# SAUDI INDUSTRIAL SERVICES COMPANY
# (A SAUDI JOINT STOCK COMPANY)

## UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## AS AT 31 DECEMBER 2012

ERNST & YOUNG

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# LIMITED REVIEW REPORT TO THE SHAREHOLDERS OF SAUDI INDUSTRIAL SERVICES COMPANY (A SAUDI JOINT STOCK COMPANY) ON THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## Scope of review

We have reviewed the accompanying consolidated balance sheet of Saudi Industrial Services Company - A Saudi Joint Stock Company - (the "Company") and its subsidiaries ("the Group") as at 31 December 2012 and the related consolidated statement of income for the three-month and twelve-month periods then ended, and the related consolidated statements of cash flows and changes in shareholders' equity for the twelve-month period then ended. These interim consolidated financial statements are the responsibility of the Company's management and have been prepared by them and submitted to us together with all the information and explanations which we required. We conducted our limited review in accordance with the standards on interim financial information issued by the Saudi Organization for Certified Public Accountants. A limited review consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion on the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

## Conclusion

Based on our limited review, we are not aware of any material modifications that should be made to the accompanying interim consolidated financial statements for them to be in conformity with accounting standards generally accepted in the Kingdom of Saudi Arabia.

for Ernst & Young

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16 January 2013

Jeddah

Saudi Industrial Services Company (A Saudi Joint Stock Company)

## CONSOLIDATED BALANCE SHEET (UNAUDITED)

As at 31 December 2012

| | Note | *31 December 2012 (Unaudited) SR* | *31 December 2011 (Audited) SR* |
|---|---|---|---|
| **ASSETS** | | | |
| **CURRENT ASSETS** | | | |
| Bank balances and cash | | **171,082,929** | 219,904,549 |
| Accounts and other receivables | | **75,680,467** | 65,831,500 |
| Inventories | | **14,912,036** | 11,074,506 |
| **TOTAL CURRENT ASSETS** | | **261,675,432** | 296,810,555 |
| **NON-CURRENT ASSETS** | | | |
| Investments | 4 | **79,133,999** | 81,174,217 |
| Property, plant and equipment | | **300,763,222** | 290,866,339 |
| Property, plant and equipment of bonded and re-export project | | **148,209,803** | 110,536,756 |
| Projects -in- progress – bonded and re-export project | | **17,647,079** | 26,141,522 |
| Property and equipment - quay project | | **94,477,237** | 81,327,377 |
| Intangible assets – quay project | | **1,567,430,489** | 1,633,059,133 |
| Goodwill | 6 | **12,396,651** | 12,396,651 |
| Deferred charges | | **-** | 47,710 |
| **TOTAL NON-CURRENT ASSETS** | | **2,220,058,480** | 2,235,549,705 |
| **TOTAL ASSETS** | | **2,481,733,912** | 2,532,360,260 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| **CURRENT LIABILITIES** | | | |
| Accounts payable and other liabilities | | **122,016,924** | 127,833,705 |
| Short term loan and current portion of long term loans | | **90,367,468** | 155,305,459 |
| **TOTAL CURRENT LIABILITIES** | | **212,384,392** | 283,139,164 |
| **NON-CURRENT LIABILITIES** | | | |
| Long term loans and bank facilities | | **1,096,520,241** | 1,167,457,794 |
| Other long term obligations | | **26,372,097** | 7,732,502 |
| Employees' end of service benefits provision | | **11,204,387** | 8,632,361 |
| Derivative financial instrument | 3 | **13,371,293** | - |
| **TOTAL NON-CURRENT LIABILITIES** | | **1,147,468,018** | 1,183,822,657 |
| **TOTAL LIABILITIES** | | **1,359,852,410** | 1,466,961,821 |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital | 5 | **680,000,000** | 680,000,000 |
| Share premium | | **36,409,063** | 36,409,063 |
| Statutory reserve | | **8,021,407** | 4,264,248 |
| Special reserve | | **4,001,161** | 2,122,581 |
| Effect of reducing the ownership percentage in a subsidiary | | **4,653,218** | 4,653,218 |
| Cash flow hedging reserve | | **(8,103,003)** | - |
| Retained earnings | | **40,549,409** | 8,613,590 |
| **EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY** | | **765,531,255** | 736,062,700 |
| **MINORITY INTERESTS** | | **356,350,247** | 329,335,739 |
| **TOTAL SHAREHOLDERS' EQUITY** | | **1,121,881,502** | 1,065,398,439 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **2,481,733,912** | 2,532,360,260 |

The attached notes 1 to 13 form part of these unaudited interim consolidated financial statements.

