

**The National Shipping Company of Saudi Arabia
(A Saudi Joint Stock Company)**

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

30 JUNE 2016



(The National Shipping Company of Saudi Arabia)
(A Saudi Joint Stock Company)
Interim Consolidated Financial Statements (Unaudited)
For the six month period ended 30 June 2016
and independent auditors' limited review report

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LIMITED REVIEW REPORT
TO THE SHAREHOLDERS OF
THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA
(A SAUDI JOINT STOCK COMPANY)

SCOPE OF REVIEW

We have reviewed the accompanying interim consolidated balance sheet of The National Shipping Company of Saudi Arabia - a Saudi Joint Stock Company (the "Company") and its subsidiaries (the "Group") as at 30 June 2016, and the related interim consolidated statement of income for the three month and six month periods ended 30 June 2016 and the interim consolidated statement of cash flows for the six month period then ended. These interim consolidated financial statements are the responsibility of the Group's management and have been prepared by them and submitted to us together with all the information and explanations which we required. We conducted our limited review in accordance with the Standard on Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants (SOCPA). A limited review consists principally of applying analytical procedures to financial data and information and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

CONCLUSION

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

For Ernst & Young



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Riyadh: 21 Shawwal 1437H
(26 July 2016)



(The National Shipping Company of Saudi Arabia)
(A Saudi Joint Stock Company)
Interim Consolidated Balance Sheet
As at 30 June 2016
(In Thousands Saudi Riyals)

<u>ASSETS</u>	<u>Note</u>	As at 30 June 2016 (Unaudited)	As at 31 December 2015 (Audited)	As at 30 June 2015 (Unaudited)
Current assets:				
Bank balances and cash	3	224,108	173,265	333,513
Murabaha and short term deposits	3	1,038,121	1,066,597	162,277
Trade receivables, net		1,002,489	1,001,104	711,938
Lease receivable for vessels, net		31,416	27,901	24,532
Prepaid expenses and other receivables		291,934	163,686	159,722
Agents' current accounts		45,915	47,587	68,362
Inventories		218,275	203,610	242,611
Accrued bunker subsidy, net		93,802	150,412	199,743
Incomplete voyages		211	6,369	-
Total current assets		2,946,271	2,840,531	1,902,698
Non-current assets:				
Lease receivable for vessels, net		313,167	330,381	344,583
Investments held to maturity		10,043	10,043	10,587
Investments available for sale		13,533	13,533	13,533
Investment in an associated company	4	1,104,690	1,027,941	966,788
Deferred dry-docking cost, net		189,842	126,586	126,646
Intangible assets, net		798,300	849,464	876,482
Fixed assets, net		14,144,643	12,798,271	12,632,152
Ships under construction and others	5	1,075,850	1,099,901	403,393
Total non-current assets		17,650,068	16,256,120	15,374,164
Total assets		20,596,339	19,096,651	17,276,862
 LIABILITIES AND EQUITY				
Current liabilities:				
Accounts payable and accruals		736,690	928,326	659,297
Murabaha and long-term financing -current portion	6	637,222	547,016	552,070
Short term Murabaha financing		381,688	-	3,260,313
Dividends payable		39,183	35,095	35,755
Provision for zakat and tax	8	340,615	296,811	203,352
Incomplete voyages		-	-	4,473
Other liabilities	9	12,329	30,704	-
Total current liabilities		2,147,727	1,837,952	4,715,260
Non-current liabilities:				
Murabaha, Sukuk and long-term financing	6	8,548,486	7,505,847	3,878,708
Employees' end of service benefits		52,872	53,774	51,908
Other liabilities	9	-	-	30,704
Total non-current liabilities		8,601,358	7,559,621	3,961,320
Total liabilities		10,749,085	9,397,573	8,676,580
Equity:				
Shareholders' equity				
Share capital	1	3,937,500	3,937,500	3,937,500
Statutory reserve		2,309,507	2,197,890	2,090,221
Retained earnings	7	3,167,641	3,149,268	2,180,243
Total shareholders' equity		9,414,648	9,284,658	8,207,964
Non-controlling interests		432,606	414,420	392,318
Total equity		9,847,254	9,699,078	8,600,282
Total liabilities and equity		20,596,339	19,096,651	17,276,862

The accompanying notes from (1) to (13) form an integral part of these interim consolidated financial statements.



البحري Bahri
 (The National Shipping Company of Saudi Arabia)
 (A Saudi Joint Stock Company)
Interim Consolidated Statement of Income
 (Unaudited)
 (In Thousands Saudi Riyals)

