

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

**CONDENSED CONSOLIDATED**  
**INTERIM FINANCIAL STATEMENTS (UNAUDITED)**  
For the three-months period ended 31 March 2017

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

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
For the three-months period ended 31 March 2017

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**KPMG Al Fozan & Partners**  
Certified Public Accountants  
Zahran Business Centre, Tower A, 9th Floor  
Prince Sultan Street  
PO Box 55078  
Jeddah 21534  
Kingdom of Saudi Arabia

Telephone +966 12 698 9595  
Fax +966 12 698 9494  
Internet [www.kpmg.com.sa](http://www.kpmg.com.sa)  
License No. 46/11/323 issued 11/3/1992

## INDEPENDENT AUDITORS' REPORT ON REVIEW OF INTERIM FINANCIAL STATEMENTS

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

### Introduction

We have reviewed the accompanying 31 March 2017 condensed consolidated interim financial statements of Saudi Industrial Services Company and its subsidiaries (collectively referred to as "the Group") which comprises:

- the condensed consolidated statement of financial position as at 31 March 2017;
- the condensed consolidated statements of profit or loss and other comprehensive income for the three-month period ended 31 March 2017;
- the condensed consolidated statement of changes in equity for the three-month period ended 31 March 2017;
- the condensed consolidated statement of cash flows for the three-month period ended 31 March 2017; and
- the notes to the condensed consolidated interim financial statements.

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

### Scope of review

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

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 31 March 2017 condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia.

For KPMG Al Fozan & Partners  
Certified Public Accountants

Ebrahim Oboud Baeshen  
License No. 382



Jeddah on Shaban 14, 1438H  
Corresponding to May 10, 2017

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

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)**  
As at 31 March 2017  
(Expressed in Saudi Arabian Riyals)

	Notes	31 March 2017	31 December 2016	1 January 2016
<b>ASSETS</b>				
<b>Non-current assets:</b>				
Property, plant and equipment	4	783,118,915	742,186,246	536,822,298
Intangible assets	5	1,290,081,593	1,307,563,131	1,372,407,207
Investment properties	6	146,299,844	145,277,153	153,971,188
Investments	7	122,468,422	117,919,663	114,084,965
Derivative financial instruments	8	--	--	4,236
<b>Total non-current assets</b>		<b>2,341,968,774</b>	<b>2,312,946,193</b>	<b>2,177,289,894</b>
<b>Current assets:</b>				
Inventories		38,921,933	41,178,880	37,172,077
Derivative financial instruments	8	536,258	24,930	--
Trade and other receivables		140,207,031	113,936,782	118,565,253
Cash and cash equivalents	9	231,542,544	195,404,320	252,669,021
<b>Total current assets</b>		<b>411,207,766</b>	<b>350,544,912</b>	<b>408,406,351</b>
<b>Total assets</b>		<b>2,753,176,540</b>	<b>2,663,491,105</b>	<b>2,585,696,245</b>
<b>EQUITY AND LIABILITIES</b>				
Share capital	10	680,000,000	680,000,000	680,000,000
Share premium		36,409,063	36,409,063	36,409,063
Statutory reserve	11	41,971,332	39,758,712	30,549,496
Special reserve	12	20,976,123	19,869,813	15,265,205
Other reserves		9,065,090	8,446,560	13,151,743
Retained earnings		246,071,432	227,264,162	187,163,064
<b>Equity attributable to the shareholders' of Parent Company</b>		<b>1,034,493,040</b>	<b>1,011,748,310</b>	<b>962,538,571</b>
Non-controlling interests		489,133,608	478,196,792	457,564,214
<b>Total equity</b>		<b>1,523,626,648</b>	<b>1,489,945,102</b>	<b>1,420,102,785</b>
<b>Non-current liabilities:</b>				
Long-term loans and bank facilities	15	865,712,501	836,401,581	838,185,086
Employees' end of service benefits	16	22,513,675	22,004,420	20,635,597
Long term provisions	17	57,153,523	54,602,445	44,661,233
Derivative financial instruments	8	--	--	17,276
<b>Total non-current liabilities</b>		<b>945,379,699</b>	<b>913,008,446</b>	<b>903,499,192</b>
<b>Current liabilities:</b>				
Current portion of long-term loans and bank facilities	15	113,333,963	116,017,870	112,482,638
Zakat and income tax payable	19	10,677,004	7,536,803	11,100,178
Trade payables and other current liabilities		160,159,226	136,473,154	138,511,452
Derivative financial instruments	8	--	509,730	--
<b>Total current liabilities</b>		<b>284,170,193</b>	<b>260,537,557</b>	<b>262,094,268</b>
<b>Total liabilities</b>		<b>1,229,549,892</b>	<b>1,173,546,003</b>	<b>1,165,593,460</b>
<b>Total equity and liabilities</b>		<b>2,753,176,540</b>	<b>2,663,491,105</b>	<b>2,585,696,245</b>

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

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

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER  
COMPREHENSIVE INCOME (UNAUDITED)**  
For the three-months period ended 31 March 2017  
(Expressed in Saudi Arabian Riyals)

	Notes	31 March 2017	31 March 2016
Revenue	20	171,957,443	171,640,374
Costs of revenue		(96,756,988)	(94,706,631)
<b>Gross profit</b>		<b>75,200,455</b>	<b>76,933,743</b>
Selling and distribution expenses		(3,636,380)	(3,431,083)
General and administrative expenses		(32,927,554)	(31,726,150)
Other income		981,176	2,800,771
<b>Operating profit</b>		<b>39,617,697</b>	<b>44,577,281</b>
Finance costs		(8,568,201)	(8,503,690)
Finance income		202,434	562,667
Share in results from equity-accounted associates, net		4,548,759	3,466,175
<b>Profit before Zakat and income tax</b>		<b>35,800,689</b>	<b>40,102,433</b>
Zakat and income tax	19	(3,140,201)	(2,172,066)
<b>Profit for the period</b>		<b>32,660,488</b>	<b>37,930,367</b>
<b>Other comprehensive income</b>			
<i>Items that are or may be reclassified subsequently to profit or loss</i>			
Cash flow hedges -- effective portion of changes in fair value	8	1,021,058	(862,598)
Available for sale financial assets -- net change in fair value		--	(1,287,914)
<b>Other comprehensive income for the period</b>		<b>1,021,058</b>	<b>(2,150,512)</b>
<b>Total comprehensive income for the period</b>		<b>33,681,546</b>	<b>35,779,855</b>

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

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

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

For the three-months period ended 31 March 2017

(Expressed in Saudi Arabian Riyals)

	<u>Note</u>	<b>31 March 2017</b>	<b>31 March 2016</b>
<b>Profit for the period attributable to:</b>			
- Shareholders' of the Parent Company		<b>22,126,200</b>	24,211,922
- Non-controlling interest's share of net income in subsidiaries		<b>10,534,288</b>	13,718,445
<b>Profit for the period</b>		<b>32,660,488</b>	37,930,367
<b>Total comprehensive income for the period attributable to:</b>			
- Shareholders' of the Parent Company		<b>22,744,730</b>	22,407,458
- Non-controlling interests' share of net income in subsidiaries		<b>10,936,816</b>	13,372,397
<b>Total comprehensive income for the period</b>		<b>33,681,546</b>	35,779,855
<b>Earnings per share</b>	21		
Basic and diluted earnings per share from net profit for the period attributable to the Shareholders' of the Parent Company		<b>0.33</b>	0.36

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

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)**  
For the three-months period ended 31 March 2017  
(Expressed in Saudi Arabian Rials)

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

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)**  
For the three-months period ended 31 March 2017  
(Expressed in Saudi Arabian Riyals)

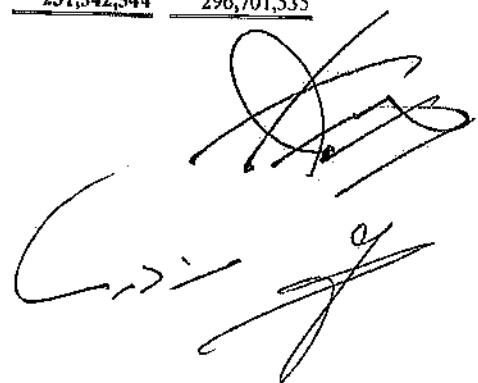
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**SAUDI INDUSTRIAL SERVICES COMPANY**  
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**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)**  
For the three-months period ended 31 March 2017  
(Expressed in Saudi Arabian Riyals)

	Notes	31 March 2017	31 March 2016
<b>Operating activities:</b>			
Profit before Zakat and income tax		35,800,689	40,102,433
<i>Adjustments for:</i>			
Depreciation and amortization		32,788,583	31,140,839
Provision for employees' end of service benefits		1,649,929	1,207,737
Gain on disposal of property, plant and equipment		(6,331)	(80,144)
Share of results from equity accounted associates, net		(4,548,759)	(3,466,175)
Provision / (reversal) for doubtful debts		121,657	(580,312)
Provision for inventories		839,555	--
Amortization of advance rentals		1,025,759	--
Provision for asset replacement cost		2,023,446	2,454,439
Financial charges		8,568,201	8,503,690
		<u>78,262,729</u>	<u>79,282,507</u>
<i>Changes in:</i>			
Trade and other receivables		(26,391,906)	4,436,539
Inventories		1,417,392	(1,533,601)
Trade payable and other current liabilities		16,933,179	11,168,011
Cash generated from operating activities		<u>70,221,394</u>	<u>93,353,456</u>
Employees' end of service benefits paid		(1,140,674)	(489,411)
Financial charges paid		(1,287,676)	(1,824,808)
Net cash generated from operating activities		<u>67,793,044</u>	<u>91,039,237</u>
<b>Investing activities:</b>			
Additions to property, plant and equipment		(57,524,411)	(36,935,947)
Proceeds from disposal of property, plant and equipment		268,337	102,500
Net cash used in investing activities		<u>(57,256,074)</u>	<u>(36,833,447)</u>
<b>Financing activities:</b>			
Borrowings of loans and bank facilities		30,277,799	(9,082,961)
Repayment of loans and bank facilities		(4,676,545)	--
Net movement in non-controlling interests		--	(1,090,315)
Net cash generated from / (used in) financing activities		<u>25,601,254</u>	<u>(10,173,276)</u>
<b>Net change in cash and cash equivalents</b>		<b>36,138,224</b>	<b>44,032,514</b>
Cash and cash equivalents at the beginning of the period	9	<u>195,404,320</u>	<u>252,669,021</u>
Cash and cash equivalents at the end of the period	9	<u>231,542,544</u>	<u>296,701,535</u>



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

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

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

For the three-months period ended 31 March 2017  
(Expressed in Saudi Arabian Riyals)

**1. ORGANISATION AND PRINCIPAL ACTIVITIES**

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

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

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

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

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

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

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

For the three-months period ended 31 March 2017  
(Expressed in Saudi Arabian Riyals)

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**2. BASIS OF PREPARATION**

**2.1 Statement of compliance**

The accompanying condensed consolidated interim financial statements ("Financial Statements") have been prepared in accordance with IAS 34 - Interim Financial Reporting, as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA"). These are the Group's first International Financial Reporting Standard (IFRS) condensed consolidated interim financial statements for part of the period covered by the first IFRS annual Financial Statements and IFRS 1 - First-time Adoption of International Financial Reporting Standards, as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, has been applied. These financial statements do not include all the information required for full set of annual Financial Statements prepared under IFRS.

