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

**CONSOLIDATED FINANCIAL STATEMENTS**
For the year ended 31 December 2016
with
**INDEPENDENT AUDITORS' REPORT**

KPMG

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

# INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Saudi Industrial Services Company ("the Company") and its subsidiaries (collectively referred as "the Group") which comprise the consolidated balance sheet as at 31 December 2016 and the related consolidated statements of income, cash flows and changes in equity for the year then ended and the attached notes 1 through 35 which form an integral part of the consolidated financial statements.

***Management's responsibility for the consolidated financial statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia and in compliance with the Regulations for Companies and the Company's Bylaws and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. Management has provided us with all the information and explanations that we require relating to our audit of these consolidated financial statements.

***Auditors' responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG

***Opinion***

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

1) present fairly, in all material respects, the consolidated financial position of Saudi Industrial Services Company and its subsidiaries ("the Group") as at 31 December 2016 and the consolidated results of its operations and its consolidated cash flows for the year then ended, in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia appropriate to the circumstances of the Group; and

2) comply with the requirements of the Regulations for Companies and the Company's Bylaws with respect to the preparation and presentation of the financial statements.

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

Ebrahim Oboud Baeshen
License No.382

KPMG Al Fozan & Partners
Certified Public Accountants

Jeddah on Jumada Al Awal 29, 1438H
Corresponding to February 26, 2017

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

**CONSOLIDATED BALANCE SHEET**
As at 31 December 2016
(Expressed in Saudi Arabian Riyals)

| | Notes | 2016 | 2015 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets:** | | | |
| Cash and cash equivalents | 4 | 195,404,320 | 252,669,021 |
| Trade and other receivables | 5 | 113,936,782 | 118,565,253 |
| Derivative financial instrument | 16 | 24,930 | -- |
| Inventories | 6 | 41,178,880 | 37,172,077 |
| **Total current assets** | | 350,544,912 | 408,406,351 |
| **Non-current assets:** | | | |
| Investments | 7 | 118,776,922 | 114,541,576 |
| Property, plant and equipment | 8 | 911,134,352 | 707,653,503 |
| Intangible assets - quay project | 9 | 1,293,484,306 | 1,361,120,885 |
| Derivative financial instrument | 16 | -- | 4,236 |
| Goodwill | 10 | 8,776,760 | 8,776,760 |
| **Total non-current assets** | | 2,332,172,340 | 2,192,096,960 |
| **Total assets** | | 2,682,717,252 | 2,600,503,311 |
| **LIABILITIES AND EQUITY** | | | |
| **Current liabilities:** | | | |
| Current portion of long-term loans and bank facilities | 13 | 116,017,870 | 112,482,638 |
| Trade payables and other current liabilities | 12 | 144,009,957 | 149,611,630 |
| Derivative financial instrument | 16 | 509,730 | -- |
| **Total current liabilities** | | 260,537,557 | 262,094,268 |
| **Non-current liabilities:** | | | |
| Non-current portion of long-term loans and bank facilities | 13 | 836,401,581 | 838,185,086 |
| Other long-term liabilities | 14 | 54,602,445 | 44,661,233 |
| Employees' end of service benefits | 15 | 23,374,817 | 21,638,938 |
| Derivative financial instrument | 16 | -- | 17,276 |
| **Total non-current liabilities** | | 914,378,843 | 904,502,533 |
| **Total liabilities** | | 1,174,916,400 | 1,166,596,801 |
| **Equity attributable to the shareholders' of Parent Company** | | | |
| Share capital | 17 | 680,000,000 | 680,000,000 |
| Share premium | | 36,409,063 | 36,409,063 |
| Statutory reserve | 18 | 39,758,712 | 30,549,496 |
| Special reserve | 19 | 19,869,813 | 15,265,205 |
| Other reserves | | 8,446,560 | 13,151,743 |
| Retained earnings | | 239,516,540 | 196,638,201 |
| **Total equity attributable to the shareholders' of Parent Company** | | 1,024,000,688 | 972,013,708 |
| Non-controlling interests | | 483,800,164 | 461,892,802 |
| **Total equity** | | 1,507,800,852 | 1,433,906,510 |
| **Total liabilities and equity** | | 2,682,717,252 | 2,600,503,311 |

The accompanying notes 1 through 35 form an integral part of these consolidated financial statements.

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

**CONSOLIDATED STATEMENT OF INCOME**
For the year ended 31 December 2016
(Expressed in Saudi Arabian Riyals)

| | Notes | 2016 | 2015 |
|---|---|---|---|
| **Continuing Operations:** | | | |
| Revenue | 23 | 640,318,392 | 616,084,082 |
| Costs of revenue | 24 | (342,972,042) | (320,276,003) |
| **Gross profit** | | 297,346,350 | 295,808,079 |
| Selling and distribution expenses | 25 | (13,287,456) | (14,219,801) |
| General and administrative expenses | 26 | (122,638,877) | (109,443,646) |
| **Operating profit** | | 161,420,017 | 172,144,632 |
| Share in results from equity accounted associates, net | 7 | 11,253,367 | 9,066,007 |
| Other income, net | 27 | 12,013,369 | 2,123,823 |
| Financial charges | | (36,279,222) | (34,353,449) |
| **Income before Zakat and non-controlling interests from Continuing Operations** | | 148,407,531 | 148,981,013 |
| **Discontinued Operation:** | | | |
| Net profit for the year from Discontinued Operation | 11 | -- | 1,074,322 |
| **Income before Zakat** | | 148,407,531 | 150,055,335 |
| Zakat | 28 | (5,513,222) | (8,119,685) |
| **Net income for the year** | | 142,894,309 | 141,935,650 |
| **Net income attributable to:** | | | |
| - Shareholders' of the Parent Company | | 92,092,163 | 90,508,970 |
| - Non-controlling interest's share of net income in subsidiaries | | 50,802,146 | 51,426,680 |
| **Net income for the year** | | 142,894,309 | 141,935,650 |
| Earnings per share on operating profit for the year | 29 | 2.37 | 2.53 |
| Earnings per share from net income for the year attributable to the Shareholders' of the Parent Company | 29 | 1.35 | 1.33 |

The accompanying notes 1 through 35 form an integral part of these consolidated financial statements.

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

## CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2016
(Expressed in Saudi Arabian Riyals)

| | Notes | 2016 | 2015 |
|---|---|---|---|
| **Operating activities:** | | | |
| Income before Zakat and non-controlling interests from Continuing Operations | | 148,407,531 | 148,981,013 |
| Adjustments for: | | | |
| Depreciation and amortization | 8 & 9 | 123,680,651 | 114,631,996 |
| Provision for employees' end of service benefits | 15 | 5,910,350 | 5,738,385 |
| Loss / (gain) on disposal of property, plant and equipment | 27 & 11 | 135,569 | (167,533) |
| Share of results from equity accounted associates, net | 7 | (11,253,367) | (9,066,007) |
| Other provisions | | -- | 6,414,767 |
| (Reversal) / provision for doubtful debts | 5 | (366,014) | 969,538 |
| Provision for inventories | | -- | 135,000 |
| Net income from discontinued operation | 11 | -- | 1,074,322 |
| Amortization of advance rentals | | 4,103,037 | 4,103,037 |
| Amortization of deferred revenue | | (20,329) | (21,853) |
| Provision for asset replacement cost | | 8,093,785 | 5,596,706 |
| Financial charges | | 36,279,222 | 34,353,449 |
| | | 314,970,435 | 312,742,820 |
| Changes in operating assets and liabilities: | | | |
| Trade and other receivables | | 4,994,485 | (18,230,880) |
| Inventories | | (4,006,803) | (9,811,361) |
| Trade payable and other current liabilities | | 1,709,688 | 19,398,803 |
| Cash generated from operating activities | | 317,667,805 | 304,009,382 |
| Employees' end of service benefits paid | 15 | (4,174,471) | (2,035,702) |
| Financial charges paid | | (34,342,352) | (32,347,275) |
| Zakat and income-tax paid | 28 | (12,893,697) | (11,732,355) |
| Net cash generated from operating activities | | 266,257,285 | 257,984,050 |
| **Investing activities:** | | | |
| Effect of transaction with non-controlling interests without change in control | 21 | (15,000,000) | -- |
| Dividends received from equity accounted associates | 7 | 5,730,107 | 1,960,000 |
| Additions to property, plant and equipment | 8 | (259,859,141) | (127,462,177) |
| Proceeds from disposal of property, plant and equipment | | 198,651 | 479,559 |
| Net cash used in investing activities | | (268,930,383) | (125,022,618) |
| **Financing activities:** | | | |
| Borrowings of loans and bank facilities | | 114,329,781 | -- |
| Repayment of loans and bank facilities | | (116,681,091) | (109,390,036) |
| Dividend and other distributions | 34 | (35,400,000) | (35,400,000) |
| Dividends paid to non-controlling interests by subsidiaries | | (12,131,000) | (6,720,000) |
| Net movement in non-controlling interests | | (4,709,293) | (2,220,875) |
| Net cash used in financing activities | | (54,591,603) | (153,730,911) |
| **Net change in cash and cash equivalents** | | (57,264,701) | (20,769,479) |
| Cash and cash equivalents at the beginning of the period | | 252,669,021 | 273,438,500 |
| **Cash and cash equivalents at the end of the period** | 4 | 195,404,320 | 252,669,021 |
| **Non-cash supplementary information:** | | | |
| Changes in fair value of derivative financial instruments | 16 | (471,760) | 6,774,950 |
| Changes in fair value of available for sale investments | 7 | (1,287,914) | (330,293) |

The accompanying notes 1 through 35 form an integral part of these consolidated financial statements.

