



**THE NATIONAL SHIPPING
COMPANY OF SAUDI ARABIA**
(A Saudi Joint Stock Company)
Interim Condensed Consolidated
Financial Statements (Unaudited)

For the three and six months periods ended at
30 June 2017



THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA
(A Saudi Joint Stock Company)
Interim condensed consolidated financial statements
For the six months period ended 30 June 2017

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**Independent auditors' review report on the interim condensed consolidated financial statements to the shareholders of
The National Shipping Company of Saudi Arabia
(A Saudi Joint Stock Company)**

Introduction:

We have reviewed the accompanying interim condensed consolidated statement of financial position of The National Shipping Company of Saudi Arabia (A Saudi Joint Stock Company) ("the Company") and its subsidiaries (collectively referred to as "the Group") as at 30 June 2017, and the related interim condensed consolidated statements of income and comprehensive income for the three and six month periods ended 30 June 2017, and the related interim condensed consolidated statements of changes in equity and cash flows for the six month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review:

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" endorsed in the Kingdom of Saudi Arabia. A review of interim financial statements consists of making inquiries, primarily to persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion:

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 endorsed in the Kingdom of Saudi Arabia.

for Ernst & Young



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



Riyadh: 1 Dhul-Qadah 1438H
(24 July 2017)

THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA
(A Saudi Joint Stock Company)
Interim condensed consolidated statement of financial position
As at 30 June 2017

	Note	30 June 2017 SAR'000	31 December 2016 SAR'000
ASSETS			
NON-CURRENT ASSETS			
Property and equipment	6	13,649,796	13,661,896
Ships under construction	7	1,601,395	1,235,565
Intangible assets		745,829	772,064
Investment in an associate		1,166,785	1,123,848
Receivables from finance lease	8	181,148	207,498
Other investments		23,616	23,616
TOTAL NON-CURRENT ASSETS		17,368,569	17,024,487
CURRENT ASSETS			
Receivables from finance lease - current portion	8	48,824	44,232
Inventories		264,967	240,675
Trade receivables, net		1,572,945	1,091,606
Prepayments and other current assets		445,167	376,139
Murabaha and short term deposits		461,310	1,908,262
Cash and cash equivalents		157,040	171,731
TOTAL CURRENT ASSETS		2,950,253	3,832,645
TOTAL ASSETS		20,318,822	20,857,132
EQUITY AND LIABILITIES			
EQUITY			
Share capital		3,937,500	3,937,500
Statutory reserve	12	2,373,804	2,373,804
Other reserves		(6,694)	(6,694)
Retained earnings	16	2,921,713	3,373,318
Equity attributable to equity holders of the parent		9,226,323	9,677,928
Non-controlling interests		418,413	409,169
TOTAL EQUITY		9,644,736	10,087,097
NON-CURRENT LIABILITIES			
Sukuk and long term loans	9	8,578,150	8,663,558
Employees' end of service benefits	10	68,393	65,482
TOTAL NON-CURRENT LIABILITIES		8,646,543	8,729,040
CURRENT LIABILITIES			
Long term loans - current portion	9	1,028,707	1,001,146
Trade and other payables		738,518	765,578
Other current liabilities		56,098	54,718
Provision for zakat and tax	14	204,220	219,553
TOTAL CURRENT LIABILITIES		2,027,543	2,040,995
TOTAL LIABILITIES		10,674,086	10,770,035
TOTAL EQUITY AND LIABILITIES		20,318,822	20,857,132

Chief Financial Officer

Chief Executive Officer

Authorized Board Member

The accompanying notes 1 to 20 form an integral part of these interim condensed consolidated financial statements.

THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA
(A Saudi Joint Stock Company)
Interim condensed consolidated statement of income
For the six months period ended 30 June 2017

	Note	For the three-month period ended 30 June		For the six-month period ended 30 June	
		2017	2016	2017	2016
		SAR'000	(note 15) SAR'000	SAR'000	(note 15) SAR'000
Revenues		1,390,830	1,835,251	3,328,669	3,792,987
Operating costs		(1,172,954)	(1,311,418)	(2,667,215)	(2,551,733)
Gross profit before bunker subsidy		217,876	523,833	661,454	1,241,254
Bunker subsidy		49,622	31,561	83,836	61,271
Gross profit		267,498	555,394	745,290	1,302,525
General and administrative expenses		(36,744)	(32,442)	(76,033)	(69,900)
Other income (expenses), net		7,353	21,987	11,877	(11,685)
Income from operations		238,107	544,939	681,134	1,220,940
Finance costs		(83,416)	(48,930)	(145,109)	(113,661)
Share in results of an associate		23,728	38,758	42,937	76,749
Income before zakat and tax		178,419	534,767	578,962	1,184,028
Zakat and tax		(23,140)	(34,886)	(44,443)	(68,999)
Net income for the period		155,279	499,881	534,519	1,115,029
Net income for the period attributable to:					
Equity holder of the parent company		153,909	487,101	532,770	1,100,025
Non-controlling interests		1,370	12,780	1,749	15,004
		155,279	499,881	534,519	1,115,029
Earnings per share (Saudi Riyal)	13				
Basic		0.39	1.24	1.35	2.79
Diluted		0.39	1.24	1.35	2.79

Chief Financial Officer

Chief Executive Officer

Authorized Board Member

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THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA
(A Saudi Joint Stock Company)
Interim condensed consolidated statement of comprehensive income
For the six months period ended 30 June 2017

	For the three-month period ended 30 June		For the six-month period ended 30 June	
	2017	2016 (note 15)	2017	2016 (note 15)
	SAR'000	SAR'000	SAR'000	SAR'000
Net income for the period	155,279	499,881	534,519	1,115,029
Items not to be reclassified to interim condensed consolidated statement of income in subsequent periods				
Re-measurement gains on defined benefit plans	-	1,091	-	2,183
Total comprehensive income for the period	155,279	500,972	534,519	1,117,212
Total comprehensive income attributable to:				
Equity holder of the parent company	153,909	488,192	532,770	1,102,208
Non-controlling interests	1,370	12,780	1,749	15,004
	155,279	500,972	534,519	1,117,212