Previously the Group has prepared and presented statutory financial statements in accordance with the generally accepted accounting standards in the Kingdom of Saudi Arabia issued by SOCPA.

As these are the Group's first set of condensed consolidated interim financial statements prepared in accordance with IAS 34 that is endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, the Group's disclosures exceed the minimum requirements under IAS 34.

The reader must also take into account the explanations of how the transition to IFRSs has affected the reported financial position, financial performance of the Group, as provided in Note 25. This note includes reconciliations of equity and total comprehensive income for comparative periods and of equity at the date of transition reported under previously issued accounting standards by SOCPA in the Kingdom of Saudi Arabia, to the amounts reported for those periods and at the date of transition to IFRS (i.e. 1 January 2016).

**2.2 Basis of Measurement**

These condensed consolidated interim financial statements have been prepared under the historical cost basis, except for available-for-sale investments and derivative financial instruments which are stated at fair value.

**2.3 Functional and presentation currency**

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

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

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

For the three-months period ended 31 March 2017  
(Expressed in Saudi Arabian Riyals)

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**2. BASIS OF PREPARATION (continued)**

**2.4 Critical accounting estimates and judgments**

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

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

**a) Assumptions and estimation uncertainties**

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

- i) Impairment of trade receivables and other current assets - (Note 3.9 (a)) (impairment of non-derivative financial assets) describes the key assumption and estimation uncertainties underlying recoverable amounts for trade receivables and other current assets.
- ii) Impairment of non-financial assets - (Note 3.9 (b)) (impairment of non-financial assets) describes the key assumption and estimation uncertainties underlying recoverable amounts for non-financial assets.
- iii) Useful lives of property, plant and equipment

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

**iv) Employee benefits – defined benefit plan**

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

**v) Provision for equipment replacement cost**

Provision for equipment replacement cost is assessed periodically based on the Build, Operate and Transfer Agreement and is discounted at a rate reflective of the term of the obligation. Significant assumptions included in the determination of this estimate are disclosed in Note 17.

**SAUDI INDUSTRIAL SERVICES COMPANY**  
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**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
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For the three-months period ended 31 March 2017  
(Expressed in Saudi Arabian Riyals)

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**2. BASIS OF PREPARATION (continued)**

**2.4 Critical accounting estimates and judgments (continued)**

**b) Judgements**

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

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

**c) Measurement of fair values**

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

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

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

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

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

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

**SAUDI INDUSTRIAL SERVICES COMPANY**  
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**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**(UNAUDITED)**

For the three-months period ended 31 March 2017  
(Expressed in Saudi Arabian Riyals)

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**2. BASIS OF PREPARATION (continued)**

**2.4 Critical accounting estimates and judgments (continued)**

**c) Measurement of fair values (continued)**

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

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

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

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

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

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

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

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

For the three-months period ended 31 March 2017

(Expressed in Saudi Arabian Riyals)

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**3. SIGNIFICANT ACCOUNTING POLICIES**

The accompanying accounting policies set out below have been adopted by the Group for the preparation of these condensed consolidated interim financial statements. These accounting policies have been applied consistently to all periods presented in these condensed consolidated interim financial statements and in preparing the opening IFRS statement of financial position at 1 January 2016 for the purposes of the transition to the IFRSs as explained in note 25, unless otherwise indicated. Certain comparative amounts have been reclassified to conform to the current period's presentation.

**3.1 Basis of consolidation**

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

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

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

**SAUDI INDUSTRIAL SERVICES COMPANY**  
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**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
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For the three-months period ended 31 March 2017  
(Expressed in Saudi Arabian Riyals)

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

**3.1 Basis of consolidation (continued)**

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

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

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

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

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

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

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

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

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



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

**3.2 Foreign currency**

*i) Foreign currency transactions*

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

*ii) Foreign operations*

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

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

Dividends received from foreign associates are translated at the exchange rate in effect at the transaction date and related currency translation differences are realized in the profit or loss.

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

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

**3.3 Financial instruments**

*a) Non-derivative financial assets*

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

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

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

*i) Loans and receivables*

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

*ii) Available-for-sale financial assets*

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

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

**3.3 Financial instruments (continued)**

*b) Non-derivative financial liabilities*

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

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

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

*c) Derivative financial instruments, including hedge accounting*

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

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

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

*d) Cash flow hedge*

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

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

**3.3 Financial instruments (continued)**

*d) Cash flow hedge (continued)*

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

*e) Offsetting*

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

**3.4 Cash and cash equivalents**

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

**3.5 Property, Plant and Equipment**

*a) Recognition and measurement*

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

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

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

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

*b) Subsequent costs*

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

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

**3.5 Property, Plant and Equipment (continued)**

*c) Depreciation*

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

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

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

Useful life

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

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

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

**3.6 Intangibles**

*a) Port Concession Rights*

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

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

**3.6 Intangibles (continued)**

*a) Port Concession Rights (continued)*

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

The port concession rights include all costs incurred towards construction of the container terminal. The port concession rights are stated at cost, less amortization of cost. The estimated useful life of an intangible asset in a service concession arrangement is the period from when the Group is able to charge the public for the use of the infrastructure to the end of the concession period.

*b) Right to use land*

Right to use land is measured on initial recognition at cost. Following initial recognition, right to use land is carried at cost less any accumulated amortisation and any accumulated impairment losses. Right to use land is amortized over the concession period on straight line basis.

*c) Goodwill*

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

*Subsequent measurement*

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

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

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

**3.6 Intangibles (continued)**

*d) Other intangible assets*

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

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

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

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

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

**3.7 Investment Properties**

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

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

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

**3.7 Investment Properties (continued)**

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

Transfers are made to (or from) investment properties only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the depreciated value at the date of change.

**3.8 Operating leases**

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

**3.9 Inventories**

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

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

**3.10 Impairment**

**a) Non derivative financial assets**

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

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



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

**3.10 Impairment (continued)**

**a) Non derivative financial assets (continued)**

**i) Loans and receivables**

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

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

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

**ii) Available for sale investments**

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

**iii) Investment in associates and joint venture**

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

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#### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **3.10 Impairment (continued)**

###### ***b) Non-financial assets***

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

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

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

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

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

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

**3.11 Employee Benefits**

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

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

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

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

**3.12 Provisions**

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

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

**3.13 Revenue**

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

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

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

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

*i) Sale of goods*

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

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

*ii) Rendering of services*

The Group is involved in provision of operational services at Jeddah Islamic Port, as well as provision of logistical and maintenance services. If the services under a single arrangement are rendered in different reporting periods, then the consideration is allocated on a relative fair value basis between the different services. The Group recognises revenue from rendering of services in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed based on the assessment of the work performed / completed under the contractual obligation undertaken to be performed as per the work order / contract / sales order.

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

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

**3.13 Revenue (continued)**

*iii) Rental revenue*

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

*iv) Contract revenue*

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

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

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

**3.14 Finance income and finance costs**

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

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

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

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

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

**3.15 Segment reporting**

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

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

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

**b) Geographical segment**

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

**3.16 Dividends**

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

**3.17 Zakat and income tax**

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

**3.18 Deferred tax**

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

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

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

**a) New Standards, Amendment to Standards and Interpretations**

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

*i. Disclosure Initiative (Amendments to IAS 7)*

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

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

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

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

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

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

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

**b) Standards issued but not yet effective**

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

*i. IFRS 15 Revenue from Contracts with Customers*

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

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

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

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

**b) Standards issued but not yet effective (continued)**

*ii. IFRS 9 Financial Instruments*

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

Classification – Financial assets

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

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

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

Impairment – Financial Assets and Contract Assets

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

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

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

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

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



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

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

**b) Standards issued but not yet effective (continued)**

*ii. IFRS 9 Financial Instruments (continued)*

Classification – Financial Liabilities

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

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

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

Hedge accounting

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

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

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

Disclosures

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

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

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

**b) Standards issued but not yet effective (continued)**

*ii. IFRS 9 Financial Instruments (continued)*

Transition

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

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

*iii. IFRS 16 Leases*

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

IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.

Determining whether an arrangement contains a lease

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

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

Transition

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

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

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

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

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

**b) Standards issued but not yet effective (continued)**

*iii. IFRS 16 Leases (continued)*

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

*iv. Annual Improvements to IFRSs 2014–2016 Cycle*

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

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

*v. Other Amendments*

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

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

**4. PROPERTY, PLANT AND EQUIPMENT, NET**

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

	<b>31 March 2017</b>	<b>31 December 2016</b>	<b>1 January 2016</b>
Property, plant and equipment (Note 4.1)	<b>250,737,183</b>	250,778,520	259,848,443
Property and equipment of bonded and re-export project (Note 4.2)	<b>67,598,469</b>	67,754,630	43,649,517
Property and equipment – port terminal operations (Note 4.3)	<b>464,783,263</b>	423,653,096	233,324,338
	<b><u>783,118,915</u></b>	<b><u>742,186,246</u></b>	<b><u>536,822,298</u></b>

