

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

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

SAUDI INDUSTRIAL SERVICES COMPANY
(A SAUDI JOINT STOCK COMPANY)
CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2020

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**INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF SAUDI INDUSTRIAL SERVICES COMPANY
(A SAUDI JOINT STOCK COMPANY)**

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Saudi Industrial Services Company (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants ("SOCPA").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *"Auditors' Responsibilities for the Audit of the Consolidated Financial Statements"* section of our report. We are independent of the Group in accordance with professional code of conduct and ethics endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each key audit matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

**INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF SAUDI INDUSTRIAL SERVICES COMPANY
(A SAUDI JOINT STOCK COMPANY) (continued)**

Report on the Audit of the Consolidated Financial Statements (continued)

Key audit matter	How our audit addressed the key audit matter
<p>New Concession Agreement</p> <p>Effective from 1 April 2020 (the Effective date), the Group entered into a New Concession Agreement with Saudi Sea Ports Authority ("SPA" or "MAWANI") to manage the North Container Terminal at Jeddah Islamic Port for a period of 30 years from the Effective date, under Built-Operate-Transfer (BOT) arrangement. This agreement also covers currently managed port terminal which the Group has been managing under BOT agreement with MAWANI. The Group applied significant judgement, including use of external accounting advise, in the determination of appropriate accounting treatment arising from the New concession agreement. The judgment includes:</p> <ul style="list-style-type: none"> • Interpretation and assessment of the key clauses of the New Concession Agreement, consistent with the BOT Agreement, to ensure that it meets the requirements of "intangible asset" model under IFRIC 12 – Service Concession Arrangements with no derecognition of previously recorded intangible asset. • assessment of fixed and variable payments for the recognition of financial liability with corresponding recognition of intangible asset arising from the fee of fixed in nature, payable to MAWANI over the life of the New Concession Agreement. • determination of amount of the Group's provision required under the BOT Agreement for its obligation to maintain and replace certain equipment ("the Equipment"). <p>Given the significance of the New Concession Agreement and that management applied significant judgments to determine the value of the intangible asset and corresponding financial liability, for concession arrangement and related other accounting implications, we considered this area as a key audit matter.</p> <p>Refer to Note 3 for the summary of accounting and financial reporting matters, significant judgments in note 2.4, accounting policy in note 4.5 and related disclosures in note 8.2 and 36.</p>	<p>In order to evaluate management's interpretation and assessment of the New Concession Agreement and its impact on the consolidated financial statement, we:</p> <ul style="list-style-type: none"> • obtained the management's interpretation and assessment of the key clauses of the New Concession Agreement and its potential impact on the consolidated financial statements considering IFRSs requirements. • analysed and discussed with management, the key terms of the New Concession Agreement. • wherever required, involved our subject matter specialists to assess and conclude on the requirements of IFRSs, including the review of external accounting advise. • assessed that the Group's accounting policies are appropriately applied. <p>With respect to continuation of the application of IFRIC 12 and other significant accounting and reporting matters, we</p> <ul style="list-style-type: none"> • evaluated the terms and conditions of the future fee payable over the life of the New Concession Agreement to MAWANI including whether or not the fee payable is fixed or variable in nature. • Involved subject matter expert to review and assess the appropriateness of the discount rate and assessed the present value of the financial liability and corresponding intangible asset. • Discussed and assessed the overall approach by management to develop the Equipment replacement plan over the life of the New Concession Agreement and its impact on the reasonableness of provisions at the reporting date. <p>We also assessed the appropriateness of the related disclosures in the consolidated financial statements.</p>

**INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF SAUDI INDUSTRIAL SERVICES COMPANY
(A SAUDI JOINT STOCK COMPANY) (continued)**

Report on the Audit of the Consolidated Financial Statements (continued)

Key audit matter	How our audit addressed the key audit matter
<p><i>Impairment assessment of intangible assets and property, plant and equipment</i></p> <p>At 31 December 2020, the carrying value of the Group's intangible assets amounted to SR 3,141.6 million (2019: SR 1,070.4 million) and its property, plant and equipment including capital work in progress, amounted to SR 386.4 million (2019: SR 874.4 million). Intangible assets mainly comprise of port concession rights as well as terminal assets resulting from concession arrangements with MAWANI. The Group's property, plant and equipment primarily comprise of desalination plants, and other moveable and immoveable assets.</p> <p>For impairment assessment, the Group grouped combined the intangible assets and property, plant and equipment as smallest group of assets that generates cash flow from continuing use (cash generating unit or CGU) that are largely independent of cash flows of other assets or other CGUs. The present value of estimated cash flows from CGUs (recoverable amount) are then compared with the carrying values to arrive at an impairment amount.</p> <p>The Group's assessment of the recoverable amount of CGU involves use of significant judgement. This involves use of modelling techniques and requires a significant amount of judgement and estimation uncertainty. It also requires estimates of future cash flows and associated discount and growth rates based on management's view of future business prospects at the time of assessment.</p> <p>We considered impairment assessment of intangible assets and property plant and equipment as a key audit matter due to involvement of significant judgements and estimation uncertainty.</p> <p><i>Refer to notes 4.4 and 4.5 for the accounting policy relating to property, plant and equipment and intangible assets, respectively, significant judgements in 2.4 and related disclosure in notes 6 and 7.</i></p>	<p>In order to evaluate management's assessment of impairment estimate of the CGU, we performed, among other audit procedures, the following:</p> <ul style="list-style-type: none"> discussed with the management the overall process and key inputs of the impairment estimation. evaluating and testing the assumptions, methodologies, CGU determination, the discount rates and other data used by the Group. evaluating the financial forecast, the methodology of the financial forecast preparation process and the reasonability of the forecasts at the level of individual entities as well as at the Group level. evaluated with the help of subject matter expert, management's outlook in the explicit period as well as the long term growth rate, in particular around forecasted revenues, earnings and capital expenditures assessed whether the CGU structure is aligned with the organizational structure; <p>We also assessed the appropriateness of the related disclosures in the consolidated financial statements.</p>

**INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF SAUDI INDUSTRIAL SERVICES COMPANY
(A SAUDI JOINT STOCK COMPANY) (continued)**

Report on the Audit of the Consolidated Financial Statements (continued)

Other information included in the Group's 2020 annual report

Other information consists of the information included in the Group's 2020 annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information in its annual report. The Group's 2020 annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

When we read the Group's 2020 annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the SOCPA and the provisions of Companies' Law and the Company's By-laws, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs that are endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

**INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF SAUDI INDUSTRIAL SERVICES COMPANY
(A SAUDI JOINT STOCK COMPANY) (continued)**

Report on the Audit of the Consolidated Financial Statements (continued)

Auditors' responsibilities for the audit of the consolidated financial statements (continued)

As part of an audit in accordance with ISAs that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial

statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

**INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF SAUDI INDUSTRIAL SERVICES COMPANY
(A SAUDI JOINT STOCK COMPANY) (continued)**

Report on the Audit of the Consolidated Financial Statements (continued)

Auditors' responsibilities for the audit of the consolidated financial statements (continued)

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

for Ernst & Young



Ahmed I.Redha
Certified Public Accountant
Licence No. 356

20 Rajab 1442H
4 March 2021G

Jeddah

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SAUDI INDUSTRIAL SERVICES COMPANY
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
For the year ended 31 December 2020

		31 December 2020	31 December 2019
	Notes	SR	SR
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	7	268,481,533	766,963,479
Capital work in progress	7.5	117,954,228	107,456,458
Intangible assets	8	3,141,574,145	1,070,384,638
Right of use assets	23	86,918,253	241,825,240
Investment properties	9	128,000,604	133,781,349
Investment in associates	10	136,922,460	132,421,768
Financial assets carried at FVOCI	11	14,972,714	15,538,283
Goodwill	12	8,776,760	8,776,760
Deferred tax asset	29	2,401,519	4,407,665
TOTAL NON-CURRENT ASSETS		3,906,002,216	2,481,555,640
CURRENT ASSETS			
Inventories, net	13	19,627,992	18,171,701
Trade receivables, prepayments and other receivables	14	132,706,458	100,088,944
Cash and cash equivalents	15	336,533,927	295,100,801
Due from related parties	31	12,283,133	11,185,041
TOTAL CURRENT ASSETS		501,151,510	424,546,487
TOTAL ASSETS		4,407,153,726	2,906,102,127
EQUITY AND LIABILITIES			
EQUITY			
Share capital	16	816,000,000	816,000,000
Share premium		36,409,063	36,409,063
Statutory reserve	17	90,324,076	76,382,784
Other components of equity		(16,481,536)	(9,516,848)
Retained earnings		248,329,774	171,818,142
Equity attributable to the shareholders' of the Parent		1,174,581,377	1,091,093,141
Non-controlling interests		534,995,715	499,942,039
TOTAL EQUITY		1,709,577,092	1,591,035,180
NON-CURRENT LIABILITIES			
Obligation under service concession arrangement	36	1,355,424,493	-
Long term loans and bank facilities	18	665,662,576	540,389,501
Employees' end-of-service benefits	19	48,126,455	39,470,059
Long term provisions	20	1,984,224	74,537,556
Derivative financial instrument	21	14,060,566	13,103,655
Lease liability	23	84,597,772	217,085,900
TOTAL NON- CURRENT LIABILITIES		2,169,856,086	884,586,671
CURRENT LIABILITIES			
Obligation under service concession arrangement	36	190,530,528	-
Current portion of long term loans	18	70,670,666	240,711,549
Trade payables, accrued and other current liabilities	22	259,448,794	158,857,771
Lease liabilities	23	7,033,955	29,930,538
Due to related parties	31	36,605	980,418
TOTAL CURRENT LIABILITIES		527,720,548	430,480,276
TOTAL LIABILITIES		2,697,576,634	1,315,066,947
TOTAL EQUITY AND LIABILITIES		4,407,153,726	2,906,102,127

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.

SAUDI INDUSTRIAL SERVICES COMPANY
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2020

	Notes	2020 SR	2019 SR
Revenues	24	861,631,306	675,883,929
Construction revenue	37	159,233,442	-
Total revenue		1,020,864,748	675,883,929
Direct costs	25	(437,891,731)	(415,577,044)
Cost of construction	37	(159,233,442)	-
Total cost		(597,125,173)	(415,577,044)
GROSS PROFIT		423,739,575	260,306,885
OPERATING EXPENSES			
Selling and distribution expenses	26	(20,825,318)	(32,862,592)
General and administrative expenses	27	(146,671,759)	(134,036,372)
TOTAL OPERATING EXPENSES		(167,497,077)	(166,898,964)
OPERATING INCOME		256,242,498	93,407,921
Finance costs, net	39	(133,480,825)	(45,895,217)
Other income	28	88,727,888	8,986,729
Share in results from equity accounted associates, net	10	21,609,171	27,372,268
PROFIT BEFORE ZAKAT AND INCOME TAX		233,098,732	83,871,701
Zakat and income tax	29	(16,429,831)	(5,992,979)
NET PROFIT FOR THE YEAR		216,668,901	77,878,722
ATTRIBUTABLE TO:			
Shareholders' of the parent company		139,412,924	50,922,990
Non-controlling interests		77,255,977	26,955,732
		216,668,901	77,878,722
EARNINGS PER SHARE			
Basic and diluted earnings per share from net profit for the year attributable to the Shareholders' of the Parent	30	1.71	0.62

SAUDI INDUSTRIAL SERVICES COMPANY
(A Saudi Joint Stock Company)

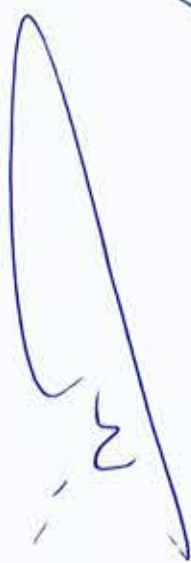

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2020

	Notes	2020 SR	2019 SR
NET PROFIT FOR THE YEAR		216,668,901	77,878,722
OTHER COMPREHENSIVE INCOME			
<i>Items that will not be reclassified to profit or loss</i>			
Loss from re-measurement of employees' end-of-service benefits, net	19	(5,864,921)	(8,847,677)
Net change in fair value of financial assets at FVOCI	11	(565,569)	(2,361,614)
Share of actuarial losses of equity accounted associates	10	(2,082,512)	(1,796,618)
<i>Items that are or may be reclassified subsequently to profit or loss</i>			
Cash flow hedges – effective portion of changes in fair value	21	(956,911)	(8,565,681)
OTHER COMPREHENSIVE LOSS		(9,469,913)	(21,571,590)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		207,198,988	56,307,132
ATTRIBUTABLE TO:			
Shareholders' of the parent company		132,448,236	35,498,811
Non-controlling interests		74,750,752	20,808,321
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		207,198,988	56,307,132

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.