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2016
(Expressed in Saudi Arabian Riyals)

| | Equity attributable to the shareholders' of the Parent Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Other reserves | | | | | | | |
| | Share capital | Share premium | Statutory reserve | Special reserve | Effect of reducing ownership percentage in a subsidiary (Note 20) | Effect of transaction with non-controlling interests without change in control | 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 | 196,638,201 | 972,013,708 | 461,892,802 | 1,433,906,510 |
| Net income | -- | -- | -- | -- | -- | -- | -- | -- | 92,092,163 | 92,092,163 | 50,802,146 | 142,894,309 |
| Transfer to reserves (Note 18 and 19) | -- | -- | 9,209,216 | 4,604,608 | -- | -- | -- | -- | (13,813,824) | -- | -- | -- |
| Dividends paid (Note 34) | -- | -- | -- | -- | -- | -- | -- | -- | (34,000,000) | (34,000,000) | (12,131,000) | (46,131,000) |
| Other distributions (Note 34) | -- | -- | -- | -- | -- | -- | -- | -- | (1,400,000) | (1,400,000) | -- | (1,400,000) |
| Transaction with non-controlling interests without change in control (Note 21) | -- | -- | -- | -- | -- | (3,134,569) | -- | -- | -- | (3,134,569) | (11,865,431) | (15,000,000) |
| Net movement in non-controlling interests | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | (4,709,293) | (4,709,293) |
| Changes in fair value of available for sale investments (Note 7) | -- | -- | -- | -- | -- | -- | -- | (1,287,914) | -- | (1,287,914) | -- | (1,287,914) |
| Change in fair value of derivative financial instruments (Note 16) | -- | -- | -- | -- | -- | -- | (282,700) | -- | -- | (282,700) | (189,060) | (471,760) |
| **Balance at 31 December 2016** | **680,000,000** | **36,409,063** | **39,758,712** | **19,869,813** | **4,653,218** | **(3,134,569)** | **(289,950)** | **7,217,861** | **239,516,540** | **1,024,000,688** | **483,800,164** | **1,507,800,852** |
| Balance at 1 January 2015 | 680,000,000 | 36,409,063 | 21,498,599 | 10,739,756 | 4,653,218 | -- | (4,144,715) | 8,836,068 | 155,105,577 | 913,097,566 | 416,769,512 | 1,329,867,078 |
| Net income | -- | -- | -- | -- | -- | -- | -- | -- | 90,508,970 | 90,508,970 | 51,426,680 | 141,935,650 |
| Transfer to reserves (Note 18 and 19) | -- | -- | 9,050,897 | 4,525,449 | -- | -- | -- | -- | (13,576,346) | -- | -- | -- |
| Dividends paid (Note 34) | -- | -- | -- | -- | -- | -- | -- | -- | (34,000,000) | (34,000,000) | (6,720,000) | (40,720,000) |
| Other distributions (Note 34) | -- | -- | -- | -- | -- | -- | -- | -- | (1,400,000) | (1,400,000) | -- | (1,400,000) |
| Net movement in non-controlling interests | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | (2,220,875) | (2,220,875) |
| Changes in fair value of available for sale investment (Note 7) | -- | -- | -- | -- | -- | -- | -- | (330,293) | -- | (330,293) | -- | (330,293) |
| Change in fair value of derivative financial instruments (Note 16) | -- | -- | -- | -- | -- | -- | 4,137,465 | -- | -- | 4,137,465 | 2,637,485 | 6,774,950 |
| Balance at 31 December 2015 | 680,000,000 | 36,409,063 | 30,549,496 | 15,265,205 | 4,653,218 | -- | (7,250) | 8,505,775 | 196,638,201 | 972,013,708 | 461,892,802 | 1,433,906,510 |

The accompanying notes 1 through 35 form an integral part of these consolidated financial statements.

## 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 7 Rabi Awwal 1409 H (corresponding to 18 October 1988) and registered under Commercial Registration No. 4030062502 dated 10 Rabi Thani 1409H (corresponding to 20 November 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 activities of the Company is investment and management of subsidiaries.

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

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

These consolidated financial statements include assets, liabilities and the results of the operations of the Company and its following subsidiaries (collectively referred as "the Group"):

| Company | Country of incorporation | Effective shareholding 2016 | Effective shareholding 2015 | Principal activities |
|---|---|---|---|---|
| Saudi Trade and Export Development Company Limited ("TUSDEER") | Saudi Arabia | 76% | 76% | Management and operation of storage and re-export project situated on the land leased from Jeddah Islamic Port. |
| Kindasa Water Services Company – Closed Joint Stock Company ("KINDASA") (Note 21) | Saudi Arabia | 65% | 60% | Water desalination and treatment plant and sale of water. |
| Support Services Operation Company Limited ("ISNAD") | Saudi Arabia | 99.28% | 99.28% | Development and operation of industrial zones, construction and operation of restaurants, catering and entertainment centers, construction of gas stations, auto servicing and maintenance workshops, and purchase of land for the construction of building thereon and investing the same through sale or lease. |
| Red Sea Gateway Terminal Company Limited ("RSGT") | Saudi Arabia | 60.6% | 60.6% | Development, construction, operation and maintenance of container terminals and excavation and back filling works. |
| Red Sea Port Development Company – Closed Joint Stock Company ("RSPD") | Saudi Arabia | 60.6% | 60.6% | Development, construction, operation and maintenance of container terminals and excavation and back filling works. |

## 2. BASIS OF PREPARATION

**Statement of compliance**
These consolidated financial statements have been prepared in accordance with the accounting standards generally accepted in the Kingdom of Saudi Arabia issued by Saudi Organization for Certified Public Accountants (SOCPA).

The new Regulation for Companies issued through Royal Decree M/3 on 11 November 2015 (hereinafter referred as "the Law") came into force on 25 Rajab 1437H (corresponding to 2 May 2016). The Company has to amend its Bylaws for any changes to align the Bylaws to the provisions of the Law. Consequently, the Company shall present the amended Bylaws to the shareholders in their Extraordinary General Assembly meeting for their ratification. The full compliance with the Law is expected not later than 24 Rajab 1438H (corresponding to 21 April 2017).

As required by Saudi Organization for Certified Public Accountants (SOCPA), all listed companies are required to transition to International Financial Reporting Standards ("IFRS") as endorsed by SOCPA effective 1 January 2017 for preparation of their financial statements. In preparing the first set of IFRS financial statements, the Group will analyze the impact of the first time adoption of IFRS on current and prior year financial statements and will accordingly incorporate the necessary adjustments in its first set of IFRS financial statements.

**Functional and presentation currency**
These accompanying consolidated financial statements are presented in Saudi Arabian Riyals (SR) which is the functional currency of the Group.

**Accounting convention**
The consolidated financial statements have been prepared under the historical cost convention, except for available for sale investments and derivative financial instruments which are measured at fair value, using accrual basis of accounting and going concern assumption.

**Use of estimates and judgements**
The preparation of consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected. The key areas requiring significant management judgements and estimates are as follows:

***Impairment of trade receivables and other current assets***
A provision for impairment of trade receivables 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 agreement. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators of objective evidence that the trade receivable is impaired. For significant individual amounts, assessment is made on an individual basis. Amounts which are not individually significant, but are overdue, are assessed collectively and a provision is recognized considering the length of time considering past recovery rates.

## 2. BASIS OF PREPARATION (continued)

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

***Provision for slow moving inventory items***

The Group makes a provision for slow moving inventory items. Estimates of net realizable value of inventories are based on the most reliable evidence at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly related to events occurring subsequent to the balance sheet date to the extent that such events confirm conditions existing at the end of year.

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

The management determines the estimated useful lives of property, plant and equipment for calculating depreciation. This estimate is determined after considering expected usage of the assets or physical wear and tear. Management reviews the residual value and useful lives annually and change in depreciation charges, if any, are adjusted in current and future periods.

