THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA

(A Saudi Joint Stock Company)

Consolidated Financial Statements

and Independent Auditor's Report

For the year ended 31 December 2019

OneBahri

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Independent Auditor's Report

To the Shareholders of The National Shipping Company of Saudi Arabia

Opinion

We have audited the consolidated financial statements of The National Shipping Company of Saudi Arabia ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (SOCPA).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the consolidated Financial Statements section of our report. We are independent of the Group in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's Report

To the Shareholders of The National Shipping Company of Saudi Arabia (Continued)

Impairment assessment of Property and Equipment

See note 4 to the consolidated financial statements for the accounting policy relating to impairment of non-financial assets.

The key audit matter	How the matter was addressed in our audit
The Group owns and operates 89 vessels (2018: 92 vessels) that are used in transportation activities. The carrying value of the vessels, which is shown as part of property and equipment, is SAR 14.7 billion (2018: SAR 15.6 billion) representing around 71% (2018: 74%) of total assets as at 31 December 2019. In accordance with the requirements of relevant accounting standards, the Group is required to assess indicators of impairment on its vessels at each reporting date. In case such indicators are identified, recoverable amounts of such vessels are required to be determined. As part of the Group process to review any indication of impairment of its vessels, management considers internal and external indicators of impairment, including but not limited to: - observable indications that the vessel's value have significantly declined; - significant changes with an adverse effect on the Group, in the technological, market, economic or legal environment in which the Group operates; - evidence of obsolescence or physical damage of the vessels; - significant changes with an adverse effect to the vessels, which includes the vessels becoming idle, plans to discontinue its operation and/or plans to dispose of vessels; - reassessment of the useful life of the vessels; and - operating losses incurred by the vessels. Hence, the evaluation of impairment indicators and the recoverable amount, where required, involves the exercise of significant judgment and has therefore been determined as a key audit matter.	We performed the following procedures in relation to the impairment indicators assessment of vessels: - Assessed the process followed by the Group for the assessment of impairment indicators and recoverable amounts, where required, during the year ended 31 December 2019; - Assessed the design and implementation, and tested the operating effectiveness of the controls implemented by the Group as part of the assessment of impairment indicators; - Assessed the physical condition of the Group's fleet of vessels by inspecting class certificates; - Inspected the vessels' inspection reports that are prepared by the External Technical Inspector which support the maintenance of vessels during the year; - Assessed the vessels' estimated useful life by inspecting the benchmarking report prepared by management that covers relevant industry information; - Assessed the adequacy of the Group's disclosures in respect of estimation of useful life in the consolidated financial statements. - Confirmed future plans for the vessels by inspecting Board of Directors minutes of the meetings; and - Inspected the operating profit and loss statement for the year for each vessel.

Independent Auditor's Report

To the Shareholders of The National Shipping Company of Saudi Arabia (Continued)

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the consolidated financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report, when made available to us, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, the applicable requirements of the Regulations for Companies and Company's By-laws and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, Board of Directors, are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 'Reasonable assurance' is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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Independent Auditor's Report

To the Shareholders of The National Shipping Company of Saudi Arabia (continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit of The National Shipping Company of Saudi Arabia ("the Company") and its subsidiaries ("the Group").

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

For KPMG Al Fozan & Partners
Certified Public Accountants

Fahad Mubark Aldossari
License No: 469

Date: 10 Rajab 1441H
Corresponding to: 5 March 2020

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محاسبون ومراجعون قانونيون
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س.ت رقم ٤٦
KPMG
Certified Public Accountants
KPMG Al Fozan & Partners

THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA
(A Saudi Joint Stock Company)
Consolidated statement of financial position
As at 31 December 2019
(In Thousands Saudi Riyals)

	Note	2019	2018
ASSETS			
NON-CURRENT ASSETS			
Property and equipment	6	**14,738,079**	15,614,792
Ships under construction	7	**289,162**	138,764
Right of use assets	19	**29,440**	-
Intangible assets	8	**622,475**	675,765
Equity accounted investees	9	**1,242,132**	1,265,341
Receivables from finance lease	10	-	105,562
Other investments, including derivatives	11	**17,545**	76,624
TOTAL NON-CURRENT ASSETS		**16,938,833**	17,876,848
CURRENT ASSETS			
Receivables from finance lease - current portion	10	-	5,547
Inventories	12	**411,255**	344,045
Trade receivables and contract assets	13	**1,753,915**	1,883,716
Prepayments and other current assets	14	**658,635**	494,682
Murabaha and short-term deposits	15.1	**552,349**	364,293
Cash and cash equivalents	15	**245,840**	228,513
TOTAL CURRENT ASSETS		**3,621,994**	3,320,796
TOTAL ASSETS		**20,560,827**	21,197,644
EQUITY AND LIABILITIES			
EQUITY			
Share capital	16	**3,937,500**	3,937,500
Statutory reserve		**1,074,923**	1,012,852
Share premium		**1,489,103**	1,489,103
Other reserves		**(12,208)**	(13,302)
Retained earnings		**2,722,849**	2,951,718
Equity attributable to equity holders of the parent company		**9,212,167**	9,377,871
Non-controlling interests	31	**464,704**	441,430
TOTAL EQUITY		**9,676,871**	9,819,301
LIABILITIES			
NON-CURRENT LIABILITIES			
Sukuk and long-term loans	17	**8,386,678**	9,212,847
Employees' end of service benefits	18	**70,789**	69,927
Lease liabilities		**23,626**	-
Deferred tax liabilities	21	**57,558**	23,511
Derivative financial instruments		**7,553**	-
TOTAL NON-CURRENT LIABILITIES		**8,546,204**	9,306,285
CURRENT LIABILITIES			
Short term loans	17.4	**260,000**	96,000
Long term loans - current portion	17	**881,768**	887,816
Trade and other payables	20	**1,012,646**	873,340
Provision for zakat and taxes	21	**183,338**	214,902
TOTAL CURRENT LIABILITIES		**2,337,752**	2,072,058
TOTAL LIABILITIES		**10,883,956**	11,378,343
TOTAL EQUITY AND LIABILITIES		**20,560,827**	21,197,644

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

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA
(A Saudi Joint Stock Company)
Consolidated statement of profit or loss
For the year ended 31 December 2019
(In Thousands Saudi Riyals)

	Note	2019	2018
Revenue		**6,567,015**	6,129,910
Operating costs		**(5,374,186)**	(5,176,529)
Gross profit before bunker subsidy		**1,192,829**	953,381
Bunker subsidy		**234,168**	293,602
Gross profit		**1,426,997**	1,246,983
General and administrative expenses	22	**(154,063)**	(148,214)
Provision on trade receivables and contract assets	13	**(78,853)**	(21,302)
Other income (expenses), net	23	**28,937**	10,718
Operating profit		**1,223,018**	1,088,185
Finance costs	24	**(463,724)**	(389,113)
Share in results of equity accounted investees	9	**(23,702)**	(118,529)
Profit before zakat and tax		**735,592**	580,543
Zakat and taxes, net	21	**(92,099)**	(92,186)
Profit for the year		**643,493**	488,357
Profit for the year attributable to:			
Equity holders of the parent company		**620,702**	481,238
Non-controlling interests	31	**22,791**	7,119
		643,493	488,357
Earnings per share (Saudi Riyal):			
Basic	25	**1.58**	1.22
Diluted	25	**1.58**	1.22

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

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA
(A Saudi Joint Stock Company)
Consolidated statement of comprehensive income
For the year ended 31 December 2019
(In Thousands Saudi Riyals)

	Note	2019	2018
Profit for the year		**643,493**	488,357
Items that will not be reclassified to profit or loss			
Re-measurement gain on defined benefit liability	18	**1,084**	(384)
Items that are or may be reclassified subsequently to profit or loss			
Equity accounted investees share of OCI	9	**493**	(8,333)
Total comprehensive income for the year		**645,070**	479,640
Total comprehensive income attributable to:			
Equity holders of the parent company		**621,796**	473,278
Non-controlling interests		**23,274**	6,362
Total comprehensive income for the year		**645,070**	479,640

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

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA
(A Saudi Joint Stock Company)
Consolidated statement of cash flows
For the year ended 31 December 2019
(In Thousands Saudi Riyals)

