

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

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2016



(The National Shipping Company of Saudi Arabia)
(A Saudi Joint Stock Company)
Consolidated Financial Statements
For the year ended December 31, 2016
And Auditors' report

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**AUDITORS' REPORT TO THE SHAREHOLDERS OF
THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA
(A SAUDI JOINT STOCK COMPANY)**

Scope of Audit

We have audited the accompanying consolidated balance sheet of The National Shipping Company of Saudi Arabia - a Saudi Joint Stock Company (the "Company"), and its subsidiaries (the "Group") as at 31 December 2016 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended. These consolidated financial statements are the responsibility of the Group's management and have been prepared by them in accordance with the requirements of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the consolidated financial statements.

Unqualified Opinion

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

- i) present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016 and the consolidated results of its operations and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.
- ii) comply with the requirements of the Regulations for Companies and the Company's by-laws in so far as they affect the preparation and presentation of the consolidated financial statements.

for Ernst & Young



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



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



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

		2016	2015
ASSETS	Note		
Current assets:			
Bank balances and cash	3	171,731	173,265
Murabaha and short term deposits	4	1,908,262	1,066,597
Trade receivables, net	5	1,083,477	1,001,104
Lease receivable for vessels, net	6	35,067	27,901
Prepaid expenses and other receivables	7	311,941	163,686
Agents' current accounts		67,974	47,587
Inventories	8	240,675	203,610
Accrued bunker subsidy, net	9	78,108	150,412
Incomplete voyages		-	6,369
Total current assets		3,897,235	2,840,531
Non-current assets:			
Lease receivable for vessels, net	6	295,313	330,381
Investments held to maturity		10,083	10,043
Investments available for sale		13,533	13,533
Investment in an associated company	10	1,123,848	1,027,941
Deferred dry-docking cost, net	11	241,466	126,586
Intangible assets, net	12	772,064	849,464
Fixed assets, net	13	13,744,303	12,798,271
Ships under construction and others	14	1,235,565	1,099,901
Total non-current assets		17,436,175	16,256,120
Total assets		21,333,410	19,096,651
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable and accruals	15	747,261	928,326
Murabaha and long-term financing -current portion	16	1,001,146	547,016
Dividends payable	17	37,431	35,095
Provision for zakat and tax	18	219,553	296,811
Incomplete voyages		17,287	-
Other liabilities	19	-	30,704
Total current liabilities		2,022,678	1,837,952
Non-current liabilities:			
Murabaha, Sukuk and long-term financing	16	8,745,442	7,505,847
Employees' end of service benefits		54,348	53,774
Total non-current liabilities		8,799,790	7,559,621
Total liabilities		10,822,468	9,397,573
Equity:			
Shareholders' equity			
Share capital	1	3,937,500	3,937,500
Statutory reserve		2,373,804	2,197,890
Retained earnings	17	3,746,319	3,149,268
Total shareholders' equity		10,057,623	9,284,658
Non-controlling interests		453,319	414,420
Total equity		10,510,942	9,699,078
Total liabilities and equity		21,333,410	19,096,651

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



(The National Shipping Company of Saudi Arabia)
(A Saudi Joint Stock Company)
Consolidated Statements of Income
For the Year Ended 31 December, 2016
(In Thousands Saudi Riyals)

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

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



(The National Shipping Company of Saudi Arabia)
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Consolidated Statements of Cash Flow
For the Year Ended 31 December 2016
(In Thousands Saudi Riyals)

