

Bahri Annual Report 2016



1

Table of Contents

The Chairman's Message	5
The CEO's Message	7
Bahri's Board of Directors	8





Bahri's success, is not only built on the deployment of analytical technology that provides innovative and predictive data applications



The Chairman's Message

As a leading maritime transportation and logistics company, with a Saudi DNA, a global presence and publicly listed in TADAWUL; Bahri is in the midst of a strategic realignment journey that began in 2015. Bahri undertook an assessment of its strategic objectives, given its position as a global leader in logistics and transportation and the still unrealized market opportunity. With its diverse service offering that includes: shipping of crude oil, oil products, chemicals, bulk and general cargo, the journey is about redefining Bahri's purpose in light of the company's priorities and the need to implement an ambitious and targeted strategy. The plan called for a complete revamping of Bahri's business lines, initiate a company-wide cultural change and align the company's people and corporate structure with a comprehensive strategic business outlook.

Despite the pessimistic news from the maritime sector, for Bahri, 2016 was defined as a year of 'performance and transformation'. Through Bahri's internal efficiencies, Bahri compensated for the market downturn and performed above market expectations.

Bahri handled and overcame the challenges that the maritime sector faced in 2016, due to a persistent supply and demand imbalance, through the deployment of 'data' intelligence, scale, commercial acumen, an aligned people and corporate outlook. The application of a proactive and predictive information technology infrastructure, allowed Bahri to surpass its competitors in asset utilization. Moreover, it was a competitive differentiator, as it allowed Bahri to optimize the voyage of its vessels and routes, thus, achieving higher revenue per ship.

Bahri's success, is not only built on the deployment of analytical technology that provides innovative and predictive data applications. It also includes a technology management platform that underpins Bahri's safety, quality and cost structure optimization. The company's objective is to increase shareholder value, therefore, Bahri engineered and implemented a cohesive corporate plan that combines a customer-centric approach that builds long-term and resilient partnerships, and provides non-commoditized solutions.

Bahri's above business success, did not occur in a vacuum nor did it happen by accident, it is underpinned by a stringent quality regime that does not follow the industry average, rather, Bahri is the reference standard for the industry. Quality is part of the Bahri's DNA, giving it a differentiated outlook, whilst being supported by a cohesive team of business development, data technology science and commercial specialists.

The Bahri team enabled the company to outperform the industry and helped it achieve the outstanding results during 2016. The company's above market 'performance', helped it lay the foundation for its intended 'transformation', which will herald pioneering and disruptive breakthroughs in the maritime industry. Bahri's aim is to become a diversified logistics provider, through the deployment of innovative data solutions that will lead to greater value creation and shareholder value.

**Abdulrahman
Mohammed Al-Mofadhi**
Chairman





While 2016 was a year of uncertainty for many maritime players, with a lot of apprehension towards any new investments



The CEO's Message

By the grace of Allah, Bahri ends 2016 on a very buoyant note, Bahri's financial results showed a 6.4% net income increase in comparison to 2015. While the industry's new normal is depressed rates and low-cost operations, Bahri's above market performance that was underpinned by a robust strategic realignment, allowed it to weather the storm and to produce above industry results.

While 2016 was a year of uncertainty for many maritime players, with a lot of apprehension towards any new investments, Bahri's ambitious vision, coupled with its financial strength, allowed it to sign a SAR 5.6 billion financing agreement. Although this agreement, which went towards the purchase of 15 VLCC's, will increase Bahri's net debt, it will have a positive and fundamental effect on the company's operational growth, during the short term. In addition, Bahri invested in Big Data, which improved Bahri's operational and financial efficiency and it will have a transformative effect on the maritime sector during the coming period.

Since the 2007 - 2009 global financial crisis and recession, the maritime industry has been suffering and has not been able to adequately respond to the sector's structural challenges. While some industry players embarked on traditional operational cost-cutting programs, organizational cost-cutting initiatives and modernization of its information

technology systems. They have failed to address the systematic problems that are causing the industry its debilitating distress.

On the other hand, Bahri embarked on a different route, a five-year strategic reorganization, whose aim is to leverage the company's long-term customer relationships, to become a customer-centric company. Learning about its customer's requirements, also necessitated that it understands the challenges in the market and fundamental changes that are taking place. This undertaking, helped Bahri to identify the tools needed to fulfill the company's long-term strategic realignment efforts.

This approach, laid a firm foundation for Bahri, helping it to build a more resilient customer focused outlook that provides solutions and not commoditized offerings. The sector's future trends became clearer; invest in quality enhancing tools and platforms, which will become key differentiators and a source of comparative advantage. This in turn will help refine Bahri's market positioning, a global company that will help connect the region to the world.

**Ibrahim
Abdulrahman Al-Omar**
Bahri CEO



Bahri's Board of Directors



Essa Hamad Al-Mubarak
Board Member



Saleh Abdullah Al-Debasi
Board Member



Saleh Nasser Al-Jasser
Board Member



*Saeed Abdullatif Al-Hadrami
Board Member

*Resigned from the board on September 1, 2016



Abdulrahman Mohammed Al-Mofadhi - **Chairman**



Mohammed Abdulaziz Al-Sarhan - **Vice Chairman**



Farraj Mansour Abothenain
Board Member



Abdullah Ali Al-Ajaji
Board Member



Ahmed Ali Al-Subaey
Board Member



**Ibrahim Qassim Al-Buainain
Board Member

**Joined the board on September 1, 2016



2

Recognitions

Awards & Accolades

12

Bahri Spearheads Building a Saudi Shipbuilding Industry 13



Awards & Accolades

In recognition for its pioneering efforts and impressive contribution to transforming the maritime sector, Bahri received two highly prestigious awards from Lloyds List; in the Innovation Category (Big Data) and Big Data & Intelligence categories.

The above accolades were the result of Bahri Data team's collaborative engagement that included data scientists, commercial managers and technical ship managers. With

their combined 350 years of domain knowledge, Bahri Data's team are the vanguard of Bahri's pioneering transformation that will eventually allow it, through focused investments, to combine its operational and commercial knowledge with 'Big Data'. This will strengthen Bahri's pioneering position within the industry and enhance its customer-focused approach that is built on deploying a proactive and predictive information technology platform.



Bahri was also awarded an equally respected accolade, the USCG Quality Award, which is given to only 10% out of the 4,800 vessels that call on US ports per year. This award is further testament to Bahri's superior safety and quality standards that outperformed the industry benchmarks and resulted in

efficiency and financial gain for the company.

Under the patronage of His Highness Sheikh Ahmed Bin Saeed Al Maktoum, President, Dubai Civil Aviation Authority and Chairman and Chief Executive, Emirates Airline and Group, Bahri also scooped The



Maritime Standard Awards (TMS) for Ship Owner/Operator of the Year Award. This accolade is further testament to Bahri's business success

and its continued focus on creating and driving greater value for its shareholders and its stakeholders.



Bahri Spearheads Building a Saudi Shipbuilding Industry

In line with Bahri's commitment towards playing an integral and leading role in realizing Saudi Arabia's 2030 Vision, and given its transformation efforts that will contribute to Saudi Arabia's economic diversification efforts, Bahri signed a Joint Development Agreement, JDA, with Saudi ARAMCO Maritime Offshore Limited, Hyundai Heavy Industries and Lamprell. The objective is to establish a maritime yard at Ras Al Khair, in Saudi Arabia's Eastern Province, which will contribute to increasing local manufacturing and developing the services sector, while supporting the kingdom's economic efforts and

increasing employment and growth opportunities. Moreover, the above partnerships will underpin the Saudi Arabia's efforts in knowledge transfer and will help with the creation of 80,000 direct and indirect jobs, both skilled and semi-skilled. In addition, it is expected to spur potential entrepreneurial spin-offs, thus creating even greater employment opportunity.

The JDA, which calls for the construction of a world class maritime yard, is part of Bahri's strategic vision to invest in the Saudi economy and expand into adjacent businesses. Bahri's stake is expected to be 19.9%.



3

The Maritime Sector in 2016



Bahri's Performance & Strategic Focus	16
Bahri's 2016 Financial Performance & Comparison with 2015	17

Bahri's Performance & Strategic Focus

Despite the turbulent and economic challenges that the maritime industry faced, Bahri stood out and achieved operational and financial results that was above the industry average. This can be attributed to Bahri's ability to act, adapt, change and diversify. Thus, realizing its ambitions of becoming a global leader in maritime logistics and transportation.

Bahri's 2016 maxim of 'performance' and 'transformation', was thoroughly demonstrated through its financial and operational results, which allowed it to surpass its competitors, while executing its strategic pivot that aims to pioneer and implement a fundamental and largescale change to the maritime industry. Through its differentiated business model and strategy, which includes a more robust capital asset deployment and utilization, Bahri aims to lead the industry in value creation and enhanced revenue. This will be realized through the development and application of innovative intellectual property-based technology that is predictive, customer-focused and will lead to superior operational efficiency.

Fleet size gives maritime companies commercial viability and operational flexibility, which ensures reliability. Yet having a large fleet is also a two-edged sword, as 2016 results showed languishing demand for maritime transport and tremendous financial challenges for many operators. This was the result of the shipping industry confronting the twin challenges of falling growth in demand and over capacity, leading to too many bigger ships chasing far fewer cargo. While some maritime companies saw their earnings and profit margins plummet, Bahri's 2016 results showed a 6.4% increase on its

return on sales (net profit margin) in comparison to 2015. It managed to achieve these results, by capturing market opportunities during the first half 2016 and relying on long-term partner arrangements that allowed it to realize focused costs efficiency across its operations and without jeopardizing its above industry safety and quality standards.

Moreover, given Bahri's operational ability and financial performance, which outperformed the industry benchmarks, in comparison to its competitors, Bahri managed to expand its operation during 2016. This took place through the acquisition of new vessels, by leveraging its solid position and this is despite the slight drop in its revenue. Bahri's expansion reflects on its financial strength and differentiated business model, which has allowed it to leverage its assets more efficiently and to absorb the industry's slowdown.

On the other hand, Bahri's safety and quality standards, which it implements, based international best practice, enhanced its top quartile positioning within the industry. In turn, this ensures that Bahri's top-of-mind awareness remains strong with its customers, which translates into lower customer acquisition and retention costs and a steadier and more enhanced revenue stream. Moreover, Bahri's commitment to pro-active safety and continual improvement has led to increased reliability and less downtime; all of which has led to reduced costs and improved resource optimization.

Furthermore, instead of adopting short-term tactical and operational cost-cutting initiatives and information technology related modernization programs, Bahri



Bahri's 2016 Financial Performance & Comparison with 2015

embarked on a more ground-breaking approach. Its ultimate objective is not to provide interim relief and immediate tangible benefits that will dissipate in the face of the industry's systematic structural challenges. Rather, Bahri is harnessing 'Big Data' to allow ships, those inanimate

The turbulence that the maritime sector went through in 2016, was due to a major slowdown in global trade, which affected many shipping companies; some of whom reported poor financial performance. On the other hand, Bahri's financial results

objects to seamlessly communicate, thus strengthening its pioneering position within the industry and enhance its customer-focused approach that is enhanced by its proactive and predictive information technology platform.

exceeded its competitors, which is a testament to its ability to act in the face of market challenges. Thus, placing it firmly on the path to becoming a global leader in logistics and transportation.



4

Business Units Performance & Achievements

Performance and Achievements of Strategic Business Units during 2016	20
Bahri Oil	21
Bahri Chemicals	24
Bahri Logistics	26
Bahri Dry Bulk	28
Bahri Ship Management	29



Performance and Achievements of Strategic Business Units during 2016

Bahri's deliberative approach to driving and changing the dynamics and expectation management of the shipping industry, resulted in its above market operational and financial performance. To achieve this, Bahri developed a comprehensive strategy map, with the aim of defining its business intent and approach, which will lead to the transformation of its business purpose, through

the deployment of its ambitious, innovation-based 'Big Data'. Central to this strategy is the alignment of the people, corporate structure and culture that will be combined with Bahri's maritime operational prowess. In turn, this led Bahri to achieve its 2016 above market performance and has set the stage for Bahri's future transformation.

Bahri Oil

Bahri Oil, is a leading owner and operator of one of the largest VLCC fleets in the world. With 36 VLCC's currently on water, Bahri Oil's fleet is expected to grow by more than 40% over the next 2 years. As part of its fleet expansion strategy, Bahri acquired 5 VLCCs during 2016 and has an additional 10 VLCC's on order, which will be delivered over during 2017 and 2018.

In its continuing effort to optimize its commercial operations, expand its asset base and maximize its profit margins, Bahri Oil signed a memorandum of agreement with the Arab Petroleum Investments Corporation (APICROP). This agreement stipulated the setup of an investment fund, with a total value of \$1.5 billion (SAR 5.6 billion), to acquire up to 15 VLCC's. Bahri will commercially and technically manage the funds' fleet monetization, through the Asset Management Company (AMC). This business venture will provide Bahri with controlled tonnage, at guaranteed discount, thus replacing spot in and it adds a new revenue stream through a third-party ship management service fees.

Bahri Oil's commercial acumen, coupled with its fleet size and ship management quality helped it to successfully establish a long-term strategic partnership with some of the largest oil companies and refineries across the globe. In addition, it diversified its trade routes, increased its global reach and penetrated new markets, thus providing its partners and global customers with efficient transport services and became a reliable supplier for their energy needs.

Central to Bahri Oil's 2016 performance, was its fleet deployment diversification strategy and an energetic pursuit of its growth plans, which were based on expanding its fleet size and customer base. This is due to Bahri above market performance, during which it outpaced the industry's operational

and financial indicators. Thus, Bahri Oil outperformed the market by maintaining high quality, reliable tonnage and above market asset utilization standards. During 2016, Bahri Oil transported 881 million barrels equating to 2.5 million barrels per day, through 440 VLCC voyages worldwide. In comparison, during 2015, Bahri Oil carried out 402 VLCC voyages worldwide; this 9% increase is a result of Bahri Oil's fleet deployment diversification strategy.

Furthermore, the number of voyages on the AG/East route more than doubled from 18 in 2015 to 41 in 2016. This increase resulted in a 10-percentage point increase from 13% (2015) to 23% (2016), for all of Bahri's East and West voyages performed from the Arabian Gulf over the past year.

In addition, Bahri Oil's penetration of the West African market increased, from 3 VLCC voyages in 2015 to 13 during 2016. To further enhance its market presence, Bahri Oil penetrated the Uruguay market, performing its first Uruguay/China voyage during 2016, a route which will potentially expand in the near future. These initiatives resulted in Bahri achieving a distinctly higher fleet utilization, measured by the time the vessel is laden, which resulted in being one of the best performers in the VLCC market. On the other hand, the Arabian Gulf to Okinawa route registered a slight drop in the number of voyages, going down from 6 in 2015 to 4 in 2016. There was also an 18% drop in the number of voyages on the Sidi Kerir, Rotterdam route, going down from 38 in 2015 to 31 in 2016. Although the Arabian Gulf Ain Sukhna route registered a 38% drop, it was offset by the 23% increase in VLCC voyages on the Yanbu to Ain Sukhna route.

As a testimony to its superior services and capabilities and as part of Bahri Oil's long-term commitment to improving its operational performance, an agreement was



reached with S-Oil to increase its monthly volumes carried for S-Oil from 2 - 3 cargoes per month, to 4 - 5 cargoes per month. This is in addition to securing more volumes, thus ensuring employment for two additional VLCCs with guaranteed revenues, which, in turn, improves the diversification of Bahri's trade routes. Furthermore, this is equivalent to the full employment of 5 - 7 VLCCs annually. Furthermore, Bahri Oil continued to strengthen its business relationship with its existing customers from the Caribbean and

West African markets, in addition to its Asian clients, such as PetroChina, UNIPEC, Reliance, Essar and Petrobras. Concurrently, Bahri Oil also broadened its customer base, by adding new customers during 2016, which included CPC, HMEL, Total and HOB. This customer base expansion will further strengthen Bahri Oil's position and sustain its position as the VLCC operator with the highest fleet utilization rate in the market, thus, allowing it to continue to outperform its competitors.

2015 - 2016 Comparative Breakdown of Bahri's VLCC voyages

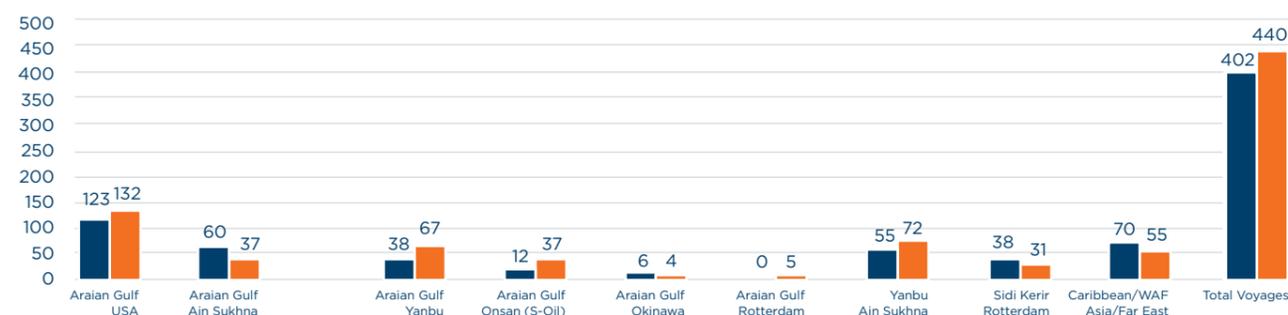
Type of Operation	2015		2016	
	No. of VLCC's	No. of Voyages	No. of VLCC's	No. of Voyages
VLCC's operating on the COA and spot market	31	247	35	296
VLCC's operating on time charter agreements	0	0	*1	0
VLCC's voyage chartered from market	-	155	-	144
Total Voyages		402		440

* Ramlah (floating storage)

Overall, the above table, which provides a breakdown of Bahri's total VLCC voyages by route shows a healthy upward trend with the majority of its routes and a slight decrease with other routes for 2016, in comparison to 2015. However, the

overall breakdown reflects Bahri's strong performance, despite the market's loss of impetus during the second half of 2016. The aggregate number of VLCC voyages went up from 402 in 2015 to 440 in 2016.