SAUDI INDUSTRIAL SERVICES COMPANY
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2020

Equity attributable to the shareholders' of the Parent											
-----Other components of equity-----											
	Share Capital SR	Share Premium SR	Statutory Reserve SR	Effect of changes in shareholding percentage in subsidiaries SR	Actuarial valuation reserves SR	Cash flow hedging reserve SR	Fair value reserve on financial assets at FVOCI SR	Retained Earnings SR	Total SR	Non - controlling interests SR	Total Equity SR
Balance at 1 January 2020	816,000,000	36,409,063	76,382,784	1,133,474	(8,677,640)	(7,940,815)	5,968,133	171,818,142	1,091,093,141	499,942,039	1,591,035,180
Profit for the year	-	-	-	-	-	-	-	139,412,924	139,412,924	77,255,977	216,668,901
Other comprehensive income	-	-	-	-	(5,819,231)	(579,888)	(565,569)	-	(6,964,688)	(2,505,225)	(9,469,913)
Total comprehensive income	-	-	-	-	(5,819,231)	(579,888)	(565,569)	139,412,924	132,448,236	74,750,752	207,198,988
Transfer to statutory reserve	-	-	13,941,292	-	-	-	-	(13,941,292)	-	-	-
Dividends paid (note 16)	-	-	-	-	-	-	-	(48,960,000)	(48,960,000)	(39,578,599)	(88,538,599)
Net movement in non-controlling interest	-	-	-	-	-	-	-	-	-	(118,477)	(118,477)
Balance at 31 December 2020	816,000,000	36,409,063	90,324,076	1,133,474	(14,496,871)	(8,520,703)	5,402,564	248,329,774	1,174,581,377	534,995,715	1,709,577,092

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the year ended 31 December 2020

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The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.

SAUDI INDUSTRIAL SERVICES COMPANY
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF CASH FLOW
For the year ended 31 December 2020

	Notes	2020 SR	2019 SR
OPERATING ACTIVITIES			
Profit for the year before zakat and income tax		233,098,732	83,871,701
Adjustments for:			
Depreciation and amortization	7, 8 & 9	156,626,110	149,506,113
Depreciation of right of use assets		7,218,597	8,437,952
Provision for employees' end-of-service benefits	19	7,237,006	5,381,511
Loss on disposal of property, plant and equipment	28	3,498,773	47,709
Share of results from equity accounted associates, net	10	(21,609,171)	(27,372,268)
Impairment allowance	34	1,047,551	15,849,444
Capital work in progress written-off	7	1,219,418	2,013,709
Amortization of deferred revenue		63,425	(16,363)
Provision for dismantling cost	20	79,185	79,185
Amortization of advance rentals		7,549,298	5,056,341
Allowance for slow moving and obsolete inventories		3,660,891	2,675,448
Provision for asset replacement cost		-	11,851,373
Reversal of provision for asset replacement costs	28	(75,165,206)	-
Financial charges		133,480,825	47,726,965
		<u>458,005,434</u>	<u>305,108,820</u>
Changes in operating assets and liabilities			
Trade receivables, prepayments and other receivables		(34,763,157)	(12,682,735)
Inventories		(5,117,182)	455,506
Trade payables, accrued and other current liabilities		(19,075,572)	17,874,314
Cash from operating activities		<u>399,049,523</u>	<u>310,755,905</u>
Finance costs paid		(28,162,044)	(41,550,833)
Employees' end-of-service benefits paid	19	(4,445,531)	(1,974,846)
Zakat and income tax paid	29	(10,535,130)	(6,110,197)
Net cash from operating activities		<u>355,906,818</u>	<u>261,120,029</u>
INVESTING ACTIVITIES			
Dividends received from equity accounted associates	10	15,025,967	14,268,855
Purchase of intangibles, property, plant and equipment	7, 8 & 9	(206,471,507)	(38,046,060)
Additions to right of use assets		(3,600,000)	-
Proceeds from disposal of property, plant and equipment		351,288	51,551
Net cash used in investing activities		<u>(194,694,252)</u>	<u>(23,725,654)</u>
FINANCING ACTIVITIES			
Long term loans and bank facilities paid, net		(21,956,898)	(81,452,383)
Dividend paid	16	(48,960,000)	(32,640,000)
Dividends paid to non-controlling interests by subsidiaries		(39,578,599)	(4,200,000)
Payment of lease liability		(9,402,420)	(4,720,647)
Net movement in non-controlling interests		118,477	135,273
Net cash used in financing activities		<u>(119,779,440)</u>	<u>(122,877,757)</u>
Net increase in cash and cash equivalents		<u>41,433,126</u>	<u>114,516,618</u>
Cash and cash equivalents at the beginning of the year	15	<u>295,100,801</u>	<u>180,584,183</u>
Cash and cash equivalents at the end of the year	15	<u>336,533,927</u>	<u>295,100,801</u>

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.

SAUDI INDUSTRIAL SERVICES COMPANY (A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

At 31 December 2020

SUPPLEMENTARY NON CASH INFORMATION

		<i>31 December</i>	<i>31 December</i>
		<i>2020</i>	<i>2019</i>
	<i>Note</i>	<i>SR</i>	<i>SR</i>
Cash flow hedges – effective portion of change in fair value	21	(956,911)	(8,565,681)
Obligation under service concession arrangement	36	1,546,967,635	-
Transfer of assets from property plant and equipment to intangibles	7.3	489,210,493	-
Modification of lease contracts	23	(146,694,649)	(134,568)
Re-measurement of employees' end-of-service benefits liability	19	5,864,921	8,847,677
Modification gain on loan arrangement	18	(31,959,301)	-
Transfers from intangible assets to Right of use assets	23	-	(26,162,609)
Right of use assets from lease liability and prepayments	23	-	(230,459,708)
Deferred tax	29	(2,006,146)	4,407,665

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.




1 ORGANIZATION AND ACTIVITIES

Saudi Industrial Services Company (“the Company” or “the Parent Company” or “SISCO”) is a joint stock company incorporated in accordance with Saudi Arabian Regulations for Companies under the Ministry of Commerce Resolution No. 223 of 7 Rabi Al Awal 1409 H (corresponding to 18 October 1988) and registered under Commercial Registration No. 4030062502 dated 10 Rabi Al Thani 1409H (corresponding to 20 November 1988) to engage in 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 Parent 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 consolidated financial statements include assets, liabilities and the results of the operations of the Parent Company and its following subsidiaries collectively referred to as “the Group”:

Company	Country of incorporation	Effective shareholding		Principal activities
		2020	2019	
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 Company Limited (“ISNAD”)	Saudi Arabia	99.28%	99.28%	Development and operation of industrial zones, construction and operation of restaurants, catering and entertainment centers, construction of gas stations, auto servicing and maintenance workshops, and purchase of land for the construction of building thereon and investing the same through sale or lease.
Red Sea Gateway Terminal Company Limited (“RSGT”)	Saudi Arabia	60.6%	60.6%	Development, construction, operation and maintenance of container terminals and excavation and back filling works.
Red Sea Port Development Company – Closed Joint Stock Company (“RSPD”)	Saudi Arabia	60.6%	60.6%	Development, construction, operation and maintenance of container terminals and excavation and back filling works.

Subsequent to the year end, SISCO and its subsidiary TUSDEER agreed to sell their 21.2% and 4% equity stake, respectively, in RSGT to potential investors with whom the share purchase agreements have been signed. The sale is expected to complete in fiscal year 2021, subject to meeting certain conditions precedent.

2 BASIS OF PREPARATION**2.1 Statement of compliance**

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards “IFRS” that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants (“SOCPA”).

2 BASIS OF PREPARATION (continued)

2.2 Basis of measurement

These consolidated financial statements have been prepared under the historical cost basis, except for financial assets at fair value through other comprehensive income (FVOCI) and derivative financial instruments which are carried at their fair values.

2.3 Functional and presentation currency

The consolidated financial statements are presented in Saudi Arabian Riyals (SR), which is the functional and presentation currency of the Group.

2.4 Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

- Decision related to control over investee (note 4.1)
- Classification of investment property (note 4.6)
- Lease classification (note 4.7)
- Provisions (4.12)

Volume rebate

Certain contracts for the provision of services include volume rebates that give rise to variable consideration. In estimating the variable consideration, the Group is required to use either the expected value method or the most likely amount method based on which method better predicts the amount of consideration to which it will be entitled.

The Group determined that the most likely amount method is the appropriate method to use in estimating the variable consideration for the provision of services with volume rebate as the selected method better predicts the amount of variable consideration driven by customers' rebate entitlement based on volume thresholds.

Before including any amount of variable consideration in the transaction price, the Group considers whether the amount of variable consideration is constrained. The Group determined that the estimates of variable consideration are not constrained based on its historical experience, business forecast and the current economic conditions. In addition, the uncertainty, if any, on the variable consideration will be resolved within a short time frame.

Going concern

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

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur. Information about the assumptions and estimation uncertainties is included in the following areas:

Useful lives and residual value of property, plant and equipment

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

2 BASIS OF PREPARATION (continued)**2.4 Significant accounting judgements estimates and assumptions (continued)*****Allowance for inventory losses***

The Group recognizes an allowance for inventory losses due to factors such as obsolescence, technical faults, physical damage etc. The estimation of such losses includes the consideration of factors including but not limited to introduction of new models or technology by the specific manufacturer and both existing and emerging market conditions.

Provision for expected credit losses (ECL) of trade receivables

The Group uses a provision matrix to calculate ECL for trade receivables. The provision matrix is initially based on the Group's historical observed default rates. The Group calibrates the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECL is a significant estimate. The amount of ECL is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customers' actual default in the future. The information about the ECL on the Group's trade receivables is disclosed in note 34.

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 3 (c).

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

Defined benefit plan

The cost of the defined benefit plan and the present value of the obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and employee turnover rate. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers the market yield on high quality Corporate/Government bonds. The mortality rate is based on publicly available mortality tables for the country. Those mortality tables tend to change only at intervals in response to demographic changes. Future salary increases are based on expected future inflation rates for the country. Further details about employee benefits obligations are provided in note 19.

Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the DCF model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments. Contingent consideration, resulting from business combinations, is valued at fair value at the acquisition date as part of the business combination. When the contingent consideration meets the definition of a financial liability, it is subsequently re-measured to fair value at each reporting date. The determination of the fair value is based on discounted cash flows. The key assumptions take into consideration the probability of meeting each performance target and the discount factor.

Provisions

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.

2 BASIS OF PREPARATION (continued)**2.4 Significant accounting judgements estimates and assumptions (continued)*****Discount rate for present value calculations***

Discount rates represent the current market assessment of the risks specific to the entity, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the entity and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the entity's investors. The cost of debt is based on the interest-bearing borrowings the entity is obliged to service. Adjustments to the discount rate are made to factor in the specific amount and timing of the future tax flows in order to reflect a pre-tax/zakat discount rate.

Impact of COVID-19

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout the globe including Saudi Arabia. During the year ended 31 December 2020, the Saudi Arabian government rightly took many initiatives to contain the spread of virus, which included restrictions on travel, gathering of people and enactment of curfew timings. This resulted in many non-essential businesses to curtail or suspend activities until further notice. Considering these factors, the Group's management carried out an impact assessment on the overall Group's operations and business aspects and concluded that, as at the issuance date of these financial statements, the Group did not have significant impact on its operations and businesses due to COVID-19 pandemic and no significant changes are required to the judgements, assumptions and key estimates.

The activities of the Group were not significantly impacted by the restrictions imposed on account of COVID-19.

The operational and financial impacts of the COVID-19 pandemic to date have been reflected in these financial statements. The strong financial position, including access to funds, nature of activities coupled with the actions taken by the Group to date and the continued activity at the terminal ensures that the Group has the capacity to continue through the challenges caused by impacts of the COVID-19 pandemic. However, in view of the current uncertainty, any future change in the assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future periods. As the situation is rapidly evolving with future uncertainties, management will continue to assess the impact based on prospective developments.

3 NEW CONCESSION AGREEMENT

Saudi Trade and Export Development Company, a subsidiary of the Group, had entered into a Build-Operate-Transfer (the "BOT" or the "agreement") agreement with Saudi Arabian Seaports Authority ("MAWANI" or the "grantor") for the construction of a container terminal at the Re-export Zone of Jeddah Islamic Port. The agreement was, subsequently, novated by Saudi Trade and Export Development Company to RSGT (another subsidiary of the Group), effective from 22 Shawal 1428H (corresponding to 3 November 2007). The period of the Agreement originally was 32 years.

However, on 23 December 2019, RSGT (a subsidiary of the Company), entered into a New Concession Agreement (the New Concession Agreement) with MAWANI whereby RSGT has acquired rights to operate North Container Terminal in addition to the terminal operated under the BOT agreement, effective from 1 April 2020 (the effective date) for a period of 30 years from the effective date. On the basis that the new concession falls under IFRIC 12 intangible asset model, then the existing rights to operate the terminal operated under the BOT agreement shall still represent an intangible asset under the new agreement with no derecognition of existing intangible assets.

Summary of changes due to application of New Concession Agreement

Service concession arrangements, where: (a) the grantor controls or regulates what services the entities in the Group can provide with the infrastructure, to whom it can provide them, and at what price; and (b) the grantor controls (through ownership, beneficial entitlement or otherwise) any significant residual interest in the infrastructure at the end of the term of the arrangement. The Group is required to pay various fees under New Concession Agreement and is accounted for under *IFRIC 12 - Service Concession Arrangements*. Out of the total fee, the fixed and guaranteed variable fee, the deferment of which is beyond the Group's control, are classified as "Intangible assets".