***Impairment of available for sale investments***

The Group exercises judgement to consider the impairment of available for sale investments as well as their underlying assets. This includes the assessment of objective evidence which causes other than temporary decline in the value of investments. Any significant and prolonged decline in the fair value below its cost is considered as objective evidence for the impairment. The determination of what is 'significant' and 'prolonged' requires judgement. The Group also considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows. Furthermore, management considers 20% or more as a reasonable measure for significant decline below its cost, irrespective of the duration of the decline, and is recognized in the consolidated statement of income as impairment charge on investments. Prolonged decline represents decline below cost that persists for 9 months or longer irrespective of the amount and is, thus, recognized in the consolidated statement of income as impairment charge on investments. The previously recognized impairment loss in respect of equity investments cannot be reversed through the consolidated statement of income.

***Impairment of intangible assets***

Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at lowest levels for which there are separately identifiable cash flows (cash-generating units). Impairment losses once recognized are not reversible.

## 2. BASIS OF PREPARATION (continued)

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

***Impairment of non-financial assets***
Non-current assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss, if any, is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-current assets other than intangible assets and that suffered impairment are reviewed for possible reversal of impairment at each reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the consolidated statement of income.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining the fair value less costs to sell, an appropriate source is used, such as observable market prices or, if no observable market prices exist, estimated prices for similar assets or if no estimated prices for similar assets exist, it is based on discounted future cash flow calculations.

***Provision for asset replacement cost***
Provision for asset 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.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been consistently applied by the Group for the preparation of these consolidated financial statements. Certain comparative amounts have been reclassified to conform with the current year's presentation.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Basis of consolidation (continued)**

*Subsidiaries*
Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries, which are prepared for the same reporting period as the Parent Company using consistent accounting policies, are included in the consolidated financial statements from the date that control commences until the date control ceases.

All intra-group balances and financial transactions resulting from transactions between the Company and the subsidiaries and those arising between the subsidiaries are eliminated in preparing these consolidated financial statements. Also, any unrealized gains and losses arising from intra-group transactions are eliminated on consolidation.

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

*Non-controlling interests*
Non-controlling interest ("NCI") represents the interest in subsidiary companies, not held by the Company which are measured at their proportionate share in the subsidiary's identifiable net assets. Transactions with non-controlling interest parties are treated as transactions with parties external to the Group.

**Cash and cash equivalents**
Cash and cash equivalents comprise cash in hand, cash with banks and other short-term highly liquid investments, if any, with original maturities of three months or less.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses. Provision is made where necessary for obsolete and slow moving inventories.

**Investment in associates**
The Group's investment in associates is accounted for under the equity method of accounting. There are entities over which the Group exercises significant influence and which is neither a subsidiary nor a joint venture. Investment in associates are carried in the consolidated balance sheet at cost, plus post-acquisition changes in the Group's share of net assets of the associate, less any impairment in value based on its latest financial statements at each reporting date. The consolidated statement of income reflects the Group's share of the results of its associate. Where there has been a change recognized directly in the equity of associate, the Group recognizes its share of any changes and discloses this when applicable in the consolidated statement of changes in equity. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

Unrealised gains and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate. The financial statements of the associates are prepared for the same period as the Parent Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

Dividends are recorded when received and credited to the investment.

**Available for sale investments**
Investments purchased neither with the intention of being held to maturity nor for trading purposes are designated as available for sale investments and initially recorded at cost plus any directly attributable transaction costs and subsequently measured at fair value. Unrealised gains and losses reported as a separate component of equity until the investment is derecognized or the investment is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported in equity, is included in the consolidated statement of income for the period.

Fair value is determined by reference to the market value in the open market. If fair value is not available, cost is considered to be the most appropriate objective and reliable measurement of the fair value of investments.

Dividend income is recognized when the right to receive the dividend is established.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Property, plant and equipment**
Freehold land is not depreciated. The development cost of leasehold land and the buildings constructed thereon are depreciated over the shorter of estimated useful life or the remaining period of concession and stated at cost net of accumulated depreciation and any impairment in value. Property, plant and equipment are stated at cost net of accumulated depreciation and any impairment in value. Depreciation is calculated on the basis of estimated useful lives of property, plant and equipment using straight line method. Finance costs on borrowings to finance the construction of the assets are capitalized during the period of time that is required substantially to complete and prepare those assets for its intended use.

Expenditure for repair and maintenance are charged to the consolidated statement of income. Cost of improvements that increase the value or materially extend the life of the related assets are capitalized.

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

| | |
|---|---|
| Buildings on leasehold land | Shorter of concession period or 10 - 40 years |
| Leasehold improvements | Shorter of concession period or 35 years for bonded and re-export projects, 10 years for Quay projects and 5 years for others. |
| Plant and equipment | 7 - 25 years |
| Desalination plants, water filling stations and Accessories | 8 - 21 years |
| Machinery and equipment | 8 - 25 years |
| Motor vehicles and tankers | 4 - 10 years |
| Furnitures and fixtures | 2 - 10 years |
| Computers and equipments | 2 - 7 years |

*Capital work-in-progress*
Capital work-in-progress is measured at cost less impairment losses, if any, and not depreciated until such time the assets are ready for intended use and transferred to the respective category under property, plant and equipment.

**Intangible asset - quay project**

*Port concession rights*
The Group's port terminal operations are conducted pursuant to a long-term concession arrangement. The Group recognises port concession rights arising from a service concession arrangement, in which the public sector ("the grantor") controls or regulates the services provided, the prices charged and also controls any significant residual interest in the infrastructure such as property and equipment, if the infrastructure is existing infrastructure of the grantor or the infrastructure is constructed or purchased by the Group as part of the service concession arrangement.

The Group has adopted the guidance in International Financial Reporting Standards which is included in IFRIC 12 – Service concession arrangements ("IFRIC 12") issued by the International Financial Reporting Interpretations Committee of the International Accounting Standards Board to account for the costs incurred for the construction of container terminal (port concession rights) as there is no related guidance available under accounting standards issued by SOCPA. Pursuant to IFRIC 12, costs incurred under service concession arrangements are recognized as an intangible asset.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Intangible asset - quay project (continued)**

The port concession rights include all costs incurred towards construction of the container terminal. The port concession rights are stated at cost, less accumulated amortization and impairment losses, if any.

Quay projects intangible assets are being amortised over the useful lives of the underlying assets (representing the property and equipment) or the remaining term of concession, whichever is shorter.

*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.

**Goodwill**
Goodwill represents the increase in the cost of investment over the Company's share in the net fair value of investee's net assets, liabilities and contingencies as at acquisition date. Goodwill is subsequently recognized at cost, net of any accumulated impairment losses. The carrying value of goodwill is reviewed annually to determine whether any objective indicator of impairment exists, unless an event or change in circumstances occurs during the year indicating an impairment of the carrying value which requires a valuation of goodwill during the year. Goodwill includes Company's share and the minority share.

For impairment test, the goodwill for subsidiaries is determined individually, as each subsidiary is considered an independent cash generating unit.

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

**Trade payables and accruals**
Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

**Employee compensated absences**
The cost of employee compensated absences is recognised when the employee renders services that increases their entitlement to future compensated absences.

**Derivative financial instruments**
The Group is using Profit Rate Swap contracts as hedging instruments to hedge its exposure to the variability in cash flows arising from profit payments on Ijara and other loan facilities obtained from banks. Hedging instruments are initially recognised at fair value on the date on which a contract is entered into and are subsequently remeasured at fair value. Hedging instrument is carried as financial asset when the fair value is positive and as financial liability when the fair value is negative.

For the purpose of hedge accounting, hedging instrument is classified as cash flow hedge. The effective portion of the gain or loss on the hedging instrument is recognised directly in shareholders' equity in other reserves, while any ineffective portion is recognised immediately in the consolidated statement of income in financial charges.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documents include identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's cash flows attributable to the hedged risk.

Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed in an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Revenue recognition (continued)**
Service revenue represents the invoiced value of services rendered by the Group during the period, net of trade discounts and Saudi Arabian Seaports Authority's ("SEAPA") share of revenue and are recognized when the amount of revenue can be measured reliably, on rendering of services to customers.

Construction revenue pertaining to construction of Port terminal is recognized using the percentage of completion method. Percentage of completion is determined by comparison of costs incurred to date with estimated total costs. When it is probable that the total costs will exceed the total contract revenue, the expected loss is recognized immediately.

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

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

**Expenses**
Selling and distribution expenses are those arising from the Group's efforts underlying their marketing, selling and distribution functions. All other expenses, except cost of revenue and operations, are classified as general and administration expenses. Allocations of common expenses between cost of revenue and selling and distribution, general and administration expenses, when required, are made on a consistent basis.

**Finance costs**
Finance costs except for those, that are directly attributable to the construction of an asset are capitalised using capitalised rate up to the stage when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed, are charged to the consolidated statement of income.

**Finance income**
The Group's finance income comprises of profit earned on murabaha deposits which is recognised using the effective interest method.