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

**4.1 Property, plant and equipment**

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

<u>Cost:</u>	<u>Land</u>	<u>Leasehold improvements</u>	<u>Motor vehicles &amp; tankers</u>	<u>Plant &amp; equipment</u>	<u>Furniture &amp; fixtures</u>	<u>Computers</u>	<u>Desalination plants</u>	<u>Capital work-in-progress</u>	<u>Total</u>
Balance at 1 January 2017	66,808,150	131,943	14,133,966	6,098,310	10,153,287	3,022,948	315,933,149	13,789,800	430,071,553
Additions during the period	--	--	509,749	3,299	134,437	31,517	73,281	5,038,025	5,790,308
Disposals during the period	--	--	(502,430)	(20,852)	(213,048)	--	(36,069)	--	(772,399)
Transfers during the period	--	--	--	--	11,615	--	--	(11,615)	--
Balance at 31 March 2017	66,808,150	131,943	14,141,285	6,080,757	10,086,291	3,054,465	315,970,361	18,816,210	435,089,462
<u>Depreciation:</u>									
Balance at 1 January 2017	--	131,943	10,527,986	5,676,925	5,319,247	2,741,268	154,895,664	--	179,293,033
Charge for the period	--	--	305,491	58,591	325,773	54,127	4,825,657	--	5,569,639
Disposals during the period	--	--	(403,262)	(2,262)	(88,069)	--	(16,800)	--	(510,393)
Balance at 31 March 2017	--	131,943	10,430,215	5,733,254	5,556,951	2,795,395	159,704,521	--	184,352,279
<u>Net book value:</u>									
As at 31 March 2017	66,808,150	--	3,711,070	347,503	4,529,340	259,070	156,265,840	18,816,210	250,737,183
As at 31 December 2016	66,808,150	--	3,605,980	421,385	4,834,040	281,680	161,037,485	13,789,800	250,778,520
As at 1 January 2016	66,808,150	--	3,871,673	594,587	5,383,584	279,734	176,371,876	6,538,839	259,848,443

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**4. PROPERTY, PLANT AND EQUIPMENT, NET (continued)****4.1 Property, plant and equipment (continued)**

- a) The desalination plant and filling stations are situated on land leased from the Jeddah Islamic Port for a period of 20 years from 7 March 2000 corresponding to 1 Dhul Hijjah 1420H. Kindasa Water Services Company 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 are mortgaged to Saudi Industrial Development Fund (Note 15 (a)).
- c) Capital work-in-progress mainly represents extension and upgradation of desalination facilities and construction work on Rabigh desalination facility and new logistic hub project in Jeddah.

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

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

	<u>Leasehold improvements</u>	<u>Buildings on leasehold land</u>	<u>Equipment</u>	<u>Capital work-in- progress</u>	<u>Total</u>
<b><u>Cost:</u></b>					
Balance at 1 January 2017	25,068,470	20,564,261	1,203,875	35,401,327	82,237,933
Additions during the period	--	--	--	276,572	276,572
Balance at 31 March 2017	<u>25,068,470</u>	<u>20,564,261</u>	<u>1,203,875</u>	<u>35,677,899</u>	<u>82,514,505</u>
<b><u>Depreciation:</u></b>					
Balance at 1 January 2017	10,777,404	2,505,457	1,200,442	--	14,483,303
Charge for the period	203,778	225,522	3,433	--	432,733
Balance at 31 March 2017	<u>10,981,182</u>	<u>2,730,979</u>	<u>1,203,875</u>	<u>--</u>	<u>14,916,036</u>
<b><u>Net book value:</u></b>					
At 31 March 2017	<u>14,087,288</u>	<u>17,833,282</u>	<u>--</u>	<u>35,677,899</u>	<u>67,598,469</u>
At 31 December 2016	<u>14,291,066</u>	<u>18,058,804</u>	<u>3,433</u>	<u>35,401,327</u>	<u>67,754,630</u>
At 1 January 2016	<u>13,865,500</u>	<u>18,960,894</u>	<u>30,688</u>	<u>10,792,435</u>	<u>43,649,517</u>

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

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

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

**4.3 Property and equipment – port terminal operations**

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

	<u>Leasehold improvements</u>	<u>Motor vehicles</u>	<u>Furniture and fixtures</u>	<u>Computers and equipments</u>	<u>Machinery and equipments</u>	<u>Capital work- in-progress</u>	<u>Total</u>
<b><u>Cost:</u></b>							
Balance at 1 January 2017	70,142,955	4,251,015	17,607,831	7,268,698	201,555,208	206,557,330	507,383,037
Additions during the period	97,000	193,650	282,487	374,443	371,970	46,806,280	48,125,830
Balance at 31 March 2017	70,239,955	4,444,665	17,890,318	7,643,141	201,927,178	253,363,610	555,508,867
<b><u>Depreciation:</u></b>							
Balance at 1 January 2017	9,144,159	2,327,765	7,529,763	4,795,314	59,932,940	--	83,729,941
Charge for the period	1,855,721	143,935	521,721	330,380	4,143,906	--	6,995,663
Balance at 31 March 2017	10,999,880	2,471,700	8,051,484	5,125,694	64,076,846	--	90,725,604
<b><u>Net book value:</u></b>							
At 31 March 2017	59,240,075	1,972,965	9,838,834	2,517,447	137,850,332	253,363,610	464,783,263
At 31 December 2016	60,998,796	1,923,250	10,078,068	2,473,384	141,622,268	206,557,330	423,653,096
At 1 January 2016	32,262,138	1,005,583	9,848,481	2,223,956	106,984,065	81,000,115	233,324,338

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

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

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**5. INTANGIBLE ASSETS**

Intangible assets comprise of the following:

	<b>31 March 2017</b>	<b>31 December 2016</b>	<b>1 January 2016</b>
Port concession rights (Note 'a')	<b>1,248,214,135</b>	1,265,051,723	1,331,555,732
Right to use land (Note 'b')	<b>28,136,391</b>	28,432,583	29,565,153
Goodwill (Note 'c')	<b>8,776,760</b>	8,776,760	8,776,760
Other intangible assets (Note 'd')	<b>4,954,307</b>	5,302,065	2,509,562
	<b><u>1,290,081,593</u></b>	<b><u>1,307,563,131</u></b>	<b><u>1,372,407,207</u></b>

RSGT's Ijara facility has been secured against intangible assets – quay project (Note 15 (b)).

**a) Port concession rights**

The movement in port concession rights is as follows:

	<b>31 March 2017</b>
<b>Cost:</b>	
Balance at 1 January 2017	<u>1,710,965,046</u>
<b>Amortisation:</b>	
Balance at 1 January 2017	445,913,323
Charge for the period	<u>16,837,588</u>
Balance at 31 March 2017	<u>462,750,911</u>
<b>Net book value:</b>	
At 31 March 2017	<u><b>1,248,214,135</b></u>
At 31 December 2016	<u>1,265,051,723</u>
At 1 January 2016	<u>1,331,555,732</u>

**b) Right to use land**

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

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**5. INTANGIBLE ASSETS (continued)**

**c) Goodwill**

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

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

During the three-months period ended 31 March 2017, goodwill has been reviewed for indicators of impairment and no indicators for impairment have been identified.

**d) Other intangible assets**

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

The movement in other intangible assets is as follows:

	<b>31 March 2017</b>
<b><u>Cost:</u></b>	
Balance at 1 January 2017	19,714,439
Additions during the period	<u>135,500</u>
Balance at 31 March 2017	<u>19,849,939</u>
<b><u>Amortisation:</u></b>	
Balance at 1 January 2017	14,412,374
Charge for the period	<u>483,258</u>
Balance at 31 March 2017	<u>14,895,632</u>
<b><u>Net book value:</u></b>	
At 31 March 2017	<u><u>4,954,307</u></u>
At 31 December 2016	<u><u>5,302,065</u></u>
At 1 January 2016	<u><u>2,509,562</u></u>



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**6. INVESTMENT PROPERTIES**

The movement in investment property is as follows:

	<u>Leasehold improvements</u>	<u>Buildings on leasehold land</u>	<u>Total</u>
<b><u>Cost:</u></b>			
Balance at 1 January 2017	94,739,623	129,336,624	224,076,247
Additions during the period	--	3,196,201	3,196,201
Balance at 31 March 2017	94,739,623	132,532,825	227,272,448
<b><u>Depreciation:</u></b>			
Balance at 1 January 2017	34,036,249	44,762,845	78,799,094
Charge for the period	682,739	1,490,771	2,173,510
Balance at 31 March 2017	34,718,988	46,253,616	80,972,604
<b><u>Net book value:</u></b>			
At 31 March 2017	<u>60,020,635</u>	<u>86,279,209</u>	<u>146,299,844</u>
At 31 December 2016	<u>60,703,374</u>	<u>84,573,779</u>	<u>145,277,153</u>
At 1 January 2016	<u>63,434,329</u>	<u>90,536,859</u>	<u>153,971,188</u>

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

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

**7. INVESTMENTS**

Investments comprise of following:

	<u>31 March 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Investment in associates (Note 7.1)	105,680,411	101,131,652	96,009,040
Available for sale investment - unquoted	<u>16,788,011</u>	<u>16,788,011</u>	<u>18,075,925</u>
	<u>122,468,422</u>	<u>117,919,663</u>	<u>114,084,965</u>

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**7. INVESTMENTS (continued)**

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

<u>Associates</u>	<u>Principal activity</u>	<u>Country of incorporation</u>	<u>Effective shareholding percentage</u>			<u>Carrying amount</u>		
			<u>31 March 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>	<u>31 March 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
International Water Distribution Company Limited	Water/waste works, water treatment and lease of water equipment	Kingdom of Saudi Arabia	50%	50%	50%	56,664,990	54,907,347	47,724,045
Saudi Water and Environmental Services Company (Note 'i' below)	Electrical, water and mechanical works and related operation and maintenance	Kingdom of Saudi Arabia	31.85%	31.85%	29.4%	18,836,188	18,150,041	17,516,874
Al Jabr Talke Company Limited	Contracting, construction, operation and maintenance of factories and warehouses	Kingdom of Saudi Arabia	33.3%	33.3%	33.3%	29,420,960	27,192,876	22,975,084
Stork Technical Services Saudi Arabia limited	Maintenance and operations of power, oil, gas, desalination and petrochemical plants and calibration of machinery and electrical equipment	Kingdom of Saudi Arabia	45%	45%	45%	--	--	6,012,269
Xenmet SA, Vaduz (Note 'ii' below)	Trading, storage and brokerage of commodities	Principality of Liechtenstein	19%	19%	19%	758,273	881,388	1,780,768
						<u>105,680,411</u>	<u>101,131,652</u>	<u>96,009,040</u>

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

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**8. DERIVATIVE FINANCIAL INSTRUMENTS**

During 2012, a subsidiary "Red Sea Gateway Terminal Company Limited" entered into a Profit Rate Swap contract with a commercial bank to hedge its exposure to the variability in cash flows arising from profit payments on Ijara facilities obtained from banks. The positive fair value of this instrument as at 31 March 2017 is SR 0.51 million (31 December 2016: negative fair value SR 0.51 million and 1 January 2016: 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:

	<u>31 March 2017</u>		<u>31 December 2016</u>		<u>1 January 2016</u>	
	<u>Positive</u> <u>Fair Value</u>	<u>Notional</u> <u>Amount</u>	<u>Negative</u> <u>Fair Value</u>	<u>Notional</u> <u>Amount</u>	<u>Negative</u> <u>Fair Value</u>	<u>Notional</u> <u>Amount</u>
Profit Rate Swap	<u>512,832</u>	<u>509,330,638</u>	<u>(509,730)</u>	<u>509,330,638</u>	<u>(17,276)</u>	<u>564,335,119</u>

Movement in derivative financial instruments is as follows:

	<u>31 March</u> <u>2017</u>	<u>31 December</u> <u>2016</u>	<u>1 January</u> <u>2016</u>
Balance at beginning of the period / year	<u>(509,730)</u>	<u>(17,276)</u>	<u>(6,585,435)</u>
Change in fair value	<u>1,022,562</u>	<u>(492,454)</u>	<u>6,568,159</u>
Balance at end of the period / year	<u>512,832</u>	<u>(509,730)</u>	<u>(17,276)</u>

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 March 2017 is SR 0.023 million (31 December 2016: positive fair value SR 0.025 million and 1 January 2016: positive fair value SR 0.004 million). The maturity date of the instrument is 31 December 2017.