	<u>Note</u>	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:			
Net income for the year		1,759,140	1,817,583
Adjustments to reconcile net income for the year to net cash flows from operating activities:			
Depreciation	13	791,055	713,072
Amortization of deferred dry-docking costs	11	82,182	53,370
Amortization of intangible assets	12	52,732	54,037
(Reversal of) provision for doubtful account	5,21	(23,877)	31,027
Share in results of an associated company	10	(147,044)	(184,683)
Loss (gain) on sale of fixed assets	22	32,942	(5,107)
Non-controlling interests in consolidated subsidiaries' net income		38,899	44,223
Provision for zakat and tax	18	(43,527)	181,354
Employees' end of service benefits, net		574	940
		<u>2,543,076</u>	<u>2,705,816</u>
Changes in operating assets and liabilities:			
Trade receivables, net		(58,496)	(370,379)
Bareboat lease receivable, net		27,902	21,140
Prepayments and other receivables		(148,255)	651
Agents' current accounts		(20,387)	28,747
Inventories		(37,065)	123,880
Accrued bunker subsidy, net		72,304	46,995
Incomplete voyages		23,656	(16,182)
Accounts payable and accruals		(181,065)	409,820
Other liabilities		(30,704)	-
Zakat and withholding tax paid	18	(33,731)	(27,441)
Net cash flows from operating activities		<u>2,157,235</u>	<u>2,923,047</u>
Cash flows from investing activities:			
Murabaha and short-term deposits		(20,285)	(20,271)
Investments held to maturity		(40)	544
Dividends received from an associated company	10	51,137	62,500
Additions to fixed assets	13	(1,601,104)	(522,119)
Proceeds from sale of fixed assets	13	47,913	6,450
Ships under construction and others, net	14	(327,834)	(1,098,412)
Deferred dry-docking costs	11	(197,062)	(57,790)
Net cash used in investing activities		<u>(2,047,275)</u>	<u>(1,629,098)</u>
Cash flows from financing activities:			
Repayment of short-term Murabaha financing		-	(3,459,313)
Proceeds from Murabaha and long-term financing		2,146,128	3,900,000
Repayment of Murabaha and long-term financing		(452,403)	(558,329)
Dividends paid	17	(982,039)	(344,784)
Board of directors rewards		(1,800)	(2,000)
Net cash from (used in) financing activities		<u>709,886</u>	<u>(464,426)</u>
Net change in cash and cash equivalents during the year		<u>819,846</u>	<u>829,523</u>
Cash and cash equivalents at the beginning of the year		<u>1,142,831</u>	<u>313,308</u>
Cash and cash equivalents at the end of the year	3	<u>1,962,677</u>	<u>1,142,831</u>
Major non-cash transactions:			
Ships under construction and others transferred to fixed assets	13,14	<u>192,170</u>	<u>10,550</u>

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



(The National Shipping Company of Saudi Arabia)
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Consolidated Statements of Change in Shareholders' Equity
For the Year Ended 31 December 2016
(In Thousands Saudi Riyals)

	Share capital	Statutory reserve	Retained earnings	Total
Balance as at December 31, 2014	3,937,500	2,016,132	1,861,440	7,815,072
Net income for the year	-	-	1,817,583	1,817,583
Transfer to statutory reserve	-	181,758	(181,758)	-
Dividends (note 17)	-	-	(345,997)	(345,997)
Boards' Members Compensation	-	-	(2000)	(2000)
Balance as at December 31, 2015	3,937,500	2,197,890	3,149,268	9,284,658
Net income for the year	-	-	1,759,140	1,759,140
Transfer to statutory reserve	-	175,914	(175,914)	-
Dividends (note 17)	-	-	(984,375)	(984,375)
Boards' Members Compensation	-	-	(1,800)	(1,800)
Balance as at December 31, 2016	3,937,500	2,373,804	3,746,319	10,057,623

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



(The National Shipping Company of Saudi Arabia)
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Notes To The Consolidated Financial Statements – Continued
December 31, 2016
(In Thousands Saudi Riyals)

1. ORGANIZATION AND OPERATIONS

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

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

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

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

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

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

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

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



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Notes To The Consolidated Financial Statements – Continued
December 31, 2016
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1. ORGANIZATION AND OPERATIONS (continued)

The Group Fleet:

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

a. *New accounting framework*

Effective January 1, 2017, the Company's financial statements will be prepared under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and endorsed by the Saudi Organization for Certified Public Accountants ("SOCPA"). Upon IFRS adoption, the Company will be required to comply with the requirements of IFRS 1 - First-time Adoption of International Financial Reporting Standards for the reporting periods starting January 1, 2017. In preparing the opening IFRS financial statements, the Company will analyze impacts and incorporate certain adjustments due to the first time adoption of IFRS.

b. *Accounting convention*

The accompanying consolidated financial statements are prepared in accordance with the accounting standard generally accepted in the Kingdom of Saudi Arabia and under the historical cost convention, except for investments available for sale and the financial derivatives, which are measured at fair value. The Company applies the accruals basis of accounting in recognizing revenues and expenses.

c. *Period of financial statements*

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



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Notes To The Consolidated Financial Statements – Continued
December 31, 2016
(In Thousands Saudi Riyals)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

d. Basis of consolidation

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

e. Use of estimates

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

f. Cash and cash equivalents

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

g. Trade accounts receivable

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

h. Accounting for finance leases

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



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December 31, 2016
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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

i. *Inventories*

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

j. *Deferred dry-docking costs*

The Group amortizes the deferred dry-docking costs over a period of two to five years from the date of completion of dry-docking depending on the type of vessel. Where a vessel undergoes another dry-docking operation during the specified amortization period, any unamortized balance of deferred dry-docking costs of the related vessels are fully charge to the consolidated statement of income of the period in which new dry-docking operation is started.