3 NEW CONCESSION AGREEMENT (continued)**Summary of changes due to application of New Concession Agreement (continued)**

Such intangible assets are initially measured at the fair value of the fixed and guaranteed variable fee to be paid to the grantor and a corresponding financial liability is recorded in accordance with IFRS 9 "Financial instruments". The cost of intangible assets includes the present value of the fixed and guaranteed variable fee (as defined in the New Concession Agreement) payable to the grantor over the terms of the agreement. All other variable fee is charged to interim condensed consolidated statement of profit or loss as and when incurred.

Subsequently, these intangible assets are carried at cost less accumulated amortization and any impairment in value. Subsequent expenditures or replacement of parts of it are normally recognized in the interim condensed consolidated statement of profit or loss as these are incurred to maintain the expected future economic benefits embodied in the concession rights. Expenditures that will contribute to the increase in revenue from operations are recognized as an intangible asset. Amortization is computed using the expected pattern of the usage of the underlying intangible assets over life of the New Concession Agreement. In addition, the Intangible is assessed annually for impairment or whenever there is an indication that the asset may be impaired.

The concession right is derecognized on disposal or when no future economic benefits are expected from its use or disposal. Gain or loss from derecognition of the port concession right is measured as the difference between the net disposal proceeds and the carrying amount of the asset and is recognized in the interim condensed consolidated statements of profit or loss. As a result of New Concession Agreement, the following adjustments have been made as of the effective date:

Statement of financial position	Note	31 March 2020 SR	Impact of new agreement SR	1 April 2020 SR
NON-CURRENT ASSETS				
Property, plant and equipment, net	a)	900,240,692	(489,210,493)	411,030,199
Intangible assets	a), b)	1,053,968,944	2,023,738,909	3,077,707,853
SHAREHOLDERS' EQUITY				
Retained earnings	c)	198,419,070	75,165,205	273,584,275
NON-CURRENT LIABILITIES				
Long-term provisions	c)	77,090,700	(75,165,205)	1,925,495
Obligation under service concession arrangement	b)	-	1,361,930,569	1,361,930,569
CURRENT LIABILITIES				
Current portion of obligation under service concession arrangement	b)	-	172,597,847	172,597,847

Statement of profit or loss	Note	Impact for the year ended 31 December 2020 SR	
Other income	c)	75,165,205	

- a) Certain items of property and equipment with a cost of SR 633.68 million and accumulated depreciation of SR 144.47 million, which were previously owned by the Group and used for terminal operations (being classified as non-concession arrangement assets), were transferred to intangible assets as they are now part of the concession arrangements as per the New Concession Agreement. In addition, as a result of New Concession Agreement and in accordance with the adopted accounting policy to depreciate assets at lower of useful life or concession period, the Group changed the useful lives of certain items of intangible assets (underlying property, plant and equipment), prospectively. Had the Group not changed the useful lives of those items of intangible assets, the amortization charge for the year would have been higher by SR 17.07 million.
- b) The New Concession Agreement stipulates payment of the fixed and guaranteed variable fee on the specified rates over the life of the agreement. These fees are recorded as intangible asset under the guidance of IFRIC 12 'Service Concession Arrangements', with a corresponding liability is recognized as obligation under service concession arrangement and measured in accordance with IFRS 9 "Financial Instruments". All other variable fee is charged to interim condensed consolidated statement of profit or loss as and when incurred. Unamortised portion of 'intangible assets' and the 'obligation under service concession arrangement' is presented in 'note 8.2' and note 36 and on the face of the consolidated statement of financial position, respectively.

3 NEW CONCESSION AGREEMENT (continued)

Summary of changes due to application of New Concession Agreement (continued)

- c) There is no obligation under the New Concession Agreement for the Group to undertake an asset replacement program at the end of the term of the agreement. Accordingly, the total provision for asset replacement cost of SR 75.16 million that was recorded under the previous BOT agreement of RSGT has been reversed, being no longer required and has been recognised as “other income” in the consolidated statement of profit or loss (note 28).

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently, except for new standards adopted during the year as disclosed in note 5, in the preparation of these consolidated financial statements.

4.1 Basis of consolidation

The Group’s consolidated financial statements comprise the financial statements of the Parent Company and its subsidiary as at 31 December 2020. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group’s voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of Other Comprehensive Income (“OCI”) are attributed to the equity holders of the Parent Company of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group’s accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in the consolidated statement of profit or loss. Any investment retained is recognised at fair value. These consolidated financial statements comprising the financial statements the Company and its subsidiaries as set out in note 1. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Company.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree’s identifiable net assets. Acquisition-related costs are expensed as incurred and included in general and administrative expenses.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.1 Basis of consolidation (continued)

Business combinations and goodwill (continued)

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in the statement of profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in the consolidated statement of profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Investments in associates and jointly controlled entities

An associate is an entity over which the Group has significant influence. 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.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries. The Group's investment in its associate and joint venture are accounted for using the equity method.

Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment separately.

The statement of profit or loss reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognises the loss as 'Share of profit of an associate and a joint venture' in the statement of profit or loss.

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.1 Basis of consolidation (continued)

Investments in associates and jointly controlled entities (continued)

When the Group's share of losses exceeds its interest in associates, 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 a corresponding obligation.

4.2 Foreign currencies

The Group's consolidated financial statements are presented in Saudi Riyals, which is also the Parent Company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to consolidated statement of profit or loss reflects the amount that arises from using this method.

Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised as profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment in a foreign operation. These are recognised as OCI until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss in the consolidated statement of profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item.

Foreign operations

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

When a foreign operation is disposed of, the relevant amount in the translation reserve is transferred to the consolidated statement of profit or loss as part of the profit or loss on disposal. On the partial disposal (without loss of control) of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in the foreign exchange translation reserve via other comprehensive income.

4.3 Current versus non-current classification

Assets

The Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification. An asset is current when:

- It is expected to be realised or intended to be sold or consumed in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is expected to be realised within twelve months after the reporting period; or
- It is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**4.3 Current versus non-current classification (continued)*****Liabilities***

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

4.4 Property, plant and equipment***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 significant 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 consolidated statement of profit or loss.

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 the consolidated statement of profit or loss as incurred.

Capital work-in-progress

Capital work-in-progress are carried at cost less any recognised impairment loss and is capitalized as property, plant and equipment when ready for the intended use.

Depreciation

Depreciation represents the systematic allocation of the depreciable amount of an asset over its estimated useful life. Depreciable amount represents cost of an asset, or other amount substituted for cost, less its residual value.

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

Depreciation methods, useful lives and residual values are reviewed at least annually and adjusted prospectively if required. For discussion on impairment assessment of property and equipment, please refer note 6.

The estimated useful lives are as follows:

Buildings	Shorter of lease / concession period or 10 – 40 years
Leasehold improvements	Shorter of lease / concession period or 10 – 40 years
Plant and equipment	Shorter of lease / concession period or 5 – 20 years
Machinery and equipment	2 – 25 years
Motor vehicles	5 – 10 years
Fixtures and furnishing	5 – 10 years
Computers and equipment	2 - 5 years

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.5 Intangibles

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in consolidated statement of profit or loss in the period in which the expenditure is incurred. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

Port concession rights

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

The Group 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 which is 30 years or life of the underlying assets, whichever is shorter (see note 8)

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 the 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. The estimated useful lives of other intangibles is from 2 to 5 years.

4.6 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 consolidated statement of profit or loss as incurred.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**4.6 Investment properties (continued)**

Investment properties are derecognised either when they have been disposed of (i.e., at the date the recipient obtains control) or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in consolidated statement of profit or loss in the period of derecognition. The amount of consideration to be included in the gain or loss arising from the derecognition of investment property is determined in accordance with the requirements for determining the transaction price in IFRS 15 – “Revenue from Contract with Customers”.

Transfers are made to (or from) investment property 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 in use. If owner-occupied property becomes an investment property, the Group account for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

4.7 Leases

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

i) Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). The effect of adoption of IFRS 16 as at 1 January 2019 was as follows:

	SR
Assets	
Right-of-use assets (note 23)	230,459,708
Prepayments	(2,937,500)
Transfers	26,162,609
Total assets	253,684,817
Liabilities	
Lease liabilities (note 23)	241,835,939
Other non-current and current liabilities	(14,313,731)
Total liabilities	227,522,208

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets. If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment. Refer to the accounting policies in section (s) Impairment of non-financial assets.

ii) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.7 Leases (continued)

ii) Lease liabilities (continued)

In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

iii) Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

4.8 Inventories

Inventories represent spare parts and other supplies. These are measured at lower of cost and net realisable 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. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale. The Group recognizes an allowance for inventory losses due to factors such as obsolescence, technical faults, physical damage etc.

4.9 Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position comprise cash on hand, cash at banks and other short-term highly liquid deposits / investments with original maturities of three month or less, if any, which are available to the Group without any restrictions. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash on hand, bank balances and Murabaha deposits.

4.10 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

The Group's financial assets consist of cash and bank balances, trade receivables, investments at fair value through other comprehensive income, investment in associates, due from related parties and financial liabilities consist of long term loans and bank facilities, trade and other payables.

i) Financial assets

Initial recognition and measurement

Financial assets at initial recognition, are measured at their fair values. Subsequent measurement of a financial asset is dependent on its classification and is either at amortised cost or fair value through other comprehensive income (OCI) or fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**4.10 Financial instruments (continued)****i) Financial assets (continued)*****Initial recognition and measurement***

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in following categories:

- a) Financial assets at amortised cost
- b) Financial assets at fair value through OCI (FVOCI)
- c) Financial assets at fair value through profit or loss (FVTPL)

a) Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognised in consolidated statement of profit or loss when the asset is derecognised, modified or impaired.

b) Financial assets at fair value through OCI***Debt instruments***

The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the consolidated statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

Equity instruments

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the consolidated statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

c) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including consolidated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**4.10 Financial instruments (continued)****i) Financial assets (continued)****c) *Financial assets at fair value through profit or loss***

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recognised in the consolidated statement of profit or loss.

Business model assessment

The Group makes an assessment of the objective of a business model under which an asset is held, at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated- e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group stated objective for managing the financial assets is achieved and how cash flows are realized.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward. Financial assets that are held for trading and whose performance is evaluated on a fair value basis are measured at FVIS because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessments whether contractual cash flows are solely payments of principal and profit ("SPPP" criteria)

For the purposes of this assessment, 'principal' is the fair value of the financial asset on initial recognition. 'Profit' is the consideration for the time value of money, the credit and other basic lending risk associated with the principal amount outstanding during a particular period and other basic financing costs (e.g. liquidity risk and administrative costs), along with profit margin.

In assessing whether the contractual cash flows are solely payments of principal and profit, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money- e.g. periodical reset of profit rates.

ii) Financial liabilities***Initial recognition and measurement***

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss or at amortised cost. All financial liabilities are recognised initially at fair value and, in the case of financing and payables, net of directly attributable transaction costs.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.10 Financial instruments (continued)

ii) Financial liabilities (continued)

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term.

Gains or losses on liabilities held for trading are recognised in the consolidated statement of profit or loss. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied.

Financial liabilities at amortised cost

After initial recognition, financial liabilities, other than at fair value through profit or loss are measured at amortised cost using the EIR method. Gains and losses as a result of unwinding of profit cost through EIR amortization process and on de-recognition of financial liabilities are recognized in the consolidated statement of profit or loss.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the consolidated statement of profit or loss.

iii) Derecognition

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of profit or loss.

iv) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**4.10 Financial instruments (continued)****iii) Derecognition (continued)*****Financial assets (continued)*****4.11 Impairment of financial and non-financial assets*****Financial assets***

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and a loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter into bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as economic conditions that correlate with defaults.

The Group recognises an allowance for expected credit losses (ECL) for all debt instruments not held at fair value through profit or loss. For trade receivables, the Group applies a simplified approach in calculating ECL. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECL at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The fair value less costs of disposal is determined by taking into account recent market transactions. If no such transactions can be identified, an appropriate valuation model is used. The value in use is assessed by discounting the estimated future cash flows 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. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses are recognised in the 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 CGUs, and then to reduce the carrying amounts of the other assets in the CGU (group of units) on a pro rata basis.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.12 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the consolidated statement of profit or loss and other comprehensive income net of any reimbursement.

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

4.13 Employee benefits

Short-term employee benefits

Short-term employee benefits are expensed as the related services are provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Post-employment benefits

The Group's obligation under employee end of service benefit is accounted for as an unfunded defined benefit plan and is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods and discounting that amount. The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. Re-measurement of the net defined benefit liability, which comprise actuarial gains and losses are recognised immediately in OCI. The Group determines the net interest expense on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability, taking into account any changes in the net defined benefit liability during the period as a result of benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in employee costs in the statement of profit or loss.

4.14 Cash dividend and non-cash distribution to equity holders of the Parent

The Group recognises a liability to pay a dividend when the distribution is authorised and no longer at the discretion of the Group. As per the bye-laws of the Group, a distribution is authorised when it is approved by the shareholders. 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.

A corresponding amount is recognised directly in equity.

Non-cash distributions are measured at the fair value of the assets to be distributed with fair value re-measurement recognised directly in equity.