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

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

The Group withholds taxes on transactions with non-resident parties and on dividends paid to foreign shareholders in accordance with GAZT regulations.

Foreign subsidiaries are subject to income taxes in their respective countries of domicile. Such income taxes are charged to consolidated statement of income.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Foreign currencies**

*Foreign currency transactions and balances*

Transactions in foreign currencies are recorded in Saudi Arabian Riyals at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the consolidated statement of income. Non-monetary items measured at historical cost denominated in a foreign currency are translated at the exchange rate at the date of initial recognition.

*Foreign operations*

Assets and liabilities of foreign consolidated subsidiaries are converted into Saudi Arabian Riyals at the exchange rates in effect at the balance sheet date. The equity components of foreign subsidiaries with the exception of retained earnings of subsidiaries are translated at the exchange rates in effect at the dates the related items originated. The elements of foreign subsidiaries' income statements are translated using the weighted-average exchange rate for the period. Adjustments resulting from the translation of foreign subsidiaries' financial statements into Saudi Arabian Riyals are reported as a separate component of equity (foreign currency translation reserve) attributable to shareholders of the Company in the consolidated financial statements.

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

Non-current assets, or a disposal group comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale or distribution rather than through continuing use.

Immediately before classification as held-for-sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's other accounting policies generally at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis. Impairment losses on initial classification as held-for-sale and subsequent gains and losses on remeasurement are recognised in the consolidated statement of income. Gains are not recognised in excess of any cumulative impairment loss.

Once classified as held-for-sale, intangible assets and property, plant and equipment are no longer amortised or depreciated, and any equity-accounted investee is no longer equity accounted.

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs on abandonment or when the operation meets the criteria to be classified as held-for-sale, if earlier.

When an operation is classified as a discontinued operation, the comparative statement of income is re-presented as if the operation had been discontinued from the start of the comparative year.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

**Contingent liabilities**
All possible obligations arising from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or all present obligations arising from past events but not recognized because: (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or (ii) the amount of the obligation cannot be measured with sufficient reliability; all should be assessed at each balance sheet date and disclosed in the Group's financial statements under contingent liabilities.

**Segmental reporting**
A segment is a distinguishable component of the Group that is engaged either in providing products or services (a business segment) or in providing products or services within a particular economic environment (a geographic segment), which is subject to risks and rewards that are different from those of other segments. As the Group carries out its business activities mainly in the Kingdom of Saudi Arabia, reporting disclosures in these consolidated financial statements is presented by business segment only (note 33).

**Dividends**
Dividends are recorded in the period in which they are approved by the shareholders.

## 4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 31 December comprise of following:

| | **2016** | 2015 |
|---|---|---|
| Cash on hand | **300,778** | 284,146 |
| Cash at banks (Note 4.2) | **173,849,042** | 146,384,875 |
| Murabaha term deposits (Note 4.1) | **21,254,500** | 106,000,000 |
| | **195,404,320** | 252,669,021 |

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

4.2 Cash at banks include restricted balances amounting to

- SR 61 million (2015: 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 (2015: SR 0.25 million) held with a commercial bank in respect of accumulated unclaimed dividends (Note 12).

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
For the year ended 31 December 2016
(Expressed in Saudi Arabian Riyals)

## 5. TRADE AND OTHER RECEIVABLES

Trade and other receivables as at 31 December comprise of following:

| | 2016 | 2015 |
|---|---|---|
| Trade receivables, net (Note 'a' below) | **67,438,037** | 70,072,009 |
| Advances to suppliers | **3,833,913** | 6,481,121 |
| Margin deposits (Note 30) | **19,727,723** | 11,510,996 |
| Amounts due from related parties – non trade (Note 22) | **1,425,726** | 3,471,436 |
| Prepayments | **12,945,457** | 15,848,230 |
| Other receivables | **8,565,926** | 11,181,461 |
| | **113,936,782** | 118,565,253 |

a) Trade receivables as at 31 December comprise the following:

| | 2016 | 2015 |
|---|---|---|
| Due from related parties (Note 22) | **10,960,385** | 16,105,621 |
| Third party customers | **59,126,451** | 57,051,357 |
| | **70,086,836** | 73,156,978 |
| Less: provision for doubtful debts (Note 5 (b)) | **(2,648,799)** | (3,084,969) |
| | **67,438,037** | 70,072,009 |

The Group does not have any collateral over receivables and accordingly are unsecured.

b) Movement in provision for doubtful debts is as follows:

| | 2016 | 2015 |
|---|---|---|
| Balance at 1 January | **3,084,969** | 2,554,323 |
| (Reversal) / provision for the year | **(366,014)** | 969,538 |
| Written off during the year | **(70,156)** | (438,892) |
| Balance at 31 December | **2,648,799** | 3,084,969 |

Unimpaired trade receivables are expected, on the basis of past experience to be fully recoverable.

c) The ageing of gross trade receivables is as follows:

| | *Up to three months* | *Above three and up to six months* | *Above six months* | Total |
|---|---|---|---|---|
| **31 December 2016** | **65,782,914** | **1,007,352** | **3,296,570** | **70,086,836** |
| 31 December 2015 | 68,939,372 | 1,123,405 | 3,094,201 | 73,156,978 |

## 6. INVENTORIES

Inventories as at 31 December comprise of following:

| | 2016 | 2015 |
|---|---|---|
| Spare parts | 41,099,421 | 37,094,775 |
| Raw materials and chemicals | 64,090 | 85,280 |
| Fuel, oil and desalinated water | 150,369 | 127,022 |
| | 41,313,880 | 37,307,077 |
| Less: provision for slow moving and obsolete inventories | (135,000) | (135,000) |
| | 41,178,880 | 37,172,077 |

## 7. INVESTMENTS

Investments as at 31 December comprise of following:

| | 2016 | 2015 |
|---|---|---|
| Investment in associates (Note 7.1) | 101,988,911 | 96,465,651 |
| Available for sale investment - unquoted (Note 7.3) | 16,788,011 | 18,075,925 |
| | 118,776,922 | 114,541,576 |

7.1 As at 31 December the investment in associates comprises the following:

| Associates | Principal activity | Country of incorporation | Effective shareholding percentage | | Carrying amount | |
|---|---|---|---|---|---|---|
| | | | 2016 | 2015 | 2016 | 2015 |
| - International Water Distribution Company Limited | Water/waste works, water treatment and lease of water equipment | Kingdom of Saudi Arabia | 50% | 50% | 55,579,270 | 48,123,318 |
| - 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% | 29.4% | 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% | 27,378,212 | 23,032,422 |
| - Stork Technical Services Saudi Arabia limited (Note 'ii' below) | Maintenance and operations of power, oil, gas, desalination and petrochemical plants and calibration of machinery and electrical equipment | Kingdom of Saudi Arabia | 45% | 45% | -- | 6,012,269 |
| - Xenmet SA, Vaduz (Note 'iii' below) | Trading, storage and brokerage of commodities | Principality of Liechtenstein | 19% | 19% | 881,388 | 1,780,768 |
| | | | | | 101,988,911 | 96,465,651 |

## 7. INVESTMENTS (continued)

i. Saudi Water and Environmental Services Company is 49% (31 December 2015: 49%) owned by Kindasa Water Services Company (a subsidiary), which is 65% (31 December 2015: 60%) owned by the Parent Company.

ii. During the year ended 31 December 2016, the Company has recognized a provision for impairment loss amounting to SR 4,195,416 in addition to share of losses amounting to SR 1,816,853 and accordingly the carrying amount is reduced to SR Nil.

iii. Xenmet SA, Vaduz is 25% (31 December 2015: 25%) owned by Saudi Trade and Export Development Company Limited (a subsidiary), which is 76% (31 December 2015: 76%) owned by the Parent Company.