	Note	2019	2018
OPERATING ACTIVITIES			
Profit for the year		**643,493**	488,357
Adjustments to reconcile profit for the year to net cash flows resulted from operating activities			
Depreciation of property and equipment	6	**860,265**	872,804
Depreciation of right of use assets	19	**10,818**	-
Amortization of intangible assets	8	**54,065**	52,184
Provision on trade receivables and contract assets	13	**78,853**	21,302
Provision for other investments		-	3,377
Finance costs	24	**463,724**	389,113
Share in loss of equity accounted investees	9	**23,702**	118,529
Gain on disposal of property and equipment	23	**(14,701)**	(11,921)
Zakat and taxes		**92,099**	92,186
Employees' end of service benefits	18	**13,625**	12,357
		2,225,943	2,038,288
Changes in operating assets and liabilities:			
Inventories		**(67,210)**	(53,286)
Trade receivables and contract assets		**50,948**	(430,030)
Prepayments and other current assets		**(164,811)**	(192,050)
Receivables from finance lease		**4,947**	67,486
Trade and other payables		**139,352**	158,251
Cash generated from operations		**2,189,169**	1,588,659
Finance costs paid		**(397,749)**	(359,352)
Zakat and taxes paid	21	**(89,616)**	(98,037)
Employees' end of service benefits paid	18	**(11,679)**	(12,026)
Net cash generated from operating activities		**1,690,125**	1,119,244
INVESTING ACTIVITIES			
Addition in intangible assets	8	**(775)**	-
Acquisition of property and equipment		**(38,860)**	(57,780)
Proceeds from disposal of property and equipment		**176,171**	77,571
Ships under construction	7	**(150,398)**	(936,660)
Equity accounted investees	9	-	(145,667)
Other investments, including derivatives		**(1,190)**	(19,080)
Net cash used in investing activities		**(15,052)**	(1,081,616)
FINANCING ACTIVITIES			
Proceeds from long term loans	17	**45,000**	914,825
Repayment of long-term loans		**(887,817)**	(1,075,289)
Proceeds from short term loans	17	**535,000**	586,000
Repayment from short term loans		**(371,000)**	(490,000)
Dividends paid		**(785,699)**	(582,799)
Payment of lease liabilities		**(5,174)**	-
Non-controlling interests		-	12,000
Net cash used in financing activities		**(1,469,690)**	(635,263)
Increase / (decrease) in cash and cash equivalents		**205,383**	(597,635)
Cash and cash equivalents at beginning of the year	15	**592,806**	1,190,441
Cash and cash equivalents at end of the year	15	**798,189**	592,806
Significant non-cash transactions:			
Ships under construction transferred to property and equipment	7	-	1,757,286

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

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA
(A Saudi Joint Stock Company)
Consolidated statements of changes in equity
For the year ended 31 December 2019
(In Thousands Saudi Riyals)

	Attributable to equity holders of the parent company							
	Share capital	Statutory reserve	Share premium	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance as at 1 January 2018	3,937,500	964,732	1,489,103	(5,342)	3,109,225	9,495,218	422,813	9,918,031
Profit for the year	-	-	-	-	481,238	481,238	7,119	488,357
Other comprehensive income	-	-	-	(7,960)	-	(7,960)	(757)	(8,717)
Total comprehensive income for the year	-	-	-	(7,960)	481,238	473,278	6,362	479,640
Transferred to statutory reserve	-	48,120	-	-	(48,120)	-	-	-
Non-controlling interest share	-	-	-	-	-	-	12,255	12,255
Dividends (note 30)	-	-	-	-	(590,625)	(590,625)	-	(590,625)
Balance as at 31 December 2018	3,937,500	1,012,852	1,489,103	(13,302)	2,951,718	9,377,871	441,430	9,819,301
Balance as at 1 January 2019	**3,937,500**	**1,012,852**	**1,489,103**	**(13,302)**	**2,951,718**	**9,377,871**	**441,430**	**9,819,301**
Profit for the year	-	-	-	-	**620,702**	**620,702**	**22,791**	**643,493**
Other comprehensive income	-	-	-	**1,094**	-	**1,094**	**483**	**1,577**
Total comprehensive income for the year	-	-	-	**1,094**	**620,702**	**621,796**	**23,274**	**645,070**
Transferred to statutory reserve	-	**62,071**	-	-	**(62,071)**	-	-	-
Dividends (note 30)	-	-	-	-	**(787,500)**	**(787,500)**	-	**(787,500)**
Balance as at 31 December 2019	**3,937,500**	**1,074,923**	**1,489,103**	**(12,208)**	**2,722,849**	**9,212,167**	**464,704**	**9,676,871**

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

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

(In Thousands Saudi Riyals)

1. THE COMPANY, ITS SUBSIDIARIES AND ITS BUSINESS DESCRIPTION

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

The Company and its subsidiaries listed below (the “Group”) are primarily engaged in purchasing, sale and operating of vessels for the transportation of cargo, 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 31 December 2019 and 31 December 2018. The par value per share is SAR 10.

The subsidiary companies whose financial information is incorporated into these consolidated financial statements are as follows:

Subsidiary	Date of incorporation	Effective Ownership % 2019	Effective Ownership % 2018	Principal Activity	Location
NSCSA Inc. - USA	1991	**100**	100	Company's ship agent	USA
Mideast Ship Management Limited (JLT)	2010	**100**	100	Ships technical management	UAE
National Chemical Carriers Limited Co. (NCC)	1990	**80**	80	Petrochemicals transportation	KSA
Bahri Dry Bulk LLC (BDB)	2010	**60**	60	Dry bulk transportation	KSA
Bahri Bolloré Logistics (BBL)	2018	**60**	60	Logistic Services	KSA
Bahri Bunge Dry Bulk DMCC*	2018	**36**	36	Dry bulk transportation	UAE

*Group holds controlling equity ownership interest in Bahri Bunge Dry Bulk DMCC through its indirect shareholding in Bahri Dry Bulk LLC (BDB).

The equity accounted investees whose financial information is incorporated financial statements are as follows:

Equity accounted investee	Date of incorporation	Effective Ownership % 2019	Effective Ownership % 2018	Principal Activity	Location
Petredec Limited *	1980	**30.3**	30.3	Liquefied petroleum gas transportation	SINGAPORE
International Maritime Industries Company	2018	**19.9**	19.9	Maritime industries	KSA

* The Group’s share in Petredec Limited results for the financial year 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.

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

The Company operates through the following branches:

Trade Name	Registration No.	Registration Date	City
The National Shipping Company of Saudi Arabia (Riyadh HQ)	1010026026	17/08/2017	Riyadh
The National Shipping Company of Saudi Arabia (Jeddah)	4030033402	11/11/2019	Jeddah
The National Shipping Company of Saudi Arabia (Dammam)	2050013881	14/02/2016	Dammam
The National Shipping Company of Saudi Arabia (Dubai Branch)	JLT-65807	06/12/2010	Dubai DMCC
The National Shipping Company of Saudi Arabia (India)	F06135	26/08/2016	New Delhi

Group's Fleet: As at 31 December 2019, the Group owned 89 vessels (31 December 2018: 92 vessels) operating in the following sectors:

Crude oil transportation sector: Consists of 48 vessels (31 December 2018: 50 vessels), out of which 42 (31 December 2018: 44 vessels) very large crude carriers (VLCCs) are operating in the spot market, while a tanker is chartered to ARAMCO Trading Company. The Group also owns 5 product tankers all of which are also chartered to ARAMCO Trading Company.

Chemicals transportation sector: This sector is fully operated by NCC, and it owns 30 (31 December 2018: 31 vessels) specialized tankers distributed as follows:

- 18 tankers that operate in the spot market.
- 7 tankers are chartered to the International Shipping and Transportation Co. Ltd., a subsidiary of Saudi Basic Industries Corporation (“SABIC”), and 5 tankers are chartered to ARAMCO.

Logistics sector: This sector consists of 6 RoCon vessels (31 December 2018: 6 vessels) operating on commercial lines between North America and Europe, and the Middle East and the Indian Subcontinent.

Dry bulk transportation sector: This sector is fully operated by BDB, and it owns 5 vessels (31 December 2018: 5 vessels) specialized in transporting dry bulk cargo, all of which are chartered to the Arabian Agricultural Services Company (ARASCO).

2. BASIS OF PREPARATION

1.1. Statement of Compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”) that are endorsed in the Kingdom of Saudi Arabia (“KSA”) and other standards and pronouncements that are issued by Saudi Organization for Certified Public Accountants (“SOCPA”).

1.2. Preparation of financial statements

(i) Historical cost convention

The consolidated financial statements have been prepared on a historical cost basis, except for:

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

(ii) Functional and presentation currency

These consolidated financial statements are presented in Saudi Riyal (“SAR”), which is the Company’s functional and presentation currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

3. BASIS OF CONSOLIDATION

The Company and its subsidiaries are collectively referred to as the "Group". Subsidiaries are entities controlled by the Group.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement in the investee;
- The ability to use its power over the investee to affect its returns.

The Group re-assesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, unrealised income and expenses and cash flows relating to transactions are eliminated in full on consolidation.

Non-controlling interest are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition with fair value.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it:

- De-recognizes the assets and liabilities of the subsidiary;
- De-recognizes the carrying amount of any non-controlling interest;
- De-recognizes the cumulative translation differences, recorded in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in the consolidated statement of profit or loss;

Reclassifies the Group's share of components previously recognized in consolidated statement of other comprehensive income to consolidated statement of profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

The Company and its subsidiaries have the same reporting period except Petredec limited (equity accounted investees) as explained in note 1.

4. SIGNIFICANT ACCOUNTING POLICIES

4.1. Changes in significant accounting policies

Except for the changes below, the Group has consistently applied the accounting policies to all periods presented in these consolidated financial statements.