	Note	For the three-month period ended 30 June		For the six-month period ended 30 June	
		2016	2015	2016	2015
Operating revenues		1,855,631	1,810,690	3,790,812	3,453,147
Bunker cost		(171,831)	(275,902)	(339,656)	(607,817)
Other operating expenses		(1,142,531)	(1,141,067)	(2,192,041)	(2,043,445)
Gross operating income before bunker subsidy		541,269	393,721	1,259,115	801,885
Bunker subsidy		31,561	46,706	61,271	93,755
Gross operating income		572,830	440,427	1,320,386	895,640
General and administrative expenses		(31,827)	(28,503)	(69,682)	(55,772)
Operating income		541,003	411,924	1,250,704	839,868
Share in results of an associated company	4	38,758	9,258	76,749	61,030
Finance charges	6	(48,308)	(25,392)	(112,418)	(64,993)
Other income (expenses), net	10	21,987	1,104	(11,685)	1,947
Income before zakat, tax and non-controlling interests		553,440	396,894	1,203,350	837,852
Zakat and tax, net	8	(34,886)	(40,896)	(68,999)	(74,841)
Income before non-controlling interests		518,554	355,998	1,134,351	763,011
Non-controlling interests		(14,379)	(13,520)	(18,186)	(22,121)
Net income for the period		504,175	342,478	1,116,165	740,890
Earnings Per Share (in SR):					
Attributable to operating income	7	1.37	1.05	3.18	2.13
Attributable to net income for the period	7	1.28	0.87	2.83	1.88

The accompanying notes from (1) to (13) form an integral part of these interim consolidated financial statements.



(The National Shipping Company of Saudi Arabia)
(A Saudi Joint Stock Company)
Interim Consolidated Statement of Cash Flows
(Unaudited)
(In Thousands Saudi Riyals)

	Note	For the six-month period ended 30 June	
		2016	2015
Cash flows from operating activities:			
Net income for the period		1,116,165	740,890
Adjustments to reconcile net income for the period to net cash flows from operating activities:			
Depreciation		384,717	351,602
Amortization of deferred dry-docking costs		33,444	27,017
Amortization of intangible assets		24,539	27,019
Provision for doubtful account		1,012	-
Share in results of an associated company	4	(76,749)	(61,030)
Loss (gain) on sale of fixed assets	10	33,152	(2,279)
Non-controlling interests in consolidated subsidiaries' net income		18,186	22,121
Provision for zakat and tax	8	68,999	74,841
Employees' end of service benefits, net		(902)	(926)
		<u>1,602,563</u>	<u>1,179,255</u>
Changes in operating assets and liabilities:			
Trade receivables, net		(2,397)	(50,186)
Lease receivable for vessels, net		13,699	10,307
Prepaid expenses and other receivables		(101,623)	4,615
Agents' current accounts		1,672	7,972
Inventories		(14,665)	84,879
Accrued bunker subsidy, net		56,610	(2,336)
Incomplete voyages		6,158	(5,340)
Accounts payable and accruals		(191,636)	140,791
Other liabilities		(18,375)	-
Zakat and tax paid	8	(25,195)	(14,387)
Net cash flows from operating activities		<u>1,326,811</u>	<u>1,355,570</u>
Cash flows from investing activities:			
Murabaha and short-term deposits		(9,476)	(23,418)
Additions to fixed assets		(1,761,421)	(3,915)
Proceeds from sale of fixed assets		26,805	2,457
Ships under construction and others, net		(5,574)	(391,354)
Deferred dry-docking costs		(96,700)	(31,497)
Net cash used in investing activities		<u>(1,846,366)</u>	<u>(447,727)</u>
Cash flows from financing activities:			
Proceeds (Repayment) of short-term Murabaha financing		381,688	(199,000)
Proceeds (Repayment) of Murabaha and long-term financing		1,132,845	(280,414)
Dividends paid		(980,287)	(344,127)
Board of directors rewards		(1,800)	(2,000)
Net cash from (used in) financing activities		<u>532,446</u>	<u>(825,541)</u>
Net change in cash and cash equivalents during the period		<u>12,891</u>	<u>82,302</u>
Cash and cash equivalents at the beginning of the period		<u>1,142,831</u>	<u>313,308</u>
Cash and cash equivalents at the end of the period	3	<u>1,155,722</u>	<u>395,610</u>
Major non-cash transactions:			
Ships under construction and others transferred to fixed assets	5	<u>29,625</u>	<u>-</u>

The accompanying notes from (1) to (13) form an integral part of these interim consolidated financial statements.



(The National Shipping Company of Saudi Arabia)
(A Saudi Joint Stock Company)
Notes To The Interim Consolidated Financial Statements (Unaudited)
For the Period Ended 30 June 2016
(In Thousands Saudi Riyals)

1. ORGANIZATION AND OPERATIONS

The National Shipping Company of Saudi Arabia, a Saudi Joint Stock Company (“the Company” or “Bahri”), was established under the Royal Decree No, M/5 dated Safar 12, 1398H (corresponding to January 21, 1978), and registered under Commercial Registration No, 1010026026 dated Dhul Hijjah 1, 1399H, (corresponding to October 22, 1979) issued in Riyadh.

The Company and its subsidiaries listed below (the “Group”) are primarily engaged in purchasing, sale and operating of vessels for the transportation of cargo and passengers, agencies for maritime shipping companies, cargo clearance and coordination for on vessels’ board transport and storage, and all of the marine transport activities. The Group performs its operations through four distinct segments which are crude oil transportation, chemicals transportation, general cargo transportation, and dry bulk transportation. The Group is also engaged in the ownership of lands, properties inside or outside the kingdom, ownership of shares in other existing companies or merges with them and participates with others in establishing companies with similar activities or complementary activities.

The Company’s capital consists of 393,750,000 shares as of 30 June 2016 and 30 June 2015. The par value per share is SR 10.

