

**Saudi Public Transport Company and
its Subsidiary**

(A Saudi Joint Stock Company)

**CONSOLIDATED FINANCIAL STATEMENTS AND
AUDITORS' REPORT**

FOR THE YEAR ENDED 31 DECEMBER 2015

Saudi Public Transport Company and its Subsidiary
(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2015

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AUDITORS' REPORT

TO THE SHAREHOLDERS OF SAUDI PUBLIC TRANSPORT COMPANY (A Saudi Joint Stock Company)

Scope of Audit

We have audited the accompanying consolidated balance sheet of Saudi Public Transport Company - A Saudi Joint Stock Company (the "Company") and its subsidiary (the "Group") as at 31 December 2015, and the related consolidated statements of income, cash flows and changes in equity for the year then ended. These consolidated financial statements are the responsibility of the Group's management and have been prepared by them in accordance with the provisions of Article 123 of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the consolidated financial statements.

Unqualified opinion

In our opinion, the consolidated financial statements taken as a whole:

- i) Present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2015 and the consolidated results of its operations and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.
- ii) Comply with the requirements of the Regulations for Companies and the Company's by-laws in so far as they affect the preparation and presentation of the consolidated financial statements.

For Ernst & Young


Fahad M. Al-Toaimi
Certified Public Accountant
Registration No. 354



Riyadh: 13 Jumadaha Al Awal 1437 H
(22 February 2016)

Saudi Public Transport Company and its Subsidiary
(A Saudi Joint Stock Company)

CONSOLIDATED BALANCE SHEET

As at 31 December 2015

(In Thousands Saudi Riyals)

	<u>Note</u>	<u>2015</u>	<u>2014</u>
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	5	833,485	379,379
Trade accounts receivable, net	6	108,228	80,988
Inventories, net	7	53,511	56,221
Prepayments and other assets	8	39,208	35,071
Due from a related party – current portion	9	26,552	-
TOTAL CURRENT ASSETS		1,060,984	551,659
NON-CURRENT ASSETS			
Investments	10	124,119	102,010
Due from a related party – non-current portion	9	30,000	30,153
Property, plant and equipment	11	1,388,288	1,405,375
Deferred charges		17,656	-
TOTAL NON-CURRENT ASSETS		1,560,063	1,537,538
TOTAL ASSETS		2,621,047	2,089,197
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Accounts payable		60,442	37,999
Advance payment from a customer – current portion	12	16,544	-
Murabaha loans – current portion	13	69,415	101,833
Accrued expenses and other payables	14	195,405	191,568
Dividends payable	15	85,317	80,241
Provision for zakat	16	37,990	7,877
TOTAL CURRENT LIABILITIES		465,113	419,518
NON-CURRENT LIABILITIES			
Murabaha loans – non-current portion	13	50,161	63,499
Advance payment from a customer – non-current portion	12	454,796	-
Deferred revenues		971	728
Employees' terminal benefits	17	127,767	112,093
TOTAL NON-CURRENT LIABILITIES		633,695	176,320
TOTAL LIABILITIES		1,098,808	595,838
EQUITY			
SHAREHOLDERS' EQUITY			
Share capital	18	1,250,000	1,250,000
Statutory reserve		157,248	136,162
Consensual reserve	19	36,351	33,308
Retained earnings		117,075	88,392
Unrealized losses on revaluation of investments in available for sale securities	10a	(38,354)	(14,503)
TOTAL SHAREHOLDERS' EQUITY		1,522,320	1,493,359
Minority Interest		(81)	-
TOTAL EQUITY		1,522,239	1,493,359
TOTAL LIABILITIES AND EQUITY		2,621,047	2,089,197

The accompanying notes from 1 to 32 form part of these consolidated financial statements.

Saudi Public Transport Company and its Subsidiary
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2015

(In Thousands Saudi Riyals)

	<u>Note</u>	<u>2015</u>	<u>2014</u>
Revenues	20	1,102,309	1,019,203
Cost of revenues	21	(871,222)	(831,612)
GROSS PROFIT		231,087	187,591
General and administrative expenses	22	(87,146)	(80,887)
Marketing and selling expenses	23	(45,045)	(33,132)
INCOME FROM MAIN OPERATIONS		98,896	73,572
Share in earnings of an associate	10b	-	148
Share in earnings of a joint venture	10c	11,419	1,004
Financial charges, net		(6,836)	(5,420)
Impairment loss of investment in an associate	10b	(7,459)	-
Other income	24	27,814	36,514
Gains on expropriation of land	25	118,807	-
INCOME BEFORE MINORITY INTEREST AND ZAKAT		242,641	105,818
Minority interest share in net loss of a subsidiary		2,081	-
INCOME BEFORE ZAKAT		244,722	105,818
Zakat	16	(33,860)	(3,764)
NET INCOME		210,862	102,054
EARNINGS PER SHARE (SR):	26		
Attributable to income from main operations		0.79	0.59
Attributable to net income		1.69	0.82

The accompanying notes from 1 to 32 form part of these consolidated financial statements.