Chief Financial Officer

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THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA
(A Saudi Joint Stock Company)
Interim condensed consolidated statement of cash flows
For the six months period ended 30 June 2017

	<u>30 June 2017</u> SAR'000	<u>30 June 2016</u> SAR'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the period	534,519	1,115,029
Adjustments for:		
Depreciation of property and equipment	383,768	376,247
Amortization of intangible assets	26,235	24,539
Provision for doubtful receivables	13,593	1,012
Employees' end of service benefits	5,817	1,301
Finance costs	145,109	113,661
Share in results of an associate	(42,937)	(76,749)
(Gain)/loss on sale of property and equipment	(4,557)	33,152
Zakat and tax expenses	44,443	68,999
	<u>1,105,990</u>	<u>1,657,191</u>
Changes in:		
Inventories	(24,292)	(14,665)
Trade receivables	(494,932)	(8,332)
Prepayments and other current assets	(69,028)	(4,270)
Receivables from finance lease	21,758	17,781
Trade and other payables	(78,915)	(214,868)
Other current liabilities	(2,660)	(36,116)
	<u>(648,069)</u>	<u>(260,470)</u>
Cash generated from operating activities	457,921	1,396,721
Finance costs paid	(93,254)	(74,818)
Zakat and tax paid	(59,776)	(25,195)
Board members' compensation	-	(1,800)
Paid employees' end of service benefits	(2,906)	(239)
Net cash flows from operating activities	301,985	1,294,669
CASH FLOWS FROM INVESTING ACTIVITIES		
Intangible assets	-	26,625
Non-controlling interests	7,495	-
Proceeds from sale of property and equipment	4,557	26,805
Additions of property and equipment	(15,609)	(1,794,866)
Ships under construction	(721,889)	(5,574)
Net cash flows used in investing activities	(725,446)	(1,747,010)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short term loans	-	381,688
Proceeds from long term loans	283,592	1,273,624
Repayment of long term loans	(341,439)	(200,317)
Dividends paid	(980,335)	(980,287)
Net cash flows (used in) from financing activities	(1,038,182)	474,708
Net (decrease) increase in cash and cash equivalents	(1,461,643)	22,367
Cash and cash equivalents at the beginning of the period	2,079,993	1,239,862
Cash and cash equivalents at end of the period	618,350	1,262,229
Major non-cash transactions:		
Ships under construction transferred to property and equipment	356,059	29,625

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THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA
(A Saudi Joint Stock Company)
Interim condensed consolidated statements of changes in equity
For the six months period ended 30 June 2017

SAR'000	Attributable to equity holders of the parent company					Non-controlling interests	Total equity
	Share capital	Statutory reserve	Other reserves	Retained earnings	Equity attributable to equity holders of the parent company		
Six months ended 30 June 2016							
Balance as at 1 January 2016	3,937,500	2,197,890	(11,061)	2,817,536	8,941,865	377,314	9,319,179
Total comprehensive income for the period	-	-	2,183	1,100,025	1,102,208	15,004	1,117,212
Transferred to statutory reserve	-	111,617	-	(111,617)	-	-	-
Dividends paid (note 16)	-	-	-	(984,375)	(984,375)	-	(984,375)
Board members' compensation	-	-	-	(1,800)	(1,800)	-	(1,800)
Balance as at 30 June 2016	3,937,500	2,309,507	(8,878)	2,819,769	9,057,898	392,318	9,450,216
Six months ended 30 June 2017							
Balance as at 31 December 2016	3,937,500	2,373,804	(6,694)	3,373,318	9,677,928	409,169	10,087,097
Total comprehensive income for the period	-	-	-	532,770	532,770	1,749	534,519
Non-controlling interests	-	-	-	-	-	7,495	7,495
Dividends paid (note 16)	-	-	-	(984,375)	(984,375)	-	(984,375)
Balance as at 30 June 2017	3,937,500	2,373,804	(6,694)	2,921,713	9,226,323	418,413	9,644,736

Chief Financial Officer

Chief Executive Officer

Authorized Board Member

The accompanying notes 1 to 20 form an integral part of these interim condensed consolidated financial statements.

THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA
(A Saudi Joint Stock Company)
Notes to the interim condensed consolidated financial statements
For the six months period ended 30 June 2017

1. THE COMPANY, ITS SUBSIDIARIES AND ITS BUSINESS DESCRIPTION

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

The Company 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, logistics and dry bulk transportation. The Group is also engaged in the ownership of lands, properties inside or outside the Kingdom, ownership of shares in other existing companies or merges with them and participates with others in establishing companies with similar activities or complementary activities.

The Company’s capital consists of 393,750,000 shares as of 30 June 2017, 31 December 2016. The par value per share is SAR 10.

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

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

The associated company that is not consolidated into these interim condensed consolidated financial statements is as follows:

Associate	Accounting method	Date of incorporation	Ownership %		Principal Activity	Location
			2017	2016		
Petredec Limited *	Equity accounting	1980	30.30	30.30	Liquefied petroleum gas transportation	Bermuda

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

Group’s Fleet: As at 30 June 2017, the Group owns eighty four vessels (31 December 2016: eighty three vessels) operating in various sectors as the following:

Crude oil transportation sector: Consists of thirty seven very large crude carriers (VLCCs), out of which thirty six are operating in the spot market, while one tanker is chartered to ARAMCO Trading Company. The Group also owns five product tankers all of which are also chartered to ARAMCO Trading Company.

THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA

(A Saudi Joint Stock Company)

Notes to the interim condensed consolidated financial statements – continued

For the six months period ended 30 June 2017

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

Chemicals transportation sector: This sector is fully operated by National Chemical Carriers Company (a 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 30 January 2009, with ODFjell SE (a trading partner).
- Fourteen tankers that are operated by the subsidiary in the spot market.
- Thirteen tankers are chartered: 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).