The Group applied IFRS 16 with a date of initial application of 1 January 2019 using the modified retrospective approach. The details of the changes in accounting policies are disclosed below.

A. Definition of a lease

Previously, the Group determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Determining whether an Arrangement contains a Lease. Under IFRS 16, the Group assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 4.11.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

B. As a lessee

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases – i.e. these leases are on statement of financial position.

The Group used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Group:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets; and
- used hindsight when determining the lease term.

For leases of other assets, which were classified as operating under IAS 17, the Group recognised right-of-use assets and lease liabilities.

Under IFRS 16 at transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments – the Group applied this approach to all other leases.

Leases classified as operating leases under IAS 17

Assets held under other leases were classified as operating leases and were not recognised in the Group's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

C. As a lessor

The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor.

Under IFRS 16, the Group is required to assess the classification of a sub-lease with reference to the right-of-use asset, not the underlying asset. The Group does not have any sub lease assets.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.1. Changes in significant accounting policies (continued)

D. Impact on financial statements

When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted average rate applied is 4.95%. The impact of transition is summarized below:

Assets:	**SAR'000**
Right of use assets	**40,258**
Prepayments and other current assets	**(3,153)**
Total impact on assets:	**37,105**
Liabilities:	
Lease liabilities	**(37,105)**
Total impact on liabilities:	**(37,105)**
Equity	
Total impact on equity:	**-**

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 year in which the estimates are revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

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 estimated residual values and useful lives of property and equipment (notes 4.7 and 6)
- Measurement of defined benefit obligations, Key actuarial assumptions (notes 4.19 and 18)
- Measurement of ECL allowance for trade receivables and contract assets: key assumption in determining the weighted average loss rate (notes 4.4, 13 and 28)

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.3. Revenue from Contracts with Customers

The Group recognises revenue from contracts with customers based on a five-step model as set out in IFRS 15 and is given below:

Step 1 – Identify the contract(s) with a customer: A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met;
Step 2 – Identify the performance obligations in the contract: A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer;
Step 3 – Determine the transaction price: The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties;
Step 4 – Allocate the transaction price to the performance obligations in the contract: For a contract that has more than one performance obligation, the Group allocates the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Group expects to be entitled in exchange for satisfying each performance obligation.
Step 5 – Recognize revenue when (or as) the entity satisfies a performance obligation.

The Group satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

- The Group's performance does not create an asset with an alternate use to the Group and the Group has an enforceable right to payment for performance completed to date;
- The Group's performance creates or enhances as asset that the customer controls as the asset is created or enhanced;
- The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs.

For performance obligations where none of the above conditions are met, revenue is recognised at the point in time at which the performance obligation is satisfied.

Revenue is recognised when a customer obtains control of the services.

Type of service	**Nature, timing of satisfaction of performance obligations, significant payment terms**
Time Charter arrangement	In case of time charter arrangement, the Group measures its progress towards complete satisfaction of the performance obligation using a time-based measure. Further, because the Group bills a fixed amount for each day of service provided, the Group has a right to invoice the customer in the amount that corresponds directly with the value of the Group's performance completed to date. Revenue is recognized based on percentage of completion.
Voyage charter	In case of voyage charter arrangement including liner, the Company measures the progress based on number of days elapsed as compared to total number of days expected in a voyage for each contract. Further, the duration of contract executed for each voyage is generally less than year. Revenue is recognized based on percentage of completion.
Logistics revenue	Logistics revenue excluding liner primarily comprises order fulfilment and transportation services. Logistics revenue is recognised at point in time when the services are rendered to the customer and the customer acknowledges the same.

In certain revenue arrangement, the Group is entitled for certain kind of variable benefits or obliged to pay for certain obligations (majorly demurrages) which is contingent upon occurrence or non-occurrence of specified event. While determining the transaction price, the management estimate the transaction price which is highly probable of being recovered and not subject to reversal. These variable benefits are not included in the initial assessment of the transaction price as the Group is entitled to them only on occurrence.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.4. Financial Instruments

i- Recognition and initial measurement

Trade receivables issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

ii-Classification and measurement of financial assets and financial liabilities

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The following accounting policies apply to the subsequent measurement of financial assets.

Financial assets at Fair Value Through Profit and Loss (FVTPL)	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
Debt investments at Fair Value through Other Comprehensive Income (FVOCI)	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at Fair Value through Other Comprehensive Income (FVOCI)	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

'The financial assets at amortised cost consist of trade receivables, contract assets and cash and cash equivalents.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.4. Financial Instruments (continued)

Financial Liabilities – Classification, subsequent measurement and gain and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as FVTPL if it is classified as held-for-trading, it is a derivative or designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gain and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

Offsetting

Financial assets and financial liabilities are offset, and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

Impairment of non-derivative financial assets

The Group recognises loss allowances for ECLs on financial assets measured at amortised cost and contract assets. The Group measures loss allowances at an amount equal to lifetime ECLs.

Under IFRS 9, loss allowances are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and

- lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Group considers a financial asset to be in default when:

– the debtor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or

– the financial asset is more than 4 years past due from government and 2 years past due from commercial customers.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.4. Financial Instruments (continued)

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:
— significant financial difficulty of the debtor;
— a breach of contract such as a default or being more than 4 years past due from government and 2 years past due from commercial customers.
— the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
— it is probable that the debtor will enter bankruptcy or other financial reorganisation; or
— the disappearance of an active market for a security because of financial difficulties.

Presentation of impairment

Allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. Impairment losses related to Trade receivables and contract assets, including contract assets and finance lease receivables, are presented separately in the statement of profit or loss.
For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognised in OCI.

4.5. Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position comprise cash at banks, short-term deposits, and murabaha with original maturity of three months or less, which are subject to an insignificant risk of changes in value. Restricted cash and cash equivalents that are not available for use are excluded from cash and cash equivalents for the purposes of the consolidated statement of cash flows.

4.6. Inventories

Inventories consisting of fuel and lubricants on board of vessels are shown as inventories at the consolidated statement of financial position date. 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.

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.

4.7. Property and equipment

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.

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 if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the consolidated statement of profit or loss as incurred.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.7. Property and equipment (continued)

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

Property and equipment	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
Motor vehicles	4 to 5
Computers equipment	4 to 6
Containers yard equipment	4 to 10

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

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

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

4.8. Ships Under construction

Ships under constructions at year 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.

4.9. Intangible assets

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.10. Equity accounted investees

An equity accounted investees 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.

Under the equity method, an equity accounted investees is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the equity accounted investees. When the Group's share of losses of an equity accounted investees exceeds the Group's interest in that an equity accounted investees (which includes any long-term interests that, in substance, form part of the Group's net investment in the equity accounted investees, the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the equity accounted investees. If the equity accounted investees subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

An equity accounted investees is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the equity accounted investees, 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 recognised 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 equity accounted investees's identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in consolidated Statement of profit or loss in the period in which the investment is acquired.

When a Group entity transacts with an equity accounted investees of the Group, profits or losses resulting from the transactions with the equity accounted investees are recognised in the Group's consolidated financial statements only to the extent of interests in the equity accounted investees that are not related to the Group.

4.11. Leases

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately if they are different from those under IFRS 16 and the impact of changes is disclosed in Note 4.1

Policy applicable from 1 January 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the asset if either:
  - the Group has the right to operate the asset; or
  - the Group designed the asset in a way that predetermines how and for what purpose it will be used.
  - this policy was applied to contracts entered into, or changed, on or after 1 January 2019.

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Group determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:

• the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;

• the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or

• facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.11. Leases (continued)

Group as a lessee

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.
Lease payments included in the measurement of the lease liability comprise the following:
- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Group as a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.
The Group recognises lease payments received under operating leases as income on a straight- line basis over the lease term.
The accounting policies applicable to the Group as a lessor in the comparative period were not different from IFRS 16.
Gross investment in finance lease include the total of the future lease payments on finance leases (lease receivables), plus estimated residual amounts receivable. The difference between the lease receivables and the cost of the leased asset is recorded as unearned lease finance income and for presentation purposes, is deducted from the gross in the finance leases. Any unguaranteed residual value of the assets is reviewed periodically and any decrease in residual value is recorded immediately.

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.12. Classification of assets and liabilities to “current” and “non-current”

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

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

All other assets are classified as non-current.

A liability is current when:

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

All other liabilities are classified as non-current.

4.13. Foreign currency transaction

The Group’s consolidated financial statements are presented in Saudi Riyals rounded to the nearest thousand, which is also the Parent Company’s functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the Group’s entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the consolidated financial statements reporting date for the group. All differences arising on settlement or translation of monetary items are taken to the statement of Profit or Loss with the exception of differences on foreign monetary items that form part of a net investment in a foreign operation. These are recognized in OCI until the disposal of the net investment, at which time they are reclassified to consolidated statement of Profit or Loss. Tax charges and credits attributable to exchange differences on these monetary items are also recorded in OCI.