Saudi Public Transport Company and its Subsidiary
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

(In Thousands Saudi Riyals)

	2015	2014
OPERATING ACTIVITIES		
Income before zakat	244,722	105,818
Adjustments for:		
Depreciation	139,108	178,505
Provision for doubtful debts	10,813	12
Provision for slow moving inventories	3,084	-
Provision for employees' terminal benefits	24,321	23,096
Capital gains from disposal of property, plant and equipment	(123,749)	(4,017)
Gains from sale of investments in available for sale securities	-	(19,876)
Share in earnings of an associate	-	(148)
Share in earnings of a joint venture	(11,419)	(1,004)
Amortization of deferred revenue, net	243	(321)
Impairment loss of investment in an associate	7,459	-
Minority interest share in net loss of a subsidiary	(2,081)	-
Changes in operating assets and liabilities:		
Accounts receivable	(37,203)	(10,794)
Inventories	(374)	3,494
Due from a related party	(26,399)	(30,153)
Prepayments and other assets	(4,987)	(6,718)
Accounts payable	22,443	(13,978)
Advance payment from a customer	471,340	-
Accrued expenses and other payables	3,837	7,246
Cash from operations	721,158	231,162
Employees' terminal benefits paid	(8,647)	(9,082)
Zakat paid	(3,747)	(3,357)
Net cash from operating activities	708,764	218,723
INVESTING ACTIVITIES		
Investments in Murabaha contracts, net	-	100,705
Additions to property, plant and equipment	(173,919)	(181,831)
Proceeds from sale of property, plant and equipment	175,647	8,566
Proceeds from sale of available for sale securities	-	219,876
Deferred charges	(17,656)	-
Investments	(50,000)	(308,050)
Net cash used in investing activities	(65,928)	(160,734)
FINANCING ACTIVITIES		
Dividends paid and board of directors' remunerations	(152,974)	(62,273)
Repayment of Murabaha loans, net	(45,756)	(85,030)
Net cash used in financing activities	(198,730)	(147,303)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	444,106	(89,314)
Cash and cash equivalents at the beginning of the year	379,379	468,693
Cash at the beginning of the year from a consolidated subsidiary	10,000	-
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	833,485	379,379
Non-cash transactions:		
Transfer from consensual reserve to retained earnings (Note 19)	7,500	-
Change in fair value of investments in available for sale securities (Note 10a)	(23,851)	(14,503)

The accompanying notes from 1 to 32 form part of these consolidated financial statements.

Saudi Public Transport Company and its Subsidiary
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For The Year Ended 31 December 2015

(In Thousands Saudi Riyals)

	Shareholders' equity						
	Share capital	Statutory reserve	Consensual reserve	Retained earnings	Unrealized losses on revaluation of investments in available for sale securities	Total shareholders' equity	Minority interest
Balance at 31 December 2013	1,250,000	125,957	28,205	65,946	-	1,470,108	-
Net income for the year	-	-	-	102,054	-	102,054	-
Transfer to statutory reserve	-	10,205	-	(10,205)	-	-	-
Transfer to Consensual reserve (Note 19)	-	-	5,103	(5,103)	-	-	-
Board of directors' remunerations (Note 9)	-	-	-	(1,800)	-	(1,800)	-
Dividends (Note 30)	-	-	-	(62,500)	-	(62,500)	-
Fair value adjustment (Note 10a)	-	-	-	-	(14,503)	(14,503)	-
Balance at 31 December 2014	1,250,000	136,162	33,308	88,392	(14,503)	1,493,359	-
Net income for the year	-	-	-	210,862	-	210,862	-
Transfer to statutory reserve	-	21,086	-	(21,086)	-	-	-
Transfer to Consensual reserve (Note 19)	-	-	10,543	(10,543)	-	-	-
Transfer from Consensual reserve (Note 19)	-	-	(7,500)	7,500	-	-	-
Board of directors' remunerations (Note 9 and 30)	-	-	-	(1,800)	-	(1,800)	-
Dividends (Note 30)	-	-	-	(156,250)	-	(156,250)	-
Fair value adjustment (Note 10a)	-	-	-	-	(23,851)	(23,851)	-
Minority Interest	-	-	-	-	-	-	(81)
Balance at 31 December 2015	1,250,000	157,248	36,351	117,075	(38,354)	1,522,320	(81)
						1,522,239	

The accompanying notes from 1 to 32 form part of these consolidated financial statements.

Saudi Public Transport Company and its Subsidiary (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

1 ACTIVITIES

Saudi Public Transport Company (the "Company") is a Saudi Joint Stock Company registered in Riyadh and formed under the Royal Decree No. M/11, dated 7 Rabi Awal 1399H (corresponding to 5 February 1979). The formation was declared pursuant to the resolution of His Excellency, The Minister of Commerce, No. 254 dated 14 Sha'ban 1399H (corresponding to 9 July 1979). The Company operates under commercial registration number 1010024335 dated 5 Ramadan 1399H (corresponding to 29 July 1979).

The Company is engaged in passenger land transport both intra and inter-city throughout the Kingdom and outside the Kingdom, as well as the transfer of non-postal parcels, cargo, school transport, teachers transport, car rental and sand and gravel transport. The company is also engaged in operating and maintaining of trains, metros, motor vehicles and trucks, organizing tours, transporting pilgrims and visitors in and out of the Kingdom and importing spare parts and chemical detergents of vehicles.

Royal Decree No. (M / 48) dated 22 Dhul-Hijjah 1399H (corresponding to 12 November 1979) was issued to grant Saudi Public Transport Company a franchise contract whereby the Company commits to transport passengers on public roads network both intra and inter-city throughout the Kingdom of Saudi Arabia for a period of fifteen Hijri years .