k. *Investments*

1- Investments in associated companies:

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

2- Investments in securities:

Investments in securities are classified into three categories as follows:

- **Investments held for trading**

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

- **Investments held to maturity**

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

- **Investments available for sale**

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

l. Intangible assets

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

m. Fixed assets

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

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

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

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

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

n. Impairment of non-current assets

The carrying value of non-current assets is reviewed for any indication of a loss as a result of impairment. If such indication exists, the recoverable amount is determined. The recoverable amount is the higher of the asset's fair value less cost to sell and value in use. If the recoverable amount cannot be determined for an asset, the group will estimate the recoverable amount at the cash-generating units to which belongs to.

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

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



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Notes To The Consolidated Financial Statements – Continued

December 31, 2016

(In Thousands Saudi Riyals)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

o. Accounts payable and accruals

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

p. Provisions

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

q. Zakat and taxes

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

r. Employees' end of service benefits

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

s. Hedge agreements and derivative financial instruments

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

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

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



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Notes To The Consolidated Financial Statements – Continued

December 31, 2016

(In Thousands Saudi Riyals)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

t. Statutory reserve

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

u. Revenue recognition

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

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

v. Bunker subsidy

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

w. Operating leases

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

x. Earnings per share and proposed dividends

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

y. Segment reporting

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

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

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3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent bank balances and cash, and investments in Murabaha and short-term deposits, out of which SR 117.32 million as of December 31, 2016 (2015: SR 97.03 million).

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

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

4. MURABAHA AND SHORT-TERM DEPOSITS

Murabaha and short-term deposits comprise the following at December 31:

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

5. TRADE RECEIVABLES, NET

Trade receivables, net comprise the following at December 31:

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

Movement in provision for doubtful debts is as follows:

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



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6. BAREBOAT LEASE RECEIVABLE, NET

On January 30, 2009, National Chemical Carriers Ltd, Co, signed agreements with Odfjell to charter three vessels under a bareboat arrangement for a period of ten years with a purchase option after three years, These ships were delivered to Odfjell on February 1, 2009, The arrangement is considered as a finance lease as it transfers to Odfjell substantially all the benefits and risks and also gives Odfjell a purchase option under the arrangement, The net bareboat lease receivable balance as of December 31 is summarized as follows:

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

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

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

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

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

Income related to the above arrangement for the year ended December 31, 2016 amounted to SR 41.75 million (2015: SR 44.21 million) and is included in operating revenues in the consolidated statement of income.

7. PREPAYMENTS AND OTHER RECEIVABLES

Prepayments and other receivables comprise the following at December 31:

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

8. INVENTORIES

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

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



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9. ACCRUED BUNKER SUBSIDY, NET

Accrued bunker subsidy, net comprise the following at December 31:

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

10. INVESTMENT IN AN ASSOCIATED COMPANY

The movement of investment in the associated company for the year ended December 31 is as follows:

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

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

11. DEFERRED DRY-DOCKING COSTS, NET

Deferred dry-docking costs, net comprise the following at December 31:

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

Movement in the dry-docking costs is as follows:

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

12. INTANGIBLE ASSETS, NET

Intangible assets, net comprise the following at December 31:

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



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13. FIXED ASSETS, NET

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

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

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



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14. SHIPS UNDER CONSTRUCTION AND OTHERS

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

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

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

The Company signed on May 21, 2015, and June 30, 2015 contracts with the Korean company Hyundai Samho Heavy Industries for building ten VLCCs for a total amount of SR 3.56 billion (USD 948.90 million), which will be received during the year 2017 and 2018 (note 23). The Company paid an advance payment of SR 1,068 million (USD 284.69 million).