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

	<u>31 March 2017</u>		<u>31 December 2016</u>		<u>1 January 2016</u>	
	<u>Positive</u> <u>Fair Value</u>	<u>Notional</u> <u>Amount</u>	<u>Positive</u> <u>Fair Value</u>	<u>Notional</u> <u>Amount</u>	<u>Positive</u> <u>Fair Value</u>	<u>Notional</u> <u>Amount</u>
Profit Rate Swap	<u>23,426</u>	<u>8,750,000</u>	<u>24,930</u>	<u>8,750,000</u>	<u>4,236</u>	<u>17,500,000</u>

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**8. DERIVATIVE FINANCIAL INSTRUMENTS (continued)**

Movement in derivative financial instruments is as follows:

	<b>31 March 2017</b>	31 December 2016	1 January 2016
Balance at beginning of the period / year	<b>24,930</b>	4,236	(202,555)
Change in fair value	<b>(1,504)</b>	20,694	206,791
Balance at end of the period / year	<b>23,426</b>	24,930	4,236

**9. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents as at comprise of following:

	<b>31 March 2017</b>	31 December 2016	1 January 2016
Cash on hand	<b>512,910</b>	300,778	284,146
Cash at banks (Note 9.1)	<b>186,029,634</b>	173,849,042	146,384,875
Murabaha term deposits (Note 9.2)	<b>45,000,000</b>	21,254,500	106,000,000
	<b>231,542,544</b>	195,404,320	252,669,021

**9.1 Cash at banks include restricted balances amounting to;**

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

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

**10. SHARE CAPITAL**

As at March 31, 2017, the authorised and paid up capital of the Company is divided into 68 million shares (31 December 2016: 68 million shares and 1 January 2016: 68 million shares) of SR 10 each (Note 26).

**11. STATUTORY RESERVE**

In accordance with the Company's Bylaws, the Company sets aside 10% of its net income in each year to a statutory reserve until such reserve equals to 50% of the share capital. This reserve is currently not available for distribution to the shareholders of the Company (Note 26).

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**12. 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 (Note 26).

**13. EFFECT OF REDUCING SHAREHOLDING PERCENTAGE IN A SUBSIDIARY**

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

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

**14. EFFECT OF INCREASING THE OWNERSHIP PERCENTAGE IN A SUBSIDIARY**

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

**15. LOANS AND BANK FACILITIES**

Loans and bank facilities are as follows:

	<b>31 March 2017</b>	<b>31 December 2016</b>	<b>1 January 2016</b>
Saudi Industrial Development Fund loan (Note (a))	<b>4,500,000</b>	9,000,000	18,000,000
Ijara facilities obtained from banks (Note (b))	<b>821,188,884</b>	820,163,125	907,734,221
Long-term loans (Note (c))	<b>8,750,000</b>	8,926,545	21,875,000
Long-term loans	--	--	1,558,503
Long-term loans	--	--	1,500,000
Long-term loans (Note (d))	<b>142,614,941</b>	114,329,781	--
Long-term loans (Note (e))	<b>1,992,639</b>	--	--
Total long-term loans	<b>979,046,464</b>	952,419,451	950,667,724
Less: current portion	<b>(113,333,963)</b>	(116,017,870)	(112,482,638)
Non-current portion	<b>865,712,501</b>	836,401,581	838,185,086

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**15. LOANS AND BANK FACILITIES (continued)**

- a) During 2003, Kindasa obtained a loan of SAR 64.5 million from Saudi Industrial Development Funds ("SIDF") to finance the extension of the desalination plant. During 2011, the facility amount was increased to SAR 109.1 million. The loan is secured by the mortgage over Kindasa's property, plant and equipment and personal guarantees from its shareholders. The loans agreements include certain covenants such as limiting rents, capital expenditure, dividends and maintenance of certain financial ratios. The remaining amount of loan is repayable in one installments with maturity of up to July 2017.
- b) During 2007, RSGT, entered into an Ijara arrangement with two banks to obtain a loan of SR 1,271 million. The Ijara facility is secured by the intangible assets – quay project of RSGT. 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.
- 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 March 2017, full amount of the loan has been utilised. The loan carries commission at commercial rates and the remaining amount of loan is repayable in two instalments with maturity of up to December 2017. The loan is secured by assigning rights of the rental income and through promissory notes.
- d) During 2016, RSGT entered into an Ijara arrangement with two banks to obtain a loan of SR 260 million for expansion of its existing berths. The Ijara facility is secured by the property and equipment – quay project of RSGT. The loan carries commission at commercial rates (SIBOR plus an agreed margin) and is repayable in twelve semi-annual installments ending in December 2023. The first installment of the loan facility is payable in June 2018.
- 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 March 2017, Kindasa has drawn down SR 1.99 million out of total facility of SR 24 million.

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**16. EMPLOYEES' END OF SERVICE BENEFITS**

**16.1 General Description of the plan**

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

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

	<b>31 March 2017</b>	<b>31 December 2016</b>	<b>1 January 2016</b>
Defined benefit obligation	<u>22,513,675</u>	<u>22,004,420</u>	<u>20,635,597</u>

**16.2 Movement in net defined benefit liability**

The movement in the defined benefit obligation is as follows:

	<b>31 March 2017</b>	<b>31 December 2016</b>
Balance at 1 January	22,004,420	20,635,597
<b><i>Included in profit or loss</i></b>		
Current service costs	1,649,929	3,851,378
Interest costs	--	979,567
	<u>1,649,929</u>	<u>4,830,945</u>
<b><i>Included in other comprehensive income</i></b>		
<b><i>Re-measurement (gain) / loss:</i></b>		
Actuarial loss arising from changes in assumptions	--	712,349
<b><i>Cash movements</i></b>		
Benefits paid	<u>(1,140,674)</u>	<u>(4,174,471)</u>
Balance at 31 December	<u>22,513,675</u>	<u>22,004,420</u>

**16.3 Actuarial assumptions:**

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

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

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**17. LONG TERM PROVISIONS**

Other long-term liabilities are as follows:

	<b>31 March 2017</b>	<b>31 December 2016</b>	<b>1 January 2016</b>
Provision for asset replacement costs (Note 'a')	<b>56,937,692</b>	54,386,614	44,425,073
Others	<b>215,831</b>	215,831	236,160
	<b><u>57,153,523</u></b>	<b><u>54,602,445</u></b>	<b><u>44,661,233</u></b>

**a) Provision for asset replacement costs**

As per the BOT agreement with SEAPA, RSGT (one of the subsidiaries of the Company) has an obligation to replace certain machinery and equipment ("the Equipment") during the tenure of the agreement. The management of RSGT has estimated that RSGT will be required to incur an amount of SR 429 million (31 December 2016: SR 429 million and 1 January 2016: SR 429 million)) to replace the Equipment. The useful life of the Equipment shall extend beyond the expiry of the BOT agreement and the remaining net book value of the Equipment at the end of the concession agreement is estimated to be SR 304.9 million (31 December 2016: SR 304.9 million and 1 January 2016: SR 304.9 million). As at 31 March 2017, an amount of SR 56.94 million (31 December 2016: SR 54.39 million and 1 January 2016: SR 44.43 million) has been recorded as provision for equipment replacement cost.

During 2017, RSGT has used 3.92% (31 December 2016: 3.92% and 1 January 2016: 3.88%) as discount rate for determining the present value of obligation. The management believes that the discount rate used is reflective of the term of obligation.

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

	<b>31 March 2017</b>	<b>31 December 2016</b>	<b>1 January 2016</b>
Balance at 1 January	<b>54,386,614</b>	44,425,073	37,121,090
<b>Provided during the year</b>			
- Charge for the year	<b>2,023,446</b>	8,093,785	5,596,706
- Borrowing cost	<b>527,632</b>	1,867,756	1,707,277
	<b><u>56,937,692</u></b>	<b><u>54,386,614</u></b>	<b><u>44,425,073</u></b>



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**18. RELATED PARTY TRANSACTIONS AND BALANCES**

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

Significant related party transactions for the three-months period ended 31 March and balances arising there from are described as under:

<u>Name</u>	<u>Relationship</u>	<u>Nature of transactions</u>	<u>Amount of transactions</u>		<u>Closing balance</u>		
			<u>31 March 2017</u>	<u>31 March 2016</u>	<u>31 March 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
International Water Distribution Company Limited	Associate	Sales of goods and services	14,854,236	15,326,892	9,888,153	10,442,000	14,984,937
		Services rendered to Associate	165,000	175,736	510,485	--	--
		Expenses incurred by Associate on behalf of the Group	(2,990)	16,600	--	--	--
		Expenses incurred by Group on behalf of the Associate	50,696	--	--	797,779	1,543,544
Halwani Brothers Co.	Affiliate	Sale of goods	--	122,166	2,640	2,640	168,720
Arabian Bulk Trade Limited	Affiliate	Lease of land and warehouses	484,719	157,357	357,597	67,318	485,649
Ambro limited	Affiliate	Lease of land and warehouses	--	--	234,637	274,101	338,071
Saudi Cable Company Limited	Affiliate	Lease of land and warehouses	397,514	336,103	167,280	174,326	128,244
		Advances paid for the purchase of goods	--	330,704	--	--	--

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**18. RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

