



البحري Bahri

**(THE NATIONAL SHIPPING COMPANY
OF SAUDI ARABIA)**

(A Saudi Joint Stock Company)

**INTERIM CONSOLIDATED
FINANCIAL STATEMENTS
(Unaudited)**

**FOR THE THREE MONTH PERIOD AND YEAR
ENDED 31 DECEMBER 2016
AND INDEPENDENT AUDITORS' LIMITED
REVIEW REPORT**



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

**Interim Consolidated Financial Statements (Unaudited)
For the three month period and year ended 31 December 2016
and independent auditors' limited review report**

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

SCOPE OF REVIEW

We have reviewed the accompanying interim consolidated balance sheet of The National Shipping Company of Saudi Arabia - a Saudi Joint Stock Company (the "Company") and its subsidiaries (the "Group") as at 31 December 2016, and the related interim consolidated statement of income for the three month period and the year ended 31 December 2016 and the interim consolidated statement of cash flows for the year then ended. These interim consolidated financial statements are the responsibility of the Group's management and have been prepared by them and submitted to us together with all the information and explanations which we required. We conducted our limited review in accordance with the Standard on Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants (SOCPA). A limited review consists principally of applying analytical procedures to financial data and information and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

CONCLUSION

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

For Ernst & Young



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Riyadh: 17 Rabi Thani 1438H
(15 January 2017)

(The National Shipping Company of Saudi Arabia)
(A Saudi Joint Stock Company)
Interim Consolidated Balance Sheet
As at 31 December 2016
(In Thousands Saudi Riyals)

ASSETS	Note	2016 (Unaudited)	2015 (Audited)
Current assets:			
Bank balances and cash	3	171,218	173,265
Murabaha and short term deposits	3	1,908,210	1,066,597
Trade receivables, net		1,087,623	1,001,104
Lease receivable for vessels, net		35,067	27,901
Prepaid expenses and other receivables		312,595	163,686
Agents' current accounts		66,971	47,587
Inventories		240,675	203,610
Accrued bunker subsidy, net		78,108	150,412
Incomplete voyages		-	6,369
Total current assets		3,900,467	2,840,531
Non-current assets:			
Lease receivable for vessels, net		295,313	330,381
Investments held to maturity		10,083	10,043
Investments available for sale		13,533	13,533
Investment in an associated company	4	1,123,848	1,027,941
Deferred dry-docking cost, net		241,625	126,586
Intangible assets, net		772,064	849,464
Fixed assets, net		13,744,267	12,798,271
Ships under construction and others	5	1,235,487	1,099,901
Total non-current assets		17,436,220	16,256,120
Total assets		21,336,687	19,096,651
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable and accruals		744,439	928,326
Murabaha and long-term financing -current portion	6	793,771	547,016
Dividends payable		37,431	35,095
Provision for zakat and tax	8	222,060	296,811
Incomplete voyages		17,659	-
Other liabilities	9	-	30,704
Total current liabilities		1,815,360	1,837,952
Non-current liabilities:			
Murabaha, Sukuk and long-term financing	6	8,952,817	7,505,847
Employees' end of service benefits		54,348	53,774
Total non-current liabilities		9,007,165	7,559,621
Total liabilities		10,822,525	9,397,573
Equity:			
Shareholders' equity			
Share capital	1	3,937,500	3,937,500
Statutory reserve		2,374,125	2,197,890
Retained earnings	7	3,749,209	3,149,268
Total shareholders' equity		10,060,834	9,284,658
Non-controlling interests		453,328	414,420
Total equity		10,514,162	9,699,078
Total liabilities and equity		21,336,687	19,096,651

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



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

	Note	For the three-month period ended 31 December		For the year ended 31 December	
		2016 (Unaudited)	2015 (Unaudited)	2016 (Unaudited)	2015 (Audited)
Operating revenues		1,657,677	2,110,778	6,785,535	7,464,018
Bunker cost		(245,960)	(210,635)	(805,700)	(1,081,099)
Other operating expenses		(1,079,727)	(1,246,361)	(4,174,108)	(4,366,310)
Gross operating income before bunker subsidy		331,990	653,782	1,805,727	2,016,609
Bunker subsidy		31,798	35,850	134,258	179,910
Gross operating income		363,788	689,632	1,939,985	2,196,519
General and administrative expenses		(13,871)	(94,763)	(109,222)	(216,489)
Operating income		349,917	594,869	1,830,763	1,980,030
Share in results of an associated company	4	56,711	57,840	147,044	184,683
Finance charges	6	(81,125)	(27,873)	(237,074)	(132,230)
Other income, net	10	21,887	4,533	18,407	10,677
Income before zakat, tax and non-controlling interests		347,390	629,369	1,759,140	2,043,160
Zakat and tax, net	8	(13,633)	(52,596)	42,119	(181,354)
Income before non-controlling interests		333,757	576,773	1,801,259	1,861,806
Non-controlling interests		(5,941)	(10,376)	(38,908)	(44,223)
Net income for the year		327,816	566,397	1,762,351	1,817,583
Earnings Per Share (in SR):					
Attributable to operating income	7	0.89	1.51	4.65	5.03
Attributable to net income for the year	7	0.83	1.44	4.48	4.62