## Saudi Industrial Services Company (A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

For the three-month and twelve-month periods ended 31 December 2012

| | Note | *For the three-month period ended 31 December* | | *For the twelve-month period ended 31 December* | |
|---|---|---|---|---|---|
| | | ***2012 (Unaudited) SR*** | *2011 (Unaudited) SR* | ***2012 (Unaudited) SR*** | *2011 (Audited) SR* |
| Sales and operating income | 7 | **123,035,219** | 112,111,526 | **475,224,292** | 398,252,304 |
| Cost of sales and operations | | **(59,844,595)** | (72,010,816) | **(257,892,993)** | (234,917,289) |
| **GROSS PROFIT** | | **63,190,624** | 40,100,710 | **217,331,299** | 163,335,015 |
| Selling and distribution expenses | | **(3,384,511)** | (3,343,042) | **(12,770,164)** | (11,074,592) |
| General and administration expenses | | **(27,801,764)** | (27,644,252) | **(93,199,934)** | (93,078,387) |
| **Net income from main operations** | | **32,004,349** | 9,113,416 | **111,361,201** | 59,182,036 |
| Financial charges | | **(10,266,019)** | (5,538,347) | **(33,496,277)** | (29,811,808) |
| Share of results from associates | | **(3,568,428)** | (1,062,819) | **(8,312,996)** | (615,895) |
| Other (loss) / income | 8 | **(1,235,046)** | 522,773 | **10,592,797** | 1,991,374 |
| **NET INCOME BEFORE ZAKAT AND MINORITY INTERESTS** | | **16,934,856** | 3,035,023 | **80,144,725** | 30,745,707 |
| Zakat | | **(1,127,706)** | (1,271,029) | **(6,546,131)** | (4,410,455) |
| **NET INCOME BEFORE MINORITY INTERESTS** | | **15,807,150** | 1,763,994 | **73,598,594** | 26,335,252 |
| Income attributable to minority interests | | **(7,606,973)** | (2,331,563) | **(36,027,036)** | (15,294,135) |
| **NET PROFIT / (LOSS) FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY** | | **8,200,177** | (567,569) | **37,571,558** | 11,041,117 |
| **Weighted average number of ordinary shares outstanding** | 5 | **68,000,000** | 68,000,000 | **68,000,000** | 68,000,000 |
| **Earning per share on net income from main operations (in SR per share)** | 9 | **0.47** | 0.13 | **1.64** | 0.87 |
| **Earning / (loss) per share on net income / (loss) for the period attributable to equity holders of the parent Company (in SR per share)** | 9 | **0.12** | (0.01) | **0.55** | 0.16 |

The attached notes 1 to 13 form part of these unaudited interim consolidated financial statements.

