	30 June 2017	31 December 2016	1 January 2016
Provision for asset replacement costs (Note 'a')	59,513,524	54,386,614	44,425,073
Others	215,831	215,831	236,160
	<u>59,729,355</u>	<u>54,602,445</u>	<u>44,661,233</u>

a) Provision for asset replacement costs

As per the BOT agreement with SEAPA, RSGT (one of the subsidiaries of the Company) has an obligation to replace certain machinery and equipment ("the Equipment") during the tenure of the agreement. The management of RSGT has estimated that RSGT will be required to incur an amount of SR 429 million (31 December 2016: SR 429 million and 1 January 2016: SR 429 million) to replace the Equipment. The useful life of the Equipment shall extend beyond the expiry of the BOT agreement and the remaining net book value of the Equipment at the end of the concession agreement is estimated to be SR 304.9 million (31 December 2016: SR 304.9 million and 1 January 2016: SR 304.9 million). As at 30 June 2017, an amount of SR 59.51 million (31 December 2016: SR 54.39 million and 1 January 2016: SR 44.43 million) has been recorded as provision for equipment replacement cost.

During 2017, RSGT has used 3.92% (31 December 2016: 3.92% and 1 January 2016: 3.88%) 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.

The movement in the provision for asset replacement costs is as follows:

	30 June 2017	31 December 2016
Balance at beginning of the period / year	54,386,614	44,425,073
Provided during the year		
- Charge for the period / year	4,046,894	8,093,785
- Borrowing cost	1,080,016	1,867,756
	<u>59,513,524</u>	<u>54,386,614</u>

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18. RELATED PARTY TRANSACTIONS AND BALANCES

Related party transactions mainly represent purchase and sale of goods and services, payments made, expenses cross-charged and other related transactions. The terms and conditions of these transactions were no more favourable than those available, or which might reasonably be expected to be available, in similar transactions with non related companies on an arm's length basis.

Significant related party transactions for the six-months period ended 30 June and balances arising there from are described as under:

<u>Name</u>	<u>Relationship</u>	<u>Nature of transactions</u>	<u>Amount of transactions</u>		<u>Closing balance</u>		
			<u>30 June 2017</u>	<u>30 June 2016</u>	<u>30 June 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
International Water Distribution Company Limited	Associate	Sales of goods and services	30,158,875	31,731,082	10,081,791	10,442,000	14,984,937
		Services rendered to Associate	330,000	330,000	233,685	--	--
		Expenses incurred by Associate on behalf of the Group	(2,990)	(16,600)	--	--	--
		Expenses incurred by Group on behalf of the Associate	58,896	--	--	797,779	1,543,544
Halwani Brothers Co.	Affiliate	Sale of goods	--	181,380	--	2,640	168,720
Arabian Bulk Trade Limited	Affiliate	Lease of land and warehouses	985,146	187,089	226,949	67,318	485,649
Ambro limited	Affiliate	Lease of land and warehouses	--	--	234,637	274,101	338,071
		Purchase of services	(284,297)	--	--	--	--
Saudi Cable Company	Affiliate	Lease of land and warehouses	442,044	397,448	77,930	174,326	128,244
		Advances paid for the purchase of goods	--	(1,082,345)	--	--	--

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18. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

<u>Name</u>	<u>Relationship</u>	<u>Nature of transactions</u>	<u>Amount of transactions</u>		<u>Closing balance</u>		
			<u>30 June 2017</u>	<u>30 June 2016</u>	<u>30 June 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Al Jabr Talke Company Limited	Associate	Services rendered to Associate	271,753	329,811	258,063	--	13,755
		Dividend received from associate	2,869,819	--	--	--	--
		Expenses cross charged by Associate	(13,690)	--	--	--	--
Saudi Water and Environmental Services Company Limited	Associate	Sale of goods and services	2,369,915	2,390,883	338,150	348,539	383,850
Xenel Industries Limited	Shareholder	Payments made by the Group on behalf of the Shareholder	202,154	596,428	--	212,782	--
		Expenses incurred by the Shareholder on behalf of the Group	(1,150,952)	(966,323)	(106,168)	--	(143,894)
Stork Technical Services Saudi Arabia Limited	Associate	Payments made by the Group on behalf of Associate	681,893	436,884	64,061	--	1,358,843
		Expenses incurred by a subsidiary on behalf of the Associate	826,674	--	826,674	2,400	144,157
Al Karam Fedics Services Company	Affiliate	Purchase of goods and services	(4,332,688)	(4,299,204)	(1,451,361)	(2,155,204)	(889,907)
Aecom Arabia Limited (formerly Resource Science Arabia Limited)	Affiliate	Payments made by the Group on behalf of affiliate	--	36,939	64,226	64,226	27,287

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18. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

<u>Name</u>	<u>Relationship</u>	<u>Nature of transactions</u>	<u>Amount of transactions</u>		<u>Closing balance</u>		
			<u>30 June 2017</u>	<u>30 June 2016</u>	<u>30 June 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Hidada Limited	Affiliate	Purchase of goods and services	--	(3,013,250)	(336,434)	(722,868)	(722,868)
Haji Abdullah Ali Reza & Co. Limited - General Technical Division	Affiliate	Purchase of goods	(53,357)	--	--	28,439	--
		Advances paid for the purchase of goods	129,296	--	47,500	--	--
Alireza Travel and Tourism Company	Affiliate	Purchase of goods and services	(666,079)	(1,185,372)	(115,585)	314,105	142,845

a) Key management personnel remuneration and compensation

Key management personnel remuneration and compensation comprised of the following:

	<u>30 June 2017</u>	<u>30 June 2016</u>
Short-term employee benefits	6,325,054	5,774,429

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

b) Board of Directors / Committee members remuneration

Board of Directors remuneration and compensation comprised of the following:

	<u>30 June 2017</u>	<u>30 June 2016</u>
Meeting attendance fees	393,000	115,000
Other remuneration	4,611,500	6,320,167
	5,004,500	6,435,167

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19. ZAKAT AND INCOME TAX

Movement in Zakat provision during the period / year was as follows:

	30 June <u>2017</u>	31 December <u>2016</u>	30 June <u>2016</u>
Balance at beginning of the period / year	6,593,665	9,962,179	9,962,179
Charge for the period / year	4,324,912	5,513,222	4,073,991
Amounts paid during the period / year	<u>(5,875,307)</u>	<u>(8,881,736)</u>	<u>(7,008,585)</u>
Balance at end of the period	<u>5,043,270</u>	<u>6,593,665</u>	<u>7,027,585</u>

Zakat was calculated on the unconsolidated financial statement of the Company and its subsidiaries.

Movement in tax provision during the period / year was as follows:

	30 June <u>2017</u>	31 December <u>2016</u>	30 June <u>2016</u>
Balance at beginning of the period / year	943,138	1,137,999	1,137,999
Charge for the period / year	1,911,925	3,817,100	2,175,723
Amounts paid during the period / year	<u>(1,899,539)</u>	<u>(4,011,961)</u>	<u>(1,140,266)</u>
Balance at end of the period	<u>955,524</u>	<u>943,138</u>	<u>2,173,456</u>

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

Zakat assessments status of the Group

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 Company had filed an objection against the GAZT's assessment. The Higher Appeal Committee issued their decision during the year. Following the issuance of the decision, the GAZT raised a revised assessment amounting to SR 9.5 million. The assessment does not take into consideration SR 3.9 million paid "under protest" at the time of filing an appeal with HAC.

