THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA

(A Saudi Joint Stock Company)

Consolidated Financial Statements

and Independent Auditor's Report

For the year ended 31 December 2017

OneBahri

EY
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INDEPENDENT AUDITOR'S REPORT
To the Shareholders of The National Shipping Company of Saudi Arabia
(A Saudi Joint Stock Company)

Opinion
We have audited the consolidated financial statements of The National Shipping Company of Saudi Arabia - a Saudi Joint Stock Company - (the "Company") and its subsidiaries (collectively with the Company referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity and 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 2017, 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 issued by the Saudi Organization for Certified Public Accountants.

Basis for Opinion
We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's 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 year. 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 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.

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INDEPENDENT AUDITOR'S REPORT
To the Shareholders of The National Shipping Company of Saudi Arabia
(A Saudi Joint Stock Company) - continued

Key Audit Matters - continued

Key audit matter	How our audit addressed the key audit matter
First time Adoption of International Financial Reporting Standards (IFRS) As a result of the regulatory requirement in the Kingdom of Saudi Arabia, effective 1 January 2017, the Group is required to prepare the consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and that are endorsed in the Kingdom of Saudi Arabia ("KSA") and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants ("SOCPA") (referred to as "IFRS as endorsed in KSA"). For all periods up to and including the year ended 31 December 2016, the Group prepared and published its audited consolidated financial statements in accordance with Generally Accepted Accounting Principles (GAAP) issued by Saudi Organization for Certified Public Accountants ("SOCPA") in KSA (referred to as "SOCPA GAAP"). The consolidated financial statements for the year ended 31 December 2017 are the Group's first consolidated financial statements prepared in accordance with IFRS as endorsed in KSA. Accordingly, the Group has applied IFRS as endorsed in KSA for preparation of its consolidated financial statements for the year beginning 1 January 2017, as well as for presenting the relevant comparative period data. In compliance with requirements of IFRS 1 as endorsed in KSA, the Group's opening statement of consolidated financial position was prepared as at 1 January 2016 after incorporating required adjustments to reflect the transition to IFRS as endorsed in KSA from the previous SOCPA GAAP. The Group has assessed the impact and significant adjustments made on transitioning from SOCPA GAAP to IFRS as endorsed in KSA in the Group consolidated financial statements as at 1 January 2016 and 31 December 2016. We considered this as a key audit matter, since the first time adoption of IFRS has significant impact on the consolidated financial statements from the recognition, measurement, presentation and disclosure perspective. Refer to notes 2.1 and 32 to the consolidated financial statements for the details of transition and reconciliation adjustments between SOCPA GAAP and IFRS as endorsed in KSA.	We performed the following procedures in respect of the transition to IFRS as endorsed in KSA: • Assessed the appropriateness of the implementation of IFRS as endorsed in KSA in accordance with the provisions of IFRS 1 as endorsed in KSA. • Assessed the appropriateness of the accounting policies adopted. • Evaluated the GAAP differences identified by the Group's management. • Tested a sample of adjustments (including calculation and recording) made to various balances and transactions to bring them in line with IFRS as endorsed in KSA. • Assessed the appropriateness of disclosures made in relation to transition impact from SOCPA GAAP to IFRS as endorsed in KSA. • Assessed the appropriateness of exceptions to retrospective application of other IFRSs as endorsed in KSA and optional exemptions availed by the Group from full retrospective application of certain IFRSs as endorsed in KSA, in preparing the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT
To the Shareholders of The National Shipping Company of Saudi Arabia
(A Saudi Joint Stock Company) – continued

Key Audit Matters – continued

Key audit matter	How our audit addressed the key audit matter
Review of estimated useful lives of the Group's vessels The Group owns and operates 88 vessels that are used in its transportation activities. The carrying value of these vessels, which is shown as part of property and equipment, is SR 14.6 billion, representing around 69% of total assets as at 31 December 2017. The management reviews the estimated useful lives of the vessels on an annual basis. This review includes significant judgment by the Group's management to assess and estimate the vessels useful lives. Useful life of an asset is mainly impacted by its future economic benefits. The future economic benefits embodied in an asset are consumed by an entity; principally through its use. However, there are other factors, often result in a diminution of the economic benefits that might have been obtained from the asset, which ultimately impact the determination of the estimated useful life. These factors are mainly the following: • expected physical wear and tear • future usage of the vessels • potential changes in market demand • expected technical and commercial obsolescence We considered this as a key audit matter, since this assessment requires significant degree of management judgment, in particular, when considering the factors mentioned above, which directly impact the determination of the estimated useful lives of vessels. Also, the potential impact of any changes in these estimates could be material to the consolidated financial position and results of operation of the Group. Refer to note 4.6 of the consolidated financial statements for the accounting policy of property and equipment, note 4.2 for significant accounting judgement, estimates and assumptions and note 6 for the disclosure of property and equipment.	The procedures we performed included the following: • Assessed the appropriateness of the procedures performed by management to estimate the useful lives of vessels. • Tested, on a sample basis, the supporting documents used by management in the estimation process of useful lives. • Reviewed, on a sample basis, the vessels' inspection reports that are prepared by the Group's Technical Department, to assess the physical condition of these assets. • Reviewed the benchmarking reports prepared by management that cover relevant industry information on vessels' estimated useful lives. • Reviewed, on a sample basis, documents that support the maintenance of vessels (i.e. dry-docking) occurred during the year. • Assessed the adequacy of the Group's disclosures in respect of estimation of useful lives in the consolidated financial statements.

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INDEPENDENT AUDITOR'S REPORT
To the Shareholders of The National Shipping Company of Saudi Arabia
(A Saudi Joint Stock Company) - continued

Key Audit Matters - continued

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of property and equipment As at 31 December 2017, total property and equipment of the Group amounted to SR 14.7 billion. The Group's management, on an annual basis, assesses whether there is an indication that an asset may be impaired (mainly; vessels). If an indication exists, the management estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or related cash generation unit (represented by an operating vessel) fair value less costs to sell and its value in use. As part of the Group process to review the indication of impairment of its vessels, the management considers internal and external factors, such as the following: • observable indications that the vessel's value have significantly declined • significant changes with an adverse effect on the Group, in the technological, market, economic or legal environment in which the Group operates • evidence is available of obsolescence or physical damage of the vessels • significant changes with an adverse effect to the vessels, which include the vessels becoming idle, plans to discontinue its operation and plans to dispose of a vessel • reassessment of the useful lives of the vessels • operating loss of the vessels We considered this as a key audit matter, since the assessment of impairment indicators requires a significant degree of judgment by management in considering external and internal factors. Also, the potential impairment, if exists, could have material impact to the consolidated financial position and results of operation of the Group. Refer to note 4.18 of the consolidated financial statements for the accounting policy that relate to impairment of non-financial assets, note 4.2 for significant accounting judgments, estimates and assumptions and note 6 for the disclosure of property and equipment.	The procedures we performed included the following: • Assessed the design and effectiveness of the management's process to determine whether impairment indications exist or not. • Obtained and reviewed the management report that relates to the assessment of impairment of the Group's fleet of vessels. • Reviewed, on a sample basis, the vessels' inspection reports that are prepared by the Group's Technical Department, to assess the physical condition of the vessels. • Reviewed internal reports (include Board of Directors minutes of meetings) to consider any future plans for the vessels. • Reviewed the operating profit and loss statement for each vessel during the year.

INDEPENDENT AUDITOR'S REPORT
To the Shareholders of The National Shipping Company of Saudi Arabia
(A Saudi Joint Stock Company) - continued

Other information included in The Group's 2017 Annual Report

Other information consists of the information included in the Group's 2017 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 2017 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 2017 annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the audit committee.

Responsibilities of Management and the Audit Committee 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 issued by the Saudi Organization for Certified Public Accountants 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.

The audit committee is responsible for overseeing the Group's financial reporting process.

Auditor's 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 auditor's 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 International Standards on Auditing 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 AUDITOR'S REPORT
To the Shareholders of The National Shipping Company of Saudi Arabia
(A Saudi Joint Stock Company) - continued

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements - continued
As part of an audit in accordance with International Standards on Auditing 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 auditor's 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 auditor's 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 the audit committee 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 the audit committee 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.

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INDEPENDENT AUDITOR'S REPORT
To the Shareholders of The National Shipping Company of Saudi Arabia
(A Saudi Joint Stock Company) – continued

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements – continued
From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's 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

Abdulaziz A. Al-Sowailim
Certified Public Accountant
License No. (277)

ERNST & YOUNG & Co. PUBLIC ACCOUNTANTS
PROFESSIONAL LICENCE No. 45

Riyadh: 16 Jumad Thani 1439H
(4 March 2018)

THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA
(A Saudi Joint Stock Company)
Consolidated Statement of Financial Position
As at 31 December 2017
(In Thousands Saudi Riyals)

	Notes	2017	2016 (Note 32)	1 January 2016 (Note 32)
ASSETS				
NON-CURRENT ASSETS				
Property and equipment	6	**14,746,536**	13,661,896	12,642,669
Ships under construction	7	**959,390**	1,235,565	1,099,901
Intangible assets	8	**719,593**	772,064	849,464
Investment in an associates	9	**995,161**	1,123,848	1,027,941
Receivables from finance lease	10	**121,735**	207,498	251,730
Other investments	11	**10,794**	23,616	23,576
TOTAL NON-CURRENT ASSETS		**17,553,209**	17,024,487	15,895,281
CURRENT ASSETS				
Receivables from finance lease - current portion	10	**56,860**	44,232	36,109
Inventories	12	**290,759**	240,675	203,610
Trade receivables, net	13	**1,474,988**	1,071,729	989,879
Prepayments and other current assets	14	**364,951**	376,139	337,423
Investment held for sale	9	**251,375**	-	-
Murabaha and short-term deposits	15.1	**692,921**	1,908,262	1,066,597
Cash and cash equivalents	15	**497,520**	171,731	173,265
TOTAL CURRENT ASSETS		**3,629,374**	3,812,768	2,806,883
TOTAL ASSETS		**21,182,583**	20,837,255	18,702,164
EQUITY AND LIABILITIES				
EQUITY				
Share capital	16	**3,937,500**	3,937,500	3,937,500
Statutory reserve	17	**2,453,835**	2,373,804	2,197,890
Other reserves		**(5,342)**	(6,694)	(11,061)
Retained earnings		**3,109,225**	3,373,318	2,817,536
Equity attributable to equity holders of the parent company		**9,495,218**	9,677,928	8,941,865
Non-controlling interests	31	**422,813**	409,169	377,314
TOTAL EQUITY		**9,918,031**	10,087,097	9,319,179
LIABILITIES				
NON-CURRENT LIABILITIES				
Sukuk and long term loans	18	**9,180,585**	8,663,558	7,475,216
Employees' benefits	19	**69,467**	65,482	65,349
TOTAL NON-CURRENT LIABILITIES		**9,250,052**	8,729,040	7,540,565
CURRENT LIABILITIES				
Long term loans - current portion	18	**1,075,289**	1,001,146	547,016
Trade payables and other current liabilities	20	**694,947**	800,419	998,593
Provision for zakat and taxes	21	**244,264**	219,553	296,811
TOTAL CURRENT LIABILITIES		**2,014,500**	2,021,118	1,842,420
TOTAL LIABILITIES		**11,264,552**	10,750,158	9,382,985
TOTAL EQUITY AND LIABILITIES		**21,182,583**	20,837,255	18,702,164

Chief Financial Officer **Chief Executive Officer** **Authorized Board Member**

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.

(In Thousands Saudi Riyals)

	Notes	2017	2016 (Note 32)
Revenues		**6,045,835**	6,788,484
Operating costs		**(4,911,018)**	(5,030,411)
Gross profit before bunker subsidy		**1,134,817**	1,758,073
Bunker subsidy		**185,864**	134,258
Gross profit		**1,320,681**	1,892,331
General and administrative expenses	22	**(171,274)**	(111,062)
Other expenses, net	23	**(24,198)**	(1,508)
Total operating profit		**1,125,209**	1,779,761
Finance income		**8,344**	18,955
Finance costs	24	**(308,435)**	(239,561)
Share in results of an associate	9	**82,153**	147,044
Income before zakat and taxes		907,271	1,706,199
Zakat and taxes, net	21	**(100,760)**	43,527
Net income for the year		**806,511**	1,749,726
Net income for the year attributable to:			
Equity holders of the parent company		**800,313**	1,717,871
Non-controlling interests	31	**6,198**	31,855
		806,511	1,749,726
Earnings per share (Saudi Riyal):			
Basic	25	**2.03**	4.36
Diluted	25	**2.03**	4.36

Chief Financial Officer	Chief Executive Officer	Authorized Board Member

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.

(In Thousands Saudi Riyals)

	Note	2017	2016 (Note 32)
Net income for the year		**806,511**	1,749,726
Items that will not be reclassified to consolidated statement of income			
Re-measurement gain on defined benefit plans	19	**1,352**	4,367
Total comprehensive income for the year		**807,863**	1,754,093
Total comprehensive income attributable to:			
Equity holders of the parent company		**801,665**	1,722,238
Non-controlling interests	31	**6,198**	31,855
Total comprehensive income for the year		**807,863**	1,754,093

Chief Financial Officer | **Chief Executive Officer** | **Authorized Board Member**

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.

THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA
(A Saudi Joint Stock Company)
Consolidated Statement of Cash Flows
For the year ended 31 December 2017
(In Thousands Saudi Riyals)

	Note	2017	2016
OPERATING ACTIVITIES			
Net income for the year		**806,511**	1,749,726
Adjustments to reconcile net income for the year:			
Depreciation of property and equipment	6	**801,567**	914,922
Amortization of intangible assets	8	**52,471**	52,732
Provision (reversal of provision) for doubtful debts, net	13	**1,638**	(15,452)
Finance income		**(8,344)**	(18,955)
Finance costs	24	**308,435**	239,561
Share in results of an associate	9	**(82,153)**	(147,044)
(Gain) loss on disposal of property and equipment	23	**(5,286)**	32,942
Provision (reversal of provision) for zakat and taxes	21	**100,760**	(43,527)
		1,975,599	2,764,905
Changes in operating assets and liabilities:			
Inventories		**(50,084)**	(37,065)
Trade receivables		**(404,897)**	(66,398)
Prepayments and other current assets		**16,864**	(38,716)
Receivables from finance lease		**73,135**	36,109
Trade and other payables		**(152,105)**	(341,307)
Employees' benefits		**10,468**	10,924
Cash generated from operations		**1,468,980**	2,328,452
Finance costs paid		**(262,581)**	(98,764)
Zakat and taxes paid	21	**(76,049)**	(33,731)
Board members' compensation paid		**(1,800)**	(1,800)
Employees' benefits paid		**(5,131)**	(6,424)
Net cash flows from operating activities		**1,123,419**	2,187,733
INVESTING ACTIVITIES			
Acquisition of property and equipment	6,7	**(827,373)**	(1,798,166)
Proceeds from disposal of property and equipment	6	**7,582**	47,913
Ships under construction	7	**(784,955)**	(327,834)
Investment in an associates	9	**(74,625)**	-
Dividends received from an associate	9-1	**34,090**	51,137
Proceeds from finance income		**8,344**	18,955
Other investments		**12,822**	(40)
Non-controlling interests		**7,446**	-
Net cash flows used in investing activities		**(1,616,669)**	(2,008,035)
FINANCING ACTIVITIES			
Proceeds from long term loans	18	**1,586,640**	2,146,128
Proceeds from short term loans	18	**-**	781,688
Repayment of long term loans	18	**(1,001,146)**	(503,656)
Repayment of short term loans	18	**-**	(781,688)
Dividends paid	30	**(981,796)**	(982,039)
Net cash flows (used in) from financing activities		**(396,302)**	660,433
(Decrease) increase in cash and cash equivalents		**(889,552)**	840,131
Cash and cash equivalents at 1 January	15	**2,079,993**	1,239,862
Cash and cash equivalents at 31 December	15	**1,190,441**	2,079,993
Major non-cash transactions:			
Ships under construction transferred to property and equipment	7	**1,061,130**	192,170

Chief Financial Officer **Chief Executive Officer** **Authorized Board Member**

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.

THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA
(A Saudi Joint Stock Company)
Consolidated Statement of Changes in Equity
For the year ended 31 December 2017
(In Thousands Saudi Riyal)

	Attributable to equity holders of the parent company						
	Share capital	**Statutory reserve**	**Other reserves**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance as at 1 January 2016	3,937,500	2,197,890	(11,061)	2,817,536	8,941,865	377,314	9,319,179
Net income for the year	-	-	-	1,717,871	1,717,871	31,855	1,749,726
Other comprehensive income	-	-	4,367	-	4,367	-	4,367
Total comprehensive income for the year	-	-	4,367	1,717,871	1,722,238	31,855	1,754,093
Transferred to statutory reserve	-	175,914	-	(175,914)	-	-	-
Dividends (note 30)	-	-	-	(984,375)	(984,375)	-	(984,375)
Board members' compensation	-	-	-	(1,800)	(1,800)	-	(1,800)
Balance as at 31 December 2016	3,937,500	2,373,804	(6,694)	3,373,318	9,677,928	409,169	10,087,097
Balance as at 1 January 2017	3,937,500	2,373,804	(6,694)	3,373,318	9,677,928	409,169	10,087,097
Net income for the year	-	-	-	800,313	800,313	6,198	806,511
Other comprehensive income	-	-	1,352	-	1,352	-	1,352
Total comprehensive income for the year	-	-	1,352	800,313	801,665	6,198	807,863
Transferred to statutory reserve	-	80,031	-	(80,031)	-	-	-
Non-controlling interest share	-	-	-	-	-	7,446	7,446
Dividends (note 30)	-	-	-	(984,375)	(984,375)	-	(984,375)
Balance as at 31 December 2017	3,937,500	2,453,835	(5,342)	3,109,225	9,495,218	422,813	9,918,031

Chief Financial Officer | **Chief Executive Officer** | **Authorized Board Member**

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.

(In Thousands Saudi Riyal)

1. THE COMPANY, ITS SUBSIDIARIES AND ITS BUSINESS DESCRIPTION

The National Shipping Company of Saudi Arabia (the “Company”, “Bahri” or “Parent”), A Saudi Joint Stock Company was established under the Royal Decree No. M/5 dated 12 Safar 1398H (corresponding to 21 January 1978), and registered under Commercial Registration No. 1010026026 dated 1 Dhul Hijjah 1399H, (corresponding to 22 October 1979) issued in Riyadh. The Company’s head office located in Olya district, Olya Towers (Tower B), Floors (12-15), P.O Box 5101, Riyadh, 1142, Kingdom of Saudi Arabia

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 on vessels’ board transport and storage, and all of the marine transport activities. 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 Group performs its operations through four segments which are crude oil transportation, chemicals transportation, logistics services and dry bulk transportation.

The Company’s capital consists of 393,750 thousand shares as of 31 December 2017 and 31 December 2016. The par value per share is SR 10.

The subsidiary companies incorporated into these consolidated financial statements of the group include:

Subsidiary	Date of incorporation	Ownership % 2017	2016	Principal Activity	Location
NSCSA Inc. - USA	1991	**100**	100	Company's ship agent	USA
Mideast Ship Management Limited (JLT)	2010	**100**	100	Ships technical management	UAE
National Chemical Carriers Limited Co. (NCC)	1990	**80**	80	Petrochemicals transportation	KSA
Bahri Dry Bulk LLC and its Subsidiary* (BDB)	2010	**60**	60	Dry bulk transportation	KSA
BahriBolloré Logistics**	2017	**60**	-	Logistic Services	KSA

*During 2017, Bahri Dry Bulk LLC (a subsidiary) and Koninklijke Bunge B.V. (Netherlands Company) has established Bahri Bunge Dry Bulk company in the UAE, with capital of SR 18.7 million. The Company engages in chartering vessels for the purpose of importing and exporting dry bulk commodities between the Middle East and the world. Bahri Dry Bulk Company owns 60% of share capital.

**During 2017, BahriBollore logistics company was established in Saudi Arabia with a capital of SR 15 million. The Company’s responsibilities are to provide comprehensive logistics services including freight brokerage, transportation and all services associated with transportation. Bahri owns 60% of share capital. The Company paid its capital share during 2018.

The following are the associated companies that are not consolidated into these consolidated financial statements of the group (note 9):

Associate	Date of incorporation	Ownership % 2017	2016	Principal Activity	Location
Petredec Limited	1980	**30.30**	30.30	Liquefied petroleum gas transportation	Bermuda
International Maritime Industries Company	2017	**19.9**	-	Maritime industries	KSA

Group's Fleet: As at 31 December 2017, the Group owns eighty-eight vessels (31 December 2016: eighty-three vessels, 1 January 2016: seventy-five vessels) operating in various sectors as the following:

Crude oil transportation sector: Consists of forty-six (31 December 2016: forty-one vessels, 1 January 2016: thirty-eight vessels) very large crude carriers (VLCCs), out of which forty are operating in the spot market, while five product tankers are chartered to Saudi Arabian Oil Company (“ARAMCO”).

1. THE COMPANY, ITS SUBSIDIARIES AND ITS BUSINESS DESCRIPTION (continued)

Chemicals transportation sector: This sector is fully operated by National Chemical Carriers Limited Company (a subsidiary), and it owns thirty-one (31 December 2016: thirty-one vessels, 1 January 2016: twenty-six vessels) specialized tankers distributed as follows:

- Three tankers are leased in the form of iron under finance lease signed on 30 January 2009, with Odfjell SE (a trading partner) (note 10).
- Sixteen tankers that are operates in the spot market.
- Six 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.
- One tanker operates in a pool with Odfjell SE (note 27).

Logistics sector: Consists of six RoCon vessels (31 December 2016: six vessels, 1 January 2016: six vessels) operating on commercial lines between North America and Europe, and the Middle East and the Indian Subcontinent.

Dry bulk transportation sector: This sector is fully operated by Bahri Dry Bulk Company (a subsidiary), and it owns five vessels (31 December 2016: five vessels, 1 January 2016: five vessels) specialized in transporting dry bulk cargo, all of which are chartered to the Arabian Agricultural Services Company ("ARASCO").

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 ("KSA") and other standards and pronouncements that are issued by Saudi Organization for Certified Public Accountants ("SOCPA") (referred to as "IFRS as endorse in KSA). These are also the Group's first consolidated financial statements prepared in accordance with IFRS as endorsed in KSA, and accordingly, "First-time Adoption of International Financial Reporting Standards" ("IFRS 1") as endorsed in KSA has been applied in the current year. Refer to note 32 for information on the first time adoption of IFRS as endorsed in KSA by the Group.

2.2. Preparation of financial statements

(i) Historical cost convention

The consolidated financial statements have been prepared on a historical cost basis, except for certain financial assets and liabilities below:

- Derivative financial instruments are measured at fair value.
- The defined benefit plans is recognized at the present value of future obligations using the Projected Unit Credit Method.

(ii) Functional and presentation currency

These consolidated financial statements are presented in Saudi Riyal ("SR"), which is the Group's functional and presentation currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

3. BASIS OF CONSOLIDATION OF FINANCIAL STATEMENTS

The Company and its subsidiaries are collectively referred to as the "Group". Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Generally, there is presumption that a majority of voting rights results in control. To support this presumption and when the Group has equal or less than a majority of the voting or similar rights of an investee, the Group considers all other relevant facts and circumstances in assessing whether it has power over an investee, including any contractual and other such arrangements which may affect the activities which impact investees' return. The determination about whether the Group has power thus depends on such relevant activities, the way decisions about the relevant activities are made and the rights the Group has, in relation to the investees. Based on above considerations, management and the Group believe: there is a pattern of past and existing practice of the Group's involvement in the relevant activities of these investees resulting in an impact on their returns and also indicating a more than passive interest of the Group in such investees; and the Group has created an environment in which the set-up and function of these investees and their interrelationship with the Group leads towards a judgement of 'control'.

Subsidiaries are consolidated from the date on which control commences until the date on which control ceases. The Group accounts for the business combination using the acquisition method when control is transferred to the Group. The consideration transferred in the cost of acquisition is generally measured at fair value, as are the identified net assets acquired. The excess of the cost of acquisition and fair value of Non-Controlling Interest ("NCI") over the fair value of the identifiable net assets acquired is recorded as goodwill in the consolidated statement of financial position. NCI are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognized in consolidated statement of income. Any investment retained is recognized at fair value.

The portion of profit or loss, net assets and other comprehensive income not controlled by the Group are presented separately in the consolidated statement of income and within equity in the consolidated statement of financial position. Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated. Accounting policies of subsidiaries are aligned, where necessary, to ensure consistency with the policies adopted by the Group. The Company and its subsidiaries have the same reporting periods.

4. SIGNIFICANT ACCOUNTING POLICIES

4.1. New standards, amendments to standards and interpretation, and standards issued and not yet effective

4.1.1. New standards, amendment to standards and interpretations

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

a. Disclosure initiative (amendments to IAS 7)

The amendments require disclosures of information that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. Group's financing activities, as disclosed in consolidated statement of cash flows, represents only cash flow changes.

b. Annual improvements to IFRS (2014 – 2016) cycle amendments to IFRS 12 disclosure of interests in other entities

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.1. New standards, amendments and standards issued and not yet effective (continued)

4.1.2. Standards issued but not yet effective

Following are the new standards and amendments to standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted; The Group has not early adopted these standards in preparing these consolidated financial statements.

a. IFRS 9 Financial instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group plans to adopt the new standard on the required effective date and will not be adopted for comparative figures. The Group performed a detailed assessment of IFRS 9, which is subject to changes arising from additional information that will be available to the Group on the date of application. The Group does not expect significant effect on the consolidated financial position nor the consolidated statement of changes in equity from the adoption of the standard.

Classification and measurement

The Group does not expect a significant impact on its consolidated statement of financial position or consolidated statement of changes in equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring all financial assets currently held at fair value.

Trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, the Group expects that the trade receivables will continue to be measured at amortized cost under IFRS 9 and will be classified as financial assets measured at amortization cost.

Impairment

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under “IAS 39.” It applies to financial assets classified at amortized cost, debt instruments measured at fair value through other comprehensive income, contract assets under “IFRS 15 – Revenue from Contracts with Customers”, lease receivables, loan commitments and certain financial guarantee contracts. It is not expected to have an impact on the consolidated statement of financial statement and consolidated statement of changes in equity.