7.2 Movements in investments in associates are as follows:

| | 2016 | 2015 |
|---|---|---|
| As at 1 January | **96,465,651** | 89,359,644 |
| Dividend received during the year | **(5,730,107)** | (1,960,000) |
| Share of results of associates, net | **11,253,367** | 9,066,007 |
| As at 31 December | **101,988,911** | 96,465,651 |

Summarised financial information of equity accounted investees are as follows:

| Investee name | International Water Distribution Company Limited | Saudi Water and Environmental Services Company | Al Jabr Talke Company Limited | Stork Technical Services Saudi Arabia Limited | Xenmet SA, Vaduz |
|---|---|---|---|---|---|
| **2016** | | | | | |
| Assets | **270,163,286** | **38,412,967** | **102,728,351** | **9,207,199** | **4,718,777** |
| Liabilities | **(159,004,745)** | **(1,373,637)** | **(36,293,834)** | **(5,428,753)** | **(1,222,221)** |
| Revenues | **230,722,660** | **22,523,623** | **157,509,761** | **1,016,185** | **113,554** |
| Net income / (loss) | **14,911,907** | **5,290,608** | **21,062,795** | **(4,582,150)** | **(3,613,163)** |
| **2015** | | | | | |
| Assets | 260,927,365 | 37,526,265 | 88,684,780 | 10,247,599 | 7,815,116 |
| Liabilities | (164,680,731) | (1,777,543) | (30,669,399) | (7,887,002) | (578,546) |
| Revenues | 210,739,959 | 20,573,023 | 151,894,340 | 2,592,058 | 296,351 |
| Net income / (loss) | 7,239,498 | 5,206,340 | 23,547,621 | (3,917,036) | (7,656,904) |

## 7. INVESTMENTS (continued)

7.3 Movement in available for sale investments is as follows:

| | 2016 | 2015 |
|---|---|---|
| As at 1 January | **18,075,925** | 18,406,218 |
| Change in fair value | **(1,287,914)** | (330,293) |
| As at 31 December | **16,788,011** | 18,075,925 |

## 8. PROPERTY, PLANT AND EQUIPMENT, NET

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

| | 2016 | 2015 |
|---|---|---|
| Property, plant and equipment (Note 8.1) | **256,793,743** | 265,913,579 |
| Property and equipment of bonded and re-export project (Note 8.2) | **217,310,428** | 200,257,224 |
| Property and equipment - quay project (Note 8.3) | **437,030,181** | 241,482,700 |
| | **911,134,352** | 707,653,503 |

## 8. PROPERTY, PLANT AND EQUIPMENT, NET (continued)

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

| | Land | Leasehold improvements | Motor vehicles & tankers | Plant & equipment | Funitures & fixtures | Computers | Desalination plants (Note 8.1 (a)) | Capital work-in-progress (Note 8.1 (c)) | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | | | |
| Balance at 1 January 2016 | 67,878,266 | 131,943 | 13,917,788 | 10,214,709 | 9,605,187 | 1,682,030 | 313,081,591 | 7,021,409 | 423,532,923 |
| Additions during the year | -- | -- | 1,100,000 | 444,300 | 347,024 | 76,459 | 1,341,097 | 10,869,727 | 14,178,607 |
| Disposals during the year | -- | -- | (540,482) | (11,999) | -- | -- | (1,608,664) | -- | (2,161,145) |
| Transfers during the year | -- | -- | -- | 166,000 | -- | 240,191 | 3,212,755 | (3,618,946) | -- |
| Balance at 31 December 2016 | 67,878,266 | 131,943 | 14,477,306 | 10,813,010 | 9,952,211 | 1,998,680 | 316,026,779 | 14,272,190 | 435,550,385 |
| **Depreciation:** | | | | | | | | | |
| Balance at 1 January 2016 | -- | 131,943 | 10,267,871 | 6,800,928 | 5,523,713 | 1,449,508 | 133,445,381 | -- | 157,619,344 |
| Charge for the year | -- | -- | 1,364,872 | 1,142,748 | 945,031 | 117,722 | 19,858,955 | -- | 23,429,328 |
| Reclassification (Note 8.2) | -- | -- | -- | (182,059) | -- | -- | -- | -- | (182,059) |
| Disposals during the year | -- | -- | (527,165) | (11,999) | -- | -- | (1,570,807) | -- | (2,109,971) |
| Balance at 31 December 2016 | -- | 131,943 | 11,105,578 | 7,749,618 | 6,468,744 | 1,567,230 | 151,733,529 | -- | 178,756,642 |
| **Net book value:** | | | | | | | | | |
| **As at 31 December 2016** | **67,878,266** | **--** | **3,371,728** | **3,063,392** | **3,483,467** | **431,450** | **164,293,250** | **14,272,190** | **256,793,743** |
| As at 31 December 2015 | 67,878,266 | -- | 3,649,917 | 3,413,781 | 4,081,474 | 232,522 | 179,636,210 | 7,021,409 | 265,913,579 |

## 8. PROPERTY, PLANT AND EQUIPMENT, NET (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 Limited 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 Limited with a net book value of SR 175,281,761 (2015: SR 188,030,389) are mortgaged to Saudi Industrial Development Fund (Note 13 (a)).

c) Capital work-in-progress mainly represents extension and upgradation of pipelines and water filters and construction work on new logistic hub project in Jeddah.

### 8.2 Property and equipment of bonded and re-export project

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

| | Leasehold improvements | Buildings on leasehold land | Equipment | Capital work-in-progress (Note 8.2 (a)) | Total |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| Balance at 1 January 2016 | 118,462,733 | 147,761,635 | 3,483,142 | 10,792,435 | 280,499,945 |
| Additions during the year | 53,400 | -- | -- | 25,762,002 | 25,815,402 |
| Transfers during the year | 1,153,110 | -- | -- | (1,153,110) | -- |
| Balance at 31 December 2016 | 119,669,243 | 147,761,635 | 3,483,142 | 35,401,327 | 306,315,347 |
| **Depreciation:** | | | | | |
| Balance at 1 January 2016 | 40,452,976 | 37,390,364 | 2,399,381 | -- | 80,242,721 |
| Charge for the year | 3,502,525 | 4,814,828 | 262,786 | -- | 8,580,139 |
| Reclassification (Note 8.1) | -- | -- | 182,059 | -- | 182,059 |
| Balance at 31 December 2016 | 43,955,501 | 42,205,192 | 2,844,226 | -- | 89,004,919 |
| **Net book value:** | | | | | |
| **At 31 December 2016** | **75,713,742** | **105,556,443** | **638,916** | **35,401,327** | **217,310,428** |
| At 31 December 2015 | 78,009,757 | 110,371,271 | 1,083,761 | 10,792,435 | 200,257,224 |

a) 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.

b) 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.

## 8. PROPERTY, PLANT AND EQUIPMENT, NET (continued)

### 8.3 Property and equipment - quay project

The movement in property and equipment – quay project is as follows:

| | Leasehold improvements | Motor vehicles | Furniture and fixtures | Computers and equipments | Machinery and equipments | Capital work-in-progress (Note 8.3 (a)) | Total |
|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | |
| Balance at 1 January 2016 | 37,867,103 | 4,123,525 | 12,847,694 | 14,069,116 | 149,853,752 | 81,000,115 | 299,761,305 |
| Additions during the year | 1,906,039 | 1,647,700 | 1,173,463 | 1,829,609 | 14,734,220 | 198,574,101 | 219,865,132 |
| Disposals during the year | -- | (1,520,210) | (40,900) | (370,664) | -- | -- | (1,931,774) |
| Transfers during the year | 31,450,263 | -- | 941,039 | 3,658,348 | 36,967,236 | (73,016,886) | -- |
| Balance at 31 December 2016 | 71,223,405 | 4,251,015 | 14,921,296 | 19,186,409 | 201,555,208 | 206,557,330 | 517,694,663 |
| **Depreciation:** | | | | | | | |
| Balance at 1 January 2016 | 4,518,702 | 3,233,895 | 4,940,145 | 9,990,642 | 35,595,221 | -- | 58,278,605 |
| Charge for the year | 4,828,294 | 410,721 | 1,570,757 | 3,198,747 | 14,026,086 | -- | 24,034,605 |
| Disposals during the year | -- | (1,237,164) | (40,900) | (370,664) | -- | -- | (1,648,728) |
| Balance at 31 December 2016 | 9,346,996 | 2,407,452 | 6,470,002 | 12,818,725 | 49,621,307 | -- | 80,664,482 |
| **Net book value:** | | | | | | | |
| **At 31 December 2016** | **61,876,409** | **1,843,563** | **8,451,294** | **6,367,684** | **151,933,901** | **206,557,330** | **437,030,181** |
| At 31 December 2015 | 33,348,401 | 889,630 | 7,907,549 | 4,078,474 | 114,258,531 | 81,000,115 | 241,482,700 |

## 8. PROPERTY, PLANT AND EQUIPMENT, NET (continued)

### 8.3 Property and equipment - quay project (continued)

a) Capital work-in-progress comprises the following:

| | 2016 | 2015 |
|---|---|---|
| Civil works | **180,045,536** | 40,906,583 |
| Equipments | **26,511,794** | 40,093,532 |
| | **206,557,330** | 81,000,115 |

b) RSGT's new Ijara facility has been secured against property and equipment – quay project (Note 13 (d)).