Logistics sector: Consists of six RoCon vessels operate on commercial lines between North America and Europe, and the Middle East and the Indian Subcontinent.

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

2. BASIS OF PREPARATION

2.1. Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard, "Interim Financial Reporting" ("IAS 34") as endorsed in KSA. The Group prepared its first interim condensed consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") for the three months period ended on 31 March 2017 as part of the period covered by the first annual financial statements prepared in accordance with IFRS as endorsed in KSA and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants ("SOCPA"), and accordingly International Financial Reporting Standard, "First-time Adoption of International Financial Reporting Standards" ("IFRS 1") as endorsed in KSA has been applied in the first quarter of the current year. Refer to note 15 for information on the first time adoption of IFRS as endorsed in KSA by the Group.

The interim condensed consolidated financial statements do not include all the information and disclosures required in annual financial statements to be prepared in accordance with IFRS as endorsed in KSA and other standards and pronouncements that are issued by the SOCPA, which would be produced for the year ending 31 December 2017.

2.2. Preparation of financial statements

(i) Historical cost convention

The interim condensed consolidated financial statements have been prepared on a historical cost basis, except for certain financial assets and liabilities below that are measured at fair value basis in the interim condensed consolidated statement of financial position:

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

(ii) Functional and presentation currency

These interim condensed consolidated financial statements are presented in Saudi Riyal ("SAR"), which is the Group's functional and presentation currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated. These financial statements comprise the interim condensed consolidated statement of financial position, statement of income, statement of comprehensive income, statement of cash flows, statement of changes in equity and notes to the interim condensed consolidated financial statements of the Group include assets, liabilities and the results of the operations of the Group and its subsidiaries, as set out in note (1).

THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA

(A Saudi Joint Stock Company)

Notes to the interim condensed consolidated financial statements – continued

For the six months period ended 30 June 2017

3. BASIS OF CONSOLIDATION

The Company and its subsidiaries are collectively referred to as the “Group”. Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control commences until the date on which control ceases. The Group accounts for the business combination using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identified net assets acquired. The excess of the cost of acquisition and fair value of Non – Controlling Interest (“NCI”) over the fair value of the identifiable net assets acquired is recorded as goodwill in the interim condensed consolidated statement of financial position. NCI are measured at their proportionate share of the acquiree’s identifiable net assets at the date of acquisition.

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

The portion of profit or loss and net assets not controlled by the Group are presented separately in the interim condensed consolidated statement of income and within equity in the interim condensed consolidated statement of financial position. Intra-group balances and transactions, and any unrealized income and expenses arising from intragroup transactions, are eliminated. Accounting policies of subsidiaries are aligned, where necessary, to ensure consistency with the policies adopted by the Group. The Company and its subsidiaries have the same reporting periods except Petredec limited (an associate) as explained in note 1.

4. SIGNIFICANT ACCOUNTING POLICIES

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

New standards, amendment to standards and interpretations

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

a. Disclosure initiative (amendments to IAS 7)

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

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

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

c. Standards issued but not yet effective

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

(1) IFRS 9 Financial instruments

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

THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA

(A Saudi Joint Stock Company)

Notes to the interim condensed consolidated financial statements – continued

For the six months period ended 30 June 2017

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

c. Standards issued but not yet effective (continued)

(1) IFRS 9 Financial instruments (continued)

The Group plans to adopt the new standard on the required effective date. Overall, the Group expects no significant impact on its statement of financial position and equity.

Classification and measurement

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

The equity shares in non-listed companies are intended to be held for the foreseeable future. The Group expects to apply the option to present fair value changes in OCI, and, therefore, believes the application of IFRS 9 would not have a significant impact. If the Group were not to apply that option, the shares would be held at fair value through income statement, which would increase the volatility of recorded income statement.

The Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, the Group expects that these will continue to be measured at amortized cost under IFRS 9. However, the Group will analyze the contractual cash flow characteristics of those instruments in more detail before concluding whether all those instruments meet the criteria for amortized cost measurement under IFRS 9.

Impairment

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under “IAS 39 - Financial Instruments: Recognition and Measurement”. It applies to financial assets classified at amortized cost, debt instruments measured at FVOCI, contract assets under “IFRS 15 – Revenue from Contracts with Customers”, lease receivables, loan commitments and certain financial guarantee contracts. The Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model.

Hedge accounting

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group’s risk management practices. As a general rule, more hedge relations might be eligible for hedge accounting, as the standard introduces a more principles-based approach.

Disclosure

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

(2) IFRS 15 Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs. IFRS 15 is effective for annual periods beginning on or after 1 January 2018. It is not going to be a significant impact on Group’s revenue recognition policy.

THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA
(A Saudi Joint Stock Company)

Notes to the interim condensed consolidated financial statements – continued
For the six months period ended 30 June 2017

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

c. Standards issued but not yet effective (continued)

(3) IFRS 16 Leases

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

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

Determining whether an arrangement contains a lease

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

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

Transition

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

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

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

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

- IFRS 1 First-time Adoption of IFRS - Outdated exemptions for first-time adopters of IFRS are removed. Effective for annual periods beginning on or after 1 January 2018.
- IAS 28 Investments in Associates and Joint Ventures - A venture capital organization, or other qualifying entity, may elect to measure its investments in an associate or joint venture at fair value through profit or loss. This election can be made on an investment-by-investment basis.

A non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries. This election can be made separately for each investment entity associate or joint venture. Effective retrospectively for annual periods beginning on or after 1 January 2018; early application is permitted.

e. Other amendments

The following new or amended standards are not yet effective and neither expected to have a significant impact on the Group's consolidated financial statements.

- Classification and measurement of Share-based Payment Transactions (Amendments to IFRS 2).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4) amendments respond to industry concerns about the impact of differing effective dates.
- Transfers of Investment Property (Amendments to IAS 40) – A property asset is transferred when, and only when, there is evidence of an actual change in its use.
- IFRIC 22 Foreign Currency Transactions and Advance Consideration - clarifies the transaction date used to determine the exchange rate.

THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA
(A Saudi Joint Stock Company)

Notes to the interim condensed consolidated financial statements – continued
For the six months period ended 30 June 2017

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.2. Significant accounting judgments, estimates and assumptions

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

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

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

- Determining the residual values and useful lives of property and equipment
- Provisions
- Actuarial estimate as referred in note 15.1 (iv)
- Valuation of derivatives
- Impairment
- Fair value measurement of financial instruments.

4.3. Cash and cash equivalents

Cash and cash equivalents in the interim condensed consolidated statement of financial position comprise cash at banks, short-term deposits, and Murabaha with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

4.4. Inventories

Inventories are measured at the lower of cost or net realizable value. Cost of the used inventories are measured by using the First-in-First-out method including bunker inventory. Vessels spare parts and other consumables are charged to expenses on purchase.

Cost includes the net purchase price (after trade discounts) and any shipping, transportation, insurance, custom duties and other direct expenses related to the acquisition of the inventory.

4.5. Investment in an associate and joint venture

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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

The results, assets and liabilities, of associates or joint ventures are incorporated in these financial statements using the equity method of accounting. Under the equity method, an investment in an associate or a joint venture is initially recognized in the interim condensed consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.5. Investment in an associate and joint venture (continued)

in the associate or joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture. If the associate or joint venture subsequently reports profits, the Group resumes recognizing its share of those profits only after its share of the profits equals the share of losses not recognized.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of associate's or joint venture's identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in interim condensed consolidated statement of income in the period in which the investment is acquired.

When a Group entity transacts with an associate or a joint venture of the Group, profits or losses resulting from the transactions with the associate or joint venture are recognized in the Group's financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

4.6. Property and equipment

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

Ships under constructions at period end includes certain assets that have been acquired but are not ready for their intended use. These assets are transferred to relevant assets categories and are depreciated once they are available for their intended use.

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

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

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

Asset class	Useful lives (in years)
Buildings and improvements	3 to 20
Fleet and equipment	6 to 25
Containers and trailers	5 to 12
Furniture and fixtures	10
Tools and office equipment	4
Vehicles	4 to 5
Computers	4 to 6
Containers yard equipment	4 to 10
Others	6 to 15

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

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.6. Property and equipment (continued)

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

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

The residual values, useful lives and methods of depreciation of property and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

4.7. Intangible assets and goodwill

Intangible Assets

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

Goodwill

Goodwill arising from an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

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

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

4.8. Receivable from finance lease

Group as a lessor

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

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

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.8. Receivable from finance lease (continued)

Group as a lessee

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

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

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

4.9. Financial Instruments

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

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition fair value plus transaction costs that are attributable to the acquisition of the financial asset.

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

Subsequent measurement

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

- a) Loans and receivables
- b) Held to maturity investments
- c) Available for sales “AFS” financial assets

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the EIR method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the interim condensed consolidated statement of income. The losses arising from impairment are recognized in the interim condensed consolidated statement of income in finance costs for loans and in cost of sales or other operating expenses for receivables.

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.9. Financial instruments (continued)

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity investments when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the EIR method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance income in the interim condensed consolidated statement of income. The losses arising from impairment are recognized in the interim condensed consolidated statement of income as finance costs.

AFS financial assets

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

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

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

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

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

Derecognition

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

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

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.9. Financial instruments (continued)

Impairment of financial assets

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

Financial assets carried at amortized cost

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

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

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

AFS financial assets

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

In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant decline' is evaluated against the original cost of the investment and 'prolonged decline' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the interim condensed consolidated statement of income – is removed from OCI and recognized in the interim condensed consolidated statement of income. Impairment losses on equity investments are not reversed through income statement; increases in their fair value after impairment are recognized in OCI.

The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.9. Financial instruments (continued)

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

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Financial liabilities at fair value through income statement

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

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

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

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

Loans and borrowings

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the interim condensed consolidated statement of income when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the interim condensed consolidated statement of income.

This category generally applies to interest-bearing loans.

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.9. Financial instruments (continued)

Derecognition

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

Offsetting of financial instruments

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

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 interim condensed consolidated statement of income. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognized, the associated gain or loss on the derivative that had previously been recognized is included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognized in the interim condensed consolidated statement of income in the same period in which the hedged item affects net income or loss.

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

4.10. Current versus non-current classification

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

- Expected to be realized or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.10. Current versus non-current classification (continued)

A liability is current when:

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

The Group classifies all other liabilities as non-current.

4.11. Revenue

Revenue from transportation

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

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

Revenues are recognized when earned over the agreed-upon period of the contract, voyage and services.

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

Revenue from pool arrangement

A subsidiary of the Group has entered into pool arrangement with ODFJell where both parties have contributed one vessel each. Net revenues and expenses for this arrangement are recognized based on occupation days of vessel.

Onerous contracts

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

Other income

Other income is recognized when earned.

4.12. Foreign currency translation

The Group's interim condensed consolidated financial statements are presented in Saudi Riyals, which is also the parent company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency.

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.13. Zakat and Tax

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

For subsidiaries outside the Kingdom of Saudi Arabia, income tax is provided for in accordance with the regulations applicable in the respective countries and is charged to the interim condensed consolidated statement of income. Provision is made for withholding tax on payments to non-resident parties and is charged to the interim condensed consolidated statement of income.

4.14. Borrowing costs

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

4.15. Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

Impairment losses of continuing operations are recognized in the interim condensed consolidated statement of income in those expense categories consistent with the function of the impaired asset, except for a property previously revalued where the revaluation was taken to OCI. In this case, the impairment is also recognized in OCI up to the amount of any previous revaluation.