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

4.14. Foreign currency translation

On consolidation, the assets and liabilities of foreign operations are translated into Saudi Riyal at the rate of exchange prevailing at the reporting date and their statements of Profit or Loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognized in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified to consolidated statement of profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.15. Zakat and Taxes

The Company and its subsidiaries in the Kingdom of Saudi Arabia are subject to regulations issued by the General Authority of Zakat and Tax ("GAZT") in the Kingdom of Saudi Arabia, which is subject to interpretations. Zakat is levied at a fixed rate of 2.5% on the higher of adjusted Zakat profit or based on Zakat base. The management establishes provisions where appropriate on the basis of amounts expected to be paid to the GAZT and annually evaluates positions taken in the Zakat returns with respect to any Zakat differences. Zakat is charged to the consolidated statement of profit or loss. Additional Zakat liability, if any, related to prior years' assessments arising from GAZT are accounted for in the year in which the final assessments are finalized.

For subsidiaries outside the Kingdom of Saudi Arabia, income tax is provided for in accordance with the regulations applicable in the respective countries and is charged to the consolidated statement of profit or loss. Provision is made for withholding tax on payments to non-resident parties and is charged to the consolidated statement of profit or loss. Moreover, certain shareholders in the Group are subject to income tax, which is recognized as an expense in the consolidated statement of profit or loss.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in Consolidated Financial Statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences and unused tax losses can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference and unused tax losses arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and equity accounted investees, and interests in joint venture, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

4.16. Borrowing costs

Borrowing costs are directly attributed to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial year 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 year in which they occur. Borrowing costs consist of finance and other costs that an entity incurs in connection with the borrowing of funds.

4.17. Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that a non-financial 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 Cash Generating Unit (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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.17. Impairment of non-financial assets (continued)

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.

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.

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

- Goodwill is tested for impairment in the reporting period 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.

4.18. Cash dividends to 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 General Assembly. A corresponding amount is recognized directly in equity.

4.19. Employees benefits

The calculation of defined benefit obligation is performed by a qualified actuary using the projected unit credit method.

i. *Short-term employee benefits*

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of the past service provided by the employee and the obligation can be estimated reliably.

ii. *Defined benefit plans*

Provision is made for amounts payable to employees under the Saudi Labour Law and employee contracts. This liability, which is unfunded, represents the amount payable to each employee on a going concern basis. The cost of providing benefits is determined using the projected unit credit method as amended by IAS 19. Remeasurements, comprising of actuarial gains and losses, excluding amounts included in net interest on the defined benefit liability are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the year in which they occur. Remeasurements are not reclassified to profit or loss in subsequent years.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.19. Employees' end of service benefits (continued)

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

Interest is calculated by applying the discount rate to the defined benefit liability. The Group recognises the following changes in the defined benefit obligation under 'Operating cost', and 'general and administration expenses' in the statement of profit or loss:
- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- interest expense or income

4.20. Provisions

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

4.21. Contingent assets and liabilities

Contingent assets are not recognized in the consolidated financial statements but are disclosed when an inflow of economic benefits is probable. An assessment is made at each reporting date to recognize contingent liabilities which are probable obligations arising from past events whose existence is confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly under the control of the Group.

4.22. 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 year. The weighted average number of ordinary shares outstanding during the year is the number of ordinary shares outstanding at the beginning of the year, adjusted by the number of ordinary shares bought back or issued during the year 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 year; a reasonable approximation of the weighted average is adequate in many circumstances.

Diluted EPS amounts are calculated by dividing the profit attributable to equity shareholders of the Parent by the weighted average number of equity shares outstanding during the year plus the weighted average number of equity shares that would be issued on conversion of all the dilutive potential equity shares into equity shares.

4.23. 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 share capital. This reserve is not available for distribution to the shareholders of the Company.

4.24. Bunker subsidy

Bunker subsidy is recognized when all attached conditions is complied with and it is recognized as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. The Group recognizes unconditional government subsidy related to bunker purchase in consolidated statement of profit or loss as bunker subsidy income.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.25. Segment reporting

A reporting segment is a component of the Group that engaged in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operation segments' operating results are reviewed regularly by the Group's chief operating decision makers about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

The Group is organized into business units based on their operations and has the following reportable segments:

- Transportation of oil
- Transportation of chemicals
- Logistics
- Transportation of dry bulk, and
- Head office and Others

The Group's management reviews the above segments for quantitative thresholds as well as criteria for presenting the revenues and expenses for the segments at the end of every reporting year.

Intersegment revenues are recorded either at values that approximate third-parties selling prices or at prices mutually agreed by the management of the operating segments.

4.26. Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.

- Amendments to References to Conceptual Framework in IFRS Standards.
- Definition of a Business (Amendments to IFRS 3).
- Definition of Material (Amendments to IAS 1 and IAS 8).
- IFRS 17 Insurance Contracts.

(In Thousands Saudi Riyals)

5. OPERATING SEGMENTS

The Group has the following four strategic divisions, which are its reportable segments. These divisions offer different services and are managed separately because they have different economic characteristics – such as trends in sales growth, rates of return and level of capital investment – and have different marketing strategies.

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

SAR'000

31 December 2019	**Transportation of oil**	**Transportation of Chemicals**	**Logistics**	**Transportation of dry bulk**	**Head office and Others**	**Total**
Revenue	**3,959,202**	**1,105,142**	**1,069,270**	**420,053**	**13,348**	**6,567,015**
Operating cost	**(3,160,678)**	**(945,798)**	**(918,242)**	**(354,295)**	**4,827**	**(5,374,186)**
Bunker subsidy	**211,715**	**12,040**	**10,413**	**-**	**-**	**234,168**
Gross profit	**1,010,239**	**171,384**	**161,441**	**65,758**	**18,175**	**1,426,997**
General and administrative expenses	**-**	**(1,025)**	**(4,075)**	**(16,034)**	**(132,929)**	**(154,063)**
Provision on trade receivables and contract assets	**3,248**	**(20,314)**	**(58,754)**	**(3,033)**	**-**	**(78,853)**
Other income (expenses), net	**22,833**	**(5,317)**	**794**	**1,074**	**9,553**	**28,937**
Finance cost	**(260,272)**	**(62,783)**	**(24,706)**	**(30,446)**	**(85,517)**	**(463,724)**
Share in a result of an equity accounted investees	**-**	**-**	**-**	**-**	**(23,702)**	**(23,702)**
Profit before zakat & taxes	**776,048**	**81,945**	**74,700**	**17,319**	**(214,420)**	**735,592**

The Group's vessels are deployed throughout the world and are not concentrated in certain geographical areas. The Group's management does not consider the geographical distribution of the group's operations to be relevant for their internal management analysis and therefore no geographical segment information has been disclosed.

Operating revenues include an amount of SAR 2.2 billion for the year ended 31 December 2019 (31 December 2018: SAR 2.5 billion). representing the Group's total revenues from one customer (ARAMCO and its affiliates - shareholder) which represents more than 10 % of the Group's operating revenues.

(In Thousands Saudi Riyals)

5. OPERATING SEGMENTS (continued)

						SAR'000
31 December 2018	**Transportation of oil**	**Transportation of Chemicals**	**Logistics**	**Transportation of dry bulk**	**Head office and Others**	**Total**
Revenue	3,692,550	872,174	1,158,022	387,389	19,775	6,129,910
Operating cost	(3,146,670)	(752,004)	(926,594)	(349,568)	(1,693)	(5,176,529)
Bunker subsidy	267,738	15,011	10,853	-	-	293,602
Gross profit	813,618	135,181	242,281	37,821	18,082	1,246,983
General and administrative expenses	-	(6,359)	(5,367)	(14,767)	(121,721)	(148,214)
Provision on trade receivables and contract assets	(2,086)	2,684	(21,679)	(221)	-	(21,302)
Other income (expenses), net	9,884	(8,904)	6,405	1,165	2,168	10,718
Finance cost	(248,587)	(62,028)	(25,561)	(11,294)	(41,643)	(389,113)
Share in a result of an equity accounted investees	-	-	-	-	(118,529)	(118,529)
Profit before zakat & taxes	572,829	60,574	196,079	12,704	(261,643)	580,543

(In Thousands Saudi Riyals)

5. OPERATING SEGMENTS (continued)

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

SAR'000

31 December 2019	**Transportation of oil**	**Transportation of Chemicals**	**Logistics**	**Transportation of dry bulk**	**Head office and Others**	**Total**
Property and equipment	**10,229,510**	**2,682,764**	**1,281,148**	**513,563**	**31,094**	**14,738,079**
Total assets	**12,537,261**	**3,177,135**	**2,290,810**	**833,568**	**1,722,053**	**20,560,827**
Total liabilities	**6,505,704**	**1,645,276**	**879,465**	**481,719**	**1,371,792**	**10,883,956**

31 December 2018	Transportation of oil	Transportation of Chemicals	Logistics	Transportation of dry bulk	Head office and Others	Total
Property and equipment	10,967,095	2,785,300	1,315,512	511,856	35,029	15,614,792
Total assets	13,333,248	3,341,013	2,153,360	773,724	1,596,299	21,197,644
Total liabilities	7,049,196	1,864,888	921,868	448,231	1,094,160	11,378,343