The subsidiary companies incorporated into these interim consolidated financial statements are as follows:

Name	Activity	Location	Date of incorporation	Effective Ownership 2016	Effective Ownership 2015
NSCSA (America) Inc.	Company’s ships agent	USA	1991	100%	100%
Mideast Ship Management Ltd. (JLT)	Ship management	UAE	2010	100%	100%
National Chemical Carriers Ltd. Co. (NCC)	Petrochemicals transportation	KSA	1990	80%	80%
Bahri Dry Bulk LLC	Dry Bulk transportation	KSA	2010	60%	60%

The associated company that is not consolidated within these interim consolidated financial statements is as follows (note 4):

Name	Accounting method	Activity	Location	Date of incorporation	Effective Ownership 2016	Effective Ownership 2015
Petredec Ltd, *	Equity method	Liquefied petroleum gas transportation	Bermuda	1980	30.30%	30.30%

* The share of the Company in Petredec’s Limited Company results is recorded based on the latest financial statements prepared by Petredec’s Limited Company. The difference between the latest financial statement prepared by Petredec and the Company’s consolidated financial statements is two months. The fiscal year for Petredec starts on September 1 and ends on August 31 of each Gregorian year.



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Notes To The Interim Consolidated Financial Statements (Unaudited) - continued
For the Period Ended 30 June 2016
(In Thousands Saudi Riyals)

1. ORGANIZATION AND OPERATIONS (continued)

The Group Fleet:

As of 30 June 2016, the Group owns fleet of eighty three vessels operating in various sectors as the following:

Crude Oil Transportation Sector: Consist of thirty six very large crude carriers (VLCCs), out of which thirty five are operating in the spot market, while one tanker is chartered to ARAMCO Trading Company. The company also owns five product tankers all of which are chartered to ARAMCO Trading Company.

General Cargo Transportation Sector: Consist of six RoCon vessels operate on commercial lines between North America and Europe, the Middle East and the Indian subcontinent.

Chemical Transportation Sector: This sector is fully operated by the National Chemical Carriers Company (subsidiary), and it owns thirty-one specialized tankers distributed as following:

- Three tankers are leased in the form of iron under capital lease signed on January 30, 2009, with "ODFjell SE".
- Fourteen tankers that are operated by the Company in the spot market.
- Eight tankers are chartered to the International Shipping and Transportation Co, Ltd. a subsidiary of Saudi Basic Industries Corporation "SABIC", and five tankers are chartered to ARAMCO Trading Company.
- One tanker operates in a pool with ODFjell SE and managed by the Company.

Dry Bulk Transportation Sector: This sector is fully operated by Bahri Dry Bulk Company (subsidiary), and it owns five vessels specialized in transporting dry bulk cargo, all of which are chartered to the Arabian Agricultural Services Company (ARASCO).

2. SIGNIFICANT ACCOUNTING POLICIES

a. *Accounting convention*

The accompanying interim consolidated financial statements are prepared in accordance with the accounting standard interim financial reporting issued by the Saudi Organization for Certified Public Accountants (SOCPA) and under the historical cost convention, except for investments available for sale and the financial derivatives, which are measured at fair value, The Company applies the accruals basis of accounting in recognizing revenues and expenses.

The significant accounting policies adopted are consistent with those described in the annual consolidated financial statements for the year ended 31 December 2015.

b. *Period of financial statements*

According to the by-laws of the Company, the fiscal year of the Company starts on the 1st of January and ends on December 31st of each Gregorian year.

The interim consolidated financial statements are prepared on the integration basis of financial periods, where each interim consolidated financial period is considered as complementary to the fiscal year as a whole. Accordingly, each period's revenues, gains, expenses and losses are recognized during that period. All adjustments which the Group management deemed necessary to fairly present the financial position and the results of the Group have been made. The interim results may not be an accurate indication of the annual results of operations.



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Notes To The Interim Consolidated Financial Statements (Unaudited) - continued
For the Period Ended 30 June 2016
(In Thousands Saudi Riyals)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

c. *Basis of consolidation*

- These interim consolidated financial statements include assets, liabilities and the Company's results of operations and its subsidiaries listed in Note (1) above.
- The subsidiary company is that in which the Company has, direct or indirect long term investment, comprising an interest of more than 50% in the voting capital and over which it exercises practical control. The subsidiary company is consolidated from the date the company obtains control until such control ceases.
- All significant inter-group accounts and transactions resulting in revenue and expenses as well as realized gains (losses) on these transactions are eliminated on consolidation.
- Non-controlling interest represents share of profit or loss and net assets not owned by the Company, and is included as a separate item in the interim consolidated statement of financial position and interim consolidated statement of income.

d. *Use of estimates*

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

e. *Cash and cash equivalents*

For the purpose of the interim consolidated statement of cash flows. Cash and cash equivalents comprise bank balances and cash, Murabaha and short-term deposits, and investments convertible into known amounts of cash, and maturing within three months or less from the date of acquisition, which is available to the Group without any restrictions.

f. *Trade accounts receivable*

Trade accounts receivable are stated at net realizable value, net after deducting provision for doubtful debts. A provision against doubtful debts is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Such provisions are charged to the interim consolidated statement of income within "General and administrative expenses". When an account receivable is uncollectible, it is written-off against the provision for doubtful debts. Any subsequent recoveries of amounts previously written-off are credited against "General and administrative expenses" in the interim consolidated statement of income.

g. *Accounting for finance leases*

The present value of lease payments for assets sold under finance leases together with the unguaranteed residual value at the end of the lease is recognized as a receivable net of unearned finance income. Lease income is recognized over the term of the lease using the net investment method, which reflects a constant periodic rate of return.



