



THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA

(A Saudi Joint Stock Company)

Condensed Interim Consolidated
Financial Statements (Unaudited)

and review report for the three-month period and the year ended at
31 December 2018

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Independent Auditors' Report On Review of Interim Financial Statements to the Shareholders of The National Shipping Company of Saudi Arabia

Introduction

We have reviewed the accompanying 31 December 2018 condensed consolidated interim financial statements of The National Shipping Company of Saudi Arabia ("the Company") and its subsidiaries ("the Group") which comprises:

- the condensed consolidated statement of financial position as at 31 December 2018;
- the condensed consolidated statement of profit or loss for the three-month period and year ended 31 December 2018;
- the condensed consolidated statement of comprehensive income for the three-month period and year ended 31 December 2018;
- the condensed consolidated statement of changes in equity for the year ended 31 December 2018;
- the condensed consolidated statement of cash flows for the year ended 31 December 2018; and
- the notes to the condensed consolidated interim financial statements.

Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with IAS 34, 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 31 December 2018 condensed consolidated interim financial statements of The National Shipping Company of Saudi Arabia and its subsidiaries are not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia.

Independent Auditors' Report On Review of Interim Financial Statements to the Shareholders of The National Shipping Company of Saudi Arabia (continued)

Other matter

The consolidated financial statements of the Group for the year ended 31 December 2017 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on 4 March 2018. However, the accompanying condensed consolidated statement of profit or loss and statement of comprehensive income for the three-month period from 1 October 2017 to 31 December 2017 and any of the related notes were neither audited nor reviewed by us or another auditor. Accordingly, we do not express an audit opinion or a review conclusion on them.

**For KPMG Al Fozan & Partners
Certified Public Accountants**



Abdullah Hamad Al Fozan
License No: 348

Date: 24 Jumada al-Awwal 1440H
Corresponding to: 30 January 2019

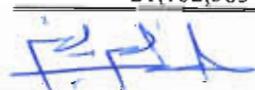


THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA
(A Saudi Joint Stock Company)
Condensed interim consolidated statement of financial position
As at 31 December 2018

	Note	31 December 2018 (Unaudited) SAR '000	31 December 2017 (Audited) SAR '000
ASSETS			
NON-CURRENT ASSETS			
Property and equipment	6	15,623,148	14,746,536
Ships under construction	7	138,764	959,390
Intangible assets		667,409	719,593
Investment in associates		1,265,341	995,161
Receivables from finance lease		105,562	121,735
Other investments, including derivatives		76,624	78,366
TOTAL NON-CURRENT ASSETS		17,876,848	17,620,781
CURRENT ASSETS			
Receivables from finance lease - current portion		5,547	56,860
Inventories		344,045	290,759
Trade and other receivables		1,883,716	1,474,988
Prepayments and other current assets		494,682	297,379
Investment held for sale		-	251,375
Murabaha and short-term deposits		364,293	692,921
Cash and cash equivalents		228,513	497,520
TOTAL CURRENT ASSETS		3,320,796	3,561,802
TOTAL ASSETS		21,197,644	21,182,583
EQUITY AND LIABILITIES			
EQUITY			
Share capital		3,937,500	3,937,500
Statutory reserve		964,732	964,732
Share premium		1,489,103	1,489,103
Other reserves		(13,302)	(5,342)
Retained earnings		2,999,838	3,109,225
Equity attributable to equity holders of the parent company		9,377,871	9,495,218
Non-controlling interests		441,430	422,813
TOTAL EQUITY		9,819,301	9,918,031
LIABILITIES			
NON-CURRENT LIABILITIES			
Sukuk and long-term loans	8	9,212,847	9,180,585
Employees' end of service benefits		69,927	69,467
Deferred tax liability		23,511	12,235
TOTAL NON-CURRENT LIABILITIES		9,306,285	9,262,287
CURRENT LIABILITIES			
Short term loans	8	96,000	-
Long term loans - current portion	8	887,816	1,075,289
Trade and other payables		873,340	694,947
Provision for zakat and taxes	11	214,902	232,029
TOTAL CURRENT LIABILITIES		2,072,058	2,002,265
TOTAL LIABILITIES		11,378,343	11,264,552
TOTAL EQUITY AND LIABILITIES		21,197,644	21,182,583


Chief Financial Officer


Chief Executive Officer


Authorized Board Member

The accompanying notes 1 to 15 form an integral part of these condensed interim consolidated financial statements.

THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA
(A Saudi Joint Stock Company)
Condensed interim consolidated statement of profit or loss
For the three month and year ended 31 December 2018

	Note	For the three-month period ended 31 December		For the year ended 31 December	
		2018 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2017 (Audited)
		SAR'000	SAR'000	SAR'000	SAR'000
Revenue		1,781,702	1,433,545	6,129,910	6,045,835
Operating costs		(1,491,499)	(1,124,809)	(5,183,278)	(4,911,018)
Gross profit before bunker subsidy		290,203	308,736	946,632	1,134,817
Bunker subsidy		107,911	57,114	293,602	185,864
Gross profit		398,114	365,850	1,240,234	1,320,681
General and administrative expenses		(14,511)	(58,918)	(162,767)	(171,274)
Other income (expenses), net		2,608	(30,540)	10,718	(15,854)
Total operating profit		386,211	276,392	1,088,185	1,133,553
Finance costs		(189,199)	(72,130)	(389,113)	(308,435)
Share in results of associates		(87,222)	34,499	(118,529)	82,153
Income before zakat and tax		109,790	238,761	580,543	907,271
Zakat and taxes		(21,832)	(28,421)	(92,186)	(100,760)
Net income for the period/year		87,958	210,340	488,357	806,511
Net income for the period/year attributable to:					
Equity holders of the parent company		91,411	207,038	481,238	800,313
Non-controlling interests		(3,453)	3,302	7,119	6,198
		87,958	210,340	488,357	806,511
Earnings per share (Saudi Riyal):					
Basic earnings per share	9	0.23	0.53	1.22	2.03
Diluted earnings per share	9	0.23	0.53	1.22	2.03


Chief Financial Officer


Chief Executive Officer


Authorized Board Member

The accompanying notes 1 to 15 form an integral part of these condensed interim consolidated financial statements.

THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA
(A Saudi Joint Stock Company)
Condensed interim consolidated statement of comprehensive income
For the three month and year ended 31 December 2018

	For the three-month period ended on 31 December		For the year ended on 31 December	
	2018	2017	2018	2017
	(Unaudited) SAR'000	(Unaudited) SAR'000	(Unaudited) SAR'000	(Audited) SAR'000
Net income for the period/year	87,958	210,340	488,357	806,511
Items that will not be reclassified to profit or loss				
Re-measurement gain on defined benefit liability	(384)	1,352	(384)	1,352
Items that are or may be reclassified subsequently to profit or loss				
Investment in associates share of OCI	(8,333)	-	(8,333)	-
Total comprehensive income for the period/year	79,241	211,692	479,640	807,863
Total comprehensive income attributable to:				
Equity holders of the parent company	83,451	208,390	473,278	801,665
Non-controlling interests	(4,210)	3,302	6,362	6,198
Total comprehensive income for the period/year	79,241	211,692	479,640	807,863



Chief Financial Officer



Chief Executive Officer



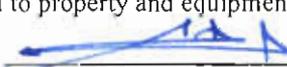
Authorized Board Member

The accompanying notes 1 to 15 form an integral part of these condensed interim consolidated financial statements.

THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA
(A Saudi Joint Stock Company)
Condensed interim consolidated statement of cash flows
For the three month and year ended 31 December 2018

	Note	31 December 2018 (Unaudited) SAR'000	31 December 2017 (Audited) SAR'000
OPERATING ACTIVITIES			
Net income for the year		488,357	806,511
Adjustments to reconcile net income for the year to net cash flows resulted from operating activities			
Depreciation	6	872,804	801,567
Amortization		52,184	52,471
Provision for doubtful debts		21,302	1,638
Provision for other investments		3,377	2,822
Finance costs		389,113	342,630
Share in results of an associate		118,529	(82,153)
Gain on disposal of property and equipment		(11,921)	(5,286)
Zakat and taxes		92,186	100,760
Changes in operating assets and liabilities:		2,025,931	2,020,960
Inventories		(53,286)	(50,084)
Trade and other receivables		(430,030)	(404,897)
Prepayments and other current assets		(192,050)	(11,831)
Receivables from finance lease		67,486	73,135
Trade and other payables		158,251	(153,905)
Employees' end of service benefits		12,357	10,468
Cash generated from operations		(437,272)	(537,114)
Finance costs paid		(359,352)	(262,581)
Zakat and taxes paid		(98,037)	(76,049)
Employees' end of service benefits paid		(12,026)	(5,131)
Net cash flows generated from operating activities		1,119,244	1,140,085
INVESTING ACTIVITIES			
Acquisition of property and equipment	6,7	(57,780)	(827,373)
Proceeds from disposal of property and equipment	6	77,571	7,582
Ships under construction	7	(936,660)	(784,955)
Investment in an associate		(145,667)	(74,625)
Dividends received from an associate		-	34,090
Other investments, including derivatives		(19,080)	4,500
Net cash flows used in investing activities		(1,081,616)	(1,640,781)
FINANCING ACTIVITIES			
Proceeds from long term loans	8	914,825	1,586,640
Proceeds from short term loans	8	586,000	-
Repayment of long term loans	8	(1,075,289)	(1,001,146)
Repayment from short term loans	8	(490,000)	-
Dividends paid	12	(582,799)	(981,796)
Non-controlling interests		12,000	7,446
Net cash flows generated / used in financing activities		(635,263)	(388,856)
Decrease in cash and cash equivalents		(597,635)	(889,552)
Cash and cash equivalents at the beginning of the year		1,190,441	2,079,993
Cash and cash equivalents at end of the year		592,806	1,190,441
Significant non-cash transactions:			
Ships under construction transferred to property and equipment	7	1,757,286	1,061,130