(In Thousands Saudi Riyals)

6. PROPERTY AND EQUIPMENT

SAR'000

31 December 2019	Building and improvements	Fleet and equipment	Containers and trailers	Furniture and fixtures	Tools and office equipment	Motor vehicles	Computer equipment	Containers yard equipment	Total
Cost									
At 1 January 2019	**61,655**	**22,235,547**	**12,377**	**12,431**	**4,192**	**1,131**	**26,705**	**14,433**	**22,368,471**
Additions/transfers	**3,715**	**138,576**	**11**	**495**	**273**	**6**	**1,946**	**-**	**145,022**
Disposals	**(1,197)**	**(802,747)**	**(1,451)**	**-**	**(80)**	**(205)**	**(32)**	**-**	**(805,712)**
At 31 December 2019	**64,173**	**21,571,376**	**10,937**	**12,926**	**4,385**	**932**	**28,619**	**14,433**	**21,707,781**
Accumulated depreciation									
At 1 January 2019	**36,032**	**6,664,306**	**7,530**	**7,108**	**3,992**	**1,008**	**20,645**	**13,058**	**6,753,679**
Charge for the period	**5,781**	**849,614**	**468**	**1250**	**159**	**92**	**2,377**	**524**	**860,265**
Disposals	**(121)**	**(642,456)**	**(1,451)**	**-**	**-**	**(205)**	**(9)**	**-**	**(644,242)**
At 31 December 2019	**41,692**	**6,871,464**	**6,547**	**8,358**	**4,151**	**895**	**23,013**	**13,582**	**6,969,702**
Net book value:									
As at 31 December 2019	**22,481**	**14,699,912**	**4,390**	**4,568**	**234**	**37**	**5,606**	**851**	**14,738,079**

*Certain vessels and tankers of the Group under fleet and equipment with a carrying value of SAR 8.4 billion at 31 December 2019, are pledged against the long-term loans.

(In Thousands Saudi Riyals)

6. PROPERTY AND EQUIPMENT (continued)

SAR'000

31 December 2018	Building and improvements	Fleet and equipment	Containers and trailers	Furniture and fixtures	Tools and office equipment	Motor vehicles	Computer equipment	Containers yard equipment	Total
Cost									
At 1 January 2018	55,331	20,817,282	20,240	12,593	4,134	1,131	21,779	14,433	20,946,923
Additions/transfers	6,324	1,799,465	-	2,176	58	-	7,043	-	1,815,066
Disposals	-	(381,200)	(7,863)	(2,338)	-	-	(2,117)	-	(393,518)
At 31 December 2018	61,655	22,235,547	12,377	12,431	4,192	1,131	26,705	14,433	22,368,471
Accumulated depreciation									
At 1 January 2018	20,223	6,128,948	14,924	8,396	3,810	793	19,116	12,533	6,208,743
Charge for the year	15,809	851,180	469	778	182	215	3,646	525	872,804
Disposals	-	(315,822)	(7,863)	(2,066)	-	-	(2,117)	-	(327,868)
At 31 December 2018	36,032	6,664,306	7,530	7,108	3,992	1,008	20,645	13,058	6,753,679
Net book value:									
As at 31 December 2018	25,623	15,571,241	4,847	5,323	200	123	6,060	1,375	15,614,792

*Certain vessels and tankers of the Group under fleet and equipment with a carrying value of SAR 10.3 billion at 31 December 2018, are pledged against the long-term loans.

(In Thousands Saudi Riyals)

7. SHIPS UNDER CONSTRUCTION

The movement in ships under construction is as follows:

	2019	2018
Beginning balance	**138,764**	959,390
Additions	**150,398**	936,660
Transferred to property and equipment	**-**	(1,757,286)
Ending balance	**289,162**	138,764

Ships under construction for the year ended 31 December 2019 amounted to SAR 289 million for 5 vessels (31 December 2018: SAR 139 million for 4 vessels). and mainly relates to payments made towards construction**.**

- The Company signed contracts on 25 August 2018 with the Korean company Hyundai Samho Heavy Industries to build four bulk cargo carriers vessels for a total amount of SAR 472 million (USD 126 million). These are expected to be completed during the year 2020.
- The Group signed a contract on 18 September 2019 to build the first VLCC with the International Maritime Industries Company and in cooperation with Hyundai Samho Heavy Industries for a total amount of SAR 371 million (USD 99 million). The carrier is expected to be received during the year 2021.

8. INTANGIBLE ASSETS

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

	2019	2018
Cost		
Opening balance	**939,930**	939,930
Addition	**775**	-
Ending balance	**940,705**	939,930
Accumulated amortization		
Opening balance	**(264,165)**	(211,981)
Charge for the year	**(54,065)**	(52,184)
Ending balance	**(318,230)**	(264,165)
Net book value	**622,475**	675,765

9. EQUITY ACCOUNTED INVESTEES

The balance of equity accounted investees as at 31 December contains investments in the following companies:

	Note	**2019**	2018
Petredec Limited	9.1	**1,094,767**	1,096,342
International Maritime Industries Company	9.2	**147,365**	168,999
		1,242,132	1,265,341

(In Thousands Saudi Riyals)

9. EQUITY ACCOUNTED INVESTEES (continued)

9.1. Petredec Limited

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

	2019	2018
Beginning Balance	**1,096,342**	1,171,911
Share of:		
Loss for the year	**(2,068)**	(67,236)
Other comprehensive income (loss) for the year	**493**	(8,333)
Ending balance	**1,094,767**	1,096,342

The fiscal year of Petredec Limited ends as at 31 August of each Gregorian year. The Group's share in Petredec Limited results for the financial year is recorded as per latest financial statements prepared. The difference between the latest financial statements prepared by the equity accounted investees and the Group's consolidated financial statements is two months.

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

	31 October 2019	31 October 2018
Current assets	**2,873,881**	4,514,325
Non-current assets	**5,941,195**	6,529,333
Current liabilities	**(2,039,806)**	(3,843,644)
Non-current liabilities	**(3,394,202)**	(3,806,830)
Net assets before non-controlling interest	**3,381,068**	3,393,184
Non-controlling interest	**(29,308)**	(36,228)
Net assets	**3,351,760**	3,356,956
Group's share in net assets (30.30%)	**1,015,684**	1,017,259
Goodwill	**79,083**	79,083
Carrying amount of investment in equity accounted investees	**1,094,767**	1,096,342
Revenue	**19,850,260**	29,255,265
Loss before non-controlling interest	**(5,305)**	(249,040)
Non-controlling interest	**109**	(337)
Total comprehensive (loss) for the year	**(5,196)**	(249,377)
Group's share of total comprehensive (loss) (30.30 %)	**(1,575)**	(75,569)

The equity accounted investees has SAR 1.5 billion contingent liabilities and capital commitments as at 31 October 2019 (31 October 2018: SAR 838 million).

(In Thousands Saudi Riyals)

9. EQUITY ACCOUNTED INVESTEES (continued)

9.2. International Maritime Industries Company

International Maritime Industries Company (IMI) was established in KSA with capital of SAR 1,107 million between the Company, (ARAMCO), Hyundai Heavy Industries (South Korean Company) and Lamprell Power Company Limited (a UAE-based Company). The Group's share in the established Company represents 19.9%.
The movement of investment in IMI as at 31 December is as follows:

	2019	2018
Beginning balance	**168,999**	74,625
Additional paid in capital	**-**	145,667
Share in results of equity accounted investees	**(21,634)**	(51,293)
Ending balance	**147,365**	168,999

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

	2019	2018
Current assets	**435,686**	861,758
Non-current assets	**518,419**	125,513
Current liabilities	**(210,776)**	(136,748)
Non-current liabilities	**(2,801)**	(1,283)
Net assets	**740,528**	849,240
Group's share in net assets (19.9%)	**147,365**	168,999
Carrying amount of investment in equity accounted investees	**147,365**	168,999
Revenue	**1,898**	-
Total comprehensive (loss) for the year	**(108,713)**	(257,756)
Group's share of total comprehensive (loss) (19.9%)	**(21,634)**	(51,293)

10. RECEIVABLES FROM FINANCE LEASE

On 30 January 2009, NCC 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. The finance lease agreement ended on 1 February 2019 as the lessee did not exercise the option to purchase the vessels. Accordingly, these vessels were returned to the company and recorded in property and equipment of SAR 106 million.