Hedge accounting

The new hedge accounting rules will align instruments more closely with the Group’s risk management practices. As a general rule, more hedge relations might be eligible for hedge accounting, as the standard introduces a more principles-based approach. The Group reassess the effect of adopting commissions rate options as per IFRS 9.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.1 New standards, amendments and standards issued and not yet effective (continued)

4.1.2. Standards issued but not yet effective (continued)

a. IFRS 9 Financial instruments (continued)

Disclosure

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of adoption of the new standard.

b. IFRS 15 Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs. IFRS 15 is effective for annual periods beginning on or after 1 January 2018. The Group will implement the standard using a retrospective approach option. The Group has performed a detailed analysis, subject to changes arising from additional information available to the Group during the year 2018. In general, the Group does not expect a significant impact on the consolidated statement of financial positons nor the consolidated statement of changes in equity from adopting IFRS 15.

c. IFRS 16 Leases

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

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

Determining whether an arrangement contains a lease

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

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

Transition

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

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

The lessee applies the same election to all of its leases contracts. The Group plans to adopt IFRS 16 on 1 January 2019. The Group has not yet determined which transition approach to apply. As a lessor, the Group is not required to make any adjustments for leases in which it is a lessor except where it is an intermediate lessor in a sub-lease.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.1 New standards, amendments and standards issued and not yet effective (continued)

4.1.2. Standards issued but not yet effective (continued)

d. Annual improvements to IFRS (2014 – 2016) cycle

- IFRS 1 First-time Adoption of IFRS - Outdated exemptions for first-time adopters of IFRS are removed. Effective for annual periods beginning from 1 January 2018.
- IAS 28 Investments in Associates and Joint Ventures - A venture capital organization, or other qualifying entity, may elect to measure its investments in an associate or joint venture at fair value through profit or loss. This election can be made on an investment-by-investment basis. A non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries. This election can be made separately for each investment entity associate or joint venture. The adjustments should be accounted for using retrospective approach, and it is effective from 1 January 2018 and early adoption is permitted. In case, the Company will follow the adjustment, the Company should disclose it. This exemption is not applicable to the group.

4.2 Significant accounting judgement, estimates, and assumptions

The preparation of the group consolidated financial statements requires management to make judgments, estimates, and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Therefore, actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognized in the yearend financial statements in which the estimates are revised if the revision affects only that yearend financial statements, or in the year end financial statements of the revision and future periods if the revision affects both current and future periods.

In the process of applying the Group’s accounting policies, management has made the following estimates and judgments, which are significant to the consolidated financial statements:

Determining the estimated residual values and estimated useful lives of property and equipment
The estimated residual values and estimated useful life of the property and equipment are reviewed by management at each annual reporting period. Based on the review, prospective adjustments are made to the estimated residual value and estimated useful life of property and equipment.

Provisions
The provision policy for doubtful debts of the group is based on the ageing analysis and management's continuous evaluation of the recoverability of the outstanding receivables. Management considers in assessing the ultimate realization of these receivables among other factors, the creditworthiness and the past collection history of each customer. If the financial conditions of these customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Employees’ benefits
Provision for employees’ end of service benefits is made in accordance with the projected unit credit method as per IAS 19 taking into consideration the labor law of the respective country in which the subsidiary operates. The provision is recognized based on the present value of the defined benefit obligations. The present value of the defined benefit obligations is calculated using assumptions on the average annual rate of increase in salaries, average period of employment and an appropriate discount rate. The assumptions used are calculated on a consistent basis for each period and reflect management’s best estimate. The discount rates are set in line with the best available estimate of market yields currently available at the reporting date with reference Saudi Arabia interest rate swap curve or other basis, if applicable.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.2. Significant accounting policies, estimation, and assumptions (continued)

Impairments of estimated value of receivables from finance lease
The Group is conducting a study to determine whether there is a decrease in the value of the financial lease receivables based on the nature and duration of the contract and the related terms.

4.3. Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position comprise cash at banks and cash equivalent, short-term deposits, and Murabaha with an original maturity of three months or less, which are not subject to a significant risk of changes in value. Restricted cash and cash equivalents that are not available for use are excluded from cash and cash equivalents for the purposes of the consolidated statement of cash flows. Restricted cash and cash equivalents are related to amounts restricted for repayments of the current portion of loans that are due within 180 days from the date of the consolidated statement of financial position.

4.4. Inventories

Inventories consists of fuel and lubricants on board of the vessels are shown as inventories at the consolidated statement of financial position date, and the cost is determined using the First in First Out (FIFO) method. Spare parts and other consumables on board for each vessel are charged to operating expenses upon purchase. Cost includes the net purchase price and any other direct expenses related to the acquisition.

4.5. Investment in associates and joint ventures

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 whether significant influence or joint control are similar to those necessary to determine control over subsidiaries.

Under the equity method, the investment in an associate or joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize 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 recognized directly in the equity of the associate or joint venture, the Group recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate and joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group’s share of profit or loss of an associate and a joint venture is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture. The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.5. Investment in associates and joint ventures (continued)

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

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognizes 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 retaining investment and proceeds from disposal is recognized in the consolidated statement of income.

4.6. Property and equipment

Property and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing parts of the property and equipment and borrowing costs for long-term construction projects (qualified assets) if the recognition criteria are met.

When significant parts of property and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciates them accordingly.

Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the consolidated statement of income as incurred. The present value of the expected cost for the decommissioning of the asset after its use, is included in the cost of the respective asset if the recognition criteria for a provision are met.

Depreciation is calculated using the straight-line method, net of their residual values, over their estimated useful lives as follows:

Asset class	**Estimated useful lives (in years)**
Buildings and improvements	3 - 20
Fleet and equipment	6 - 25
Containers and trailers	5 - 12
Furniture and fixtures	10
Tools and office equipment	4
Motor vehicles	4 - 5
Computer equipment	4 - 6
Containers yard equipment	4 - 10

If an item of property and equipment comprises individual components for which different depreciation methods or rates are appropriate, then each component is depreciated separately. A separate component may either be a physical component or a non-physical component that represents a major inspection or overhaul (such as dry docking of vessels).

For the purpose of recognition of the Group's vessels, estimate of first dry docking costs are considered as a major component of a vessel which are recorded as a separate asset and depreciated separately. Subsequent dry docking costs are capitalized as a separate asset and depreciated over the period until the next scheduled dry docking. Dry docking assets that are left undepreciated during another dry-docking operation are charged to the consolidated statement of income during the period in which such operation is commenced.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.6. Property and equipment (continued)

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income when the asset is derecognized.

The residual values, remaining useful lives, and methods of depreciation of property and equipment are reviewed at each financial reporting period and adjusted prospectively, if difference is material.

Spare parts and capitalized machines, meeting the definition of property, plant and equipment, are accounted as per the principles of IAS 16 with respect to property plant and equipment.

4.7. Ships Under construction

Ships under constructions includes amounts paid for the construction of new vessels at year end but are not ready for their intended use. These assets are transferred to relevant assets categories and are depreciated once they are available for their intended use.

4.8. Goodwill and other intangible assets

Goodwill

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized 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 re-assesses 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 recognized 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 recognized in the consolidated statement of income.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in the consolidated statement of income. An impairment loss recognized for goodwill is not reversed in subsequent periods. On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Intangible Assets

Intangible assets other than goodwill are measured at cost, less accumulated amortization and accumulated impairment losses, if any. Intangible assets are amortized on a straight-line basis over the estimated useful lives. Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Group and amount can be measured reliably. Intangible assets' residual values, useful lives and impairment indicators are reviewed at each financial year end and adjusted prospectively, if considered necessary.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.8. Goodwill and other intangible assets (continued)

Intangible Assets (continued)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset, are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite life is recognized in the consolidated statement of income.

4.9. Leases

Group as a lessor

Leases in which the Group transfers substantially all the risks and rewards incidental to the ownership of an asset to the lessees are classified as finance leases. Finance leases are recorded at the inception of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments.

Gross investment in finance leases include the total of future lease payments on finance leases (lease receivables), plus estimated residual amounts receivable. The difference between the lease receivables and the cost of the leased asset is recorded as unearned lease finance income and for presentation purposes, is deducted from the gross in finance leases. Any unguaranteed residual value of the assets is reviewed periodically and any decrease in the residual value is recorded immediately.

Initial direct costs incurred by lessors in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the lease income.

Group as a lessee

Finance leases that transfer to the Group substantially all of the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and a reduction in the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the consolidated statement of income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognized as an operating expense in the consolidated statement of income on a straight-line basis over the lease term.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Financial assets

Initial recognition and measurement
The Company classifies non-derivative financial assets in to following categories: financial assets at fair value through statement of income, held-to-maturity financial assets, loans and receivables and available-for-sales financial assets.

Measurement

Financial assets at fair value through statement of income - A financial asset is classified as at fair value through statement of income if it is classified as held for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value income statement are measured at fair value and changes therein, including any interest or dividend income, are recognized in consolidated statement of income.

Financial assets held-to-maturity - These assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method.

Available-for-sale financial assets - These assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, are recognized in statement of other comprehensive income and recorded in accumulated fair value of financial assets. When these assets are derecognized, the gain or loss accumulated in equity is reclassified to profit or loss.

Financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at fair value through consolidated statement of income, transaction costs that are attributable to the acquisition of the financial asset.

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 recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement
For purpose of subsequent measurement, financial assets are classified in three categories:

a) Receivables
b) Investments held to maturity
c) Available for sales “AFS” financial assets

Receivables
Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the Effective Interest Rate “EIR” method, less impairment. Amortized 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 amortization is included in finance income in the consolidated statement of income. The losses arising from impairment are recognized in the consolidated statement of income in finance costs for loans and in cost of sales or other operating expenses for receivables.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.10. Financial Instruments (continued)

Investments held-to-maturity
Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity investments when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the EIR method, less impairment. Amortized 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 amortization is included as finance income in the consolidated statement of income. The losses arising from impairment are recognized in the consolidated statement of income as finance costs.

AFS financial assets
AFS financial assets include equity investments. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at fair value through income statement.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealized gains or losses recognized in OCI and credited to the AFS reserve until the investment is derecognized, at which time, the cumulative gain or loss is recognized in other comprehensive income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the consolidated statement of income in finance costs. Finance income earned whilst holding AFS financial assets is reported as finance income using the EIR method.

Unquoted equity instruments are carried at cost as their fair value cannot be measured reliably.

The Group evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the AFS category, the fair value at the date of reclassification becomes its new amortized cost and any previous gain or loss on the asset that has been recognized in equity is amortized to the consolidated statement of income over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the consolidated statement of income.

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

a) The rights to receive cash flows from the asset have expired, or
b) 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.

Impairment of financial assets
The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred '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 the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.10. Financial Instruments (continued)

Financial assets carried at amortized cost
For financial assets carried at amortized cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in the consolidated statement of income. Finance income (recorded as finance income in the consolidated statement of income) continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans, together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the consolidated statement of income.

AFS financial assets
For AFS financial assets, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant decline' is evaluated against the original cost of the investment and 'prolonged decline' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statement of income – is removed from OCI and recognized in the consolidated statement of income. Impairment losses on equity investments are not reversed through income statement; increases in their fair value after impairment are recognized in OCI. The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as AFS, the impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statement of income.

Future finance costs continue to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The finance costs are recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.10. Financial Instruments (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through consolidated statement of income, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, and loans and borrowings.

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

Financial liabilities at fair value through statement of income
Financial liabilities at fair value through consolidated statement of income include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through consolidated statement of income.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the consolidated statement of income.

Financial liabilities designated upon initial recognition at fair value through income statement are designated at the initial date of recognition, and only if the criteria in IAS 39 are satisfied. The Group has not designated any financial liability as at fair value through statement of income.

Long term loans
After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the consolidated statement of income when the liabilities are derecognized as well as through the EIR amortization process.

Amortized 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 amortization is included as finance costs in the consolidated statement of income.

This category generally applies to interest-bearing loans.

Derecognition
A financial liability is derecognized 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 a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated statement of income.

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.10. Financial Instruments (continued)

Financial liabilities (continued)

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 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.

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 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 if 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 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 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 consolidated statement of income.

4.11. Classification of assets and liabilities to "current" and "non-current"

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

- Expected to be realized or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within twelve months after the reporting period, or
- 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.

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

All other liabilities are classified as non-current.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.12. Revenue recognition

Revenue from transportation

Revenue is primarily generated from the rendering of transport services. Revenue is therefore recognized using the percentage-of-completion method as per IAS 18 and the percentage of completion / transport progress is determined based on length of estimated voyage.

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group determines whether it acts as principal or agent.The Group has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude, and is also exposed to credit risks.

Under above method, voyages are calculated on a discharge-to-discharge basis. No revenue is recognized if there are significant uncertainties regarding recovery of the consideration due and associated costs.

Revenues from chartering and other attributable activities are recorded when services are rendered over the duration of the related contractual services.

Onerous contracts

An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. For contracts that became onerous, the present obligation under the contract is recognized and measured as a provision.