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

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

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

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.16. Cash dividends to the shareholders

The Group recognizes a liability to make cash distributions to the shareholders when the distribution is authorized and the distribution is no longer at the discretion of the Company. As per the companies regulations of Saudi Arabia, a distribution is authorized when it is approved by the shareholders or when interim dividends are approved by the Board of Directors. A corresponding amount is recognized directly in equity.

4.17. Employees' benefits

The Group operates defined benefit plans, under the Saudi Arabian Labor Law applicable based on employees' accumulated periods of service at the interim condensed consolidated statements of financial position.

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

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

Past service costs are recognized in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date on which the Group recognizes related restructuring costs

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

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

4.18. Provisions

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

4.19. Contingent assets and liabilities

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

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

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.20. Earnings per share - EPS

The Group determines basic earnings per share by dividing profit or loss attributable to ordinary equity holders (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the period. For the purpose of calculating basic earnings per share, the number of ordinary shares are the weighted average number of ordinary shares outstanding during the period. The weighted average number of ordinary shares outstanding during the period is the number of ordinary shares outstanding at the beginning of the period, adjusted by the number of ordinary shares bought back or issued during the period multiplied by a time-weighting factor. The time-weighting factor is the number of days that the shares are outstanding as a proportion of the total number of days in the period; a reasonable approximation of the weighted average is adequate in many circumstances.

4.21. Statutory reserve

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

4.22. Segment reporting

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

- Transportation of oil
- Transportation of chemicals
- Logistics, and
- Transportation of dry bulk

The management approach is based on the way in which management organizes the segments within the entity for making operating decisions and in assessing performance. The Group's management at the end of every reporting period, reviews the above segments for quantitative thresholds as well as criteria for presenting the revenues and expenses for the segments.

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5. OPERATING SEGMENTS

The management approach is based on the way in which management organizes the segments within the entity for making operating decisions and in assessing performance. The Group's management at the end of every financial period, reviews the reporting segments for quantitative thresholds as well as criteria for presenting the revenues, expenses, assets and liabilities for the segments.

For management purposes, the Group is organized into business units based on its operations as it is illustrated in note 4.22.

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

	SAR'000				
2017	Oil transportation	Chemical transportation	Logistics	Dry bulk transportation	Total
Revenue	2,166,027	393,830	557,478	211,334	3,328,669
Operating costs	(1,727,432)	(341,086)	(404,691)	(194,006)	(2,667,215)
Gross profit before bunker subsidy	438,595	52,744	152,787	17,328	661,454
Bunker subsidy	74,023	4,175	5,638	-	83,836
Gross profit	<u>512,618</u>	<u>56,919</u>	<u>158,425</u>	<u>17,328</u>	<u>745,290</u>
2016	Oil transportation	Chemical transportation	Logistics	Dry bulk transportation	Total
Revenue	2,911,112	356,222	423,335	102,318	3,792,987
Operating costs	(1,864,951)	(287,693)	(323,029)	(76,060)	(2,551,733)
Gross profit before bunker subsidy	1,046,161	68,529	100,306	26,258	1,241,254
Bunker subsidy	51,801	4,156	5,314	-	61,271
Gross profit	<u>1,097,962</u>	<u>72,685</u>	<u>105,620</u>	<u>26,258</u>	<u>1,302,525</u>

The Group's vessels are operating in several parts of the world and not concentrated in a specific geographic area.

b) The following schedule illustrates the distribution of the Group's assets and liabilities according to the operating segments:

	30 June 2017	31 December 2016
	SAR'000	SAR'000
Segment assets		
Oil transportation	12,416,316	11,587,395
Chemical transportation	3,634,407	3,739,269
Logistics	2,076,273	1,841,326
Dry bulk transportation	688,691	704,737
Total	<u>18,815,687</u>	<u>17,872,727</u>
Unallocated	1,503,135	2,984,405
Total segment assets	<u>20,318,822</u>	<u>20,857,132</u>
Segment liabilities		
Oil transportation	6,145,184	6,029,921
Chemical transportation	2,203,507	2,324,146
Logistics	1,067,267	1,089,439
Dry bulk transportation	367,205	393,584
Total	<u>9,783,163</u>	<u>9,837,090</u>
Unallocated	890,923	932,945
Total segment liabilities	<u>10,674,086</u>	<u>10,770,035</u>

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6. PROPERTY AND EQUIPMENT

	SAR'000									
2017	Building and improvements	Fleet and equipment	Containers and trailers	Furniture and fixtures	Tools and office equipment	Motor vehicles	Computer equipment	Containers yard equipment	Others	Total
Cost										
At 1 January 2017	54,512	19,404,770	29,471	11,506	4,176	4,454	63,699	14,435	462	19,587,485
Additions	455	366,623	-	250	7	2,462	1,625	-	246	371,668
Disposals	-	-	(13,018)	-	-	(32)	-	-	-	(13,050)
At 30 June 2017	54,967	19,771,393	16,453	11,756	4,183	6,884	65,324	14,435	708	19,946,103
Accumulated depreciation										
At 1 January 2017	15,481	5,800,240	29,219	7,281	3,691	1,722	56,638	10,855	462	5,925,589
Charge for the period*	2,218	379,728	79	183	59	102	1,204	185	10	383,768
Disposals	-	-	(13,018)	-	-	(32)	-	-	-	(13,050)
At 30 June 2017	17,699	6,179,968	16,280	7,464	3,750	1,792	57,842	11,040	472	6,296,307
Net book value:										
As at 30 June 2017	37,268	13,591,425	173	4,292	433	5,092	7,482	3,395	236	13,649,796

* Refer to note 15.6

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6. PROPERTY AND EQUIPMENT (continued)