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

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

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19. ZAKAT AND INCOME TAX (continued)

Zakat assessments status of the Group

Parent Company (continued)

The Parent Company has filed its Zakat returns for the years 2014 through 2016. Up to the date of this report, GAZT is yet to raise the assessment for the years ended 31 December 2014 through 2016.

Subsidiaries

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

The GAZT has raised final assessment for the years 2011 through 2013 and claimed an additional tax, withholding tax and Zakat differences amounting to SR 4,761,905. An appeal has been filed against these assessments.

RSGT has finalized its Zakat and tax assessments with GAZT up to 2010 and have filed their Zakat and income tax returns up to 2016. Upto the date of this report, GAZT is yet to raise the assessment for the years ended 31 December 2014 through 2016.

RSPD has filed its Zakat and income tax returns up to the year 2016. Upto the date of this report, GAZT is yet to raise assessments.

20. REVENUE

Revenue for the period is as follows:

	<u>Three-months period ended</u>		<u>Six-months period ended</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Shipping and unloading services	102,754,464	130,381,273	221,789,087	250,122,102
Sale of potable water	24,981,372	27,196,653	49,727,075	53,306,253
Rentals and support services	21,555,940	24,927,311	49,733,057	50,717,256
	<u>149,291,776</u>	<u>182,505,237</u>	<u>321,249,219</u>	<u>354,145,611</u>

21. OTHER INCOME

Other income includes an amount of SR 11,193,033 received during the quarter ended 30 June 2017 as full and final compensation from a contractor of one of the subsidiaries of the Group. This relates to claims made against the contractor in prior years for the terminal design and supervision consultancy services.

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22. EARNINGS PER SHARE

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

	<u>Three-months</u> <u>period ended</u>		<u>Six-months</u> <u>period ended</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Profit for the period attributable to ordinary equity holders of the Parent Company	<u>24,101,052</u>	<u>29,036,417</u>	<u>46,227,252</u>	<u>53,248,339</u>
Weighted average number of ordinary shares in issue	<u>81,600,000</u>	<u>81,600,000</u>	<u>81,600,000</u>	<u>81,600,000</u>
Basic and diluted earnings per share	<u>0.30</u>	<u>0.36</u>	<u>0.57</u>	<u>0.65</u>

The earnings per share for the previous six-months period ending 30 June 2016, of SR 0.79 per share, has been restated and computed based on the weighted average number of shares in issue after increase in share capital to 81,600,000 shares, as if the event had occurred at the beginning of the earliest period presented in accordance with the requirements of relevant IFRS.

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

23. COMMITMENTS AND CONTINGENCIES

In addition to the Zakat and income tax contingency matters as disclosed in Note 19, the Group has the following contingencies and commitments:

At 30 June 2017, the Group's bankers have issued letters of guarantee amounting to SR 43.8 million (31 December 2016: SR 41.1 million and 1 January 2016: SR 32.88 million) against which cash margin of SR 14.93 million (31 December 2016: SR 19.73 million and 1 January 2016: SR 11.51 million) was paid.

At 30 June 2017, the Group's bankers have issued letters of credit amounting to SR 78.68 million (31 December 2016: SR 77.8 million and 1 January 2016: SR Nil).

As at 30 June 2017, the Group has commitments for capital work in progress amounting to SR 141.83 million (2016: SR 245.4 million and 1 January 2016: SR 26.09 million) mainly relating to berth expansion project, new logistic hub and park construction project and new desalination plant construction and development project.

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24. BUSINESS SEGMENTS

The Group has the following main business segments:

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

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

The 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 six-months period ended 30 June:

	Reportable Segments			<u>Total</u> (SR'000)	<u>Unallocated</u> (SR'000)	<u>Total</u> (SR'000)
	<u>Port development and Operations</u> (SR'000)	<u>Logistic parks and support Services</u> (SR'000)	<u>Water desalination and distribution</u> (SR'000)			
<u>30 June 2017</u>						
External revenues	221,788	58,896	50,056	330,740	--	330,740
Inter segment revenue	--	(9,163)	(328)	(9,491)	--	(9,491)
Segment Revenue	221,788	49,733	49,728	321,249	--	321,249
Cost of revenue	(136,035)	(23,922)	(33,708)	(193,665)	--	(193,665)
Inter-segment cost of revenue	3,955	5,536	--	9,491	--	9,491
Segment cost	(132,080)	(18,386)	(33,708)	(184,174)	--	(184,174)
Segment gross profit	89,708	31,347	16,020	137,075	--	137,075
Segment profit	41,725	20,770	6,336	68,831	144	68,975
Profit attributable to shareholders of the Parent Company	27,600	14,371	4,112	46,083	144	46,227
<u>30 June 2017</u>						
Segment assets	1,930,133	331,570	255,630	2,517,333	208,631	2,725,964
Segment liabilities	1,079,925	38,165	25,173	1,143,263	26,617	1,169,880

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24. BUSINESS SEGMENTS (continued)

	Reportable Segments			Total (SR'000)	Unallocated (SR'000)	Total (SR'000)
	Port development and Operations (SR'000)	Logistic parks and support Services (SR'000)	Water desalination and distribution (SR'000)			
30 June 2016						
External revenues	250,122	58,448	53,547	362,117	--	362,117
Inter segment revenue	--	(7,731)	(241)	(7,972)	--	(7,972)
Segment Revenue	250,122	50,717	53,306	354,145	--	354,145
Cost of revenue	(145,704)	(19,776)	(34,145)	(199,625)	--	(199,625)
Inter-segment cost of revenue	4,008	3,964	--	7,972	--	7,972
Segment cost	(141,696)	(15,812)	(34,145)	(191,653)	--	(191,653)
Segment gross profit	108,426	34,905	19,161	162,492	--	162,492
Segment profit / (loss)	48,590	22,573	11,065	82,228	(1,279)	80,949
Profit / (loss) attributable to shareholders of the Parent Company	32,104	15,201	7,222	54,527	(1,279)	53,248
31 December 2016						
Segment assets	1,893,046	307,281	265,657	2,465,984	197,507	2,663,491
Segment liabilities	1,078,785	40,806	26,476	1,146,067	27,479	1,173,546

25. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value and cash flow interest rate risks and other price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

25.1 Risk management framework

Risk management is carried out by senior management under policies approved by the Board of Directors. Senior management identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The most important types of risk are credit risk, currency risk, liquidity risk and fair value and commission rate risks.

The Board of Directors has overall responsibility for establishment and oversight of the Group's risk management framework. The executive management team is responsible for developing and monitoring the Group's risk management policies. The team regularly meets and reports to the Board of Directors on its activities.

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25. FINANCIAL RISK MANAGEMENT (continued)

25.1 Risk management framework (continued)

Financial instruments carried on the balance sheet include cash and cash equivalents, trade and other receivables, investments, borrowings, derivatives, accounts payable and accrued and other current liabilities. The particular recognition methods adopted are disclosed in the significant accounting policies Note 3.

25.2 Market risk

Market risk is the risk that the fair value or future cash flows or income from a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: commission rate risk, currency risk and other price risk.

25.2.1 Commission and interest rate risk

Commission rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Group's financial positions and cash flows. The Group's commission rate risks arise mainly from its short-term deposits. 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. During 2012 and 2013, the Group entered 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.