Chief Financial Officer


Chief Executive Officer


Authorized Board Member

The accompanying notes 1 to 15 form an integral part of these condensed interim consolidated financial statements.

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

Condensed interim consolidated statements of changes in equity
For the three month and year ended 31 December 2018

	Attributable to equity holders of the parent company							
	Share capital	Statutory reserve	Share premium	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	SAR '000							
Balance as at 1 January 2017 (Audited)	3,937,500	884,701	1,489,103	(6,694)	3,373,318	9,677,928	409,169	10,087,097
Net income for the year	-	-	-	-	800,313	800,313	6,198	806,511
Other comprehensive income	-	-	-	1,352	-	1,352	-	1,352
Total comprehensive income for the year	-	-	-	1,352	800,313	801,665	6,198	807,863
Transferred to statutory reserve	-	80,031	-	-	(80,031)	-	-	-
Non-controlling interest share	-	-	-	-	-	-	7,446	7,446
Dividends (note 12)	-	-	-	-	(984,375)	(984,375)	-	(984,375)
Balance as at 31 December 2017 (Audited)	3,937,500	964,732	1,489,103	(5,342)	3,109,225	9,495,218	422,813	9,918,031
Balance as at 1 January 2018 (Audited)	3,937,500	964,732	1,489,103	(5,342)	3,109,225	9,495,218	422,813	9,918,031
Net income for the year	-	-	-	-	481,238	481,238	7,119	488,357
Other comprehensive income	-	-	-	(8,717)	-	(8,717)	-	(8,717)
Total comprehensive income for the year	-	-	-	(8,717)	481,238	472,521	7,119	479,640
Non-controlling interest share	-	-	-	757	-	757	11,498	12,255
Dividends (note 12)	-	-	-	-	(590,625)	(590,625)	-	(590,625)
Balance as at 31 December 2018 (unaudited)	3,937,500	964,732	1,489,103	(13,302)	2,999,838	9,377,871	441,430	9,819,301



Chief Financial Officer



Chief Executive Officer



Authorized Board Member

The accompanying notes 1 to 15 form an integral part of these condensed interim consolidated financial statements.

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

Notes to the condensed interim consolidated financial statements For the three month and year ended 31 December 2018

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 Olya district, Olya 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 and passengers, agencies for maritime shipping companies, cargo clearance and coordination for on vessels’ board transport and storage, and all of the marine transport activities. The Group performs its operations through four distinct segments which are crude oil transportation, chemicals transportation, logistics and dry bulk transportation. The Group is also engaged in the ownership of lands, properties inside or outside the Kingdom, ownership of shares in other existing companies or merges with them and participates with others in establishing companies with similar activities or complementary activities. The Group performs its operations through four segments which are crude oil transportation, chemicals transportation, logistics services and dry bulk transportation.

The Company’s capital consists of 393,750,000 shares as of 31 December 2018 and 31 December 2017. The par value per share is SAR 10.

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

Subsidiary	Date of incorporation	Ownership %		Principal Activity	Location
		2018	2017		
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)	2017	60	60	Logistic Services	KSA
Bahri Bunge Dry Bulk DMCC*	2017	36	36	Dry bulk transportation	UAE

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

The associate companies that are not consolidated into these condensed interim consolidated financial statements are as follows:

Associate	Date of incorporation	Ownership %		Principal Activity	Location
		2018	2017		
Petredec Limited *	1980	30.30	30.30	Liquefied petroleum gas transportation	Bermuda
International Maritime Industries Company	2017	19.9	19.9	Maritime industries	KSA

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

Group's Fleet: As at 31 December 2018, the Group owns 92 vessels (31 December 2017: 88 vessels) operating in various sectors as the following:

Crude oil transportation sector: Consists of 50 vessels, (31 December 2017: 46 vessels) out of which 44 very large crude carriers (VLCCs) are operating in the spot market, while one tanker is chartered to ARAMCO Trading Company. The Group also owns 5 product tankers all of which are also chartered to ARAMCO Trading Company.