Other income

Other income is recognized when earned.

4.13. Bunker subsidy

Bunker subsidy is recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to expenses item, it is recognized as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. The Group recognizes unconditional government grant related to bunker purchase in consolidated statement of income as bunker subsidy income.

4.14. Foreign currency transaction

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.

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 consolidated financial statements reporting date for the group. All differences arising on settlement or translation of monetary items are taken to the statement of income with the exception of differences on foreign monetary items that form part of a net investment in a foreign operation. These are recognized in OCI until the disposal of the net investment, at which time they are reclassified to consolidated statement of income. Tax charges and credits attributable to exchange differences on these monetary items are also recorded in OCI.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. 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 a gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognized in OCI or consolidated statement of income, respectively).

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.15. Foreign currency translation

On consolidation, the assets and liabilities of foreign operations are translated into Saudi Riyal at the rate of exchange prevailing at the reporting date of the preparation of the consolidated financial statements and their consolidated statements of income are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognized in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified to consolidated statement of income. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

4.16. Zakat and tax

Zakat is provided for the Company and its subsidiaries in the Kingdom of Saudi Arabia in accordance with the Regulations of General Authority of Zakat and Tax (the “GAZT”) in the Kingdom of Saudi Arabia, and the provision is charged to the 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 consolidated statement of income.

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

4.17. Borrowing costs

Borrowing costs are directly attributed to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of finance and other costs that an entity incurs in connection with the borrowing of funds.

4.18. Impairment of 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. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Groups of assets. Where 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.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators. Impairment losses of continuing operations are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset, except for a property previously revalued where the revaluation was taken to OCI. In this case, the impairment is also recognized in OCI up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset’s or CGU’s recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset’s recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.18. Impairment of non-financial assets (continued)

Such reversal is recognized in the consolidated statement of income unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

The following criteria are also applied in assessing impairment of specific assets:

- Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired.
- Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than their carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.
- Intangible assets with indefinite useful lives are tested for impairment annually at the CGU level, as appropriate and when circumstances indicate that the carrying value may be impaired.

4.19. Non-current assets held for sale

The Group classifies non-current assets as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and zakat expense. The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sale will be withdrawn. Management is committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortized once classified as held for sale.

4.20. Cash dividends to the shareholders

The Group recognizes a liability to make cash distribution to equity holders of the Parent when the distribution is authorized and the distribution is no longer at the discretion of the Group. In accordance with the Companies Law in KSA, a distribution is authorized when it is approved by the shareholders.

4.21. Employees' benefits

The group has defined benefit plans with General Organization for Social Insurance "GOSI" where the group and the employees contribute fixed percentage of their salary toward the retirement of its employees. The Group operates defined benefit plans, under the Saudi Arabian Labor Law based on employees' accumulated periods of service at the consolidated statements of financial position.

The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit method.

Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability) and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the year end in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.21. Employees' benefits (continued)

Past service costs are recognized in profit or loss on the earlier of:
- The date of the plan amendment or curtailment, and
- The date on which the Group recognizes related restructuring costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognizes the following changes in the net defined benefit obligation under "general and administrative expenses" in the consolidated statement of income:

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements, and
- Net interest expense or income.

4.22. Provisions

Provisions are recognized 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. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized 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 income net of any reimbursement.

4.23. Contingent assets and liabilities

Contingent assets are not recognized in the consolidated financial statements, but are disclosed when an inflow of economic benefits is probable.

An assessment is made at each reporting date to recognize contingent liabilities which are probable obligations arising from past events whose existence is confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly under the control of the Group.

4.24. Earnings per share

The Group determines basic earnings per share by dividing profit or loss attributable to ordinary equity holders (the numerator) by ordinary equity of the parent by the weighted average number of ordinary shares outstanding (the denominator) during the year. For the purpose of calculating basic earnings per share, the number of ordinary shares are the weighted average number of ordinary shares outstanding during the period. The weighted average number of ordinary shares outstanding during the period is the number of ordinary shares outstanding at the beginning of the period, adjusted by the number of ordinary shares bought back or issued during the period multiplied by a time-weighting factor. The time-weighting factor is the number of days that the shares are outstanding as a proportion of the total number of days in the period; a reasonable approximation of the weighted average is adequate in many circumstances.
Diluted EPS amounts are calculated by dividing the profit attributable to equity shareholders of the parent by the weighted average number of equity shares outstanding during the year plus the weighted average number of equity shares that would be issued on conversion of all the dilutive potential equity shares into equity shares.

4.25. Statutory reserve

In accordance with the Saudi Arabian Regulations for Companies, the Company must transfer 10% of the net income in each year to the statutory reserve until it has built a reserve equal to 30% of the capital. This reserve is not available for distribution.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.26. Operating segments

For management purposes, the Group is organized into business units based on their operations and has the following reportable segments:

- Oil transportation
- Chemical transportation
- Logistics
- Dry bulk transportation,
- Others and corporate

Note 1 to the consolidated financial statements describes the operations related to the above segments. “Others and corporate” column consist of the vessel’s technical operations management and Group’s corporate activities. The Group’s management monitors the operational results of the segments separately for the purposes of making decisions about resource allocation and performance assessment. Segments’ performance is evaluated based on the profit or loss and measured consistently with the profit or loss in the consolidated financial statements.

The Group’s accounting policies used in the segment reporting is the same as the accounting policies described in note 4 to the consolidated financial statement.

Intersegments revenues are recorded either at values that approximate third-parties selling prices or at prices mutually agreed by the management of the operating segments. Inter-segment revenues are eliminated upon consolidation and reflected in the ‘adjustments and eliminations’ column.

(In Thousands Saudi Riyal)

5. OPERATING SEGMENTS

For management purposes, the Group is organized into business units based on its operations as it is illustrated in note 4.26:

2017	**Oil transportation**	**Chemical**	**Logistic**	**Dry bulk transportation**	**Head office and Others**	**adjustments and eliminations'**	**Total**
Revenue	**3,726,244**	**805,270**	**1,136,967**	**362,297**	**107,018**	**(91,961)**	**6,045,835**
Operating cost	**(3,114,438)**	**(677,289)**	**(803,992)**	**(315,299)**	**(91,961)**	**91,961**	**(4,911,018)**
Bunker subsidy	**164,986**	**9,842**	**11,036**	**-**	**-**	**-**	**185,864**
Gross profit	**776,792**	**137,823**	**344,011**	**46,998**	**15,057**	**-**	**1,320,681**
General and administrative expenses	**(5,706)**	**(15,831)**	**(2,311)**	**(15,089)**	**(132,337)**	**-**	**(171,274)**
Other income (expenses), net	**-**	**(28,193)**	**7,057**	**387**	**(3,449)**	**-**	**(24,198)**
Finance income	**-**	**1,410**	**-**	**999**	**5,935**	**-**	**8,344**
Finance cost	**(160,804)**	**(58,657)**	**(23,856)**	**(20,506)**	**(44,612)**	**-**	**(308,435)**
Share in a result of an associate	**-**	**-**	**-**	**-**	**82,153**	**-**	**82,153**
Income before zakat & taxes	**610,282**	**36,552**	**324,901**	**12,789**	**(77,253)**	**-**	**907,271**

2016	Oil transportation	Chemical	Logistic	Dry bulk transportation	Head office and Others	adjustments and eliminations'	Total
Revenue	4,797,713	774,148	931,772	271,156	98,748	(85,053)	6,788,484
Operating cost	(3,527,352)	(611,325)	(666,368)	(225,366)	(85,053)	85,053	(5,030,411)
Bunker subsidy	117,565	4,524	12,169	-	-	-	134,258
Gross income	1,387,926	167,347	277,573	45,790	13,695	-	1,892,331
General and administrative expenses	-	(15,432)	24,889	(12,009)	(108,510)	-	(111,062)
Other income (expenses), net	(44,219)	29,569	3,181	26	9,935	-	(1,508)
Finance income	-	314	-	607	18,034	-	18,955
Finance cost	(127,761)	(43,376)	(24,714)	(11,401)	(32,309)	-	(239,561)
Share in a result of an associate	-	-	-	-	147,044	-	147,044
Income before zakat & taxes	1,215,946	138,422	280,929	23,013	47,889	-	1,706,199

The Group's vessels are deployed throughout the world and are not concentrated in certain geographical areas. The Group's management does not consider geographical distribution by its management analysis of operations. Therefore, geographical segment information is not disclosed.

The revenues of the crude oil transportation sector include SR 2.5 billion for the year ended 31 December 2017 (SR 2016: SR 3.4 billion) from one customer (ARAMCO and its subsidiaries - shareholders), which represents more than 10% of the revenues of the transport sector Crude oil and group revenues as a whole.

(In Thousands Saudi Riyal)

5. OPERATING SEGMENTS (continued)

2017	**Oil transportation**	**Chemical**	**Logistics**	**Dry bulk transportation**	**Head office and Others**	**Total**
Property and equipment	**9,847,834**	**2,975,050**	**1,343,650**	**533,440**	**46,562**	**14,746,536**
Total assets	**12,423,200**	**3,548,304**	**2,327,355**	**688,573**	**2,195,151**	**21,182,583**
Total liabilities	**6,849,952**	**2,116,263**	**947,529**	**359,611**	**991,197**	**11,264,552**

2016	Oil transportation	Chemical	Logistics	Dry bulk transportation	Head office and Others	Total
Property and equipment	8,511,362	3,138,716	1,422,611	559,202	30,005	13,661,896
Total assets	11,570,776	3,741,470	1,971,912	704,739	2,848,358	20,837,255
Total liabilities	5,948,036	2,324,146	1,095,470	387,928	994,578	10,750,158

1 January 2016	Oil transportation	Chemical	Logistics	Dry bulk transportation	Head office and Others	Total
Property and equipment	7,808,188	2,740,528	1,478,975	592,789	22,189	12,642,669
Total assets	10,936,177	3,158,966	1,863,650	700,369	2,043,002	18,702,164
Total liabilities	4,979,168	1,858,006	1,138,964	407,949	998,898	9,382,985

(In Thousands Saudi Riyal)

6. PROPERTY AND EQUIPMENT

2017	Building and improvements	Fleet and equipment*	Containers and trailers	Furniture and fixtures	Tools and office equipment	Motor vehicles	Computer equipment	Containers yard equipment	Total
Cost									
At 1 January 2017	**54,512**	**19,404,770**	**29,471**	**11,968**	**4,176**	**4,454**	**63,699**	**14,435**	**19,587,485**
Additions/transfers	**796**	**1,875,697**	**5,364**	**413**	**238**	**-**	**5,995**	**-**	**1,888,503**
Disposals	**-**	**-**	**(14,596)**	**(8)**	**(256)**	**(3,322)**	**(111)**	**-**	**(18,293)**
At 31 December 2017	**55,308**	**21,280,467**	**20,239**	**12,373**	**4,158**	**1,132**	**69,583**	**14,435**	**21,457,695**
Accumulated depreciation									
At 1 January 2017	**15,481**	**5,800,240**	**29,219**	**7,743**	**3,691**	**1,722**	**56,638**	**10,855**	**5,925,589**
Charge for the year	**4,742**	**791,790**	**302**	**522**	**394**	**104**	**2,036**	**1,677**	**801,567**
Disposals	**-**	**-**	**(14,596)**	**-**	**(256)**	**(1,034)**	**(111)**	**-**	**(15,997)**
At 31 December 2017	**20,223**	**6,592,030**	**14,925**	**8,265**	**3,829**	**792**	**58,563**	**12,532**	**6,711,159**
Net book value:									
As at 31 December 2017	**35,085**	**14,688,437**	**5,314**	**4,108**	**329**	**340**	**11,020**	**1,903**	**14,746,536**

*Certain vessels and tankers of the Group under fleet and equipment with a carrying value of SR 9.3 billion as at 31 December 2017, are pledged against the long term loans (note 18).

(In Thousands Saudi Riyal)

6. PROPERTY AND EQUIPMENT (continued)

2016	Land	Building and improvements	Fleet and equipment*	Containers and trailers	Furniture and fixtures	Tools and office equipment	Motor vehicles	Computer equipment	Containers yard equipment	Total
Cost										
At 1 January 2016	1,854	58,813	17,494,356	34,350	11,343	4,157	2,241	61,370	11,987	17,680,471
Additions/transfers	-	715	1,981,664	-	625	297	2,213	2,374	2,448	1,990,336
Disposals	(1,854)	(5,016)	(71,250)	(4,879)	-	(278)	-	(45)	-	(83,322)
At 31 December 2016	-	54,512	19,404,770	29,471	11,968	4,176	4,454	63,699	14,435	19,587,485
Accumulated depreciation										
At 1 January 2016	-	14,846	4,912,708	34,096	6,376	3,727	1,481	54,054	10,514	5,037,802
Charge for the year	-	4,693	905,521	-	1,367	133	241	2,626	341	914,922
Disposals	-	(4,058)	(17,989)	(4,877)	-	(169)	-	(42)	-	(27,135)
At 31 December 2016	-	15,481	5,800,240	29,219	7,743	3,691	1,722	56,638	10,855	5,925,589
Net book value:										
As at 31 December 2016	-	39,031	13,604,530	252	4,225	485	2,732	7,061	3,580	13,661,896
As at 1 January 2016	1,854	43,967	12,581,648	254	4,967	430	760	7,316	1,473	12,642,669

*Certain vessels and tanker of the Group under fleet and equipment with a carrying value of SR 6.5 billion as at 31 December 2016, and SR 4.5 billion as at 1 January 2016 are pledged against the long term loans (note 18).