# Saudi Industrial Services Company (A Saudi Joint Stock Company)

## CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

For the twelve-month period ended 31 December 2012

| | Note | *For the twelve-month period ended 31 December 2012 (Unaudited) SR* | *For the year ended 31 December 2011 (Audited) SR* |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Net income for the period before zakat | | 80,144,725 | 30,745,707 |
| Adjustments for: | | | |
| Depreciation and amortization | | 95,782,760 | 96,645,863 |
| Amount of deferred charges | | 47,710 | 26,635 |
| Employees' end of service benefits provision | | 3,166,930 | 2,126,657 |
| Provision for project in progress | | - | 3,173,020 |
| Write back of provision no longer required | 8 | (10,000,000) | - |
| Share of results from associates | | 8,312,996 | 615,895 |
| Loss from sale of property, plant and equipment | | - | 52,929 |
| Financial charges | | 33,496,277 | 29,811,808 |
| Other long term obligations | | 18,639,595 | 7,732,502 |
| | | 229,590,993 | 170,931,016 |
| Changes in operating assets and liabilities: | | | |
| Accounts and other receivables | | (9,848,967) | 180,113 |
| Inventories | | (3,837,530) | (892,047) |
| Accounts payable and other accruals | | 966,232 | 32,822,706 |
| Cash from operating activities | | 216,870,728 | 203,041,788 |
| Zakat paid | | (5,438,727) | (4,818,755) |
| Employees' end of service benefits paid | | (594,904) | (678,214) |
| Financial charges paid | | (33,496,277) | (29,811,808) |
| Net cash from operating activities | | 177,340,820 | 167,733,011 |
| **INVESTING ACTIVITIES** | | | |
| Investments in associates | | (8,722,778) | (12,374,096) |
| Additions to property, plant, equipment and intangible assets | | (82,379,463) | (129,759,745) |
| Dividend from associate | | 2,450,000 | - |
| Proceeds from sale of property, plant and equipment | | - | 631,616 |
| Net cash used in investing activities | | (88,652,241) | (141,502,225) |
| **FINANCING ACTIVITIES** | | | |
| Net change in loans and bank facilities | | (135,875,544) | (24,731,692) |
| Net movement in minority interests | | (1,634,655) | (6,890,624) |
| Net cash used in financing activities | | (137,510,199) | (31,622,316) |
| **DECREASE IN BANK BALANCES AND CASH** | | (48,821,620) | (5,391,530) |
| Bank balance and cash at the beginning of the period | | 219,904,549 | 225,296,079 |
| **BANK BALANCES AND CASH AT THE END OF THE PERIOD** | | 171,082,929 | 219,904,549 |
| **NON CASH MAJOR TRANSACTIONS:** | | | |
| Change in fair value of derivative financial instrument | 3 | 13,371,293 | - |
| Movement in minority interests | | 2,109,583 | - |

The attached notes 1 to 13 form part of these unaudited interim consolidated financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

For the twelve-month period ended 31 December 2012

| | *Share capital SR* | *Share premium SR* | *Statutory reserve SR* | *Special reserve SR* | *Effect of reducing the ownership percentage in a subsidiary SR* | *Cash flow hedging reserve SR* | *Accumulated (losses) / Retained earnings SR* | *Equity attributable to equity holders of the parent SR* | *Minority interests SR* | *Total shareholders' equity SR* |
|---|---|---|---|---|---|---|---|---|---|---|
| Balance at 31 December 2010 (audited) | 680,000,000 | 36,409,063 | 3,250,885 | 1,615,899 | 4,653,218 | - | (907,482) | 725,021,583 | 320,932,228 | 1,045,953,811 |
| Net income for the year ended 31 December 2011 | - | - | - | - | - | - | 11,041,117 | 11,041,117 | 15,294,135 | 26,335,252 |
| Transfer to reserves | - | - | 1,013,363 | 506,682 | - | - | (1,520,045) | - | - | - |
| Net movement in minority interests | - | - | - | - | - | - | - | - | (6,890,624) | (6,890,624) |
| Balance at 31 December 2011 (audited) | 680,000,000 | 36,409,063 | 4,264,248 | 2,122,581 | 4,653,218 | - | 8,613,590 | 736,062,700 | 329,335,739 | 1,065,398,439 |
| Net income for the twelve-month period ended 31 December 2012 | - | - | - | - | - | - | 37,571,558 | 37,571,558 | 36,027,036 | 73,598,594 |
| Change in fair value of derivative financial instrument (note 3) | - | - | - | - | - | (8,103,003) | - | (8,103,003) | (5,268,290) | (13,371,293) |
| Transfer to reserves | - | - | 3,757,159 | 1,878,580 | - | - | (5,635,739) | - | - | - |
| Net movement in minority interests | - | - | - | - | - | - | - | - | (3,744,238) | (3,744,238) |
| **Balance at 31 December 2012 (Unaudited)** | **680,000,000** | **36,409,063** | **8,021,407** | **4,001,161** | **4,653,218** | **(8,103,003)** | **40,549,409** | **765,531,255** | **356,350,247** | **1,121,881,502** |

The attached notes 1 to 13 form part of these unaudited interim consolidated financial statements.

## 1 COMPANY ACTIVITIES

Saudi Industrial Services Company (the "Company" or the "parent company") is a joint stock company incorporated in accordance with Saudi Arabian Regulations for Companies under the Ministry of Commerce resolution No 223 of 7 Rabi Awwal 1409 H and registered under Commercial Registration No. 4030062502 of 10 Rabi Thani 1409 H (corresponding to 20 November 1988) to engage in maintenance, operations and management of factories, industrial facilities, construction of residential buildings and all related facilities like 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 currently is investment and management of subsidiaries. The head office of the Company is located in Jeddah.