The net lease receivable balance is summarized as follows:

	2019	2018
Accounts receivable from finance leases	-	6,626
Unguaranteed residual value at the end of the contract	-	105,562
Gross finance lease	-	112,188
Unearned lease finance income	-	(1,079)
Net of receivables from finance lease	-	111,109
	-	
Current portion	-	5,547
Non-current portion	-	105,562
	-	111,109

(In Thousands Saudi Riyals)

10. RECEIVABLES FROM FINANCE LEASE (continued)

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

	MLPs 2019	**PV of MLPs 2019**	MLPs 2018	PV of MLPs 2018
Less than one year	-	-	6,626	5,547
More than one year but less than five years	-	-	105,562	105,562
Net investment receivable in finance leases	-	-	112,188	111,109

11. OTHER INVESTMENTS, INCLUDING DERIVATIVES

The balance of other investments includes the derivatives is as follow:

	2019	2018
Derivatives	**10,128**	69,207
Equity securities at FVOCI	**7,334**	7,334
Investment in government bonds	**83**	83
	17,545	76,624

12. INVENTORIES

The balance of inventory, located on the vessels, is as follow:

	2019	2018
Fuel	**360,707**	283,496
Lubricant	**43,943**	53,616
Others	**6,605**	6,933
	411,255	344,045

Fuel expenses amounted to SAR 1,552 million for the year ended 31 December 2019 (2018: SAR 1,084 million).

13. TRADE RECEIVABLES AND CONTRACT ASSETS

Trade receivable and contract assets include the following items:

	2019	2018
Trade receivables	**1,024,525**	681,868
Receivable from related parties (Note 26)	**531,490**	761,269
	1,556,015	1,443,137
Less: Provision on trade receivables and contract assets	**(132,921)**	(54,068)
	1,423,094	1,389,069
Contract assets (unbilled revenue)	**330,821**	494,647
Trade receivables and contract assets	**1,753,915**	1,883,716

The movement of provision on trade receivables and contract assets is as follows:

	2019	2018
Opening balance	**54,068**	32,766
Change for the year	**78,853**	21,302
Ending balance	**132,921**	54,068

(In Thousands Saudi Riyals)

13. TRADE RECEIVABLES AND CONTRACT ASSETS (continued)

The aging of trade receivables and contract assets is as follows:

	2019	2018
Less than 6 months	**1,488,183**	1,622,209
From 6 months to 12 months	**155,383**	134,449
More than 12 months	**243,270**	181,126
Total Trade receivables and contract assets	**1,886,836**	1,937,784

Included in trade receivables amounts due from Government entities amounting to SAR 591 million as at 31 December 2019 (2018: SAR 413 million). These amounts represent 34% of the net trade receivables as at 31 December 2019 (31 December 2018: 22%). 72% of the amounts due for more than 12 months are amounts due from Government entities.

14. PREPAYMENTS AND OTHER CURRENT ASSETS

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

	2019	2018
Prepaid expenses	**394,327**	264,300
Recoverable bunker cost	**161,348**	153,774
Insurance claims	**79,254**	33,863
Employees advances	**17,176**	17,274
Others	**6,530**	25,471
	658,635	494,682

15. CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent bank balances, cash, investments in Murabaha and short-term deposits.
For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise of the following:

	2019	2018
Bank balances and cash	**245,840**	228,513
Murabaha and short term deposits (Note 15.1)	**552,349**	364,293
Cash and cash equivalents in statement of cash flows	**798,189**	592,806
Amounts restricted by banks		
- Bank balances and cash	**(20,177)**	(17,681)
- Murabaha and short term deposits	**(24,507)**	(105,091)
Total amounts restricted by banks	**(44,684)**	(122,772)

15.1 Murabaha and Short-Term Deposits

Murabaha and short-term deposit comprise of the following:

	2019	2018
Murabaha and short - term deposits in USD	**408,861**	310,582
Murabaha and short - term deposits in Saudi Riyals	**143,488**	53,711
	552,349	364,293

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

(In Thousands Saudi Riyals)

16. SHARE CAPITAL

The Company's share capital is comprised of 393,750 thousand shares issued and fully paid with a par value of SAR 10 per share. Total authorized, issued, and outstanding share capital is SAR 3,937,500,000 as at 31 December 2019 and 31 December 2018.

17. SUKUK, LONG TERM AND SHORT-TERM LOANS

	Note	**2019**	2018
Sukuk	17.1	**3,900,000**	3,900,000
Murabaha loans	17.2	**5,338,020**	6,144,523
Commercial loans	17.3	**90,781**	127,094
Total sukuk and long-term loans		**9,328,801**	10,171,617
Less: Total current portion		**(881,768)**	(887,816)
Non-current sukuk and long-term loans		**8,447,033**	9,283,801
Less: prepaid financing		**(60,355)**	(70,954)
Net non-current sukuk and long-term loans		**8,386,678**	9,212,847
Short-term loans	17.4	**260,000**	96,000
Current portion of long-term loans		**881,768**	887,816
Loans - Current Liabilities		**1,141,768**	983,816
Loans - Non-Current Liabilities		**8,386,678**	9,212,847
		9,528,446	10,196,663

17.1 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 Suk. The Sukuk issuance bears a variable rate of return at (SIBOR) plus a predetermined margin, payable semi-annually. The Sukuk is due to mature at par value on its expiry date of 1 Muharram 1444 (corresponding to 30 July 2022).

17.2 Murabaha loans

The Group obtained long term loan during year ended 31 December 2019 for a total of SAR 45 million (31 December 2018: SAR 915 million). Loans are secured by promissory notes and mortgages against vessels (note 6). These loans are repayable over 10 years on quarterly or semi-annual basis. The loans carry commission at normal commercial rates. Balance of loans against which profit to be paid is based on LIBOR as at 31 December 2019 equivalent to SAR 2,555 million (31 December 2018: SAR 3,104 million) and balance of loans against which profit to be paid based on SIBOR at the end of 31 December 2019 amounted to SAR 2,783 million (31 December 2018: SAR 3,040 million). Balance in prepaid financing account related to Murabaha loans at the end of 31 December 2019 is SAR 60 million (31 December 2018: SAR 71 million).

17.3 Commercial loans

The Group did not obtain any long-term loan during year ended 31 December 2019 (31 December 2018: Nil). The existing loans are secured by mortgages against vessels (note 6). This loan is repayable over 10 years on semi-annual basis carrying special commission at LIBOR plus normal commercial margin. Balance of the loan against which profit to be paid based on LIBOR as at 31 December 2019 are SAR 91 million (31 December 2018: SAR 127 million).

17.4. Short Term Loans

The Group obtained short term loans during the year ended 31 December 2019 amounting to SAR 535 million (31 December 2018: SAR 586 million). The total repayment against short term loans during the year ended 31 December 2019 is SAR 371 million (31 December 2018: SAR 490 million). The existing loans were utilized to meet working capital requirements during the year.

(In Thousands Saudi Riyals)

17. SUKUK, LONG TERM AND SHORT-TERM LOANS (continued)
17.5. Covenants

Loan agreements include covenants mainly related to maintaining certain ratios of leverage and debt to equity ratio. Under the terms of these agreements, lenders are entitled to demand immediate repayment of loans if these covenants are not met.

17.6 Long term, short term loans related to subsidiary

17.6.1 National Chemical Carriers Limited Co.

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

	2019	2018
Murabaha loans	**1,335,847**	1,545,082
Commercial loans	**90,781**	127,094
Total long-term loans	**1,426,628**	1,672,176
Less: Total current portion	**(398,825)**	(245,547)
Non-current long-term loans	**1,027,803**	1,426,629
Less: prepaid financing	**(4,355)**	(5,044)
Net non-current long-term loans	**1,023,448**	1,421,585

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

	2019	2018
Murabaha loans	**418,650**	403,050
Total long-term loans	**418,650**	403,050
Less: Total current portion	**(29,400)**	(29,400)
Non-current long-term loans	**389,250**	373,650
Less: prepaid financing	**(4,351)**	(4,907)
Net non-current long-term loans	**384,899**	368,743
Short-Term Loans	**-**	6,000
Current Portion of Long-Term Loans	**29,400**	29,400
Loans - Current Liabilities	**29,400**	35,400
Loans - Non-Current Liabilities	**384,899**	368,743
	414,299	404,143

(In Thousands Saudi Riyals)

18. EMPLOYEES' BENEFITS

The Group has a post-employment defined benefit plan for its own employees. The benefits are required by Saudi Arabian Labour Law. The benefit is based on employees' final salaries and allowances and their cumulative years of service, as stated in the Labour law of Kingdom of Saudi Arabia

	2019	2018
Opening balance	**69,927**	69,467
Current service cost	**10,965**	9,591
Interest cost	**2,660**	2,511
Benefits paid	**(11,679)**	(12,026)
Re-measurement (gain) loss on defined benefit plans	**(1,084)**	384
Ending balance	**70,789**	69,927

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

	2019	2018
Discount rate	**3.00%**	4.15%
Withdrawal rate – for the first two years of service	**12.50%**	30.00%
Withdrawal rate – third year of service and above	**12.50%**	9.00%
Future salaries increase - for the first three years	**5.50%**	6.37%
Future salaries increase - fourth year and after	**5.50%**	6.37%

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

	2019	2018
Discount rate		
0.5 % increase	**(1,953)**	(2,259)
0.5% decrease	**2,068**	2,406
Withdrawal rate		
10% increase	**(846)**	(778)
10% decrease	**954**	845
Future salary increases		
1% increase	**4,459**	5,163
1% decrease	**(4,059)**	(4,645)

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

(In Thousands Saudi Riyals)

19. LEASES

Leases in which the Group is a lessee

The Group mainly leases its head office and administrative buildings.