Upon distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognised in the consolidated statement of profit or loss.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.15 Revenue

The Group through its subsidiaries, jointly controlled entity and associates is engaged in the following businesses:

- Development, construction, operation and maintenance of container terminals and excavation and back filling works.
- Management and operation of storage and re-export project situated on the land leased from Jeddah Islamic Port.
- Water desalination and treatment plant and sale of water.

The Group generally recognizes revenue at a point in time except for lease rental revenue which is recognized on time proportionate basis over future periods. The Group transfers control and recognizes a sale when the product is delivered to the customer, for the majority of the revenue contracts. Management uses an observable price to determine the stand-alone selling price for separate performance obligations or a cost-plus margin approach when one is not available. The Group has elected to recognize the cost for freight and shipping, if any, when control is transferred to the customer as an expense in direct cost.

If a contract is separated into more than one performance obligation, the total transaction price is allocated to each performance obligation in an amount based on the estimated relative standalone selling prices of the promised goods or services underlying each performance obligation. The Group mostly sells standard products with observable standalone sales with single performance obligation.

Cash received in advance of revenue being recognized is classified as current deferred / unearned revenue, except for the portion expected to be settled beyond 12 months of the consolidated statement of financial position date, which is classified as non-current deferred revenue.

Revenue is measured at the amount of consideration the Group expects to receive in exchange for transferring goods or providing services. Sales, value add, and other taxes collected concurrent with revenue-producing activities are excluded from revenue. The Group does not have any material significant payment terms as payment is received in advance, at or shortly after the point of sale.

Sale of goods

Revenue from sale of goods is recognised at the point in time when control of the goods is transferred to the customer, generally on delivery of the goods. The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the sale of goods, the Group considers the effects of variable consideration, the existence of significant financing components, non-cash consideration, and consideration payable to the customer (if any).

Rendering of services

The Group is involved in the provision of operational services in relation to its port operations, 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 based on the assessment of the work performed / completed (i.e. delivered and acknowledged / accepted) under the contractual obligation undertaken to be performed as per the work order / contract / sales order.

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.

Volume rebates

The Group provides volume rebates to certain customers once their purchase during the period exceeds a threshold specified in the contract. To estimate the variable consideration for the expected future rebates, the Group applies the most likely amount method as the selected method better predicts the amount of variable consideration driven by customers' rebate entitlements based on volume thresholds and purchase made by them during the period. The Group then applies the requirements on constraining estimates of variable consideration and recognises a liability for the expected future rebates.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.16 Expenses

Direct cost

Direct cost represents all expenses directly attributable or incidental to the core operating activities of the Group including but not limited to: depreciation of property, plant and equipment, amortization of intangibles, directly attributable employee related costs etc.

Selling and distribution expenses

These include any costs incurred to carry out or facilitate selling activities of the Group. These costs typically include salaries of the sales staff, marketing, distribution and logistics expenses. These also include allocations of certain general overheads.

General and administrative expenses

These pertain to operation expenses which are not directly related to the production of any goods or services. These also include allocations of general overheads which are not specifically attributed to direct cost or selling and distribution expenses.

Allocation of overheads between cost of revenue, selling and distribution expenses, and general and administration expenses, where required, is made on a consistent basis.

4.17 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs comprise of interest expense on loans and bank facilities, unwinding of the discount on long term provisions.

4.18 Finance income

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in consolidated statement of profit or loss, using the effective interest method.

4.19 Zakat and taxation

Zakat

The Group is subject to zakat in accordance with the regulations of the General Authority of Zakat and Tax ("GAZT"). Provision for zakat for the Group and zakat related to the Group's ownership in the Saudi Arabian subsidiaries is charged to the consolidated statement of profit or loss.

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid for the current year to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted at the reporting date in the Kingdom of Saudi Arabia.

Deferred income tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**4.19 Zakat and taxation (continued)*****Deferred income tax (continued)***

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the brought forward unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in OCI or directly in equity.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss.

The Group offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Withholding tax

The Group companies withhold taxes on transactions with non-resident parties and on dividends paid to foreign shareholders in accordance with GAZT regulations, which is not recognized as an expense being the obligation of the counter party on whose behalf the amounts are withheld.

Value added tax (VAT)

Expenses and assets are recognised net of the amount of VAT, except when the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.20 Segment reporting

Business segment is group of assets, operations or entities:

- 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;
- 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
- 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.

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.

For management purposes, the Group is organised into business units based on its products and services and has three reportable segments, as follows:

- Port development and operations
- Logistic parks and support services
- Water desalination and distribution

5 NEW AND AMENDED STANDARDS AND INTERPRETATIONS

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2020. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.:

Amendments to IFRS 3: Definition of a business

The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the financial statements of the Group, but may impact future periods should the Group enter into any business combinations.

Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform

A fundamental review and reform of major interest rate benchmarks is being undertaken globally. The International Accounting Standards Board ("IASB") is engaged in a two-phase process of amending its guidance to assist in a smoother transition away from IBOR.

Phase (1) - The first phase of amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures focused on hedge accounting issues. The final amendments, issued in September 2019, amended specific hedge accounting requirements to provide relief from the potential effects of the uncertainty caused by IBOR reform. The amendments are effective from 1 January 2020 and are mandatory for all hedge relationships directly affected by IBOR reform.

Phase (2) - The second phase relates to the replacement of benchmark rates (IBOR) with alternative risk-free rates (RFR). The Phase 2 amendments are effective for annual periods beginning on or after 1 January 2021 and early application is permitted. Now that the Phase 2 Amendments have been finalised, the Branch will complete its assessment of the accounting implications of the scenarios it expects to encounter as the transition from IBORs to RFRs in order to accelerate its programmes to implement the new requirements. The Phase 2 Amendments introduce new areas of judgement, the Branch needs to ensure it has appropriate accounting policies and governance in place.

5 NEW AND AMENDED STANDARDS AND INTERPRETATIONS (continued)**Amendment to IAS 1 and IAS 8: Definition of Material**

The amendments provide a new definition of material that states, “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements.

A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the financial statements of, nor is there expected to be any future impact to the Group.

Conceptual Framework for Financial Reporting issued on 29 March 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the financial statements of the Group.

Amendments to IFRS 16 Covid-19 Related Rent Concessions

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. This amendment had no impact on the financial statements of the Group.

6 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards, interpretations and amendments that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 17 Insurance contracts

In May 2018, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Group.

6 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right;
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Reference to the Conceptual Framework – Amendments to IFRS 3

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the framework for the preparation and presentation of financial Statements.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively. The amendments are not expected to have a material impact on the Group.

Amendments to IAS 16 : Property, plant and equipment

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual periods beginning on or after 1 January 2022 and must be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The amendments are not expected to have a material impact on the Group.

Amendments to IAS 37: Provisions – costs to fulfil a contract

In May 2020, the IASB issued amendments to IAS 37 - Provisions, Contingent Liabilities and Contingent Assets, to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a 'directly related cost approach'. The costs that relate directly to a contract to provide goods or services include both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract as well as costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

Amendments to IAS 37: Provisions – costs to fulfil a contract (continued)

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

6 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)**IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter**

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The amendments are not expected to have a material impact on the Group.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendments are not expected to have a material impact on the Group.

IAS 41 Agriculture – Taxation in fair value measurements

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IAS 41 Agriculture. The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41.

An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after 1 January 2022 with earlier adoption permitted.

The amendments are not expected to have any impact on the Group.

7 PROPERTY, PLANT AND EQUIPMENT

	<i>31 December 2020 SR</i>	<i>31 December 2019 SR</i>
Property, plant and equipment (note 7.1)	204,962,895	227,004,427
Property and equipment of bonded and re-export project (note 7.2)	28,634,885	29,393,479
Property and equipment – port terminal operations (note 7.3)	34,883,753	510,565,573
	<u>268,481,533</u>	<u>766,963,479</u>

SAUDI INDUSTRIAL SERVICES COMPANY (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2020

7 PROPERTY, PLANT AND EQUIPMENT (continued)

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

	<i>Land SR</i>	<i>Leasehold improvements SR</i>	<i>Motor vehicles & tankers SR</i>	<i>Tools & equipment's SR</i>	<i>Furniture & fixtures SR</i>	<i>Computers SR</i>	<i>Desalination plants SR</i>	<i>31 December 2020 SR</i>
Cost								
At the beginning of the year	66,808,150	131,943	19,067,583	15,152,227	13,719,985	5,202,580	353,819,529	473,901,997
Additions during the year	-	-	491,775	599,688	897,889	132,140	1,970,323	4,091,815
Disposals during the year	-	-	(396,310)		(26,758)	(9,992)	(4,915,311)	(5,348,371)
Transfer from capital work in progress (note 7.5)	-	-	-	835,135	-	-	1,255,568	2,090,703
Transfer (note 7.2)	-	-	-		(2,177,911)	(2,456,460)	-	(4,634,371)
Reclassifications during the year	-	-	124,797	(3,048,814)	552,874	-	2,371,143	-
At the end of the year	<u>66,808,150</u>	<u>131,943</u>	<u>19,287,845</u>	<u>13,538,236</u>	<u>12,966,079</u>	<u>2,868,268</u>	<u>354,501,252</u>	<u>470,101,773</u>
Accumulated depreciation								
At the beginning of the year	-	131,943	12,526,094	10,472,073	9,260,505	3,279,588	211,227,367	246,897,570
Charge for the year	-	-	1,267,677	609,252	1,529,653	294,591	21,903,183	25,604,356
Disposals during the year	-	-	(361,560)	-	(26,092)	(4,764)	(4,078,580)	(4,470,996)
Transfer (note 7.2)	-	-	-	-	(1,939,142)	(952,910)	-	(2,892,052)
Reclassifications during the year	-	-	-	(435,575)	435,575	-	-	-
At the end of the year	<u>-</u>	<u>131,943</u>	<u>13,432,211</u>	<u>10,645,750</u>	<u>9,260,499</u>	<u>2,616,505</u>	<u>229,051,970</u>	<u>265,138,878</u>
Net book amounts								
As at 31 December 2020	<u>66,808,150</u>	<u>-</u>	<u>5,855,634</u>	<u>2,892,486</u>	<u>3,705,580</u>	<u>251,763</u>	<u>125,449,282</u>	<u>204,962,895</u>

SAUDI INDUSTRIAL SERVICES COMPANY (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2020

7 PROPERTY, PLANT AND EQUIPMENT (continued)

7.1 The movement in property, plant and equipment is as follows (continued):

	<i>Land</i> <i>SR</i>	<i>Leasehold</i> <i>improvements</i> <i>SR</i>	<i>Motor vehicles</i> <i>& tankers</i> <i>SR</i>	<i>Tools &</i> <i>equipment's</i> <i>SR</i>	<i>Furniture &</i> <i>fixtures</i> <i>SR</i>	<i>Computers</i> <i>SR</i>	<i>Desalination</i> <i>plants</i> <i>SR</i>	<i>31 December</i> <i>2019</i> <i>SR</i>
Cost								
At the beginning of the year	66,808,150	131,943	16,168,793	15,230,854	12,082,613	6,193,123	320,572,681	437,188,157
Additions during the year	-	-	2,247,050	174,916	165,004	192,407	1,079,222	3,858,599
Disposals during the year	-	-	(84,804)	(256,781)	(1,308,281)	(1,182,950)	(336,250)	(3,169,066)
Transfers during the year	-	-	736,544	3,238	2,780,649	-	32,503,876	36,024,307
At the end of the year	66,808,150	131,943	19,067,583	15,152,227	13,719,985	5,202,580	353,819,529	473,901,997
Accumulated depreciation								
At the beginning of the year	-	131,943	11,479,045	10,230,928	8,827,912	3,810,151	191,332,837	225,812,816
Charge for the year	-	-	1,131,853	496,188	1,737,955	596,470	20,199,764	24,162,230
Disposals during the year	-	-	(84,804)	(255,043)	(1,305,362)	(1,127,033)	(305,234)	(3,077,476)
At the end of the year	-	131,943	12,526,094	10,472,073	9,260,505	3,279,588	211,227,367	246,897,570
Net book amounts								
As at 31 December 2019	66,808,150	-	6,541,489	4,680,154	4,459,480	1,922,992	142,592,162	227,004,427

At 31 December 2020

7 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. A subsidiary of the group has the option of renewing the lease agreement on expiry of the initial lease term.