Bahri Oil 2015 & 2016 VLCC Voyages Comparison



Breakdown of Total VLCC Voyages by Route during 2016 compared to 2015

Type of Operation	2015		2016	
	No. of Voyages	% of Total	No. of Voyages	% of Total
Arabian Gulf - USA	123	31%	132	30%
Arabian Gulf - Ain Sukhna	60	15%	37	8%
Arabian Gulf - Yanbu	38	9%	67	15%
Arabian Gulf - Onsan (S-Oil)	12	3%	37	8%
Arabian Gulf - Okinawa	6	1%	4	1%
Arabian Gulf - Rotterdam	0	0%	5	1%
Yanbu - Ain Sukhna	55	14%	72	16%
Sidi Kerir - Rotterdam	38	9%	31	7%
Caribbean/WAF - Asia/Far East	70	17%	55	13%
Total Voyages	402		440	

Furthermore, converting the oil glut, which was responsible for the loss of market impetus, into an opportunity, Bahri Oil agreed with Saudi ARAMCO to potentially increase the volume of oil deliveries to its clients in the East. In return for a 2.5% discount on the additional deliveries to the East, if the total volume exceeds the 2015 levels. While this supports route diversification drive, it is also in line with Bahri's strategic goal of being Saudi ARAMCO's shipping partner.

On the other hand, the Arabian Gulf to Yanbu route registered an increase of 67 VLCC voyages in 2016, in comparison to 2015, when only 38 voyages took place. While the Arabian Gulf to Onsan route registered a more than three-fold increase in the total number of voyages between 2015 to 2016. The Arabian Gulf to Rotterdam, which did not register any voyages in 2015, saw Bahri haul 10 million barrels through 5 VLCC voyages during 2016. In addition, Yanbu, Ain Sukhna was another high-performance route,

for Bahri Oil, as the number of VLCC voyages went up from 55 to 72 voyages, a 23% increase, between 2015 to 2016.

Underpinning Bahri Oil's 2016 performance is its adoption and implementation of an "NPS" system, where a dedicated third-party team approaches Bahri's customers and solicits their feedback independently. All areas of concern or potential business collaboration is addressed, through an internally rigorous process, where customer satisfaction is closely monitored, evaluated and addressed. In addition, Bahri Oil was issued with a full-term ISO 9001:2008 Management Certifications following its DNV/GL compliance audit. Moreover, preparations are underway for upgrade to the new ISO 9001:2015 standard for 2017. Moreover, the safety, quality and reliability of the services provided to Bahri Oil customers have been monitored, with no major incidents or issues noted and no complaints received.

Bahri Chemicals

Bahri Chemical's operations involves the shipping and logistics handling of liquid bulk chemicals, clean petroleum products and vegetable oils. From the middle of 2016, Bahri Chemicals' business was affected by the increasing crude oil price, which directly impacted costs and led to increased bunker prices. Moreover, the slowdown of the Chinese economy, negatively contributed to Bahri's operations, however, signs of stabilization towards the end of the year, helped Bahri avoid a hard landing.

Moreover, a significant increase in tonnage supply, coupled with severely reduced freight rate volatility and related product movement, adversely impacted all markets during 2016. The clean petroleum and vegetable oil segments, known for their reactive supply and demand dynamics, were most affected by the downturn. As one of the world's largest owner and operator of MR IMO2 chemical tankers, Bahri Chemicals' increased scale allowed for geographical diversification and improved efficiency.

Historically, Bahri had a relatively limited geographical scope with a focus on medium range tankers. However, with more ships joining its fleet, its global footprint is expected to expand. Going forward Bahri will diversify into other types and sizes of ships servicing its customers' needs. On the other hand, Bahri Chemicals entered new global trade routes and partnerships, which included the Far East, South East Asia, continental Europe and North America. This allowed it to diversify its operations into strategic segments, such as clean petroleum products and vegetable oils. This in turn, helped

improve the fleet's trading efficiency and asset utilization, thus gaining a strong foot-hold in strategic sectors and segments.

In comparison to 2015, this year's overall operational and business results were impacted by a global volume and freight rate decline across all major markets. However, in comparison to the competition Bahri's results were far better. This segment of the industry suffered an average drop in earnings of about 20%, whereas, Bahri Chemicals performance for 2016 was only lower by 11% in comparison to 2015. However, due to its long-term strategy of fleet employment diversification, Bahri absorbed the market correction better than its industry peers.

In response to the markets' downturn, Bahri implemented cost savings initiatives that included the implementation of a major dry docking program to improve its vessels operational efficiency, in addition to fleet-wide fuel saving initiative, which will contribute to minimizing long-term operating costs. This increased its vessels operational efficiency and broadened its access to alternative cargoes. Moreover, Bahri Chemicals built strategic long-term partnerships with producers and traders in the Far East, South East Asia, Europe and North America. This expansion will provide stability through the cyclical downturns and has helped it to diversify into strategic sectors, such as, clean petroleum products and vegetable oil. This helped Bahri to improve its vessels business efficiency and better asset utilization. All of which will contribute to stronger positioning capture a greater slice of global commercial opportunities.



Although the market correction was stronger than anyone anticipated, Bahri Chemicals is continuing its drive to explore and sign more strategic partnerships to provide increased tonnage and cargo opportunities coverage. The expansion of Bahri's global commercial footprint, through a robust fleet diversification program, thus broadening its product offering, remains a strategic priority. In addition, Bahri's capital investments, is continuing, to ensure a first class and cost efficient service to its clients.

On the other hand, the launch and implementation of 'Big Data' program will have far-reaching results, and will allow Bahri Chemicals to gain a market lead over the competition. The market's recovery in the short to medium term will depend on its ability to absorb all new deliveries. With new ship orders significantly reduced in the chemical sector, there is reason for optimism in the next twelve to eighteen months.



Bahri Logistics

Like other Bahri business units, Bahri Logistics was affected by the challenges of 2016. The containerized and break bulk sectors in general cargo of the major shipping companies were in distress, reporting negative growth from Q1 onwards. However, given Bahri's unique profile as a true multi-purpose carrier, Bahri Logistics absorbed the full impact of prevailing negative market trends.

Bahri's reputation as a market leader in regional logistics, customer and operational services, contributed to its ability to withstand the challenges of 2016, while the competition felt the full weight of the economic downturn. Bahri's participation as transportation champions in Saudi Arabia's infrastructure development projects, helped to keep revenue streams on an even keel. Moreover, Bahri's strategic geographic location, astride the major eastern and western trade routes, coupled with its ability to effectively deploy its unique state-of-the-art vessels, allowed Bahri to provide its customers with total logistics solutions.

In 2016, Bahri Logistics, became the only service provider with profile and ability to provide services to all major industries through its strong network of international offices and agents. Moreover, Bahri is increasing its presence on all continents, through the introduction of the Total Logistics Services, which will allow it to create more synergy within Bahri and to maximize Bahri Logistics ability to expand its market share. This will also help it mitigate the negative effects of the economy's cyclical downturn that in turn affects global trade.

On the national and regional fronts, Bahri Logistics will play an increasingly active role in the kingdom's Total Logistics capacity initiative, which is inspired by Vision 2030 and aims to capitalize on Saudi Arabia's strategic location, which can be converted into a logistics bridge. Once realized, it will open more GCC opportunities, whereby Bahri can participate in the region's infrastructure and development projects. The Saudi total logistics market size is estimated at more than SAR 108 billion and it will provide Bahri Logistics with greater growth opportunities in the region and across the world.

In comparison to 2015, 2016 saw Bahri's concerted efforts reach fruition with the introduction of regular liner service to major European ports with a strong involvement in Total Logistics. This new addition generated incremental revenues of SAR 70.64 million. Bahri has also taken steps to expand its presence in South America with the launch of new ports call at Vera Cruz, Mexico, which is expected to generate revenues in excess of SAR 20 million per annum.

Operationally, Bahri Logistics introduced SMART Operations, to improve efficiency and increase cost control. In addition to securing MOU's with international shipping lines for trans-shipment operations. The combined initiatives generated cost savings in excess of SAR 8.3 million and network utilization gains of 5% during 2016.

Although the prevailing global financial situation, which severely impacted trade flows and the



volume of commodities along Bahri's trade routes, Bahri Logistics smart operations, process management and focused marketing efforts, helped the company to increase its market share on the North America trade route from 29% in 2015 to 42% in 2016. Moreover, Bahri also became a total logistics solutions provider, both in Saudi Arabia and internationally after ramping up its Total Logistics capability to serve the growing needs of its key Saudi clients. Moreover, the ability to provide efficient 3 PL services will also contribute significantly to Bahri's emerging reputation as a global total logistics solutions provider.

A market consolidation and an increasing number of mergers amongst international players might create a monopoly. However, some of potential players that will emerge will vie based on price, while Bahri will seize the strategic initiative and create value. As the sole national flag carrier, Bahri Logistics is also playing a major role in national development not just as a marine transporter and logistics provider but also an employer of choice for Saudi national talent.



Bahri Dry Bulk

Globally, the Dry Bulk sector is driven by the demand of iron ore, coal and grains, while the local and regional markets are driven by grain and fertilizer exports. Moreover, the transportation of these commodities is affected by political and geographic instability, the fundamentals of supply response and cargo demand. In turn, these factors affect bulk cargo growth rate, shipping market volatility which in turn would influence the trade efficiencies and market balance. On the other hand, the vessel's operating costs, particularly, fuel oil (bunker) cost, in addition to the above factors impact fleet availability and utilization, which has a direct bearing on earnings and risks.

This improved business performance and growth took place despite the volatility of the global shipping market, in addition to the penetration of numerous small time operators, demand and supply imbalance as evidenced from the WTO's announcement, which highlighted the slowdown of global economic growth on trade movement. During the 2010 - 2015, the average annual dry bulk trade registered around 5% of growth, while during the 2015 - 2020 period, it is not expected to reach the 3% mark. The year 2016 witnessed significant increase in operations, both in nature and mix of the dry bulk volumes and cargo. Regionally, Bahri's cargo liftings exceeded 5.3 million metric tons, in comparison to 1.3 million metric tons during 2015, registering an increase of 307% in cargo liftings. In addition, there was 90% increase in the customer profile registration.

Among many strategic initiatives that Bahri Dry Bulk put in place, was the introduction of the "Operator Model", which has positively contributed to

the overall business growth in terms of revenue, market share, in addition to improving customer profile acquisition. The regional presence was expanded in the United Arab Emirates and in Egypt and new joint ventures are in progress, such as establishing long-term commitments with reputed cargo charterers and importers which is expected to result in further business growth.

As the national maritime carrier for Saudi Arabia, Bahri is also recognized as the leading and exclusive dry cargo carrier in Middle East. Going forward, Bahri Dry Bulk's regional short, medium and long-term operational plans include focusing and consolidating its market presence. Moreover, Bahri Dry Bulk will continue to leverage its internal assets, which includes modern, state of the art, fuel efficient fleet, diversified business lines and regional strengths, to make a mark on global map.

On the other hand, Bahri's sustained operational efforts in balancing [TC in/out] fleet deployment voyages were marked by strict cost control measures, compliance with maritime and environmental regulations and vessel safety. The risk mitigation initiatives included benchmarking, position control, introducing best-in-class hedging future tools, all of which will be instrumental in helping capitalize on the sector's expected consolidation and growth as market circumstances improve. The overall outlook for Bahri Dry Bulk is positive, despite the existing political uncertainty and market volatility. At the opportune moment, Bahri Dry Bulk will consider fleet expansion, through organic and inorganic growth channels and expanding its regional and global presence.



Bahri Ship Management

Ship management, which is responsible for technically and operationally managing Bahri and its subsidiary's vessel's safety, quality, and reliability is one of the pillars that underpins Bahri's leading market position. The overall focus is on understanding customer requirements and its overarching commitment to ensure that all the vessels are operated safely, and efficiently and with a minimum risk to the environment. To achieve this mission, Bahri implements initiatives that set challenging safety and quality Key Performance Indicators, KPI's, that meticulously monitors performance, to exceed or set industry standards thereby integrating innovation and technology. Through rigorous and continuous compliance audits, checks, preparatory drills and certification reviews, Bahri achieved an unparalleled position that set the benchmark for the market.

During 2016, Bahri's safety and quality practice constantly outperformed industry benchmarks, which recognized Bahri as a top quartile operator for major customers such as; Saudi ARAMCO, BP, Shell, ExxonMobil and Total. Bahri also adheres to and implements a 'continuous improvement' doctrine. It focuses on the monitoring of the ships speed, fuel consumption, hull fouling, using intelligent monitoring systems and high performance cargo tank and hull coatings; all of which improves the vessels performance and leads to incremental operational efficiencies.

Bahri outperformed the global benchmark on oil major inspections (SIRE) by 17%, in addition to the fact it has been trending downwards year over year. Furthermore, its major incidents were reduced by 57% (2016 vs. 2015) and there was no vessel rejection by any of Bahri's customers. Moreover, Bahri received a score of 'zero detentions' from Port State Control (PSC), which is an internationally agreed inspection regime of foreign ships calling at national ports for 2016. This means none of Bahri's ships were detained because of compliance failure, with any of the internationally agreed standards.

On the other hand, PSC (Tokyo and Paris MOU) market detention percentage, during 2016, ranged from four to five. In addition, Bahri Ship Management carried out eighty-five safety inspections and internal audits in 2016, along with successfully migrating to ISO 9001 and 14001 to 2015 standards. To further emphasize its commitment to safety, Bahri Ship Management carried out two major emergency preparedness drills with Saudi ARAMCO, O'Brien's and United States Coast Guard (USCG). This led to Bahri Ship Management to achieve a Tanker Management Self-Assessment (TMSA) level four (highest level) in emergency preparedness.

Among Bahri ship management's notable 2016 achievements was Bahri Oil being issued with a full-term ISO 9001:2008 management



certification, following its DNV/GL compliance audit. In addition, preparations were started for the upgrade to the new ISO 9001:2015 standard, which will be fully completed in 2017. Moreover, Bahri's Net Promoter Score (NPS), which determines customer loyalty, based on a ten-point scale, increased to 9.1 in 2016 compared to 8.5 in 2015. Any number above 9 means that the customer is very likely to recommend company services and there is a direct correlation to revenue for every one-point increase in the NPS score.

Bahri's rigorous safety and quality testing ensures reliability, which translates into increased efficiency and decreased running costs. Furthermore, there was improved

ship running cost optimization, with strategic procurement, proactive maintenance, crew cost optimization, dry-dock efficiencies, port agencies contracts, supplier discounts. These translated into cost savings of SAR 125 million during 2016. On the other hand, in 2016, the number of Bahri managed vessels increased by 9; 4 VLCC's and 5 MR tankers, and there was a reduction of 1 storage tanker, bringing the total number of vessels under technical management to 78 vessels.

The table below shows the individual fleet's percentage cost reduction in 2016 compared with 2015 due to the cost-effective measures applied, resulting into more efficient and cost effective operations.

Fleet	% Reduction
VLCC	-13%
Product carriers	-31%
Dry Bulk vessels	-8%
ROCON	-8%
Chemical Tankers	-8%



5

Bahri Support Services

Bahri Data	34
Bahri Finance	35
Key Functions	35
Prepare Reports and Publish Period	
Financial Statements	36
Prepare Annual Estimated Budgets	36
Monitoring Business Units Performance	
and Controlling Revenue and Expenses	37
Analyzing the Company's Financial Performance	37
Internal Control and Monitoring	38

Financial Planning & Enhancing Performance	38
Financing and Investment	39
Risk Management	40
Bahri's HR Transformation	41
Bahri Corporate Marketing & Communications	42
Bahri Social Responsibility	43
Bahri Information Technology	43
Bahri Internal Audit	44
Bahri Quality Management	44
Investor Relations	45



Bahri Data

Despite the shipping industry's response to change, which ranges from sluggish to inertia, a fundamental shift is taking place in the form of 'Big Data', which is transforming the sector. Big Data is capable of making fundamental changes to the shipping industry. Through the analysis, effective utilization and eventual deployment of Big Data Models, shipping companies will be able to gain a decisive comparative advantage. Thus, Big Data applications will serve as the differentiators, aiding shipping companies to optimize their fleet's operations.

Bahri Data, whose main priority is to turn on Bahri's performance DNA, is also positioning itself as a market differentiator that will deploy innovative solutions and applications by collaborating with ecosystem partners. Bahri Data is making pioneering changes to the maritime industry that is based on value creation, and intellectual property generation that will spur innovation. As the Bahri jewel, Bahri Data is in a unique position, given that there are a few maritime companies who have established a dedicated data unit that is attempting to deploy Big Data and advanced analytics in support of a maritime positioning strategy which gives it the opportunity to lead the industry.