<u>Name</u>	<u>Relationship</u>	<u>Nature of transactions</u>	<u>Amount of transactions</u>		<u>31 March 2017</u>	<u>Closing balance</u>	
			<u>31 March 2017</u>	<u>31 March 2016</u>		<u>31 December 2016</u>	<u>1 January 2016</u>
Al Jabr Talke Company Limited	Associate	Services rendered to Associate	104,068	120,811	90,378	--	13,755
		Expenses cross charged by Associate	(13,690)	--	--	--	--
Saudi Water and Environmental Services Company Limited	Associate	Sale of goods and services	1,260,138	1,310,635	509,034	348,539	383,850
Xenel Industries Limited	Shareholder	Payments made by the Group on behalf of the Shareholder	114,473	347,384	--	212,782	--
		Expenses incurred by the Shareholder on behalf of the Group	(761,110)	739,037	(462,772)	--	(143,894)
Stork Technical Services Saudi Arabia Limited	Associate	Payments made by the Group on behalf of Associate	394,409	81,210	124,215	--	1,358,843
		Expenses incurred by subsidiary on behalf of Associate	--	--	--	2,400	144,157
Karam Fedics	Affiliate	Purchase of goods and services	(2,188,393)	(2,168,587)	(770,176)	(2,155,204)	(889,907)
Aecom Arabia Limited (formerly Resource Science Arabia Limited)	Affiliate	Payments made by the Group on behalf of affiliate	--	--	64,226	64,226	27,287
Hidada Limited	Affiliate	Purchase of goods and services	--	--	(722,868)	(722,868)	(722,868)

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**18. RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

<u>Name</u>	<u>Relationship</u>	<u>Nature of transactions</u>	<u>Amount of transactions</u>			<u>Closing balance</u>	
			<u>31 March 2017</u>	<u>31 March 2016</u>	<u>31 March 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Haji Abdullah Ali Reza & Co. Limited - General Technical Division	Affiliate	Purchase of goods	(10,246)	--	--	28,439	--
		Advances paid for the purchase of goods	47,500	--	47,500	--	--
Alireza Travel and Tourism Company	Affiliate	Purchase of goods and services	(699,001)	594,930	(479,706)	314,105	142,845

**a) Key management personnel remuneration and compensation**

Key management personnel remuneration and compensation comprised of the following:

	<u>31 March 2017</u>	<u>31 March 2016</u>
Short-term employee benefits	<u>3,034,299</u>	<u>2,954,928</u>

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

**b) Board of Directors / Committee members remuneration**

Board of Directors remuneration and compensation comprised of the following:

	<u>31 March 2017</u>	<u>31 March 2016</u>
Meeting attendance Fees	112,000	48,000
Other remuneration	<u>117,000</u>	<u>142,000</u>
	<u>229,000</u>	<u>190,000</u>

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**19. ZAKAT AND INCOME TAX**

Movement in Zakat provision during the year was as follows:

	<b>31 March 2017</b>	<b>31 December 2016</b>	<b>1 January 2016</b>
Balance at 1 January	<b>6,593,665</b>	9,962,179	9,572,066
Charge for the year	<b>2,263,586</b>	5,513,222	8,119,685
Amounts paid during the year	<b>--</b>	(8,881,736)	(7,729,572)
Balance at 31 December	<b>8,857,251</b>	<b>6,593,665</b>	<b>9,962,179</b>

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

Movement in tax provision during the year was as follows:

	<b>31 March 2017</b>	<b>31 December 2016</b>	<b>1 January 2016</b>
Balance at 1 January	<b>943,138</b>	1,137,999	1,402,517
Charge for the year	<b>876,615</b>	3,817,100	3,738,265
Amounts paid during the year	<b>--</b>	(4,011,961)	(4,002,783)
Balance at 31 December	<b>1,819,753</b>	<b>943,138</b>	<b>1,137,999</b>

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.

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

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**19. ZAKAT AND INCOME TAX (continued)**

**Zakat assessments status of the Group**

***Parent Company (continued)***

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. Up to 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.

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

RSPD has filed its Zakat and income tax returns up to the year 2015. Up to the date of this report, GAZT is yet to raise assessments.

**20. REVENUE**

Revenue for the period ended 31 March is as follows:

	<b><u>Three-months period ended</u></b>	
	<b><u>2017</u></b>	<b><u>2016</u></b>
Shipping and unloading services	119,034,623	119,740,829
Sale of potable water	24,745,703	26,109,600
Rentals and support services	28,177,117	25,789,945
	<b><u>171,957,443</u></b>	<b><u>171,640,374</u></b>

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**21. EARNINGS PER SHARE**

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

	<b>31 March 2017</b>	<b>31 March 2016</b>
Profit for the period attributable to ordinary equity holders of the Parent Company	<b>22,126,200</b>	<b>24,211,922</b>
Weighted average number of ordinary shares in issue	<b>68,000,000</b>	<b>68,000,000</b>
Basic and diluted earnings per share	<b>0.33</b>	<b>0.36</b>

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

**22. COMMITMENTS AND CONTINGENCIES**

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

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

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

As at 31 March 2017, the Group has commitments for capital work in progress amounting to SR 202.1 million (2016: SR 245.4 million and 1 January 2016: SR 26.09 million) mainly relating to berth expansion project, new logistic hub and park construction project and new desalination plant construction and development project.

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**23. BUSINESS SEGMENTS**

The Group has the following main business segments:

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

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

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

Information regarding the results of each reportable segment is included below. Performance is measured based on segment revenues, as included in the internal management reports that are reviewed by the top management. The following table presents segment information (assets, liabilities, revenue and net income) for each of the business segments as at and for the three-months period ended 31 March:

	Reportable Segments			Total (SR'000)	Unallocated (SR'000)	Total (SR'000)
	Port development and Operations (SR'000)	Logistic parks and support Services (SR'000)	Water desalination and distribution (SR'000)			
<b>31 March 2017</b>						
External revenues	119,092	31,102	24,899	175,093	--	175,093
Inter segment revenue	(58)	(2,925)	(153)	(3,136)	--	(3,136)
<b>Segment Revenue</b>	<b>119,034</b>	<b>28,177</b>	<b>24,746</b>	<b>171,957</b>	<b>--</b>	<b>171,957</b>
Cost of revenue	(71,203)	(11,972)	(16,718)	(99,893)	--	(99,893)
Inter-segment cost of revenue	2,322	814	--	3,136	--	3,136
<b>Segment cost</b>	<b>(68,881)</b>	<b>(11,158)</b>	<b>(16,718)</b>	<b>(96,757)</b>	<b>--</b>	<b>(96,757)</b>
Segment gross profit	50,153	17,019	8,028	75,200	--	75,200
Segment profit / (loss)	19,427	11,673	3,420	34,520	(1,860)	32,660
Profit / (loss) attributable to shareholders of Parent Company	13,077	8,685	2,224	23,986	(1,860)	22,126
<b>31 March 2017</b>						
Segment assets	1,958,422	331,232	266,892	2,556,546	196,631	2,753,177
Segment liabilities	1,121,645	57,222	23,769	1,202,636	26,914	1,229,550

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**23. BUSINESS SEGMENTS (continued)**

	Reportable Segments			Total (SR'000)	Unallocated (SR'000)	Total (SR'000)
	Port development and Operations (SR'000)	Logistic parks and support Services (SR'000)	Water desalination and distribution (SR'000)			
<b>31 March 2016</b>						
External revenues	119,741	29,662	26,263	175,665	--	175,665
Inter segment revenue	--	(3,872)	(153)	(4,025)	--	(4,025)
<b>Segment Revenue</b>	<b>119,741</b>	<b>25,790</b>	<b>26,110</b>	<b>171,640</b>	<b>--</b>	<b>171,640</b>
Cost of revenue	(71,908)	(9,924)	(16,900)	(98,732)	--	(98,732)
Inter-segment cost of revenue	1,967	2,058	--	4,025	--	4,025
<b>Segment cost</b>	<b>(69,941)</b>	<b>(7,866)</b>	<b>(16,900)</b>	<b>(94,707)</b>	<b>--</b>	<b>(94,707)</b>
Segment gross profit	49,799	17,924	9,210	76,933	--	76,933
Segment profit / (loss)	20,842	11,983	6,155	38,980	(1,050)	37,930
Profit / (loss) attributable to shareholders of Parent Company	13,301	8,262	3,699	25,262	(1,050)	24,212
<b>31 December 2016</b>						
Segment assets	1,893,046	307,281	265,657	2,465,984	197,507	2,663,491
Segment liabilities	1,078,785	40,806	26,476	1,146,067	27,479	1,173,546

**24. FINANCIAL RISK MANAGEMENT**

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

**24.1 Risk management framework**

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

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



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**24. FINANCIAL RISK MANAGEMENT (continued)**

**24.1 Risk management framework (continued)**

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

**24.2 Market risk**

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

**24.2.1 Commission and interest rate risk**

Commission rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Group's financial positions and cash flows. The Group's commission rate risks arise mainly from its short-term deposits. Majority of the Group's borrowings are at floating rate of interest and are subject to re-pricing on a regular basis. Management regularly monitors the changes in interest rates. During 2012 and 2013, the Group entered into Interest Rate Swaps ("IRS") (Derivative financial instruments) to manage its exposure to interest rate risk. Such IRS is designated as a Cash flow hedge.

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

	<b>31 March 2017</b>	<b>31 December 2016</b>	<b>1 January 2016</b>
<b>Fixed rate instruments</b>			
Financial assets – Murabaha term deposits	<b>45,000,000</b>	21,254,500	106,000,000
Financial liabilities – Loans and borrowings	<b>(8,750,000)</b>	(8,926,545)	(24,933,503)
<b>Variable rate instruments</b>			
Financial liabilities – Loans and borrowings	<b>(995,399,334)</b>	(967,114,176)	(940,558,528)
Derivative financial instrument – asset	<b>536,258</b>	24,930	4,236
Derivative financial instrument – liability	<b>--</b>	(509,730)	(17,276)

**Sensitivity analysis for fixed rate instruments**

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

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**24. FINANCIAL RISK MANAGEMENT (continued)**

**24.2 Market risk**

**24.2.1 Commission rate risk (continued)**

**Sensitivity analysis for variable rate instruments**

If SIBOR had been 1% higher / lower with all other variables held constant, the impact on the equity and profit before zakat and income tax for the year would have been SR 4.88 million (31 December 2016: SR 4.58 million and 1 January 2016: SR 3.76 million).

**24.2.2 Currency risk**

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

**24.3 Credit risk**

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

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

	<b>31 March 2017</b>	<b>31 December 2016</b>	<b>1 January 2016</b>
<b>Financial assets</b>			
Derivative financial instruments	<b>536,258</b>	23,930	4,236
Trade receivables	<b>77,145,308</b>	70,086,836	73,156,978
Other receivables	<b>37,390,385</b>	33,553,288	32,645,014
Balances with banks	<b>231,029,634</b>	195,103,542	252,384,875
	<b>346,101,585</b>	<b>298,767,596</b>	<b>358,191,103</b>

Credit risk on receivable and bank balances is limited as:

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

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**24. FINANCIAL RISK MANAGEMENT (continued)**

**24.3 Credit risk (continued)**

As at 31 March 2017, the five largest customers (31 December 2016: four largest customers and 1 January 2016: four largest customers) account approximately for 60% (31 December 2016: 69% and 1 January 2016: 74%) of gross outstanding trade receivables.