8.4 Depreciation charge for the year has been allocated as follows:

| | 2016 | 2015 |
|---|---|---|
| Cost of revenue | **41,817,811** | 34,993,766 |
| Selling and distribution expenses (Note 25) | **7,360,077** | 6,809,928 |
| General and administration expenses (Note 26) | **6,866,184** | 4,472,385 |
| Reclassified under discontinued operation | -- | 727,435 |
| | **56,044,072** | 47,003,514 |

## 9. INTANGIBLE ASSETS - QUAY PROJECT

Quay project's intangible assets consist of:

| | 2016 | 2015 |
|---|---|---|
| Quay project's intangible assets (Note 'a' below) | **1,265,051,723** | 1,331,555,732 |
| Right to use land (Note 'b' below) | **28,432,583** | 29,565,153 |
| | **1,293,484,306** | 1,361,120,885 |

**a) Intangible assets – Quay project**

The movement in intangible assets – quay project is as follows:

| | |
|---|---|
| **Cost:** | |
| Balance at 1 January 2016 | 1,718,018,999 |
| Disposals during the year | (195,734) |
| Balance at 31 December 2016 | 1,717,823,265 |
| **Amortisation:** | |
| Balance at 1 January 2016 | 386,463,267 |
| Charge for the year | 66,504,009 |
| Disposals during the year | (195,734) |
| Balance at 31 December 2016 | 452,771,542 |
| **Net book value:** | |
| **At 31 December 2016** | **1,265,051,723** |
| At 31 December 2015 | 1,331,555,732 |

## 9. INTANGIBLE ASSETS - QUAY PROJECT (continued)

b) Saudi Trade and Export Development Company (Tusdeer) ("an affiliate of RSGT") had an agreement with Saudi Arabian Seaports 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 22 Shawal 1428H (corresponding to 3 November 2007), and the duration of this agreement is 32 years. As per the BOT agreement, at the end of the concession period, the property and equipment underlying the quay project's intangible assets shall be transferred to SEAPA.

c) Amortization charge for the year amounting to SR 66,504,009 (2015: SR 66,504,009) has been allocated to costs of revenue.

d) RSGT's Ijara facility has been secured against intangible assets – quay project (Note 13 (b)).

e) Quay projects intangible assets are being amortised over the useful lives of the underlying assets (representing the property and equipment) or the remaining term of concession, whichever is shorter.

## 10. GOODWILL

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

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

## 11. DISCONTINUED OPERATIONS

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

Net results of the discontinued operation were as follows:

| | 2016 | 2015 |
|---|---|---|
| Sales | -- | 14,563,019 |
| Cost of sales | -- | (11,822,245) |
| **Gross Profit** | -- | 2,740,774 |
| General and administrative expenses | -- | (1,105,244) |
| Selling and distribution expenses | -- | (612,708) |
| **Net operating profit** | -- | 1,022,822 |
| Gain on disposal of property and equipment of discontinued operations | -- | 50,000 |
| Other income | -- | 1,500 |
| **Net income from discontinued operation** | -- | 1,074,322 |

## 12. TRADE PAYABLES AND OTHER CURRENT LIABILITIES

| | 2016 | 2015 |
|---|---|---|
| Accrued expenses | **51,970,355** | 63,990,707 |
| Provision for Zakat contingency (Note 28) | **19,696,598** | 24,074,592 |
| Unearned revenue | **12,155,846** | 18,977,068 |
| Other payables | **17,608,302** | 13,785,039 |
| Trade payables | **17,522,378** | 5,785,929 |
| Payable to Port authorities | **7,843,226** | 4,012,511 |
| Zakat payable (Note 28) | **6,593,665** | 9,962,179 |
| Amounts due to related parties (Note 22) | **6,486,925** | 5,038,080 |
| Advances from customers | **1,825,830** | 553,814 |
| Unclaimed dividends | **538,668** | 249,159 |
| Income tax payable (Note 28) | **943,138** | 1,137,999 |
| Retentions payable | **825,026** | 2,044,553 |
| | **144,009,957** | 149,611,630 |

## 13. LONG TERM LOANS AND BANK FACILITIES

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

| | 2016 | 2015 |
|---|---|---|
| Saudi Industrial Development Fund loan (note 13 (a)) | 9,000,000 | 18,000,000 |
| Ijara facilities obtained from banks (note 13 (b)) | 820,163,125 | 907,734,221 |
| Long-term loan (note 13 (c)) | 8,926,545 | 21,875,000 |
| Long-term loan | -- | 1,558,503 |
| Long-term loan | -- | 1,500,000 |
| Long-term loan (note 13 (d)) | 114,329,781 | -- |
| Total long-term loans | 952,419,451 | 950,667,724 |
| Less: current portion | (116,017,870) | (112,482,638) |
| **Non-current portion** | 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 and equipment (Note 8.1 (b)) 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 two installments with maturity of up to July 2017.

| | 2016 | 2015 |
|---|---|---|
| Long-term loan | 9,000,000 | 18,000,000 |
| Less: current portion | (9,000,000) | (9,000,000) |
| Long-term portion | -- | 9,000,000 |

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 the intangible assets – quay project of RSGT (Note 9 (d)). The remaining amount of loan is repayable in fourteen 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.

| | 2016 | 2015 |
|---|---|---|
| Long-term Ijara financing | 848,884,395 | 940,558,528 |
| Less: unamortized portion of advance rentals paid | (28,721,270) | (32,824,307) |
| | 820,163,125 | 907,734,221 |
| Less: current portion | (98,091,325) | (91,674,135) |
| Non-current portion | 722,071,800 | 816,060,086 |

## 13. LONG TERM LOANS AND BANK FACILITIES (continued)

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 31 December 2016, full amount of the loan has been utilised. The loan carries commission at commercial rates and the remaining amount of loan is repayable in two instalments with maturity of up to December 2017. The loan is secured by assigning rights of the rental income and through promissory notes.

| | 2016 | 2015 |
|---|---|---|
| Long-term loan | **8,926,545** | 21,875,000 |
| Less: current portion of term loan | **(8,926,545)** | (8,750,000) |
| Non-current portion | -- | 13,125,000 |

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 (Note 8.3 (b)). 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.

| | 2016 | 2015 |
|---|---|---|
| Long-term loans | **118,229,781** | -- |
| Less: unamortized portion of advance rentals paid | **(3,900,000)** | -- |
| Non-current portion | **114,329,781** | -- |

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 31 December 2016, Kindasa has not availed this facility.

## 14. OTHER LONG-TERM LIABILITIES

Other long term liabilities are as follows:

| | 2016 | 2015 |
|---|---|---|
| Provision for asset replacement cost (Note "a") | **54,386,614** | 44,425,073 |
| Others | **215,831** | 236,160 |
| | **54,602,445** | 44,661,233 |

### a) Provision for asset replacement cost

As per the BOT agreement with SEAPA, RSGT (one of the subsidiaries of the Company) has an obligation to replace certain machinery and equipment ("the Equipment") during the tenure of the agreement. The management of RSGT has estimated that RSGT will be required to incur an amount of SR 429 million (2015: SR 429 million) to replace the Equipment. 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 (2015: SR 304.9 million). As at 31 December 2016, an amount of SR 54.39 million (2015: SR 44.43 million) has been recorded as provision for equipment replacement cost.

During 2016, RSGT has used 3.9218% (2015: 3.8806%) 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 cost is as follows:

| | 2016 | 2015 |
|---|---|---|
| Balance at 1 January | **44,425,073** | 37,121,090 |
| ***Provided during the year*** | | |
| - Charge for the year | **8,093,785** | 5,596,706 |
| - Unwinding of discount | **1,867,756** | 1,707,277 |
| Balance at 31 December | **54,386,614** | 44,425,073 |

## 15. EMPLOYEES' END OF SERVICE BENEFITS

The movement in employees' end of service benefits during the year was as follows:

| | 2016 | 2015 |
|---|---|---|
| Balance at 1 January | **21,638,938** | 17,936,255 |
| Charge for the year | **5,910,350** | 5,738,385 |
| Payments made during the year | **(4,174,471)** | (2,035,702) |
| Balance at 31 December | **23,374,817** | 21,638,938 |

## 16. DERIVATIVE FINANCIAL INSTRUMENT

During 2012, a subsidiary "Red Sea Gateway Terminal Company Limited" entered into a Profit Rate Swap contract with a commercial bank to hedge its exposure to the variability in cash flows arising from profit payments on Ijara facilities obtained from banks. The negative fair value of this instrument as at 31 December 2016 is SR 0.51 million (2015: negative fair value SR 0.017 million). The maturity date of the instrument is 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:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | **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:

| | **2016** | 2015 |
|---|---|---|
| Balance at 1 January | **(17,276)** | (6,585,435) |
| Change in fair value | **(492,454)** | 6,568,159 |
| Balance at 31 December | **(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 31 December 2016 is SR 0.025 million (2015: 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:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | **Positive Fair Value** | **Notional Amount** | Positive Fair Value | Notional Amount |
| Profit Rate Swap | **24,930** | **8,750,000** | 4,236 | 17,500,000 |

Movement in derivative financial instruments is as follows:

| | **2016** | 2015 |
|---|---|---|
| Balance at 1 January | **4,236** | (202,555) |
| Change in fair value | **20,694** | 206,791 |
| Balance at 31 December | **24,930** | 4,236 |

## 17. SHARE CAPITAL

The authorised and paid up capital of the Company is divided into 68 million shares (2015: 68 million shares) of SR 10 each.