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

Notes to the condensed interim consolidated financial statements – continued For the three month and year ended 31 December 2018

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

Chemicals transportation sector: This sector is fully operated by NCC, and it owns 31, (31 December 2017: 31 vessels) specialized tankers distributed as follows:

- 3 tankers are leased in the form of iron under finance lease signed on 30 January 2009, with Odfjell SE (a trading partner).
- 16 tankers that operate in the spot market.
- 6 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.
- One tanker operates in a pool with Odfjell SE

Logistics sector: This sector consists of six RoCon vessels (31 December 2017: 6 vessels) operate on commercial lines between North America and Europe, and the Middle East and the Indian Subcontinent.

Dry bulk transportation sector: This sector is fully operated by BDB, and it owns 5 vessels (31 December 2017: 5 vessels) specialized in transporting dry bulk cargo, all of which are chartered to the Arabian Agricultural Services Company (ARASCO).

2. BASIS OF PREPARATION

2.1. Statement of Compliance

These Condensed Interim Consolidated Financial Statements have been prepared in accordance with IAS 34 condensed interim financial reporting that is endorsed in Kingdom of Saudi Arabia and other standards and pronouncements that are issued by Saudi Organization for Certified Public Accountants (“SOCPA”) and should be read in conjunction with the Group’s last annual Consolidated Financial Statements as at and for the year ended 31 December 2017 (“last annual Financial Statements”). They do not include all of the information required for a complete set of IFRS Financial Statements however, accounting policies and selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group’s financial position and performance since the last annual Financial Statements.

2.2. Preparation of financial statements

(i) Historical cost convention

The condensed interim consolidated financial statements have been prepared on a historical cost basis, except for certain financial assets and liabilities below:

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

(ii) Functional and presentation currency

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

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

Notes to the condensed interim consolidated financial statements – continued
For the three month and year ended 31 December 2018

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 or not 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 period are included in these condensed interim 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 (including goodwill) 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 condensed interim consolidated statement of profit or loss;

Reclassifies the Group’s share of components previously recognized in condensed interim consolidated statement of other comprehensive income to condensed interim 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 periods except Petredec limited (an associate) as explained in note 1.

THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA

(A Saudi Joint Stock Company)

Notes to the condensed interim consolidated financial statements – continued

For the three month and year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES

4.1. Changes in significant accounting policies

The Group has adopted IFRS 15 Revenue from Contracts with Customers (see A below) and IFRS 9 Financial Instruments (see B below) from 1 January 2018. Other new standards are effective from 1 January 2018, but they do not have a material effect on the Group's condensed interim consolidated financial statements.

Except as described below, the accounting policies applied in these condensed interim consolidated financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2017.

The effect of applying these standards is illustrated in point (A) and (B) below.

A. IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, and related interpretations.

The details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group's various services are set out below.

Under IFRS 15, revenue is recognised when a customer obtains control of the services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement. IFRS 15 did not have a significant impact on the condensed interim consolidated financial statements.

Type of service	Nature, timing of satisfaction of performance obligations, significant payment terms	Previous accounting policy
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 in accordance with paragraph B16 of IFRS 15.	Revenue from chartering and other attributable activities are recorded when services are rendered over the duration of the related contractual services.
Voyage charter	In case of voyage charter arrangement, the Group 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. The Group applies the practical expedient in paragraph 121 (a) of IFRS 15 and does not disclose the information about remaining performance obligations that have original expected durations of one year or less.	Revenue is recognized using the percentage-of-completion method as per IAS 18. This percentage of completion / transport progress is determined based on length of estimated voyage. Under the above method, voyages are calculated on a discharge-to-discharge basis. No revenue is recognized if there are significant uncertainties regarding recovery of the consideration due and associated costs. Revenues are recognized when earned over the agreed-upon period of the contract, voyage and services.

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

Notes to the condensed interim consolidated financial statements – continued
For the three month and year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.1. Changes in significant accounting policies (continued)

A. IFRS 15 Revenue from Contracts with Customers (continued)

Change in Significant accounting judgments, estimates and assumptions

Principles of IFRS 15 are applied by identifying each specified distinct goods or services promised to the customer in the contract and evaluating whether the entity under the consideration obtains control of the specified good or service before it is transferred to the customer. This assessment requires significant judgement based on specific facts and circumstances. Further, based on management's judgement, the Group applies output method (i.e. based on number of days elapsed as compared to total number of days in each voyage for a contract) to measure the progress of revenue.

In certain revenue arrangement, the Group entitles to certain kind of variable benefits or obliged to pay for certain obligations (variable or conditional in nature). While determining the transaction price, the management applies judgement in estimating the variable consideration and in constraining the same.

B. IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

i- Classification and measurement of financial assets and financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities and derivative financial instruments. The impact of IFRS 9 on the classification and measurement of financial assets is set out below.

Under IFRS 9, 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.

Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

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

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.1. Changes in significant accounting policies (continued)

B. IFRS 9 Financial Instruments (continued)

i- Classification and measurement of financial assets and financial liabilities (continued)

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.

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

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

Financial assets at 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 (see (ii) below). 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 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 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 following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as at 1 January 2018.

		Original classification under IAS 39	New classification under IFRS 9
Financial assets			
Interest rate swaps	(a)	FVTPL	FVTPL
Investments in Sukuk	(b)	Held to maturity	Amortised cost
Equity securities	(c)	Available-for-sale	FVOCI – equity instrument
Trade and other receivables	(d)	Loans and receivables	Amortised cost
Cash and cash equivalents		Loans and receivables	Amortised cost

a. Under IAS 39, interest rate swaps were designated as at FVTPL because they were managed on a fair value basis and their performance was monitored on this basis. These assets have been classified as mandatorily measured at FVTPL under IFRS 9.

b. Investments in Sukuk that were previously classified as held-to-maturity are now classified at amortised cost. The Group intends to hold the assets to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

c. These equity securities represent investments that the Group intends to hold for the long term for strategic purposes. As permitted by IFRS 9, the Group has designated these investments at the date of initial application as measured at FVOCI. Unlike IAS 39, the accumulated fair value reserve related to these investments will never be reclassified to profit or loss.

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.1. Changes in significant accounting policies (continued)

B. IFRS 9 Financial Instruments (continued)

i- Classification and measurement of financial assets and financial liabilities (continued)

d. Trade and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortised cost. No difference in the allowance for impairment over these receivables was recognised in opening retained earnings at 1 January 2018 on transition to IFRS 9.

ii. Impairment of financial assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

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

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 measures loss allowances at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort.

This includes both quantitative and qualitative information and analysis, based on the Group’s historical experience and informed credit assessment and including forward-looking information.

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.

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 and other receivables, including contract assets and finance lease receivable, are presented separately in the statement of profit or loss and OCI.

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

Following are the new standards and amendments to standards, applicable to the Group, effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted; however, the Group has not early adopted them in preparing these condensed interim consolidated financial statements.

a. IFRS 16 Leases

Determining whether an arrangement contains a lease

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

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

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Transition

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

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

The lessee applies the election consistently to all of its leases. The Group currently plans to apply IFRS 16 initially on 1 January 2019.

As a lessor, the Group is not required to make any adjustments for leases in which it is a lessor except where it is an intermediate lessor in a sub-lease.

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

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

The Group has completed an initial assessment of the potential impact on its Consolidated Financial Statements but has not yet completed its detailed assessment. The actual impact of applying IFRS 16 on the interim condensed consolidated financial statements in the period of initial application will depend on future economic conditions, including the Group's borrowing rate at 1 January 2019, the composition of the Group's lease portfolio at that date, the Group's latest assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions.

4.3. Significant accounting judgments, estimates and assumptions

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

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

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

- Determining the estimated residual values and useful lives of property and equipment
- Provisions
- Lease classification
- Leases: whether an arrangement contains a lease
- Key actuarial assumptions
- Valuation of derivatives
- Fair value measurement of financial instruments
- Loans classification
- Investments in associate: whether Group has significant influence over investees
- Consolidation: whether the Group has defacto control over investees
- Impairment of Property and equipment
- Impairment of the estimated value of finance lease recoverable based on the nature and duration of the contract and related terms
- Measurement of ECL allowance for trade receivables: key assumption in determining the weighted average loss rate

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.4. Cash and cash equivalents

Cash and cash equivalents in the condensed interim 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.

4.5. Inventories

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

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

4.6. 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 as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the condensed interim consolidated statement of profit or loss as incurred. Depreciation is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives as follows:

<u>Property and equipments</u>	<u>Useful lives (in years)</u>
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 period until the next scheduled dry docking. Dry docking assets that are left undepreciated during another dry-docking operation are charged to the condensed interim consolidated statement of profit or loss during the period in which such operation is commenced.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the condensed interim 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, plant and equipment, are accounted as per the principles of IAS 16 with respect to property plant and equipment.

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.7. Ships Under construction

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

4.8. 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' residual values, 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 amortization period 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 amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite life is recognised in the condensed interim consolidated statement of profit or loss in the expense category consistent with the function of the intangible asset.