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



(The National Shipping Company of Saudi Arabia)
(A Saudi Joint Stock Company)
Interim Consolidated Statement of Cash Flows
For the year ended 31 December 2016
(In Thousands Saudi Riyals)

	For the year ended 31 December	
	2016 (Unaudited)	2015 (Audited)
Cash flows from operating activities:		
Net income for the year	1,762,351	1,817,583
Adjustments to reconcile net income for the year to net cash flows from operating activities:		
Depreciation	790,999	713,072
Amortization of deferred dry-docking costs	82,182	53,370
Amortization of intangible assets	52,732	54,037
(Reversal of) provision for doubtful debt	(23,877)	31,027
Share in results of an associated company	4 (147,044)	(184,683)
Loss (gain) on sale of fixed assets	10 32,942	(5,107)
Non-controlling interests in consolidated subsidiaries' net income	38,908	44,223
Provision for zakat and tax, net	8 (42,119)	181,354
Employees' end of service benefits, net	574	940
	2,547,648	2,705,816
Changes in operating assets and liabilities:		
Trade receivables	(62,642)	(370,379)
Lease receivable for vessels, net	27,902	21,140
Prepaid expenses and other current assets	(148,909)	651
Agents' current accounts	(19,384)	28,747
Inventories	(37,065)	123,880
Accrued bunker subsidy, net	72,304	46,995
Incomplete voyages	24,028	(16,182)
Accounts payable and accruals	(183,887)	409,820
Other liabilities	(30,704)	-
Zakat and tax paid	8 (32,632)	(27,441)
Net cash flows from operating activities	2,156,659	2,923,047
Cash flows from investing activities:		
Murabaha and short-term deposits	(20,286)	(20,271)
Investment held to maturity	(40)	544
Dividends received from an associated company	4 51,137	62,500
Additions to fixed assets	(1,601,064)	(522,119)
Proceeds from sale of fixed assets	47,965	6,450
Ships under construction and others, net	(327,756)	(1,098,412)
Deferred dry-docking costs	(197,221)	(57,790)
Net cash used in investing activities	(2,047,265)	(1,629,098)
Cash flows from financing activities:		
Repayment of short-term Murabaha financing	-	(3,459,313)
Proceeds from Murabaha and long-term financing	2,290,582	3,900,000
Repayment of Murabaha and long-term financing	(596,857)	(558,329)
Dividends paid	(982,039)	(344,784)
Board of directors rewards	(1,800)	(2,000)
Net cash from (used in) financing activities	709,886	(464,426)
Net change in cash and cash equivalents during the year	819,280	829,523
Cash and cash equivalents at the beginning of the year	1,142,831	313,308
Cash and cash equivalents at the end of the year	3 1,962,111	1,142,831
Major non-cash transactions:		
Ships under construction and others transferred to fixed assets	5 192,170	10,550

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



(The National Shipping Company of Saudi Arabia)

(A Saudi Joint Stock Company)

Notes to the Interim Consolidated Financial Statements (Unaudited)

For the Year Ended 31 December 2016

(In Thousands Saudi Riyals)

1. ORGANIZATION AND OPERATIONS

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

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

The Company’s capital consists of 393,750,000 shares as of 31 December 2016 and 31 December 2015. The par value per share is SR 10.

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

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

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

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

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



(The National Shipping Company of Saudi Arabia)

(A Saudi Joint Stock Company)

Notes to the Interim Consolidated Financial Statements (Unaudited) - continued

For the Year Ended 31 December 2016

(In Thousands Saudi Riyals)

1. ORGANIZATION AND OPERATIONS (continued)

The Group Fleet:

As of 31 December 2016, the Group owns fleet of eighty three vessels operating in various sectors as the following:

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

a. *Accounting convention*

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

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

b. *Period of financial statements*

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

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



(The National Shipping Company of Saudi Arabia)
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Notes to the Interim Consolidated Financial Statements (Unaudited) - continued
For the Year Ended 31 December 2016
(In Thousands Saudi Riyals)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

c. *Basis of consolidation*

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

d. *Use of estimates*

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

e. *Cash and cash equivalents*

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

f. *Trade accounts receivable*

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

g. *Accounting for finance leases*

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)***h. Inventories***

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

i. Deferred dry-docking costs

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

j. Investments**1- Investments in associated companies:**

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

2- Investments in securities:

Investments in securities are classified into three categories as follows:

- **Investments held for trading**

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

- **Investments held to maturity**

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

- **Investments available for sale**

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)
j. *Investments (continued)*
2- Investments in securities (continued):

- Investments available for sale (continued)

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

k. *Intangible assets*

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

l. *Fixed assets*

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

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

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

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

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

m. *Impairment of non-current assets*

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

m. Impairment of non-current assets (continued)

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

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

n. Accounts payable and accruals

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

o. Provisions

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

p. Zakat and taxes

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

q. Employees' end of service benefits

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

r. Hedge agreements and derivative financial instruments

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)**r. *Hedge agreements and derivative financial instruments (continued)***

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

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

s. *Statutory reserve*

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

t. *Revenue recognition*

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

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

u. *Bunker subsidy*

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



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

Notes to the Interim Consolidated Financial Statements (Unaudited) - continued
For the Year Ended 31 December 2016
(In Thousands Saudi Riyals)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

v. *Expenses*

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

w. *Borrowing costs*

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

x. *Foreign currency transactions*

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

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

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

y. *Operating leases*

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

z. *Earnings per share and proposed dividends*

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

aa. *Segment reporting*

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

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

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent Bank balances and cash, and investments in Murabaha and short-term deposits, out of which SR 117.32 million as of 31 December 2016 (31 December 2015: SR 97.03 million) are restricted for repayment of current portion of loan installments falling due within 180 days from the interim consolidated balance sheet date.

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

	31 December 2016 (Unaudited)	31 December 2015 (Audited)
Bank balances and cash	171,218	173,265
Amounts restricted by banks	(14,342)	(23,213)
	156,876	150,052
Murabaha and short-term deposits	1,908,210	1,066,597
Amounts restricted by banks	(102,975)	(73,818)
	1,805,235	992,779
Cash and cash equivalents balance at the end of the year	1,962,111	1,142,831

4. INVESTMENT IN AN ASSOCIATED COMPANY

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

	31 December 2016 (Unaudited)	31 December 2015 (Audited)
Balance at the beginning of the year	1,027,941	905,758
Group's share in results of an associated company	147,044	184,683
Dividends received during the year	(51,137)	(62,500)
Balance at the end of the year	1,123,848	1,027,941

5. SHIPS UNDER CONSTRUCTION AND OTHERS

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

31 December 2016 (Unaudited)			
	The Company	National Chemical Carriers	Total
Beginning Balance	1,099,901	-	1,099,901
Additions	165,211	162,545	327,756
Transferred to fixed assets	(29,625)	(162,545)	(192,170)
Ending Balance	1,235,487	-	1,235,487

5. SHIPS UNDER CONSTRUCTION AND OTHERS (continued)

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

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

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

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

The Company signed on 28 February 2016 an agreement to purchase one used VLCC which was built by Hyundai Samho Heavy industry, South Korea in 2011 for a total price of SR 281.25 million (USD 75 million). The VLCC was received on 10 March 2016 and the ownership of the VLCC was transferred to Bahri's company fleet.

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

6. MURABAHA, SUKUK, AND LONG-TERM FINANCING

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

6. MURABAHA, SUKUK, AND LONG-TERM FINANCING (continued)

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

31 December 2016 (Unaudited)				
Financing	The Company	Subsidiaries	Total	%
Local Sukuk denominated in Saudi Riyals*	3,900,000	-	3,900,000	40%
Murabaha financing	2,663,396	2,299,098	4,962,494	51%
Public Investment Fund "Murabaha financing"	684,375	-	684,375	7%
Public Investment Fund finance "commercial loans"	-	199,719	199,719	2%
Total Murabaha, Sukuk, and long term financing	7,247,771	2,498,817	9,746,588	100%
Less: current portion of Murabaha and long-term financing	(508,093)	(285,678)	(793,771)	-
Net non-current portion of Murabaha, Sukuk, and long term financing	6,739,678	2,213,139	8,952,817	-

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

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

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



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7. EARNINGS PER SHARE AND DIVIDENDS

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

The Board of Directors decided in its meeting held on 15 December 2016 to recommend to the General Assembly of the company the distribution of cash dividends of SR 984.38 million to the shareholders for the financial year ended 31 December 2016, which amounts to SR 2.5 per share, and represents 25% of the share par value.

The General Assembly has approved in its meeting held on 6 April 2016 the distribution of cash dividends of SR 984.38 to the shareholders, amounting to SR 2.5 per share for the year ended 31 December 2015. The dividends was distributed on 21 April 2016.

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

The balance of unclaimed dividends as of 31 December 2016 amounted to SR 37.43 million (31 December 2015: SR 35.1 million).