## 18. STATUTORY RESERVE

In accordance with the Company's Bylaws and the previous Saudi Arabian Regulations for Companies, the Company sets aside 10% of its net income in each year to a statutory reserve until such reserve equals to 50% of the share capital. The new Saudi Arabian Regulations for Companies issued on 25 Rajab 1437H (corresponding to May 2, 2016) requires companies to set aside 10% of its net income in each year to a statutory reserve until such reserve reaches 30% of the share capital. The Company is currently in the process of amending its Bylaws as described in note 2. This reserve is currently not available for distribution to the shareholders of the Company.

## 19. SPECIAL RESERVE

As required by the Company's 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.

## 20. 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 consolidated balance sheet.

## 21. EFFECT OF INCREASING THE OWNERSHIP PERCENTAGE IN A SUBSIDIARY

During the year, 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.

## 22. RELATED PARTY TRANSACTIONS AND BALANCES

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

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

Related party transactions mainly represent services, expenses and other transactions which are undertaken at mutually agreed terms.

Significant related party transactions for the year ended 31 December and balances arising there from are described as under:

***Due from related parties – under trade receivables:***

| Name | Relationship | Nature of transactions | Amount of transactions | | Closing balance | |
|---|---|---|---|---|---|---|
| | | | 2016 | 2015 | 2016 | 2015 |
| International Water Distribution Company Limited | Associate | Sales of goods and services | **64,309,157** | 59,777,135 | **10,442,000** | 14,984,937 |
| Halwani Bros Co. | Affiliate | Sale of goods | **186,870** | 753,432 | **2,640** | 168,720 |
| Arabian Bulk Trade Limited | Affiliate | Lease of land and warehouses | **769,290** | 1,494,372 | **67,318** | 485,649 |
| Ambro limited | Affiliate | Lease of land and warehouses | -- | -- | **274,101** | 338,071 |
| Saudi Cable Company Limited | Affiliate | Lease of land and warehouses | **990,828** | 854,179 | **174,326** | 128,244 |
| | | | | | **10,960,385** | 16,105,621 |

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

***Due from related parties – under other receivables:***

| Name | Relationship | Nature of transactions | Amount of transactions 2016 | Amount of transactions 2015 | Closing balance 2016 | Closing balance 2015 |
|---|---|---|---|---|---|---|
| Stork Technical Services Saudi Arabia Limited | Associate | Payments made by the Group on behalf of Associate | **1,388,754** | 1,869,550 | -- | 1,358,843 |
| | | Service charges charged to Associate | -- | 34,209 | -- | -- |
| | | Expenses incurred by subsidiary on behalf of Associate | **2,400** | 626,560 | **2,400** | 144,157 |
| Al Jabr Talke Company Limited | Associate | Services rendered to Associate | **333,332** | 617,533 | -- | 13,755 |
| | | Repayment of advances by Associate | -- | (5,146,825) | -- | -- |
| | | Dividend received from Associate | **3,770,107** | -- | -- | -- |
| | | Expenses cross charged by Associate | **(1,727)** | (603,778) | -- | -- |
| Saudi Water and Environmental Services Company Limited | Associate | Sale of goods and services | **4,765,535** | 1,151,739 | **348,539** | 383,850 |
| | | Dividend received from Associate | **1,960,000** | 1,960,000 | -- | -- |
| | | Payments made by Group on behalf of Associate | -- | 6,441,476 | -- | -- |
| Xenel Industries Limited | Shareholder | Payments made by the Group on behalf of the Shareholder | **799,202** | 680,988 | **212,782** | -- |
| International Water And Distribution Company Limited | Associate | Services rendered to Associate | **660,000** | 660,000 | -- | -- |
| | | Expenses incurred by Associate on behalf of the Group | **(16,600)** | -- | -- | -- |
| | | Expenses incurred by Group on behalf of the Associate | **144,235** | 99,050 | **797,779** | 1,543,544 |
| Aecom Arabia Limited (formerly Resource Science Arabia Limited) | Affiliate | Payments made by the Group on behalf of Affiliate | **36,939** | 27,287 | **64,226** | 27,287 |
| | | | | | **1,425,726** | 3,471,436 |

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

*Due to related parties under trade payables and other current liabilities:*

| Name | Relationship | Nature of transactions | Amount of transactions | | Closing balance | |
|---|---|---|---|---|---|---|
| | | | **2016** | 2015 | **2016** | 2015 |
| Karam Fedics | Affiliate | Purchase of goods and services | **8,590,778** | 10,514,876 | **2,155,204** | 889,907 |
| Accom Arabia Limited (formerly Resource Science Arabia Limited) | Affiliate | Purchase of goods and services | -- | 93,533 | -- | -- |
| Hidada Limited | Affiliate | Purchase of goods and services | **3,161,333** | 950,604 | **722,868** | 722,868 |
| Xenel Industries Limited | Shareholder | Expenses incurred by the shareholder on behalf of the Group | **1,783,825** | 2,108,884 | -- | 143,894 |
| Water and Environmental Services Company Limited | Affiliate | Purchase of goods and services | **21,874,814** | 21,782,741 | **3,266,309** | 3,138,566 |
| Saudi Cable Company Limited | Affiliate | Purchase of goods | **1,068,699** | -- | -- | -- |
| Haji Abdullah Ali Reza & Co. Limited - General Technical Division | Affiliate | Purchase of goods | **225,236** | 34,335 | **28,439** | -- |
| Alireza Travel and Tourism Company | Affiliate | Purchase of goods and services | **2,021,846** | 2,140,910 | **314,105** | 142,845 |
| | | | | | **6,486,925** | 5,038,080 |

### b) Remuneration to key management personnel

Remuneration, compensation and bonuses of the key management personnel / executive directors and attendance fee of Board Directors and members of Board Committees paid during the year ended 31 December 2016 was SR 17.32 million (2015: SR 17.72 million).

## 23. REVENUE

| | 2016 | 2015 |
|---|---|---|
| Shipping and unloading services | **432,958,764** | 409,706,163 |
| Sale of potable water | **105,782,052** | 105,895,817 |
| Rentals and support services | **101,577,576** | 100,482,102 |
| | **640,318,392** | 616,084,082 |

## 24. COSTS OF REVENUE

| | 2016 | 2015 |
|---|---|---|
| Shipping and unloading services | **244,028,144** | 225,530,583 |
| Cost of sale of potable water | **66,828,107** | 64,065,935 |
| Rentals and support services | **32,115,791** | 30,679,485 |
| | **342,972,042** | 320,276,003 |

## 25. SELLING AND DISTRIBUTION EXPENSES

| | 2016 | 2015 |
|---|---|---|
| Salaries, wages and benefits | **3,488,161** | 3,231,871 |
| Depreciation (Note 8.4) | **7,360,077** | 6,809,928 |
| Utilities and telecommunication | **570,196** | 1,210,000 |
| Others | **1,869,022** | 2,968,002 |
| | **13,287,456** | 14,219,801 |

## 26. GENERAL AND ADMINISTRATION EXPENSES

| | 2016 | 2015 |
|---|---|---|
| Salaries, wages and benefits | **80,217,022** | 67,810,668 |
| Depreciation (Note 8.4) | **6,866,184** | 4,472,385 |
| Government and professional fees | **12,732,327** | 10,046,140 |
| Business development expenses | **2,478,811** | 1,861,840 |
| Utilities, telecommunication and office supplies | **5,977,675** | 5,081,386 |
| Provision for impairment loss | **--** | 6,414,767 |
| Provisions for Zakat contingency | **2,497,869** | -- |
| Others | **11,868,989** | 13,756,460 |
| | **122,638,877** | 109,443,646 |

## 27. OTHER INCOME / EXPENSES, NET

| | 2016 | 2015 |
|---|---|---|
| (Loss) / gain on sale of property, plant and equipment | **(135,569)** | 117,533 |
| Other income (Note 'a' and 'b' below) | **12,148,938** | 2,006,290 |
| | **12,013,369** | 2,123,823 |

Other income includes:

a) SR 2.5 million pertaining to compensation received by one of the subsidiaries of the Company against claims made in prior years.

b) SR 6.88 million pertaining to reversal of excess provision against Zakat contingencies made in prior years, on account of recent decisions and hearings of GAZT.

## 28. ZAKAT AND INCOME TAX

Movement in Zakat provision during the year was as follows:

| | 2016 | 2015 |
|---|---|---|
| Balance at 1 January | **9,962,179** | 9,572,066 |
| Charge for the year | **5,513,222** | 8,119,685 |
| Amounts paid during the year | **(8,881,736)** | (7,729,572) |
| Balance at 31 December | **6,593,665** | 9,962,179 |

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

Movement in tax provision during the year was as follows:

| | 2016 | 2015 |
|---|---|---|
| Balance at 1 January | **1,137,999** | 1,402,517 |
| Charge for the year | **3,817,100** | 3,738,265 |
| Amounts paid during the year | **(4,011,961)** | (4,002,783) |
| Balance at 31 December | **943,138** | 1,137,999 |

Tax charge during the 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.