7.2 Property and equipment of bonded and re-export project

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

	<i>Leasehold improvements</i> SR	<i>Buildings on leasehold land</i> SR	<i>Equipment</i> SR	<i>31 December 2020</i> SR
Cost				
At the beginning of the year	27,281,790	20,983,336	1,162,575	49,427,701
Additions during the year	9,000	415,058	29,082	453,140
Transfer from property plant and equipment (note 7.1)	-	-	4,634,371	4,634,371
At the end of the year	<u>27,290,790</u>	<u>21,398,394</u>	<u>5,826,028</u>	<u>54,515,212</u>
Accumulated depreciation				
At the beginning of the year	13,659,727	5,211,920	1,162,575	20,034,222
Charge for the year	1,027,658	957,640	968,755	2,954,053
Transfer from property plant and equipment (note 7.1)	-	-	2,892,052	2,892,052
At the end of the year	<u>14,687,385</u>	<u>6,169,560</u>	<u>5,023,382</u>	<u>25,880,327</u>
Net book value At 31 December 2020	<u>12,603,405</u>	<u>15,228,834</u>	<u>802,646</u>	<u>28,634,885</u>
	<i>Leasehold improvements</i> SR	<i>Buildings on leasehold land</i> SR	<i>Equipment</i> SR	<i>31 December 2019</i> SR
Cost				
At the beginning of the year	27,281,790	20,564,261	1,203,875	49,049,926
Disposals during the year	-	-	(41,300)	(41,300)
Transfer from capital work in progress	-	419,075	-	419,075
At the end of the year	<u>27,281,790</u>	<u>20,983,336</u>	<u>1,162,575</u>	<u>49,427,701</u>
Accumulated depreciation				
At the beginning of the year	12,620,116	4,309,735	1,203,875	18,133,726
Charge for the year	1,039,611	902,185	-	1,941,796
Disposals during the year	-	-	(41,300)	(41,300)
At the end of the year	<u>13,659,727</u>	<u>5,211,920</u>	<u>1,162,575</u>	<u>20,034,222</u>
Net book value At 31 December 2019	<u>13,622,063</u>	<u>15,771,416</u>	<u>-</u>	<u>29,393,479</u>

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

7. PROPERTY, PLANT AND EQUIPMENT (continued)**7.3 Property and equipment – port terminal operations**

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

	<i>Leasehold improvements</i>	<i>Motor vehicles</i>	<i>Furniture and fixtures</i>	<i>Computers and equipment</i>	<i>Machinery and equipment</i>	<i>31 December 2020</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
Cost						
At the beginning of the year	333,650,236	5,209,919	19,374,819	9,566,395	350,061,513	717,862,882
Additions during the year	-	579,896	2,355,056	2,572,316	16,253,858	21,761,126
Transfers from capital work in progress (note 7.5)	-	-	17,002	1,763,456	8,974,080	10,754,538
Transfer to port concession rights (note 3 & 8.1)	(309,476,260)	(3,692,924)	(3,502,402)	3,790,775	(320,801,270)	(633,682,081)
Disposals during the year (see note 'c' below)	(24,086,976)	(337,200)	(868,066)	(48,529)	(2,234,529)	(27,575,300)
At the end of the year	<u>87,000</u>	<u>1,759,691</u>	<u>17,376,409</u>	<u>17,644,413</u>	<u>52,253,652</u>	<u>89,121,165</u>
Accumulated depreciation						
At the beginning of the year	62,511,326	3,279,869	13,295,344	7,891,374	120,319,396	207,297,309
Charge for the year	5,702,663	274,222	1,581,376	1,396,609	7,958,857	16,913,727
Transfer to port concession rights (see note 3 & 8.1)	(45,812,664)	(2,083,279)	(2,110,869)	3,790,775	(98,255,551)	(144,471,588)
Disposals during the year (see note 'c' below)	(22,330,949)	(299,998)	(685,447)	(48,530)	(2,137,112)	(25,502,036)
At the end of the year	<u>70,376</u>	<u>1,170,814</u>	<u>12,080,404</u>	<u>13,030,228</u>	<u>27,885,590</u>	<u>54,237,412</u>
Net book value						
At 31 December 2020	<u>16,624</u>	<u>588,877</u>	<u>5,296,005</u>	<u>4,614,185</u>	<u>24,368,062</u>	<u>34,883,753</u>

- a) The Group's property and equipment – port terminal operations has been pledged against the Ijara facility (note 18).
- b) As mentioned in note 3 (a), property and equipment with net book value of SR 489.2 million was transferred from port terminal assets to port concession rights in accordance with the new concession agreement.
- c) Disposals includes an amount derecognised in respect of leasehold improvements for lease of yard in Jeddah Islamic Port. During the year ended 31 December 2020, the lease was terminated and consequently leasehold improvements with a total net book value of SAR 3.3 million have been derecognised.

At 31 December 2020

7. PROPERTY, PLANT AND EQUIPMENT (continued)**7.3 Property and equipment – port terminal operations (continued)**

	<i>Leasehold improvements</i>	<i>Motor vehicles</i>	<i>Furniture and fixtures</i>	<i>Computers and equipment's</i>	<i>Machinery and equipment's</i>	<i>31 December 2019</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
Cost						
At the beginning of the year	333,471,636	4,365,328	18,459,424	8,808,682	349,449,826	714,554,896
Additions during the year	178,600	844,591	978,590	958,955	797,687	3,758,423
Disposals during the year	-	-	(63,195)	(201,242)	(186,000)	(450,437)
At the end of the year	<u>333,650,236</u>	<u>5,209,919</u>	<u>19,374,819</u>	<u>9,566,395</u>	<u>350,061,513</u>	<u>717,862,882</u>
Accumulated depreciation						
At the beginning of the year	42,225,549	2,625,733	11,409,013	7,120,754	97,779,740	161,160,789
Charge for the year	20,285,777	654,136	1,941,856	971,862	22,725,656	46,579,287
Disposals during the year	-	-	(55,525)	(201,242)	(186,000)	(442,767)
At the end of the year	<u>62,511,326</u>	<u>3,279,869</u>	<u>13,295,344</u>	<u>7,891,374</u>	<u>120,319,396</u>	<u>207,297,309</u>
Net book value						
At 31 December 2019	<u><u>271,138,910</u></u>	<u><u>1,930,050</u></u>	<u><u>6,079,475</u></u>	<u><u>1,675,021</u></u>	<u><u>229,742,117</u></u>	<u><u>510,565,573</u></u>

7 PROPERTY, PLANT AND EQUIPMENT (continued)

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

	<i>31 December 2020 SR</i>	<i>31 December 2019 SR</i>
Direct costs	33,835,062	60,656,617
Selling and distribution expenses (note 26)	7,431,279	7,449,090
General and administrative expenses (note 27)	4,205,795	4,577,606
	<u>45,472,136</u>	<u>72,683,313</u>

7.5 CAPITAL WORK IN PROGRESS

The capital work in progress represent the payments made to suppliers for civil works, equipment and intangible assets to be supplied. The movement in the capital work in progress is summarized below:

	<i>31 December 2020 SR</i>	<i>31 December 2019 SR</i>
Opening balance	107,456,458	101,258,303
Additions during the year	101,630,625	44,789,814
Transfer to property and equipment (note 7.1)	(2,090,703)	(36,443,382)
Transfer to investment property (note 9)	(3,314,973)	(134,568)
Transfer to port terminal operations (note 7.3)	(10,754,538)	-
Transfer to intangibles port concession rights (note 8.1)	(72,065,880)	-
Transfer to intangibles software (note 8.3)	(1,687,343)	-
Write off during the year	(1,219,418)	(2,013,709)
At the end of the year	<u>117,954,228</u>	<u>107,456,458</u>

8 INTANGIBLE ASSETS

Intangible assets comprise of the following:

	<i>31 December 2020 SR</i>	<i>31 December 2019 SR</i>
Port concession rights (note 8.1)	1,625,893,154	1,067,739,776
Intangible assets related to fixed and guaranteed variable fee (note 8.2)	1,511,355,369	-
Other intangible assets (note 8.3)	4,325,622	2,644,862
	<u>3,141,574,145</u>	<u>1,070,384,638</u>

8.1 Port concession rights

Saudi Trade and Export Development Company (Tusdeer), a subsidiary of the Group, had an agreement with Saudi Ports Authority ("SPA" or "MAWANI") for the construction of a container terminal at the Re-export Zone of Jeddah Islamic Port. This Build-Operate-Transfer (BOT) Service Concession Agreement ("the Agreement") with MAWANI has been novated by Tusdeer to another subsidiary of the Group i.e. RSGT, effective from 22 Shawal 1428 H (corresponding to 3 November 2007), and the duration of this agreement is 32 years. As per BOT agreement, at the end of the concession period, the property and equipment underlying the port concession rights shall be transferred to MAWANI. RSGT commenced its initial commercial operations effective from 22 December 2009 (corresponding to 5 Muharram 1431 H). Port concession rights are being amortised over the useful lives of the underlying assets (representing the property and equipment) or the remaining term of concession, whichever is shorter. All amortization charge for the year has been allocated to direct cost (note 37).

Intangible assets – port concession rights are secured against the Ijara facilities obtained from local banks (note 18).

8 INTANGIBLE ASSETS (continued)**8.1 Port concession rights (continued)**

The movement in port concession rights is as follows:

	<i>31 December 2020 SR</i>	<i>31 December 2019 SR</i>
Cost		
At the beginning of the year	1,710,555,638	1,710,555,638
Additions	75,426,303	-
Transfer from capital work in progress(note 7.5)	72,065,880	-
Disposal	(2,401,843)	-
Transfer from port terminal operations (note 7.3)	632,182,081	-
	<u>2,487,828,059</u>	<u>1,710,555,638</u>
Amortization		
At the beginning of the year	642,815,862	577,473,248
Charge for the year	76,989,549	65,342,614
Disposal during the year	(2,342,094)	-
Transfer from port terminal operations (note 7.3)	144,471,588	-
	<u>861,934,905</u>	<u>642,815,862</u>
Net book value	<u>1,625,893,154</u>	<u>1,067,739,776</u>

8.2 Intangible assets related to fixed and guaranteed variable fee

	<i>31 December 2020 SR</i>
Cost:	
Intangible assets recorded in accordance with IFRIC 12 (note 3 (b))	<u>1,534,528,416</u>
Accumulated amortization:	
Charge for the year	<u>23,173,047</u>
Net book value	<u>1,511,355,369</u>

8.3 Other intangible assets

Other intangible assets comprise of computer software and software licenses used by the Group companies to manage their financial and operational activities. The movement in other intangible assets is as follows:

	<i>31 December 2020 SR</i>	<i>31 December 2019 SR</i>
Cost		
At the beginning of the year	22,690,481	20,791,908
Additions during the year	1,889,077	1,898,573
Transfers from capital work-in-progress (note 7.5)	1,687,343	-
	<u>26,266,901</u>	<u>22,690,481</u>
Amortization		
At the beginning of the year	20,045,619	17,934,292
Charge for the year	1,895,660	2,111,327
	<u>21,941,279</u>	<u>20,045,619</u>
Net book value	<u>4,325,622</u>	<u>2,644,862</u>

At 31 December 2020

8 INTANGIBLE ASSETS (continued)**8.3 Other intangible assets (continued)**

Amortization charge for the year has been allocated as follows:

	<i>31 December 2020 SR</i>	<i>31 December 2019 SR</i>
Direct costs	7,183	1,198
Selling and distribution expenses (note 26)	125,025	138,309
General and administrative expenses (note 27)	1,763,452	1,971,820
	<u>1,895,660</u>	<u>2,111,327</u>

9 INVESTMENT PROPERTIES

The movement in investment property is as follows:

Cost	<i>Leasehold improvements SR</i>	<i>Buildings on leasehold land SR</i>	<i>31 December 2020 SR</i>	<i>31 December 2019 SR</i>
At the beginning of the year	107,998,677	132,667,392	240,666,069	240,531,501
Transfer from Capital Work in progress (note 7.5)	-	3,314,973	3,314,973	134,568
	<u>107,998,677</u>	<u>135,982,365</u>	<u>243,981,042</u>	<u>240,666,069</u>
Accumulated depreciation				
At the beginning of the year	43,665,685	63,219,035	106,884,720	97,515,861
Charge for the year	1,903,972	7,191,746	9,095,718	9,368,859
At the end of the year	<u>45,569,657</u>	<u>70,410,781</u>	<u>115,980,438</u>	<u>106,884,720</u>
Net book value: At 31 December 2020	<u>62,429,020</u>	<u>65,571,584</u>	<u>128,000,604</u>	
At 31 December 2019	<u>64,332,992</u>	<u>69,448,357</u>		<u>133,781,349</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 15 Muharram 1419H (corresponding to 11 May 1998) with a grace period of two Hijra years, on 22 Ramadan 1424H (corresponding to 16 November 2003) the lease agreement was extended to 40 Hijra years. The fair value of the property is valued at SR 311.5 million by Advisory Corp, licensed by "Saudi Authority for Accredited Valuers".

Depreciation charge for the year has been allocated to direct cost.

10 INVESTMENT IN ASSOCIATES

	<i>31 December 2020 SR</i>	<i>31 December 2019 SR</i>
As at 1 January	132,421,768	121,114,973
Share in results of associates, net	21,609,171	27,372,268
Share of actuarial losses of associates recognized in OCI	(2,082,512)	(1,796,618)
Dividend received during the year	(15,025,967)	(14,268,855)
	<hr/>	<hr/>
As at 31 December	136,922,460	132,421,768
	<hr/>	<hr/>

10.1 As at 31 December 2020, the investment in associates comprises the following:

<i>Associates</i>	<i>Principal activity</i>	<i>Country of incorporation</i>	<i>Effective shareholding percentage</i>		<i>Carrying amount</i>	
			<i>2020</i>	<i>2019</i>	<i>31 December 2020</i>	<i>31 December 2019</i>
International Water Distribution Company Limited (note a)	Water/waste works, water treatment and lease of water equipment	Kingdom of Saudi Arabia	50%	50%	84,044,946	81,610,509
Saudi Water and Environmental Services Company (note b)	Electrical, water and mechanical works and related operation and maintenance	Kingdom of Saudi Arabia	31.85%	31.85%	6,660,855	7,685,124
Saudi Al Jabr Talke Company Limited	Contracting, construction, operation and maintenance of factories and warehouses	Kingdom of Saudi Arabia	33.3%	33.3%	43,814,661	41,480,770
Xenmet SA, Vaduz (note c)	Trading, storage and brokerage of commodities	Principality of Liechtenstein	19%	19%	2,401,998	1,645,365
					<hr/>	<hr/>
					136,922,460	132,421,768
					<hr/>	<hr/>

- a) The Parent Company does not have any direct control over management and operations of “International Water Distribution Company” accordingly, it is classified as investment in associates and accounted for as such.
- b) Saudi Water and Environmental Services Company is 49% owned by Kindasa Water Services Company (a subsidiary), which is 65% owned by the Parent Company.
- c) Xenmet SA, Vaduz is 25% owned by Saudi Trade and Export Development Company Limited (a subsidiary), which is 76% owned by the Parent Company.