The Council of Ministers in its resolution No. (57) issued on 1 Jumada Thani 1414H (corresponding to 15 November 1993) approved the renewal of the franchise contract for a period of fifteen years starting from 1 Rajab 1414H. On 21 Jumada Al-Awal 1429H (corresponding to 26 May 2008), the contract was renewed for another renewable five-year period starting from 1 Rajab 1429H (corresponding to 4 July 2008).

The Council of Ministers in its resolution No. (254) issued on 24 Rajab 1434H (corresponding to 3 June 2013) approved the extension of the franchise contract signed between the government and Saudi Public Transport Company (SAPTCO), whereby the Company is committed to carry passengers by buses within and between cities in the Kingdom for a period of three years starting 1 Rajab 1434H (corresponding to 11 May 2013). The concerned governmental authorities shall have the right during that period to partially reduce the spatial coverage of the franchise contract based on the phases of issuing new tender for providing public transportation between the cities inside the Kingdom of Saudi Arabia.

On 29 Dhul-Hijjah 1436H (corresponding to 12 October 2015), the Council of Ministers approved the extension of the franchise contract, signed between the government and Saudi Public Transport Company (SAPTCO) by virtue of the Royal Decree (No M/48 dated 23 Dhul-Hijjah 1399H), for a period of five years starting 1 Rajab 1437H (corresponding to 8 April 2016), and without giving the Company or any other company any competitive advantage when issuing tenders for providing public transportation services between the cities of the Kingdom.

2. BASIS OF CONSOLIDATION

These consolidated financial statements include the financial statements of the Company and its subsidiary (the "Group"), as adjusted by the elimination of significant inter-Group balances and transactions.

The financial statements of the subsidiary are prepared using accounting policies which are consistent with those adopted by the Company. The financial statements of the subsidiary company are consolidated from the date on which the Company is able to exercise effective control over the subsidiary company. A subsidiary is an entity in which the Company has, directly or indirectly, equity investment of more than 50% and/or over which it exercise effective control.

Minority interest in the net assets of consolidated subsidiary is identified separately from the Company's shareholders' equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the Minority interest's share of changes in equity since the date of the combination.

The subsidiary included in these consolidated financial statements is as follows:

Subsidiary	Shareholding		Principle Activity	Country of Incorporation
	2015	2014		
Public Transport Company	80%	80%	Executing King Abdulaziz Project for Public Transport in Riyadh	Saudi Arabia

Saudi Public Transport Company and its Subsidiary
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2015

2. BASIS OF CONSOLIDATION (continued)

On 8 Rabi Al Awal 1436H (corresponding to 30 December 2014), the company participated in establishing Public Transportation Company ("subsidiary") with a capital of ten million Saudi Riyal. Saudi Public Transport Company (SAPTCO) owns 80% of total share capital. Public Transport Company is engaged in execution of King Abdul-Aziz Project for Public Transport in Riyadh. Accordingly, the subsidiary's financial statements have been consolidated effective from this current year. The subsidiary has not started its commercial operations yet.

3 SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with accounting standards issued by Saudi Organization for Certified public Accountants.

The significant accounting policies are as follows:

Accounting convention

The consolidated financial statements have been prepared under the historical cost convention except for investments in available for sale securities which are measured at fair value.

Use of estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that might affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting year. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents consist of bank balances, cash on hand, and Murabaha investments that are readily convertible into known amounts of cash and have a maturity of three months or less when purchased.

Inventories

The spare parts inventory is stated at cost. Cost is determined on the weighted average basis. Material repair costs of spare parts are capitalized. An appropriate provision is provided for impairment of obsolete and slow moving inventories. Spare parts inventory is not available for sale.

Accounts receivable

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

Property, Plant and Equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and any impairment , except for freehold lands and projects under construction which are stated at cost. Expenditures for maintenance and repairs are considered operating expense, while expenditures for improvements are considered capital expenses, and are depreciated on a straight-line basis over its estimated useful lives.

The estimated useful lives of the assets for the calculation of depreciation are as follows:

Buildings	33 years		
Buses, trucks and trailers	6-12 years	Furniture and fixtures	3-10 years
Tools and equipment	5-20 years	Motor vehicles	3-6 years

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, Plant and Equipment (continued)

During the period ended 31 March 2015, the management of the Company reviewed the estimated useful lives of the Company's buses. Based on the Technical Management Report, the Board of Directors approved the modification of fixed assets policy and extended the useful lives of the company's buses from 10 years to 12 years for buses used for inter-city and international transport, from 8 years to 10 years for intra-city buses, and from 6 years to 10 years for small intra-city buses effective from 1 January 2015. The change's effect resulted in an increase of net income by approximately SR 45.1 million for the year ended 31 December 2015.

All costs associated with the renovation of buses, trucks and trailers are capitalized and added to the cost of the renovated buses, trucks and trailers.

Buses, trucks and trailers renovation costs are depreciated effective from the date of its operation on equal annual installments over its expected useful lives.

Investments

a) Investments in available for sale securities

Investments, that are bought neither with the intention of being held to maturity nor for trading purposes, are stated as investments in available for sale securities and recorded at fair value and are included under non-current assets unless they will be sold in the next fiscal year. Unrealized gains or losses from valuation of these investments at fair value, are included, as a separate item within the statement of changes in shareholders' equity. A decline in value considered to be other than temporary, is charged to the consolidated statement of income. Income from such investments is recognized when declared.