											SAR'000
2016	Land	Building and improvements	Fleet and equipment	Containers and trailers	Furniture and fixtures	Tools and office equipment	Motor vehicles	Computer equipment	Containers yard equipment	Others	Total
Cost											
At 1 January 2016	1854	58,813	17,494,356	34,350	10,881	3,932	2,241	61,370	11,987	687	17,680,471
Additions	-	715	1,981,664	-	625	293	2,213	2,374	2,448	4	1,990,336
Disposals	(1854)	(5,016)	(71,250)	(4,879)	-	(49)	-	(45)	-	(229)	(83,322)
At 31 December 2016	-	54,512	19,404,770	29,471	11,506	4,176	4,454	63,699	14,435	462	19,587,485
Accumulated depreciation											
At 1 January 2016	-	14,846	4,912,708	34,096	5,914	3,604	1,481	54,054	10,514	585	5,037,802
Charge for the period	-	4,693	905,521	-	1,367	133	241	2,626	341	-	914,922
Disposals	-	(4,058)	(17,989)	(4,877)	-	(46)	-	(42)	-	(123)	(27,135)
At 31 December 2016	-	15,481	5,800,240	29,219	7,281	3,691	1,722	56,638	10,855	462	5,925,589
Net book value:											
As at 31 December 2016	-	39,031	13,604,530	252	4,225	485	2,732	7,061	3,580	-	13,661,896

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7. SHIPS UNDER CONSTRUCTION

Ships under construction for the period ended 30 June 2017 amounted to SAR 1,601 million (31 December 2016: SAR 1,236 million).

- a) Ships under construction as at 30 June 2017, and 31 December 2016 are mainly related to advance payments made towards constructions of new vessels to Korean company Hyundai Samho Heavy Industries (South Korea).
- b) The Group signed contracts on 21 May 2015 and 30 June 2015 with the Korean company Hyundai Samho Heavy Industries for building ten VLCCs for a total amount of SAR 3.56 billion (USD 948.90 million), which will be received during the current year and 2018. The Group paid an advance payment of SAR 1,068 million (USD 284.69 million). The Group received a vessel during the first quarter of the current year for a total amount of SAR 356 million.

8. RECEIVABLES FROM FINANCE LEASE

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

	30 June 2017	31 December 2016
	SAR'000	SAR'000
Lease receivables	121,557	157,860
Unguaranteed residual value at the end of the contact	148,875	148,875
Gross investment in finance lease	270,432	306,735
Unearned lease finance income	(40,460)	(55,005)
Net investment in finance leases	229,972	251,730
Current portion	48,824	44,232
Non-current portion	181,148	207,498
	229,972	251,730

The maturity of gross investment in finance lease contracts (i.e. minimum lease payments (MLPs) and net investment in finance lease contracts (i.e. present value of MLPs) are as follows:

	MLPs 30 June 2017	PV of MLPs 30 June 2017	MLPs 31 December 2016	PV of MLPs 31 December 2016
SAR'000				
Less than one year	75,600	48,824	73,564	44,232
More than one year but less than five years	194,832	181,148	233,171	207,498
Net investment in finance leases	270,432	229,972	306,735	251,730

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9. SUKUK AND LONG TERM LOANS

	Note	30 June 2017	31 December 2016
		SAR'000	SAR'000
Sukuk	9.1	3,900,000	3,900,000
Murabaha loans	9.2	5,601,844	5,646,869
Commercial loans	9.3	181,563	199,719
Total Sukuk and long term loans		9,683,407	9,746,588
Less: Current portion of long term loans		1,028,707	1,001,146
Non-current portion of Sukuk and long term loans		8,654,700	8,745,442
Less: prepaid finance charges		(76,550)	(81,884)
Net non-current portion of Sukuk and long term loans		8,578,150	8,663,558

9.1. Sukuk

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

9.2. Murabaha loans

The Group obtained long term loan during period ended 30 June 2017 amounting SAR 284 million (31 December 2016: SAR 2,290 million). The existing loans are secured by promissory notes and mortgages against vessels. These loans are usually repayable in 10 years on quarterly and semi-annual basis. These loans carry commission at normal commercial rates. Balance of loans against which profit to be paid based on LIBOR at the end of 30 June 2017 is SAR 3,137 million (31 December 2016: SAR 3,240 million) and balance of loans against which profit to be paid based on SIBOR at the end of 30 June 2017 is SAR 2,465 million (31 December 2016: SAR 2,407 million). Balance in prepaid financing account related to Murabaha loans at the end of 30 June 2017 is SAR 67 million (31 December 2016: SAR 72 million).

9.3. Commercial loans

The Group did not obtain any long term conventional loan during quarter ended 30 June 2017 (31 December 2016: Nil). The existing loans are secured by mortgages against vessels. This loan is repayable in 10 years on semi-annual basis carrying special commission at LIBOR plus normal commercial margin. Balance of loans against which profit to be paid based on LIBOR at the end of 30 June 2017 is SAR 182 million (31 December 2016: SAR. 200 million).

10. EMPLOYEES' END OF SERVICE BENEFITS

	30 June 2017	31 December 2016
	SAR'000	SAR'000
Defined benefit net obligation – opening balance	65,482	65,349
Current service cost	5,177	8,439
Interest cost	640	2,485
Benefit paid	(2,906)	(6,424)
Actuarial gains	-	(4,367)
Defined benefit net obligation – closing balance	68,393	65,482

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10. EMPLOYEES' END OF SERVICE BENEFITS (continued)

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

	30 June 2017	31 December 2016
Discount rate	4.00%	4.00%
Future salary increases	5.50%	5.50%
Life expectation for retirement	60 Years	60 Years

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

	30 June 2017	31 December 2016
	SAR'000	SAR'000
Discount rate		
0.5 % increase	62,248	62,311
0.5% decrease	68,755	68,913
Future salary increases		
1% increase	72,084	72,776
1% decrease	59,514	59,146
Life expectation for retirement		
increase by 1 year	65,444	65,552
decrease by 1 year	65,302	65,410

The sensitivity analysis above has been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

11. RELATED PARTIES' TRANSACTIONS

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

Transactions' amounts:

Operating revenues that generated from related parties during the period ended:

	30 June 2017	30 June 2016
	SAR'000	SAR'000
ARAMCO and its subsidiaries - <i>shareholder</i>	1,447,452	1,956,497
International Shipping and Transportation Co. Ltd. - <i>affiliate</i>	168,859	147,978
Arabian Agricultural Services Company (ARASCO) - <i>affiliate</i>	56,038	56,311

Transactions' balances:

Amounts due from related parties and shown under trade receivables are as follows:

	30 June 2017	31 December 2016
	SAR'000	SAR'000
ARAMCO and its subsidiaries - <i>shareholder</i>	693,661	366,498
International Shipping and Transportation Co. Ltd. - <i>affiliate</i>	377	30,997

Compensation to key management personnel:

	30 June 2017	30 June 2016
	SAR'000	SAR'000
Salaries and compensations	7,039	6,389
Termination benefits	2,197	4,074
Total compensations	9,236	10,463

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12. STATUTORY RESERVE

	30 June 2017	31 December 2016
	SAR'000	SAR'000
Transferred from net income	884,701	884,701
Shares premium	1,489,103	1,489,103
	2,373,804	2,373,804

13. EARNINGS PER SHARE

	30 June 2017	30 June 2016
	SAR'000	SAR'000
Income for the period	532,770	1,100,025
Average number of share outstanding during the period	393,750	393,750
Earnings per share - Basic (Saudi Riyals)	1.35	2.79

Earnings per share is calculated based on the number of shares outstanding during the period ended 30 June 2017 and 30 June 2016 amounting to 393.75 million shares.

14. ZAKAT AND TAX

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

The Company has filed its zakat returns up to 2016. The zakat assessments have been agreed with the General Authority of Zakat and Tax ("GAZT") for all the years up to 2000. The GAZT has raised the zakat assessment for the years 2001 to 2007 claiming additional liabilities of SAR 22 million. The Company filed an appeal on these assessments, and the appeal is still under study. The Company has charged the needed provision for these claims. During the second quarter of 2017, the GAZT has raised the zakat assessment for the years 2008 to 2012 claiming additional liabilities of SAR 83 million. The Company is about to file an appeal on these assessments. The Company believes it provided a sufficient provision for zakat and withholding tax as at 30 June 2017.

The zakat assessments for the years 2013 to 2016 are not received yet by the Company.

15. FIRST TIME ADOPTION OF IFRS

For all prior periods, up to and including the year ended 31 December 2016, the Group prepared and published its consolidated financial statements only in accordance with generally accepted accounting standards in KSA ("SOCPA GAAP"). The Group prepared the first interim condensed consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") for the period ended 31 March 2017, in accordance with IAS 34, "Interim Financial Reporting" and IFRS 1, "First-time Adoption of International Financial Reporting Standards" that are endorsed in KSA. Accordingly, the Group has prepared consolidated financial statements, which comply with IFRS as endorsed in KSA applicable for periods beginning on or after 1 January 2017, together with the comparative period figures.

In preparing the interim condensed consolidated financial statements for the three months ended 31 March 2017, the Group's opening statement of financial position was prepared as at 1 January 2016 along with the consolidated financial statements for the year ended 31 December 2016, and the condensed consolidated financial statements for the three months period ended 31 March 2016 after incorporating certain adjustments made as required due to the first time adoption of IFRS as endorsed in KSA. Note 15 of the condensed consolidated financial statements for the three months period ended 31 March 2017 illustrates the impact of IFRS adoption as endorsed in KSA

The below notes from 15.2 to 15.5 illustrate the impact of IFRS adoption as endorsed in KSA for the six months period ended 30 June 2016.

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15. FIRST TIME ADOPTION OF IFRS (continued)

15.1 Exemptions

IFRS 1 "First time adoption of International Financial Reporting Standards" as endorsed in KSA allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS. The Group has applied the following exemptions:

(i) Assets and liabilities of subsidiaries, associates and joint ventures

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

A subsidiary based in United Arab Emirates, Mideast ship Management Company, and an associate based in Bermuda, Petredec Limited, have become first adopters of IFRS before the Company. Hence, assets and liabilities have been measured at the same carrying value as disclosed in the standalone IFRS financial statements.

(ii) Business combinations

IFRS 3 "Business Combination" has not been applied to acquisition of subsidiaries, which are considered business for IFRS standards, or of interests in associates and joint ventures that occurred before 1 January 2016. Use of this exemption means carrying amounts of assets and liabilities recognized on the acquisition date under SOCPA for such transactions have been considered to be their deemed cost. After the acquisition date, measurement has been done in accordance with provisions of respective IFRSs. In line with requirements of IFRS 1, the Group evaluated if there were any assets or liabilities that did not qualify for recognition under IFRS and concluded that there were no such instances. Hence, the Group did not recognize or exclude and previously recognized amounts as a result of transition to IFRS.

(iii) Borrowing costs

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

(iv) Estimates

The estimates at 1 January 2016 and at 31 December 2016 are consistent with those made for the same dates in accordance with SOCPA standards (after adjustments to reflect any differences in accounting policies) apart from the following items where application of SOCPA standards did not require to change prospectively:

- a) Liability for end of service benefits will be required to be made based on Projected Unit Credit Method
- b) Estimates for dry docking cost are in line with IFRS. However, provision for the next dry-docking will be required to be made from the date of the purchase of the vessel or from the date of the last dry-docking.

The estimates used by the Group to present these amounts in accordance with IFRS reflect conditions at 1 January 2016, the date of transition to IFRS, and as at 31 December 2016.