Bahri Data has been at the forefront of transformation focusing its energies towards its mission; to discover science-driven insights

and unearth knowledge hidden in massive data sets to support smarter decision-making. A culmination of that effort is Bahri achieving operational efficiencies, deepening its customer engagement, ensuring a sustainable shareholder value and creating a transformative impact on the maritime industry.

Bahri Data has a combined 350 years of deep domain knowledge and data science expertise, through its establishment of a collaborative engagement of a team of commercial, technical ship management and data scientist to implement Bahri's transformation. This effort, resulted in the strengthening of Bahri's current commercial contracts and enhanced its scale. Moreover, it also resulted in increased value creation, through optimized chartering and voyage management, customer service and operational efficiency. These efficiencies added a cushion in the market downturn in 2016.

Moreover, Bahri Data's prowess was recognized through its awarding of two prestigious accolades from Lloyds, in The Big Data Intelligence and The Innovation Award. As a result, and in less than 2 years, Bahri Data executives became leading and sought after industry experts; commenting on the expected fundamental changes that will take place in the maritime sector, through the deployment, application and utilization of 'Big Data'. This translated into Bahri's media share of voice surpassing its competitors.



Bahri Finance

Bahri Finance, plays a significant role in overseeing the company's overall financial, investment operations, planning, analysis, oversight and transactional tasks. Among its key transactional tasks is its preparation of Bahri's annual budget, achieving the targets set for all business units and departments and updating such targets regularly. Moreover, it also develops various types of financial

reports and analysis, which help the executive management to take the appropriate decisions in a timely manner. In addition to disclosing the company's operations through regular annual and quarterly financial reports developed in accordance with the accepted accounting standards in Saudi Arabia issued by the Saudi Organization for Certified Public Accountants (SOCPA).

Key Functions

1. Develop reports and publish regular financial statements
2. Prepare annual estimated budgets
3. Monitoring business units performance and maintaining fiscal discipline
4. Analyzing the company's financial performance
5. Internal control and audit oversight
6. Financial planning & enhancing performance



Prepare Reports and Publish Period Financial Statements

Finance Division develops the policies, mechanisms and controls necessary at the different levels of the Company and various business units, inside and outside the Kingdom, to record all financial transactions under the accepted accounting standards

in Saudi Arabia and utilizes the best international practices. In addition, it ensures accuracy and transparency of the information, enabling users of the financial statements to understand the Company's performance and its evaluation.

Prepare Annual Estimated Budgets

Bahri Finance is responsible for the regular preparation of company's yearly budgets, in coordination with all business units and departments. The preparation is preceded by a thorough analysis of the economic and commercial conditions based on the best available information, with the aim of increasing shareholder value, profit maximization, whilst applying strict expenditure control strategies. The draft budgets are

prepared in conjunction with business unit, thereafter they are reviewed by the senior management and submitted to the Board of Directors for approval. Moreover, the budgets are updated on a quarterly basis, to take into account changing market conditions, given that initial financial data is based on performance and market projections, which can change based on circumstances.



Monitoring Business Units Performance and Controlling Revenue and Expenses

Bahri Finance monitors the company's fiscal and monetary performance and compares it to initial projections to ensure that the company can generate the targeted revenue and maintain expenditure discipline. Moreover, significant deviations are

analyzed and addressed, through the monitoring of the business unit's operations, which will help Bahri achieve its business objectives and exploiting potential opportunities as they arise.

Analyzing the Company's Financial Performance

At different intervals throughout the year, the Company's financial performance is analyzed from different perspectives, including performance analysis and comparison with previous periods or existing budgets; or analysis of

financial ratios and soundness of the financial position of the Company or performance for each period. Findings of the financial analysis are considered and recommendations are made to the senior management to take appropriate decisions.



Internal Control and Monitoring

Bahri Finance combines the deployment of the latest in information technology systems and international best practice to oversee

the company's financial transactions and ensure the development of accurate reports.

Financial Planning & Enhancing Performance

Bahri Finance has a mid to long-term growth and investment horizon. To achieve this aim, Bahri Finance carries out focused financial, market, operational, industry and sector [specific] analysis, to properly plan for investment opportunities. Whether in new vessels or other

growth opportunities, based on prevailing economic and commercial conditions, as well as the company's capacity to exploit such opportunities. Thus, enhancing shareholder value, Bahri's commercial and financial health.



Financing and Investment

Bahri Treasury is responsible for cash management and provision of funding for different company projects. Managed daily, the surplus funds are invested in short-term Murabaha agreements depending on the Bahri's financial needs and obligations. Moreover, Bahri Treasury is also responsible for processing outstanding company payments after being reviewed and audited. The department is also responsible for company's banking relations and as a link between financial institutions and other commercial entities.

Moreover, Bahri focuses on low-risk secure investments. In this respect, it invests part of its cash surplus in short-term Murabaha agreements. The Company is also committed to adhere to Sharia compliant financing policies. Moreover, approximately 99% of the Bahri's financing facilities are Sharia compliant. As such, Bahri finances its vessel expansion, through self-financing (approximately 20% of the total value) and it seeks 80% from external sources.



Risk Management

Bahri's risk management provides the required internal controls and risk mitigation framework that ensures that the company's operations, whether major or minor, do not undermine Bahri's commercial and operational health. Accordingly, Bahri's mitigation strategy involves deploying appropriate risk management systems, the issuance of certificates, classifying equipment and procedures and delivering the required training. In addition, Bahri engaged with reputable insurance companies who have provided comprehensive policies that protect Bahri's employees, its assets and cargo from the relevant risks. The overall objective is to maintain the safety of the Bahri's employees, its vessels, the cargo being transported and above all else, Bahri's reputation.

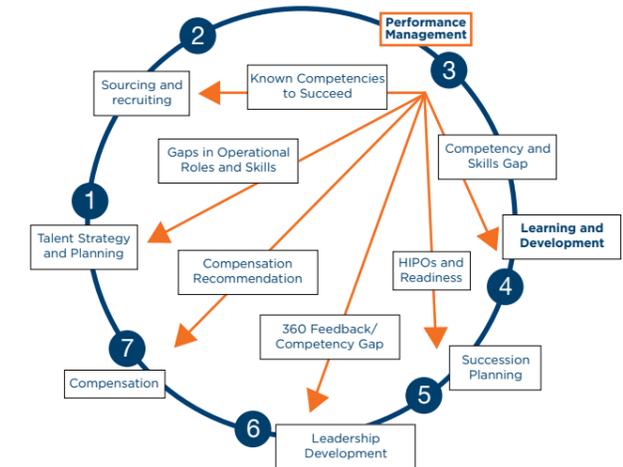
The company is a member of a group of protection and indemnity clubs (i.e. non-profit insurance associations), which provide a common platform for industry operators. Members of these clubs also participate in drafting relevant legislation and agreements in coordination with national governments and international agencies (e.g. International Maritime Organization, EU, OCED, United Nations Commission on International Trade Law [UNCITRAL]). Furthermore, these clubs function as forum for the exchange of ideas and experiences in operational and offshore transportation risks issues; such as oil pollution and maritime security.

- Bahri provisions full insurance coverage to its fleet against damage, especially to the vessel's hull, machinery and general liability against collisions and other maritime accidents. The coverage also includes insurance for ship's equipment, such as forklifts, cranes and containers.
- In line with the company's strategic plans, Bahri contracted the leading international insurance companies that have an "A" rating from Standards & Poors, S&P, and it was able to obtain the best insurance coverage in terms of benefits and cost.
- Bahri also expanded the insurance coverage to include demurrage and providing legal defense for the company. The objective from this insurance coverage is to represent Bahri with various third parties, such as ship building yards, as well as shipyards for the sale, purchase and repairs.
- Bahri also insures its other assets such as buildings, offices, equipment and vehicles.
- Pursuant to Bahri's mission to provide due care to its employees, it extends excellent Takaful-based medical insurance coverage to its employees and their dependents, which includes coverage for death or disability.

Bahri's HR Transformation

Bahri is positioning itself as a market differentiator in the shipping industry, and is therefore introducing fundamental changes to its operational activities. A part of

the change was transforming Bahri's organizational and human resource outlook and capacity to align with and support the Company's strategic objectives.



In response to the fundamental changes to Bahri's strategic outlook, which is built on deploying innovative solutions and applications, Bahri's 2016 HR corporate outlook required greater synergy with those changes. To achieve its aims, the HR team, in collaboration with the strategy team, the individual business units and support functions, initiated and executed the "One Bahri" Strategy. Its objective was to establish the foundation for Bahri's transformation, through the development and

implementation of the Bahri Operating Model (BOM).

The introduction of the BOM was followed by the creation of the new organizational structure, grading system and a compensation and benefits structure based on a comprehensive benchmarking exercise. A career management framework, rewards and talent management strategy, as well as a performance management system have also been established.



Bahri Corporate Marketing & Communications

Bahri's corporate marketing & communications is the focal point and link between the company and its internal and external stakeholders. Its primary workflow is predicated on one central outlook, constructive communication that opens channels and builds relationships. The focus is on deploying a communications

paradigm that positively enhances Bahri's mental image and its reputation. Through this approach, Bahri was able to effectively communicate with its stakeholders through various activities and events that showcased its achievements, both internally, or externally within the maritime sector.

Name of Exhibition/Forum

Break bulk Middle East

Break bulk Europe

Break bulk America

Posidonia

Seatrade Middle East

International Maritime day

Big Data conference

In addition, Bahri's corporate marketing & communications team hosted the investment reception, during which Bahri's senior management introduced the company to leading investment companies. The reception also included a presentation about Bahri's core competencies, its outlook for the maritime industry and its envisaged position, given its growing

market leadership. Bahri's corporate marketing & communications team also organized a high visibility investor event, which included a press conference, to announce and highlight Bahri's agreement with the Arab Petroleum Investments Corporation (APICROP), which is considered one of Bahri's most successful achievements in 2016.

Bahri Social Responsibility

In collaboration with various stakeholders, Bahri carries out or participates in a number of CSR related activities, which aims to increase its interaction with society and its cultural activities, in addition to sponsoring and supporting

those with special needs. This underpins Bahri's vision to be an active participant in the country's growth and development through its avid support for social and charity organizations, in addition to various national programs.

Bahri Information Technology

In line with Bahri's intended transformation, Bahri IT implemented several important strategic projects that supported the company's business growth and development efforts. These IT projects were instrumental in improving the quality and efficiency of Bahri's business operations. In addition, it enhanced Bahri's competitive edge within the maritime sector, through improving its quality and safety standards; in turn, this positively impacted Bahri's performance and its advantageous position against the sector's global players.

to serve Bahri's Middle East market was also launched in 2016 and there was the merging of the IT function under one division. The launch of these programs and platforms is in line with Bahri's IT outlook, which aims to deploy the latest software and programs that enhance its operational effectiveness across its corporate business units.

Bahri IT also launched an initiative that aims to increase employee participation and enhancing the company's pool, through an internet-based employment and talent acquisition program. On the other hand, an investor relations smartphone application and web-based page was launched that helps shareholders and potential investors to learn more about Bahri's financial information at the touch of a screen.

Among technology platforms that Bahri launched, was a new CRM system for its strategic business units and FFW system and MOVE BI for Bahri Logistics and IMOS for Dry Bulk. In addition, the Bahri One program was launched, which includes a ERP and HR systems, designed for Bahri Logistics that serves the American market. Moreover, a financial planning platform that is geared

Given that operational and financial excellence is a primary objective for the company, Bahri IT launched a series of initiatives that combine



Bahri Internal Audit

with IT and maritime management, to ration the cost of bunker fuel. In addition, Bahri IT enhanced

Bahri's internal audit is an independent department that reports directly to the audit committee and board of directors, which is in line with the company's governance structure. The department employees highly skilled and qualified audit professionals, who oversee that the

its infrastructure ROI, through optimizing its cost and spending approach.

company's business finance units adhere and are in compliance with Bahri's accounting procedures. Moreover, it periodically creates and updates Bahri's accounting controls and procedures, based on its annual action plan that is approved by the audit committee.

Bahri Quality Management

Quality management is at the heart of Bahri's business, operational and safety approach. There are periodic quality performance reviews across the management, business units and support functions of the company. They are carried out to ensure its quality management system is safeguarded and is efficiently implemented at all levels and across all departments. Furthermore, internal quality reviews are carried out with the aim of supervising the

performance of agents and suppliers, the objective is a continuous appraisal of the tasks and actions that are carried out, to identify, if any re-engineering works is necessary. The diligent supervision and monitoring of Bahri's procedures, standards and service quality level reflects on the company's proactive approach in reviewing its quality management system. Thus ensuring that its policies and procedures work in tandem with Bahri's overall outlook.



Investor Relations

Bahri's shareholders enjoy all the rights and privileges as stated in the company's articles of association, which is in line with the Bahri's by-laws, corporate governance structure and the regulations issued by the Capital Markets Authority (CMA). The company's board of directors and its executive management are keen to create a healthy environment, whereby its shareholders can exercise their right and communicate with its management without undue burden.

Through regular newspaper announcements and news bulletins on the company's website, and 'Tadawul' website, shareholders are made aware of all issues related to general assembly meetings and other pertinent issues that affect them. Amongst these issues is the shareholders right to run for a board seat and to exercise their right to vote and choose their representatives on the board of directors. Another equally important issue is dividend payments, which is announced by the general assembly and the decision is immediately carried out, based on the established procedures.

Thereafter, the dividend payment details are recorded with the Securities Depository Center at the end of the trading day when the general assembly meeting was held. And payment is made through local banks within 30 days from the date of the General Assembly's approval.

On the other hand, Bahri Finance developed the platform that would make the company's publicly available financial content readily available and accessible in order to further enhance Bahri's level of transparency in relation to its

shareholders and stakeholders alike. In addition, the platform makes it easier to interactively access Bahri's financial data and information, through various tools that encompass electronic tables and graphs. Moreover, the most important financial analysis tools are available for the shareholder to understand the company's growth and development over the years.

In addition, Bahri participates in investment forums that are organized by specialized companies, to showcase and introduce the company to potential investors and current shareholders. Bahri also organizes private investment related receptions for high net worth individuals as well as heads of investment funds, to appraise them of the company's potential. All financial information that Bahri shares is publicly available on its web site (www.bahri.sa) and has been previously disclosed as per the regulations and directives of the Capital Markets Authority and the Ministry of Commerce & Investment.

Furthermore, Bahri provides its shareholders and all its engaged stakeholders a platform to regularly interact and communicate with the company. The company's web site user, whether current or past shareholder, or interested individuals can search for any information that pertains to the company financial or operational news. They include periodic, yearly and operational reports; in addition to marketing collateral and advertising materials. Bahri also makes periodic announcements on 'TADAWUL's' web site and in accordance with the Capital Markets Authority's disclosure guidelines, in addition to the by-laws of Bahri's corporate governance framework.



6

Disclosure & Transparency

Disclosure & Transparency
Corporate Governance

48
51



Disclosure & Transparency

Bahri adopts a policy of disclosure and transparency as stipulated in its corporate governance regulations and the requirements that pertain to the presentation and disclosure of information while preparing this report. Thus, ensuring that accurate information is delivered to its intended audience; such as shareholders, financiers, regulators and other stakeholders. Bahri's disclosure and transparency also includes information related to accounting, compliance with corporate governance standards, details about the Board of Directors and its committees, as well as information about the executive management and their relevant tasks.

All the information provided by Bahri is limited to public information that has already been disclosed through official communication channels and is consistent with the CMA directives as well as the Ministry of Commerce & Investment. Through the Company's website (www.bahri.sa), the Company provides a forum for its shareholders and all other users to communicate with the Company on an ongoing basis. This website can be used to search for any information required, and any updated information related to the Company, which includes annual, quarterly, and operational reports, as well as the Company's publications, announcements, and information about current and former shareholders.

Bahri also provides all news about its performance and activities through the official channels, such as "Tadawul" website, in

accordance with CMA directives and the disclosure policy adopted by the company as part of its corporate governance regulations.

Bahri transparently discloses all necessary information, especially as it pertains to its commercial, operational and financial activities, without violating confidentiality, its trade secrets and unique commercial know-how.

- **Departure from the accounting standards issued by the Saudi Organization for Certified Public Accountants (SOCPA):**
 - There is no departure from the accounting standards released by SOCPA.
- **Description of any interest in a class of voting shares held by persons (other than the Company's Board of Directors, senior executives, and their relatives) that have informed the Company of their holdings pursuant to Article (45) of the Listing Rules of the Capital Markets Authority, together with any change to such interest during the last fiscal year:**
 - The Company has not received any notification regarding any interest in a class of voting shares.
- **Description of the categories and numbers of any transferrable debt instruments any contractual securities or offering memoranda on subscription rights offers or similar rights issued or granted by the Company during the fiscal year with explanations for any compensation acquired by the Company for that:**

- The Company does not have any categories of transferrable debt instruments, nor any contractual securities, offering memoranda on subscription rights, or any similar rights issued or granted by the Company during the fiscal year.
- **Description of any transfer or subscription rights under transferrable debt instruments or any contractual securities or any subscription rights or similar rights issued or granted by the Company:**
 - The Company does not have any transfer or subscription rights under transferrable debt instruments or any offering rights memos or similar rights issued or granted by the Company.
- **Description of any redemption, purchase, or cancellation by the Company of any redeemable debt instruments and the value of the remaining securities, with a distinction between the listed securities purchased by the Company and those purchased by the subsidiaries:**
 - The Company and its subsidiaries do not have any such recovery, purchase, or cancellation of any recoverable debt instruments.
- **Description of any transaction between the Company and any related party:**
 - There is no transaction between the Company and any related party.
- **Information on any business or contracts where the Company is a party thereof and there is an interest for a Board member, CEO, CFO, or any person related to them:**
 - The Company acknowledges that there is no contract where the Company is a party thereof and where there is an interest for a Board member, CEO, CFO, or any person related to them.
- **Description of any arrangements or agreement under which a Board member or senior executive has waived any rights to salary or compensation:**
 - None of the Board members or senior executives has waived any rights to salary or compensation.
- **Description of any arrangements or agreement under which a shareholder of the Company has waived any rights to dividends:**
 - There is no arrangement or agreement where a shareholder of the Company has waived any rights to dividends.
- **Description of the value of any investments or reserves created for the Company's employees:**
 - There are no specific investments or reserves set aside for the Company's employees, except those for the severance payment provisions as provided for in the Saudi Labor Law and similar laws in the countries where there are companies wholly owned by Bahri such as the USA and UAE.