Fair value is determined by reference to the market value if an open market exists or on the basis of other alternative methods. Otherwise, cost is considered to be the fair value. Where partial holdings are sold, these are accounted for on a weighted average basis.

b) Investments accounted for under equity method

Investment in an associate

An associate is that in which the Company has a long-term investment comprising an interest of 20% or more of the voting capital and over which it exercises significant influence, where it is accounted for under the equity method in the consolidated financial statements.

Under the equity method, the company's share in the investee companies is recorded in the consolidated balance sheet at cost, adjusted by the post-acquisition/incorporation changes of the company's share in the net assets of the investees companies, less any impairment in investments. The company's share in the financial results of these investee companies is recognized in the consolidated statement of income.

Investments in joint ventures

A joint venture is a contractual arrangement whereby the Company and other parties undertake an economic activity that is subject to joint control, i.e. the strategic financial and operating policy decisions relating to the activities require the unanimous consent of the parties sharing control. Joint venture arrangements that involve the establishment of a separate entity in which each party has an interest are referred to as "jointly controlled entities". The Company's interest in jointly controlled entities is accounted for under equity method. Under the equity method, the company's interest in the jointly controlled entity is carried in the consolidated balance sheet at cost and adjusted by post-incorporation changes in the Company's share of the net assets of the jointly controlled entity, less any impairment in the individual investment, if any.

Work in progress

Work in progress is stated at cost incurred until the asset is ready for its intended use, thereafter; this cost is capitalized on the related assets. Work in progress includes the cost of contractors, materials, services, borrowing, salaries and other direct costs and overheads allocated on a consistence basis.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred charges / amortization

Deferred charges comprise upfront fees related to bank guarantees and are amortized over the period of the related guarantee.

Deferred charges also comprise training consulting costs and integration of operating systems which will be deferred and amortized over the period of benefit.

Accounts payable and accruals

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

Employees' terminal benefits

Provision is made for amounts payable under the Saudi Arabian Labor Law applicable to employees' accumulated periods of service at the consolidated balance sheet date.

Deferred revenue

Deferred revenue represents the fair market value of the buses and equipment granted to the Company, and are amortized using the straight-line method over the estimated period of benefit.

Impairment of non-current assets

The Company regularly reviews the carrying amounts of non-current assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognized immediately in the consolidated statement of income.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the assets estimate recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the consolidated statement of income.

Islamic Murabaha contracts

Murabaha costs relating to the property, plant and equipment acquired under Islamic Murabaha contracts are stated as deferred Murabaha loan commissions and are amortized over the period of the contract, as per the practice adopted in respect of Murabaha transactions in the Kingdom of Saudi Arabia.

Statutory reserve

In accordance with the Saudi Arabian Regulations for Companies, the Company must set aside 10% of its net income to the statutory reserve. The company may resolve to discontinue such transfer when the reserve equals 50% of the capital. The reserve is not available for distribution.

Revenue

Revenue is recognized when services are rendered to the customers. Rent and contract revenues are proportionately recognized over the terms of these agreements. Other income is recognized when earned.

Expenses

Marketing expenses are those which specifically relate to commissions of sales agents, advertising and other marketing expenses as well as the provision for doubtful debts. All other expenses are classified as general and administrative expenses

Saudi Public Transport Company and its Subsidiary
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2015

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating leases

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

Zakat

Zakat is provided for in accordance with Saudi Arabian fiscal regulations. The Zakat liabilities and any adjustments arising from the recalculation of Zakat or upon the issuance of the final assessment are charged to the consolidated statement of income.

Foreign currencies

Transactions in foreign currencies are recorded in Saudi Riyals at the rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the consolidated balance sheet date. All differences are taken to the consolidated statement of income.

Segmental reporting

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

4 BUSINESS RESULTS AND SEASONAL EFFECTS

The Company's revenue is affected by seasons in which the operation rates are high. These seasons are the Hajj, summer vacation, the holy month of Ramadan and the public holidays.

In light of the Royal Decree to pay two months' salary to government employees, the Board of Directors decided, during the first quarter of 2015, to pay two months' salary to Saudi employees amounting to SR 13,153 thousand, out of which, an amount of SR 11,450 thousand has been charged to direct costs and an amount of SR 1,703 thousand has been charged to general and administrative expenses during the year ended 31 December 2015.

5 CASH AND CASH EQUIVALENTS

	2015 SR '000	2014 SR '000
Bank balances and cash in hand	683,235	229,326
Investment in Murabaha contracts (maturity of three months or less)	150,250	150,053
	<u>833,485</u>	<u>379,379</u>

6 TRADE ACCOUNTS RECEIVABLE, NET

	2015 SR '000	2014 SR '000
Receivables – government and quasi government institutions	72,196	45,187
Receivables – private sector	63,386	53,192
	<u>135,582</u>	<u>98,379</u>
Less: provision for doubtful debts	(27,354)	(17,391)
Trade receivables, net	<u>108,228</u>	<u>80,988</u>

Saudi Public Transport Company and its Subsidiary
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2015

6 TRADE ACCOUNTS RECEIVABLE, NET (continued)

The movement of the provision for doubtful debts during the year was as follows:

	2015 SR '000	2014 SR '000
At the beginning of the year	17,391	19,488
Charge for the year	9,963	-
Amounts written off during the year	-	(2,097)
At the end of the year	27,354	17,391

7 INVENTORIES, NET

	2015 SR '000	2014 SR '000
Spare parts inventory	79,502	79,128
Less: provision for slow moving inventories	(25,991)	(22,907)
	53,511	56,221

The movement of the provision for slow moving inventories during the year was as follows:

	2015 SR '000	2014 SR '000
At the beginning of the year	22,907	22,907
Charge for the year	3,084	-
At the end of the year	25,991	22,907

8 PREPAYMENTS AND OTHER ASSETS

	2015 SR '000	2014 SR '000
Advances to suppliers	12,794	6,543
Employees receivables	10,379	10,972
Prepaid rents	10,188	8,023
Margin deposits and letters of credit	607	2,106
Other receivables	9,880	11,217
	43,848	38,861
Less: provision for doubtful amounts	(4,640)	(3,790)
Prepayments and other assets, net	39,208	35,071

The movement of the provision for doubtful amounts during the year was as follows:

	2015 SR '000	2014 SR '000
At the beginning of the year	3,790	3,778
Charge for the year	850	12
At the end of the year	4,640	3,790

Saudi Public Transport Company and its Subsidiary
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
At 31 December 2015

9 RELATED PARTY TRANSACTIONS

The following are the details of major related party transactions and balances during the years:

Related party	Nature of transaction	Amount of transaction		Balance	
		2015 SR '000	2014 SR '000	2015 SR '000	2014 SR '000
Board of directors	Annual remunerations	1,800	1,800		
	Expenses	49	55		
	Committee membership bonus	1,346	1,290	-	-
Joint venture	Share in earnings	11,419	1,004		
	Services provided	4,123	1,908		
	Purchase of buses	1,178,000	-		
	Financing *	25,000	30,000	56,552	30,153
Associate	Share in earnings	-	148		
	Provision for impairment of investment (Note 10b)	(7,459)	-	-	7,459

* During 2014, the Company has funded the operations of the Saudi Emirates Integrated Transport Co., Ltd. (SEITCO) with an amount of SR 30 million. The company is engaged in educational transportation in the Kingdom of Saudi Arabia. Saudi Emirates Integrated Transport Co, Ltd (SEITCO) started its operations during the third quarter of 2014. This amount is not subject to any interest and is repayable within four years effective from July 2015. However, the partners agreed on rescheduling of repayment to be started from January 2017.

During December 2015, the company has also provided an additional financing to Saudi Emirates Integrated Transport Co., Ltd. (SEITCO) with an amount of SR 25 million. The amount was fully repaid by Saudi Emirates Integrated Transport Co., Ltd. (SEITCO) during January 2016.

10 INVESTMENTS

	2015 SR '000	2014 SR '000
Investments in available for sale securities (a)	111,646	85,497
Investment in Saudi Bahraini Transport Company (b)	7,459	7,459
Investment in a joint venture (c)	12,473	1,054
Investment in Public Transport Company (Note 2)	-	8,000
Provision for impairment of investment	(7,459)	-
	124,119	102,010

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10 INVESTMENTS (continued)

A) INVESTMENTS IN AVAILABLE FOR SALE SECURITIES

The movement of investments in available for sale securities was as follows:

	2015 SR '000	2014 SR '000
At beginning of the year	100,000	-
Additions during the year	50,000	100,000
At the end of the year	150,000	100,000
Unrealized gains (losses) on revaluation:		
At the beginning the year	(14,503)	-
Change in fair value	(23,851)	(14,503)
At the end of the year	(38,354)	(14,503)
<i>Net book value at the end of the year</i>	<u>111,646</u>	<u>85,497</u>

B) INVESTMENTS IN SAUDI BAHRAINI TRANSPORT COMPANY

	2015 SR '000	2014 SR '000
At the beginning of the year	7,459	7,311
Additions	-	148
Less: provision for impairment of investment	(7,459)	-
At the end of the year	<u>-</u>	<u>7,459</u>

Investment in an associate represents the Company's 40% ownership in Saudi Bahraini Transport Company, a limited liability company registered in the Kingdom of Saudi Arabia. This investment is accounted for under the equity method based on the latest available financial statements. The audited financial statements of the associate for 2014 have not been issued as at the date of the preparation of these consolidated financial statements.

On 31 December 2015, the Partners' Extraordinary General Assembly of Saudi Bahraini Transport Company agreed on solving and liquidation of the company and nominating a liquidator. Accordingly, a provision has been made for the investment in full as the company is unable to estimate the recoverable amount of this investment.

C) INVESTMENTS IN A JOINT VENTURE

	2015 SR '000	2014 SR '000
At the beginning of the year	1,054	50
Share in earnings of the year	11,419	1,004
At the end of the year	<u>12,473</u>	<u>1,054</u>

On 20 Safar 1435H (corresponding to 23 December 2013), the Company has agreed with Emirates Transport on establishing Saudi Emirates Integrated Transport Company (SEITCO) with a capital of one hundred thousand Saudi Riyal, so that each party owns 50% of the capital. Saudi Emirates Integrated Transport Company is engaged in educational transportation services, owning of buses, fleet management for other companies and the provision of transport services by automobiles. SEITCO started its operations during the third quarter of 2014. This investment is accounted for under the equity method.