(In Thousands Saudi Riyal)

6. PROPERTY AND EQUIPMENT (continued)

During 2017, the Group revised the estimated residual value of the fleet from 10% of the cost to more appropriate estimate of residual value, measured based on the average steel price for light weight tonnage. This method is applied by leading transport companies. The Company also revised the estimated useful lives of five vessels, from 25 years to 22-23 years as a result of impact assessment for the expected change in certain environmental regulations which are expected to be applied during 2020.

These changes have been accounted for prospectively, resulted in a decrease in depreciation expenses for the year ended 31 December 2017 by SR 65.7 million. This change will have a similar impact on the subsequent financial results of the Group until the end of the estimated residual lives of the assets.

7. SHIPS UNDER CONSTRUCTION

The movement in ships under construction is as follows:

	2017	2016	1 January 2016
Beginning Balance	**1,235,565**	1,099,901	12,039
Additions	**784,955**	327,834	1,098,412
Transferred to property and equipment	**(1,061,130)**	(192,170)	(10,550)
Ending balance	**959,390**	1,235,565	1,099,901

- The Group signed contracts on 21 May 2015 and 30 June 2015 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 expected to be received during 2017 and 2018. The Group paid an advance payment of SR 882 million (USD 235 million). The Group received five vessels during the current year 2017.
- Bahri Dry Bulk Company (a subsidiary) signed contracts on 25 August 2017 with the Korean company Hyundai Samho Heavy Industries to build four bulk cargo carriers vessels for a total amount of SR 450 million (USD 120 million). These are expected to be received during the year 2020.

8. INTANGIBLE ASSETS

Intangible assets represent the long term substantial evaluation of transportation contracts, which resulted from purchasing the operations and assets of Vela Company (a subsidiary of ARAMCO) in 2014. The value of those intangible assets are amortized over the estimated total average remaining useful life of the purchased vessels.

	2017	2016	1 January 2016
Cost			
Opening balance	**894,082**	918,750	918,750
Disposals	**-**	(24,668)	-
Ending balance	**894,082**	894,082	918,750
Accumulated amortization			
Opening balance	**(122,018)**	(69,286)	(15,249)
Charge for the year	**(52,471)**	(54,690)	(54,037)
Disposals	**-**	1,958	-
Ending balance	**(174,489)**	(122,018)	(69,286)
Net book value	**719,593**	772,064	849,464

(In Thousands Saudi Riyal)

9. INVESTMENT IN AN ASSOCIATES

The balance of investment in an associates as at 31 December contains investments in the following companies:

	Note	2017	2016	1 January 2016
Petredec Limited	9.1	1,171,911	1,123,848	1,027,941
International Maritime Industries Company	9.2	74,625	-	-
		1,246,536	1,123,848	1,027,941

9.1. Petredec Limited

The movement of investment in Petredec Limited as at 31 December is as follows:

	2017	2016	1 January 2016
Beginning Balance	1,123,848	1,027,941	905,758
Share in results of an associated company	82,153	147,044	184,683
Dividends received during the year	(34,090)	(51,137)	(62,500)
Ending balance	1,171,911	1,123,848	1,027,941

The fiscal year of Petredec Limited begins as at 1 September and ends as at 31 August of each Gregorian year. The Company’s share in Petredec Limited results for the financial year is recorded as per latest financial statements prepared. The difference between the latest financial statements prepared by the associate company and the Group’s consolidated financial statements is two months.

During 2017, the Group commenced the process to sell part of its 30.3% in Petredec Limited. As part of the arrangement, Haydock Holdings Limited, the other partner in Petredec Ltd., will also sell part of its 69.7% stake in Petredec Limited, bringing the total ownership of the new investor to 13% of Petredec Ltd share capital. The Group expects the sale to take place during the first quarter of 2018, after fulfilling certain conditions including shareholders’ approval, governmental and regulatory approvals. The Group has reclassified Petredec’s share from “investment in an associates” to “Investment held for sale” amounting to SR 251 million as at 31 December 2017 which represents the carrying value of the assets held for sale

(In Thousands Saudi Riyal)

9. INVESTMENT IN AN ASSOCIATES (continued)

9.1. Petredec Limited (continued)

The table reconciles the summarized financial information to the carrying amount of the Group's interest in Petredec as at 31 October:

	31 October 2017	31 October 2016	31 October 2015
Current assets	**4,564,995**	4,678,728	4,778,580
Non-current assets	**6,276,377**	5,700,871	3,630,451
Current liabilities	**(3,480,982)**	(3,528,806)	(2,325,825)
Non-current liabilities	**(3,733,051)**	(3,368,469)	(2,911,184)
Net assets before non-controlling interest	**3,627,339**	3,482,324	3,172,022
Non-controlling interest	**(44,866)**	(58,464)	(64,666)
Share premium	**(108,333)**	(108,333)	(108,333)
Net assets	**3,474,140**	3,315,527	2,999,023
Group's share in net assets (30.30%)	**1,052,734**	1,004,671	908,764
Goodwill	**119,177**	119,177	119,177
Carrying amount of investment in an associate	**1,171,911**	1,123,848	1,027,941
Revenue	**16,359,977**	19,828,483	
Net income before non-controlling interest	**272,507**	494,473	
Non-controlling interest	**(1,402)**	(9,228)	
Total net income for the year	**271,105**	485,245	
Group's share of total comprehensive income (30.30 %)	**82,153**	147,044	

The associate has SR1.3 billion contingent liabilities and capital commitments as at 31 October 2017 (31 October 2016: SR 1.2 billion, 31 October 2015: SR 3.6 billion).

9.2. International Maritime Industries Company

During 2017, International Maritime Industries Company has been established in KSA with capital of SR 375 million between the Company, ARAMCO), Hyundai Heavy Industries (South Korean Company) and Lamprell Power Company Limited (Emirates Company). The Group share in the established company represents 19.9% and amounting to SR74.6 million. The new company has not started its operations yet as at 31 December 2017.

10. RECEIVABLES FROM FINANCE LEASE

On 30 January 2009, National Chemical Carriers Limited Co. (a subsidiary) signed an agreement with Odfjell (hereafter: lessee) to charter three vessels under a bareboat arrangement for a period of 10 years with a purchase option after three years. These ships were delivered to lessee on 1 February 2009. The arrangement is considered as a finance lease as it transfers to lessee substantially all the benefits and risks and gives the lessee a purchase option under the arrangement.

(In Thousands Saudi Riyal)

10. RECEIVABLES FROM FINANCE LEASE (continued)

The net lease receivable balance is summarized as follows:

	2017	2016	1 January 2016
Accounts receivable from finance leases	**84,296**	157,860	227,509
Unguaranteed residual value at the end of the contract*	**116,231**	148,875	148,875
Gross finance lease	**200,527**	306,735	376,384
Unearned lease finance income	**(21,932)**	(55,005)	(88,545)
Net of receivables from finance lease	**178,595**	251,730	287,839
Current portion	**56,860**	44,232	36,109
Non-current portion	**121,735**	207,498	251,730
	178,595	251,730	287,839

*The Group has reviewed the unguaranteed residual value at the end of the lease agreement as at 31 December 2017, and found a reduction amounted to SR 32.6 million. An impairment of SR 28.9 million has been recognized and charged to the consolidated statement of income (note 23). The remaining reduction of the unguaranteed residual value will be recognized over the remaining period of the contract.

The maturity of gross finance lease (i.e. minimum lease payment (MLPs) and net finance lease (i.e. present value of MLPs) is as follows:

	MLPs 2017	**PV of MLPs 2017**	MLPs 2016	PV of MLPs 2016	MLPs 1 January 2016	PV of MLPs 1 January 2016
Less than one year	**77,670**	**56,860**	73,564	44,232	69,649	36,109
More than one year but less than five years	**122,857**	**121,735**	233,171	207,498	306,735	251,730
Net investment receivable in finance leases	**200,527**	**178,595**	306,735	251,730	376,384	287,839

11. OTHER INVESTMENTS

The balance of other investments includes the following:

	2017	2016	1 January 2016
Investments available for sale	**10,711**	13,533	13,533
Investment in government bonds	**83**	83	43
Investments in Sukuk held to maturity	-	10,000	10,000
	10,794	23,616	23,576

(In Thousands Saudi Riyal)

12. INVENTORIES

The balance of inventory, located on the vessels, of the following:

	2017	2016	1 January 2016
Fuel	**232,874**	186,718	150,274
Lubricant	**51,171**	47,676	47,689
Others	**6,714**	6,281	5,647
	290,759	240,675	203,610

Fuel expenses recognized in the consolidated statement of income for the year ended amounted to SR 1,084 million 31 December 2017 (2016: SR 806 million).

13. TRADE RECEIVABLES

Trade receivable is includes the following items:

	2017	2016	1 January 2016
Trade receivables	**774,957**	266,282	337,344
Receivable from related parties (Note 26)	**277,481**	397,495	378,849
	1,052,438	663,777	716,193
Less: Provision for doubtful debts	**(32,766)**	(31,128)	(46,580)
	1,019,672	632,649	669,613
Unbilled revenues	**455,316**	439,080	320,266
Trade receivables, net	**1,474,988**	1,071,729	989,879

The movement of provision for doubtful debts is as follows:

	2017	2016	1 January 2016
Opening balance	**31,128**	46,580	19,831
Charge (reversal) during the year (Note 22)	**1,638**	(15,452)	26,749
Ending balance	**32,766**	31,128	46,580

The aging of trade receivables is as follows:

	2017	2016	1 January 2016
Less than 6 months	**1,032,313**	896,598	872,413
From 6 months to 12 months	**242,249**	152,112	103,311
More than 12 months	**233,192**	54,147	60,735
Total trade receivables	**1,507,754**	1,102,857	1,036,459
Less: Provision for doubtful debts	**(32,766)**	(31,128)	(46,580)
Trade receivables, net	**1,474,988**	1,071,729	989,879

Included in trade receivables amounts due from Government entities amounting to SR 782 million as at 31 December 2017 (2016: SR 323 million, 1 January 2016: SR 306 million). These amounts constitute 53% of the net trade receivables as at 31 December 2017 (2016: 30%, 1 January 2016: 31%), amounts due for more than one year are amounts due from Government entities.

(In Thousands Saudi Riyal)

14. PREPAYMENTS AND OTHER CURRENT ASSETS

The balance of prepayments and other current assets includes the following:

	2017	2016	1 January 2016
Prepaid expenses	**322,624**	286,850	281,142
Insurance claims	**12,397**	8,406	10,953
Advances to suppliers	**9,274**	42,361	26,942
Others	**20,656**	38,522	18,386
	364,951	376,139	337,423

15. CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent bank balances, cash, investments in Murabaha and short-term deposits.

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

	2017	2016	1 January 2016
Bank balances and cash	**497,520**	171,731	173,265
Murabaha and short term deposits (Note 15.1)	**692,921**	1,908,262	1,066,597
Cash and cash equivalents in statement of cash flows	**1,190,441**	2,079,993	1,239,862
Amounts restricted by banks			
- Bank balances and cash	**(17,993)**	(14,342)	(23,213)
- Murabaha and short term deposits	**(87,715)**	(102,974)	(73,818)
Total amounts restricted by banks	**(105,708)**	(117,316)	(97,031)

15.1 Murabaha and Short-Term Deposits

Murabaha and short term deposit comprise of the following:

	2017	2016	1 January 2016
Murabaha and short - term deposits in USD	**379,452**	445,064	776,348
Murabaha and short - term deposits in Saudi Riyals	**313,469**	1,463,198	290,249
	692,921	1,908,262	1,066,597

Murabaha and short term deposit yield finance income at prevailing market rates.

16. SHARE CAPITAL

The Company’s share capital is comprised of 393,750 thousand shares with a par value of SR 10 per share. Total authorized, issued, and outstanding shares are SR 3,937,500,000 as at 31 December 2017, 31 December 2016, and 1 January 2016.

(In Thousands Saudi Riyal)

17. STATUTORY RESERVE

In accordance with the Regulations for Companies in Saudi Arabia, the Company is required to transfer 10% of net income for the year to a statutory reserve until such reserve amounts to 30% of its share capital. This reserve is not available for distribution to shareholders.

Statutory reserve comprises of the following:

	2017	2016	1 January 2016
Transfers from net income	**964,732**	884,701	708,787
Shares premium	**1,489,103**	1,489,103	1,489,103
Total statutory reserve	**2,453,835**	2,373,804	2,197,890

18. SUKUK AND LONG TERM LOANS

	Note	**2017**	2016	1 January 2016
Sukuk	18.1	**3,900,000**	3,900,000	3,900,000
Murabaha loans	18.2	**6,268,676**	5,646,869	3,916,832
Commercial loans	18.3	**163,406**	199,719	236,031
Total sukuk and long term loans		**10,332,082**	9,746,588	8,052,863
Less: Total current portion		**(1,075,289)**	(1,001,146)	(547,016)
Non-current sukuk and long term loans		**9,256,793**	8,745,442	7,505,847
Less: prepaid financing		**(76,208)**	(81,884)	(30,631)
Net non-current sukuk and long term loans		**9,180,585**	8,663,558	7,475,216

18.1 Sukuk

On 14 Shawwal 1436H (corresponding to 30 July 2015), the Company completed the issuance and offering of local Sukuk denominated in Saudi Riyal for public offering with nominal value amounted to SR 3,900 million, and a nominal value of SR 1 million for each Sukuk. The Sukuk issuance bears a variable rate of return at (SIBOR) plus a predetermined margin, payable semi-annually. The Sukuk is due at maturity at par value on its expiry date of 1 Muharram 1444 (corresponding to 30 July 2022).