The Group's commission and interest bearing financial instruments are as follows:

	30 June	31 December	1 January
	<u>2017</u>	<u>2016</u>	<u>2016</u>
Fixed rate instruments			
Financial assets – Murabaha term deposits	65,007,500	21,254,500	106,000,000
Financial liabilities – Loans and borrowings	(4,375,000)	(8,926,545)	(24,933,503)
Variable rate instruments			
Financial liabilities – Loans and borrowings	(982,531,640)	(967,114,176)	(940,558,528)
Derivative financial instrument – asset	3,398	24,930	4,236
Derivative financial instrument – liability	--	(509,730)	(17,276)

Sensitivity analysis for fixed rate instruments

The Group does not account for any fixed-rate financial assets or financial liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

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25. FINANCIAL RISK MANAGEMENT (continued)

25.2 Market risk

25.2.1 Commission rate risk (continued)

Sensitivity analysis for variable rate instruments

If SIBOR had been 1% higher / lower 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 5.02 million (31 December 2016: SR 4.58 million and 1 January 2016: SR 3.76 million).

25.2.2 Currency risk

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 Riyal 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.

25.3 Credit risk

Credit risk is the risk that one party to a 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.

The Group's gross maximum exposure to credit risk at the reporting date is as follows:

	30 June <u>2017</u>	31 December <u>2016</u>	1 January <u>2016</u>
Financial assets			
Derivative financial instruments	3,398	23,930	4,236
Investment in mutual funds classified as available for sale	50,036,805	--	--
Trade receivables	63,911,779	70,086,836	73,156,978
Other receivables	32,894,099	33,553,288	32,645,014
Balances with banks	178,094,069	195,103,542	252,384,875
	<u>324,940,150</u>	<u>298,767,596</u>	<u>358,191,103</u>

Credit risk on receivable and bank balances is limited as:

- Cash balances are held with banks with sound credit ratings ranging from Baa1 to A1 based on Moody's credit rating. All bank accounts are held with banks within Saudi Arabia.
- The Group does not have a policy to obtain security / collaterals from its customers.
- Financial position of related parties is stable.
- Derivative financial instruments are entered into with Banks, which are rated A1 based on Moody's credit rating.

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25. FINANCIAL RISK MANAGEMENT (continued)

25.3 Credit risk (continued)

As at 30 June 2017, the five largest customers (31 December 2016: four largest customers and 1 January 2016: four largest customers) account approximately for 70% (31 December 2016: 69% and 1 January 2016: 74%) of gross outstanding trade receivables.

25.4 *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. Following are the contractual maturities at the end of the reporting period of financial liabilities. The amounts are grossed and undiscounted.

<u>30 June 2017</u>	Carrying <u>amount</u>	Contractual cash flows		
		<u>Less than 1 year</u>	<u>1 year to 5 years</u>	<u>More than 5 years</u>
<i>Non derivative financial liabilities</i>				
Loans and borrowings	960,836,892	157,695,143	680,145,988	276,062,070
Trade payable and other current liabilities	93,233,260	93,233,260	--	--
	<u>1,054,070,152</u>	<u>250,928,403</u>	<u>680,145,988</u>	<u>276,062,070</u>

<u>31 December 2016</u>	Carrying <u>amount</u>	Contractual cash flows		
		<u>Less than 1 year</u>	<u>1 year to 5 years</u>	<u>More than 5 years</u>
<i>Non derivative financial liabilities</i>				
Loans and borrowings	952,419,451	147,806,001	626,614,439	341,578,536
Trade payable and other current liabilities	104,620,710	104,620,710	--	--
	<u>1,057,040,161</u>	<u>252,426,711</u>	<u>626,614,439</u>	<u>341,578,536</u>
<i>Derivative financial liabilities</i>				
Interest rate swaps used for hedging	509,730	509,730	--	--
	<u>509,730</u>	<u>509,730</u>	<u>--</u>	<u>--</u>

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25. FINANCIAL RISK MANAGEMENT (continued)

25.4 Liquidity risk (continued)

<u>1 January 2016</u>	<u>Carrying amount</u>	<u>Contractual cash flows</u>		
		<u>Less than 1 year</u>	<u>1 year to 5 years</u>	<u>More than 5 years</u>
<i>Non derivative financial liabilities</i>				
Loans and borrowings	950,667,724	144,469,814	540,748,069	437,619,155
Trade payable and other current liabilities	94,459,792	94,459,792	--	--
	<u>1,045,127,516</u>	<u>238,929,606</u>	<u>540,748,069</u>	<u>437,619,155</u>
<i>Derivative financial liabilities</i>				
Interest rate swaps used for hedging	17,276	17,276	--	--
	<u>17,276</u>	<u>17,276</u>	<u>--</u>	<u>--</u>

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amount.

25.5 Capital risk management

The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and to maintain an efficient capital base so as to maintain investor, creditor and market confidence and to sustain the future development of its businesses.

The Group manages the capital structure in the context of economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may, for example, adjust the amount of dividends paid to shareholders and issue new shares.

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25. FINANCIAL RISK MANAGEMENT (continued)

25.5 Capital risk management (continued)

The Group monitors return on capital employed and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders or issue new shares. The Group also monitors capital using a debt equity ratio.

	30 June 2017	31 December 2016	1 January 2016
Loans and borrowings	960,836,892	952,419,451	950,667,724
Trade payable and other current liabilities (including Zakat and income tax payable)	126,771,839	144,009,957	149,611,630
Total debt	1,087,608,731	1,096,429,408	1,100,279,354
Cash and cash equivalents	(178,523,565)	(195,404,320)	(252,669,021)
Net debt	909,085,166	901,025,088	847,610,333
Total equity	1,556,083,843	1,489,945,102	1,420,102,785
Less: cash flow hedging reserve	(2,582)	289,950	7,250
Adjusted equity	1,556,081,261	1,490,235,052	1,420,110,035
Net debt to adjusted equity ratio - %	58.42%	60.46%	59.69%

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25. FINANCIAL RISK MANAGEMENT (continued)

25.6 Fair value of assets and liabilities

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.

	Fair value hedging instruments	Carrying amount			Fair value			
		Available for sale investments	Held to maturity	Loans and receivables	Level 1	Level 2	Level 3	Total
30 June 2017								
<i>Financial assets:</i>								
Derivative financial instruments	3,398	--	--	--	--	3,398	--	3,398
Trade and other receivables	--	--	--	96,805,878	--	--	--	--
Balances with banks	--	--	--	113,086,569	--	--	--	--
Murabaha term deposits	--	--	65,007,500	--	--	--	--	--
Investment in mutual funds	--	50,036,805	--	--	--	50,036,805	--	50,036,805
Investment in equity securities	--	18,838,212	--	--	--	--	--	--
	3,398	68,875,017	65,007,500	209,892,447	--	50,040,203	--	50,040,203

	Carrying amount Loans and receivables	Fair value			Total
		Level 1	Level 2	Level 3	
30 June 2017					
<i>Financial liabilities:</i>					
Loans and borrowings	960,836,892	--	--	--	--
Trade payable and other current liabilities	93,233,260	--	--	--	--
	1,054,070,152	--	--	--	--

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25. FINANCIAL RISK MANAGEMENT (continued)

25.6 Fair value of assets and liabilities (continued)

31 December 2016	Carrying amount				Fair value			Total
	Fair value hedging instruments	Available for sale investments	Held to maturity	Loans and receivables	Level 1	Level 2	Level 3	
<i>Financial assets:</i>								
Derivative financial instruments	24,930	--	--	--	--	24,930	--	24,930
Trade and other receivables	--	--	--	100,991,325	--	--	--	--
Balances with banks	--	--	--	173,849,042	--	--	--	--
Murabaha term deposits	--	--	21,254,500	--	--	--	--	--
Investment in equity securities	--	16,788,011	--	--	--	--	--	--
	<u>24,930</u>	<u>16,788,011</u>	<u>21,254,500</u>	<u>274,840,367</u>	<u>--</u>	<u>24,930</u>	<u>--</u>	<u>24,930</u>