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11 PROPERTY, PLANT AND EQUIPMENT

	Land SR '000	Buildings SR '000	Busses, Trucks and Trailers SR '000	Plant & Equipment SR '000	Furniture and fixtures SR '000	Motor Vehicles SR '000	Projects & buses in Progress SR '000	Total 2015 SR '000	Total 2014 SR '000
Cost:									
At the beginning of the year	393,798	456,160	2,418,861	130,106	19,090	58,752	42,418	3,519,185	3,437,086
Additions	651	1,929	123,273	5,188	2,312	14,975	25,591	173,919	181,831
Disposals	(51,064)	(2,347)	(36,707)	(36,804)	(6,099)	(2,391)	-	(135,412)	(99,732)
Transfers	-	2,256	(6,256)	9,919	(10)	6,256	(12,165)	-	-
At the end of the year	343,385	457,998	2,499,171	108,409	15,293	77,592	55,844	3,557,692	3,519,185
Depreciation:									
At the beginning of the year	-	318,819	1,664,219	80,294	12,473	38,005	-	2,113,810	2,030,488
Charge for the year	-	8,346	108,550	10,264	1,257	10,691	-	139,108	178,505
Disposals	-	(2,347)	(36,707)	(36,801)	(6,098)	(1,561)	-	(83,514)	(95,183)
Transfers	-	-	(6,255)	-	-	6,255	-	-	-
At the end of the year	-	324,818	1,729,807	53,757	7,632	53,390	-	2,169,404	2,113,810
Net book amounts:									
At 31 December 2015	343,385	133,180	769,364	54,652	7,661	24,202	55,844	1,388,288	
At 31 December 2014	393,798	137,341	754,642	49,812	6,617	20,747	42,418		1,405,375

The depreciation charge for the year is allocated in the consolidated statement of income as follows:

	2015 SR '000	2014 SR '000
Direct Costs (Note 21)	136,209	175,851
General and administrative expenses (Note 22)	2,899	2,654
	139,108	178,505

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12 ADVANCE PAYMENT FROM A CUSTOMER

During the year, Public Transport Company received an amount of SR 471 million as an advance payment for executing King Abdulaziz project for busses public transport in Riyadh. The advance payment represents 6% of the total contract value.

13 MURABAHA LOANS

During the second quarter of year 2012, the Company obtained banking facilities of 120.1 million Saudi Riyals from a local commercial bank in the form of Murabaha loan to finance the purchase of buses. These facilities are secured by promissory notes. The loan agreement has been entered into on 2 June 2012. The facilities will mature over three years from the date of this agreement.

During the second quarter of year 2013, the Company obtained banking facilities of 102.8 million Saudi Riyals from a local commercial bank in the form of Murabaha loan to finance the purchase of buses. These facilities are secured by promissory notes. The loan agreement has been entered into on 23 April 2013. The facilities will mature over three years from the date of this agreement.

During the third quarter of year 2013, the Company obtained banking facilities of 47.6 million Saudi Riyals from a local commercial bank in the form of Murabaha loan to finance the purchase of buses. These facilities are secured by promissory notes. The loan agreement has been entered into on 29 August 2013. The facilities will mature over three years from the date of this agreement.

During the third quarter of year 2014, the Company obtained banking facilities of 64.2 million Saudi Riyals from a local commercial bank in the form of Murabaha loan to finance the purchase of buses. These facilities are secured by promissory notes. The loan agreement has been entered into on 20 August 2013. The facilities will mature over three years from the date of this agreement.

During the third quarter of year 2015, the Company obtained banking facilities of 61.8 million Saudi Riyals from a local commercial bank in the form of Murabaha loan to finance the purchase of buses. These facilities are secured by promissory notes. The loan agreement has been entered into on 20 August 2015. The facilities will mature over three years from the date of this agreement.

Following are the details of the loans:

	2015 <u>SR '000</u>	2014 <u>SR '000</u>
Current Portion		
Total amount of loans	71,644	105,304
Deferred murabaha commissions	(2,229)	(3,471)
	<u>69,415</u>	<u>101,833</u>
Non-current Portion		
Total amount of loans	51,653	65,597
Deferred murabaha commissions	(1,492)	(2,098)
	<u>50,161</u>	<u>63,499</u>
Total, net	<u><u>119,576</u></u>	<u><u>165,332</u></u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
At 31 December 2015

13 MURABAHA LOANS (continued)

The following are the details of the loans' obligations:

Maturity Date	2015 SR '000	2014 SR '000
2015	-	101,833
2016	69,415	48,651
2017	35,195	14,848
2018	14,966	-
Total	119,576	165,332

14 ACCRUED EXPENSES AND OTHER PAYABLES

	2015 SR '000	2014 SR '000
Accrued expenses	92,279	86,659
Accrued insurance	65,584	63,934
Advanced income	17,383	21,197
Retentions payable	9,882	7,856
Other payables	10,277	11,922
	195,405	191,568

15 DIVIDENDS PAYABLE

This represents dividends declared in prior years and amounts due to the shareholders relating to the shares issued in prior years. Such amounts have not been claimed by the respective shareholders up to the date of the consolidated financial statements.