4.9. Investment in an associate

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

The results and assets and liabilities of associates are incorporated in these condensed interim consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognised in the condensed interim 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 associate. When the Group's share of losses of an associate exceeds the Group's interest in that an associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), 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 associate. If the associate 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 investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, 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 associate's identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in condensed interim consolidated Statement of profit or loss in the period in which the investment is acquired.

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

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.10. Receivable from finance lease

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Group as a lessee

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

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

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

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

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.

4.11. 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.

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.12. Foreign currency transaction

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

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 income 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 income. 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 income, respectively).

4.13. 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 income 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.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

4.14. 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 periodically evaluates positions taken in the Zakat returns with respect to any Zakat differences. Zakat is charged to the condensed interim consolidated statement of profit or loss. Additional Zakat liability, if any, related to prior years' assessments arising from GAZT are accounted for in the period 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 condensed interim consolidated statement of profit or loss. Provision is made for withholding tax on payments to non-resident parties and is charged to the condensed interim 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 condensed interim consolidated statement of profit or loss.

4.15. Borrowing costs

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

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.16. Impairment of non-financial assets

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators. Impairment losses of continuing operations are recognized in the consolidated statement of profit or loss in those expense categories consistent with the function of the impaired asset, except for a property previously revalued where the revaluation was taken to OCI. In this case, the impairment is also recognized in OCI up to the amount of any previous revaluation.

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

Such reversal is recognized in the consolidated statement of profit or loss unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

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

- Goodwill is tested for impairment 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.
- Intangible assets with indefinite useful lives are tested for impairment in the reporting period at the CGU level, as appropriate and when circumstances indicate that the carrying value may be impaired.

4.17. Non-current assets held for sale

The Group classifies non-current assets as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and zakat expense. The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sale will be withdrawn, management is committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Property and equipment and intangible assets are not depreciated or amortized once classified as held for sale.

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.18. Cash dividends to the shareholders

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

4.19. Employees' end of service benefits

Group sets the assumptions used in determining the key elements of the costs of meeting such future obligations. These assumptions are set after consultation with the Group's actuaries and include those used to determine regular service costs and the financing elements related to the liabilities. 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 Company 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 (excluding amounts included in 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 period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

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 Company recognises related restructuring costs

Interest is calculated by applying the discount rate to the defined benefit liability. The Company recognises the following changes in the defined benefit obligation under 'cost of sales', and 'general and administration expenses' in the income statement:

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

iii. Other long-term employee benefits

The Company's obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value if the impact is material. Remeasurements are recognised in profit or loss in the period in which they arise.

iv. Termination benefits

Termination benefits are expensed at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the reporting date, then they are discounted.

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 condensed interim consolidated statement of profit or loss net of any reimbursement.

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.21. Contingent assets and liabilities

Contingent assets are not recognized in the condensed interim 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 period. For The weighted average number of ordinary shares outstanding during the period is the number of ordinary shares outstanding at the beginning of the period, adjusted by the number of ordinary shares bought back or issued during the period multiplied by a time-weighting factor. The time-weighting factor is the number of days that the shares are outstanding as a proportion of the total number of days in the period; a reasonable approximation of the weighted average is adequate in many circumstances.

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 where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to expenses item, 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 grant related to bunker purchase in consolidated statement of income as bunker subsidy income.

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, and
- Transportation of dry bulk
- 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 period.

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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 2018	Oil transportation	Chemical	Logistic	Dry bulk transportation	Head office and Others	Total
Revenue	3,692,550	872,174	1,158,022	387,389	19,775	6,129,910
Operating cost	(3,146,825)	(752,004)	(926,439)	(349,568)	(8,442)	(5,183,278)
Bunker subsidy	267,738	15,011	10,853	-	-	293,602
Gross profit	813,463	135,181	242,436	37,821	11,333	1,240,234
General and administrative expenses	(2,086)	(3,674)	(22,008)	(14,768)	(120,231)	(162,767)
Other income (expenses), net	9,863	(8,903)	5,145	1,165	3,448	10,718
Finance cost	(248,489)	(62,028)	(25,561)	(11,294)	(41,741)	(389,113)
Share in a result of an associate	-	-	-	-	(118,529)	(118,529)
Income before zakat & taxes	572,751	60,576	200,012	12,924	(265,720)	580,543

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.

All operating segment's results are reviewed regularly by the Group's management to make decisions about resources to be allocated to the segment and assess their performance, and for which discrete financial information is available.