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Notes To The Interim Consolidated Financial Statements (Unaudited) - continued
For the Period Ended 30 June 2016
(In Thousands Saudi Riyals)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

h. Inventories

Inventories consists of fuel and lubricants on board of the vessels are shown as inventories at the interim consolidated statement of financial position date, and the cost is determined using the First in First Out (FIFO) method which is considered more appropriate to the Group's operations. The differences between the weighted average method and FIFO method are not significant to the interim consolidated statement of income. Spare parts and other consumables on board for each vessel are charged to operating expenses upon purchase.

i. Deferred dry-docking costs

Deferred dry-docking costs are amortized over a period of two to five years from the date of completion of dry-docking depending on the type of vessel. Where a vessel undergoes another dry-docking operation during the specified amortization period, any unamortized balance of deferred costs related to the previous dry-docking of the vessel is fully amortized at the interim consolidated statement of income at the period of new dry-docking operation is started.

j. Investments

1- Investments in associated companies:

Investments in associated companies in which the Group has significant influence, but not control, over the investee's financial and operational policies, generally holds an equity interest ranging between 20% and 50%, are accounted for using the equity method, whereby the original cost of investment is adjusted by the post acquisition retained earnings (accumulated losses) and reserves of these companies based on their latest financial statements. When the Group acquires an interest in an associated company for an amount in excess of the fair value of the acquiree's net assets, the difference is treated as goodwill and recorded as part of the investment account. Goodwill is impaired by the decline in value amount, if any, and charged to the interim consolidated statement of income.

2- Investments in securities:

Investments in securities are classified into three categories as follows:

• **Investments held for trading**

Certain investments in securities are classified as held for trading based on the management's intention. These investments are stated at fair value. Unrealized gains or losses are recorded in the interim consolidated statement of income.

• **Investments held to maturity**

Certain investments in securities are classified as held to maturity based on the management's intentions. These investments are stated at cost, adjusted by premium or discount, if any.

• **Investments available for sale**

Certain investments are classified as available for sale if the conditions of classification as held for trading or investments held to maturity are not met. The available for sale investments are stated at fair value and unrealized gains or losses are recognized under shareholders' equity. The realized gains or losses from sale of investments are recognized in the interim consolidated statement of income in the period in which these investments are sold. If there is a permanent decline in the value of these investments or objective evidence for impairment, the unrealized loss is transferred to the interim consolidated statement of income. If there is an intention to sell the available for sale investment within 12 months from the interim consolidated balance sheet date, it is reported under current assets, otherwise under non-current assets.



(The National Shipping Company of Saudi Arabia)
(A Saudi Joint Stock Company)

Notes To The Interim Consolidated Financial Statements (Unaudited) - continued
For the Period Ended 30 June 2016
(In Thousands Saudi Riyals)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

j. Investments (continued)

2- Investments in securities (continued):

- Investments available for sale(continued)

If the market value is not available for the investments listed above and there is no possibility of using alternative methods of evaluation, the cost is to be the most appropriate alternative to the fair value of securities.

k. Intangible assets

The long term substantial evaluation of transportation contracts (which resulted from purchasing the operations and assets of Vela Company) was recorded as intangible assets in the interim consolidated balance sheet statement. The value of those intangible assets are amortized over the average useful life of purchased assets and estimated in accordance with the company's accounting policy of recording fixed assets and its depreciations. Amortization is charged to the interim consolidated statement of income.

l. Fixed assets

Fixed assets are recorded at cost and are depreciated using the straight-line method over the estimated useful lives using the following depreciation rates:

<u>Category</u>	<u>Depreciation rate</u>	<u>Category</u>	<u>Depreciation rate</u>
Buildings and improvements	5 to 33.3%	Vehicles	20 to 25%
Fleet and equipment *	4 to 15%	Computers	15 to 25%
Containers and trailers	8.33 to 20%	Containers yard equipment	10 to 25%
Furniture and fixtures	10%	Others	7 to 15%
Tools and office equipment	2.5 to 25%		

* RoCons and VLCCs are depreciated over a period of twenty-five years. Used vessels are depreciated based on their estimated remaining useful live, 10% of the vessels' cost is calculated as residual value. RoCons vessel equipment is depreciated over a period of fifteen years.

Ships under construction are stated at actual cost plus all other attributable costs until to be ready for use. Upon completion, ships under construction are transferred to fixed assets and are depreciated over their estimated useful lives.