10 INVESTMENT IN ASSOCIATES (continued)

Summarized financial information of equity accounted investee companies is as follows:

<i>Associates</i>	<i>International Water Distribution Company Limited</i>	<i>Saudi Water and Environmental Services Company</i>	<i>Al Jabr Talke Company Limited</i>	<i>Xenmet SA, Vaduz</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
31 December 2020				
Assets	265,802,311	14,291,619	201,130,789	10,698,273
Liabilities	99,620,968	699,641	89,360,924	909,858
Revenues	231,288,549	7,917,623	260,700,113	2,443,008
Net income	13,430,571	14,833	40,138,159	2,331,325
Share of OCI	(756,436)	-	(1,326,076)	-
Share of profit	7,190,873	(1,024,270)	14,685,934	756,633

<i>Associates</i>	<i>International Water Distribution Company Limited</i>	<i>Saudi Water and Environmental Services Company</i>	<i>Al Jabr Talke Company Limited</i>	<i>Xenmet SA, Vaduz</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
31 December 2019				
Assets	262,735,075	14,533,941	189,037,153	7,052,408
Liabilities	100,420,912	956,796	83,479,440	492,048
Revenues	233,306,395	20,334,370	258,866,775	3,485,784
Net income	19,770,081	4,431,184	38,443,336	2,448,178
Share of OCI	(637,607)	-	(1,159,011)	-
Share of profit	10,338,282	2,171,280	14,076,861	785,845

11 FINANCIAL ASSETS CARRIED AT FVOCI

Equity investment comprise of investment in shares of Growth Gate Capital Corporation B.S.C. Movement in investment is as follows:

	<i>31 December 2020 SR</i>	<i>31 December 2019 SR</i>
At the beginning of the year	15,538,283	17,899,897
Changes in fair value	(565,569)	(2,361,614)
At the end of the year	<u>14,972,714</u>	<u>15,538,283</u>

12 GOODWILL

The Group recorded a goodwill of SR 9.3 million on acquisition of Kindasa Water Services Company (Kindasa), a subsidiary of the Group. Subsequently, an impairment of SR 0.5 million was recorded resulting in net carrying value of SR 8.8 million (31 December 2019: 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 of Kindasa.

During the year ended 31 December 2020, the carrying amount of goodwill was reviewed and no impairment indicators were identified.

13 INVENTORIES, NET

	<i>31 December 2020 SR</i>	<i>31 December 2019 SR</i>
Spare parts	30,367,000	25,199,480
Raw materials and chemicals	218,467	235,335
Fuel, oil and desalinated water	715,002	748,472
	<u>31,300,469</u>	<u>26,183,287</u>
Less: allowance for slow moving and obsolete inventories	<u>(11,672,477)</u>	<u>(8,011,586)</u>
	<u><u>19,627,992</u></u>	<u><u>18,171,701</u></u>

Movement in allowance for slow moving in obsolete inventories is as follows:

	<i>31 December 2020 SR</i>	<i>31 December 2019 SR</i>
At the beginning of the year	8,011,586	5,635,851
Charge for the year	3,660,891	2,675,448
Write off during the year	-	(299,713)
	<u>11,672,477</u>	<u>8,011,586</u>

14 TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES

	<i>31 December 2020 SR</i>	<i>31 December 2019 SR</i>
Trade receivables, net (note 34)	102,696,717	69,043,545
Prepayments and other receivables	19,727,609	20,349,646
Margin deposits (note 32)	2,770,225	2,254,980
Advances to suppliers	7,511,907	8,440,773
	<u>132,706,458</u>	<u>100,088,944</u>

15 CASH AND CASH EQUIVALENTS

	<i>31 December 2020 SR</i>	<i>31 December 2019 SR</i>
Cash on hand	234,090	318,714
Cash at banks (note 15.1)	336,299,837	259,782,087
Murabaha deposits (note 15.2)	-	35,000,000
	<u>336,533,927</u>	<u>295,100,801</u>

15.1 SR 0.88 million (31 December 2019: SR 0.54 million) held with a commercial bank in respect of accumulated unclaimed dividends.

15.2 Murabaha deposits were placed with local commercial banks having original maturity of less than three months and yield financial income at prevailing market rates. During the current year the deposits were withdrawn.

16 SHARE CAPITAL

As at 31 December 2020, the authorized and paid up capital of the Company is divided into 81.6 million shares (31 December 2019: 81.6 million shares) of SR 10 each.

On 20 Sha'ban 1441H (corresponding to 13 April 2020), the shareholders of the Company in their Annual General meeting approved the dividend amounting to SR 48.96 million (SR 0.6 per share) (On 7 May 2019, dividend amounting to SR 32.6 million (SR 0.4 per share)).

17 STATUTORY RESERVE

In accordance with the Company's By-laws, the Company sets aside 10% of its net income in each year to a statutory reserve until such reserve equals to 30% of the share capital. This reserve is currently not available for distribution to the shareholders of the Company.

18 LONG-TERM LOANS AND BANK FACILITIES

	<i>31 December 2020</i>	<i>31 December 2019</i>
Long-term loans	736,333,242	781,101,050
Less: current portion	(70,670,666)	(240,711,549)
Non-current portion	<u>665,662,576</u>	<u>540,389,501</u>

- a) On 3 December 2007, RSGT (a subsidiary of the Company) entered into an Ijara arrangement with two local commercial banks to obtain a loan of SR 1,271 million. The Ijara facility was secured against the property and equipment of RSGT (note 7). The loan was to be repaid in semi-annual installments ending in December 2023. The loan carried special commission rate of SIBOR plus an agreed margin (see note(c) below).
- b) On 28 September 2016, RSGT entered into an Ijara arrangement with two local commercial banks to obtain a loan of SR 260 million for expansion of its existing berths. This facility was also secured against the port concession rights of RSGT (note 8.1). The loan was to be repaid in semi-annual installments ending in December 2023. The loan carried special commission rate of SIBOR plus an agreed margin (see note (c) below).
- c) During the year ended 31 December 2020, RSGT and the banks mutually agreed to amend the terms of the loan agreements above. These amendments, among others, included modification of the applicable rate from six months SIBOR to three months SIBOR, lowered the agreed margin, modified the repayment frequency from biannual to quarterly payment and extended the maturity period from year 2023 to 2030. The Ijara facilities are secured against property and equipment of RSGT. The modifications of the terms were assessed qualitatively and quantitatively in accordance with IFRS 9 "Financial Instruments" and, as a result, the management concluded that the changes in terms of agreement resulted in modification under the requirements of IFRS 9 "Financial Instruments". Accordingly, the modifications resulted in a day one gain of SR 31.96 million recorded in the statement of profit or loss as at the effective date of the modification of the terms of the loans (note 39). Un-amortised balance of the modification gain as at 31 December 2020 is of SR 27.85 million which will be amortised over the remaining period of the Ijara facility, using effective interest rate.
- d) The amount represents unamortized portion of the advance rentals and other fees paid to the banks, and will be amortized over the remaining period of the Ijara facility, using effective interest rate approach.
- e) During the year, RSGT obtained a facility with sanctioned limit of SR 750 million towards its consolidation and expansion works. Out of which SR 45 million was drawn as of the date of statement of financial position. RSGT pays an agreed commitment fee on the undrawn balance and an agreed profit payable at SIBOR plus a margin on the drawn balance. The commitment fee paid has been deferred and amortised as part of effective interest rate on the basis that a full draw down of the loan is expected to occur in future years. The loan will be repaid in quarterly instalments starting from 2023 and ending in 2033. The loan is secured against assets relating to the consolidation and expansion works.

18 LONG-TERM LOANS AND BANK FACILITIES (continued)

	<i>31 December 2020</i>	<i>31 December 2019</i>
Long-term loans	731,461,973	775,344,095
Less: current portion (note below)	(68,899,295)	(238,940,177)
Non-current portion	<u>662,562,678</u>	<u>536,403,918</u>
f) During 2016, Kindasa (a subsidiary of the Company) entered into an agreement for a long-term facility with a commercial bank for SR 24 million to finance the construction of a new water desalination facility. 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. As at 31 December 2020, Kindasa has drawn down SR 8.5 million out of total facility of SR 24 million.		

	<i>31 December 2020 SR</i>	<i>31 December 2019 SR</i>
Long-term loan	4,871,269	5,756,954
Less: current portion	(1,771,371)	(1,771,371)
Long-term portion	<u>3,099,898</u>	<u>3,985,583</u>

19 EMPLOYEES' END-OF-SERVICE BENEFITS

The Company and its subsidiaries operate an approved unfunded employees' end of service benefits scheme / plan for its permanent employees. The movement in the defined benefit obligation over the year is as follows:

	<i>31 December 2020 SR</i>	<i>31 December 2019 SR</i>
At the beginning of the year	39,470,059	27,215,717
<i>Included in statement of profit or loss</i>		
Current service cost	6,045,092	4,172,387
Interest cost	1,191,914	1,209,124
	<u>7,237,006</u>	<u>5,381,511</u>
<i>Included in statement of other comprehensive income</i>		
Actuarial loss	5,864,921	8,847,677
Benefits paid	(4,445,531)	(1,974,846)
At the end of the year	<u>48,126,455</u>	<u>39,470,059</u>

19 EMPLOYEES' END-OF-SERVICE BENEFITS (continued)**Actuarial assumptions**

The defined benefit plan is exposed to many actuarial risks, the most significant of which are final salary risk, discount / interest rate fluctuation risk, longevity risk and inflation risk.

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

	<i>31 December 2020</i>	<i>31 December 2019</i>
Discount rate	2.75%	3.2%
Future salary growth / expected rate of salary increase	3%	3%
Price inflation rate	2%	2%
Retirement age	60 years	60 years

The weighted average duration of the defined benefit obligation is 12.53 years (2019: 12.53 years).

The sensitivity of the defined benefit obligation to changes in the discount rate by 100 basis points is as follows:

	<i>31 December 2020 SR</i>	<i>31 December 2019 SR</i>
Increase in discount rate	(8,001,986)	(4,948,361)
Decrease in discount rate	8,001,986	4,948,361

20 LONG-TERM PROVISIONS

	<i>31 December 2020 SR</i>	<i>31 December 2019 SR</i>
Provision for asset replacement cost (note 3 (c))	-	72,632,517
Provision for dismantling cost (note a)	1,821,257	1,742,072
Others	162,967	162,967
	<u>1,984,224</u>	<u>74,537,556</u>

a) Provision for dismantling cost

It represents cost to remove the plant pertaining to Kindasa, a subsidiary from land leased by MAWANI for a period of 17 years.

21 DERIVATIVE FINANCIAL INSTRUMENT

During the year ended 31 December 2018, RSGT entered into another Profit Rate Swap contract maturing on 30 June 2023.

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

	<i>31 December 2020 SR</i>	<i>31 December 2019 SR</i>
Notional amount	332,898,300	430,051,555
Negative fair value	<u>14,060,566</u>	<u>13,103,655</u>

21 DERIVATIVE FINANCIAL INSTRUMENT (continued)

The Profit Rate Swap contract is assessed to be effective and as at 31 December 2020, net un-realised loss of SR 0.96 million (2019: SR 8.57 million) has been included in the consolidated statement of other comprehensive income', as 'cash flow hedging reserve'.

The amount shown as cash flow hedging reserve in the consolidated statement of other comprehensive income as at 31 December 2020 is expected to affect the consolidated statement of profit or loss in forthcoming years.