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5. OPERATING SEGMENTS (continued)

	SAR'000					
31 December 2017	<u>Oil transportation</u>	<u>Chemical</u>	<u>Logistic</u>	<u>Dry bulk transportation</u>	<u>Head office and Others</u>	<u>Total</u>
Revenue	3,726,244	805,270	1,137,955	362,297	14,069	6,045,835
Operating cost	(3,110,785)	(677,289)	(803,670)	(315,299)	(3,975)	(4,911,018)
Bunker subsidy	164,986	9,842	11,036	-	-	185,864
Gross profit	780,445	137,823	345,321	46,998	10,094	1,320,681
General and administrative expenses	(5,706)	(15,830)	(2,311)	(15,088)	(132,339)	(171,274)
Other income (expenses), net		(26,783)	7,058	1,366	2,505	(15,854)
Finance cost	(160,804)	(58,657)	(23,854)	(20,506)	(44,614)	(308,435)
Share in a result of an associate	-	-	-	-	82,153	82,153
Income before zakat & taxes	613,935	36,553	326,214	12,770	(82,201)	907,271

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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 2018	Oil transportation	Chemical	Logistics	Dry bulk transportation	Head office and Others	Total
Property and equipment	10,967,095	2,785,300	1,315,512	511,856	43,385	15,623,148
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
31 December 2017	Oil transportation	Chemical	Logistics	Dry bulk transportation	Head office and Others	Total
Property and equipment	9,847,834	2,975,050	1,343,650	533,440	46,562	14,746,536
Total assets	12,423,200	3,548,304	2,327,355	688,573	2,195,151	21,182,583
Total liabilities	6,849,952	2,116,263	947,529	359,611	991,197	11,264,552

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6. PROPERTY AND EQUIPMENT

									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	55,308	21,280,467	20,239	12,373	4,158	1,132	69,583	14,435	21,457,695
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	61,632	22,698,732	12,375	12,212	4,216	1,132	74,509	14,435	22,879,243
Accumulated depreciation									
At 1 January 2018	20,223	6,592,030	14,925	8,265	3,829	792	58,563	12,532	6,711,159
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	7,127,388	7,531	6,977	4,011	1,007	60,092	13,057	7,256,095
Net book value:									
As at 31 December 2018	25,600	15,571,343	4,845	5,235	205	125	14,417	1,378	15,623,148

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6. PROPERTY AND EQUIPMENT (continued)

SAR'000

31 December 2017	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 2017	54,512	19,404,770	29,471	11,968	4,176	4,454	63,699	14,435	19,587,485
Additions/transfers	796	1,875,697	5,364	413	238	-	5,995	-	1,888,503
Disposals	-	-	(14,596)	(8)	(256)	(3,322)	(111)	-	(18,293)
At 31 December 2017	55,308	21,280,467	20,239	12,373	4,158	1,132	69,583	14,435	21,457,695
Accumulated depreciation									
At 1 January 2017	15,481	5,800,240	29,219	7,743	3,691	1,722	56,638	10,855	5,925,589
Charge for the year	4,742	791,790	302	522	394	104	2,036	1,677	801,567
Disposals	-	-	(14,596)	-	(256)	(1,034)	(111)	-	(15,997)
At 31 December 2017	20,223	6,592,030	14,925	8,265	3,829	792	58,563	12,532	6,711,159
Net book value:									
As at 31 December 2017	35,085	14,688,437	5,314	4,108	329	340	11,020	1,903	14,746,536

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7. SHIPS UNDER CONSTRUCTION

Ships under construction for the year ended 31 December 2018 amounted to SAR 139 million for 4 vessels (31 December 2017: SAR 959 million for 9 vessels).

- Ships under construction as at 31 December 2018 and 31 December 2017 mainly relates to advance payments made towards constructions of new vessels to Korean company Hyundai Samho Heavy Industries (South Korea).
- BDB signed contracts on 25 August 2017 with Hyundai Samho Heavy Industries to build four bulk cargo carriers for a total amount of SAR 450 million (USD 120 million). These carriers are expected to be received during the year 2020. As of 31 December 2018, Bahri Dry Bulk paid an advance payment of SAR 135 million (USD 36 million) as of 31 December 2017: Nil.

8. SUKUK , LONG-TERM LOANS AND SHORT TERM LOANS

	Note	31 December 2018	31 December 2017
		SAR'000	SAR'000
Sukuk	8.1	3,900,000	3,900,000
Murabaha loans	8.2	6,144,523	6,268,676
Commercial loans	8.3	127,094	163,406
Total sukuk and long-term loans		10,171,617	10,332,082
Less: Total current portion		(887,816)	(1,075,289)
Non-current sukuk and long-term loans		9,283,801	9,256,793
Less: prepaid financing		(70,954)	(76,208)
Net non-current sukuk and long-term loans		9,212,847	9,180,585
Short-Term Loans	8.4	96,000	-
Current Portion of long-term loans		887,816	1,075,289
Loans - Current Liabilities		983,816	1,075,289
Loans - Non-Current Liabilities		9,212,847	9,180,585
		10,196,663	10,255,874

8.1. 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).