18.2 Murabaha loans

The Group obtained long term loan during year ended 31 December 2017 amounted to SR 1,587 million (31 December 2016: SR 2,290 million, 1 January 2016: Nil). The existing loans are secured by promissory notes and mortgages against vessels (note 6). These loans are usually repayable in 10 years on quarterly and semi-annual basis. These loans carry commission at normal commercial rates. Balance of loans against which profit to be paid based on LIBOR as at 31 December 2017 is SR 3,235 million (31 December 2016: SR 3,240 million: 1 January 2016: SR 2,484 million) and balance of loans against which profit to be paid based on SIBOR at the end of 31 December 2017 is SR 3,033 million (31 December 2016: SR 2,407 million: 1 January 2016: SR 1,433 million).

18.3 Commercial loans

The Group did not obtain any long term loan during year ended 31 December 2017 (31 December 2016: Nil, 1 January 2016: Nil). The existing loans are secured by mortgages against vessels (note 6). These loans are repayable in 10 years on semi-annual basis carrying special commission at LIBOR plus normal commercial margin. Balances of loans against which profit to be paid based on LIBOR as at 31 December 2017 are SR 163 million (31 December 2016: SR 200 million, 1 January 2016: SR 236 million).

(In Thousands Saudi Riyal)

18. SUKUK AND LONG TERM LOANS (continued)

18.4 Commitments

Loans agreements include commitments mainly related to maintaining certain ratios of leverage, debt to equity ratio and other commitments. Under the terms of these agreements, banks are entitled to demand immediate repayment of loans if none of these undertakings are met.

18.5 Long term loans related to subsidiary

18.5.1 National Chemical Carriers Limited Co.

Long term loan balance for National Chemical Carriers Limited Co. consists of the following:

	2017	2016	1 January 2016
Murabaha loans	**1,754,317**	1,945,248	1,449,844
Commercial loans	**163,406**	199,719	236,031
Total long term loans	**1,917,723**	2,144,967	1,685,875
Less: Total current portion	**(245,547)**	(463,653)	(199,954)
Non-current long term loans	**1,672,176**	1,681,314	1,485,921
Less: prepaid financing	**(5,734)**	(6,423)	-
Net non-current long term loans	**1,666,442**	1,674,891	1,485,921

18.5.2 Bahri Dry Bulk LLC

Long term loan balance for Bahri Dry Bulk LLC consists of the following:

	2017	2016	1 January 2016
Murabaha loans	**324,450**	353,850	383,250
Total long term loans	**324,450**	353,850	383,250
Less: Total current portion	**(29,400)**	(29,400)	(29,400)
Non-current long term loans	**295,050**	324,450	353,850
Less: prepaid financing	**(1,829)**	(2,105)	(2,382)
Net non-current long term loans	**293,221**	322,345	351,468

(In Thousands Saudi Riyal)

19. EMPLOYEES' BENEFITS

	2017	2016	1 January 2016
Opening balance	**65,482**	65,349	52,835
Current service cost	**7,860**	8,439	6,447
Interest cost	**2,608**	2,485	2,403
Benefits paid	**(5,131)**	(6,424)	(7,397)
Re-measurement gain (loss) on defined benefit plans	**(1,352)**	(4,367)	11,061
Ending balance	**69,467**	65,482	65,349

The significant assumptions used in determining end of service benefit plans for the Group's plans are shown below:

	2017	2016
Discount rate	**4,00%**	4,00%
Withdrawal rate – for the first two years of service	**30,00%**	30,00%
Withdrawal rate – third year of service and above	**3,00%**	3,00%
Future salaries increase - for the first three years	**3,00%**	5,50%
Future salaries increase - fourth year and after	**5,50%**	5,50%

A quantitative sensitivity analysis for significant assumptions on the defined benefit plans are shown below:

	2017	2016
Discount rate		
0.5 % increase	**(3,582)**	(3,050)
0.5% decrease	**3,887**	3,577
Withdrawal rate		
10% increase	**600**	622
10% decrease	**(675)**	(637)
Future salary increases		
1% increase	**8,319**	7,295
1% decrease	**(7,193)**	(6,335)

The sensitivity analysis above has been determined based on a method that extrapolates the impact on the defined benefit plans as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The sensitivity analyses may not be representative of an actual change in the defined benefit plans as it is unlikely that changes in assumptions would occur in isolation from one another.

(In Thousands Saudi Riyal)

20. TRADE AND OTHER PAYABLES

	2017	2016	1 January 2016
Trade payables	**430,652**	545,391	766,993
Accrued expenses	**190,605**	188,075	142,323
Unclaimed dividend	**40,011**	37,432	35,095
Others*	**33,679**	29,521	54,182
	694,947	800,419	998,593

* This item includes SR 30,7 million as at 1 January 2016 and represents the balance of the amounts received from a shipbuilding company for the repairs related to the six vessels built by the National Chemical Transportation Company Limited (a subsidiary) SR 6,12 million for each vessel. One vessel was repaired during 2013 and during the year ended 31 December 2016 repairs were made to the remaining five ships during the maintenance period resulted in savings of SR 27,8 million which were recognized in other income (note 23).

21. ZAKAT AND TAXES

The Group's zakat is based on financial statements of the Company and its wholly owned subsidiaries, in accordance with the General Authority of Zakat and Tax ("GAZT') Ministerial Resolution No. 1005 dated 28 Rabi' Al-thani 1428H.

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

The movement in the provision for zakat and taxes is as follows:

	2017	2016	1 January 2016
Opening balance	**219,553**	296,811	142,898
Provided for the year	**100,760**	106,649	181,354
Reversal of tax provision	**-**	(150,176)	-
Payments during the year	**(76,049)**	(33,731)	(27,441)
Ending balance	**244,264**	219,553	296,811

The Company has filed its zakat returns up to 2016. The zakat assessments have been agreed with the General Authority of Zakat and Tax ("GAZT") for all the years up to 2007. The GAZT has raised the zakat assessment for the years 2008 to 2012 claiming additional liabilities of SR 79 million. The Company has filed an appeal on these assessments and the appeal is still under study. The Company believes it provided a sufficient provision for zakat and withholding tax as at 31 December 2017. The Company has recognized income tax on shares of one of the shareholder starting from 1 January 2017.

The Company did not receive from GAZT the zakat assessments for the years 2013 to 2016.

Zakat and Taxes status for National Chemical Carriers Company

The Company has submitted its zakat returns for all fiscal years up to 2016 to the General Authority of Zakat and Tax (the "GAZT"), zakat assessments have been agreed with the General Authority of Zakat and Tax ("GAZT") for all the years up to 2004. The Company has received from the GAZT zakat assessments for the years 2005 to 2008 and for the years from 2009 to 2012 claiming additional payments of SR 10 million and SR 43 million respectively. The Company has filed an appeal against the Preliminary Appeal Committee resolution related to the assessment for the years from 2005 to 2008 to the higher appeal committee and still not resolved as of the date of these financial statement.

(In Thousands Saudi Riyal)

21. ZAKAT AND TAXES (continued)

Zakat and Taxes status for National Chemical Carriers Company (continued)

The Company also filed an appeal against the assessment for the years from 2009 to 2012, and the appeal is still under review with the GAZT. The Company's management believes that the provision for zakat and withholding tax is sufficient as at 31 December 2017.

The Company did not receive from GAZT the zakat assessments for the years from 2013 to 2016.

Zakat and Tax status for Bahri Dry Bulk

The Company submitted its zakat returns for the years up to 2016. The GAZT has not issue any zakat assessments on the subsidiary company since 2010 (date of incorporation). The subsidiary company believes that adequate provisions have been made against any potential zakat liability.

22. GENERAL AND ADMINISTRATIVE EXPENSES

	2017	2016
Employees salaries and benefits	**91,833**	84,234
Professional, legal and consultation fees	**22,682**	22,900
Amortization of prepaid expenses	**15,075**	4,872
Rent	**10,146**	9,056
Depreciation	**4,898**	1,141
Provision (reversal of provision) for doubtful debts (note 13)	**1,638**	(15,452)
Others	**25,002**	4,311
	171,274	111,062

23. OTHER EXPENSES, NET

	2017	2016
Finance lease impairment (note 10)	**(28,904)**	-
Gains (loss) from disposal of property and equipment	**5,286**	(32,942)
Vessels maintenance settlement (note 20)	**-**	27,813
Recovery from insurance claims	**-**	1,363
Others	**(580)**	2,258
	(24,198)	(1,508)

24. FINANCE COSTS

	2017	2016
Saudi Riyal sukuk	**118,339**	108,176
Murabaha financing	**148,461**	125,882
Drivatives re-valuation (note 28.3)	**38,133**	2,473
Commercial loans	**3,502**	3,030
	308,435	239,561

25. EARNINGS PER SHARE

	2017	2016
Net income for the year attributable to equity holders of the parent Company	**800,313**	1,717,871
Weighted average number of ordinary shares outstanding during the year	**393,750,000**	393,750,000
Earnings per share – basic	**2.03**	4.36
Earnings per share – diluted	**2.03**	4.36

(In Thousands Saudi Riyal)

26. RELATED PARTIES

The Group transacts with related parties in the ordinary course of its activities, as many of the Group's transactions and arrangements are based on signed agreements between the Group and those companies. The balances are unsecured, interest-free and repayable on demand unless otherwise stated.

Operating revenues that generated from related parties as follows:

	2017	2016
ARAMCO and its subsidiaries - *shareholder*	**2,480,029**	3,350,281
International Shipping and Transportation Co. Ltd. - *affiliate*	**43,530**	97,522
Arabian Agricultural Services Company (ARASCO) - *affiliate*	**112,367**	112,633

Related party balances included in trade receivable (note 13) is as follows:

	2017	2016	1 January 2016
ARAMCO and its subsidiaries – *shareholder*	**266,075**	366,498	364,344
International Shipping and Transportation Co. Ltd. – *affiliate*	**11,406**	30,997	14,505
	277,481	397,495	378,849

Compensation of key management personnel:

	2017	2016
Salaries and compensations	**10,147**	10,701
Termination benefits	**2,328**	4,275
Total Compensation	**12,475**	14,976

27. JOINT OPERATIONS

NCC, a subsidiary, acts as a 'Manager' for the Odfjell vessel, for the pool arrangement with Odfjell. As a manager, NCC has the responsibilities of conducting operations of Odfjell vessel, voyage planning, charter bunkering, invoicing and receiving revenue from customers, negotiating employment of the vessel. Odfjell bears the costs of technical managing, repairing, insuring, supply provisioning Odfjell vessel, perform any other obligations under financing/mortgage of Odfjell vessel.

This arrangement accounted for as Joint arrangement (Joint arrangement) since both the parties have control over some of the activities. NCC as a joint operator recognize its share of assets, liabilities, revenue and expenses in pool arrangement.

(In Thousands Saudi Riyal)

28. FINANCIAL INSTRUMENTS

28.1. Financial Assets

	Note	**2017**	2016	1 January 2016
Derivatives not designated as hedging instruments:				
CAP commission options	28.3	**67,572**	96,267	56,629
AFS financial assets at fair value through OCI				
Unquoted equity shares	11	**10,711**	13,533	13,533
Total financial instruments at fair value		**78,283**	109,800	70,162
Financial assets at amortized cost				
Trade receivables, net	13	**1,474,988**	1,071,729	989,879
Other investments*	11	**83**	10,083	10,043
Murabaha and short term deposits	15.1	**692,921**	1,908,262	1,066,597
Total financial assets at amortized cost		**2,167,992**	2,990,074	2,066,519
Total financial assets		**2,246,275**	3,099,874	2,136,681

* Other investment represents investment in Sukuk held to maturity. Refer to note 11 for breakdown of other investments balance.

28.2 Financial Liabilities

	Note	**2017**	2016	1 January 2016
Financial liabilities at amortized cost				
Sukuk and long term loans	18	**10,255,874**	9,664,704	8,022,232
Trade and other payables and Other liabilities	20	**694,947**	800,419	998,593
Total financial liabilities at amortized cost		**10,950,821**	10,465,123	9,020,825
Total financial liabilities		**10,950,821**	10,465,123	9,020,825

28.3 Fair values of financial instruments

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 in an arm's length transaction. Financial instruments comprised of financial assets and financial liabilities.

The Group has derivative financial instruments consisting of commission rate options agreements to hedge against fluctuations in commission rates. The loss from revaluation of these agreements is recognized in the consolidated statement of income (note 24).

