THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA

(A Saudi Joint Stock Company)

Consolidated Financial Statements

and Independent Auditor's Report

For the year ended 31 December 2018

OneBahri

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License No. 46/11/323 issued 11/3/1992

Independent Auditors' Report

To the Shareholders of The National Shipping Company of Saudi Arabia

Opinion

We have audited the consolidated financial statements of The National Shipping Company of Saudi Arabia ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (SOCPA).

Basis for Opinion

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

Key Audit Matters

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

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Independent Auditors' Report

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

Impairment assessment of Property and Equipment

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

The key audit matter	How the matter was addressed in our audit
As at 31 December 2018, total property and equipment of the Group amounted to SAR 15.6 billion (2017: SAR 14.7 billion). In accordance with the requirements of relevant accounting standards, the Group is required to assess indicators of impairment on its property and equipment at each reporting date. In case such indicators are identified, recoverable amounts of such properties are required to be determined. As part of the Group process to review any indication of impairment of its vessels, management considers internal and external indicators of impairment including but not limited to: - observable indications that the vessel's value have significantly declined; - significant changes with an adverse effect on the Group, in the technological, market, economic or legal environment in which the Group operates; - evidence of obsolescence or physical damage of the vessels; - significant changes with an adverse effect to the vessels, which includes the vessels becoming idle, plans to discontinue its operation and/or plans to dispose of vessels; - reassessment of the useful lives of the vessels; and - operating losses incurred by the vessels. Hence, the evaluation of impairment indicators and the recoverable amount assessment, where required, involves the exercise of significant judgment and has therefore been determined to be a key audit matter.	We performed the following procedures in relation to the impairment assessment of Property and Equipment: - Assessed the process followed by the Group for the assessment of impairment indicators and recoverable amount determination during the year ended 31 December 2018. - Assessed the design and implementation, and tested the operating effectiveness of the controls implemented by the Group as part of the impairment review process; - Assessed impairment of the Group's fleet of vessels by inspecting class certificates; - Assessed the physical condition of the vessels by inspecting, on a sample basis, the vessels' inspection reports that are prepared by the Group's Technical Department; - Confirmed future plans for the vessels by inspecting internal reports (including Board of Directors minutes of meetings); and - Inspected the operating profit and loss statement for the year for each vessel.

Independent Auditors' Report

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

<table>
<tr><th colspan="2">Assessment of estimated useful lives of the Group's vessel</th></tr>
<tr><td colspan="2">See Note 4 to the consolidated financial statements for the accounting policy relating to estimated useful lives of the Group's vessel.</td></tr>
<tr><th>The key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>The Group owns and operates 92 vessels (2017: 88 vessels) that are used in transportation activities. The carrying value of the vessels, which is shown as part of property and equipment, is SAR 15.6 billion (2017: SAR 14.7 billion) representing around 74% (2017: 69%) of total assets as at 31 December 2018.

In accordance with the requirements of relevant accounting standards, management reviews the estimated useful lives of the vessels on an annual basis. This review includes significant judgement by the Group's management to assess and estimate the vessels useful lives.

The useful life of an asset is mainly impacted by its future economic benefits. The future economic benefits embodied in an asset are consumed by an entity; principally through it use. However, there are other factors, which often result in a diminution of the economic benefit that might have been obtained from the asset and ultimately impact the determination of the estimated useful life. These factors include:

- expected physical wear and tear;
- expected usage of the vessels;
- potential changes in the market demand; and
- expected technical and commercial obsolesce.

Hence, the determination of the estimated useful life requires a significant degree of management judgement and has therefore been determined to be a key audit matter.</td><td>We performed the following procedures in relation to assessment of estimated useful lives of the Group's vessel:

- Assessed the design and implementation, and tested the operating effectiveness of the controls implemented by the Group as part of the assessment of estimated useful lives review process;
- Assessed the appropriateness of the procedures performed by the management to estimate the useful lives of the vessels;
- Assessed the physical condition of these assets by inspecting, on a sample basis, the vessels' inspection report prepared by the Group's Technical Department;
- Assessed the vessels' estimated useful lives by inspecting the benchmarking report prepared by management that covers relevant industry information;
- Assessed the vessels' estimated useful lives by inspecting, on a sample basis, dry docking documents that support the maintenance of vessels during the year; and
- Assessed the adequacy of the Group's disclosures in respect of estimation of useful lives in the consolidated financial statements.</td></tr>
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Independent Auditors' Report

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.