**24.4 Liquidity risk**

Liquidity risk is the risk that an enterprise will encounter difficulty in in meeting its obligations associated with financial liabilities that are settled by delivery of cash or another financial asset. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available through committed credit facilities to meet any future commitments as well as close monitoring of cash inflows and outflows from operations. Following are the contractual maturities at the end of the reporting period of financial liabilities. The amounts are grossed and undiscounted.

**31 March 2017**

	Carrying amount	Contractual cash flows		
		Less than 1 year	1 year to 5 years	More than 5 years
<b>Non derivative financial liabilities</b>				
Loans and borrowings	979,046,464	145,796,940	645,768,112	352,653,417
Accounts payable and other current liabilities	133,341,686	133,341,686	--	--
	<u>1,112,388,150</u>	<u>279,138,626</u>	<u>645,768,112</u>	<u>352,653,417</u>

**31 December 2016**

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

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**24. FINANCIAL RISK MANAGEMENT (continued)**

**24.4 Liquidity risk (continued)**

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

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

**24.5 Capital risk management**

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

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

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**24. FINANCIAL RISK MANAGEMENT (continued)**

**24.5 Capital risk management (continued)**

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

	<b>31 March 2017</b>	<b>31 December 2016</b>	<b>1 January 2016</b>
Loans and borrowings	979,046,464	952,419,451	950,667,724
Trade payable and other current liabilities	170,836,230	144,009,957	149,611,630
<b>Total debt</b>	<b>1,149,882,694</b>	<b>1,096,429,408</b>	<b>1,100,279,354</b>
Cash and cash equivalents	(231,542,544)	(195,404,320)	(252,669,021)
<b>Net debt</b>	<b>918,340,150</b>	<b>901,025,088</b>	<b>847,610,333</b>
<b>Total equity</b>	<b>1,523,626,648</b>	<b>1,489,945,102</b>	<b>1,420,102,785</b>
Less: cash flow hedging reserve	(328,580)	289,950	7,250
<b>Adjusted equity</b>	<b>1,523,298,068</b>	<b>1,490,235,052</b>	<b>1,420,110,035</b>
<b>Net debt to adjusted equity ratio - %</b>	<b>60.29%</b>	<b>60.46%</b>	<b>59.69%</b>

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**24. FINANCIAL RISK MANAGEMENT (continued)**

**24.6 Fair value of assets and liabilities**

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

31 March 2017	Fair value hedging instruments	Carrying amount		Loans and receivables	Fair value			Total
		Available for sale investments	Held to maturity		Level 1	Level 2	Level 3	
<b><u>Financial assets:</u></b>								
Derivative financial instruments	536,258	--	--	--	--	536,258	--	536,258
Trade and other receivables	--	--	--	111,909,000	--	--	--	--
Balances with banks	--	--	--	186,029,634	--	--	--	--
Murabaha term deposits	--	--	45,000,000	--	--	--	--	--
Available for sale investment	--	16,788,011	--	--	--	--	--	--
	536,258	16,788,011	45,000,000	297,938,634	--	536,258	--	536,258

	<u>Carrying amount</u>	<u>Fair value</u>			
	<u>Loans and receivables</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b><u>31 March 2017</u></b>					
<b><u>Financial liabilities:</u></b>					
Loans and borrowings	979,046,464	--	--	--	--
Trade and other payables	133,341,686	--	--	--	--
	<u>1,112,388,150</u>	--	--	--	--

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**24. FINANCIAL RISK MANAGEMENT (continued)**

**24.6 Fair value of assets and liabilities (continued)**

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

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

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**24. FINANCIAL RISK MANAGEMENT (continued)**

**24.6 Fair value of assets and liabilities (continued)**

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

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

**25. EXPLANATION OF TRANSITION TO IFRS**

As stated in Note 2.1, these are the Group's first IFRS Financial Statements for the period ended 31 March 2017 prepared in accordance with IFRS.

The accounting policies set out in Note 3 have been applied in preparing these Financial Statements for the period ended March 31, 2017. In preparing these Financial Statements, the Group's opening statement of financial position was prepared as at 1 January 2016, being the (Group's date of transition to IFRS).

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



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**25. EXPLANATION OF TRANSITION TO IFRS (continued)**

**25.1 Reconciliation of condensed consolidated statement of financial position**

	Notes	As at 31 December 2016			
		SOCPA Standards	Effect of transition to IFRS	Reclassification	IFRS
<b>ASSETS</b>					
<b>Non-current assets:</b>					
Property, plant and equipment	25.5 (b) & 25.6 (b & c)	911,134,352	(18,368,888)	(150,579,218)	742,186,246
Intangible assets	25.6 (b & d)	1,293,484,306	--	14,078,825	1,307,563,131
Goodwill	25.6 (d)	8,776,760	--	(8,776,760)	--
Investment property	25.6 (c)	--	--	145,277,153	145,277,153
Investments	25.5 (a & b)	118,776,922	(857,259)	--	117,919,663
<b>Total non-current assets</b>		<b>2,332,172,340</b>	<b>(19,226,147)</b>	<b>--</b>	<b>2,312,946,193</b>
<b>Current assets:</b>					
Inventories		41,178,880	--	--	41,178,880
Derivative financial instrument		24,930	--	--	24,930
Trade and other receivables		113,936,782	--	--	113,936,782
Cash and cash equivalents		195,404,320	--	--	195,404,320
<b>Total current assets</b>		<b>350,544,912</b>	<b>--</b>	<b>--</b>	<b>350,544,912</b>
<b>Total assets</b>		<b>2,682,717,252</b>	<b>(19,226,147)</b>	<b>--</b>	<b>2,663,491,105</b>
<b>EQUITY AND LIABILITIES</b>					
Share capital		680,000,000	--	--	680,000,000
Share premium		36,409,063	--	--	36,409,063
Statutory reserve		39,758,712	--	--	39,758,712
Special reserve		19,869,813	--	--	19,869,813
Other reserves		8,446,560	--	--	8,446,560
Retained earnings	25.3 (a)	239,516,540	(12,252,378)	--	227,264,162
<b>Equity attributable to the shareholders* of Parent Company</b>		<b>1,024,000,688</b>	<b>(12,252,378)</b>	<b>--</b>	<b>1,011,748,310</b>
Non-controlling interests	25.3 (b)	483,800,164	(5,603,372)	--	478,196,792
<b>Total equity</b>	25.3 (c)	<b>1,507,800,852</b>	<b>(17,855,750)</b>	<b>--</b>	<b>1,489,945,102</b>
<b>Non-current liabilities:</b>					
Long-term loans and bank facilities		836,401,581	--	--	836,401,581
Employees' end of service benefits	25.5 (a)	23,374,817	(1,370,397)	--	22,004,420
Long term provisions		54,602,445	--	--	54,602,445
<b>Total non-current liabilities</b>		<b>914,378,843</b>	<b>(1,370,397)</b>	<b>--</b>	<b>913,008,446</b>
<b>Current liabilities:</b>					
Current portion of long-term loans and bank facilities		116,017,870	--	--	116,017,870
Zakat and income tax payable	25.6 (a)	--	--	7,536,803	7,536,803
Trade payables and other current liabilities	25.6 (a)	144,009,957	--	(7,536,803)	136,473,154
Derivative financial instrument		509,730	--	--	509,730
<b>Total current liabilities</b>		<b>260,537,557</b>	<b>--</b>	<b>--</b>	<b>260,537,557</b>
<b>Total liabilities</b>		<b>1,174,916,400</b>	<b>(1,370,397)</b>	<b>--</b>	<b>1,173,546,003</b>
<b>Total liabilities and equity</b>		<b>2,682,717,252</b>	<b>(19,226,147)</b>	<b>--</b>	<b>2,663,491,105</b>

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**25. EXPLANATION OF TRANSITION TO IFRS (continued)**

**25.1 Reconciliation of condensed consolidated statement of financial position (continued)**

		As at 31 March 2016			
	Notes	SOCFA Standards	Effect of transition to IFRS	Reclassification	IFRS
<b>ASSETS</b>					
<b>Non-current assets:</b>					
Property, plant and equipment	25.5 (b) & 25.6 (b & c)	731,311,150	(15,311,748)	(154,326,462)	561,672,940
Intangible assets	25.6 (b & d)	1,344,197,283	--	10,891,928	1,355,089,211
Goodwill	25.6 (d)	8,776,760	--	(8,776,760)	--
Investment property	25.6 (c)	--	--	152,211,294	152,211,294
Investments	25.5 (a & b)	116,696,588	(433,362)	--	116,263,226
<b>Total non-current assets</b>		<b>2,200,981,781</b>	<b>(15,745,110)</b>	<b>--</b>	<b>2,185,236,671</b>
<b>Current assets:</b>					
Inventories		38,705,678	--	--	38,705,678
Derivative financial instrument		--	--	--	--
Trade and other receivables		114,709,026	--	--	114,709,026
Cash and cash equivalents		296,701,535	--	--	296,701,535
<b>Total current assets</b>		<b>450,116,239</b>	<b>--</b>	<b>--</b>	<b>450,116,239</b>
<b>Total assets</b>		<b>2,651,098,020</b>	<b>(15,745,110)</b>	<b>--</b>	<b>2,635,352,910</b>
<b>EQUITY AND LIABILITIES</b>					
Share capital		680,000,000	--	--	680,000,000
Share premium		36,409,063	--	--	36,409,063
Statutory reserve		32,998,735	--	--	32,998,735
Special reserve		16,489,825	--	--	16,489,825
Other reserves		11,347,279	--	--	11,347,279
Retained earnings	25.3 (a)	217,456,735	(9,755,608)	--	207,701,127
<b>Equity attributable to the shareholders' of Parent Company</b>		<b>994,701,637</b>	<b>(9,755,608)</b>	<b>--</b>	<b>984,946,029</b>
Non-controlling interests	25.3 (b)	474,422,990	(4,576,694)	--	469,846,296
<b>Total equity</b>	25.3 (c)	<b>1,469,124,627</b>	<b>(14,332,302)</b>	<b>--</b>	<b>1,454,792,325</b>
<b>Non-current liabilities:</b>					
Long-term loans and bank facilities		830,335,846	--	--	830,335,846
Employees' end of service benefits	25.5 (a)	22,766,731	(1,412,808)	--	21,353,923
Long term provisions		47,115,672	--	--	47,115,672
Derivative financial instrument		875,638	--	--	875,638
<b>Total non-current liabilities</b>		<b>901,093,887</b>	<b>(1,412,808)</b>	<b>--</b>	<b>899,681,079</b>
<b>Current liabilities:</b>					
Current portion of long-term loans and bank facilities		111,248,917	--	--	111,248,917
Zakat and income tax payable	25.6 (a)	--	--	14,172,548	14,172,548
Trade payables and other current liabilities	25.6 (a)	169,630,589	--	(14,172,548)	155,458,041
<b>Total current liabilities</b>		<b>280,879,506</b>	<b>--</b>	<b>--</b>	<b>280,879,506</b>
<b>Total liabilities</b>		<b>1,181,973,393</b>	<b>(1,412,808)</b>	<b>--</b>	<b>1,180,560,585</b>
<b>Total liabilities and equity</b>		<b>2,651,098,020</b>	<b>(15,745,110)</b>	<b>--</b>	<b>2,635,352,910</b>