- The Board of Directors hereby acknowledges the following:**
 - The accounting records have been prepared in a sound manner.
 - The internal control system has been established on a sound basis and implemented effectively.
 - The Company's ability to continue its operations is not subject to doubt.
- The external auditor's reservation over the financial statements:**
 - The external auditor has no reservations over the Company's financial statements.
- The Board of Directors recommendation to replace the external auditor prior to the end of the agreed term:**
 - The Board of Directors did not recommend replacing the external auditor prior to the end of the agreed term.
- Penalties, sanctions, or precautionary attachment imposed on the Company by the regulatory, supervisory, or judicial authorities:**
 - A penalty of SAR 10,000 was imposed on the Company by Capital Market Authority for violating paragraph (A) of article (46) of Capital Market Regulation and paragraph (A) of article (41) of Registration and Listing Rules as the Company was late in announcing to the Authority and audience at the scheduled time concerning the approval of the BOD on the issuance of long-term instruments for a maximum of ten years during its meeting held on 23/2/2015. While it did not announce the same except on 4/3/2015.

Corporate Governance

Bahri complies with the relevant corporate governance standards, conducts regular review of its policies and procedures, and has established policies and procedures that promote transparency and disclosure. The company also

implements all obligatory provisions stated in the corporate governance regulation issued by the Capital Markets Authority (CMA) and its Articles of Association, as well as all its policies with exception of the following:

Article	Provision	Reasons for non-compliance
27/4	Geographic analysis of the source's total revenue and of the total revenue of its subsidiaries abroad.	Due to the nature of the company's business, the vessels of the company and its subsidiaries operate in the high seas and carry shipments between multiple ports worldwide.
Article (42) (A) rules for registration & listing	Did the Board of Directors approve the preliminary and annual financial statements of the company?	Yes, the Board of Directors approved the annual financial statements of the company for the fiscal year 2015 in its meeting on 23/02/2016. However, the preliminary and annual financial statements shall be approved by the Audit Committee of the company, which shall submit its recommendations to the Board of Directors.
(17)	The board's report did not include dealing with related parties (Aramco, International Cargo and Transportation Ltd) as shown in the financial statements (Note 20)	Bahri, during the exercise of its normal business, deals with related parties, such as Saudi Aramco Development Company, which in turn owns 20% of the company's capital, and International Cargo and Transportation Ltd owned by SABIC, which owns 20% of the capital of National Chemical Transportation Company, 80% owned by Bahri. It deals also with South Korea's S-Oil company, which Saudi Aramco owns part of its capital.



7

Bahri Finance Division

Financial Information	54
Capital Structure & Financing	54
Murabaha Financing and Long Term Loans During 2016	55
Regulatory Payments	56
Dividend Distribution Policy	57
Bahri's 2016 Financial Performance & Comparison with 2015	58
Graph no. 1: 2015 - 2016 Consolidated Cashflow	59
Graph no. 2: 2015 - 2016 Efficiency	61
Graph no. 3: 2015 - 2016 Solvency	63
Graph no. 4: 2015 - 2016 Gross Operating Income	65
Graph no. 5: 2015 - 2016 Gross Operating Revenue	66
Graph no. 6: 2015 - 2016 Consolidated Income Statement	67
Graph no. 7: 2015 - 2016 Total Assets	68
Financial Statements and Operational results of the Company (2012 - 2016)	69

Financial Information

The company's financial statements, which includes its assets and liabilities, revenue and overall business results will be presented. In addition, a summary of Bahri's

subsidiaries' financial results for 2016, will also be presented along with the official government payments as well as Bahri's dividends distribution policy.

Capital Structure & Financing

In addition to the financing that Bahri and its subsidiaries receive from the Public Investment Fund, PIF, the company also receives financing from the following banks; SAMBA Financial Group, Banque Saudi

Fransi, Saudi British Bank (SABB), National Commercial Bank (NCB), Riyadh Bank, Gulf International Bank, PNB Paribas, JP Morgan Chase and Standard Chartered Bank.

Murabaha Financing and Long Term Loans During 2016

Murabaha financing & long term loans during 2016 - (SAR "000")

Company Name	Loan Value	Start of Year Loan Balance	Loan Average Duration	Additions Through the Year	Paid During the Year	End of Year Loan Balance
The National Shipping Company of Saudi Arabia (Bahri)	8,977,980	5,983,738	10	1,627,445	(363,413)	7,247,771
National Chemical Carriers Ltd. Co. (Bahri Chemicals)	3,552,990	1,685,875	10	663,136	(204,045)	2,144,966
Mideast Ship Management Ltd. (JLT)	-	-	-	-	-	-
Bahri Dry Bulk (BDB)	420,000	383,250	11	-	(29,400)	353,850
Total	12,950,970	8,052,863	8	2,290,581	(596,858)	9,746,587



Regulatory Payments

In the Kingdom of Saudi Arabia, Zakat is provisioned in accordance with the regulations of the General Authority of Zakat and Tax (GAZT) and it is charged to the consolidated income statement. In addition, a provision is made for the withholding tax on payments to non-resident entities and is charged to the consolidated income statement. Bahri and its

subsidiaries, which it does not own 100%, filed their zakat returns separately for all years until 2015.

The company and its subsidiary believes that adequate provisions have been made against any potential zakat and withholding tax liability as of December 31, 2016.

Statement of regulatory payments as of December 31, 2016 – (SAR “000”)

Item	Bahri	National Chemical Carriers Ltd. Co. (Bahri Chemicals)	Bahri Dry Bulk (BDB)
Zakat	(36,682)	(11,056)	(1,577)
Withholding tax	92,226	(527)	(272)
GOSI	(3,941)	(486)	(77)

Dividend Distribution Policy

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.

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

The Board of Directors decided in its meeting held on December 15, 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 December 31, 2016, which amounts to SR 2.5 per share, and represents 25% of the share par value.

The dividends was distributed on January 31, 2017 after the General Assembly approval on January 16, 2017.

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



Bahri's 2016 Financial Performance & Comparison with 2015

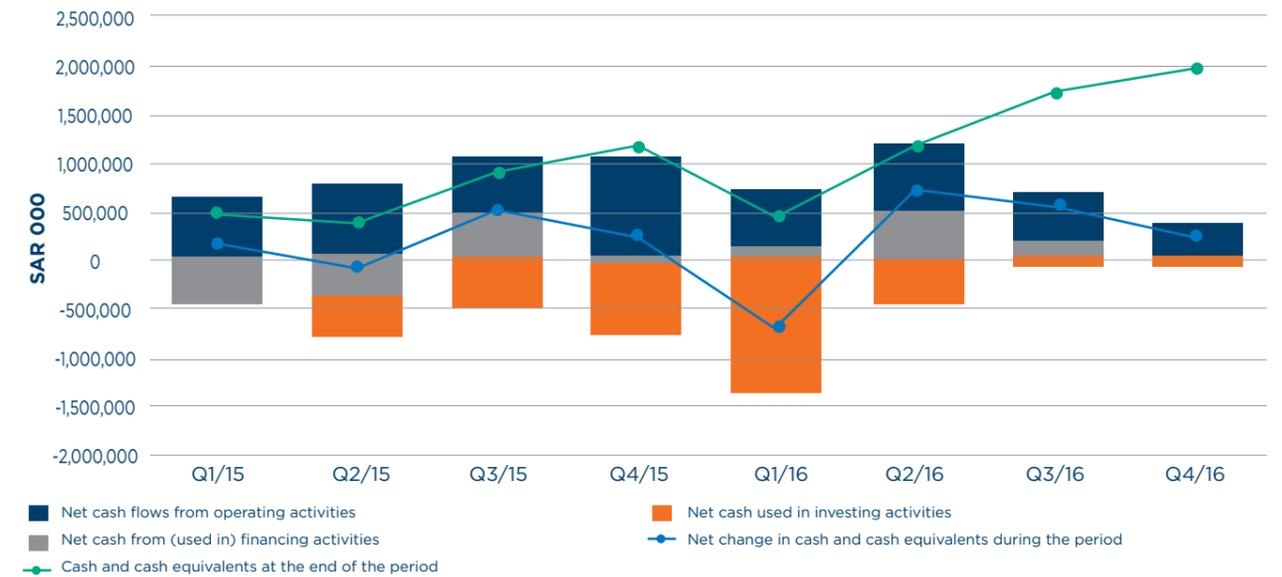
During 2016, the maritime sector suffered from a lot of turbulence and challenges. As a result, maritime rates dropped significantly, which affected the sector's overall stability. The only exception was the oil transport sector, which from the drop in oil prices. On the other hand, the other maritime sectors suffered from the worst downturn in over three decades. Despite this

instability, Bahri was able to increase its cash and cash equivalent holdings by 72% in 2016 in comparison to 2015. In addition, the results show that the net change in cash and cash equivalent holdings had an upward trend during the same period, while Bahri's competitors suffered from a severe drop in revenue coupled with their inability to post a profit during 2016.

Graph no. 1: 2015 - 2016 Consolidated Cashflow

Bahri managed to increase its return on sales (net profit margin) by 6.4% in comparison to 2015, during which it registered a 0.6 increase for its current ratio (from 1,55 to 2,15) between 2015 to 2016. This is contrast to Bahri's competitors who suffered from financial hemorrhaging and negative cash flow in 2016. In addition, the maritime sector suffered from a steep drop in its profit, with the average rate for a dry bulk vessel reaching \$5,000, which is not enough to cover the vessels operating costs

and cost of financing. In contrast, Bahri's EBITDA registered a slight drop of 2.3% and a similar slight drop of 1.3% for its return on assets for 2016 in comparison to 2015.

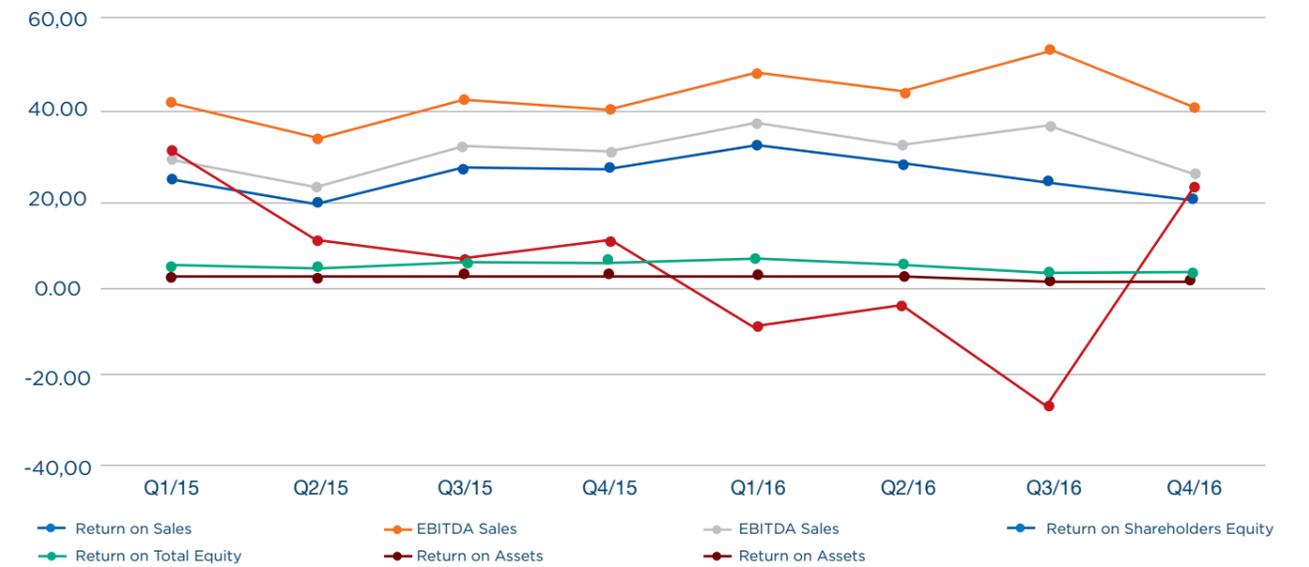


		Q1/15	Q2/15	Q3/15	Q4/15	Q1/16	Q2/16	Q3/16	Q4/16
Net cash flows from operating activities	SAR '000	613,641	741,929	547,232	1,020,245	636,511	690,300	479,858	350,566
Net cash from (used in) financing activities	SAR '000	-5,608	-442,119	-507,317	-674,054	-1,393,494	-452,872	-86,386	-114,523
Cash and cash equivalents at the end of the period	SAR '000	-447,870	-377,671	468,290	107,175	63,733	468,713	173,165	4,275
Net cash used in investing activities	SAR '000	160,163	-77,861	508,205	239,016	693,250	706,141	566,637	240,318
Net change in cash and cash equivalents during the period	SAR '000	473,471	395,610	903,815	1,142,831	449,581	1,155,722	1,722,359	1,962,677

Graph no. 2: 2015 - 2016 Efficiency

Additionally, Bahri's return on total and shareholder equity registered another slight drop of 2% and 2.1% drop, this is in comparison to certain competitors who faced financial insolvency. Bahri's 2016 above market financial results can be explained through its diligent operational capabilities, which allowed it to

outperform its peers and the industry as whole, through its differentiated business model and strategy. The latter includes a more robust capital asset deployment that has enabled Bahri to lead the industry in value creation and enhanced revenue.



		Q1/15	Q2/15	Q3/15	Q4/15	Q1/16	Q2/16	Q3/16	Q4/16
Return on Sales	%	24.26	18.91	26.48	26.71	31.62	27.17	23.48	19.77
Return on Total Equity	%	41.08	33.78	42.02	40.21	48.01	43.71	53.32	40.39
EBITDA Sales	%	28.73	22.58	31.32	30.50	36.70	31.65	35.89	25.49
Return on Assets	%	4.85	4.17	5.85	6.11	6.18	5.36	3.27	3.26
EBITDA Sales	%	4.64	3.98	5.59	5.84	5.93	5.12	3.13	3.12
Return on Assets	%	2.32	1.98	2.80	2.97	3.14	2.45	1.52	1.54
Return on Shareholders Equity	%	29.98	10.24	6.42	10.13	-8.81	-4.11	-26.93	22.25

Graph no. 3: 2015 - 2016 Solvency

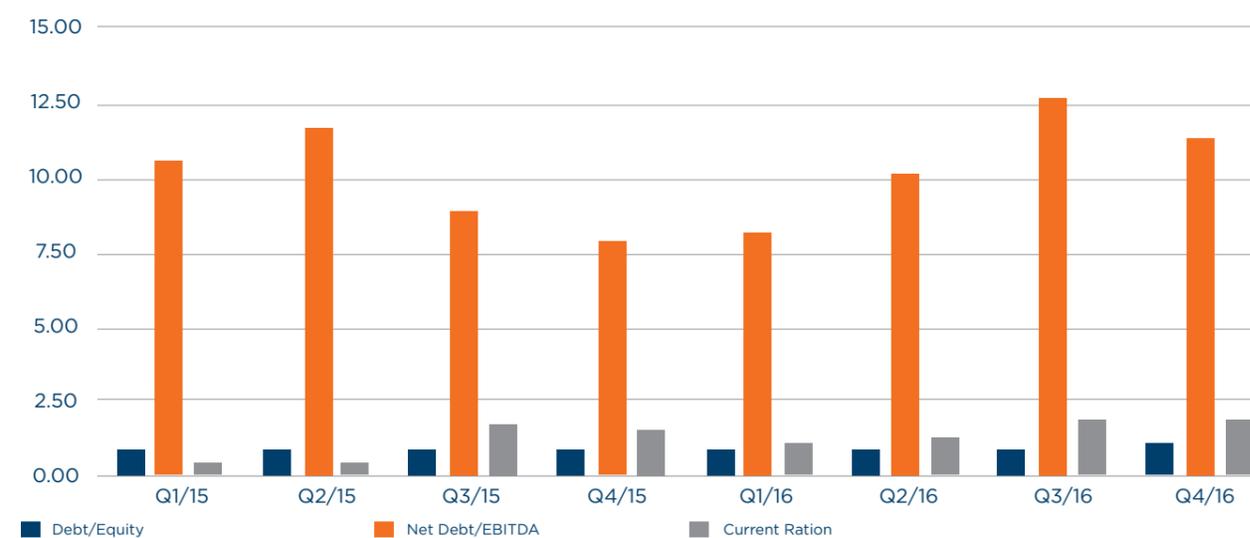
While many maritime companies were faced with overcapacity, which may lead them to sell their uneconomic and unwanted ships. Given their inability to cover their operating costs and interest payments, Bahri, through its gearing, net to EBITDA and current ratio results, demonstrated its strong commercial and operational position. In 2016, leveraging its solid position, and despite the slight drop to its revenue, Bahri acquired new vessels.