Other Information

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

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

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

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

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

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

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

Those charged with governance is responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

Independent Auditors' Report

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

For KPMG Al Fozan & Partners
Certified Public Accountants

Fahad Mubarak Aldossari
License No: 469

Riyadh on: 30 Jumada'II 1440H
Corresponding to: 7 March 2019

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KPMG
Certified Public Accountants
KPMG Al Fozan & Partners

THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA
(A Saudi Joint Stock Company)
Consolidated statement of financial position
As at 31 December 2018
(In Thousands Saudi Riyals)

	Note	2018	2017
ASSETS			
NON-CURRENT ASSETS			
Property and equipment	6	**15,623,148**	14,746,536
Ships under construction	7	**138,764**	959,390
Intangible assets	8	**667,409**	719,593
Investment in associates	9	**1,265,341**	995,161
Receivables from finance lease	10	**105,562**	121,735
Other investments, including derivatives	11	**76,624**	78,366
TOTAL NON-CURRENT ASSETS		**17,876,848**	17,620,781
CURRENT ASSETS			
Receivables from finance lease - current portion	10	**5,547**	56,860
Inventories	12	**344,045**	290,759
Trade and other receivables	13	**1,883,716**	1,474,988
Prepayments and other current assets	14	**494,682**	297,379
Investment held for sale	9	**-**	251,375
Murabaha and short-term deposits	15.1	**364,293**	692,921
Cash and cash equivalents	15	**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	16	**3,937,500**	3,937,500
Statutory reserve	17	**1,012,852**	964,732
Share premium		**1,489,103**	1,489,103
Other reserves		**(13,302)**	(5,342)
Retained earnings		**2,951,718**	3,109,225
Equity attributable to equity holders of the parent company		**9,377,871**	9,495,218
Non-controlling interests	31	**441,430**	422,813
TOTAL EQUITY		**9,819,301**	9,918,031
LIABILITIES			
NON-CURRENT LIABILITIES			
Sukuk and long-term loans	18	**9,212,847**	9,180,585
Employees' end of service benefits	19	**69,927**	69,467
Deferred tax liability	21	**23,511**	12,235
TOTAL NON-CURRENT LIABILITIES		**9,306,285**	9,262,287
CURRENT LIABILITIES			
Short term loans	18.4	**96,000**	-
Long term loans - current portion	18	**887,816**	1,075,289
Trade and other payables	20	**873,340**	694,947
Provision for zakat and taxes	21	**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 33 form an integral part of these consolidated financial statements.

THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA
(A Saudi Joint Stock Company)
Consolidated statement of profit or loss
For the year ended 31 December 2018
(In Thousands Saudi Riyals)

	Note	2018	2017
Revenue		**6,129,910**	6,045,835
Operating costs		**(5,183,278)**	(4,911,018)
Gross profit before bunker subsidy		**946,632**	1,134,817
Bunker subsidy		**293,602**	185,864
Gross profit		**1,240,234**	1,320,681
General and administrative expenses	22	**(162,767)**	(171,274)
Other income (expenses), net	23	**10,718**	(15,854)
Total operating profit		**1,088,185**	1,133,553
Finance costs	24	**(389,113)**	(308,435)
Share in results of associates	9	**(118,529)**	82,153
Income before zakat and tax		**580,543**	907,271
Zakat and taxes, net	21	**(92,186)**	(100,760)
Net income for the year		**488,357**	806,511
Net income for the year attributable to:			
Equity holders of the parent company		**481,238**	800,313
Non-controlling interests	31	**7,119**	6,198
		488,357	806,511
Earnings per share (Saudi Riyal):			
Basic earnings per share	25	**1.22**	2.03
Diluted earnings per share	25	**1.22**	2.03