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

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

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

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



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15. ACCOUNTS PAYABLE AND ACCRUALS

Accounts payable and accruals comprise the following at December 31:

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

16. MURABAHA, SUKUK, AND LONG-TERM FINANCING

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

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

	2016			
Financing	The Company	Subsidiaries	Total	%
Local Sukuk denominated in Saudi Riyals*	3,900,000	-	3,900,000	40%
Murabaha financing	2,663,396	2,299,098	4,962,494	51%
Public Investment Fund "Murabaha financing"	684,375	-	684,375	7%
Public Investment Fund finance "commercial loans"	-	199,719	199,719	2%
Total Murabaha, Sukuk, and long term financing	7,247,771	2,498,817	9,746,588	100%
Less: current portion of Murabaha and long-term financing	(508,093)	(493,053)	(1,001,146)	-
Net non-current portion of Murabaha, Sukuk, and long term financing	6,739,678	2,005,764	8,745,442	-



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16. MURABAHA, SUKUK, AND LONG-TERM FINANCING (Continued)

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

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

- The financing costs are calculated as per the financing agreements at market prevailing rates.
- Certain VLCCs and petrochemical carriers are mortgaged in favor of the lending parties, the net book value as of December 31, 2016 amounted to SR 6.45 billion (2015: SR 4.51 billion).

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

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



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17. EARNINGS PER SHARE AND DIVIDENDS

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

The Board of Directors decided in its meeting held on December 15, 2016 to recommend to the General Assembly of the Company the distribution of cash dividends of SR 984.38 million to the shareholders for the financial year ended December 31, 2016, which amounts to SR 2.5 per share, and represents 25% of the share par value. The dividends was distributed on January 31, 2017 after the General Assembly approval on January 16, 2017.

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

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

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

18. ZAKAT AND WITHHOLDING TAX

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

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

Provision for Zakat and Withholding Tax

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

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

The Company's Zakat and Tax status

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



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18. ZAKAT AND WITHHOLDING TAX (continued)

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

Provision for the withholding tax has been recalculated and reduced by SR 150 million, per the GAZT letter obtained during this year advising that tax should not be withheld on shipping operations’ payments made by the Company to non-residents parties, since they are withheld and paid by another party.

Zakat and Tax status for National Chemical Carriers Company

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

Zakat and Tax status for Bahri Dry Bulk

Bahri Dry Bulk has filed its zakat returns for the years up to 2015, and the GAZT has not issue any zakat assessments on the subsidiary company since 2010 (date of incorporation). The subsidiary company believes that adequate provisions have been made against any potential zakat liability.

19. OTHER LIABILITIES

This item represents the total amounts received from one of the ships building companies as at 31 December 2016 and 2015 against charging this company with repair costs of the tanks related to the six vessels built for the National Chemical Carrier Company (subsidiary). Therefore, it was agreed to charge the ships building company an amount of SR 6.12 million for each ship. Maintenance was conducted for one of the vessels during the year 2013, and during the year ended 2016 maintenance was conducted for the five other vessels within the maintenance period, which resulted in an excess amount of SR 27.81 million. The excess amount has been recognized in other income (note 22).

20. RELATED PARTY TRANSACTIONS

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

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

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

Balances of such transactions as at December 31 are as follows:

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

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



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21. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the year ended December 31 comprises the following:

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

22. OTHER INCOME, NET

Other income, net for the year ended 31 December comprises the following:

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

23. CAPITAL CONTINGENT LIABILITIES

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

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

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

24. SEGMENTAL INFORMATION

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

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

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

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

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

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

2015					
	Oil Transportation	Petrochemical Transportation	General Cargo Transportation	Dry Bulk Transportation	Shared Assets and Liabilities* Total
Assets	11,130,741	3,330,214	1,873,699	707,543	2,054,454
Liabilities	5,001,143	1,857,337	1,120,809	407,934	1,010,350

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

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

25. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

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

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

Commission rate risk

Commission rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market commission rates. The Group is subject to commission rate risk on its commission rate bearing assets and liabilities, including bank deposits and loans. The Group manages its exposure to commission rate risk by continuously monitoring movements in commission rates.

Credit risk

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

Liquidity risk

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

Currency risk

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

Fair value

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



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(In Thousands Saudi Riyals)

26. DERIVATIVES FINANCIAL INSTRUMENTS

The Group has derivative financial instruments including commission rate swaps agreements. The nominal amount of these financial instruments is SR 96.27 million as of December 31, 2016 (2015: SR 31.78 million) for total loan of SR 4.09 billion (2015: SR 1.53 billion). The unrealized losses from the revaluation of such agreements for the year amounted to SR 10.93 million (2015: SR 6.34 million), and these losses are included in the Financial charges. These agreements are revaluated in a regular basis to recorded any unrealized gains or losses, if any.

27. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The board of directors has approved the consolidated financial statements for the year ended December 31, 2016 on its meeting held on Jumad Thani 1, 1438H (corresponding to February 28, 2017).

28. RECLASSIFICATION

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