Gain or loss from disposal of fixed asset is determined by comparing proceeds from disposal with the carrying value recognized in the interim consolidated statement of income. Maintenance and routine repairs which do not materially extend the estimated useful life of an asset are charged to the interim consolidated statement of income when incurred. Major renewals and improvements, if any, are capitalized and the assets replaced are retired.

m. Impairment of non-current assets

The carrying value of non-current assets is reviewed for any indication of a loss as a result of impairment. If such indication exists, the recoverable amount, which is the higher of the asset's fair value less cost to sell or the gross future discounted cash flows, is estimated to identify the loss amount. If the recoverable amount cannot be determined for an asset, the grouped will estimate the recoverable amount of the cash-generating units which the asset belongs to.



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Notes To The Interim Consolidated Financial Statements (Unaudited) - continued
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(In Thousands Saudi Riyals)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

m. Impairment of non-current assets (continued)

When the estimated recoverable amount is less than the book value of the assets or cash-generating unit, the book value is reduced to the recoverable amount and the impairment loss is recognized as an expense immediately in the interim consolidated statement of income.

Except for goodwill, where the impairment loss is subsequently reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount more than the carrying amount should not exceed that would have been determined had no impairment loss been recognized for the asset or cash generating unit in prior years. A reversal on an impairment loss is recognized as income immediately in the interim consolidated statement of income.

n. Accounts payable and accruals

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

o. Provisions

Provisions are recognized when the Company has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and may be measured reliably.

p. Zakat and taxes

Zakat is provided for in accordance with the regulations of the General Authority of Zakat and Tax (GAZT) in the Kingdom of Saudi Arabian, and the provision is charged to the interim consolidated statement of income. Provision is made for withholding tax on payments to non-resident parties and is charged to the interim consolidated statement of income. For subsidiaries outside the Kingdom of Saudi Arabia, income tax is provided for in accordance with the regulations applicable in the respective countries and is charged to the interim consolidated statement of income.

q. Employees' end of service benefits

Employees' end of service benefits is provided for on the basis of the accumulated services period in accordance with the By-Laws of the Company and Saudi Labor Law, the applicable regulations applied to overseas subsidiaries.

r. Hedge agreements and derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to certain portions of its interest rate risks arising from financing activities. The Group designates these as cash flow hedges of interest rate risk. The use of financial derivatives is governed by the Group's policies, which provide principles on the use of financial derivatives consistent with the Group's risk management strategy. The Group does not use derivative financial instruments for speculative purposes. Derivative financial instruments are initially measured at fair value on the contract date and are re-measured to fair value at subsequent reporting dates.



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Notes To The Interim Consolidated Financial Statements (Unaudited) - continued
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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

r. Hedge agreements and derivative financial instruments (continued)

Changes in the fair value of derivative financial instruments that are designated as effective hedges of future cash flows are recognized directly in equity, if material and the ineffective portion is recognized immediately in the interim consolidated statement of income. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognized, the associated gain or loss on the derivative that had previously been recognized is included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognized in the interim consolidated statement of income in the same period in which the hedged item affects net income or loss.

Changes in fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in the interim consolidated statement of income as they arise. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualified for hedge accounting. At that time, for forecast transactions, any cumulative gain or loss on the hedging instrument recognized in equity is retained in equity until the forecasted transactions occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in equity is transferred to the interim consolidated statement of income for the period.

s. Statutory reserve

In accordance with Saudi Arabian Regulations for Companies, the Company is required to transfer 10% of net income to the statutory reserve. The Company may discontinue such transfers when the reserve equals to half of the paid-up capital. Shares' premium are included with the statutory reserve. This reserve is not available for distribution to shareholders.

t. Revenue recognition

The Group follows the accrual basis of accounting for the recognition of revenues and expenses for the period as follows:

- **Transport of Crude Oil, Petrochemical, and Dry Bulk:** Revenues from transport of oil, petrochemicals, and dry bulk are recognized when earned over the agreed-upon period of the contract, voyage and services.
- **General Cargo Transportation:** the Group follows the complete voyage policy in determining the revenues and expenses of the period for vessels transporting general cargo. A voyage is considered to be a "Complete Voyage" when a vessel has sailed from the last discharging port of a voyage. Shipping revenues, direct expenses, and indirect expenses of incomplete voyage are deferred until it is completed. Incomplete voyages are shown at the net amount in the interim consolidated balance sheet as "Incomplete Voyages".
- **Revenues from chartering and other associated activities:** Recorded when services are rendered over the duration of the related contractual services.
- Other income is recorded when earned.

u. Bunker subsidy

Bunker subsidy is computed on bunker quantities purchased and consumed by the Group, and recorded in the interim consolidated statement of income. Provisions are made for doubtful amounts.



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Notes To The Interim Consolidated Financial Statements (Unaudited) - continued
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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

v. *Expenses*

Direct and indirect operating costs are classified as operating expenses. All other expenses are classified as general and administrative expenses.

w. *Borrowing costs*

Borrowings are recognized at the proceeds received, net of transactions costs incurred. Borrowing costs that are directly attributable to the acquisition, construction or production of assets are capitalized as part of those assets. Other borrowing costs are charged to the interim consolidated statement of income.

x. *Foreign currency transactions*

Foreign currency transactions are translated into Saudi riyals at prevailing exchange rates at the transaction date. Monetary assets and liabilities denominated in foreign currencies at the interim consolidated balance sheet date are translated into Saudi riyals at the prevailing exchange rates on that date. Exchange differences are included in the interim consolidated statement of income.