31 December 2016	Carrying amount		Fair value			Total
	Fair value hedging instruments	Loans and receivables	Level 1	Level 2	Level 3	
<i>Financial liabilities:</i>						
Loans and borrowings	--	952,419,451	--	--	--	--
Trade payable and other current liabilities	--	104,620,710	--	--	--	--
Interest rate swaps used for hedging	509,730	--	--	509,730	--	509,730
	<u>509,730</u>	<u>1,057,040,161</u>	<u>--</u>	<u>509,730</u>	<u>--</u>	<u>509,730</u>

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25. FINANCIAL RISK MANAGEMENT (continued)

25.6 Fair value of assets and liabilities (continued)

1 January 2016	Carrying amount				Fair value			
	Fair value hedging instruments	Available for sale investments	Held to maturity	Amortized cost	Level 1	Level 2	Level 3	Total
<i>Financial assets:</i>								
Derivative financial instruments	4,236	--	--	--	--	4,236	--	4,236
Trade and other receivables	--	--	--	102,717,023	--	--	--	--
Balances with banks	--	--	--	146,384,875	--	--	--	--
Murabaha term deposits	--	--	106,000,000	--	--	--	--	--
Investment in equity securities	--	18,075,925	--	--	--	--	--	--
	<u>4,236</u>	<u>18,075,925</u>	<u>106,000,000</u>	<u>249,101,898</u>	<u>--</u>	<u>4,236</u>	<u>--</u>	<u>4,236</u>

1 January 2016	Carrying amount		Fair value			
	Fair value hedging instruments	Loans and receivables	Level 1	Level 2	Level 3	Total
<i>Financial liabilities:</i>						
Loans and borrowings	--	950,667,724	--	--	--	--
Trade payable and other current liabilities	--	94,459,792	--	--	--	--
Interest rate swaps used for hedging	17,276	--	--	17,276	--	--
	<u>17,276</u>	<u>1,045,127,516</u>	<u>--</u>	<u>17,276</u>	<u>--</u>	<u>--</u>

26. EXPLANATION OF TRANSITION TO IFRS

As stated in Note 2.1, the Group's presented its first condensed consolidated interim Financial Statements for the period ended 31 March 2017 prepared in accordance with IAS 34 "Interim Financial Reporting" that is endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by SOCPA.

The accounting policies set out in Note 3 have been applied in preparing these Financial Statements for the period ended 30 June 2017. In preparing these Financial Statements, the Group's opening statement of financial position was prepared as at 1 January 2016, being the (Group's date of transition to IFRS).

In preparing its opening condensed consolidated statement of financial position in accordance with IFRS, the Group has adjusted amounts previously reported in the consolidated financial statements prepared in accordance with SOCPA GAAP. An explanation of how the transition from SOCPA GAAP to IFRS has affected the Group's financial position and financial performance is set out in the following notes.

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26. EXPLANATION OF TRANSITION TO IFRS (continued)

26.1 Reconciliation of condensed consolidated statement of financial position

	<u>Notes</u>	As at 31 December 2016			IFRS
		SOCPA GAAP	Effect of transition to IFRS	Reclassification	
<u>ASSETS</u>					
Non-current assets:					
Property, plant and equipment	26.5 (b) & 26.6 (b & c)	911,134,352	(18,368,888)	(153,056,273)	739,709,191
Intangible assets	26.6 (b & d)	1,293,484,306	--	14,078,825	1,307,563,131
Goodwill	26.6 (d)	8,776,760	--	(8,776,760)	--
Investment property	26.6 (c)	--	--	147,754,208	147,754,208
Investments	26.5 (a & b)	118,776,922	(857,259)	--	117,919,663
Total non-current assets		<u>2,332,172,340</u>	<u>(19,226,147)</u>	--	<u>2,312,946,193</u>
Current assets:					
Inventories		41,178,880	--	--	41,178,880
Derivative financial instrument		24,930	--	--	24,930
Trade and other receivables		113,936,782	--	--	113,936,782
Cash and cash equivalents		195,404,320	--	--	195,404,320
Total current assets		<u>350,544,912</u>	--	--	<u>350,544,912</u>
Total assets		<u>2,682,717,252</u>	<u>(19,226,147)</u>	--	<u>2,663,491,105</u>
<u>EQUITY AND LIABILITIES</u>					
Share capital		680,000,000	--	--	680,000,000
Share premium		36,409,063	--	--	36,409,063
Statutory reserve		39,758,712	--	--	39,758,712
Special reserve		19,869,813	--	--	19,869,813
Other reserves		8,446,560	--	--	8,446,560
Retained earnings	26.3 (a)	<u>239,516,540</u>	<u>(12,252,378)</u>	--	<u>227,264,162</u>
Equity attributable to the shareholders' of Parent Company		1,024,000,688	(12,252,378)	--	1,011,748,310
Non-controlling interests	26.3 (b)	<u>483,800,164</u>	<u>(5,603,372)</u>	--	<u>478,196,792</u>
Total equity	26.3 (c)	<u>1,507,800,852</u>	<u>(17,855,750)</u>	--	<u>1,489,945,102</u>
Non-current liabilities:					
Long-term loans and bank facilities		836,401,581	--	--	836,401,581
Employees' end of service benefits	26.5 (a)	23,374,817	(1,370,397)	--	22,004,420
Long term provisions		54,602,445	--	--	54,602,445
Total non-current liabilities		<u>914,378,843</u>	<u>(1,370,397)</u>	--	<u>913,008,446</u>
Current liabilities:					
Current portion of long-term loans and bank facilities		116,017,870	--	--	116,017,870
Zakat and income tax payable	26.6 (a)	--	--	7,536,803	7,536,803
Trade payables and other current liabilities	26.6 (a)	144,009,957	--	(7,536,803)	136,473,154
Derivative financial instrument		509,730	--	--	509,730
Total current liabilities		<u>260,537,557</u>	--	--	<u>260,537,557</u>
Total liabilities		<u>1,174,916,400</u>	<u>(1,370,397)</u>	--	<u>1,173,546,003</u>
Total liabilities and equity		<u>2,682,717,252</u>	<u>(19,226,147)</u>	--	<u>2,663,491,105</u>

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26. EXPLANATION OF TRANSITION TO IFRS (continued)