The shareholders of the Company in their Extra Ordinary General meeting that held on 15 May 2012 (corresponding to 24 Jumad Thani 1433 H), approved to amend the Articles of Association to extend the life of the Company to 99 years from the date of ministerial resolution. The legal formalities in respect of extending the life of the Company to 99 years have been completed during the twelve-month period ended 31 December 2012.

## 2 BASIS OF PREPARATION

The interim consolidated financial statements have been prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia and Accounting Standard for interim financial information issued by Saudi Organization for Certified Public Accountants ("SOCPA").

The interim consolidated financial statements do not contain all information and disclosures required for full financial statements prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia. The interim consolidated financial statements are presented in Saudi Riyals, being the functional currency of the Company.

The results presented in the interim consolidated financial statements may not be an accurate indicator of the annual financial results of the Group.

**Basis of consolidation of the interim consolidated financial statements**

These interim consolidated financial statements include the financial statements of the Company and the following subsidiaries (hereinafter referred to as "Group"):

| Company | Country of incorporation | Effective shareholding *2012* | Effective shareholding *2011* | Principal activities |
|---|---|---|---|---|
| Saudi Trade and Export Development Company Limited ("Tusdeer") | Saudi Arabia | 76% | 76% | Management and operation of storage and Re-export Project situated on the land leased from Jeddah Islamic Port. |
| Kindasa Water Services Company Limited | Saudi Arabia | 60% | 60% | 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. |

## 2 BASIS OF PREPARATION (continued)

**Basis of consolidation of the interim consolidated financial statements (continued)**

| Company | Country of incorporation | Effective shareholding 2012 | Effective shareholding 2011 | Principal activities |
|---|---|---|---|---|
| Red Sea Gateway Terminal Company Limited | 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 | Saudi Arabia | **60.6%** | 60.6% | Development, construction, operation and maintenance of container terminals and excavation and back filling works. |

**Subsidiaries**
Subsidiaries are companies in which the Company has, directly or indirectly, a long term investment comprising an interest of more than 50% in the voting capital and / or over which it exerts control. Subsidiaries are consolidated from the date the Company obtains control until control ceases. Acquisitions of subsidiaries are accounted for using the purchase method of accounting. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The attributable equity interests of third parties in the Group are included under the 'minority interests' caption in these interim consolidated financial statements.

Unrealised gains and losses resulting from transactions between the Company and its subsidiaries are eliminated in full on consolidation.

## 3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted are as follows:

**Accounting convention**
The interim consolidated financial statements are prepared under the historical cost convention except for available for sale investments and derivative financial instruments which are measured at fair value.

**Use of estimates**
The preparation of interim consolidated financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the consolidated balance sheet date and the reported amounts of revenues and expenses during the reporting period.

**Cash and cash equivalents**
Cash and cash equivalents consist of bank balances, cash on hand and short-term deposits that are readily convertible into known amounts of cash and have an original maturity of three months or less when purchased.

**Sales and revenue recognition**
Sales are recognized when the goods are delivered. Lease revenue from leased spaces and warehouses is distributed over respective lease periods. Lease revenue relating to subsequent years is deferred and recognized in appropriate years.

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

**Expenses**
Selling and distribution expenses primarily comprise the cost incurred for distributing and selling of subsidiaries' goods. All other expenses, except cost of sales and operations, are classified as general and administration expenses.

## 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

**Inventories**
Inventories are stated at the lower of cost or market value. Cost is determined using weighted average cost method.

**Investment in associates**
The Company's investment in associates is accounted for under the equity method of accounting. This is an entity over which the Company exercises significant influence and which is neither a subsidiary nor a joint venture. Investment in an associate is carried in the consolidated balance sheet at cost, plus post-acquisition changes in the Company's share of net assets of the associate, less any impairment in value based on its latest financial statements at each reporting date. The consolidated statement of income reflects the Company's share of the results of its associates. Where there has been a change recognized directly in the equity of associate, the Group recognizes its share of any changes and discloses this when applicable in the consolidated statement of changes in shareholders' equity.

Unrealised gains and losses resulting from transactions between the Company and its associate are eliminated to the extent of the Company's interest in the associate.

Dividends are recorded when received and credited to the investment.