Assets and liabilities shown in the financial statements of the consolidated subsidiaries denominated in foreign currencies are translated into Saudi riyals at exchange rates prevailing at the interim consolidated balance sheet date. Revenues and expenses of the consolidated subsidiaries denominated in foreign currencies are translated into Saudi riyals at average exchange rates for the period.

The components of equity, other than retained earnings (or accumulated losses, if any) are translated at the date of occurrence of each component. Exchange differences, if material, are included in a separate line item within shareholders' equity.

y. *Operating leases*

Operating leases payments are charged to the interim consolidated statement of income on a straight-line basis over the period of the related leases.

z. *Earnings per share and proposed dividends*

Earnings per share from operating income and net profit for the period is calculated based on the weighted average number of shares outstanding during the period. Proposed dividends after the period end are treated as part of retained earnings and not as liabilities unless the General Assembly approves it before the period end. Once approved by the General Assembly, the amount is recognized as a liability in the same period until paid.

aa. *Segment reporting*

The operating segment is a group of assets, processes or entities that:

- Are engaged in revenue operating activities;
- Have operation results which are continuously analyzed by management in order to make decisions related to resource allocation and performance assessment.
- Their financial information are available separately.



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3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent Bank balances and cash, and investments in Murabaha and short-term deposits, out of which SR 106.51 million as of 30 June 2016 (30 June 2015: SR 100.18 million) are restricted for repayment of current portion of loan installments falling due within 180 days from the interim consolidated balance sheet date.

For the purpose of the interim consolidated statement of cash flows, cash and cash equivalents comprise the following:

	30 June 2016 (Unaudited)	31 December 2015 (Audited)	30 June 2015 (Unaudited)
Bank balances and cash	224,108	173,265	333,513
Amounts restricted by banks	<u>(15,309)</u>	<u>(23,213)</u>	<u>(11,803)</u>
	<u>208,799</u>	<u>150,052</u>	<u>321,710</u>
Murabaha and short-term deposits	1,038,121	1,066,597	162,277
Amounts restricted by banks	<u>(91,198)</u>	<u>(73,818)</u>	<u>(88,377)</u>
	<u>946,923</u>	<u>992,779</u>	<u>73,900</u>
Cash and cash equivalents balance at the end of the period	<u>1,155,722</u>	<u>1,142,831</u>	<u>395,610</u>

4. INVESTMENT IN AN ASSOCIATED COMPANY

Summary of the movement in investment in an associated company, which is Petredec Limited Company, is as follows:

	30 June 2016 (Unaudited)	31 December 2015 (Audited)	30 June 2015 (Unaudited)
Balance at the beginning of the period	1,027,941	905,758	905,758
Group's share in results of an associated company	76,749	184,683	61,030
Dividends received during the period	<u>-</u>	<u>(62,500)</u>	<u>-</u>
Balance at the end of the period	<u>1,104,690</u>	<u>1,027,941</u>	<u>966,788</u>



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5. SHIPS UNDER CONSTRUCTION AND OTHERS

The movement in ships under construction and others is summarized as follows:

30 June 2016 (Unaudited)			
	The Company	National Chemical Carriers	Total
Beginning Balance	1,099,901	-	1,099,901
Additions	5,574	-	5,574
Transferred to fixed assets	(29,625)	-	(29,625)
Ending Balance	1,075,850	-	1,075,850

31 December 2015 (Audited)			
	The Company	National Chemical Carriers	Total
Beginning Balance	12,039	-	12,039
Additions	1,098,412	-	1,098,412
Transferred to fixed assets	(10,550)	-	(10,550)
Ending Balance	1,099,901	-	1,099,901

30 June 2015 (Unaudited)			
	The Company	National Chemical Carriers	Total
Beginning Balance	12,039	-	12,039
Additions	369,966	21,388	391,354
Ending Balance	382,005	21,388	403,393

The company signed on 21 May 2015, and 30 June 2015 contracts with the Korean company Hyundai Samho Heavy Industries for building ten VLCCs for a total amount of SR 3.56 billion (USD 948.90 million), which will be received during the year 2017 and 2018 (note 11). The company paid an advance payment of SR 1,068 million (USD 284.69 million).

The Board of Directors has approved in its meeting held on 26 October 2015 the purchase of two used VLCCs from DK Maritime (subsidiary of Daewoo Shipbuilding & Marine Engineering Co., Ltd), which were built by Daewoo Shipbuilding yard, South Korea in 2010 for a total price of SR 588.75 million (USD 157 million). One of the two tankers was received on 29 December 2015 and the other tanker was received on 7 January 2016. The ownership of the tankers was transferred to Bahri's Company fleet.

In addition, the Board of Directors has also approved in its meeting held on 24 December 2015 the purchase of two used VLCC from Alpha and Beta VLCC Companies (subsidiaries of Tanker Investment Ltd), which were built by Daewoo Shipbuilding yard, South Korea in 2010 for a total price of SR 581.25 million (USD 155 million). One of the VLCC was received on 19 January 2016 and the other one was received on 20 January 2016. The ownership of the two VLCC was transferred to Bahri's Company fleet.