(In Thousands Saudi Riyal)

28. FINANCIAL INSTRUMENTS (continued)

28.3 Fair values of financial instruments (continued)

The fair value hierarchy is as follows:

	2017			
	Qouted prices in the active market (Level 1)	**Significant observable inputs (Level 2)**	**Significant Unobservable inputs (Level 3)**	**Total**
Available for sale:				
Unquoted equity shares *	**-**	**-**	**10,711**	**10,711**
Derivatives measured at fair value through statement of income				
CAP commission option	**-**	**67,572**	**-**	**67,572**

	2016			
	Qouted prices in the active market (Level 1)	Significant observable inputs (Level 2)	Significant Unobservable inputs (Level 3)	Total
Available for sale:				
Unquoted equity shares *	-	-	13,533	13,533
Derivatives measured at fair value through statement of income				
CAP commission option	-	96,267	-	96,267

	1 January 2016			
	Qouted prices in the active market (Level 1)	Significant observable inputs (Level 2)	Significant Unobservable inputs (Level 3)	Total
Available for sale:				
Unquoted equity shares *	-	-	13,533	13,533
Derivatives measured at fair value through statement of income				
Profit rate caps	-	56,629	-	56,629

*Based on provisions of IAS 39, carrying value has been used as an approximation to the fair value

Management believes that the fair value of other assets and liabilities approximate to their carrying values.

28.4 Financial Risk Management

The Group's activities expose it to a variety of financial risks, including market risk (comprised of currency risk, Fair value risk, cash flows for commission rate, credit risk and liquidity risk). The Group’s risk management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group’s financial performance.

(In Thousands Saudi Riyal)

28 FINANCIAL INSTRUMENTS (continued)

28.4 Financial Risk Management (continued)

The financial instruments in the consolidated statement of financial position are comprised primarily of cash and cash equivalent, investments, trade receivables, financing, trade payables, other accrued expenses, derivative financial instruments and loans and sukuk.

Financial assets and liabilities are netted together and shown as a net amount, if the Group has the legal right to do so and the intention is to either settle on the net or recognize the assets and liabilities simultaneously. Higher management monitors the financial risk management department. The most important types of risk are summarized below:

28.4.1. Credit risk

Credit risk is the risk that one party will fail to discharge an obligation and cause the other party to incur a financial loss. The Group seeks to manage its credit risk by dealing with reputable banks and with respect to customers by setting credit limits for individual customers, monitoring outstanding receivables and ensuring close follow-ups.

Financial instruments and cash deposits
Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the Group's Board of Directors on an annual basis.

Limits are designed to minimize risk concentration and decrease financial loss through the inability of the counterparty to make the payments. The maximum exposure to credit risk for the components of the consolidated statement of financial position is the carrying amounts shown in note 28 except for financial guarantees and derivative financial instruments.

28.4.2. Liquidity risk

Liquidity risk represents the Group's difficulties in providing funds to meet commitments associated with financial instruments. The Group's liquidity risk management policy is to ensure that sufficient liquidity and financing are available to meet its liabilities when due.

The amounts in the table below represent contractual undiscounted cash flows:

	2017					
	Within 3 months	**3 to 12 months**	**1 to 5 years**	**More than 5years**	**No fixed maturity**	**Total**
Long term loans	**281,296**	**793,993**	**3,181,590**	**2,175,203**	**-**	**6,432,082**
Sukuk	**-**	**-**	**-**	**3,900,000**	**-**	**3,900,000**
Trade payable and other current liabilities	**520,038**	**107,906**	**26,992**	**-**	**40,011**	**694,947**
Employees' benefits	**-**	**-**	**-**	**-**	**69,467**	**69,467**
	801,334	**901,899**	**3,208,582**	**6,075,203**	**109,478**	**11,096,496**

(In Thousands Saudi Riyal)

28. FINANCIAL INSTRUMENTS (continued)

28.4. Financial Risk Management (continued)

28.4.2. Liquidity risk (continued)

	2016					
	Within 3 months	3 to 12 months	1 to 5 years	More than 5years	No fixed maturity	Total
Long term loans	182,338	818,807	2,901,463	1,862,095	-	5,764,703
Sukuk	-	-	-	3,900,000	-	3,900,000
Trade payable and other current liabilities	641,068	94,337	27,582	-	37,432	800,419
Employees' benefits	-	-	-	-	65,482	65,482
	823,406	913,144	2,929,045	5,762,095	102,914	10,530,604

	1 January 2016					
	Within 3 months	3 to 12 months	1 to 5 years	More than 5years	No fixed maturity	Total
Long term loans	168,742	378,274	1,552,447	2,022,769	-	4,122,232
Sukuk	-	-	-	3,900,000	-	3,900,000
Trade payable and other current liabilities	840,334	74,382	21,691	-	62,186	998,593
Employees' benefits	-	-	-	-	65,349	65,349
	1,009,076	452,656	1,574,138	5,922,769	127,535	9,086,174

The Company has unutilized credit facilities of SR 2,154 million as at 31 December 2017 (2016: SR 3,145 million, 1 January 2016: 713 million) to meet liquidity requirements.

28.4.3 Market risk

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

Currency risk

Currency risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's principal transactions are carried in Saudi Riyal, United States Dollar, and United Arab Emirates Dirham. The Group's management believes that currency risk is not significant since the exchange rate of Saudi Riyal is pegged against those currencies.

Commission rate risk

Commission rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in the market commission rates. The Group is subject to commission rate risk on its commission rate bearing assets and liabilities, including bank deposits and loans. The Group manages its exposure to commission rate risk by continuously monitoring movements in commission rates. The Group had executed CAP commission options to hedge the fluctuation in the commission rates.

(In Thousands Saudi Riyal)

29. FINANCIAL INSTRUMENTS (continued)

28.4. Financial Risk Management (continued)

28.4.3 Market risk (continued)

Commission rate risk (continued)

Sensitivity analysis for variable rate financial instruments
The following table demonstrates the sensitivity of income to reasonably possible changes in commission rate on Sukuk and long term loans, with all variables held constant.

	2017	2016
Profit rate		
Increase by 100 base points	**99,602**	85,702
Decrease by 100 base points	**(99,602)**	(85,702)

Other price risk

Price risk is the risk that the value of a financial instrument will fluctuate due to changes in market prices, whether those changes are due to factors related to the instrument or its source, or which affect all instruments traded in the market. The Group diversifies its investment portfolio to manage price risk arising from its equity investments.

28.4.4 Capital management

For the purpose of the Group's capital management, capital includes issued capital, share premium and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder 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 debt ratios, which is net debt divided by total capital plus net debt. The Group includes within net debt, Sukuk and long term loans, trade and other payables, less cash and short-term deposits.

	2017	2016	1 January 2016
Sukuk and long term loan (note 18)	**10,332,082**	9,746,588	8,052,863
Trade payables and other current liabilities (note 20)	**694,947**	800,419	998,593
Less: Cash and cash equivalent (note 15)	**(1,190,441)**	(2,079,993)	(1,239,862)
Net Debt	**9,836,588**	8,467,014	7,811,594
Total equity	**9,918,031**	10,087,097	9,319,179
Total capital	**9,918,031**	10,087,097	9,319,179
Capital and net debt	**19,754,619**	18,554,111	17,130,773
Gearing ratio	**49.79%**	45.63%	45.60%

29. CAPITAL COMMITMENTS AND CONTINGENCIES

Capital commitments
The Group's capital commitment related to the ships under construction and the purchase of property and equipment SR 927 million as of December 31, 2017 (2016: SR 2.3 billion, 1 January 2016: SR3.3 billion) (note 7).

(In Thousands Saudi Riyal)

29. CAPITAL COMMITMENTS AND CONTINGENCIES (continued)

Capital commitments (continued)
The Group signed a joint venture agreement on 30 May 2017 with Saudi Arabian Oil Company (ARAMCO), Hyundai Heavy Industries Ltd. (South Korea) and Lamprell Power Company Limited (UAE) to enter into a partnership for the establishment, development, and operation of maritime yard in Ras Al Khair near Jubail Industrial City. The partners will inject SR 2.625 billion (USD 700 million) of the project cost. The Group will contribute SR 522.38 million (USD 139 million) with a 19.9% ownership, while ARAMCO will own 50.1%, Lamprell Power Company Limited will own 20%, and Hyundai Heavy Industries' share is 10%. The Group has signed a purchase contract for at least 75% of its commercial vessel needs over a period of 10 years from the start date of the project, equivalent to 52 vessels, including oil tankers “VLCC” based on the commercial rules.

Contingencies
The Group has outstanding letters of guarantee of SR 314 million as at 31 December 2017 (2016: SR 298 million, 1 January 2016: SR 297 million) issued during the Group’s normal course of business.

The Group is involved in legal litigation claims in the ordinary course of business, other than what has been disclosed in, which are being defended, there are also some claims under the process of final settlement. The Group’s management does not expect that these claims will have a material adverse effect on the Group’s consolidated financial statements.

Operating lease commitments – Group as a lessor
The Group was committed to lease certain of its vessels to a related party based on time charter agreement.

The future amounts receivable under this lease agreement are as follow:

	2017	2016	1 January 2016
Within one year	**536,336**	584,382	495,476
After one year but not more than five years	**1,372,579**	1,672,135	1,481,939
More than five years	**703,042**	939,822	569,852
	2,611,957	3,196,339	2,547,267

Income from time charter agreements under operating lease amounted SR 584 million for the year ended 31 December 2017 (2016: SR 462).

30. DIVIDENDS

The Board of Directors decided in its meeting held on 13 December 2017 to recommend to the General Assembly of the Company the distribution of cash dividends of SR 591 million to the shareholders for the financial year ended 31 December 2017, which amounted to SR 1.5 per share.

The General Assembly of the shareholders of the Company approved in its meeting held on 16 January 2017 the distribution of cash dividends of SR 984.38 million to the shareholders for the financial year ended 31 December 2016, which amounted to SR 2.5 per share, and represented 25% of the share par value. These dividends were paid on 31 January 2017. The General Assembly of the shareholders of the Company approved distribution of SR 1.8 million to the board of directors.

The General Assembly of the shareholders of the Company approved in its meeting held on 6 April 2016 the distribution of cash dividends of SR 984.38 million to the shareholders for the financial year ended 31 December 2015, which amounted to SR 2.5 per share, and represented 25% of the share par value. These dividends were paid on 21 April 2016. The General Assembly of the shareholders approved the board of directors remuneration distribution of SR 1.8 million.

The balance of unclaimed dividends as at 31 December 2017 amounted to SR 40 million (2016: SR 37.4 million, 1 January 2016: SR 35 million) (note 20).

(In Thousands Saudi Riyal)

31. NON-CONTROLLING INTERESTS IN SUBSIDIARIES

Set out below is summarized financial information for each subsidiary that has non-controlling interests, shown in note 1:

2017	**National Chemical Carrier Company Limited**	**Bahri Dry Bulk LLC**	**Total**
Non-controlling interest Percentage	**20%**	**40%**	
Non-current assets	**3,096,785**	**578,613**	**3,675,398**
Current assets	**456,312**	**110,229**	**566,541**
Non-current liabilities	**(1,669,399)**	**(294,154)**	**(1,963,553)**
Current liabilities	**(451,948)**	**(65,578)**	**(517,526)**
Non-controlling interests relating to the subsidiary	**-**	**12,048**	**12,048**
Net assets	**1,431,750**	**341,158**	**1,772,908**
Net assets attributable to non-controlling interests	**286,350**	**136,463**	**422,813**
Revenue	**805,270**	**362,297**	**1,167,567**
Net income	**14,429**	**8,280**	**22,709**
Net income attributable to non-controlling interests	**2,886**	**3,312**	**6,198**
Cash flow from operating activities	**75,246**	**17,213**	**92,459**
Cash flow from investing activities	**161,813**	**(14,188)**	**147,625**
Cash flow from financing activities	**(226,966)**	**(29,330)**	**(256,296)**
Increase (decrease) in cash and cash equivalents	**10,093**	**(26,305)**	**(16,212)**

2016	National Chemical Carrier Company Limited	Bahri Dry Bulk LLC	Total
Non-controlling interest Percentage	20%	40%	
Non-current assets	3,356,214	559,202	3,915,416
Current assets	378,752	143,511	522,263
Non-current liabilities	(1,679,586)	(322,478)	(2,002,064)
Current liabilities	(638,850)	(65,578)	(704,428)
Net assets	1,416,530	314,657	1,731,187
Net assets attributable to non-controlling interests	283,306	125,863	409,169
Revenue	774,148	271,156	1,045,304
Net income	115,415	21,930	137,345
Net income attributable to non-controlling interests	23,083	8,772	31,855
Cash flow from operating activities	332,921	52,101	385,022
Cash flow from investing activities	(707,818)	(320)	(708,138)
Cash flow from financing activities	459,091	(48,324)	410,767
Increase in cash and cash equivalents	84,194	3,457	87,651

1 January 2016	National Chemical Carrier Company Limited	Bahri Dry Bulk LLC	Total
Non-controlling interest Percentage	20%	40%	
Non-current assets	2,917,058	585,615	3,502,673
Current assets	241,908	112,890	354,798
Non-current liabilities	(1,489,542)	(351,245)	(1,840,787)
Current liabilities	(368,309)	(54,532)	(422,841)
Net assets	1,301,115	292,728	1,593,843
Net assets attributable to non-controlling interests	260,223	117,091	377,314

32. FIRST TIME ADOPTION OF IFRS

These consolidated financial statements, for the year ended 31 December 2017 have been prepared in accordance with IFRS as endorsed in KSA. The Group prepared its consolidated financial statements for all years up to the year 31 December 2016 in accordance with Generally Accepted Accounting Principal (GAAP) issued by Saudi Organization for Certified Public Accountants (“SOCPA”) in KSA (Refer to as “SOCPA GAAP”)

Accordingly, the Group has prepared consolidated financial statements that comply with IFRS as endorsed in KSA along with the comparative figures for the year ended 31 December 2016. This note explains the principal adjustments made by the Group in preparing:

- The opening consolidated statement of financial position as at 1 January 2016, the Group’s date of transitioning from SOCPA GAAP to IFRS as endorsed in KSA.
- Consolidated statement of financial position and reconciliation of equity as at 31 December 2016, and reconciliation of total comprehensive income for the year ended 31 December 2016.