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

Fair value is determined by reference to the market value in the open market. Any decline in value of investments, considered by the management to be other than temporary, is charged to the consolidated statement of income. For investments which have no active market and there are other indicators through which the market value can be objectively determined, accordingly, these are non-instantly marketable securities. Thus, if the fair value is not available, the cost is considered to be the most appropriate objective and reliable measurement of the fair value of such investments.

**Goodwill**
Goodwill represents the increase in the cost of investment over the Company's share in the net fair value of investee's net assets, liabilities and contingencies as at acquisition date and is stated at cost as adjusted by the amount of impairment (if any). Goodwill is subsequently recognized at cost net of any accumulated impairment losses. The carrying value of goodwill is reviewed at each consolidated balance sheet date to determine whether any objective indicator of impairment exists unless an event or change in circumstances occurs during the year, indicative of an impairment of carrying value and thus requiring a valuation of goodwill during the year.

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

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

**Property, plant and equipment**
Free hold land is not depreciated. Property, plant and equipment and property and equipment of the quay project are stated at cost net of accumulated depreciation, and any impairment in value. Depreciation is calculated on the basis of estimated useful lives of property, plant and equipment using straight line method.

Property, plant and equipment of the bonded and re-export project are stated at cost net of accumulated depreciation and any impairment in value. The development cost of leasehold land and the buildings constructed thereon is amortized over the shorter of estimated useful life or remaining period of lease.

## 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

**Property, plant and equipment (continued)**
The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount being the higher of their fair value less costs to sell and their value in use.

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

**Intangible asset - quay project**

***Port concession rights***
The Group's port terminal operations are conducted pursuant to 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 and the prices charged, and also controls any significant residual interest in the infrastructure such as property and equipment if the infrastructure is existing infrastructure of the grantor or the infrastructure is constructed or purchased by the Group as part of the service concession arrangement.

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

The port concession rights include all costs incurred towards construction of the container terminal until commencement of operations. The port concession rights are assessed to have a finite useful life and are amortised over the useful lives of the assets from the date of commencement of operations.

***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 useful economic life on straight line basis.

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

**Capitalization of borrowing costs**
Borrowing costs that are directly attributable to the construction of an asset are capitalised up to stage when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed and, thereafter, such costs are charged to the consolidated statement of income.

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

**Employees' end of service benefits**
Provision is made for amounts payable under the Saudi Arabian labor law applicable to employees' accumulated periods of service at the consolidated balance sheet date.

## 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

For the purpose of hedge accounting, hedging instrument is classified as cash flow hedge. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity in hedging reserve, while any ineffective portion is recognised immediately in the consolidated statement of income in financing contract expenses.

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

**Impairment and uncollectibility of financial assets**
An assessment is made at each consolidated balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the consolidated statement of income. Impairment is determined as follows:

(a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the consolidated statement of income;
(b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;
(c) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

**Deferred charges**
Deferred charges primarily comprise pre-incorporation and pre-operation expenses incurred during pre-incorporation period and prior to commencement of commercial operation of the related project, net of non-operating revenue earned during incorporation period. Such expenses are amortised using straight line method over seven years.

**Zakat**
The Company and its subsidiaries are subject to the requirements of Saudi Arabian Zakat and Income Tax Department. Zakat provision is charged to the consolidated statement of income. Any differences between zakat provision and final assessment are recognized when the assessment is finalized.

**Foreign currencies**
Transactions in foreign currencies are recorded in Saudi Riyals at the rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate ruling at the consolidated balance sheet date. The resulting gains or losses are recognized in the consolidated statement of income.

**Segmental reporting**
A segment is a distinguishable component of the Group that is engaged either in providing products or services (a business segment) or in providing products or services within a particular economic environment (a geographic segment), which is subject to risks and rewards that are different from those of other segments. Because the Group carries out its activities entirely in the Kingdom of Saudi Arabia, segment reporting is provided by business segment only (see note 11).