8. ZAKAT AND WITHHOLDING TAX

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

Provision is made for withholding tax on payments to non-resident parties and is charged to the interim consolidated statement of income. The Company and its subsidiaries filed their zakat returns for each company separately.

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

The "GAZT" has raised the zakat assessment for the years 2001 to 2007 claiming additional zakat liabilities of SR 22 million, and the Company has charged the needed provision for these claims. The Company believes it provided a sufficient provision for zakat and withholding tax as of 31 December 2016.

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

The Company recalculated the provision for withholding tax and reduced it by SR 150 million after the receiving a letter from the general authority of Zakat and Tax "GAZT" during the current year. The letter stated that the Company is not required to withhold tax on shipping transactions in which the company pays to non-residents parties, since it is withhold and paid by another party.

9. OTHER LIABILITIES

This item represents the total amounts received from one of the ships building companies against charging this Company with repair costs of the tanks related to the six vessels built for the National Chemical Carrier Company (subsidiary). Therefore, it was agreed to charge the ships building company an amount of SR 6.12 million for each ship. Maintenance was conducted for one of the vessels during the year 2013, and during the Year ended 31 December 2016 maintenance was conducted for five other vessels within the maintenance period, which resulted in an excess amount of SR 27.81 million. The excess amount has been recognized in other income (note 10).



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10. OTHER INCOME, NET

Other income for the year ended 31 December comprises of the following:

	31 December 2016 (Unaudited)	31 December 2015 (Unaudited)
Vessels maintenance settlement (note 9)	27,813	-
Net gain from investments	19,041	3,081
Increase recoveries from insurance claims	1,363	561
(Losses) gains from sale of fixed assets	(32,942)	5,107
Others	3,132	1,928
	18,407	10,677

11. CAPITAL CONTINGENT LIABILITIES

The Company has capital commitment related to the building of ten VLCCs amounting to SR 2.35 billion as at 31 December 2016 (31 December 2015: SR 2.49 billion), in addition to capital commitment amounting to SR 0.27 billion related to the purchase of used VLCC and capital commitment amounting to SR 0.58 billion related to the purchase of two used VLCC as at 31 December 2015 (note 5).

The Group has outstanding letters of guarantee of SR 298.06 million as at 31 December 2016 (31 December 2015: SR 297.45 million) issued during the normal course of business.

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

12. SEGMENTAL INFORMATION

A) The following schedule illustrates the distribution of the Group's activities according to the operating segments for the year ended 31 December:

	31 December 2016 (Unaudited)				Total
	Oil Transportation	Petrochemical Transportation	General Cargo Transportation	Dry Bulk Transportation	
Operating revenues	4,876,993	774,148	866,048	268,346	6,785,535
Bunker costs	(658,782)	(72,030)	(53,993)	(20,895)	(805,700)
Other operating expenses	(2,854,409)	(531,343)	(593,461)	(194,895)	(4,174,108)
Gross operating income before bunker subsidy	1,363,802	170,775	218,594	52,556	1,805,727
Bunker subsidy	117,564	4,525	12,169	-	134,258
Gross operating income	1,481,366	175,300	230,763	52,556	1,939,985

12. SEGMENTAL INFORMATION (continued)

	31 December 2015 (Audited)				Total
	Oil Transportation	Petrochemical Transportation	General Cargo Transportation	Dry Bulk Transportation	
Operating revenues	5,731,740	774,610	843,110	114,558	7,464,018
Bunker costs	(878,243)	(123,740)	(78,392)	(724)	(1,081,099)
Other operating expenses	(3,253,315)	(457,740)	(593,191)	(62,064)	(4,366,310)
Gross operating income					
before bunker subsidy	1,600,182	193,130	171,527	51,770	2,016,609
Bunker subsidy	146,555	19,850	13,505	-	179,910
Gross operating income	1,746,737	212,980	185,032	51,770	2,196,519

B) The following schedule illustrates the distribution of the Group's assets and liabilities according to the operating segments as of 31 December:

	31 December 2016 (Unaudited)					Total
	Oil Transportation	Petrochemical Transportation	General Cargo Transportation	Dry Bulk Transportation	Shared Assets and Liabilities*	
Assets	11,858,354	3,932,448	1,955,839	718,086	2,871,960	21,336,687
Liabilities	6,029,489	2,321,616	1,065,303	390,182	1,015,935	10,822,525

	31 December 2015 (Audited)					Total
	Oil Transportation	Petrochemical Transportation	General Cargo Transportation	Dry Bulk Transportation	Shared Assets and Liabilities*	
Assets	11,130,741	3,330,214	1,873,699	707,543	2,054,454	19,096,651
Liabilities	5,001,143	1,857,337	1,120,809	407,934	1,010,350	9,397,573

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

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

13. RECLASSIFICATION

Certain comparative figures of the previous year have been reclassified to conform to the current year presentation.