The National Chemical Carriers Company (subsidiary owned by Bahri with 80% ownership) signed an agreement to purchase five medium size used tankers for oil's products transportation for a total price of SR 624.38 million (USD 166.5 million). Tankers were received between the dates 8 March 2016 and 6 April 2016. The ownership of the tankers was transferred to National Chemical Carriers Company's fleet.

6. **MURABAHA, SUKUK, AND LONG-TERM FINANCING**

The Group has signed various short Murabaha financing agreements on 22 June 2014 to finance the acquisition of Vela's vessels and its related expenses as well as to finance its working capital requirements for the Group. These financing agreements have been repaid through the issuance of local Sukuk denominated in Saudi Riyal on 30 July 2015 after the approval of the General Assembly on 1 April 2015 for the issuance of tradable debt instruments which include Sukuk and bonds.

The Group has also signed various Murabaha and long term financing agreements to finance the building and acquisition of new vessels in different sectors. The following table shows the details of the Murabaha and long-term financing:

30 June 2016 (Unaudited)				
Financing	The Company	Subsidiaries	Total	%
Local Sukuk denominated in Saudi Riyals*	3,900,000	-	3,900,000	42%
Murabaha financing	2,549,385	1,736,573	4,285,958	47%
Public Investment Fund "Murabaha financing"	781,875	-	781,875	9%
Public Investment Fund finance "commercial loans"	-	217,875	217,875	2%
Total Murabaha, Sukuk, and long term financing	7,231,260	1,954,448	9,185,708	100%
Less: current portion of Murabaha and long-term financing	(407,868)	(229,354)	(637,222)	-
Net non-current portion of Murabaha, Sukuk, and long term financing	6,823,392	1,725,094	8,548,486	-

31 December 2015 (Audited)				
Financing	The Company	Subsidiaries	Total	%
Local Sukuk denominated in Saudi Riyals*	3,900,000	-	3,900,000	48%
Murabaha financing	1,204,363	1,833,094	3,037,457	38%
Public Investment Fund "Murabaha financing"	879,375	-	879,375	11%
Public Investment Fund finance "commercial loans"	-	236,031	236,031	3%
Total Murabaha and, Sukuk, and long term financing	5,983,738	2,069,125	8,052,863	100%
Less: current portion of Murabaha and long-term financing	(317,663)	(229,353)	(547,016)	-
Net non-current portion of Murabaha, Sukuk, and long term financing	5,666,075	1,839,772	7,505,847	-

* The Company completed on 30 July 2015 the issuance and offering of local Sukuk denominated in Saudi Riyal for public offering with a nominal value amounted to SR 3.9 billion, and a nominal value of SR 1 million for each Sak, due on July 2022. The expected return on the Sukuk has been set at 80 basis points above the SIBOR rate for each periodic payment (semi-annual).



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6. MURABAHA AND LONG-TERM FINANCING (continued)

Financing	30 June 2015 (Unaudited)			
	The Company	Subsidiaries	Total	%
Murabaha financing	1,270,102	1,929,614	3,199,716	72%
Public Investment Fund "Murabaha financing"	976,875	-	976,875	22%
Public Investment Fund finance "commercial loans"	-	254,187	254,187	6%
Total Murabaha, Sukuk and long term financing	2,246,977	2,183,801	4,430,778	100%
Less: current portion of Murabaha and long-term financing	(322,716)	(229,354)	(552,070)	-
Net non-current portion of gross Murabaha, Sukuk and long-term financing	1,924,261	1,954,447	3,878,708	-

- The financing costs are calculated as per the financing agreements at market prevailing rates.
- Certain VLCCs and petrochemical carriers are mortgaged in favor of the lending parties.

7. EARNINGS PER SHARE AND DIVIDENDS

Earnings per share is calculated based on the number of shares outstanding during the periods ended 30 June 2016 and 2015, and the year ended 31 December 2015 amounting to 393.75 million share.

The General Assembly has approved in its meeting held on 6 April 2016 the distribution of cash dividends amounting to SR 984.38 million representing SR 2.5 per share. The dividends was distributed on 21 April 2016.

On 1 April 2015 the General Assembly has approved the distribution of dividends amounting to 10% of the share capital for 2014 earnings, which amounts to SR 393.75 million, and represents SR 1 per share. A total of SR 345.9 million was distributed to the entitled shares of 2014 earnings pursuant to the agreement with ARAMCO Company for the merger of Vela vessels which indicates ARAMCO's right to the distribution of 2014 earnings from the date of transferring the vessels to the Company.

The balance of unclaimed dividends as of 30 June 2016 amounted to SR 39.18 million (2015: SR 35.76 million).

8. ZAKAT AND WITHHOLDING TAX

The main components of the zakat base of the Group under zakat and withholding tax regulations are principally comprised of shareholders' equity, provisions at the beginning of the period, long-term borrowings and adjusted net income, less net book value of fixed assets, investments and certain other items. The zakat expense is charged to the interim consolidated statement of income.

Provision is made for withholding tax on payments to non-resident parties and is charged to the interim consolidated statement of income.

The Company and its subsidiaries filed their zakat returns for each company separately.