26.1 Reconciliation of condensed consolidated statement of financial position (continued)

	Notes	As at 30 June 2016			
		SOCPA GAAP	Effect of transition to IFRS	Reclassification	IFRS
ASSETS					
Non-current assets:					
Property, plant and equipment	26.5 (b) & 26.6 (b & c)	789,571,106	(16,303,608)	(156,469,714)	616,797,784
Intangible assets	26.6 (b & d)	1,327,273,679	--	14,795,074	1,342,068,753
Goodwill	26.6 (d)	8,776,760	--	(8,776,760)	--
Investment property	26.6 (c)	--	--	150,451,400	150,451,400
Investments	26.5 (a & b)	120,568,806	(432,218)	--	120,136,588
Derivative financial instrument		2,814,949	--	--	2,814,949
Total non-current assets		<u>2,249,005,300</u>	<u>(16,735,826)</u>	<u>--</u>	<u>2,232,269,474</u>
Current assets:					
Inventories		41,869,436	--	--	41,869,436
Trade and other receivables		118,305,174	--	--	118,305,174
Cash and cash equivalents		192,676,396	--	--	192,676,396
Total current assets		<u>352,851,006</u>	<u>--</u>	<u>--</u>	<u>352,851,006</u>
Total assets		<u>2,601,856,306</u>	<u>(16,735,826)</u>	<u>--</u>	<u>2,585,120,480</u>
EQUITY AND LIABILITIES					
Share capital		680,000,000	--	--	680,000,000
Share premium		36,409,063	--	--	36,409,063
Statutory reserve		35,940,567	--	--	35,940,567
Special reserve		17,960,740	--	--	17,960,740
Other reserves		10,454,095	--	--	10,454,095
Retained earnings	26.3 (a)	207,062,301	(10,137,504)	--	196,924,797
Equity attributable to the shareholders' of Parent Company		<u>987,826,766</u>	<u>(10,137,504)</u>	<u>--</u>	<u>977,689,262</u>
Non-controlling interests	26.3 (b)	470,199,164	(4,722,360)	--	465,476,804
Total equity	26.3 (c)	<u>1,458,025,930</u>	<u>(14,859,864)</u>	<u>--</u>	<u>1,443,166,066</u>
Non-current liabilities:					
Long-term loans and bank facilities		783,145,455	--	--	783,145,455
Employees' end of service benefits	26.5 (a)	23,101,288	(1,875,962)	--	21,225,326
Long term provisions		49,593,920	--	--	49,593,920
Total non-current liabilities		<u>855,840,663</u>	<u>(1,875,962)</u>	<u>--</u>	<u>853,964,701</u>
Current liabilities:					
Current portion of long-term loans and bank facilities		113,493,386	--	--	113,493,386
Zakat and income tax payable	26.6 (a)	--	--	9,201,041	9,201,041
Trade payables and other current liabilities	26.6 (a)	174,496,327	--	(9,201,041)	165,295,286
Total current liabilities		<u>287,989,713</u>	<u>--</u>	<u>--</u>	<u>287,989,713</u>
Total liabilities		<u>1,143,830,376</u>	<u>(1,875,962)</u>	<u>--</u>	<u>1,141,954,414</u>
Total liabilities and equity		<u>2,601,856,306</u>	<u>(16,735,826)</u>	<u>--</u>	<u>2,585,120,480</u>

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26. EXPLANATION OF TRANSITION TO IFRS (continued)

26.1 Reconciliation of condensed consolidated statement of financial position (continued)

	Notes	As at 1 January 2016			
		SOCPA GAAP	Effect of transition to IFRS	Reclassification	IFRS
ASSETS					
Non-current assets:					
Property, plant and equipment	26.5 (b) & 26.6 (b & c)	707,653,503	(14,350,455)	(156,480,750)	536,822,298
Intangible assets	26.6 (b & d)	1,361,120,885	--	11,286,322	1,372,407,207
Goodwill	26.6 (d)	8,776,760	--	(8,776,760)	--
Investment property	26.6 (c)	--	--	153,971,188	153,971,188
Investments	26.5 (a & b)	114,541,576	(456,611)	--	114,084,965
Derivative financial instrument		4,236	--	--	4,236
Total non-current assets		<u>2,192,096,960</u>	<u>(14,807,066)</u>	<u>--</u>	<u>2,177,289,894</u>
Current assets:					
Inventories		37,172,077	--	--	37,172,077
Derivative financial instrument		--	--	--	--
Trade and other receivables		118,565,253	--	--	118,565,253
Cash and cash equivalents		252,669,021	--	--	252,669,021
Total current assets		<u>408,406,351</u>	<u>--</u>	<u>--</u>	<u>408,406,351</u>
Total assets		<u>2,600,503,311</u>	<u>(14,807,066)</u>	<u>--</u>	<u>2,585,696,245</u>
EQUITY AND LIABILITIES					
Share capital		680,000,000	--	--	680,000,000
Share premium		36,409,063	--	--	36,409,063
Statutory reserve		30,549,496	--	--	30,549,496
Special reserve		15,265,205	--	--	15,265,205
Other reserves		13,151,743	--	--	13,151,743
Retained earnings	26.3 (a)	196,638,201	(9,475,137)	--	187,163,064
Equity attributable to the shareholders' of Parent Company		<u>972,013,708</u>	<u>(9,475,137)</u>	<u>--</u>	<u>962,538,571</u>
Non-controlling interests	26.3 (b)	461,892,802	(4,328,588)	--	457,564,214
Total equity	26.3 (c)	<u>1,433,906,510</u>	<u>(13,803,725)</u>	<u>--</u>	<u>1,420,102,785</u>
Non-current liabilities:					
Long-term loans and bank facilities		838,185,086	--	--	838,185,086
Employees' end of service benefits	26.5 (a)	21,638,938	(1,003,341)	--	20,635,597
Long term provisions		44,661,233	--	--	44,661,233
Derivative financial instrument		17,276	--	--	17,276
Total non-current liabilities		<u>904,502,533</u>	<u>(1,003,341)</u>	<u>--</u>	<u>903,499,192</u>
Current liabilities:					
Current portion of long-term loans and bank facilities		112,482,638	--	--	112,482,638
Zakat and income tax payable	26.6 (a)	--	--	11,100,178	11,100,178
Trade payables and other current liabilities	26.6 (a)	149,611,630	--	(11,100,178)	138,511,452
Total current liabilities		<u>262,094,268</u>	<u>--</u>	<u>--</u>	<u>262,094,268</u>
Total liabilities		<u>1,166,596,801</u>	<u>(1,003,341)</u>	<u>--</u>	<u>1,165,593,460</u>
Total liabilities and equity		<u>2,600,503,311</u>	<u>(14,807,066)</u>	<u>--</u>	<u>2,585,696,245</u>

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26. EXPLANATION OF TRANSITION TO IFRS (continued)

26.2 Reconciliation of condensed consolidated statement of profit or loss and other comprehensive income

	Notes	For the year ended 31 December 2016		
		SOCPA GAAP	Effect of transition to IFRS and reclassifications	IFRS
Revenue	26.6 (f)	640,318,392	50,453,758	690,772,150
Costs of revenue	26.5 (b) and 26.6 (f)	(342,972,042)	(54,472,191)	(397,444,233)
Gross profit		297,346,350	(4,018,433)	293,327,917
Selling and distribution expenses		(13,287,456)	--	(13,287,456)
General and administrative expenses	26.5 (a)	(122,638,877)	1,079,405	(121,559,472)
Other income	26.6 (e)	12,013,369	(1,647,722)	10,365,647
Operating profit		173,433,386	(4,586,750)	168,846,636
Finance costs		(36,279,222)	--	(36,279,222)
Finance income	26.6 (e)	--	1,647,722	1,647,722
Share in results from equity accounted associates, net	26.5 (a & b)	11,253,367	124,921	11,378,288
Profit before Zakat and income tax		148,407,531	(2,814,107)	145,593,424
Zakat and income tax	26.5 (c)	(5,513,222)	(3,817,099)	(9,330,321)
Profit for the period		142,894,309	(6,631,206)	136,263,103
Other comprehensive income				
<i>Items that that will not be reclassified to profit or loss</i>				
Re-measurement of defined benefit liability		--	(994,486)	(994,486)
<i>Items that are or may be reclassified subsequently to profit or loss</i>				
Cash flow hedges – effective portion of changes in fair value		--	(471,760)	(471,760)
Available for sale financial assets – net change in fair value		--	(1,287,914)	(1,287,914)
Other comprehensive income for the period, net of Zakat and income tax		--	(2,754,160)	(2,754,160)
Total comprehensive income for the period		142,894,309	(9,385,366)	133,508,943