8.2. Murabaha loans

The Group obtained long term loan during year ended 31 December 2018 for a total of SAR 915 million (31 December 2017: SAR 1,587 million). Loans are secured by promissory notes and mortgages against vessels (note 6). These loans are usually 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 2018 equivalent to SAR 3,104 million (31 December 2017: SAR 3,235 million) and balance of loans against which profit to be paid based on SIBOR at the end of 31 December 2018 totaled to SAR 3,040 million (31 December 2017: SAR 3,033 million). Balance in prepaid financing account related to Murabaha loans at the end of 31 December 2018 is SAR 70.95 million (31 December 2017: SAR 76.2 million).

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8. SUKUK, LONG-TERM LOANS AND SHORT TERM LOANS (continued)

8.3. Commercial loans

The Group did not obtain any long term loan during year ended 31 December 2018 (31 December 2017: 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 2018 are SAR 127 million (31 December 2017: SAR 163 million).

8.4. Short Term Loans

The Group obtained short term loans during the year ended 31 December 2018 amounting to SAR 586 million (31 December 2017: Nil). The total repayment against short term loans during the year ended 31 December 2018 is SAR 490 million (31 December 2017: Nil). The existing loans were utilized to meet working capital requirements during the year.

9. EARNINGS PER SHARE

	For the three- month period ended on 31 December 2018	31 December 2018	For the three- month period ended on 31 December 2017	31 December 2017
	SAR'000	SAR'000	SAR'000	SAR'000
Net income for the year	91,411	481,238	207,038	800,313
Average number of share outstanding during the year	393,750	393,750	393,750	393,750
Earnings per share - Basic (Saudi Riyals)	0.23	1.22	0.53	2.03

Earnings per share is calculated based on the number of shares outstanding during the year ended 31 December 2018 and 31 December 2017 amounting to 393.75 million shares.

10. FINANCIAL INSTRUMENTS

Fair values of financial instruments

	2018			
	Quoted prices in the active market (Level 1) SAR'000	Significant observable inputs (Level 2) SAR'000	Significant Unobservable inputs (Level 3) SAR'000	Total SAR'000
FVOCI – equity instrument:				
Unquoted equity shares *	-	-	7,334	7,334
Derivatives measured at fair value through statement of income				
CAP commission option	-	69,207	-	69,207
	2017			
	Quoted prices in the active market (Level 1) SAR'000	Significant observable inputs (Level 2) SAR'000	Significant Unobservable inputs (Level 3) SAR'000	Total SAR'000
FVOCI – equity instrument:				
Unquoted equity shares *	-	-	10,711	10,711
Derivatives measured at fair value through statement of income				
CAP commission option	-	67,572	-	67,572

*Based on provisions of IFRS 9, carrying value has been used as an approximation to the fair value.

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

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11. 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") Ministerial Resolution No. 1005 dated 28 Rabi' Al-Thani 1428H. The Company and its not wholly owned subsidiaries filed their zakat and tax returns for each company separately.

The Company has filed its zakat returns up to 2017. All the assessment related to the years up to 2012 have been closed with GAZT. GAZT did not close or issue any assessment related to flowing yeas 2013-2017.

12. DIVIDENDS

The Board of Directors decided in its meeting held on 10 December 2018 to recommend to the General Assembly of the Company 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.

The Board of Directors decided in its meeting held on 13 December 2017 to recommend to the General Assembly of the Company 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.

The General Assembly of the shareholders of the Company approved in its meeting held on 17 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 16 January 2017 the distribution of cash dividends of SAR 984 million to the shareholders for the financial year ended 31 December 2016, which amounted to SAR 2.5 per share. These dividends were paid on 31 January 2017.

13. CAPITAL COMMITMENTS

The Group's capital commitment related to the ships under construction and the purchase of property and equipment SAR 135 million as of 31 December 2018 (31 December 2017: SAR 927 million)

The Group signed a joint venture agreement on 30 May 2017 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 maritime yard in Ras Al Khair City named International Maritime Industries Company (IMI). The partners injections will total to SAR 2.625 billion (USD 700 million) of the project cost. As of 31 December 2018, the injected capital from partners totaled to 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.

14. SUBSEQUENT EVENTS

In the opinion of management, there have been no significant subsequent events since the year ended 31 December 2018 that would have material impact on the condensed interim consolidated statement of financial position of the Group as reflected in these condensed interim consolidated financial statements.

15. DATE OF AUTHORIZATION

These condensed interim consolidated financial statements were authorized for issuance on 24 Jumada al-Awwal 1440 H (30 January 2019).