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**25. EXPLANATION OF TRANSITION TO IFRS (continued)**

**25.1 Reconciliation of condensed consolidated statement of financial position (continued)**

		As at 1 January 2016			
	Notes	SOCPA Standards	Effect of transition to IFRS	Reclassification	IFRS
<b>ASSETS</b>					
<b>Non-current assets:</b>					
Property, plant and equipment	25.5 (b) & 25.6 (b & c)	707,653,503	(14,350,455)	(156,480,750)	536,822,298
Intangible assets	25.6 (b & d)	1,361,120,885	--	11,286,322	1,372,407,207
Goodwill	25.6 (d)	8,776,760	--	(8,776,760)	--
Investment property	25.6 (c)	--	--	153,971,188	153,971,188
Investments	25.5 (a & b)	114,541,576	(456,611)	--	114,084,965
Derivative financial instrument		4,236	--	--	4,236
<b>Total non-current assets</b>		<b>2,192,096,960</b>	<b>(14,807,066)</b>	<b>--</b>	<b>2,177,289,894</b>
<b>Current assets:</b>					
Inventories		37,172,077	--	--	37,172,077
Derivative financial instrument		--	--	--	--
Trade and other receivables		118,565,253	--	--	118,565,253
Cash and cash equivalents		252,669,021	--	--	252,669,021
<b>Total current assets</b>		<b>408,406,351</b>	<b>--</b>	<b>--</b>	<b>408,406,351</b>
<b>Total assets</b>		<b>2,600,503,311</b>	<b>(14,807,066)</b>	<b>--</b>	<b>2,585,696,245</b>
<b>EQUITY AND LIABILITIES</b>					
Share capital		680,000,000	--	--	680,000,000
Share premium		36,409,063	--	--	36,409,063
Statutory reserve		30,549,496	--	--	30,549,496
Special reserve		15,265,205	--	--	15,265,205
Other reserves		13,151,743	--	--	13,151,743
Retained earnings	25.3 (a)	196,638,201	(9,475,137)	--	187,163,064
<b>Equity attributable to the shareholders' of Parent Company</b>		<b>972,013,708</b>	<b>(9,475,137)</b>	<b>--</b>	<b>962,538,571</b>
Non-controlling interests	25.3 (b)	461,892,802	(4,328,588)	--	457,564,214
<b>Total equity</b>	25.3 (c)	<b>1,433,906,510</b>	<b>(13,803,725)</b>	<b>--</b>	<b>1,420,102,785</b>
<b>Non-current liabilities:</b>					
Long-term loans and bank facilities		838,185,086	--	--	838,185,086
Employees' end of service benefits	25.5 (a)	21,638,938	(1,003,341)	--	20,635,597
Long term provisions		44,661,233	--	--	44,661,233
Derivative financial instrument		17,276	--	--	17,276
<b>Total non-current liabilities</b>		<b>904,502,533</b>	<b>(1,003,341)</b>	<b>--</b>	<b>903,499,192</b>
<b>Current liabilities:</b>					
Current portion of long-term loans and bank facilities		112,482,638	--	--	112,482,638
Zakat and income tax payable	25.6 (a)	--	11,100,178	--	11,100,178
Trade payables and other current liabilities	25.6 (a)	149,611,630	(11,100,178)	--	138,511,452
<b>Total current liabilities</b>		<b>262,094,268</b>	<b>--</b>	<b>--</b>	<b>262,094,268</b>
<b>Total liabilities</b>		<b>1,166,596,801</b>	<b>(1,003,341)</b>	<b>--</b>	<b>1,165,593,460</b>
<b>Total liabilities and equity</b>		<b>2,600,503,311</b>	<b>(14,807,066)</b>	<b>--</b>	<b>2,585,696,245</b>

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**25. EXPLANATION OF TRANSITION TO IFRS (continued)**

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

	Notes	At 31 December 2016		
		SOCPA Standards	Effect of transition to IFRS and reclassifications	IFRS
Revenue	25.6 (f)	640,318,392	50,453,758	690,772,150
Costs of revenue	25.5 (b) and 25.6 (f)	(342,972,042)	(54,472,191)	(397,444,233)
<b>Gross profit</b>		<b>297,346,350</b>	<b>(4,018,433)</b>	<b>293,327,917</b>
Selling and distribution expenses		(13,287,456)	--	(13,287,456)
General and administrative expenses	25.5 (a)	(122,638,877)	1,079,405	(121,559,472)
Other income	25.6 (e)	12,013,369	(1,647,722)	10,365,647
<b>Operating profit</b>		<b>173,433,386</b>	<b>(4,586,750)</b>	<b>168,846,636</b>
Finance costs		(36,279,222)	--	(36,279,222)
Finance income	25.6 (e)	--	1,647,722	1,647,722
Share in results from equity accounted associates, net	25.5 (a & b)	11,253,367	124,921	11,378,288
<b>Profit before Zakat and income tax</b>		<b>148,407,531</b>	<b>(2,814,107)</b>	<b>145,593,424</b>
Zakat and income tax		(5,513,222)	--	(5,513,222)
<b>Profit for the period</b>		<b>142,894,309</b>	<b>(2,814,107)</b>	<b>140,080,202</b>
<b>Other comprehensive income</b>				
<i>Items that that will not be reclassified to profit or loss</i>				
Re-measurement of defined benefit liability		--	(994,486)	(994,486)
<i>Items that are or may be reclassified subsequently to profit or loss</i>				
Cash flow hedges – effective portion of changes in fair value		--	(471,760)	(471,760)
Available for sale financial assets – net change in fair value		--	(1,287,914)	(1,287,914)
<b>Other comprehensive income for the period, net of Zakat and income tax</b>		<b>--</b>	<b>(2,754,160)</b>	<b>(2,754,160)</b>
<b>Total comprehensive income for the period</b>		<b>142,894,309</b>	<b>(5,568,267)</b>	<b>137,326,042</b>

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**25. EXPLANATION OF TRANSITION TO IFRS (continued)**

**25.2 Reconciliation of statement of profit or loss (continued)**

		At 31 March 2016		
	Notes	SOCPA Standards	Effect of transition to IFRS and reclassifications	IFRS
Revenue	25.6 (f)	159,144,365	12,496,009	171,640,374
Costs of revenue	25.5 (b) and 25.6 (f)	(81,249,329)	(13,457,302)	(94,706,631)
<b>Gross profit</b>		<b>77,895,036</b>	<b>(961,293)</b>	<b>76,933,743</b>
Selling and distribution expenses		(3,431,083)	--	(3,431,083)
General and administrative expenses	25.5 (a)	(32,135,617)	409,467	(31,726,150)
Other income	25.6 (e)	3,363,438	(562,667)	2,800,771
<b>Operating profit</b>		<b>45,691,774</b>	<b>(1,114,493)</b>	<b>44,577,281</b>
Finance costs		(8,503,690)	--	(8,503,690)
Finance income	25.6 (e)	--	562,667	562,667
Share in results from equity accounted associates, net	25.5 (a & b)	3,442,926	23,249	3,466,175
<b>Profit before Zakat and income tax</b>		<b>40,631,010</b>	<b>(528,577)</b>	<b>40,102,433</b>
Zakat and income tax		(2,172,066)	--	(2,172,066)
<b>Profit for the period</b>		<b>38,458,944</b>	<b>(528,577)</b>	<b>37,930,367</b>
<b>Other comprehensive income</b>				
<i>Items that are or may be reclassified subsequently to profit or loss</i>				
Cash flow hedges – effective portion of changes in fair value		--	(862,598)	(862,598)
Available for sale financial assets – net change in fair value		--	(1,287,914)	(1,287,914)
<b>Other comprehensive income for the period, net of Zakat and income tax</b>		<b>--</b>	<b>(2,150,512)</b>	<b>(2,150,512)</b>
<b>Total comprehensive income for the period</b>		<b>38,458,944</b>	<b>(2,679,089)</b>	<b>35,779,855</b>

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**25. EXPLANATION OF TRANSITION TO IFRS (continued)**

**25.3 Reconciliation of equity**

**a) Retained earnings**

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

	<u>Notes</u>	<u>31 December</u> <u>2016</u>	<u>31 March</u> <u>2016</u>	<u>01 January</u> <u>2016</u>
<b>Retained earnings under SOCPA as at</b>		239,516,540	217,456,735	196,638,201
Property, plant and equipment	25.5 (b)	(12,204,602)	(10,187,407)	(9,550,583)
Investment in equity accounted associates	25.5 (a & b)	(857,259)	(433,362)	(456,611)
Employee benefits	25.5 (a)	1,278,400	865,161	532,057
Share in OCI of subsidiaries	25.5 (a)	(468,917)	--	--
<b>Change in retained earnings</b>		<u>(12,252,378)</u>	<u>(9,755,608)</u>	<u>(9,475,137)</u>
<b>Retained earnings under IFRS as at</b>		<u>227,264,162</u>	<u>207,701,127</u>	<u>187,163,064</u>

**b) Non-controlling interests**

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

	<u>Notes</u>	<u>31 December</u> <u>2016</u>	<u>31 March</u> <u>2016</u>	<u>01 January</u> <u>2016</u>
<b>Non-controlling interests under SOCPA as at</b>		483,800,164	474,422,990	461,892,802
Property, plant and equipment	25.5 (b)	(6,164,286)	(5,124,341)	(4,799,872)
Employee benefits	25.5 (a)	804,346	547,647	471,284
Share in OCI of subsidiaries	25.5 (a)	(243,432)	--	--
<b>Change in non-controlling interests</b>		<u>(5,603,372)</u>	<u>(4,576,694)</u>	<u>(4,328,588)</u>
<b>Non-controlling interests under IFRS as at</b>		<u>478,196,792</u>	<u>469,846,296</u>	<u>457,564,214</u>