22 TRADE PAYABLES ACCRUED AND OTHER LIABILITIES

	<i>31 December 2020 SR</i>	<i>31 December 2019 SR</i>
Accrued liabilities	133,635,842	100,557,487
Deferred revenue	6,124,716	5,161,030
Trade payables	75,507,450	7,429,797
Advances from customers	1,147,018	4,310,587
Zakat and tax payable (note 29)	12,331,613	8,443,058
Other payables	30,702,155	32,955,812
	<u>259,448,794</u>	<u>158,857,771</u>

23 RIGHT OF USE ASSETS

Set out below are the carrying amounts of right-of-use assets recognized and the movements during the period:

	<i>31 December 2020 SR</i>	<i>31 December 2019 SR</i>
Cost:		
At the beginning of the year:	256,622,317	-
IFRS transition adjustments	-	230,459,708
Transfer from intangible on the date of application of IFRS 16, net (note 8.2)	-	26,162,609
Lease contracts modification (note below)	(147,340,195)	-
Additions during the year	4,552,274	-
Lease contract terminated during the year	(12,753,328)	-
	<u>101,081,068</u>	<u>256,622,317</u>
Depreciation:		
Accumulated depreciation	(14,797,077)	-
Depreciation for the year	(6,866,680)	(8,437,952)
Depreciation for the year (classified in capital work in progress)	(351,917)	(6,359,125)
Relating to modified and terminated contract	7,852,859	-
	<u>(14,162,815)</u>	<u>(14,797,077)</u>
Accumulated depreciation	<u>(14,162,815)</u>	<u>(14,797,077)</u>
Net value at end of the year	<u>86,918,253</u>	<u>241,825,240</u>

23 RIGHT OF USE ASSETS (continued)

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	<i>31 December 2020 SR</i>	<i>31 December 2019 SR</i>
At the beginning of the year:	247,016,438	-
IFRS transition adjustments	-	241,835,939
Lease contracts modification (note below)	(147,340,195)	-
Interest charge for the year	2,342,544	1,994,535
Unwinding of lease liability (classified in capital work in progress)	3,923,274	9,901,143
Payment of lease liabilities during the year	(9,402,420)	(6,715,179)
Relating to modified and terminated contract	(4,907,914)	-
At the end of the year	91,631,727	247,016,438
Current lease liability	7,033,955	29,930,538
Non-current lease liability	84,597,772	217,085,900
	91,631,727	247,016,438

During the year, TUSDEER, a subsidiary of the Parent Company, entered into a revised contract with “Jeddah Development and Urban Regeneration Company (JDURC)” with respect to lease of land for construction and development of a logistics park. According to the revised lease agreement, the land area is lower than before with corresponding decrease in annual rental for the current and future years.

The following are the amounts recognized in profit or loss:

	<i>31 December 2020 SR</i>	<i>31 December 2019 SR</i>
Depreciation expense of right-of-use assets	7,218,597	14,797,077
Interest charge on lease liabilities	2,342,544	1,994,535
Total amount recognized in profit or loss	9,561,141	16,791,612

24 REVENUES

	<i>31 December 2020 SR</i>	<i>31 December 2019 SR</i>
Shipping and unloading services	684,290,565	504,359,819
Sale of potable water	92,247,906	91,768,225
Rentals and support services	85,092,835	79,755,885
	861,631,306	675,883,929

25 DIRECT COSTS

	<i>31 December 2020 SR</i>	<i>31 December 2019 SR</i>
Cost of shipping and unloading services	321,744,904	309,714,794
Cost of sale of potable water	65,892,074	66,722,105
Cost of rentals and support services	50,254,753	39,140,145
	437,891,731	415,577,044

26 SELLING AND DISTRIBUTION EXPENSES

	<i>31 December 2020 SR</i>	<i>31 December 2019 SR</i>
Depreciation (note 7.4)	7,431,279	7,449,090
Salaries, wages and benefits	5,047,552	6,275,782
Utilities and telecommunication	452,914	667,485
Advertising and marketing	4,448,285	997,063
Expected credit losses on trade receivables (note 34)	1,047,551	15,849,444
Amortization (note 8.3)	125,025	138,309
Right of use assets depreciation	412,113	375,444
Others	1,860,599	1,109,975
	20,825,318	32,862,592

27 GENERAL AND ADMINISTRATIVE EXPENSES

	<i>31 December 2020 SR</i>	<i>31 December 2019 SR</i>
Salaries, wages and benefits	97,050,337	90,891,723
Legal and professional fees	12,910,651	14,218,393
Utilities, telecommunication and office supplies	3,071,385	2,404,640
Depreciation (note 7.4)	4,205,795	4,577,606
Travelling	1,924,933	6,107,145
Amortization of intangibles (note 8.3)	1,763,452	1,971,820
Right of use assets depreciation	-	44,130
Others	25,745,206	13,820,915
	146,671,759	134,036,372

28 OTHER INCOME

	<i>31 December 2020 SR</i>	<i>31 December 2019 SR</i>
Reversal of provision for asset replacement cost (note 3 (c))	75,165,205	-
Reversal of provisions no longer required	11,612,137	5,604,747
(Loss) / gain on disposal of property and equipment	(3,498,773)	47,709
Others	5,449,319	3,334,273
	88,727,888	8,986,729

29 ZAKAT AND INCOME TAX

Zakat for the year comprise of:

	<i>31 December 2020 SR</i>	<i>31 December 2019 SR</i>
Zakat charge for the year related to Saudi partners (note 29.1)	8,603,634	5,892,112
Income tax charge / (reversal) for the year related to non-Saudi partners (note 29.2)	7,903,635	(1,254,660)
Adjustments related to prior years (notes 29.1 and 29.2)	(77,438)	1,355,527
	16,429,831	5,992,979

29.1 Movement in provision for zakat is as follows:

	<i>31 December 2020 SR</i>	<i>31 December 2019 SR</i>
At the beginning of the year	6,716,894	4,586,438
Charge for the year	8,603,634	5,892,112
Adjustments relating to prior year	(91,593)	1,007,850
Amounts paid during the year	(6,419,440)	(4,769,506)
At the end of the year	8,809,495	6,716,894

29.2 Movement in provision for current income tax is as follows:

	<i>31 December 2020 SR</i>	<i>31 December 2019 SR</i>
At the beginning of the year	1,726,164	(433,827)
Charge relating to current year	5,897,489	3,153,005
Adjustment related to prior years	14,155	347,677
Paid during the year	(4,115,690)	(1,340,691)
At the end of the year	3,522,118	1,726,164

29 ZAKAT AND INCOME TAX (continued)

29.3 Major components of income tax are as follows:

	<i>31 December 2020 SR</i>	<i>31 December 2019 SR</i>
Current income tax (see note 29.2)	5,897,489	3,153,005
Deferred income tax (see note 29.4)	2,006,146	(4,407,665)
	<u>7,903,635</u>	<u>(1,254,660)</u>

Income tax charge relating to the non-Saudi partners of RSGT has been provided based on non-Saudi partners share of adjusted net income for the year at the rate of 20%.

29.4 Movement in deferred tax asset during the year is as follows:

	<i>31 December 2020 SR</i>	<i>31 December 2019 SR</i>
At the beginning of the year	4,407,665	-
Deferred tax (expense) / credit during the year charged to income statement	(2,006,146)	4,407,665
At the end of the year	<u>2,401,519</u>	<u>4,407,665</u>

29.5 Zakat assessments status**Parent Company**

Based on the ongoing discussions, subsequent to the current year end, the Parent Company received an offer by the General Authority of Zakat and Tax ("GAZT") Settlement Committee to pay SR 8 million as a full and final settlement against zakat and tax years from 2002 to 2013. Management of the Parent Company confirmed their acceptance to the GAZT Settlement Committee and, simultaneously, requested to adjust SR 3.9 million already paid by the Parent Company for those years. Pending the final invoice and confirmation by GAZT Collection Department, the Parent Company reversed in these consolidated financial statements an amount of SR 8 million representing the provision no longer required.

The GAZT raised assessments for the years 2014 and 2015 with an additional liability of SR 0.69 million. The Parent Company has filed an appeal against the GAZT's assessments. The GAZT has issued a revised assessment with reduced liability of SR 0.52 million. An appeal against the remaining amount was filed by the Company with the GSTC. Hearing dates for each of the cases transferred to the GSTC are yet to be assigned. The GAZT has also raised withholding tax assessments for the years 2014 and 2015 with an additional liability of SR 0.042 million. The Company accepted and paid the imposition of withholding tax amounting to SR 0.009 million for the year 2014. An appeal against the remaining amount of withholding tax assessment for the year 2015 of SR 0.033 million was filed by the Company with the GSTC. The Company, however, is planning to settle the same and request the waiver of delay fine in line with the GAZT's amnesty.

The GAZT has also raised assessments for the years 2016, 2017 and 2018 with an additional liability of SR 1.44 million. The Company accepted and paid the imposition of Zakat amounting to SR 0.04 million. An appeal against the remaining amount was filed by the Company with the GAZT. The GAZT has issued its decision against the appeal filed by the Parent Company. The Parent Company has filed an appeal with the GSTC. Hearing dates for each of the cases transferred to the GSTC are yet to be assigned.

The Parent Company has filed its Zakat returns for the years upto 31 December 2019. Up to the date of these consolidated financial statements, GAZT is yet to raise the assessment for the year 2019.

At 31 December 2020

29 ZAKAT AND INCOME TAX (continued)**29.5 Zakat assessments status (continued)*****Subsidiaries******Red Sea Gateway Terminal Company Limited and Red Sea Ports Development Company (“the Subsidiaries”)***

RSGT has finalized its Zakat and income tax assessments with GAZT up to 2013 and has filed its Zakat and income tax returns up to the year 2019. GAZT is yet to raise the assessment for the years from 2014 to 2019.

RSPD has filed its Zakat and income tax returns up to the year 2019. Up to the date of these consolidated financial statements, GAZT is yet to raise assessments.

Saudi Trade and Export Development Company Limited (“the Subsidiary”)

The Subsidiary has finalized its Zakat assessments with GAZT up to 2008 and has filed its Zakat returns up to 2019. Up to the date of these consolidated financial statements, GAZT is yet to raise the assessment for the years from 2009 to 2019.

Support Services Operation Company Limited (“the Subsidiary”)

The Subsidiary has finalized its Zakat assessments with GAZT for the years 2007, 2008 and 2018 and has filed its Zakat returns up to 2019. GAZT has not raised the assessment for the years from 2009 to 2017 and also for the year 2019.

Kindasa Water Service Company (“the Subsidiary”)

The Subsidiary has finalized its Zakat assessments with GAZT up to 2008 and has filed its Zakat returns up to 2019. Up to the date of these consolidated financial statements, GAZT is yet to raise the assessment for the years from 2009 to 2019.

30 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 year.

	31 December 2020 SR	31 December 2019 SR
Profit for the period attributable to ordinary equity holders of the Parent Company	139,412,924	50,922,990
Weighted average number of ordinary shares in issue	81,600,000	81,600,000
Basic and diluted earnings per share	1.71	0.62

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

31 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent the shareholders, directors and key management personnel of the Company, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Company's management.

a) Significant related party transactions for the year ended 31 December are as follows:

Due from related parties

<i>Related party</i>	<i>Relationship</i>	<i>Description</i>	<i>Amount of transaction</i>		<i>Balance as at</i>	
			<i>31 December</i>	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>
			<i>2020</i>	<i>2019</i>	<i>2020</i>	<i>2019</i>
			<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
International Water Distribution Company	Associate	Sales of goods and services	65,195,702	62,909,118	11,206,981	10,376,904
		Services rendered to associate	726,000	693,000	73,430	-
		Expenses incurred by associate on behalf of the Group	(10,088)	(38,081)	-	-
		Expenses incurred by Group on behalf of the associate	117,704	188,734	-	-
		Dividend received from associate	4,000,000	-	-	-
Arabian Bulk Trade Limited	Affiliate	Sales of goods and services	69,510	13,858	74,293	5,237
		Expenses incurred by Group on behalf of the Associate	6,193	-	-	-
Ambro limited	Affiliate	Purchase of services	(39,091)	(14,841)	-	-
Al Jabr Talke Company Limited	Associate	Services rendered to associate	342,000	499,331	23,000	-
		Dividend received from associate	11,025,967	8,444,856		10,420
		Expenses cross charged by Group to associate	127,100	10,420		
Saudi Water and Environmental Services Company Limited	Associate	Sales of goods and services	5,019,904	5,010,303	249,996	309,637
Saudi Cable Company	Affiliate	Lease of land and warehouses	306,165	244,047	234,469	210,035

At 31 December 2020

31 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

<i>Related party</i>	<i>Relationship</i>	<i>Description</i>	<i>Amount of transaction</i>		<i>Balance as at</i>	
			<i>31 December</i>	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>
			<i>2020</i>	<i>2019</i>	<i>2020</i>	<i>2019</i>
			<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
Aecom Arabia Limited	Affiliate	Payments made by the Group on behalf of affiliate	(47,250)	-	-	64,226
Xenel Industries Limited	Shareholder	Payments made by the Group on behalf of the Shareholder Expenses incurred by the shareholder on behalf of the Group	315,628 (160,845)	329,295 (133,828)	420,964	- 208,582
Total					12,283,133	11,185,041

Due to related parties

<i>Related party</i>	<i>Relationship</i>	<i>Description</i>	<i>Amount of transaction</i>		<i>Balance as at</i>	
			<i>31 December</i>	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>
			<i>2020</i>	<i>2019</i>	<i>2020</i>	<i>2019</i>
			<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
Al Karam Fedics Services Company	Affiliate	Purchase of goods and services	(18,557,097)	(10,219,308)	-	980,418
Haji Abdullah Ali Reza & Co. Limited - General Technical Division	Affiliate	Purchase of goods and services	(657,736)	-	36,605	-
Total					36,605	980,418

31 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

b) Key management personnel remuneration and compensation comprised of the following:

	<i>31 December 2020</i>	<i>31 December 2019</i>
Short term employee benefits	13,608,875	9,877,991
Post-employment benefits	434,626	563,811
	<u>14,043,501</u>	<u>10,441,802</u>

Short term employee benefits of the Group's key management personnel include remuneration, salaries and bonuses.

c) Board of Directors / Committee members remuneration and compensation comprised of the following:

	<i>31 December 2020</i>	<i>31 December 2019</i>
Meeting attendance fees	744,000	805,000
Other remuneration	6,842,500	5,340,400
	<u>7,586,500</u>	<u>6,145,400</u>

32 COMMITMENTS AND CONTINGENCIES

At 31 December 2020, the Group's bankers have issued letters of guarantee amounting to SR 156.3 million (31 December 2019: SR 67.1 million) against which cash margin of SR 2.77 million (31 December 2019: SR 2.25 million) was deposited.