Moreover, while its net debt to EBITDA, show a 0.65x (24%). This slight increase is linked to Bahri's strategic transformation that aims to leverage its commercial and business strength to address the sector's structural challenges through a deliberate manner. Bahri's overall objective is to drive towards deploying smarter decision-making applications, using Big Data that is expected to help achieve operational efficiencies, deepen customer engagement and ensuring long-term sustainable shareholder value. All of which will help create transformative impact on the maritime industry

and thus radically addressing the industry's systematic structural challenges.

On the other hand, financial analysis show that Bahri's current ratio increased by 0.6x (39%) during 2016, in comparison to 2015. This clearly demonstrates that Bahri seized the 3rd and 4th quarter, 2016 market opportunities.

Despite the downward trend for Bahri's operational revenue during 2016, in comparison to 2015; a quarterly comparison between its business units in 2016 and 2015, shows a noticeable increase in its operational revenue. In addition, the drop in operational revenue in 2016 was not uniform across all the quarters, rather, it oscillated between a decrease and increase. This showed that Bahri was able to seize the opportunities that presented themselves, despite the maritime sector's turbulence, which was due to increased supply and a drop in demand. As such, Bahri's financial results is considered higher and better than those of the sector as whole.



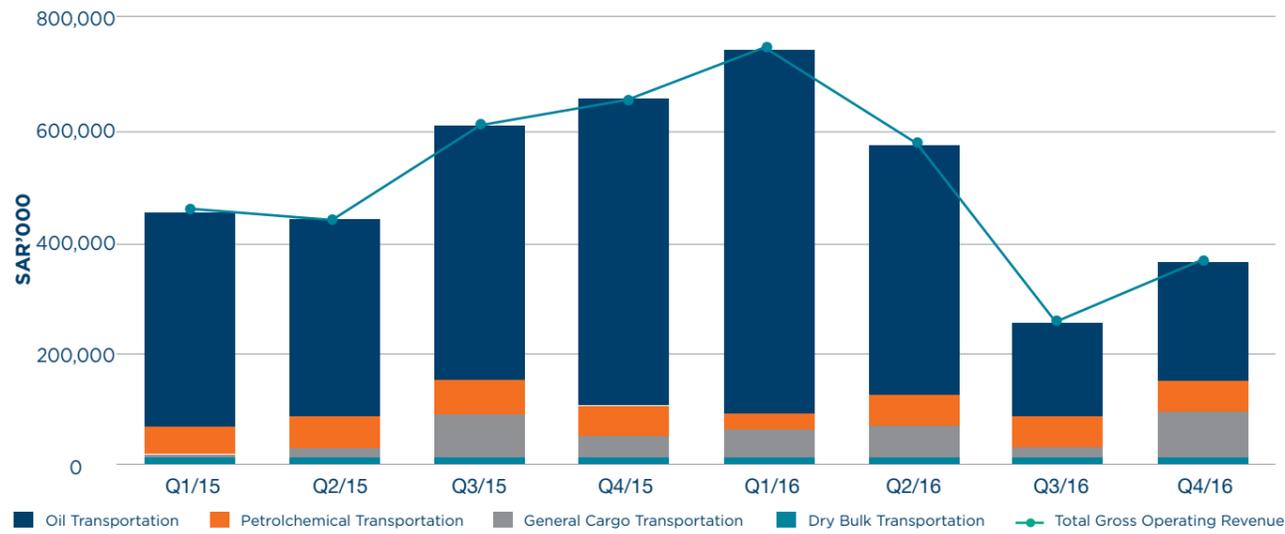
		Q1/15	Q2/15	Q3/15	Q4/15	Q1/16	Q2/16	Q3/16	Q4/16
Debt/Equity	x	0.90	0.89	0.89	0.83	0.79	0.97	0.96	1.03
Net Debt/EBITDA	x	10.66	11.77	8.90	7.99	8.19	10.24	12.69	11.45
Current Ration	x	0.45	0.40	1.74	1.55	1.13	1.37	1.93	1.93

**Graph no. 4:
2015 - 2016
Gross
Operating
Income**



		Q1/15	Q2/15	Q3/15	Q4/15	Q1/16	Q2/16	Q3/16	Q4/16
Oil Transportation	SAR'000	1,275,026	1,413,355	1,406,827	1,636,532	1,540,942	1,370,170	911,033	1,054,848
Petrochemical Transportation	SAR'000	201,338	193,192	198,583	181,497	163,564	196,740	212,170	201,674
General Cargo Transportation	SAR'000	138,061	175,867	284,069	245,113	183,494	233,584	156,646	292,768
Dry Bulk Transportation	SAR'000	28,032	28,276	28,158	30,092	47,181	55,137	76,065	92,773
Total Operating Revenue	SAR'000	1,642,457	1,810,690	1,917,637	2,093,234	1,935,181	1,855,631	1,355,914	1,642,063

**Graph no. 5:
2015 - 2016
Gross
Operating
Revenue**

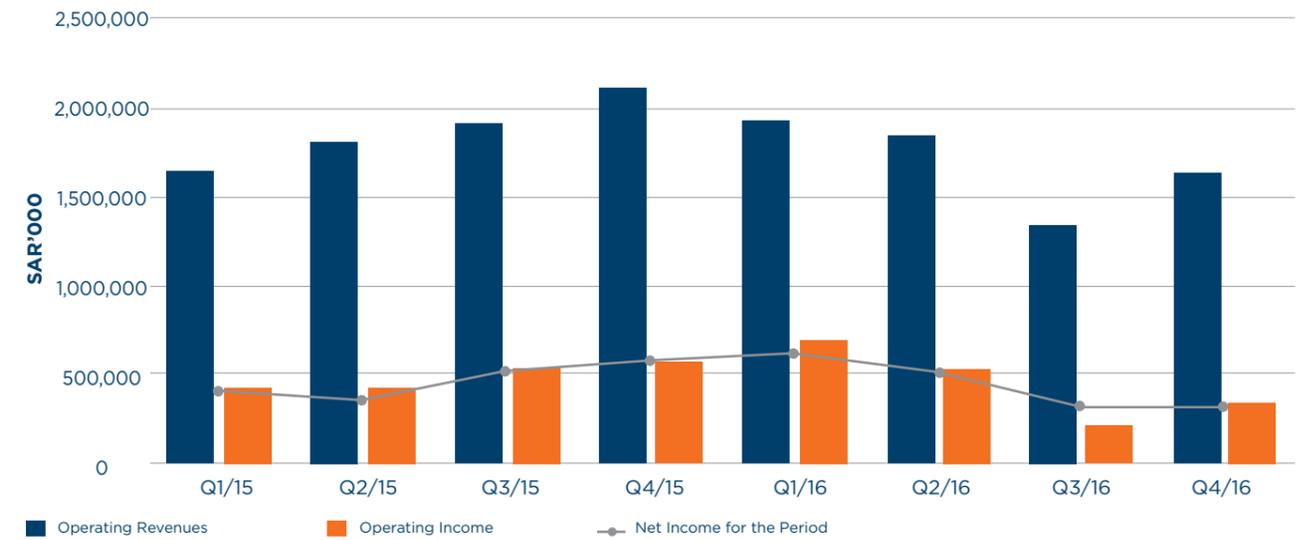


		Q1/15	Q2/15	Q3/15	Q4/15	Q1/16	Q2/16	Q3/16	Q4/16
Oil Transportation	SAR'000	386,048	354,413	457,072	549,980	656,870	446,279	164,896	213,602
Petrochemical Transportation	SAR'000	48,868	52,062	60,034	49,845	26,478	53,645	52,113	46,555
General Cargo Transportation	SAR'000	6,974	20,406	81,369	44,038	51,094	59,558	23,768	92,213
Dry Bulk Transportation	SAR'000	13,323	13,546	12,771	12,526	13,114	13,348	15,034	11,178
Total Gross Operating Revenue	SAR'000	455,213	440,427	611,246	656,389	747,556	572,830	255,811	363,548

**Graph no. 6:
2015 - 2016
Consolidated
Income
Statement**

The below graph shows that Bahri registered a stable net income for 2016, in addition to an increase in operational revenue and income, during the 4th quarter of 2016. Furthermore, the graph also demonstrates that Bahri was able to overcome the challenges associated with the steep decline that the entire

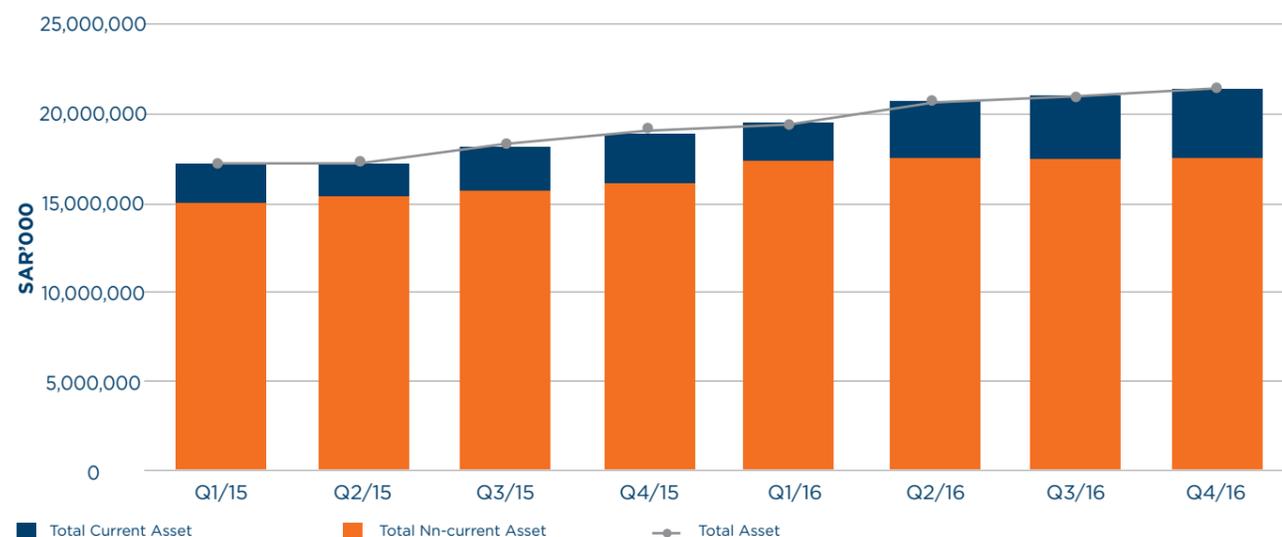
maritime sector went through during the second half of 2016. This is aptly demonstrated through the increase to Bahri's net income during the 4th quarter, which reached more than SAR 327 million, in comparison to a net income of SAR 318,370 million during the 3rd quarter of 2016.



		Q1/15	Q2/15	Q3/15	Q4/15	Q1/16	Q2/16	Q3/16	Q4/16
Operating Revenues	SAR'000	1,642,457	1,810,690	1,917,637	2,110,778	1,935,181	1,855,631	1,355,914	1,642,063
Operating Income	SAR'000	427,944	411,924	545,293	594,869	709,701	541,003	230,142	346,250
Net Income for the Period	SAR'000	398,412	342,478	510,296	566,397	611,990	504,175	318,370	324,605

Graph no. 7: 2015 - 2016 Total Assets

The below graph shows that Bahri increased its total current assets and total shareholders' equity for 2016, in comparison to 2015. The increase was in excess of SAR 9.7 billion and SAR 2 billion, respectively.



		Q1/15	Q2/15	Q3/15	Q4/15	Q1/16	Q2/16	Q3/16	Q4/16
Total Current Asset	SAR'000	2,023,664	1,902,698	2,420,539	2,840,531	2,052,743	2,946,271	3,379,576	3,897,235
Total Non-current Asset	SAR'000	15,172,660	15,374,164	15,788,651	16,256,120	17,467,962	17,650,068	17,546,504	17,436,175
Total Asset	SAR'000	17,196,324	17,276,862	18,209,190	19,096,651	19,520,705	20,596,339	20,926,080	21,333,410

Financial Statements and Operational results of the Company (2012 - 2016)

Bahri Five Year Financial Results - 2016 - 2012

Item	2016	2015	2014	2013	2012
Operational Revenue	6,788,789	7,502,120	3,626,412	2,846,698	2,464,628
Cost of Fuel	(805,699)	(1,081,099)	(1,206,749)	(943,406)	(875,097)
Other Operational Expenses	(4,177,603)	(4,404,412)	(1,963,373)	(1,494,838)	(1,253,254)
Total Operational Income before fuel subsidies	1,805,487	2,016,609	456,290	408,454	336,277
Fuel Subsidies	134,258	179,910	217,936	171,108	200,572
Total Operational Income	1,939,745	2,196,519	674,226	579,562	536,849
General & Administrative Expenses	(112,649)	(216,489)	(98,875)	(79,123)	(83,063)
Other Revenue (Expenditure) Net	(72,584)	63,130	24,429	338,544	108,023
Zakat & Tax Provisions	43,527	(181,354)	(37,436)	(49,858)	(36,299)
None Controlled Interest Shareholders' Equity	(38,899)	(44,223)	(28,504)	(36,863)	(21,517)
Net Yearly Income	1,759,140	1,817,583	533,840	752,262	503,993
Earnings per Share	4.47	4.62	1.58	2.39	1.60

8

Statement of Assets and Liabilities

Assets & Liabilities as of December 31, 2016 (SAR "000")	72
Shareholder Equity as of December 31, 2016 (SAR "000")	72
Operating Segments as of December 31, 2016 (SAR "000")	73
Distribution of Group's assets & liabilities, according to operating segments as of 31st December, 2016 (SAR "000")	73
Statement from Bahri's Management	74



Assets & Liabilities as of December 31, 2016 (SAR "000")

Item	2016	2015	2014	2013	2012
Total Assets	3,897,235	2,840,531	1,838,528	1,453,027	1,143,109
Net Fixed Assets	13,744,303	12,798,271	12,980,017	8,512,152	7,503,701
Other Non-Current Assets	3,691,872	3,457,849	2,325,866	2,057,534	2,415,748
Total Assets	21,333,410	19,096,651	17,144,411	12,022,713	11,062,558
Total Current Liabilities	2,022,678	1,837,952	4,722,716	1,381,237	1,006,117
Murabaha Financing & Long-term Loans	8,745,442	7,505,847	4,152,888	4,376,589	4,253,733
Other Non-Current Liabilities	54,348	53,774	83,538	77,464	76,963
Total Liabilities	10,822,468	9,397,573	8,959,142	5,835,290	5,336,813
Paid of Capital	3,937,500	3,937,500	3,937,500	3,150,000	3,150,000
Reserves & Retained Earnings	6,120,123	5,347,158	3,877,572	2,695,729	2,260,914
Noncontrolling Interest	453,319	414,420	370,197	341,694	314,831
Total Equity	10,510,942	9,699,078	8,185,269	6,187,423	5,725,745
Total Equity and Liabilities	21,333,410	19,096,651	17,144,411	12,022,713	11,062,558

Shareholder Equity as of December 31, 2016 (SAR "000")

Year	Shareholder Equity	Increase/Decrease	Percentage
2016	10,057,623	772,965	8.33%
2015	9,284,658	1,469,586	18.80%
2014	7,815,072	1,969,343	33.69%
2013	5,845,729	434,815	8.04%
2012	5,410,914	348,291	6.88%

Operating Segments as of December 31, 2016 (SAR "000")

Item	Oil Transportation	Petrochemical Transportation	Logistics Transportation	Dry Bulk Transportation	Total
Operating revenues	4,876,993	774,148	866,492	271,156	6,788,789
Bunker cost	(658,782)	(72,030)	(53,993)	(20,894)	(805,699)
Other operating expenses	(2,854,128)	(527,852)	(598,035)	(197,588)	(4,177,603)
Gross operating income before bunker subsidy	1,364,083	174,266	214,464	52,674	1,805,487
Bunker subsidy	117,564	4,525	12,169	-	134,258
Gross operating income	1,481,647	178,791	226,633	52,674	1,939,745
Percentage of Total	76%	9%	12%	3%	100%

Distribution of Group's assets & liabilities, according to operating segments as of 31st December, 2016 (SAR "000")

Item	Oil Transportation	Petrochemical Transportation	Logistics Transportation	Dry Bulk Transportation	Shared Assets and Liabilities Total	Total
Assets	11,835,619	3,935,243	1,978,636	715,675	2,868,237	21,333,410
Percentage of Total Assets	56%	19%	9%	3%	13%	100%
Liabilities	6,029,921	2,324,146	1,077,153	387,928	1,003,320	10,822,468
Percentage Total of Liabilities	56%	21%	10%	4%	9%	100%



Statement from Bahri's Management

The review committee examined Bahri's unaudited yearly financial statements, thereafter, it gave its recommendations to the board of directors. Thereafter, the board of directors adopted and accepted the submitted financial statements, during its meeting that was held on February 28, 2017. The 2016

yearly reports were prepared in accordance with accepted disclosure and transparency standards, the requirements of the Capital Markets Authority, the standards of the Saudi Organization for Certified Public Accountants (SOCPA) and international financial reporting standards.