## 28. ZAKAT AND INCOME TAX (continued)

**Zakat assessments status of the Group (continued)**

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

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

The Parent Company has filed its Zakat returns for the years 2014 and 2015. Upto the date of this report, GAZT is yet to raise the assessment for the years ended 31 December 2014 and 2015.

***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.

Consolidated returns are filed for RSGT and RSPD. Subsidiaries have finalized their Zakat and tax assessments with GAZT up to 2010 and have filed their Zakat and income tax returns up to 2015. Upto the date of this report, GAZT is yet to raise the assessment for the years ended 31 December 2014 and 2015.

***Saudi Trade and Export Development Company Limited ("the Subsidiary")***
The Subsidiary has finalized its Zakat assessments with GAZT up to 2008 and has filed its Zakat returns up to 2015. Upto the date of this report, GAZT is yet to raise the assessment for the years from 31 December 2009 to 31 December 2015.

***Support Services Operation Company Limited ("the Subsidiary")***
The Subsidiary has filed its Zakat returns up to 2015. Upto the date of this report, no assessments have been received from GAZT.

***Kindasa Water Service Company ("the Subsidiary")***
The Subsidiary has finalized its Zakat assessments with GAZT up to 2008 and has filed its Zakat returns up to 2015. Upto the date of this report, GAZT is yet to raise the assessment for the years from 31 December 2009 to 31 December 2015.

## 29. EARNINGS PER SHARE

a) Earnings per share on net income from main operations (operating profit) for the year is calculated by dividing net income from main operations by the weighted average number of outstanding shares during the year. Earning per share has been calculated on net income from main operations attributable to the Group (including minority interest).

b) Earnings per share on net income for the year is calculated by dividing the net income attributable to the equity holders of the Parent for the year by the weighted average number of outstanding shares during the year.

The calculation of diluted earnings per share is not applicable to the Group.

## 30. COMMITMENTS AND CONTINGENCIES

In addition to the Zakat contingency matters as disclosed in Note 28, the Group has the following contingencies and commitments:

At 31 December 2016, the Group's bankers have issued letters of guarantee amounting to SR 41.1 million (2015: SR 32.88 million) against which cash margin of SR 19.73 million (2015: SR 11.51 million) was paid.

At 31 December 2016, the Group's bankers have issued letters of credit amounting to SR 77.8 million (2015: SR Nil)

As at 31 December 2016, the Group has commitments for capital work in progress amounting to SR 245.4 million (2015: 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.

The Group has various operating leases for offices, facilities at port site (under concession arrangements), land for projects under construction and employees' accommodations. The leases are for initial period for one year up to 40 Hijra years with options to renew the leases after lease periods. Lease payments are either fixed or increase annually to reflect market rentals. Rental expenses for the year ended 31 December 2016 amounted to SR 27.53 million (2015: SR 22.34 million).

At 31 December, the Group's obligations under non-cancellable operating leases are aggregated as follow:

| | 2016 | 2015 |
|---|---|---|
| 2016 | -- | 37,273,877 |
| 2017 | **25,735,596** | 25,735,596 |
| 2018 | **17,505,473** | 17,505,473 |
| 2019 | **17,505,473** | 17,505,473 |
| 2020 | **17,505,143** | 17,505,143 |
| Thereafter | **384,123,098** | 384,123,098 |
| | **462,374,783** | 499,648,660 |

## 31. RISK MANAGEMENT

The Group has exposure to the following risks:

- Commission rate risk
- Credit risk
- Liquidity risk
- Currency risk

This note represents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. Senior management are responsible for developing and monitoring the Group's risk management policies and report regularly to the Board of Directors on their activities.

**Commission rate risk**

Commission risk arises from the possibility that changes in commission rates will affect future cash flows or the fair values of financial instruments. The Group's exposure to commission risk primarily arises from loans and bank facilities.

The management limits the Group's commission rate risk by monitoring changes in commission rates. The Group is managing its commission rate risk on floating rate Ijara facilities obtained from banks using profit rate swap contract (note 13 (b) and 16).

A change of 10 basis points in commission rate on floating rate loans denominated in Saudi Arabian Riyals at the reporting date would have increased / (decreased) the net result by the amounts shown below. This analysis assumes that all other variables remain constant.

| | 2016 | |
|---|---|---|
| | +10 bps | -10 bps |
| Loans and bank facilities | **(457,783)** | **457,783** |

| | 2015 | |
|---|---|---|
| | +10 bps | -10 bps |
| Loans and bank facilities | (376,223) | 376,223 |

## 31. RISK MANAGEMENT (continued)

### Credit risk

Credit risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. The Group seeks to manage its credit risk with respect to customers by setting credit limits for individual customers and by monitoring outstanding receivables. Four largest customers account for 69% (2015: 74%) of the gross outstanding trade receivables as at December 31, 2016.

With respect to credit risk arising from the other financial assets of the Group, including bank balances and cash, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

### Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Company manages its liquidity risk by ensuring that funds are available when required.

The table below summarises the maturities of the financial liabilities at 31 December, based on contractual payment dates.

| *Year ended 31 December 2016* | *Less than 3 months* | *3 to 12 Months* | *1 to 5 years* | *> 5 years* | *Total* |
|---|---|---|---|---|---|
| Trade payable and other current liabilities | 104,620,710 | -- | -- | -- | 104,620,710 |
| Loans and bank facilities | 4,676,545 | 102,863,286 | 530,188,983 | 314,690,637 | 952,419,451 |
| **Total** | **109,297,255** | **102,863,286** | **530,188,983** | **314,690,637** | **1,057,040,161** |

| *Year ended 31 December 2015* | *Less than 3 months* | *3 to 12 Months* | *1 to 5 years* | *> 5 years* | *Total* |
|---|---|---|---|---|---|
| Trade payable and other current liabilities | 95,459,792 | -- | -- | -- | 95,459,792 |
| Loans and bank facilities | 10,518,580 | 97,861,020 | 441,232,736 | 401,055,388 | 950,667,724 |
| Total | 105,978,372 | 97,861,020 | 441,232,736 | 401,055,388 | 1,046,127,516 |

### 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 is subject to fluctuations in foreign exchange rates in the normal course of its business. The Group's transactions are principally in Saudi Riyals and United States Dollars which is pegged to Saudi Riyals. Transactions in other foreign currencies are not material. Currency risk is managed on regular basis.

## 32. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. The Group's financial assets consist of cash and bank balances, investments, trade and other receivables, and its financial liabilities consist of loans and borrowings, derivative financial instruments, trade and other payables. Except for available for sale investment and derivative financial instruments which are stated at fair values, the fair values of financial instruments are not materially different from their carrying values.

## 33. BUSINESS SEGMENTS

The Group has the following main business segments:

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

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

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

| **2016** | **Port development and operations (SR'000)** | **Logistic parks and support services (SR'000)** | **Water desalination and distribution (SR'000)** | **Corporate office (SR'000)** | **Total (SR'000)** |
|---|---|---|---|---|---|
| **Assets** | **1,902,083** | **312,472** | **269,797** | **198,365** | **2,682,717** |
| **Liabilities** | **1,081,166** | **41,333** | **24,961** | **27,456** | **1,174,916** |
| **Revenue** | **432,959** | **101,577** | **105,782** | **--** | **640,318** |
| **Net income / (loss) before non-controlling interests** | **83,127** | **40,104** | **20,643** | **(980)** | **142,894** |
| **Net income / (loss) for the year** | **52,838** | **26,729** | **13,505** | **(980)** | **92,092** |

| 2015 | Port development and operations (SR'000) | Logistic parks and support services (SR'000) | Water desalination and distribution (SR'000) | Corporate office (SR'000) | Total (SR'000) |
|---|---|---|---|---|---|
| Assets | 1,778,356 | 318,005 | 279,010 | 225,132 | 2,600,503 |
| Liabilities | 1,033,487 | 61,649 | 38,742 | 32,719 | 1,166,597 |
| Revenue | 409,706 | 100,482 | 105,896 | -- | 616,084 |
| Net income / (loss) before non-controlling interests | 92,154 | 44,485 | 13,942 | (8,645) | 141,936 |
| Net income / (loss) for the year | 58,543 | 30,631 | 9,980 | (8,645) | 90,509 |

The Group mainly operates in the Kingdom of Saudi Arabia.

## 34. DIVIDEND AND DISTRIBUTION

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

## 35. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved and authorised to issue by the Board of Directors on Jumada Al Awal 29, 1438H, corresponding to February 26, 2017.