16 ZAKAT

Zakat for the year has been calculated as follows:

	2015 SR '000	2014 SR '000
Shareholders' Equity	1,411,970	1,493,359
Opening provisions and other adjustments	474,829	414,045
Book value of long term assets	(1,762,302)	(1,949,871)
	124,497	(42,467)
 Zakatable income for the year	 150,563	 151,551
 Zakat base	 275,060	 151,551

The differences between the financial and zakatable results are mainly due to provisions which are not allowed in the calculation of zakatable income.

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At 31 December 2015

16 ZAKAT (continued)

Movements in zakat provision

The Movement in Zakat provision was as follows:

	2015 SR '000	2014 SR '000
At the beginning of the year	7,877	7,470
Provided during the year:		
For the current year	6,876	3,764
For prior years	26,984	-
Paid during the year	(3,747)	(3,357)
At the end of the year	<u>37,990</u>	<u>7,877</u>

The company has finalized its zakat status for all years until 2004. The company has filed zakat returns for the years 2005 to 2014 and settled zakat dues accordingly. On 11 January 2015, the Department of Zakat and Income Tax (DZIT) assessed an additional zakat for the years from 2005 to 2012 amounting to SR 39.4 million. The company has appealed against certain zakat items disallowed in DZIT's assessment. In 22 December 2015, the company received the final zakat assessment from DZIT for the years from 2005 to 2012 with zakat differences of SR 29.9 million. The company accepted this assessment and considered this amount in the zakat provision for the current year. This amount has been fully paid to DZIT in January 2016.

17 EMPLOYEES' TERMINAL BENEFITS

	2015 SR '000	2014 SR '000
At the beginning of the year	112,093	98,079
Provided during the year:	24,321	23,096
Paid during the year	(8,647)	(9,082)
At the end of the year	<u>127,767</u>	<u>112,093</u>

18 SHARE CAPITAL

The Company's share capital consists of 125 million shares (2014: 125 million shares) of SR 10 each.

19 CONSENSUAL RESERVE

In accordance with the Company's bylaws, the Company shall transfer 5% from the net income for the year to the consensual reserve until this reserve equals 25% of the share capital. This reserve may be used for the purposes authorized by the Board of Directors.

The Board of Directors resolved in its meeting held on 6 Rabi Thani 1436H (corresponding to 26 January 2015) to transfer an amount of SR 7,500,000 from the consensual reserve to retained earnings to complete the amount of the proposed dividends to the shareholders for the year 2014.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2015

20 REVENUE

	2015 SR '000	2014 SR '000
Passengers transport	699,704	648,421
Contracts and rentals	288,812	282,233
Other activities	113,793	88,549
	<u>1,102,309</u>	<u>1,019,203</u>

21 COST OF REVENUE

	2015 SR '000	2014 SR '000
Salaries and related benefits	394,817	368,791
Maintenance and repair	161,565	147,752
Depreciation (Note11)	136,209	175,851
Contractual services	59,157	36,701
Rents	27,982	15,646
Insurance premiums	24,099	27,051
Visa fees	20,589	17,713
General services	20,286	18,557
Passenger services	13,278	14,804
Provision for slow moving inventories (Note7)	3,084	-
Others	10,156	8,746
	<u>871,222</u>	<u>831,612</u>

22 GENERAL AND ADMINISTRATIVE EXPENSES

	2015 SR '000	2014 SR '000
Salaries and related costs	61,121	51,287
Consultancy fees	13,267	17,191
Depreciation (Note11)	2,899	2,654
Rents	2,922	2,503
Maintenance and cleaning	1,445	1,264
Committee membership remuneration	1,196	1,290
Telephone, electricity and water	933	719
Others	3,363	3,979
	<u>87,146</u>	<u>80,887</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2015

23 MARKETING AND SELLING EXPENSES

	2015 SR '000	2014 SR '000
Domestic agents' commissions	26,616	23,407
Provision for doubtful debts	10,813	12
International agents' commissions	3,482	4,865
Advertising	2,063	3,436
Publicity and promotions	2,071	1,412
	<u>45,045</u>	<u>33,132</u>

24 OTHER INCOME

	2015 SR '000	2014 SR '000
Gains on sale of property, plant and equipment	4,942	4,017
Settlement of insurance claims	3,604	1,970
Support from Human Resources Development Fund	2,844	1,014
Rental income	3,523	2,228
Advertisement for intra-city transportation	4,178	79
Penalties on suppliers	2,401	1,812
Restoration of land fees	1,064	-
Gains on sale of scrap	1,040	1,229
Gains on sale of available for sale investments	-	19,876
Gains on Murabaha investments	875	1,388
Others	3,343	2,901
	<u>27,814</u>	<u>36,514</u>

25 GAINS ON EXPROPRIATION OF LAND

On 20 Rabie Thani 1436H (corresponding to 9 February 2015), the Supervisory Committee of Expropriation of Land and Relocation of Services related to the Custodian of The Two Holy Mosques' Expansion Project of the Prophet's Mosque has expropriated the land owned by the Company in the city of Madina as part of the expansion project. The land area is 5,147,61 Square meters. An amount of SR 169.8 million was stated as a compensation, whereas the book value of the land amounted to SR 51 million. This compensation has resulted in a capital gain of SR 118.8 million.