9

Board of Directors and its Committees

Bahri Board of Directors Meetings	78
Details of Board Meetings in 2016	79
The Board Committees	79
Strategy & Investment Committee	80
Audit Committee	81
Remuneration & Compensation Committee	82



Bahri Board of Directors Meetings

The Board of Directors for the 2014 - 2016 terms consisted of 10 members. The Board is vested with the responsibility to provide guidance, control, and strategic direction for Bahri's operational, financial, administrative, technical, IT related, risk management and all relevant

and company related activities. The executive management act within that capacity, based on established policies, plans, controls and regulations, as approved by the Board of Directors and the General Assembly.

Details of Board Meetings in 2016

Name	Position	Meeting Number					Total
		1-16 (23Feb)	2-16 (17May)	3-16 (24Oct)	4-16 (14Dec)	5-16 (15DEC)	
Abdulrahman M. Almofadhi	Chairman	√	√	√	√	√	5
Mohammed A. Al-Sarhan	Vice Chairman	√	√	√	√	√	5
Essam H. Al-Mubarak	Board Member	√	√	√	√	√	5
Saleh A. Al-Debasi	Board Member	√	√	X	√	√	4
Farraj M. Abothenain	Board Member	√	√	√	√	√	5
Abdullah A. Al-Ajaji	Board Member	√	√	√	X	X	3
Saleh N. Al-Jasser	Board Member	√	√	√	√	√	5
Ahmed A. Al-Subaey	Board Member	√	√	√	√	√	5
Said A. Al-Hadrami*	Board Member	√	√				2
Ibrahim Q. Al-Buainain**	Board Member			X	√	√	2

*Resigned from the board on September 1, 2016 - **Joined the board on September 1, 2016

The Board Committees

There are three committees, established to oversee originate from the Board of Directors: Strategy and Investment; Audit; and Remuneration

and Compensation, with its authority and powers specified by the Board of Directors.



Strategy & Investment Committee

This committee deliberates on behalf of the board of directors and is responsible for overseeing Bahri's strategy. It periodically reviews the strategy's various components, thus, ensuring their optimum

implementation, through the effective utilization of the company's resources. In return, this enhances the company's ability to maximize its ROI, profits and shareholder value.

Details of Strategy & Investment Committee Meetings in 2016

Item	Position	Meeting Number			Total
		1-16 (23FEB)	2-16 (17MAY)	3-16 (24OCT)	
Farraj M. Abothenain	Chairman	√	√	√	3
Abdulrahman M. Almofadhi	Member	√	√	X	2
Essam H. Al-Mubarak	Member	√	√	√	3
Said A. Al-Hadrami (*)	Member	√	√		2
Ibrahim Q. Al-Buainain**	Member			X	0

*Resigned from the board on September 1, 2016 - **Joined the board on September 1, 2016.

Audit Committee

The audit committee is responsible for verifying the robustness and effectiveness of Bahri's internal controls, in a manner that achieves the specified business, financial and operational objectives of the company, in addition to protecting the interests of the shareholders. This committee has the power and authority to access to all company information, data, reports, records, and any other details it deems important. In addition, it examines the annual and interim financial statements prior to submitting them to the board of directors. The committee is also responsible for examining the accounting policies and recommending to the board the appointment and remuneration of

the Company's CPA, and verifying the independence of the internal auditors.

After reviewing the existing internal controls as outlined in the procedures approved by the Internal Audit Department, the committee confirms the soundness and effectiveness of the internal audit and controls systems that is used by qualified auditors who are specialized in risk management and quality control. Moreover, the General Assembly approves the selection rules of the audit committee members, their term and work methods. In addition, the Board of Directors sets the remuneration of the committee members.

Details of Audit Committee Meetings in 2016

Item	Position	Meeting Number					Total
		1-16 (17JAN)	2-16 (23FEB)	3-16 (18APR)	4-16 (26JUL)	5-16 (17OCT)	
Saleh A. Al-Debasi	Chairman	√	√	√	√	√	5
Abdullah A. Al-Ajaji	Member	√	√	√	√	√	5
Naser A. Al-Kahtani	Member	√	√	√	√	√	5
Dr. Saad S. Al-Ruwaita	Member	√	√	√	√	√	5



Remuneration & Compensation Committee

This committee is responsible for making membership nominations for the board of directors, through conducting annual review of the needs and the skills required for board membership. In addition, the committee is tasked with reviewing the board's structure; making recommendations on necessary changes, identifying weaknesses and strengths of the current board and finding ways to address those inadequacies, during

the following term. The committee is also responsible for developing clear policies of remuneration and compensation for the board of directors and senior executives, based on their performance. The company's ordinary general assembly approves the selection rules of the remuneration and compensation committee members, their term and work methods. While the board of directors sets the remuneration of the committee members.

Details of Remuneration & Compensation Committee Meetings in 2016

Item	Position	Meeting Number			Total
		1-16 (17OCT)	2-16 (5 DEC)	3-16 (14DEC)	
Mohammed A. Al-Sarhan	Chairman	√	√	√	3
Saleh A. Al-Debasi	Member	√	√	√	3
Ibrahim Q. Al-Buainain	Member	X	X	√	1

Bahri Board of Directors Classification

Name	Classification
Abdulrahman M. Almfadhi	Non-executive
Mohammed A. Al-Sarhan	Independent
Essam H. Al-Mubarak	Non-executive
Saleh A. Al-Debasi	Non-executive
Farraj M. Abothenain	Independent
Abdullah A. Al-Ajaji	Independent
Saleh N. Al-Jasser	Non-executive
Ahmed A. Al-Subaey	Non-executive
Said A. Al-Hadrami*	Non-executive
Ibrahim Q. Al-Buainain**	Non-executive

*Resigned from the board on September 1, 2016 - **Joined the board on September 1, 2016

Bahri Board of Directors 2016 SAR Compensation & Bonus's

Name	Meeting Attendance fee	Committee Remuneration	Bonus after distribution of dividends	Total
Abdulrahman M. Almfadhi	24,000	100,000	200,000	324,000
Mohammed A. AlSarhan	27,000	200,000	200,000	427,000
Essam H. Al-Mubarak	33,000	200,000	200,000	433,000
Saleh A. AlDebasi	36,000	200,000	200,000	436,000
Farraj M. Abothenain	27,000	200,000	200,000	427,000
Abdullah A. Al-Ajaji	27,000	100,000	200,000	215,000
Saleh N. Al-Jasser	15,000	-	200,000	215,000
Said A. Al-Hadrami*	12,000	100,000	100,000	212,000
Ahmed Ali Al-Subaey	18,000	100,000	200,000	318,000
Ibrahim Q. Abuainain**	12,000	100,000	100,000	212,000

*Resigned from the board on September 1, 2016 - **Joined the board on September 1, 2016

The board of directors declares that with the exception of the shares that is owned by the members of the board, which is stated in the table below, there is no private interests or rights options or subscription rights

or links for the members of the board or their spouses or minor children in the company or its subsidiaries. Whether it was company shares or links through direct and indirect employment contracts and any other.

Bahri Board of Director's, Partners & Independent Offspring 2016 Share Ownership Table

Item	Title	Ownership at the beginning of the year	Ownership at the end of the year	Change during the year	Change (%)
Abdulrahman M. Almofadhi	Chairman	-	-	-	-
Mohammed A. AlSarhan	Vice Chairman	377,302	378,395	1,093	0.29%
Essam H. Al-Mubarak	Member	80,000	80,000	-	0%
Saleh A. AlDebasi	Member	25,000	25,000	-	0%
Farraj M. Abothenain	Member	25,000	25,000	-	0%
Saleh N. Al-Jasser	Member	200,000	200,000	-	0%
Abdullah A. Al-Ajaji	Member	-	-	-	-
Said A. Al-Hadrami*	Member	-	-	-	-
Ahmed A. Al-Subaey	Member	-	-	-	-
Ibrahim Q. Al Buainain**	Member	-	-	-	-

*Resigned from the board on September 1, 2016 - **Joined the board on September 1, 2016

Bahri Board of Directors Membership in Other Publicly Traded Companies (2014 - 2016)

Name of Board Member	Company Name/s
Abdulrahman M. Almofadhi	National Commercial Bank / Saudi Real Estate Company / TADAWUL
Mohammed A. AlSarhan	Al Faisaliah Holding Group / Saudi Read Mix Company
Essam H. Al-Mubarak	None
Saleh A. AlDebasi	None
Farraj M. Abothenain	ASTRA Industrial Group (ASTRA) / National Petrochemical Company (Petrochem)
Abdullah A. Al-Ajaji	Qassim Cement Company
Saleh N. Al-Jasser	None
Said A. Al-Hadrami*	None
Ahmed A. Al-Subaey	None
Ibrahim Q. Al Buainain**	None

*Resigned from the board on September 1, 2016 - **Joined the board on September 1, 2016



10

Executive
Management



Bahri Executive Management

Bahri's executive management carry out the company's operational and strategic plans, with the aim to enhance and expand Bahri's business position, which will increase shareholder value. On the other hand, there are no investments or reserves that have been set aside for the benefit of company employees, except what is owed to them based on officially established regulations. It should also be noted that Bahri's

five senior executives, who include Chief Financial Officer, hold no interest, subscription rights or debt instrument sources for any of Bahri's subsidiary companies. Furthermore, they do not own source shares, based on the TADAWUL records, as of December 31, 2016, except what is written in the table below; which shows share ownership for Bahri's senior executives.

Bahri's Executive Management for 2016

Executive Management	Title
Ibrahim Al-Omar	Chief Executive Officer
Ali Al-Harbi	Chief Financial Officer
Ahmed Al-Eidan	Assistant CEO (Board Secretariat & Communication)
Majed Al-Shenaiber	VP, Support Services
Abdullah Al-Mosa	Director of the Legal Department

2016 Declaration of Share Ownership by Bahri Senior Executives, Spouses & Off-Spring

Executive Management	Title	Ownership at the beginning of the year	Ownership at the end of the year	Change during the year	Change (%)
Ibrahim Al-Omar	Chief Executive Officer	-	-	-	-
Ali Al-Harbi	Chief Financial Officer	-	-	-	-
Ahmed Al-Eidan	Assistant to CEO (Board Secretariat & Communication)	-	-	-	-
Majed Al-Shenaiber	VP, Support Services	-	-	-	-
Abdullah Al-Mosa	Director of the Legal Department	-	-	-	-

Details of compensations and remunerations for the five executive management members in 2016

Description	Amount (SAR. 1,000)
Salaries and remunerations	6,779,406.00
Allowances	451,269.64
Annual Bonuses	13,383,900.30
Incentives	-
Compensations in Kind	-
Total	20,614,575.94

• The CEO and CFO are included in the list of five top executives

Ending Statement

On this occasion, the board of directors wishes to take this opportunity to extend its thanks and appreciation to the Custodian of the Two Holy Mosques, King Salman Bin Abdul Aziz and to his Crown Prince, His Royal Highness, Prince Mohamed Bin Naif Bin Abdul Aziz and to his Deputy Crown Prince, His Royal Highness Mohamed Bin Salman Bin Abdul Aziz, May Allah protect them, and to his respectable government. The board of directors also wishes to thank the company's shareholders

and customers and to express the gratitude and appreciation of its members for their trust, which motivated the board to exert more effort and directing them on the right path. The board also wishes to thank the company's executive management and its employees, for their cherished efforts in developing and improving the company's performance. In addition to their hard work and toil, to achieve the company's stated objectives.

11

Fleet Information

Bahri Oil Tanker Fleet	92
Bahri Chemicals Fleet	94
Bahri Logistics Vessels	95
Bahri Dry Bulk Vessels	96



Bahri Oil Tanker Fleet

No	Vessel Name	Year Built	Type	Length (meters)	Beam (meters)	DWT	No. of Tanks	Speed (knots)
1	Ramlah	1996	Double hull	340	56	300,361	17	15
2	Ghawar	1996	Double hull	340	56	300,361	17	15
3	Watban	1996	Double hull	340	56	300,361	17	15
4	Hawtah	1996	Double hull	340	56	300,361	17	15
5	Safaniyah	1997	Double hull	340	56	300,361	17	15
6	Harad	2001	Double hull	333	58	303,116	17	17.1
7	Marjan	2002	Double hull	333	58	302,977	17	17.1
8	Safwa	2002	Double hull	333	58	303,139	17	17.1
9	Abqaiq	2002	Double hull	333	58	302,986	17	17.1
10	Tinat	2002	Double hull	333	60	316,502	17	15
11	Hilwah	2002	Double hull	333	60	316,808	17	15
12	Lulu	2003	Double hull	333	60	316,507	17	15
13	Shiblah	2003	Double hull	333	60	316,476	17	15
14	Wafrah	2007	Double hull	333	60	317,788	17	16.7
15	Layla	2007	Double hull	333	60	317,821	17	16.7
16	Jana	2008	Double hull	333	60	317,693	17	16.7
17	Habari	2008	Double hull	333	60	317,664	17	16.7
18	Shaybah	2008	Double hull	333	60	319,429	17	16
19	Manifa	2008	Double hull	333	60	319,428	17	16
20	Jaham	2008	Double hull	333	60	319,430	17	16
21	Jaladi	2008	Double hull	333	60	319,464	17	16
22	Khuzama	2008	Double hull	333	60	319,423	17	16
23	Karan	2009	Double hull	333	60	319,411	17	16
24	Kahla	2009	Double hull	333	60	317,521	17	16.7

Bahri Oil Tanker Fleet - continuation

No	Vessel Name	Year Built	Type	Length (meters)	Beam (meters)	DWT	No. of Tanks	Speed (knots)
25	Dorra	2009	Double hull	333	60	317,458	17	16.7
26	Ghazal	2009	Double hull	333	60	317,388	17	16.7
27	Sahba	2009	Double hull	333	60	317,563	17	16.7
28	Farhah	2010	Double hull	333	60	319,302	17	16
29	Ghinah	2010	Double hull	333	60	319,141	17	16
30	Niban	2010	Double hull	333	60	319,286	17	16
31	Nisalah	2010	Double hull	333	60	319,288	17	16
32	Kidan	2010	Double hull	333	60	321,234	17	15
33	Wedyan	2010	Double hull	333	60	321,234	17	15
34	Arsan	2010	Double hull	333	60	314,000	17	15
35	Dilam	2010	Double hull	333	60	314,000	17	15
36	Awtad	2011	Double hull	333	60	309,988	17	15
37	Khafji	2003	Double hull	248	43	97,000	14	14
38	Bahri Iris	2005	Double hull	200	32	49,000	14	14
39	Bahri Jasmine	2005	Double hull	200	32	49,000	14	14
40	Bahri Rose	2006	Double hull	200	32	49,000	14	14
41	Bahri Tulip	2006	Double hull	200	32	49,000	14	14
Total DWT						11,588,270		

Bahri Chemicals Fleet

No	Carriers	Year built	Length (m)	Beam (m)	DWT	No. of tanks	Speed (knot)
1	NCC Makkah*	1995	183.10	32.2	37,500	52	16
2	NCC Riyadh*	1995	183.10	32.2	37,500	52	16
3	NCC Jubail*	1996	183.10	32.2	37,500	52	16
4	NCC Najed	2005	183.02	32.2	46,200	22	15
5	NCC Al Hijaz	2005	183.02	32.2	46,200	22	15
6	NCC Tihama	2006	183.02	32.2	46,200	22	15
7	NCC Abha	2006	183.02	32.2	46,200	22	15
8	NCC Tabuk	2006	183.02	32.2	46,200	22	15
9	NCC Qassim	2006	183.02	32.2	46,200	22	15
10	NCC Rabigh	2007	183.02	32.2	46,200	22	15
11	NCC Sudair	2007	183.02	32.2	46,200	22	15
12	NCC Dammam	2008	183.02	32.2	46,200	22	15
13	NCC Hail	2008	183.02	32.2	46,200	22	15
14	NCC Noor	2011	183.00	32.2	45,000	22	15
15	NCC Huda	2011	183.00	32.2	45,000	22	15
16	NCC Amal	2011	183.00	32.2	45,000	22	15
17	NCC Safa	2011	183.00	32.2	45,000	22	15
18	NCC Danah	2011	183.00	32.2	45,000	22	15
19	NCC Nasma	2011	183.00	32.2	45,000	22	15
20	NCC Shams	2012	183.00	32.2	45,000	22	15
21	NCC Najem	2012	183.00	32.2	45,000	22	15
22	NCC Reem	2012	183.00	32.2	45,000	22	15
23	NCC Sama	2012	183.00	32.2	45,000	22	15
24	NCC Fajr	2013	228.00	36.8	75,000	30	14

Bahri Chemicals Fleet - continuation

No	Carriers	Year built	Length (m)	Beam (m)	DWT	No. of tanks	Speed (knot)
25	NCC Qamar	2009	183.00	32.0	46,195	22	15
26	NCC Maha	2009	183.00	32.0	46,195	22	15
27	NCC Bader	2014	183.12	32.2	50,000	14	15
28	NCC Ghazal	2014	183.12	32.2	50,000	14	15
29	NCC Jood	2014	183.12	32.2	50,000	14	15
30	NCC Masa	2014	183.12	32.2	50,000	14	15
31	NCC Wafa	2014	183.12	32.2	50,000	14	15
Total capacity (DWT)					1,441,890		