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26. EXPLANATION OF TRANSITION TO IFRS (continued)

26.2 Reconciliation of statement of profit or loss (continued)

		For the six-months period ended 30 June 2016		
	Notes	SOCPA GAAP	Effect of transition to IFRS and reclassifications	IFRS
Revenue	26.6 (f)	327,984,760	26,160,851	354,145,611
Costs of revenue	26.5 (b) and 26.6 (f)	<u>(163,539,362)</u>	<u>(28,114,004)</u>	<u>(191,653,366)</u>
Gross profit		164,445,398	(1,953,153)	162,492,245
Selling and distribution expenses		(6,703,087)	--	(6,703,087)
General and administrative expenses	26.5 (a)	(64,153,040)	872,621	(63,280,419)
Other income	26.6 (e)	<u>4,141,975</u>	<u>(919,264)</u>	<u>3,222,711</u>
Operating profit		97,731,246	(1,999,796)	95,731,450
Finance costs		(16,791,402)	--	(16,791,402)
Finance income	26.6 (e)	--	919,264	919,264
Share in results from equity accounted associates, net	26.5 (a & b)	<u>7,315,144</u>	<u>24,393</u>	<u>7,339,537</u>
Profit before Zakat and income tax		88,254,988	(1,056,139)	87,198,849
Zakat and income tax	26.5 (c)	<u>(4,073,991)</u>	<u>(2,175,723)</u>	<u>(6,249,714)</u>
Profit for the period		<u>84,180,997</u>	<u>(3,231,862)</u>	<u>80,949,135</u>
Other comprehensive income				
<i>Items that are or may be reclassified subsequently to profit or loss</i>				
Cash flow hedges – effective portion of changes in fair value		--	2,827,989	2,827,989
Available for sale financial assets – net change in fair value		--	<u>(1,287,914)</u>	<u>(1,287,914)</u>
Other comprehensive income for the period, net of Zakat and income tax		--	<u>1,540,075</u>	<u>1,540,075</u>
Total comprehensive income for the period		<u>84,180,997</u>	<u>(1,691,787)</u>	<u>82,489,210</u>

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26. EXPLANATION OF TRANSITION TO IFRS (continued)

26.2 Reconciliation of statement of profit or loss (continued)

	<u>Notes</u>	<u>For the three-months period ended 30 June 2016</u>		
		<u>SOCPA GAAP</u>	<u>Effect of transition to IFRS and reclassifications</u>	<u>IFRS</u>
Revenue	26.6 (f)	168,840,395	13,664,842	182,505,237
Costs of revenue	26.5 (b) and 26.6 (f)	(82,290,033)	(14,656,702)	(96,946,735)
Gross profit		86,550,362	(991,860)	85,558,502
Selling and distribution expenses		(3,272,004)	--	(3,272,004)
General and administrative expenses	26.5 (a)	(32,017,423)	463,154	(31,554,269)
Other income	26.6 (e)	778,537	(356,597)	421,940
Operating profit		52,039,472	(885,303)	51,154,169
Finance costs		(8,287,712)	--	(8,287,712)
Finance income	26.6 (e)	--	356,597	356,597
Share in results from equity accounted associates, net	26.5 (a & b)	3,872,218	1,144	3,873,362
Profit before Zakat and income tax		47,623,978	(527,562)	47,096,416
Zakat and income tax	26.5 (c)	(1,901,925)	(2,175,723)	(4,077,648)
Profit for the period		45,722,053	(2,703,285)	43,018,768
Other comprehensive income				
<i>Items that are or may be reclassified subsequently to profit or loss</i>				
Cash flow hedges – effective portion of changes in fair value		--	3,690,587	3,690,587
Available for sale financial assets – net change in fair value		--	--	--
Other comprehensive income for the period, net of Zakat and income tax		--	3,690,587	3,690,587
Total comprehensive income for the period		45,722,053	987,302	46,709,355

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26. EXPLANATION OF TRANSITION TO IFRS (continued)

26.3 Reconciliation of equity

a) Retained earnings

Details of (decrease) / increase in retained earnings resulting from transition to IFRS are as follows:

	<i>Notes</i>	<u>31 December</u> <u>2016</u>	<u>30 June</u> <u>2016</u>	<u>01 January</u> <u>2016</u>
Retained earnings under SOCPA GAAP as at		239,516,540	207,062,301	196,638,201
Property, plant and equipment	26.5 (b)	(12,204,602)	(10,843,078)	(9,550,583)
Investment in equity accounted associates	26.5 (a & b)	(857,259)	(432,218)	(456,611)
Employee benefits	26.5 (a)	1,278,400	1,137,792	532,057
Share in OCI of subsidiaries	26.5 (a)	(468,917)	--	--
<i>Change in retained earnings</i>		<u>(12,252,378)</u>	<u>(10,137,504)</u>	<u>(9,475,137)</u>
Retained earnings under IFRS as at		<u>227,264,162</u>	<u>196,924,797</u>	<u>187,163,064</u>

b) Non-controlling interests

Details of (decrease) / increase in non-controlling interests resulting from transition to IFRS are as follows:

	<i>Notes</i>	<u>31 December</u> <u>2016</u>	<u>30 June</u> <u>2016</u>	<u>01 January</u> <u>2016</u>
Non-controlling interests under SOCPA GAAP as at		483,800,164	470,199,164	461,892,802
Property, plant and equipment	26.5 (b)	(6,164,286)	(5,460,530)	(4,799,872)
Employee benefits	26.5 (a)	804,346	738,170	471,284
Share in OCI of subsidiaries	26.5 (a)	(243,432)	--	--
<i>Change in non-controlling interests</i>		<u>(5,603,372)</u>	<u>(4,722,360)</u>	<u>(4,328,588)</u>
Non-controlling interests under IFRS as at		<u>478,196,792</u>	<u>465,476,804</u>	<u>457,564,214</u>

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26. EXPLANATION OF TRANSITION TO IFRS (continued)

26.3 Reconciliation of equity (continued)

c) Total equity

	<i><u>31 December</u></i> <i><u>2016</u></i>	<i><u>30 June</u></i> <i><u>2016</u></i>	<i><u>01 January</u></i> <i><u>2016</u></i>
Total equity under SOCPA GAAP as at	1,507,800,852	1,458,025,930	1,433,906,510
Property, plant and equipment (Note 26.5 (b))	(18,368,888)	(16,303,608)	(14,350,455)
Investment in associates (Note 26.5 (a & b))	(857,259)	(432,218)	(456,611)
Employee benefits (Note 26.5 (a))	2,082,746	1,875,962	1,003,341
Share in OCI of subsidiaries (Note 26.5 (a))	(712,349)	--	--
	<u>(17,855,750)</u>	<u>(14,859,864)</u>	<u>(13,803,725)</u>
Total equity under IFRS as at	<u>1,489,945,102</u>	<u>1,443,166,066</u>	<u>1,420,102,785</u>

26.4 Index to the notes to the reconciliations

Changes due to transition from SOCPA GAAP to IFRS

- a) Employee benefits (Note 26.5 (a))
- b) Componentization and revision of useful lives of property, plant and equipment (Note 26.5 (b))
- c) Income tax charge (Note 26.5 (c))