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**25. EXPLANATION OF TRANSITION TO IFRS (continued)**

**25.3 Reconciliation of equity (continued)**

**c) Total equity**

	As at 31 December 2016	As at 31 March 2016	As at 01 January 2016
<b>Total equity under SOCPA Standards</b>	1,507,800,852	1,469,124,627	1,433,906,510
Property, plant and equipment (Note 25.5 (b))	(18,368,888)	(15,311,748)	(14,350,455)
Investment in associates (Note 25.5 (a & b))	(857,259)	(433,362)	(456,611)
Employee benefits (Note 25.5 (a))	2,082,746	1,412,808	1,003,341
Share in OCI of subsidiaries (Note 25.5 (a))	(712,349)	--	--
	<u>(17,855,750)</u>	<u>(14,332,302)</u>	<u>(13,803,725)</u>
<b>Total equity under IFRS Standards</b>	<u>1,489,945,102</u>	<u>1,454,792,325</u>	<u>1,420,102,785</u>

**25.4 Index to the notes to the reconciliations**

**Changes due to transition from SOCPA Standards to IFRS**

- a) Employee benefits (Note 25.5 (a))
- b) Componentization and revision of useful lives of property, plant and equipment (Note 25.5 (b))

**Changes due to presentation enhancement and reclassification**

- a) Zakat and income tax payable (Note 25.6 (a))
- b) Other intangible assets (Note 25.6 (b))
- c) Investment properties (Note 25.6 (c))
- d) Goodwill (Note 25.6 (d))
- e) Finance income (Note 25.6 (e))
- f) Revenue and costs of revenue (Note 25.6 (f))

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**25. EXPLANATION OF TRANSITION TO IFRS (continued)**

**25.5 Notes to the reconciliations**

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

**a) Employee end of service benefits**

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

	As at 31 December 2016	As at 31 March 2016	As at 1 January 2016
<b><u>Effect on statement of financial position</u></b>			
<b><u>Employee end of service benefits</u></b>			
Decrease in liability – profit and loss effect in prior period	(1,079,405)	(409,467)	--
Increase in liability due to actuarial loss in prior period	712,349	--	--
Decrease in liability - as of Group's date of transition to IFRS	(1,003,341)	(1,003,341)	(1,003,341)
<b>Total decrease in employees' end of services benefits liability (A)</b>	<b>(1,370,397)</b>	<b>(1,412,808)</b>	<b>(1,003,341)</b>
<b><u>Investment in associates</u></b>			
Increase in investment due to share of results of associates – prior periods	164,494	18,932	--
Decrease in investment due to share of OCI of associates – prior periods	(525,569)	--	--
Decrease in investment in associates - as of Group's date of transition to IFRS	(63,547)	(63,547)	(63,547)
<b>Total decrease in investment in associates (B)</b>	<b>(424,622)</b>	<b>(44,615)</b>	<b>(63,547)</b>
<b>Total effect on net liability ( C = A – B)</b>	<b>(945,775)</b>	<b>(1,368,193)</b>	<b>(939,794)</b>
<b><u>Effect on equity</u></b>			
<b><u>Due to decrease in liability</u></b>			
Increase in retained earnings	1,278,400	865,161	532,057
Decrease in retained earnings due to actuarial loss	(468,917)	--	--
Increase in non-controlling interests	804,346	547,647	471,284
Decrease in non-controlling interests due to share in actuarial loss of subsidiaries	(243,432)	--	--
<b>Net increase in equity (D)</b>	<b>1,370,397</b>	<b>1,412,808</b>	<b>1,003,341</b>
<b><u>Due to changes in share in result from associates</u></b>			
Decrease in retained earnings due to actuarial gain/ loss	(525,569)	--	--
Decrease in retained earnings	100,947	(44,615)	(63,547)
<b>Net decrease in equity (E)</b>	<b>(424,622)</b>	<b>(44,615)</b>	<b>(63,547)</b>
<b>Total net increase in equity (F = D + E)</b>	<b>945,775</b>	<b>1,368,193</b>	<b>939,794</b>
<b><u>Effect on statement of profit or loss and other comprehensive income</u></b>			
Decrease in general and administrative expenses	1,079,405	409,467	--
Increase in share in results from equity accounted associates	164,494	18,932	--
<b>Increase in profit or loss</b>	<b>1,243,899</b>	<b>428,399</b>	<b>--</b>



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**25. EXPLANATION OF TRANSITION TO IFRS (continued)**

**25.5 Notes to the reconciliations**

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

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

	As at 31 December 2016	As at 31 March 2016	As at 1 January 2016
<b><u>Effect on statement of financial position</u></b>			
<b><u>Effect on assets</u></b>			
<b><u>Property, plant and equipment</u></b>			
Increase in depreciation charge – prior period	(4,018,433)	(961,293)	--
Increase in depreciation charge - as of Group's date of transition to IFRS	(14,350,455)	(14,350,455)	(14,350,455)
<b>Total decrease in property, plant and equipment (A)</b>	<b>(18,368,888)</b>	<b>(15,311,748)</b>	<b>(14,350,455)</b>
<b><u>Investment in associates</u></b>			
(Decrease) / increase in investment in associates – prior periods	(39,573)	4,317	--
Decrease in investment in associates - as of Group's date of transition to IFRS	(393,064)	(393,064)	(393,064)
<b>Total decrease in property, plant and equipment (B)</b>	<b>(432,637)</b>	<b>(388,747)</b>	<b>(393,064)</b>
<b>Total effect on assets (C = A + B)</b>	<b>(18,801,525)</b>	<b>(15,700,495)</b>	<b>(14,743,519)</b>
<b><u>Effect on equity</u></b>			
<b><u>Due to additional depreciation</u></b>			
Decrease in retained earnings	(12,204,602)	(10,187,407)	(9,550,583)
Decrease in non-controlling interests	(6,164,286)	(5,124,341)	(4,799,872)
	(18,368,888)	(15,311,748)	(14,350,455)
<b><u>Due to changes in share in result from associates</u></b>			
Decrease in retained earnings	(432,637)	(388,747)	(393,064)
<b>Total decrease in equity</b>	<b>(18,801,525)</b>	<b>(15,700,495)</b>	<b>(14,743,519)</b>
<b><u>Effect on statement of profit or loss and other comprehensive income</u></b>			
Increase in cost of sales	(4,018,433)	(961,293)	--
(Decrease) / increase in share in results from equity accounted associates	(39,573)	4,317	--
<b>Net decrease in profit or loss</b>	<b>(4,058,006)</b>	<b>(956,976)</b>	<b>--</b>

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**25. EXPLANATION OF TRANSITION TO IFRS (continued)**

**25.6 Changes due to presentation enhancement and reclassifications**

**a) Zakat and income tax**

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

The impact arising from the change is summarized as follows:

***Consolidated Statement of Financial Position:***

	As at 31 December 2016	As at 31 March 2016	As at 1 January 2016
Zakat and income tax payable	7,536,803	14,172,548	11,100,178
Trade payable and other current liabilities	(7,536,803)	(14,172,548)	(11,100,178)
<b>Adjustment to retained earnings</b>	<b>--</b>	<b>--</b>	<b>--</b>

**b) Other Intangible Assets**

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

The impact arising from the change is summarized as follows:

***Consolidated Statement of Financial Position:***

	As at 31 December 2016	As at 31 March 2016	As at 1 January 2016
Other intangible assets	5,302,065	2,115,168	2,509,562
Property, plant and equipment:	(5,302,065)	(2,115,168)	(2,509,562)
<b>Adjustment to retained earnings</b>	<b>--</b>	<b>--</b>	<b>--</b>

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**25. EXPLANATION OF TRANSITION TO IFRS (continued)**

**25.6 Changes due to presentation enhancement and reclassifications**

***c) Investment properties***

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

The impact arising from the change is summarized as follows:

***Consolidated Statement of Financial Position:***

	As at 31 December <u>2016</u>	As at 31 March <u>2016</u>	As at 1 January <u>2016</u>
Investment properties	145,277,153	152,211,294	153,971,188
Property, plant and equipment	<u>(145,277,153)</u>	<u>(152,211,294)</u>	<u>(153,971,188)</u>
Adjustment to retained earnings	<u>          --          </u>	<u>          --          </u>	<u>          --          </u>

***d) Goodwill***

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

The impact arising from the change is summarized as follows:

***Consolidated Statement of Financial Position:***

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

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**25. EXPLANATION OF TRANSITION TO IFRS (continued)**

**25.6 Changes due to presentation enhancement and reclassifications (continued)**

***e) Finance income***

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

The impact arising from the change is summarized as follows:

***Consolidated Statement of Profit or Loss and Other Comprehensive Income:***

	As at 31 December 2016	As at 31 March 2016	As at 1 January 2016
Finance income	1,647,722	562,667	--
Other income	(1,647,722)	(562,667)	--
Adjustment to retained earnings	--	--	--

***f) Sales and cost of sales***

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

The impact arising from the change is summarized as follows:

***Consolidated Statement of Profit or Loss and Other Comprehensive Income:***

	As at 31 December 2016	As at 31 March 2016	As at 1 January 2016
Cost of revenue	(50,453,758)	(12,496,009)	--
Revenue	50,453,758	12,496,009	--
Adjustment to retained earnings	--	--	--

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**25. EXPLANATION OF TRANSITION TO IFRS (continued)**

**25.7 Exemptions applied**

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

The Group has applied the following exemptions:

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

**26. SUBSEQUENT EVENTS**

During the quarter ended 31 March 2017, the Board of Directors had proposed the issuance of 1 bonus share for every 5 ordinary shares for the year 2016 for approval of shareholders. The shareholders of the Company in an extraordinary general meeting held on 16 April 2017 approved the issuance of one bonus share for every 5 ordinary shares. The legal formalities in respect of increase in share capital are under progress.

During the quarter ended 31 March 2017, the Board of Directors had proposed the amendment of Company's Bylaws for approval of shareholders. The shareholders of the Company in an extraordinary general meeting held on 16 April 2017 approved the amended Bylaws of the Company. The legal formalities in respect of updation of Bylaws and commercial registration are under progress.

**27. APPROVAL OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

These condensed consolidated interim financial statements were approved and authorised to issue by the Board of Directors on 14 Shaban 1438H, corresponding to 10 May 2017.