## 4 INVESTMENTS

| | *31 December 2012 (Unaudited) SR* | *31 December 2011 (Audited) SR* |
|---|---|---|
| Available for sale investment – unquoted | **9,570,150** | 9,570,150 |
| Advance for purchase of investment (see note 'a' below) | **-** | 9,375,000 |
| Investment in associates (see note 'b' below) | **69,563,849** | 62,229,067 |
| | **79,133,999** | 81,174,217 |

a) The amount represented advance paid by one of the subsidiaries to acquire 25% ownership interest in Xenmet SA, Vaduz. During the twelve-month period ended 31 December 2012, the legal formalities in respect of acquisition of ownership interest were completed during 2012 and therefore, the amount paid has been classified as investment in associate (see note '(b - ii)' below).

b) As at 31 December, the investment in associates comprises the following:

| *Associates* | *Principal activity* | *Shareholding* % | *31 December 2012 (Unaudited) SR* | *31 December 2011 (Audited) SR* |
|---|---|---|---|---|
| - International Water Distribution Company Limited | Water/waste water works, water treatment and lease of water equipment | 50% | **26,979,657** | 28,004,943 |
| - Saudi Water and Environmental Services Company (see note 'i' below) | Electrical, water and mechanical works and operation and maintenance | Indirect ownership | **20,320,092** | 22,196,420 |
| - Al Jabr Talke Company Limited | Contracting, construction, operation and maintenance o factories and warehouses | 33.33% | **13,634,540** | 12,027,704 |
| - Xenmet SA, Vaduz (see note 'ii' above) | Trading, storage and brokerage of commodities | Indirect ownership | **8,629,560** | - |
| | | | **69,563,849** | 62,229,067 |

i. Saudi Water and Environment Services Company is 49% (31 December 2011: 49%) owned by Kindasa Water Service Company (subsidiary), which is 60% owned by the Company (31 December 2011: 60%).

ii. Xenmet SA, Vaduz is 25% (31 December 2011: Nil) owned by Saudi Trade and Export Development Company Limited, which is 76% owned by the Company (31 December 2011: 76%).

## 5 SHARE CAPITAL

Share capital is divided into 68 million shares (31 December 2011: 68 million shares) of SR 10 each.

## 6 GOODWILL

| | *31 December 2012 (Unaudited) SR* | *31 December 2011 (Audited) SR* |
|---|---|---|
| Goodwill arose on acquisition of: | | |
| - Kindasa Water Services Company – subsidiary | **8,776,760** | 8,776,760 |
| - Al Jabr Talke Company Limited – associate | **3,619,891** | 3,619,891 |
| | **12,396,651** | 12,396,651 |

## 7 SALES AND OPERATING INCOME

| | *For the three-month period ended 31 December* | | *For the twelve-month period ended 31 December* | |
|---|---|---|---|---|
| | *2012 (Unaudited) SR* | *2011 (Unaudited) SR* | *2012 (Unaudited) SR* | *2011 (Audited) SR* |
| Total nominal construction revenue from BOT project | - | 4,997,804 | - | 48,574,050 |
| Total construction cost for BOT project | - | (4,997,804) | - | (48,574,050) |
| Selling of potable water revenue | **16,376,524** | 18,915,838 | **67,515,095** | 73,920,545 |
| Selling of fuel and transport and support services revenue | **6,804,556** | 10,427,840 | **37,195,009** | 39,778,065 |
| Shipping and unloading services revenue | **81,326,338** | 70,477,303 | **305,455,453** | 239,759,623 |
| Rent services revenue | **18,527,801** | 12,290,545 | **65,058,735** | 44,794,071 |
| **Total** | **123,035,219** | 112,111,526 | **475,224,292** | 398,252,304 |

Red Sea Gateway Terminal Company Limited, a subsidiary, entered into a Build-Operate-Transfer ("BOT") concession service agreement with Saudi Arabian Sea Ports Authority.

In accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia, in such agreement, the Group should recognize during construction period notional construction revenue and corresponding construction costs incurred up to date on percentage of completion basis. Also, the construction costs for capital assets are required to be shown as intangible assets. The Group's management has not recognized any construction costs and notional construction revenue during the twelve month period ended 31 December 2012, as the project was completed during the year ended 31 December 2011. The Group's management recognized total construction costs and notional construction revenue of SR 48,574,050 during the twelve-month period ended 31 December 2011. Amortization charge is allocated over the useful life of the intangible assets.

The construction revenue represented the fair value of the construction services provided in developing the container terminal. No margin was recognized during the twelve month period ended 31 December 2011, as management believed that the fair value of the construction services provided approximated to the construction cost.