Changes due to presentation enhancement and reclassification

- a) Zakat and income tax payable (Note 26.6 (a))
- b) Other intangible assets (Note 26.6 (b))
- c) Investment properties (Note 26.6 (c))
- d) Goodwill (Note 26.6 (d))
- e) Finance income (Note 26.6 (e))
- f) Revenue and costs of revenue (Note 26.6 (f))

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26. EXPLANATION OF TRANSITION TO IFRS (continued)

26.5 Notes to the reconciliations

The effects of transition to IFRS can be summarized as follows:

a) Employee end of service benefits

Under SOCPA GAAP, the Group accounted for employees' end of service benefit obligations ("EOSB") in accordance with the requirements under the Saudi Arabian Labor law. Upon transition to IFRS, the Group accounts for EOSB as a defined benefit obligation. Accordingly, the Group performed detailed actuarial valuation for the computation of the IFRS transitional defined benefit liability as at 1 January 2016 and onwards. The impact of this transition to IFRS on employees' end of service benefits liability, profit and loss, other comprehensive income, equity and its effect on investment in associates and related share of profit or loss is as follows:

	As at 31 December <u>2016</u>	As at 30 June <u>2016</u>	As at 1 January <u>2016</u>
<u>Effect on statement of financial position</u>			
<i>Employee end of service benefits</i>			
Decrease in liability – profit and loss effect in prior period	(1,079,405)	(872,621)	--
Increase in liability due to actuarial loss in prior period	712,349	--	--
Decrease in liability - as of Group's date of transition to IFRS	<u>(1,003,341)</u>	<u>(1,003,341)</u>	<u>(1,003,341)</u>
Total decrease in employees' end of services benefits liability (A)	<u>(1,370,397)</u>	<u>(1,875,962)</u>	<u>(1,003,341)</u>
<i>Investment in associates</i>			
Increase in investment due to share of results of associates – prior periods	164,494	37,864	--
Decrease in investment due to share of OCI of associates – prior periods	(525,569)	--	--
Decrease in investment in associates - as of Group's date of transition to IFRS	<u>(63,547)</u>	<u>(63,547)</u>	<u>(63,547)</u>
Total decrease in investment in associates (B)	<u>(424,622)</u>	<u>(25,683)</u>	<u>(63,547)</u>
Total effect on net liability (C = A – B)	<u>(945,775)</u>	<u>(1,850,279)</u>	<u>(939,794)</u>
<i>Effect on equity</i>			
<i>Due to decrease in liability</i>			
Increase in retained earnings	1,278,400	1,137,792	532,057
Decrease in retained earnings due to actuarial loss	(468,917)	--	--
Increase in non-controlling interests	804,346	738,170	471,284
Decrease in non-controlling interests due to share in actuarial loss of subsidiaries	<u>(243,432)</u>	<u>--</u>	<u>--</u>
Net increase in equity (D)	<u>1,370,397</u>	<u>1,875,962</u>	<u>1,003,341</u>
<i>Due to changes in share in result from associates</i>			
Decrease in retained earnings due to actuarial gain / loss	(525,569)	--	--
Decrease in retained earnings	100,947	(25,683)	(63,547)
Net decrease in equity (E)	<u>(424,622)</u>	<u>(25,683)</u>	<u>(63,547)</u>
Total net increase in equity (F = D + E)	<u>945,775</u>	<u>1,850,279</u>	<u>939,794</u>

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26. EXPLANATION OF TRANSITION TO IFRS (continued)

26.5 Notes to the reconciliations (continued)

a) Employee end of service benefits (continued)

	For the year ended 31 <u>December 2016</u>	For the six months period ended 30 <u>June 2016</u>	For the quarter ended 30 <u>June 2016</u>
<u>Effect on statement of profit or loss and other comprehensive income</u>			
Decrease in general and administrative expenses	1,079,405	872,621	463,154
Increase in share in results from equity accounted associates	<u>164,494</u>	<u>37,864</u>	<u>18,932</u>
Increase in profit or loss	<u><u>1,243,899</u></u>	<u><u>910,485</u></u>	<u><u>482,086</u></u>

b) Componentization and revision of useful lives of property, plant and equipment

Upon transition to IFRS, the Group (including the associates) separately accounts for significant components of items of property, plant and equipment that have useful lives which are materially different from that of the overall item or other component. Based on management's detailed analysis such significant components were identified in the property, plant and equipment of the subsidiaries of the Group. The impact of this adjustment on Property and Equipment, investment in associate, depreciation expense and the share in results from associates is given as follows:

	As at 31 December <u>2016</u>	As at 30 June <u>2016</u>	As at 1 January <u>2016</u>
<u>Effect on statement of financial position</u>			
<i><u>Effect on assets</u></i>			
<i><u>Property, plant and equipment</u></i>			
Increase in depreciation charge – prior period	(4,018,433)	(1,953,153)	--
Increase in depreciation charge - as of Group's date of transition to IFRS	<u>(14,350,455)</u>	<u>(14,350,455)</u>	<u>(14,350,455)</u>
Total decrease in property, plant and equipment (A)	<u><u>(18,368,888)</u></u>	<u><u>(16,303,608)</u></u>	<u><u>(14,350,455)</u></u>
<i><u>Investment in associates</u></i>			
(Decrease) / increase in investment in associates – prior periods	(39,573)	(13,471)	--
Decrease in investment in associates - as of Group's date of transition to IFRS	<u>(393,064)</u>	<u>(393,064)</u>	<u>(393,064)</u>
Total decrease in property, plant and equipment (B)	<u><u>(432,637)</u></u>	<u><u>(406,535)</u></u>	<u><u>(393,064)</u></u>
Total effect on assets (C = A + B)	<u><u>(18,801,525)</u></u>	<u><u>(16,710,143)</u></u>	<u><u>(14,743,519)</u></u>
<i><u>Effect on equity</u></i>			
<i><u>Due to additional depreciation</u></i>			
Decrease in retained earnings	(12,204,602)	(10,843,078)	(9,550,583)
Decrease in non-controlling interests	<u>(6,164,286)</u>	<u>(5,460,530)</u>	<u>(4,799,872)</u>
Net decrease in equity	<u><u>(18,368,888)</u></u>	<u><u>(16,303,608)</u></u>	<u><u>(14,350,455)</u></u>
<i><u>Due to changes in share in result from associates</u></i>			
Decrease in retained earnings	<u>(432,637)</u>	<u>(406,535)</u>	<u>(393,064)</u>
Total decrease in equity	<u><u>(18,801,525)</u></u>	<u><u>(16,710,143)</u></u>	<u><u>(14,743,519)</u></u>

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26. EXPLANATION OF TRANSITION TO IFRS (continued)

26.5 Notes to the reconciliations (continued)

b) Componentization and revision of useful lives of property, plant and equipment (continued)

	For the year ended 31 <u>December 2016</u>	For the six months period ended 30 <u>June 2016</u>	For the quarter ended 30 <u>June 2016</u>
<u>Effect on statement of profit or loss and other comprehensive income</u>			
Increase in cost of sales	(4,018,433)	(1,953,153)	(991,860)
Decrease in share in results from equity accounted associates	<u>(39,573)</u>	<u>(13,471)</u>	<u>(17,788)</u>
Net decrease in profit or loss	<u><u>(4,058,006)</u></u>	<u><u>(1,966,624)</u></u>	<u><u>(1,009,648)</u></u>

c) Income tax charge

Income tax charge, relating to one of the subsidiaries of the Company, being a mixed company, was previously presented and charged directly to statement of changes in equity as part of non-controlling interests under SOCPA GAAP. Upon transition to IFRS, income tax charge is classified and charged to condensed consolidated statement of profit or loss under Zakat and income tax charge for the period.