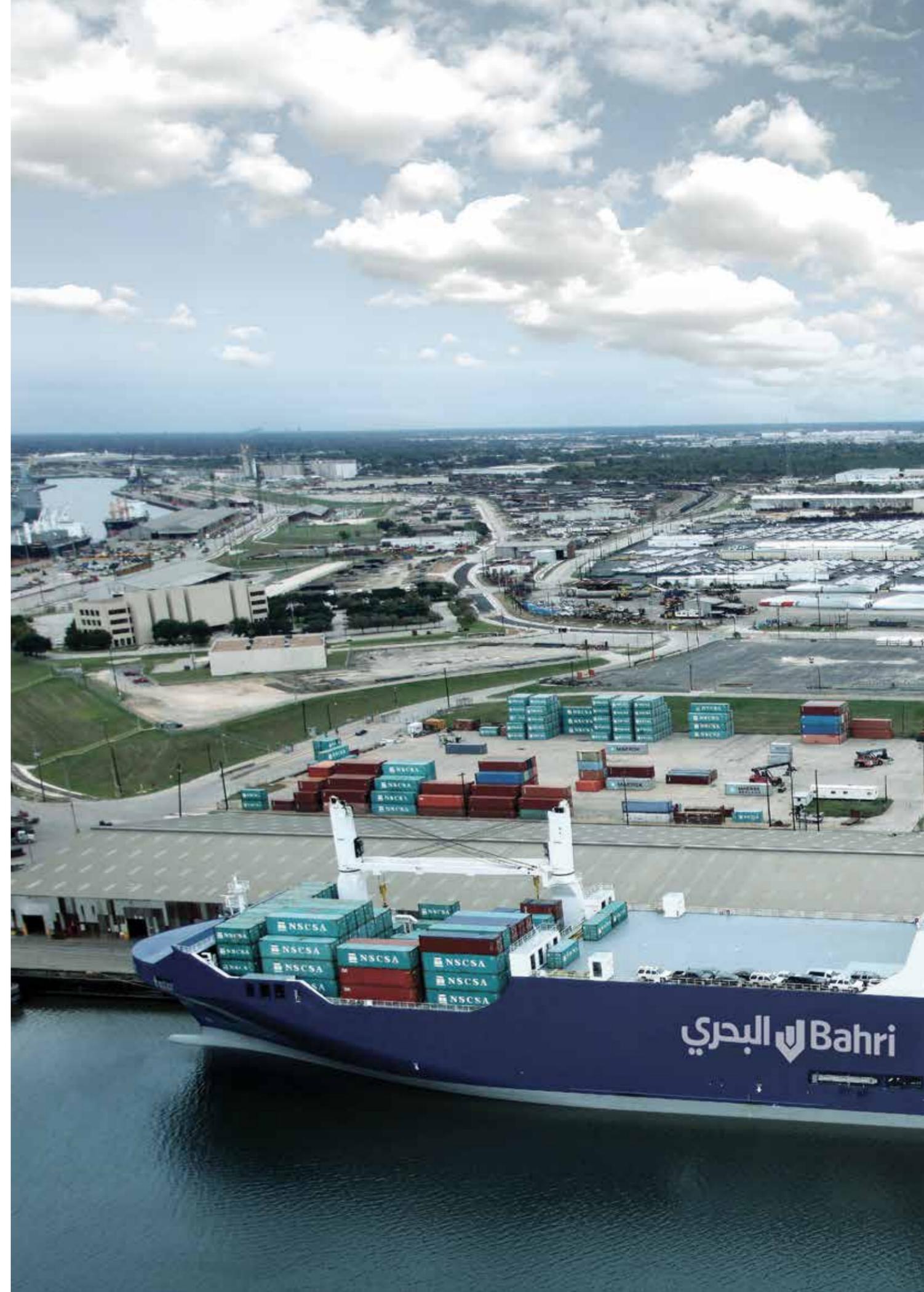
*Carriers NCC Makkah, NCC Riyadh and NCC Jubail are chartered to Odfjell as bareboats charters for 10 years under a bareboat agreement, which include the right to purchase the carriers after the third year according to specified prices.

Bahri Logistics Vessels

No	Ship	Year built	Weight (DWT)	Draft (m)	Beam (m)	Length (m)	Capacity (TEU-container)	Horsepower	Speed (knots)
1	Bahri Abha	2013	26,000	9.5	32.30	225	2,500	8,907	17
2	Bahri Hofuf	2013	26,000	9.5	32.30	225	2,500	8,907	17
3	Bahri Tabuk	2013	26,000	9.5	32.30	225	2,500	8,907	17
4	Bahri Jazan	2013	26,000	9.5	32.30	225	2,500	8,907	17
5	Bahri Jeddah	2014	26,000	9.5	32.30	225	2,500	8,907	17
6	Bahri Yanbu	2014	26,000	9.5	32.30	225	2,500	8,907	17

Bahri Dry Bulk Vessels

No	Ship Name	Year Built	DWT	Draft (m)	Beam (m)	Length (m)	Horsepower	Speed (knots)
1	Bahri Arasco	2013	81,855	14.45	32.26	228.99	9,840	14.5
2	Bahri Grain	2014	81,855	14.45	32.26	228.99	9,840	14.5
3	Bahri Bulk	2014	81,855	14.45	32.26	228.99	9,840	14.5
4	Bahri Wafi	2014	81,855	14.45	32.26	228.99	9,840	14.5
5	Bahri Trader	2014	81,855	14.45	32.26	228.99	9,840	14.5



12

Consolidated Financial Statement

Independent auditors' report	100
Consolidated Statements of Balance Sheet	101
Consolidated Statements of Income	103
Consolidated Statements of Cash Flow	104
Consolidated Statements of Change in Shareholders' Equity	106
Notes To The Consolidated Financial Statements	107





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Auditors' Report to the Shareholders of The National Shipping Company of Saudi Arabia (A Saudi Joint Stock Company)

Scope of Audit

We have audited the accompanying 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 consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended. These consolidated financial statements are the responsibility of the Group's management and have been prepared by them in accordance with the requirements of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the consolidated financial statements.

Unqualified Opinion

In our opinion, the consolidated financial statements taken as a whole:

For Ernst & Young

Abdulaziz A. Al-Sowailim Certified
Public Accountant Registration No. 277



Riyadh: 1 Jumad Thani 1438H
(28 February 2017)



Consolidated Statements of Balance Sheet As at 31 December 2016 (In Thousands Saudi Riyals)

	Note	2016	2015
ASSETS			
Current assets:			
Bank balances and cash	3	171,731	173,265
Murabaha and short term deposits	4	1,908,262	1,066,597
Trade receivables, net	5	1,083,477	1,001,104
Lease receivable for vessels, net	6	35,067	27,901
Prepaid expenses and other receivables	7	311,941	163,686
Agents' current accounts		67,974	47,587
Inventories	8	240,675	203,610
Accrued bunker subsidy, net	9	78,108	150,412
Incomplete voyages		-	6,369
Total current assets		3,897,235	2,840,531
Non-current assets:			
Lease receivable for vessels, net	6	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	10	1,123,848	1,027,941
Deferred dry-docking cost, net	11	241,466	126,586
Intangible assets, net	12	772,064	849,464
Fixed assets, net	13	13,744,303	12,798,271
Ships under construction and others	14	1,235,565	1,099,901
Total non-current assets		17,436,175	16,256,120
Total assets		21,333,410	19,096,651

The accompanying notes from (1) to (28) from an integral part of these consolidated financial statement



Consolidated Statements of Balance Sheet
As at 31 December 2016 (In Thousands Saudi Riyals) - continuation

	Note	2016	2015
LIABILITIES AND EQUITY	Note		
Current liabilities:			
Accounts payable and accruals	15	747,261	928,326
Murabaha and long-term financing -current portion	16	1,001,146	547,016
Dividends payable	17	37,431	35,095
Provision for zakat and tax	18	219,553	296,811
Incomplete voyages		17,287	-
Other liabilities	19	-	30,704
Total current liabilities		2,022,678	1,837,952
Non-current liabilities:			
Murabaha, Sukuk and long-term financing	16	8,745,442	7,505,847
Employees' end of service benefits		54,348	53,774
Total non-current liabilities		8,799,790	7,559,621
Total liabilities		10,822,468	9,397,573
Equity:			
Shareholders' equity			
Share capital	1	3,937,500	3,937,500
Statutory reserve		2,373,804	2,197,890
Retained earnings	17	3,746,319	3,149,268
Total shareholders' equity		10,057,623	9,284,658
Non-controlling interests		453,319	414,420
Total equity		10,510,942	9,699,078
Total liabilities and equity		21,333,410	19,096,651

The accompanying notes from (1) to (28) from an integral part of these consolidated financial statement



Consolidated Statements of Income
For the Year Ended 31 December, 2016 (In Thousands Saudi Riyals)

	Note	2016	2015
Operating revenues	24	6,788,789	7,464,018
Bunker cost	24	(805,699)	(1,081,099)
Other operating expenses	24	(4,177,603)	(4,366,310)
Gross operating income before bunker subsidy		1,805,487	2,016,609
Bunker subsidy	24	134,258	179,910
Gross operating income		1,939,745	2,196,519
General and administrative expenses	21	(112,649)	(216,489)
Operating income		1,827,096	1,980,030
Share in results of an associated company	10	147,044	184,683
Finance charges	16, 26	(237,076)	(132,230)
Other income, net	22	17,448	10,677
Income before zakat, tax and non-controlling interests		1,754,512	2,043,160
Zakat and withholding tax, net	18	43,527	(181,354)
Income before non-controlling interests		1,798,039	1,861,806
Non-controlling interests in consolidated subsidiaries' net income		(38,899)	(44,223)
Net income for the year		1,759,140	1,817,583
Earnings Per Share (in SR):			
Attributable to operating income	17	4.64	5.03
Attributable to net income for the year	17	4.47	4.62

The accompanying notes from (1) to (28) from an integral part of these consolidated financial statement



Consolidated Statements of Cash Flow
For the Year Ended 31 December 2016 (In Thousands Saudi Riyals)

	Note	2016	2015
Cash flows from operating activities:			
Net income for the year		1,759,140	1,817,583
Adjustments to reconcile net income for the year to net cash flows from operating activities:			
Depreciation	13	791,055	713,072
Amortization of deferred dry-docking costs	11	82,182	53,370
Amortization of intangible assets	12	52,732	54,037
(Reversal of) provision for doubtful account	5,21	(23,877)	31,027
Share in results of an associated company	10	(147,044)	(184,683)
Loss (gain) on sale of fixed assets	22	32,942	(5,107)
Non-controlling interests in consolidated subsidiaries' net income		38,899	44,223
Provision for zakat and tax	18	(43,527)	181,354
Employees' end of service benefits, net		574	940
		2,543,076	2,705,816
Changes in operating assets and liabilities:			
Trade receivables, net		(58,496)	(370,379)
Bareboat lease receivable, net		27,902	21,140
Prepayments and other receivables		(148,255)	651
Agents' current accounts		(20,387)	28,747
Inventories		(37,065)	123,880
Accrued bunker subsidy, net		72,304	46,995
Incomplete voyages		23,656	(16,182)
Accounts payable and accruals		(181,065)	409,820
Other liabilities	18	(30,704)	-
Zakat and withholding tax paid		(33,731)	(27,441)
Net cash flows from operating activities		2,157,235	2,923,047

The accompanying notes from (1) to (28) from an integral part of these consolidated financial statement

Consolidated Statements of Cash Flow
For the Year Ended 31 December 2016 (In Thousands Saudi Riyals) - continuation

	Note	2016	2015
Cash flows from investing activities:			
Murabaha and short-term deposits		(20,285)	(20,271)
Investments held to maturity		(40)	544
Dividends received from an associated company	10	51,137	62,500
Additions to fixed assets	13	(1,601,104)	(522,119)
Proceeds from sale of fixed assets	13	47,913	6,450
Ships under construction and others, net	14	(327,834)	(1,098,412)
Deferred dry-docking costs	11	(197,062)	(57,790)
Net cash used in investing activities		(2,047,275)	(1,629,098)
Cash flows from financing activities:			
Repayment of short-term Murabaha financing		-	(3,459,313)
Proceeds from Murabaha and long-term financing		2,146,128	3,900,000
Repayment of Murabaha and long-term financing		(452,403)	(558,329)
Dividends paid	17	(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		819,846	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	1,962,677	1,142,831
Major non-cash transactions:			
Ships under construction and others transferred to fixed assets	13,14	192,170	10,550

The accompanying notes from (1) to (28) from an integral part of these consolidated financial statement

**Consolidated Statements of Change in Shareholders' Equity
For the Year Ended 31 December 2016 (In Thousands Saudi Riyals)**

	Share capital	Statutory reserve	Retained earnings	Total
Balance as at December 31, 2014	3,937,500	2,016,132	1,861,440	7,815,072
Net income for the year	-	-	1,817,583	1,817,583
Transfer to statutory reserve	-	181,758	(181,758)	-
Dividends (note 17)	-	-	(345,997)	(345,997)
Boards' Members Compensation	-	-	(2,000)	(2,000)
Balance as at December 31, 2015	3,937,500	2,197,890	3,149,268	9,284,658
Net income for the year	-	-	1,759,140	1,759,140
Transfer to statutory reserve	-	175,914	(175,914)	-
Dividends (note 17)	-	-	(984,375)	(984,375)
Boards' Members Compensation	-	-	(1,800)	(1,800)
Balance as at December 31, 2016	3,937,500	2,373,804	3,746,319	10,057,623

The accompanying notes from (1) to (28) from an integral part of these consolidated financial statement

**Notes To The Consolidated Financial Statements – Continued
December 31, 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 December 31, 2016 and December 31, 2015. The par value per share is SR 10.

The subsidiary companies incorporated into these 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 consolidated financial statements is as follows (note 4):

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

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



Notes To The Consolidated Financial Statements – Continued

1. Organization and Operations (Continued)

The Group Fleet:

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

Crude Oil Transportation Sector:

Consists 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:

Consists 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 follows:

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

be required to comply with the requirements of IFRS 1 - First-time Adoption of International Financial Reporting Standards for the reporting periods starting January 1, 2017. In preparing the opening IFRS financial statements, the Company will analyze impacts and incorporate certain adjustments due to the first time adoption of IFRS.

2. Significant Accounting Policies

a. New accounting framework

Effective January 1, 2017, the Company's financial statements will be prepared under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and endorsed by the Saudi Organization for Certified Public Accountants ("SOCPA"). Upon IFRS adoption, the Company will

Notes To The Consolidated Financial Statements – Continued

b. Accounting convention

The accompanying consolidated financial statements are prepared in accordance with the accounting standard generally accepted in the Kingdom of Saudi Arabia 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.

c. 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.

d. Basis of consolidation

- These 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 portion of profit or loss and net assets not owned by the Company, and is shown as a separate component in the consolidated balance sheet and consolidated statement of income.

e. Use of estimates

The preparation of 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 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.

f. Cash and cash equivalents

For the purpose of the 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.



Significant Accounting Policies (Continued)**g. 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 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 consolidated statement of income.

h. 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.

i. 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 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 consolidated statement of income. Spare parts and other consumables on board for each vessel are charged to operating expenses upon purchase.

j. Deferred dry-docking costs

The Group amortizes the deferred dry-docking costs 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 dry-docking costs of the related vessels are fully charge to the consolidated statement of income of the period in which new dry-docking operation is started.

k. 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.

**Significant Accounting Policies (Continued)**

Goodwill is impaired by the decline in value amount, if any.

2. Investments in securities:

Investments in securities are classified into three categories as follows:

- Investments held for after 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 consolidated statement of income.
- Investments held to after 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 after 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 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 consolidated statement of income. If there is an intention to sell the available for sale investment within twelve months from the consolidated balance sheet date, it is reported under current assets, otherwise under non-current assets.

l. Intangible assets

Intangible assets represents the long term substantial evaluation of transportation contracts, which resulted from purchasing the operations and assets of Vela Company, was recorded as intangible assets in the consolidated statement of balance sheet. 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 consolidated statement of income.

m. 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:



Significant Accounting Policies (Continued)**m. Fixed assets (Continued)**

Category	Depreciation rate	Category	Depreciation rate
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 vessels and VLCCs are depreciated over a period of twenty-five years. Used vessels are depreciated based on their estimated remaining useful lives, 10% of the vessels' cost is calculated as residual value. RoCon 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.

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

n. 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 is determined. The recoverable amount is the higher of the asset's

fair value less cost to sell and value in use. If the recoverable amount cannot be determined for an asset, the group will estimate the recoverable amount at the cash-generating units to which belongs to.

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

Except for goodwill, where the impairment loss is subsequently reverses, 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 should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets in prior years. A reversal on an impairment loss is recognized as income immediately in the consolidated statement of income.

Significant Accounting Policies (Continued)**o. 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.

p. Provisions

Provisions are recognized when the Group 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.

q. Zakat and taxes

Zakat is provided for in accordance with the regulations of the General Authority of Zakat and Tax (the "GAZT") in the Kingdom of Saudi Arabian, and the provision 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. 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.

r. 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.

s. 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.

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 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 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.



Significant Accounting Policies (Continued)

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 for the period.

t. Statutory reserve

In accordance with Saudi Arabian Regulations for Companies, the Company is required to transfer 10% of net income to the statutory reserve. In accordance with the Company's by-laws, 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.

u. 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 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.

v. Bunker subsidy

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

w. Operating leases

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

x. Earnings per share and proposed dividends

Earnings per share from operating income and net profit for the period is calculated based on

Significant Accounting Policies (Continued)

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.

y. 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 December 31, 2016 (2015: SR 97.03 million).