Information about leases for which the Group is a lessee is presented below:

i. Right-of-use assets

	2019	2018
Balance at 1 January	**40,258**	
Depreciation charge for the year	**(10,818)**	-
Balance at 31 December	**29,440**	-

ii. Amounts recognised in consolidated statement of profit or loss

	2019	2018
Interest on lease liabilities	**278**	-
Expenses relating to short-term leases	**3,309**	-
Operating leases under IAS 17		
Lease expense	**10,818**	-

20. TRADE AND OTHER PAYABLES

	2019	2018
Trade payables	**526,177**	457,582
Accrued expenses	**352,842**	272,501
Unclaimed dividend	**49,601**	47,875
Value of sold shares (related to previous shareholders)	**20,014**	20,014
Others	**64,012**	75,368
	1,012,646	873,340

21. ZAKAT AND TAXES

The Group's zakat is based on financial statements of the Company and its wholly owned subsidiaries, in accordance with the General Authority of Zakat and Tax ("GAZT') regulations.

The Company and its wholly owned subsidiaries filed their zakat and tax returns separately.
The movement in the provision for zakat and taxes is as follows:

	2019	2018
Opening balance	**214,902**	232,029
Provided for the year	**58,052**	80,910
Payments during the year	**(89,616)**	(98,037)
Ending balance	**183,338**	214,902

(In Thousands Saudi Riyals)

21. ZAKAT AND TAXES (continued)

The movement in the provision for deferred tax is as follows:

	2019	2018
Opening balance	**23,511**	12,235
Provided for the year	**34,047**	11,276
Ending balance	**57,558**	23,511

Zakat and tax status of the Parent
The Company has filed its zakat returns up to 2018. All the assessment related to the years up to 2017 have been closed with GAZT. GAZT did not close or issue any assessment related to the year 2018. The Company believes that adequate provision have been made against any potential zakat and taxes liabilities.

Zakat and Taxes status for National Chemical Carriers Company
The Company has submitted its zakat returns for all fiscal years up to 2018 to the General Authority of Zakat and Tax (the “GAZT”), zakat assessments have been agreed with the General Authority of Zakat and Tax (“GAZT”) for all the years up to 2004. The Company has received from the GAZT zakat assessments for the years 2005 to 2008 and for the years from 2009 to 2012 claiming additional payments of SAR 10 million and SAR 42 million respectively. The Company has filed an appeal against the Preliminary Appeal Committee resolution related to the assessment for the years from 2005 to 2008 to the higher appeal committee and still not resolved as of the date of these financial statement.
The Company also filed an appeal against the assessment for the years from 2009 to 2012, and the appeal is still under review with the GAZT.
The Company did not receive from GAZT the zakat assessments for the years from 2013 to 2018. The subsidiary company believes that adequate provisions have been made against any potential zakat and tax liabilities.

Zakat and Tax status for Bahri Dry Bulk
The Company submitted its zakat and tax returns for the years up to 2018. The GAZT has not issue any zakat assessments on the subsidiary company since 2010 (date of incorporation). The subsidiary company believes that adequate provisions have been made against any potential zakat and taxes liabilities.

Zakat and tax status for Bahri Bollore
The company submitted its Zakat/Tax returns for the years up to 2018. GAZT has issued zakat/tax assessment for the year 2018 claiming additional liability of SR 663 thousand in addition to the related penalties. The Company also filed an appeal against the assessment, and the appeal is still under review with the GAZT.

22. GENERAL AND ADMINISTRATIVE EXPENSES

	2019	2018
Employees’ salaries and benefits	**110,333**	98,932
Professional, legal and consultation fees	**11,734**	9,695
Marketing and communication	**8,971**	8,228
Rent	**7,682**	7,432
Maintenance	**6,319**	8,116
Depreciation	**5,974**	5,824
Others	**3,050**	9,987
	154,063	148,214

(In Thousands Saudi Riyals)

23. OTHER INCOME / (EXPENSES), NET

	2019	2018
Gains on disposal of property and equipment	**14,701**	11,921
Finance Income	**8,594**	7,544
Impairment of financial assets and finance lease	**-**	(13,987)
Others	**5,642**	5,240
	28,937	10,718

24. FINANCE COSTS

	2019	2018
Murabaha financing	**245,734**	239,802
Saudi Riyal sukuk	**146,506**	127,599
Drivatives re-valuation	**67,822**	17,447
Commercial loans	**3,384**	4,265
Lease liabilities	**278**	-
	463,724	389,113

25. EARNINGS PER SHARE

	2019	2018
Profit for the year attributable to equity holders of the parent Company	**620,702**	481,238
Weighted average number of ordinary shares outstanding during the year	**393,750,000**	393,750,000
Earnings per share – basic	**1.58**	1.22
Earnings per share – diluted	**1.58**	1.22

26. RELATED PARTIES

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

	2019	2018
ARAMCO and its subsidiaries - *shareholder*	**2,239,962**	2,288,360
International Shipping and Transportation Co. Ltd.	**597,569**	460,466
Arabian Agricultural Services Company (ARASCO)	**106,959**	112,059

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

	2019	2018
ARAMCO and its subsidiaries – *shareholder*	**468,191**	651,454
International Shipping and Transportation Co. Ltd.	**59,220**	109,354
Arabian Agricultural Services Company (ARASCO)	**4,079**	461
	531,490	761,269

Long-term loans from related parties is as follows:

	2019	2018
Public Investment fund (PIF) – *shareholder*	**265,156**	364,625

Compensation of key management personnel:

	2019	2018
Salaries and compensations	**12,073**	8,425
End of service award	**613**	565
Total Compensation	**12,686**	8,990

(In Thousands Saudi Riyals)

27. JOINT OPERATIONS

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

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

28. FINANCIAL INSTRUMENTS

28.1. Financial Assets

	Note	**2019**	2018
Financial assets at fair value			
Derivatives not designated as hedging instruments:			
CAP commission options	28.3	**10,128**	69,207
Financial assets at fair value through OCI			
Unquoted equity shares	11	**7,334**	7,334
Total financial assets at fair value		**17,462**	76,541
Financial assets at amortized cost			
Trade receivables and contract assets	13	**1,753,915**	1,883,716
Other investments	11	**83**	83
Murabaha and short-term deposits	15.1	**552,349**	364,293
Receivable from finance lease		**-**	105,562
Cash and cash equivalent		**245,840**	228,513
Total financial assets at amortized cost		**2,552,187**	2,582,167
Total financial assets		**2,569,649**	2,658,708

28.2 Financial Liabilities

	Note	**2019**	2018
Financial liabilities at fair value			
Derivative financial instruments		**7,553**	-
Financial liabilities at amortized cost			
Sukuk and Short/ long Term loans	17	**9,528,446**	10,196,663
Trade and other payables	20	**1,012,646**	873,340
Lease liabilities		**23,626**	-
Total financial liabilities at amortized cost		**10,564,718**	11,070,003
Total financial liabilities		**10,572,271**	11,070,003

(In Thousands Saudi Riyals)

28. FINANCIAL INSTRUMENTS (continued)

28.3 Fair values of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in an arm's length transaction. Financial instruments comprised of financial assets and financial liabilities.
When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

The fair value hierarchy is as follows:

	2019			
	Qouted prices in the active market (Level 1)	**Significant observable inputs (Level 2)**	**Significant Unobservable inputs (Level 3)**	**Total**
	SAR'000	**SAR'000**	**SAR'000**	**SAR'000**
FVOCI – equity instrument:				
Unquoted equity shares *	-	-	**7,334**	**7,334**
Derivatives measured at fair value through statement of income				
CAP commission option				
Assets	-	**10,128**	-	**10,128**
Liabilities	-	**7,553**	-	**7,553**

	2018			
	Qouted prices in the active market (Level 1)	Significant observable inputs (Level 2)	Significant Unobservable inputs (Level 3)	Total
	SAR'000	SAR'000	SAR'000	SAR'000
FVOCI – equity instrument:				
Unquoted equity shares *	-	-	7,334	7,334
Derivatives measured at fair value through statement of income				
CAP commission option (assets)	-	69,207	-	69,207

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

28.4 Financial Risk Management

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

(In Thousands Saudi Riyals)

28 FINANCIAL INSTRUMENTS (continued)

28.4 Financial Risk Management (continued)

The financial instruments in the consolidated statement of financial position are comprised primarily of cash and cash equivalent, other investments, trade receivables and contract assets, financing, trade and other payables, lease liabilities, derivative financial instruments.

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

28.4.1. Credit risk

Credit risk is the risk that one party will fail to discharge an obligation and cause the other party to incur a financial loss. The Group seeks to manage its credit risk by dealing with reputable banks and with respect to customers by setting credit limits for individual customers, monitoring outstanding receivables and ensuring close follow-ups.
The Group uses an allowance matrix to measure the ECLs of trade receivables and contract assets from governments and commercial customers.
Loss rates are calculated using a roll rate method based on the probability of a receivable progressing through successive stages of delinquency to write-off. Roll rates are calculated separately for exposures in different segments based on the following common credit risk characteristics- governments and commercial.