26.6 Changes due to presentation enhancement and reclassifications

a) Zakat and income tax

Zakat and income tax liability was included in trade payable and other current liabilities in the prior period financial statements prepared under SOCPA GAAP. For the purpose of presentation enhancement, Zakat and income tax payable is now presented separately on the condensed consolidated statement of financial position in these financial statements.

The impact arising from the change is summarized as follows:

Consolidated Statement of Financial Position:

	As at 31 December <u>2016</u>	As at 30 June <u>2016</u>	As at 1 January <u>2016</u>
Zakat and income tax payable	7,536,803	9,201,041	11,100,178
Trade payable and other current liabilities	<u>(7,536,803)</u>	<u>(9,201,041)</u>	<u>(11,100,178)</u>
Adjustment to retained earnings	<u><u>--</u></u>	<u><u>--</u></u>	<u><u>--</u></u>

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26. EXPLANATION OF TRANSITION TO IFRS (continued)

26.6 Changes due to presentation enhancement and reclassifications (continued)

b) Other Intangible Assets

Computer softwares and application licenses were included in property, plant and equipment in the prior period financial statements prepared under SOCPA GAAP. For the purpose of presentation enhancement, Computer softwares and application licenses are now presented as part as other intangible assets under intangible assets on the condensed consolidated statement of financial position in these financial statements.

The impact arising from the change is summarized as follows:

Consolidated Statement of Financial Position:

	As at 31 December <u>2016</u>	As at 30 June <u>2016</u>	As at 1 January <u>2016</u>
Other intangible assets	5,302,065	6,018,314	2,509,562
Property, plant and equipment:	<u>(5,302,065)</u>	<u>(6,018,314)</u>	<u>(2,509,562)</u>
Adjustment to retained earnings	<u> --</u>	<u> --</u>	<u> --</u>

c) Investment properties

Investment properties were included in property, plant and equipment in the prior period financial statements prepared under SOCPA GAAP. For the purpose of presentation enhancement, investment properties are now presented separately on the condensed consolidated statement of financial position in these financial statements.

The impact arising from the change is summarized as follows:

Consolidated Statement of Financial Position:

	As at 31 December <u>2016</u>	As at 30 June <u>2016</u>	As at 1 January <u>2016</u>
Investment properties	147,754,208	150,451,400	153,971,188
Property, plant and equipment	<u>(147,754,208)</u>	<u>(150,451,400)</u>	<u>(153,971,188)</u>
Adjustment to retained earnings	<u> --</u>	<u> --</u>	<u> --</u>

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26. EXPLANATION OF TRANSITION TO IFRS (continued)

26.6 Changes due to presentation enhancement and reclassifications (continued)

d) Goodwill

Goodwill was previously presented separately on the face of statement of financial position in the prior period financial statements prepared under SOCPA GAAP. For the purpose of presentation enhancement, goodwill is now presented as part of intangible assets in the condensed consolidated statement of financial position.

The impact arising from the change is summarized as follows:

Consolidated Statement of Financial Position:

	As at 31 December <u>2016</u>	As at 30 June <u>2016</u>	As at 1 January <u>2016</u>
Intangible assets	8,776,760	8,776,760	8,776,760
Goodwill	<u>(8,776,760)</u>	<u>(8,776,760)</u>	<u>(8,776,760)</u>
Adjustment to retained earnings	<u><u> --</u></u>	<u><u> --</u></u>	<u><u> --</u></u>

e) Finance income

Finance income was included in other income in the prior period financial statements prepared under SOCPA GAAP. For the purpose of presentation enhancement, finance income is now presented separately on the condensed consolidated statement of profit or loss and other comprehensive income in these financial statements.

The impact arising from the change is summarized as follows:

Consolidated Statement of Profit or Loss and Other Comprehensive Income:

	For the year ended 31 <u>December 2016</u>	For the six months period ended 30 <u>June 2016</u>	For the quarter ended 30 <u>June 2016</u>
Finance income	1,647,722	919,264	356,597
Other income	<u>(1,647,722)</u>	<u>(919,264)</u>	<u>(356,597)</u>
Adjustment to retained earnings	<u><u> --</u></u>	<u><u> --</u></u>	<u><u> --</u></u>

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26. EXPLANATION OF TRANSITION TO IFRS (continued)

26.6 Changes due to presentation enhancement and reclassifications (continued)

f) Sales and cost of sales

Share of Jeddah Islamic Port in revenue of RSGT was presented as a deduction against revenue of RSGT in the prior period financial statements prepared under SOCPA GAAP. For the purpose of presentation enhancement, share of Jeddah Islamic Port is now presented as part of cost of revenue in the condensed consolidated statement of profit or loss and other comprehensive income in these financial statements.

The impact arising from the change is summarized as follows:

Consolidated Statement of Profit or Loss and Other Comprehensive Income:

	For the year ended 31 <u>December 2016</u>	For the six months period ended 30 <u>June 2016</u>	For the quarter ended 30 <u>June 2016</u>
Cost of revenue	(50,453,758)	(26,160,851)	(13,664,842)
Revenue	<u>50,453,758</u>	<u>26,160,851</u>	<u>13,664,842</u>
Adjustment to retained earnings	<u>--</u>	<u>--</u>	

26.7 Exemptions applied

IFRS 1 “First-Time Adoption of International Financial Reporting Standards” as endorsed by SOCPA allows first-time adopter certain exemptions from the retrospective application of certain IFRS Standards.

The Group has applied the following exemptions:

- a) IFRS 3 “Business Combinations” as endorsed by SOCPA has not been applied to acquisitions of subsidiaries, which are considered businesses as per IFRS, or of interests in associates and joint ventures that occurred before 1 January 2016. Use of this exemption means, that the carrying amounts of assets and liabilities under SOCPA GAAP, which are required to be recognised under IFRS, is their deemed cost at the date of the acquisition. After the date of the acquisition, measurement is in accordance with IFRS. Assets and liabilities that do not qualify for recognition under IFRS are excluded from the opening IFRS Statement of Financial Position. The Group did not recognise or exclude any previously recognised amounts as a result of IFRS recognition requirements. IFRS 1 as endorsed by SOCPA also requires that the carrying amount of goodwill under SOCPA GAAP must be used in the opening IFRS Statement of Financial Position (apart from adjustments for goodwill impairment and recognition or derecognition of intangible assets). In accordance with IFRS 1 as endorsed by SOCPA, the Group has tested goodwill for impairment at the date of transition to IFRS Standards. No goodwill impairment was deemed necessary at 1 January 2016.
- b) The Group has not applied IAS 21 “The Effects of Changes in Foreign Exchange Rates” as endorsed by SOCPA retrospectively to fair value adjustments and goodwill from business combinations that occurred before the date of transition to IFRS. Such fair value adjustments and goodwill are treated as assets and liabilities of the Parent rather than as assets and liabilities of the acquiree. Therefore, those assets and liabilities are already expressed in the functional currency of the Parent or are non-monetary foreign currency items and no further translation differences occur.

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27. APPROVAL OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

These condensed consolidated interim financial statements were approved and authorised to issue by the Board of Directors on Dhul Qadah 18, 1438H, corresponding August 10, 2017.