As at 31 December 2020, the Group has commitments for capital work in progress amounting to SR 4.8 million (31 December 2019: SR 141.7 million) mainly relating to new logistic hub and park construction project and new desalination plant construction and development project.

33 BUSINESS SEGMENTS

The Group has the following main business segments:

- Port development and operations
- Water desalination and distribution
- Logistic parks and support services
- Unallocated: 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 year ended 31 December:

	Reportable segments			<i><u>Total</u></i> <i><u>(SR'000)</u></i>	<i><u>Unallocated</u></i> <i><u>(SR'000)</u></i>	<i><u>Total</u></i> <i><u>(SR'000)</u></i>
	<i><u>Port</u></i> <i><u>development</u></i> <i><u>and</u></i> <i><u>operations</u></i> <i><u>(SR'000)</u></i>	<i><u>Logistic parks</u></i> <i><u>and support</u></i> <i><u>services</u></i> <i><u>(SR'000)</u></i>	<i><u>Water</u></i> <i><u>desalination</u></i> <i><u>and</u></i> <i><u>distribution</u></i> <i><u>(SR'000)</u></i>			
31 December 2020						
External total revenues	843,524	85,093	93,210	1,021,827	-	1,021,827
Inter-segment revenue	-	-	(963)	(963)	-	(963)
Segment revenue	<u>843,524</u>	<u>85,093</u>	<u>92,247</u>	<u>1,020,864</u>	<u>-</u>	<u>1,020,864</u>
External total direct costs	481,941	50,255	65,892	598,088	-	598,088
Inter-segment direct costs	(963)	-	-	(963)	-	(963)
Segment cost	<u>480,978</u>	<u>50,255</u>	<u>65,892</u>	<u>597,125</u>	<u>-</u>	<u>597,125</u>
Segment gross profit	<u>362,546</u>	<u>34,838</u>	<u>26,355</u>	<u>423,740</u>	<u>-</u>	<u>423,740</u>
Profit / (loss) attributable to shareholders of the Parent Company	<u>120,868</u>	<u>10,873</u>	<u>2,360</u>	<u>134,101</u>	<u>5,312</u>	<u>139,413</u>
Segment assets	<u>3,536,229</u>	<u>416,201</u>	<u>188,050</u>	<u>4,140,480</u>	<u>266,674</u>	<u>4,407,154</u>
Segment liabilities	<u>2,530,370</u>	<u>112,289</u>	<u>30,998</u>	<u>2,673,657</u>	<u>31,919</u>	<u>2,705,577</u>

33 BUSINESS SEGMENTS (continued)

31 December 2019	Reportable segments			<u>Total</u> (SR'000)	<u>Unallocated</u> (SR'000)	<u>Total</u> (SR'000)
	<i>Port development and operations</i> (SR'000)	<i>Logistic parks and support services</i> (SR'000)	<i>Water desalination and distribution</i> (SR'000)			
External revenues	504,827	82,270	92,728	679,825	-	679,825
Inter-segment revenue	(468)	(2,514)	(959)	(3,941)	-	(3,941)
Segment revenue	504,359	79,756	91,769	675,884	-	675,884
Direct costs	313,189	39,607	66,722	419,518	-	419,518
Inter-segment direct costs	(3,474)	(467)	-	(3,941)	-	(3,941)
Segment cost	309,715	39,140	66,722	415,577	-	415,577
Segment gross profit	194,644	40,616	25,047	260,307	-	260,307
Profit attributable to shareholders of the Parent Company	42,142	2,596	2,773	47,511	3,412	50,923
Segment assets	1,906,314	522,672	236,847	2,665,833	240,269	2,906,102
Segment liabilities	994,452	259,342	32,374	1,286,168	28,899	1,315,067

34 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including interest rate risks, currency risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on robust liquidity management as well as monitoring of various relevant market variables, thereby consistently seeking to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk and commodity risk. Financial instruments affected by market risk include long term loans and long term liabilities.

Interest rate risk

Interest rate risk is the exposure to various risks associated with the effect of fluctuations in the prevailing interest rates on the Group's financial position and cash flows. The Group manages the interest rate risk by regularly monitoring the interest rate profiles of its interest bearing financial instruments.

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. The Group enters 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.

Increase / decrease in variable rate by 1% 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 4.6 million (31 December 2019: SR 3.6 million).

34 FINANCIAL RISK MANAGEMENT (continued)**Foreign currency risk**

Foreign 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 Riyals 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.

Other price risk

The Group does not hold quoted instruments, accordingly not exposed to other price risk.

Credit risk

Credit risk is the risk that one party to 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. To mitigate the risk, the Group has a system of assigning credit limits to its customers based on an extensive evaluation based on customer profile and payment history.

The Groups gross maximum exposure to credit risk at the reporting date is as follows:

	<i>31 December 2020 SR</i>	<i>31 December 2019 SR</i>
Financial assets		
Trade receivables, net	102,696,717	69,043,545
Due from related parties	12,283,133	11,185,041
Balances with banks	336,299,837	294,782,087
	451,279,687	375,010,673

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. As at 31 December 2020, 6 largest customers (31 December 2019: 6 largest customers) account for approximately 74% (31 December 2019: 72%) of outstanding trade receivables.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets. Outstanding customer receivables are regularly monitored. Some customers are also secured, where possible, by way of cash promissory note, security deposit or advance, which are considered integral part of trade receivables and considered in the calculation of impairment.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

	<i>31 December 2020</i>					
	<i>Current SR</i>	<i><90 days SR</i>	<i>90–180 days SR</i>	<i>271–365 days SR</i>	<i>>1 year SR</i>	<i>Total SR</i>
Exposure at default	54,063,225	40,875,286	7,240,466	1,596,796	17,196,262	120,972,035
Expected credit loss	598,377	772,574	230,471	698,761	15,975,135	18,275,318
	53,464,848	40,102,712	7,009,995	898,035	1,221,127	102,696,717

34 FINANCIAL RISK MANAGEMENT (continued)**Credit risk (continued)**

	<i>31 December 2019</i>					
	<i>Current SR</i>	<i><90 days SR</i>	<i>90–180 days SR</i>	<i>271–365 days SR</i>	<i>>1 year SR</i>	<i>Total SR</i>
Exposure at default	34,552,243	30,323,345	1,900,998	7,029,056	12,465,670	86,271,312
Expected credit loss	144,054	251,788	81,306	4,744,489	12,006,130	17,227,767
	<u>34,408,189</u>	<u>30,071,557</u>	<u>1,819,692</u>	<u>2,284,567</u>	<u>459,540</u>	<u>69,043,545</u>

Movement of impairment allowance against trade receivables is as follows:

	<i>31 December 2020</i>	<i>31 December 2019</i>
At the beginning of the year	17,227,767	1,444,845
Charge during the year	1,047,551	15,849,444
Written off during the year	-	(66,522)
At the end of the year	<u>18,275,318</u>	<u>17,227,767</u>

Credit risk on bank balances is limited as the bank balances are held with banks with sound credit ratings ranging from A2 to A1 based on Moody's credit rating. All bank accounts are held with banks within Kingdom of Saudi Arabia.

Financial position of related parties is stable. There were no past due or impaired receivables from related parties.

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. The table below summarises the maturity profile of the Group's financial liabilities based on contractual payments:

31 December 2020	<i>Within 1 year SR</i>	<i>1 to 5 years SR</i>	<i>More than 5 years SR</i>	<i>Total SR</i>
Bank borrowings	70,670,666	316,097,397	406,628,205	793,396,268
Obligation under service concession arrangement	190,530,528	620,367,716	735,056,777	1,545,955,021
Trade payables, accrued and other liabilities	209,143,292	-	-	209,143,292
Due to related parties	36,605	-	-	36,605
	<u>470,381,091</u>	<u>936,465,113</u>	<u>1,141,684,982</u>	<u>2,548,531,186</u>
31 December 2019				
Bank borrowings	240,711,549	540,389,501	-	781,101,050
Trade payables, accrued and other liabilities	107,987,284	-	-	107,987,284
Due to related parties	980,418	-	-	980,418
	<u>349,679,251</u>	<u>540,389,501</u>	<u>-</u>	<u>890,068,752</u>

35 CAPITAL MANAGEMENT

For the purpose of the Group's capital management, capital includes issued capital, share premium, statutory reserve and retained earnings attributable to the equity holders of the Parent Company. The primary objective of the Group's capital management is to maximize the shareholders' value. The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus debt.

	31 December 2020 SR	<i>31 December 2019 SR</i>
Total liabilities	2,697,576,634	1,315,066,947
Less: Cash and cash equivalents	(336,533,927)	(295,100,801)
Net debt	2,361,042,707	1,019,966,146
Equity	1,709,577,092	1,591,035,180
Total capital	4,070,619,799	2,611,001,326
Gearing ratio	58%	39%

36 OBLIGATION UNDER SERVICE CONCESSION AGREEMENT

The classification of obligations under service concession agreement amounts is given below:

	31 December 2020 SR
Balance at 31 December	1,545,955,021
Less: current portion	(190,530,528)
Non current portion	1,355,424,493

37 CONSTRUCTION REVENUE AND CONSTRUCTION COST

	2020 SR	<i>2019 SR</i>
Construction revenue	159,233,442	-
Cost of construction	(159,233,442)	-

In accordance with IFRIC 12 "Service Concession Agreements", the Group has recorded construction revenue of SR 159.23 million on construction of a container terminal for the period from 1 April 2020 (i.e. the effective date of the new concession agreement) to 31 December 2020. The construction revenue represents the fair value of the construction services provided in developing the container terminal. No margin has been recognized, as in management's opinion the fair value of the construction services provided approximates to the construction cost.

38 FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

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

38 FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

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.

<i>31 December 2020</i>	<i>Carrying value SR</i>	<i>Level 3 SR</i>
FINANCIAL ASSETS		
<i>Amortised cost</i>		
Trade receivables and other receivables	105,466,942	
Due from related parties	12,283,133	
Cash and cash equivalents	336,533,927	
<i>FVOCI</i>		
Investment in equity securities	14,972,714	14,972,714
	<u>469,256,716</u>	<u>14,972,714</u>
FINANCIAL LIABILITIES		
Loans and bank facility	736,333,242	
Obligation under service concession arrangements	1,545,955,021	
Trade payables and other liabilities	209,143,292	
Due to related parties	36,605	
Derivative financial instrument	14,060,566	14,060,566
	<u>2,505,528,726</u>	<u>14,060,566</u>
<i>31 December 2019</i>	<i>Carrying value SR</i>	<i>Level 3 SR</i>
FINANCIAL ASSETS		
<i>Amortised cost</i>		
Trade receivables and other receivables	71,298,525	-
Due from related parties	11,185,041	-
Cash and cash equivalents	295,100,801	-
<i>FVOCI</i>		
Investment in equity securities	15,538,283	15,538,283
	<u>393,122,650</u>	<u>15,538,283</u>
FINANCIAL LIABILITIES		
Loans and bank facility	781,101,050	-
Trade payables and other liabilities	107,987,284	-
Due to related parties	980,418	-
Derivative financial instrument	13,103,655	13,103,655
	<u>903,172,407</u>	<u>13,103,655</u>

None of the Group's financial assets and liabilities are classified under level 1 and level 2 .

39 FINANCE COST, NET

	31 December 2020 SR	<i>31 December 2019 SR</i>
Financial charges on loans and bank facilities including amortization of advance rentals	34,944,116	43,792,346
Finance charges on obligation under service concession arrangement (note 3 (b))	126,491,836	-
Modification gain on loan arrangements	(31,959,301)	-
Unwinding of provision for asset replacement cost	933,146	1,119,791
Financial charges on right of use liabilities	2,342,544	1,994,535
Finance income-others	-	(1,831,748)
Other financial charges	728,484	820,293
	<u>133,480,825</u>	<u>45,895,217</u>

40 MATERIAL PARTLY-OWNED SUBSIDIARIES

	31 December 2020 SR	<i>31 December 2019 SR</i>
Non -controlling interest	<u>395,634,489</u>	<u>346,622,791</u>

Summarised financial information of material non-controlling interest in “Red Sea Gateway Terminal Company Limited” and “Red Sea Ports Development Company Limited”, is disclosed in note 33 to the consolidated financial statements under “Port development and operations” segment.

41 COMPARATIVE FIGURES

Certain of the prior year amounts have been reclassified to conform with the presentation in the current year. However, there was no impact on the total comprehensive income or equity of such reclassifications.

42 APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved and authorised to issue by the Board of Directors on 25 February 2021 (corresponding to 13 Rajab 1442H).