26 EARNINGS PER SHARE

Earnings per share attributable to income from main operations and net income for the year is calculated on the basis of the total outstanding shares amounting to 125 million shares (31 December 2014: 125 million shares).

27 CONTINGENT LAIBILITIES

- The Group bankers have issued, on its behalf during the normal course of business, guarantees and acceptances limited to SR 805.9 million as of 31 December 2015 (2014: SR 512.9 million).
- The company has capital commitments of SR 108 million to purchase 300 new busses and are expected to be delivered during the second quarter of 2016. The company has also capital commitment of SR 235 million to purchase 200 new buses and are expected to be delivered during the third quarter of 2016 and the first quarter of 2017.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2015

27 CONTINGENT LAIBILITIES (continued)

C) Operating Leases:

	2015 SR '000	2014 SR '000
Payments under operating leases recognized as expenses during the year	20,015	13,984
	<u>20,015</u>	<u>13,984</u>

The minimum rent payments obligations under the irrevocable operating leases are as follows:

	2015 SR '000	2014 SR '000
Less than a year	7,488	9,414
Second year	5,925	8,765
Third year	5,900	3,887
Fourth year	2,250	877
More than five years	8,400	125
Minimum rent payments	<u>29,963</u>	<u>23,068</u>

28 SEGMENTAL INFORMATION

The Company's operations are mainly conducted in the Kingdom of Saudi Arabia.

In accordance with the resources allocation policy, the Company consists of three main operating segments as follows:

- *Passenger Transport*

Includes scheduled transport services which incorporate inter and intra city transport inside and outside the Kingdom, as well as international transport services. This is considered the major segment of the Company.

- *Contracts and Leasing*

Incorporates transport services as per lease agreements entered into by the company with third parties, whether governmental or non- governmental parties, inside or outside the Kingdom.

- *Head Office*

Includes the headquarter of the Company and the financial information attributable to other activities.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2015

28 SEGMENTAL INFORMATION (continued)

The selected financial data for these sectors are as follows:

31 December 2015:

SR '000

<u>Description</u>	<i>Passenger transport</i>	<i>Contracts and leases</i>	<i>Head Office</i>	<i>Total</i>	<i>Eliminations on Consolidation</i>	<i>Total</i>
1- Revenues	699,364	288,812	114,133	1,102,309	-	1,102,309
2- Gross profit (Loss)	189,274	80,448	(43,640)	226,082	5,005	231,087
3- Property, plant & equipment	460,746	450,258	477,284	1,388,288	-	1,388,288
4- Total assets	532,871	563,200	1,538,657	2,634,728	(13,681)	2,621,047
5- Total liabilities	235,786	191,560	684,476	1,111,822	(13,014)	1,098,808

31 December 2014:

SR '000

<u>Description</u>	<i>Passenger transport</i>	<i>Contracts and leases</i>	<i>Head Office</i>	<i>Total</i>	<i>Eliminations on Consolidation</i>	<i>Total</i>
1- Revenues	648,421	282,233	88,549	1,019,203	-	1,019,203
2- Gross profit (Loss)	146,587	66,560	(25,556)	187,591	-	187,591
3- Property, plant & equipment	426,213	441,904	537,258	1,405,375	-	1,405,375
4- Total assets	487,396	543,363	1,058,438	2,089,197	-	2,089,197
5- Total liabilities	253,441	210,908	131,489	595,838	-	595,838

29 RISK MANAGEMENT

Commission rate risk

The Company is subject to commission rate risk on its commission bearing assets and liabilities, including Islamic Murabaha deposits and loans.

Credit risk

Credit risk is the risk that one party of a financial instrument will fail to discharge an obligation and will cause the other party to incur a financial loss. The Company seeks to limit its credit risk with respect to customers by setting credit limits for individual and agents and monitoring outstanding receivables. At the consolidated balance sheet date, no significant concentrations of credit risk were identified by the management, except for transactions with governmental institutions.

Liquidity risk

The Company limits its liquidity risk by ensuring that the sufficient liquid funds are available to meet its future obligations.

Currency risk

The group is subject to fluctuations in foreign exchange rates in the normal course of its business. The group undertake in the normal course of its business transactions in currencies such as, Saudi Riyals and US Dollars and Euros. The Euros is subject to fluctuations exchange higher than US Dollars.

30 DIVIDENDS

The Ordinary General Assembly approved in its meeting held on 1 Rajab 1436H (corresponding to 20 April 2015) the Board of Directors' recommendation to distribute cash dividends amounting to SR 93.7 million (SR 0.75 per share) for the financial year 2014.

The Ordinary General Assembly also approved in its meeting held 1 Rajab 1436 H (corresponding to 20 April 2015) the Board of Directors' recommendation to distribute cash dividends to shareholders from capital gains realized from the compensation of land of Madina (Gains on expropriation of land) amounting to SR 62.5 million (SR 0.50 per share) and the payment of Board of Directors' remuneration of SR 1.8 million.

On 24 Rabi Awal 1437H (corresponding to 4 January 2016), the Board of Directors proposed to distribute dividends amounting to SR 62.5 million (SR 0.50 per share) for the financial year 2015, subject to the approval of the General Assembly of the company.

31 COMPARATIVE FIGURES

Certain figures of the prior year have been reclassified to conform with the current year presentation.

32 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by The Board of Directors on 13 Jumadaha Al Awal 1437H (corresponding to 22 February 2016).