32.1 Exemptions

IFRS "First time adoption of International Financial Reporting Standards" as endorsed in KSA allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS. The Group has applied the following exemptions:

Assets and liabilities of subsidiaries, associates and joint ventures

An entity which becomes a first-time adopter later than its subsidiary, the entity shall in its consolidated financial statements measure the assets and liabilities of the subsidiary at the same carrying amounts as in the financial statements of the subsidiary, after adjusting for consolidation and equity accounting adjustments and for the effects of the business combination in which the entity acquired the subsidiary.

Mideast Ship Management Limited (a subsidiary based on United Arab Emirates) and Petredec Limited (an associate based on Bermuda) has become first adopter of IFRS before the company. Hence, assets and liabilities have been measured at the same carrying value.

Business combinations

IFRS 3 "Business Combination" has not been applied to acquisition of subsidiaries, which are considered business for IFRS standards, or of interests in associates and joint ventures that occurred before 1 January 2016. Use of this exemption means carrying amounts of assets and liabilities recognized on the acquisition date under SOCPA for such transactions have been considered to be their deemed cost.

Borrowing costs

The Group has applied the transitional provisions in IAS 23 Borrowing Costs and capitalizes borrowing costs relating to all qualifying assets after the date of transition. Similarly, the Group has not restated for capitalized borrowing costs under SOCPA GAAP on qualifying assets prior to the date of transition to IFRS as endorsed in KSA.

(In Thousands Saudi Riyal)

32. FIRST TIME ADOPTION OF IFRS (continued)

32.2 Reconciliation of statement of financial position

A) Reconciliation of statement of financial position as at 1 January 2016 (date of transition to IFRS as endorsed in KSA)

	Note	As at 1 January 2016 (SOCPA GAAP)	IFRS Adjustments Re-classification	IFRS Adjustments Re-measurement	1 January 2016 (IFRS as endorsed in KSA)
ASSETS					
NON-CURRENT ASSETS					
Property and equipment	32.6	12,798,271	126,586	(282,188)	12,642,669
Ships under construction		1,099,901	-	-	1,099,901
Intangible assets		849,464	-	-	849,464
Investment in an associates		1,027,941	-	-	1,027,941
Receivable from finance lease	32.7(c)	330,381	-	(78,651)	251,730
Other investments		23,576	-	-	23,576
Deferred dry-docking cost, net		126,586	(126,586)	-	-
TOTAL NON-CURRENT ASSETS		16,256,120	-	(360,839)	15,895,281
CURRENT ASSETS					
Receivable from finance lease – current portion	32.7(c)	27,901	-	8,208	36,109
Inventories		203,610	-	-	203,610
Trade receivables	32.7(A)	989,652	-	227	989,879
Prepayments and other current assets		163,686	173,737	-	337,423
Accrued bunker subsidy		150,412	(150,412)	-	-
Incomplete voyage		6,369	(6,369)	-	-
Agents current account		47,587	(47,587)	-	-
Murabaha and short term deposits		1,066,597	-	-	1,066,597
Cash and cash equivalents		173,265	-	-	173,265
TOTAL CURRENT ASSETS		2,829,079	(30,631)	8,435	2,806,883
TOTAL ASSETS		19,085,199	(30,631)	(352,404)	18,702,164
EQUITY AND LIABILITIES					
EQUITY					
Share capital		3,937,500	-	-	3,937,500
Statutory reserve		2,197,890	-	-	2,197,890
Other reserves	32.7(B)	-	-	(11,061)	(11,061)
Retained earnings		3,149,268	-	(331,732)	2,817,536
Equity attributable to equity holder of the parent		9,284,658	-	(342,793)	8,941,865
Non-controlling interests		414,420	-	(37,106)	377,314
TOTAL EQUITY		9,699,078	-	(379,899)	9,319,179
LIABILITIES					
NON-CURRENT LIABILITIES					
Sukuk and long term loans		7,505,847	(30,631)	-	7,475,216
Employees' benefits	32.7(B)	53,774	-	11,575	65,349
TOTAL NON-CURRENT LIABILITIES		7,559,621	(30,631)	11,575	7,540,565
CURRENT LIABILITIES					
Long term loans - current portion		547,016	-	-	547,016
Trade payables and other current liabilities	32.7(A)	982,673	-	15,920	998,593
Provisions for zakat and taxes		296,811	-	-	296,811
TOTAL CURRENT LIABILITIES		1,826,500	-	15,920	1,842,420
TOTAL LIABILITIES		9,386,121	(30,631)	27,495	9,382,985
TOTAL EQUITY AND LIABILITIES		19,085,199	(30,631)	(352,404)	18,702,164

(In Thousands Saudi Riyal)

32. FIRST TIME ADOPTION OF IFRS (continued)

32.2 Reconciliation of statement of financial position (continued)

B) Reconciliation of statement of financial position as at 31 December 2016

			IFRS Adjustments		
	Note	31 December 2016 (SOCPA GAAP)	Re-classification	Re-measurement	31 December 2016 (IFRS as endorsed in KSA)
ASSETS					
NON-CURRENT ASSETS					
Property and equipment	32.6	13,744,303	241,466	(323,873)	13,661,896
Ships under construction		1,235,565	-	-	1,235,565
Intangible assets		772,064	-	-	772,064
Investment in an associate		1,123,848	-	-	1,123,848
Receivable from finance lease	32.7(C)	295,313	-	(87,815)	207,498
Other investments		23,616	-	-	23,616
Deferred dry-docking cost, net		241,466	(241,466)	-	-
TOTAL NON-CURRENT ASSETS		17,436,175	-	(411,688)	17,024,487
CURRENT ASSETS					
Receivable from finance lease – current portion	32.7(C)	35,067	-	9,165	44,232
Inventories		240,675	-	-	240,675
Trade receivables	32.7(A)	1,063,600	-	8,129	1,071,729
Prepayments and other current assets		311,941	64,198	-	376,139
Accrued bunker subsidy		78,108	(78,108)	-	-
Agents current account		67,974	(67,974)	-	-
Murabaha and short term deposits		1,908,262	-	-	1,908,262
Cash and cash equivalents		171,731	-	-	171,731
TOTAL CURRENT ASSETS		3,877,358	(81,884)	17,294	3,812,768
TOTAL ASSETS		21,313,533	(81,884)	(394,394)	20,837,255
EQUITY AND LIABILITIES					
EQUITY					
Share capital		3,937,500	-	-	3,937,500
Statutory reserves		2,373,804	-	-	2,373,804
Other reserve	32.7(B)	-	-	(6,694)	(6,694)
Retained earnings		3,746,319	-	(373,001)	3,373,318
Equity attributable to the equity holder of the parent		10,057,623	-	(379,695)	9,677,928
Non-controlling interests		453,319	-	(44,150)	409,169
TOTAL EQUITY		10,510,942	-	(423,845)	10,087,097
LIABILITIES					
NON-CURRENT LIABILITIES					
Sukuk and long term loans		8,745,442	(81,884)	-	8,663,558
Employees benefits	32.7(B)	54,348	-	11,134	65,482
TOTAL NON-CURRENT LIABILITIES		8,799,790	(81,884)	11,134	8,729,040
CURRENT LIABILITIES					
Long term loans - current portion		1,001,146	-	-	1,001,146
Trade payables and other current liabilities	32.7(A)	782,102	-	18,317	800,419
Provisions for zakat and taxes		219,553	-	-	219,553
TOTAL CURRENT LIABILITIES		2,002,801	-	18,317	2,021,118
TOTAL LIABILITIES		10,802,591	(81,884)	29,451	10,750,158
TOTAL EQUITY AND LIABILITIES		21,313,533	(81,884)	(394,394)	20,837,255

(In Thousands Saudi Riyal)

32. FIRST TIME ADOPTION OF IFRS (continued)

32.3 Reconciliation of equity

	Note	2016	1 January 2016
Total equity under SOCPA GAAP		10,510,942	9,699,078
Increase in accumulated depreciation	32.6	(323,873)	(282,188)
Decrease in service revenue recognition	32.7(a)	(10,187)	(15,693)
Decrease in employees' benefits - actuarial valuation	32.7(b)	(11,134)	(11,575)
Decrease in finance lease receivable	32.7(c)	(78,651)	(70,443)
Equity under IFRS as endorsed in KSA		10,087,097	9,319,179

32.4 Reconciliation of total comprehensive income for the year ended 31 December 2016

	Note	31 Decmeber 2016 (SOCPA GAAP)	Effect of IFRS Transition	31 December 2016 (IFRS as endorsed in KSA)
Revenues	32.7	6,788,789	(305)	6,788,484
Operating costs	32.6/7	(4,983,302)	(47,109)	(5,030,411)
Gross profit before bunker subsidy		1,805,487	(47,414)	1,758,073
Bunker subsidy		134,258	-	134,258
Gross profit		1,939,745	(47,414)	1,892,331
General and administrative expenses	32.7	(112,649)	1,587	(111,062)
Other expenses, net		(1,508)	-	(1,508)
Total operating profit		1,825,588	(45,827)	1,779,761
Finance income		18,955	-	18,955
Finance costs	32.7	(237,075)	(2,486)	(239,561)
Share in results of an associate		147,044	-	147,044
Income before zakat and taxes		1,754,512	(48,313)	1,706,199
Zakat and taxes, net		43,527	-	43,527
Net income for the year		1,798,039	(48,313)	1,749,726
OCI not to be reclassified to income or loss				
Re-measurement gain on defined benefit plans	32.7	-	4,367	4,367
Total comprehensive income		1,798,039	(43,946)	1,754,093

32.5 Reconciliation of income for the year ended 31 December 2016

	Note	31 December 2016 (IFRS)
Income as per SOCPA GAAP		1,798,039
Increase in depreciation expenses	32.6	(41,685)
Increase in service revenue	32.7(a)	5,505
Increase in employees service cost	32.7(b)	(3,926)
Decrease in lease finance income	32.7(c)	(8,207)
Income as per IFRS as endorsed in KSA		1,749,726
Other comprehensive income		4,367
Total comprehensive income as per IFRS as endorsed in KSA		1,754,093

32. FIRST TIME ADOPTION OF IFRS (continued)

32.6 Property and equipment

Under IFRS as endorsed in KSA, property and equipment should be componentized and depreciated over each components' useful life separately. The cost of dry docking is capitalized and depreciated separately over the period till the next dry docking retrospectively, which previously was depreciated over the useful life of the assets.

32.7 Other adjustments

At the time of IFRS adoption as endorsed in KSA, the Group has recognized the below adjustments as at 1 January 2016, the date of IFRS transition, and as at 31 December 2016:

a) Revenue of a single voyage which involves multiple discharge points, percentage of completion applied separately for each cargo delivered. Therefore, revenue has been recalculated and adjusted for the voyages in progress at the transition date and for the year ended 31 December 2016 based on the percentage of completion.

b) The Group recorded its end of service liability based on the labor laws regulatory requirements. In order to determine the liability under IFRS standards, the Group performed detail actuarial valuation of its end of services benefits. Consequently, increase in the liability for the prior year has been recorded in the opening retained earnings, consolidated statement of income and consolidated statement of comprehensive income for the year ended 31 December 2016.

c) The Group has recognized a reduction in the value of the receivable from finance lease balance based on the nature and term of the arrangement. Therefore, receivable from finance lease balance decreased as at the transition date and for the year ended 31 December 2016.

32.8 Reclassifications of Sukuk issuance and loans arrangement fees

The Group has incurred certain Sukuk issuance and loans arrangement fees, and under SOCPA standards, these costs have been recorded as prepaid financing. IFRS standards require these costs to be offset against the liability of which these costs were incurred. The respective cost has been netted off against Sukuk and long term loans.

32.9 Consolidated statement of cash flows

The transition from SOCPA GAAP to IFRS as endorsed in KSA has not had a material impact on the consolidated statement of cash flows.

33. SUBSEQUENT EVENTS

In the opinion of management, there have been no significant subsequent events since the year ended 31 December 2017 that would have material impact on the consolidated statement of financial position of the Group as part of these consolidated financial statements.

34. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The board of directors has approved the consolidated financial statements for the year ended 31 December 2017 on their meeting held on 12 Jumad Thani 1439H (corresponding to 28 February 2018)