## 8 OTHER (LOSS) / INCOME

| | *For the three-month period ended 31 December* | | *For the twelve-month period ended 31 December* | |
|---|---|---|---|---|
| | ***2012 (Unaudited) SR*** | *2011 (Unaudited) SR* | ***2012 (Unaudited) SR*** | *2011 (Audited) SR* |
| Reversal of accruals no longer required (see note below) | **-** | - | **10,000,000** | - |
| Other | **(1,235,046)** | 522,773 | **592,797** | 1,991,374 |
| **Total** | **(1,235,046)** | 522,773 | **10,592,797** | 1,991,374 |

This represents the reversal of accrual in respect of a claim from a contractor which is no longer required to be paid, based on the final settlement with the contractor.

## 9 (LOSS) / EARNINGS PER SHARE

Earnings per share on net income from main operations is calculated by dividing net income from main operations by weighted number of shares in issue during the period.

(Loss) / earnings per share on net (loss) / income for the period attributable to equity holders of the Company is calculated by dividing the net income for the period by the weighted number of shares in issue during the period.

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

## 10 COMMITMENTS AND CONTINGENCIES

The Department of Zakat and Income Tax ("DZIT") has raised assessments for the years 2002 to 2008 with additional liability of SR 25.8 million. The Company has appealed against this assessment and the Preliminary Appeal Committee ("PAC") rendered its decision on the company's appeal reducing the assessed liability to SR 3.9 million. The company has paid the additional liability of SR 3.9 million under protest and filed an appeal with the Higher Appeal Committee ("HAC") with respect to the additional amount. Moreover, the DZIT raised initial assessments for the years ended 31 December 2010 and 2011 with additional liability of SR 1 million. The company has filed appeals against the DZIT's initial assessments.

The Group's bankers have issued letters of guarantee amounting to SR 35.5 million on which cash margin of SR 11.5 million was paid (31 December 2011: SR 25 million on which cash margin of SR 7.5 million was paid).

At 31 December 2012, outstanding letters of credit issued by Group's bankers amounts to SR 0.2 million on which cash margin of SR 0.2 million is paid (31 December 2011: SR 16.93 million on which cash margin of SR 1.3 million was paid).

As at 31 December 2012, the Group has commitments for capital work in progress amounting to SR 54 million (31 December 2011: SR 24 million).

## 11 BUSINESS SEGMENTS

The Company and its subsidiaries consist of the following main business segments:

- Fuel station and maintenance
- Quay project
- Ports development
- Sea water desalination
- Storage and re-export
- Main office: Consists of operation activities and investment activities.

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

Following are the assets, liabilities, sales and result of such segments for the twelve month period ended 31 December:

| | *Fuel stations and maintenance SR'000* | *Port development and quay SR'000* | *Desalination SR'000* | *Storage and re-export SR'000* | *Main office SR'000* | *Total SR'000* |
|---|---|---|---|---|---|---|
| ***2012 (Unaudited)*** | | | | | | |
| **Assets** | **23,930** | **1,749,963** | **286,362** | **224,616** | **196,863** | **2,481,734** |
| **Liabilities** | **2,831** | **1,232,973** | **55,906** | **26,396** | **41,746** | **1,359,852** |
| **Sales and operating income** | **37,195** | **305,455** | **67,515** | **65,059** | **-** | **475,224** |
| **Net income/(loss) before minority interests** | **(238)** | **55,314** | **17,563** | **31,289** | **(30,329)** | **73,599** |
| **Net income/(loss)** | **(238)** | **34,847** | **10,706** | **22,585** | **(30,329)** | **37,571** |
| *2011 (Audited)* | | | | | | |
| Assets | 24,755 | 1,812,594 | 286,059 | 200,325 | 208,627 | 2,532,360 |
| Liabilities | 3,335 | 1,350,793 | 65,981 | 24,136 | 22,717 | 1,466,962 |
| Sales and operating income | 39,778 | 239,759 | 73,921 | 44,794 | - | 398,252 |
| Net income/(loss) before minority interests | 2,014 | 8,728 | 23,193 | 11,979 | (19,579) | 26,335 |
| Net income/(loss) | 2,013 | 5,499 | 14,128 | 8,980 | (19,579) | 11,041 |

The Group operates mainly in Kingdom of Saudi Arabia.

## 12 COMPARATIVE FIGURES

Certain of the prior period amounts have been reclassified to conform with the presentation in the current period.

## 13 APPROVAL OF FINANCIAL STATEMENTS

The unaudited interim consolidated financial statements were approved by the Board of Directors on 16 January 2013 (corresponding to 4 Rabi Awal 1434 H).