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15. FIRST TIME ADOPTION OF IFRS (continued)

15.2 Reconciliation of equity

	Note	30 June 2016 SAR '000
Total equity under SOCPA standards		9,847,254
Increase in accumulated depreciation	15.6	(303,530)
Decrease in service revenue recognition	15.7	(7,629)
Increase in employees' benefits - actuarial valuation	15.7	(11,354)
Decrease in finance lease receivables	15.7	(74,525)
Equity under IFRS		<u>9,450,216</u>

15.3 Reconciliation of total comprehensive income for the six months period ended 30 June 2016

	30 June 2016 (SOCPA) SAR'000	Effect of Transition to IFRS SAR'000	30 June 2016 (IFRS) SAR'000
Revenue	3,791,133	1,854	3,792,987
Operating costs	(2,531,007)	(20,726)	(2,551,733)
Gross profit before bunker subsidy	1,260,126	(18,872)	1,241,254
Bunker subsidy	61,271	-	61,271
Gross profit	1,321,397	(18,872)	1,302,525
General and administrative expenses	(70,693)	793	(69,900)
Other expenses, net	(11,685)	-	(11,685)
Income from operation	1,239,019	(18,079)	1,220,940
Finance costs	(112,418)	(1,243)	(113,661)
Share of results of associate	76,749	-	76,749
Income before zakat and tax	1,203,350	(19,322)	1,184,028
Zakat and tax expense	(68,999)	-	(68,999)
Income for the period	1,134,351	(19,322)	1,115,029
OCI items not to be reclassified to interim condensed consolidated statement of income			
Re-measurement gains on defined benefit plans	-	2,183	2,183
Total comprehensive income	<u>1,134,351</u>	<u>(17,139)</u>	<u>1,117,212</u>

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15. FIRST TIME ADOPTION OF IFRS (continued)

15.4 Reconciliation of total comprehensive income for the three months period ended 30 June 2016

	30 June 2016 (SOCPA)	Effect of Transition to IFRS	30 June 2016 (IFRS)
	SAR'000	SAR'000	SAR'000
Revenue	1,855,952	(20,701)	1,835,251
Operating costs	(1,313,672)	2,254	(1,311,418)
Gross profit before bunker subsidy	542,280	(18,447)	523,833
Bunker subsidy	31,561	-	31,561
Gross profit	573,841	(18,447)	555,394
General and administrative expenses	(32,838)	396	(32,442)
Other income, net	21,987	-	21,987
Income from operation	562,990	(18,051)	544,939
Finance costs	(48,308)	(622)	(48,930)
Share of results of associate	38,758	-	38,758
Income before zakat and tax	553,440	(18,673)	534,767
Zakat and tax expense	(34,886)	-	(34,886)
Income for the period	518,554	(18,673)	499,881
OCI items not to be reclassified to interim condensed consolidated statement of income			
Re-measurement gains on defined benefit plans	-	1,091	1,091
Total comprehensive income	518,554	(17,582)	500,972

15.5 Reconciliation of income for the three and six months period ended 30 June 2016

	Note	Three months ended 30 June 2016	Six months ended 30 June 2016
		SAR'000	SAR'000
Income as per SOCPA standards		518,554	1,134,351
Increase in depreciation expenses	15.6	(10,548)	(21,342)
(Decrease) increase in service revenue	15.7	(5,103)	8,064
Increase in service cost	15.7	(981)	(1,962)
Decrease in lease finance income	15.7	(2,041)	(4,082)
Income as per IFRS standards		499,881	1,115,029
Other comprehensive income		1,091	2,183
Total comprehensive income as per IFRS		500,972	1,117,212

15.6 Property and equipment

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

Starting from 1 January 2017, the Group has revised the estimate of the fleets' residual value from 10% of the vessel's cost to more appropriate estimate of the residual value factor i.e. average steel prices per ton (light weight tonnage or LWT), which is also used by leading comparable shippers in the industry. This change was accounted for prospectively and resulted in a decrease in the depreciation expense for the period ended 30 June 2017 by approximately SAR 45.85 million. This change should have a similar impact on the future periods' results of the Group until the end of the original estimated useful life of the asset.

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15. FIRST TIME ADOPTION OF IFRS (continued)

15.7 Other adjustments

At the time of IFRS adoption as endorsed in KSA, the Group has recognized the below adjustments as at 1 January 2016 “date of transition to IFRS”, for the period ended 30 June 2016, and for the year ended 31 December 2016:

- a) Revenue from single voyage which involves multiple discharge points, percentage of completion was applied separately for each such cargo delivered. Therefore, revenue has been recalculated and adjusted for the voyages in progress at the transition date and for the year ended 31 December 2016 based on the percentage of completion.
- b) The Group recorded its end of service liability based on the labor laws regulatory requirements in the Kingdom of Saudi Arabia. In order to determine the liability under IFRS standards, the Group performed detailed actuarial valuation of its end of service benefits. Consequently, increase in the liability for the prior period has been recorded in the opening retained earnings and statement of income for the year ended 31 December 2016.
- c) The Group has recognized a reduction in the value of the receivables from finance lease balance based on the nature and term of the arrangement. Therefore, receivables from finance lease balance decreased as at the transition date and for the year ended 31 December 2016.

15.8 Reclassifications of investments in available for sale and held to maturity

Under SOCPA Standards, investments were presented on the face of statement of financial position under the caption of available for sale and held to maturity. IFRS Standards accounting policy adopted by the Group and stated in note 4.9 classifies such investments under the caption of other investment on the consolidated statement of financial position.

15.9 Reclassifications of loan arrangement fees

The Group has incurred certain loan arrangement fees and Sukuk issuance fees, and under SOCPA standards, these costs have been recorded as prepayments. IFRS standards require issuance costs be set off against the liability in respect of which these costs were incurred. The respective cost has been reclassified to be net off against long term loans.

16. DIVIDENDS

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

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

17. CAPITAL COMMITMENTS

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

THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA

(A Saudi Joint Stock Company)

Notes to the interim condensed consolidated financial statements – continued

For the six months period ended 30 June 2017

18. SUBSEQUENT EVENTS

In the opinion of management, there have been no significant subsequent events since the period ended 30 June 2017 that would have material impact on the interim condensed consolidated statement of financial position of the Group as reflected in these interim condensed consolidated financial statements.

19. DATE OF AUTHORIZATION

These interim condensed consolidated financial statements were authorized for issuance on 1 Thul Qi'dah 1438H (24 July 2017).

20. COMPARATIVE FIGURES

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