For the purpose of the consolidated statement of cash flows, cash and cash equivalents as of December 31 comprise the following:

	2016	2015
Bank balances and cash	171,731	173,265
Amounts restricted by banks	(14,342)	(23,213)
	157,389	150,052
Murabaha and short-term deposits	1,908,262	1,066,597
Amounts restricted by banks	(102,974)	(73,818)
	1,805,288	992,779
Cash and cash equivalents balance at the end of the period	1,962,677	1,142,831

4. Murabaha And Short-Term Deposits**Murabaha and short-term deposits comprise the following at December 31:**

	2016	2015
Murabaha and short-term deposits in Saudi Riyals	1,463,198	290,249
Murabaha and short-term deposits in USD	445,064	776,348
	1,908,262	1,066,597

5. Trade Receivables, Net

Trade receivables, net comprise the following at December 31:

	2016	2015
Trade receivables	1,094,728	1,036,232
Provision for doubtful debts	(11,251)	(35,128)
	1,083,477	1,001,104

Movement in provision for doubtful debts is as follows:

	2016	2015
Balance at the beginning of the year	35,128	8,379
Charge for the year (note 21)	1,012	31,027
Reversal of provision/ written-off during the year (note 21)	(24,889)	(4,278)
Balance at the end of the year	11,251	35,128

6. Bareboat Lease Receivable, Net

On January 30, 2009, National Chemical Carriers Ltd, Co, signed agreements with Odfjell to charter three vessels under a bareboat arrangement for a period of ten years with a purchase option after three years, These ships were delivered to Odfjell on February 1, 2009, The

arrangement is considered as a finance lease as it transfers to Odfjell substantially all the benefits and risks and also gives Odfjell a purchase option under the arrangement, The net bareboat lease receivable balance as of December 31 is summarized as follows:

Description	2016	2015
Future minimum lease receipts	157,860	227,509
Unguaranteed residual value at the end of the lease term	247,875	247,875
	405,735	475,384
Unearned income	(75,355)	(117,102)
Net bareboat lease receivable balance	330,380	358,282

The above amount is classified as the following at December 31:

Description	2016	2015
Current portion	35,067	27,901
Non-current portion	295,313	330,381
Net bareboat lease receivable balance	330,380	358,282

The future minimum lease receipts and unguaranteed residual value at the end of lease term to be received during the next five years and thereafter for the year ended December 31 as follows:

	2016	2015
Within one year	73,564	69,649
1-2 years	77,670	73,564
2-3 years	254,501	77,670
3-4 years	-	254,501
	405,735	475,384

Income related to the above arrangement for the year ended December 31, 2016 amounted to SR 41.75 million (2015: SR 44.21 million)

and is included in operating revenues in the consolidated statement of income.

7. Prepayments and other Receivables

Prepayments and other receivables comprise the following at December 31:

	2016	2015
Prepaid expenses	222,652	107,405
Advances to suppliers	42,361	26,942
Insurance claims	8,406	10,953
Employee receivables	90	574
Others	38,432	17,812
	311,941	163,686

8. Inventories**Inventories on board of ships comprise the following at December 31:**

	2016	2015
Fuel	186,718	150,274
Lubricants	47,676	47,689
Others	6,281	5,647
	240,675	203,610

9. Accrued Bunker Subsidy, Net**Accrued bunker subsidy, net comprise the following at December 31:**

	2016	2015
Accrued bunker subsidy	175,585	218,224
Provision for doubtful bunker subsidy	(97,477)	(67,812)
	78,108	150,412

10. Investment in an Associated Company**The movement of investment in the associated company for the year ended December 31 is as follows:**

	2016	2015
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

* The Company's share in the result of Petredec Limited Company operations for the year 2016 includes unrealized gains of SR 10.78 million (2015 unrealized losses: SR 2.35 million) arising from commodity swaps.

11. Deferred Dry-Docking Costs, Net**Deferred dry-docking costs, net comprise the following at December 31:**

	2016	2015
Total dry-docking costs	700,999	503,937
Accumulated amortization	(459,533)	(377,351)
	241,466	126,586

Movement in the dry-docking costs is as follows:

	2016	2015
Balance at the beginning of the year	126,586	122,166
Additions during the year	197,062	57,790
Amortization during the year	(82,182)	(53,370)
Balance at the end of the year	241,466	126,586

12. Intangible Assets, Net**Intangible assets, net comprise the following at December 31:**

	2016	2015
Balance at the beginning of the year	849,464	903,501
Amortization during the year	(52,732)	(54,037)
Disposals during the year	(24,668)	-
Balance at the end of the year	772,064	849,464



12. Fixed Assets, Net

Movement in fixed assets, net during the year is summarized as follows:

Description	Cost			Accumulated Depreciation				Net Book Value		
	Balance as at 1/1/2016	Additions / Transfers during the year	Disposals	Balance as at 31/12/2016	Balance as at 1/1/2016	Charged for the year	Disposals	Balance as at 31/12/2016	31/12/2016	31/12/2015
Land	1,854	-	(1,854)	-	-	-	-	-	-	1,854
Buildings and improvements	58,813	715	(5,016)	54,512	(14,846)	(4,693)	4,058	(15,481)	39,031	43,967
* Fleet and equipment	16,990,419	1,784,602	(71,250)	18,703,771	(4,253,169)	(781,654)	17,989	(5,016,834)	13,686,937	12,737,250
Containers and trailers	34,350	-	(4,879)	29,471	(34,096)	-	4,877	(29,219)	252	254
Furniture and fixtures	10,881	625	-	11,506	(5,914)	(1,367)	-	(7,281)	4,225	4,967
Tools and office equipment	3,932	293	(49)	4,176	(3,604)	(133)	46	(3,691)	485	328
Motor vehicles	2,241	2,213	-	4,454	(1,481)	(241)	-	(1,722)	2,732	760
Computer equipment	61,370	2,374	(45)	63,699	(54,054)	(2,626)	42	(56,638)	7,061	7,316
Container yard facilities	11,987	2,448	-	14,435	(10,514)	(341)	-	(10,855)	3,580	1,473
Others	687	4	(229)	462	(585)	-	123	(462)	-	102
Total	17,176,534	1,793,274	(83,322)	18,886,486	(4,378,263)	(791,055)	27,135	(5,142,183)	13,744,303	12,798,271

*Included in fleet and equipment are VLCCs, petrochemical carriers and dry bulk carriers financed by banks and pledged to the lending banks (Note 16).

14. Ships Under Construction and Others

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

	2016		
	The Company	National Chemical Carriers	Total
Beginning Balance	1,099,901	-	1,099,901
Additions	165,289	162,545	327,834
Transferred to fixed assets	(29,625)	(162,545)	(192,170)
Ending Balance	1,235,565	-	1,235,565

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

	2015		
	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 May 21, 2015, and June 30, 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 23). 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 October 26, 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 VLCC was received on December 29, 2015 and the other one was received on January 7, 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 December 24, 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 January 19, 2016 and the other one was received on January 20, 2016. The ownership of the two VLCC was transferred to Bahri's Company fleet.

The Company signed on February 28, 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 March 10, 2016 and the ownership of the VLCC was transferred to Bahri's company fleet.

The National Chemical Carriers Company (a 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 March 8, 2016 and April 6, 2016. The ownership of the tankers was transferred to National Chemical Carriers Company's fleet.



15. Accounts Payable and Accruals

Accounts payable and accruals comprise the following at December 31:

	2016	2015
Trade payables	546,951	789,616
Accrued expenses	170,789	111,619
Value of sold shares (related to previous shareholders)	21,619	21,691
Others	7,902	5,400
	747,261	928,326

16. Murabaha, Sukuk, and Long-Term Financing

The Group has signed various short Murabaha financing agreements on June 22, 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 July 30, 2015 after the approval of the General Assembly on April 1, 2015

for the issuance of tradable debt instruments which include Sukuk and bonds.

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

2016				
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)	(493,053)	(1,001,146)	-
Net non-current portion of Murabaha, Sukuk, and long term financing	6,739,678	2,005,764	8,745,442	-

16. Murabaha, Sukuk, and Long-Term Financing - Continued

2016

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, 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 July 30, 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, the net book value as of December 31, 2016 amounted to SR 6.45 billion (2015: SR 4.51 billion).

The aggregate maturities of the outstanding financing as at December 31, are as follows:

	2016	2015
Within one year	1,001,146	547,016
From 1 year to 5 years	2,901,463	1,552,447
More than 5 years	5,843,979	5,953,400
	9,746,588	8,052,863

17. Earnings Per Share and Dividends

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

The Board of Directors decided in its meeting held on December 15, 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 December 31, 2016, which amounts to SR 2.5 per share, and represents 25% of the share par value. The dividends was distributed on January 31, 2017 after the General Assembly approval on January 16, 2017.

The General Assembly has approved in its meeting held on April 6, 2016 the distribution of cash dividends of SR 984.38 to the shareholders,

amounting to SR 2.5 per share for the year ended December 31, 2015. The dividends was distributed on April 21, 2016.

On April 1, 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 December 31, 2016 amounted to SR 37.43 million (2015: SR 35.1 million).

18. Zakat and Withholding Tax

The main components of the zakat base of the Group under zakat and income tax regulations are principally comprised of shareholders' equity, provisions at the beginning of year, Murabaha financing, 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 consolidated statements of income.

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

Provision for Zakat and Withholding Tax

Following is the movement in provision for zakat and withholding tax during the year ended December 31:

	2016	2015
Provision for zakat and withholding tax at the beginning of the year	296,811	142,898
Provision for zakat for the year	49,316	71,010
(Reversal of) provision for withholding tax for the year	(92,843)	110,344
Payments during the year	(33,731)	(27,441)
Provision for zakat and withholding tax at the end of the year	219,553	296,811

18. Zakat and Withholding Tax - Continued

The Company's Zakat and Tax status

The Company has filed its zakat returns all years up to 2015. The General Authority of Zakat and Tax (the "GAZT") has issued zakat assessments on the Company for the years from 2001 to 2007, claiming additional zakat liability amounting to SR 22 million. The Company filed an appeal with the GAZT on certain items of these assessments and the basis of its treatments within the statutory prescribed deadline. The appeal was accepted in form.

The second Preliminary Zakat and Tax Appeal Committee ("PTAC") has issued its ruling, upholding certain items of the appeal. The Company has appealed before Tax Appellate Committee on appealed items not upheld by the PTAC, which is still pending. An adequate provision has been made in this respect. The zakat assessments for the years 2008 to 2015 are still under review by the GAZT.

Provision for the withholding tax has been recalculated and reduced by SR 150 million, per the GAZT letter obtained during this year advising that tax should not be withheld on shipping operations' payments made by the Company to non-residents

parties, since they are withheld and paid by another party.

Zakat and Tax status for National Chemical Carriers Company

National Chemical Carriers Company has filed its zakat returns all years up to 2015. The General Authority of Zakat and Tax (the "GAZT") has issued zakat assessments on the subsidiary company for the years from 2009 to 2012, claiming additional zakat liability amounting to SR 43 million, in which the subsidiary company filed an appeal with the GAZT on certain items of these assessments and the basis of its treatments within the statutory prescribed deadline. The appeal is still pending and adequate provision has been made in this respect.

Zakat and Tax status for Bahri Dry Bulk

Bahri Dry Bulk has filed its zakat returns for the years up to 2015, and 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.

19. Other Liabilities

This item represents the total amounts received from one of the ships building companies as at 31 December 2016 and 2015 against charging this company with repair costs of the tanks related to the six vessels built for the National Chemical Carrier Company (subsidiary). Therefore, it was agreed to charge the ships building company an amount of SR 6.12 million for each

ship. Maintenance was conducted for one of the vessels during the year 2013, and during the year ended 2016 maintenance was conducted for the 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 22).

20. Related Party Transactions

During the ordinary course of business, the Group transacts with related parties.

The details of such transactions during the year are as follows:

	2016	2015
Operating Revenues	3,447,802	4,251,946

Balances of such transactions as at December 31 are as follows:**Amounts due from related parties shown under trade receivables are as follows:**

	2016	2015
ARAMCO (shareholder)	366,498	364,344
International Shipping and Transportation Company (affiliate)	5,618	14,505

21. General and Administrative Expenses**General and administrative expenses for the year ended December 31 comprises the following:**

	2016	2015
Employees' salaries and benefits	81,766	103,060
Professional, legal, and consultation fees	23,333	21,084
Depreciation	2,111	4,918
Amortization of prepaid expenses and others	180	38,414
(Reversal of) provision for doubtful debts (note 5)	(23,877)	31,027
Others	29,136	17,986
	112,649	216,489

22. Other Income, Net**Other income, net for the year ended 31 December comprises the following:**

	2016	2015
Vessels maintenance settlement (note 19)	27,813	-
Net gain from investments	18,955	3,081
Increase recoveries from insurance claims	1,363	561
(Losses) gains from sale of fixed asset	(32,942)	5,107
Others	2,259	1,928
	17,448	10,677

23. Capital Contingent Liabilities

The Company has capital commitment related to the building of ten VLCCs amounting to SR 2.35 billion as of December 31, 2016 (2015: SR 2.49 billion), in addition to capital commitment amounting to SR 270 million related to the purchase of used VLCC and capital commitment amounting to SR 580 million related to the purchase of two used VLCC as of December 31, 2015 (note 14).

The Group has outstanding letters of guarantee of SR 298.06 million as at

December 31, 2016 (2015: SR 297.45 million) issued during the Group's 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 consolidated financial position.



24. Segmental Information

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

2016					
	Oil Transportation*	Petrochemical Transportation	General Cargo Transportation	Dry Bulk Transportation	Total
Operating revenues	4,876,993	774,148	866,492	271,156	6,788,789
Bunker cost	(658,782)	(72,030)	(53,993)	(20,894)	(805,699)
Other operating expenses	(2,854,128)	(527,852)	(598,035)	(197,588)	(4,177,603)
Gross operating income before bunker subsidy	1,364,083	174,266	214,464	52,674	1,805,487
Bunker subsidy	117,564	4,525	12,169	-	134,258
Gross operating income	1,481,647	178,791	226,633	52,674	1,939,745

2015

	Oil Transportation*	Petrochemical Transportation	General Cargo Transportation	Dry Bulk Transportation	Total
Operating revenues	5,731,740	774,610	843,110	114,558	7,464,018
Bunker cost	(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

*Operating revenues include an amount of SR 3.35 billion for the year ended December 31, 2016 (2015: SR 3.96 billion) representing the Group's total revenues from one customer (ARAMCO - shareholder). This amount represents more than 10 % of the Group's operating revenues (note 20).

24. Segmental Information - Continued

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

2016						
	Oil Transportation*	Petrochemical Transportation	General Cargo Transportation	Dry Bulk Transportation	Shared Assets and Liabilities*	Total
Assets	11,835,619	3,935,243	1,978,636	715,675	2,868,237	21,333,410
Liabilities	6,029,921	2,324,146	1,077,153	387,928	1,003,320	10,822,468

2015

	Oil Transportation*	Petrochemical Transportation	General Cargo Transportation	Dry Bulk Transportation	Shared Assets and Liabilities*	Total
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 and not concentrated in a specific geographic area.

25. Financial Instruments and Risk Management

The Group's activities expose to a variety of financial risks: market risk (including currency risk, fair value risk, and cash flow commission rate exposure and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

Financial instruments carried on the balance sheet principally include cash and cash equivalents, investments, receivables, financing, payables, certain accrued expenses and derivative financial instruments.

Financial assets and liabilities are offset and net amounts are reported

in the consolidated financial statements when the Group has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and liability simultaneously.

Risk management is carried out by senior management. The most important types of risk are as follows:

Commission rate risk

Commission rate risk is the risk that the value of financial instruments will fluctuate due to 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



25. Financial Instruments and Risk Management - Continued

manages its exposure to commission rate risk by continuously monitoring movements in commission rates.

Credit risk

Credit risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. The Group seeks to manage its credit risk with respect to banks by only dealing with reputable banks and with respect to customers by setting credit limits for individual customers, monitoring outstanding receivables and ensuring close follow-ups. At 31 December 2016, trade accounts receivable include balances totaling 323.15 million (2015: SR 306.20 million) due from Government and quasi-Government institutions.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. The Group manages its liquidity risk by ensuring that bank facilities are available.

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Group is subject to fluctuations in foreign exchange rates in the normal course of its business. The Group transactions are mainly dominated in Saudi Riyals, UAE Dirhams and US Dollars. The balance in UAE Dirhams and US Dollars are not considered to represent significant currency risk, as these currencies are pegged to the Saudi Riyal.

Fair value

Fair value is the amount used to exchange assets or to settle liabilities between knowledgeable willing parties on an arms-length basis. As the consolidated financial statements of the Group are compiled based on the historical cost convention, except for the investments in financial instruments and derivative financial instruments at fair value, differences might occur between carrying value and fair value estimates. The management believes that the fair values of financial assets and liabilities are not materially differing from their carrying values.

26. Derivatives Financial Instruments

The Group has derivative financial instruments including commission rate swaps agreements. The nominal amount of these financial instruments is SR 96.27 million as of December 31, 2016 (2015: SR 31.78 million) for total loan of SR 4.09 billion (2015: SR 1.53 billion). The unrealized losses from

the revaluation of such agreements for the year amounted to SR 10.93 million (2015: SR 6.34 million), and these losses are included in the Financial charges. These agreements are revaluated in a regular basis to recorded any unrealized gains or losses, if any.



27. Approval of the Consolidated Financial Statements

The board of directors has approved the consolidated financial statements for the year ended December 31, 2016

on its meeting held on Jumad Thani 1, 1438H (corresponding to February 28, 2017).

28. Reclassification

Certain comparative figures of the previous year have been reclassified

to conform to the current year presentation.





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