The Company has filed its zakat returns up to 2015. The zakat assessments have been agreed with the General Authority of Zakat and Tax ("GAZT") for all the years up to 2000.



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8. ZAKAT AND WITHHOLDING TAX (continued)

The "GZIT" has raised the zakat assessment for the years 2001 to 2007 claiming additional zakat liabilities of SR 22 million, and the Company has charged the needed provision for these claims. The Company believes it provided a sufficient provision for zakat and withholding tax as of 30 June 2016.

The Company did not receive the final assessments for the years from 2008 until 2015.

9. OTHER LIABILITIES

This item represents the total amounts received from one of the ships building companies as at 30 June 2016 and 2015 against charging this company with repair costs of the tanks related to the six vessels built for the National Chemical Carrier Company (subsidiary). Therefore, it was agreed to charge the ships building company an amount of SR 6.12 million for each ship. Maintenance was conducted for one of the vessels during the year 2013, and during the period ended 30 June 2016 maintenance was conducted for three other vessels within the maintenance period, which resulted in an excess amount of SR 16.7 million. The excess amount has been recognized in other income (note 10).

The remaining balance related to the remaining two vessels was classified under current liabilities as at 30 June 2016 since the subsidiary company has a maintenance plan for the remaining vessels during the year 2016.

10. OTHER (EXPENSES) INCOME, NET

Other (expenses) income, net for the period ended 30 June comprises the following:

	30 June 2016 (Unaudited)	30 June 2015 (Unaudited)
(Losses) gains from sale of fixed assets	(33,152)	2,279
Net gain from investments	2,111	253
Vessels maintenance settlement (note 9)	16,687	-
Others	2,669	(585)
	<u>(11,685)</u>	<u>1,947</u>

11. CAPITAL CONTINGENT LIABILITIES

The Company has capital commitment related to the building of ten VLCCs amounting to SR 2.49 billion as at 30 June 2016 (30 June 2015: SR 3.2 billion) (note 5).

The Group has outstanding letters of guarantee of SR 298.06 million as at 30 June 2016 (30 June 2015: SR 292.59 million) issued during the normal course of business.

The Group also has certain outstanding legal proceedings that have risen in the normal course of business. As the outcome of these litigations has not yet been determined, management does not expect that these cases will have a material adverse effect on the Group's results of operations or its financial position.



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12. SEGMENTAL INFORMATION

A) The following schedule illustrates the distribution of the Group's activities according to the operating segments for the period ended 30 June:

	2016 (Unaudited)				Total
	Oil Transportation	Petrochemical Transportation	General Cargo Transportation	Dry Bulk Transportation	
Operating revenues	2,911,112	360,304	417,078	102,318	3,790,812
Bunker costs	(281,531)	(32,652)	(20,826)	(4,647)	(339,656)
Other operating expenses	(1,578,233)	(251,685)	(290,914)	(71,209)	(2,192,041)
Total operating expenses	(1,859,764)	(284,337)	(311,740)	(75,856)	(2,531,697)
Gross operating income before bunker subsidy	1,051,348	75,967	105,338	26,462	1,259,115
Bunker subsidy	51,801	4,156	5,314	-	61,271
Gross operating income	1,103,149	80,123	110,652	26,462	1,320,386

	2015 (Unaudited)				Total
	Oil Transportation	Petrochemical Transportation	General Cargo Transportation	Dry Bulk Transportation	
Operating revenues	2,688,381	394,530	313,928	56,308	3,453,147
Bunker costs	(495,476)	(68,557)	(43,784)	-	(607,817)
Other operating expenses	(1,529,309)	(231,703)	(252,994)	(29,439)	(2,043,445)
Total operating expenses	(2,024,785)	(300,260)	(296,778)	(29,439)	(2,651,262)
Gross operating income before bunker subsidy	663,596	94,270	17,150	26,869	801,885
Bunker subsidy	76,865	6,660	10,230	-	93,755
Gross operating income	740,461	100,930	27,380	26,869	895,640



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12. SEGMENTAL INFORMATION (continued)

B) The following schedule illustrates the distribution of the Group's assets and liabilities according to the operating segments as of 30 June:

	2016 (Unaudited)					Total
	Oil Transportation	Petrochemical Transportation	General Cargo Transportation	Dry Bulk Transportation	Shared Assets and Liabilities*	
Assets	11,889,136	3,884,346	1,910,607	709,887	2,202,363	20,596,339
Liabilities	6,125,391	2,347,221	1,096,883	396,937	782,653	10,749,085

	2015 (Unaudited)					Total
	Oil Transportation	Petrochemical Transportation	General Cargo Transportation	Dry Bulk Transportation	Shared Assets and Liabilities*	
Assets	10,214,245	3,359,974	1,763,395	696,096	1,243,152	17,276,862
Liabilities	4,849,418	1,960,020	1,188,463	415,279	263,400	8,676,580

* Shared assets and liabilities represent amounts that cannot be allocated to a specific segment such as bank balances, Murabaha and deposits, investments held to maturity, unclaimed dividends, and others.

- The Group vessels are operating in several parts of the world.

13. RECLASSIFICATION

Certain comparative figures of the 30 June 2015 interim consolidated financial statements have been reclassified to conform to the current period presentation.