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

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

28.4.2. Liquidity risk

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

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

	2019					
	Carrying amount	**Total**	**Within 3 months**	**3 to 12 months**	**1 to 5 years**	**More than 5 years**
Short term loans	**260,000**	**260,000**	**260,000**	**-**	**-**	**-**
Long term loans	**5,368,446**	**5,428,801**	**189,309**	**692,460**	**3,389,674**	**1,157,358**
Sukuk	**3,900,000**	**3,900,000**	**-**	**-**	**3,900,000**	**-**
Lease liabilities	**23,626**	**28,638**	-	-	**16,173**	**12,465**
Trade and other payables	**1,012,646**	**1,012,646**	**683,457**	**329,189**	**-**	**-**
Derivative financial instrument	**7,553**	**10,770**	**301**	**381**	**7,145**	**2,943**
	10,572,271	**10,640,855**	**1,133,067**	**1,022,030**	**7,312,992**	**1,172,766**

(In Thousands Saudi Riyals)

28. FINANCIAL INSTRUMENTS (continued)
28.4. Financial Risk Management (continued)
28.4.2. Liquidity risk (continued)

	2018					
	Carrying amount	Total	Within 3 months	3 to 12 months	1 to 5 years	More than 5years
Short term loans	96,000	96,000	96,000	-	-	-
Long term loans	6,200,663	6,271,617	332,819	554,997	3,185,265	2,198,536
Sukuk	3,900,000	3,900,000	-	-	3,900,000	-
Trade and other payable	873,340	873,340	455,391	417,949	-	-
	11,070,003	11,140,957	884,210	972,946	7,085,265	2,198,536

The Group has unutilized credit facilities of SAR 2,019 million as at 31 December 2019 (31 December 2018: SAR 2,154 million) to meet liquidity requirements.

28.4.3 Market risk

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

Currency risk

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

Commission rate risk

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

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

	2019	2018
Profit rate		
Increase by 100 base points	**97,502**	102,518
Decrease by 100 base points	**(97,502)**	(102,518)

Price risk

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

(In Thousands Saudi Riyals)

28. FINANCIAL INSTRUMENTS (continued)
28.4. Financial Risk Management (continued)

28.4.4 Capital management

For the purpose of the Group's capital management, capital includes issued capital, share premium and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group monitors capital using a debt ratios, which is net debt divided by total capital plus net debt. The Group includes within net debt, Sukuk and long-term loans, trade and other payables, lease liabilities, less cash and short-term deposits.

	2019	2018
Sukuk and long-term loan (note 17)	**9,328,801**	10,171,617
Trade and other payables (note 20)	**1,012,646**	873,340
Lease liabilities	**23,626**	-
Less: Cash and cash equivalent (note 15)	**(753,505)**	(470,034)
Net Debt	**9,611,568**	10,574,923
Total equity	**9,676,871**	9,819,301
Total capital	**9,676,871**	9,819,301
Capital and net debt	**19,288,439**	20,394,224
Gearing ratio	**49.83%**	51.85%

29. CAPITAL COMMITMENTS AND CONTINGENCIES

Capital commitments

The Group's capital commitment related to ships under construction and the purchase of property and equipment was SAR 575 million as of 31 December 2019 (31 December 2018: SAR 315 million).

The Group signed an agreement on 30 May 2018 with Saudi Arabian Oil Company (ARAMCO), Hyundai Heavy Industries Ltd. (South Korea) and Lamprell Power Company Limited (UAE) to enter into a partnership for the establishment, development, and operation of a maritime yard in Ras Al Khair City named International Maritime Industries Company (IMI). The partners injections will total SAR 2.625 billion (USD 700 million) of the project cost. As of 31 December 2019, the injected capital from partners was SAR 1.107 billion (USD 295.2 million). The ownership in IMI is as follows; ARAMCO (50.1%), The National Shipping Company of Saudi Arabia (19.9%), Lamprell Power Company Limited (20%), and Hyundai Heavy Industries (10%). The Group has signed an offtake agreement 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" - subject to commercial terms and conditions.

Contingencies

The Group has outstanding bank letters of guarantee for SAR 287 million as at 31 December 2019 (31 December 2018: SAR 269 million) issued for the Group's normal course of business. Also, Bahri issued through bank Corporate Guarantee to equity accounted investees of SAR 746 million as of 31 December 2019 (31 December 2018: SAR 746 million).

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

(In Thousands Saudi Riyals)

29. CAPITAL COMMITMENTS AND CONTINGENCIES (continued)

Operating lease– Group as a lessor

The Group, as a lessor, lease certain vessels to a related party based on time charter agreement. The future amounts receivable under this lease agreement are as follow:

	2019	2018
Within one year	**438,549**	392,509
After one year but not more than five years	**1,028,848**	1,268,573
More than five years	**304,961**	113,851
	1,772,358	1,774,933

Income from time charter agreements under operating lease amounted to SAR 557 million for the year ended 31 December 2019 (31 December 2018: SAR 524 million).

30. DIVIDENDS

The General Assembly of the shareholders of the Company approved in its meeting held on 17th of April 2018 the distribution of cash dividends of SAR 591 million to the shareholders for the financial year ended 31 December 2017, amounted to SAR 1.5 per share. These dividends have been paid on 3rd of May 2018.

The General Assembly of the shareholders of the Company approved in its meeting held on 14th of April 2019 the distribution of cash dividends of SAR 591 million to the shareholders for the financial year ended 31 December 2018, amounted to SAR 1.5 per share and represented 15% of the share par value. These dividends have been paid on 28th of April 2019.

The Board of Directors decided in its meeting held on 26th of September 2019 to distribute cash dividends of SAR 197 million to the shareholders for the 1st half of the financial year 2019 amounted to SAR 0.5 per share. These dividends have been paid on 15th of October 2019.

The Board of Directors decided in its meeting held on 19th of January 2020 to recommend to the General Assembly of the Company the distribution of cash dividends of SAR 394 million to the shareholders for the 2nd half of the financial year ended 31 December 2019 amounted to SAR 1 per share.

31. NON-CONTROLLING INTERESTS IN SUBSIDIARIES

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

2019	**National Chemical Carrier Company Limited**	**Bahri Dry Bulk LLC & Bahri Bunge Dry Bulk**	**Bahri Bolloré Logistics**	**Total**
Non-controlling interest Percentage	**20%**	**40%**	**40%**	
Non-current assets	**2,683,145**	**733,146**	**-**	**3,416,291**
Current assets	**493,990**	**102,957**	**106,108**	**703,055**
Non-current liabilities	**(1,035,332)**	**(400,182)**	**(4,731)**	**(1,440,245)**
Current liabilities	**(609,944)**	**(86,117)**	**(60,465)**	**(756,526)**
Net assets	**1,531,859**	**349,804**	**40,912**	**1,922,575**
Non-controlling interests relating to the subsidiary	**-**	**2,045**	**-**	**2,045**
Net assets attributable to non-controlling interests	**306,372**	**141,967**	**16,365**	**464,704**
Revenue	**1,105,142**	**420,053**	**160,959**	**1,686,154**
Profit	**55,679**	**9,201**	**10,911**	**75,791**
Non-controlling interests relating to the subsidiary	**-**	**3,611**	**-**	**3,611**
Profit attributable to non-controlling interests	**11,136**	**7,291**	**4,364**	**22,791**

(In Thousands Saudi Riyals)

31. NON-CONTROLLING INTERESTS IN SUBSIDIARIES (continued)

2018	National Chemical Carrier Company Limited	Bahri Dry Bulk LLC & Bahri Bunge Dry Bulk	Bahri Bolloré Logistics	Total
Non-controlling interest Percentage	20%	40%	40%	
Non-current assets	2,893,727	663,410	-	3,557,137
Current assets	447,294	123,185	100,057	670,536
Non-current liabilities	(1,424,453)	(368,438)	(5,913)	(1,798,804)
Current liabilities	(440,434)	(78,182)	(64,582)	(583,198)
Net assets	1,476,134	339,975	29,562	1,845,671
Non-controlling interests relating to the subsidiary	-	(1,612)	-	(1,612)
Net assets attributable to non-controlling interests	295,227	134,378	11,825	441,430
Revenue	872,174	387,390	116,789	1,376,353
Profit	43,831	18,311	1,034	63,176
Non-controlling interests relating to the subsidiary	-	(9,385)	-	(9,385)
Profit attributable to non-controlling interests	8,766	(2,061)	414	7,119

32. SUBSEQUENT EVENTS

In the opinion of management, there have been no significant subsequent events since the year ended 31 December 2019 that would have material impact on the consolidated statement of financial position of the Group as part of these consolidated financial statements.

33. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Board of Directors has approved the consolidated financial statements for the year ended 31 December 2019 on their meeting held on 7 Rajab 1441H (corresponding to 2 March 2020).