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

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

THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA
(A Saudi Joint Stock Company)
Consolidated statement of comprehensive income
For the year ended 31 December 2018
(In Thousands Saudi Riyals)

	Note	**2018**	2017
Net income for the period/year		**488,357**	806,511
Items that will not be reclassified to profit or loss			
Re-measurement gain on defined benefit liability	19	**(384)**	1,352
Items that are or may be reclassified subsequently to profit or loss			
Investment in associates share of OCI		**(8,333)**	-
Total comprehensive income for the period/year		**479,640**	807,863
Total comprehensive income attributable to:			
Equity holders of the parent company		**473,278**	801,665
Non-controlling interests	31	**6,362**	6,198
Total comprehensive income for the period/year		**479,640**	807,863

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

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

THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA
(A Saudi Joint Stock Company)
Consolidated statement of cash flows
For the year ended 31 December 2018
(In Thousands Saudi Riyals)

	Note	2018	2017
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	8	**52,184**	52,471
Provision for doubtful debts	13	**21,302**	1,638
Provision for other investments		**3,377**	2,822
Finance costs	24	**389,113**	308,435
Share in results of an associate	9	**118,529**	(82,153)
Gain on disposal of property and equipment	23	**(11,921)**	(5,286)
Zakat and taxes	21	**92,186**	100,760
Changes in operating assets and liabilities:		**2,025,931**	1,986,765
Inventories		**(53,286)**	(50,084)
Trade and other receivables		**(430,030)**	(404,897)
Prepayments and other current assets		**(192,050)**	22,364
Receivables from finance lease		**67,486**	73,135
Trade and other payables		**158,251**	(153,905)
Employees' end of service benefits	19	**12,357**	10,468
Cash generated from operations		**(437,272)**	(502,919)
Finance costs paid		**(359,352)**	(262,581)
Zakat and taxes paid	21	**(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		**77,571**	7,582
Ships under construction	7	**(936,660)**	(784,955)
Investment in an associate	9.2	**(145,667)**	(74,625)
Dividends received from an associate	9.1	**-**	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		**914,825**	1,586,640
Proceeds from short term loans	18	**586,000**	-
Repayment of long-term loans		**(1,075,289)**	(1,001,146)
Repayment from short term loans	18	**(490,000)**	-
Dividends paid		**(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	15	**1,190,441**	2,079,993
Cash and cash equivalents at end of the year	15	**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 33 form an integral part of these consolidated financial statements.

THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA
(A Saudi Joint Stock Company)
Consolidated statements of changes in equity
For the year ended 31 December 2018
(In Thousands Saudi Riyals)

	Attributable to equity holders of the parent company							
	Share capital	Statutory reserve	Share premium	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance as at 1 January 2017	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 30)	-	-	-	-	(984,375)	(984,375)	-	(984,375)
Balance as at 31 December 2017	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	**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**
Transferred to statutory reserve	-	**48,120**	-	-	**(48,120)**	-	-	-
Non-controlling interest share	-	-	-	**757**	-	**757**	**11,498**	**12,255**
Dividends (note 30)	-	-	-	-	**(590,625)**	**(590,625)**	-	**(590,625)**
Balance as at 31 December 2018	**3,937,500**	**1,012,852**	**1,489,103**	**(13,302)**	**2,951,718**	**9,377,871**	**441,430**	**9,819,301**

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

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

(In Thousands Saudi Riyals)

1. THE COMPANY, ITS SUBSIDIARIES AND ITS BUSINESS DESCRIPTION

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

The Company and its subsidiaries listed below (the “Group”) are primarily engaged in purchasing, sale and operating of vessels for the transportation of cargo 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 consolidated financial statements are as follows:

Subsidiary	Date of incorporation	Ownership % 2018	Ownership % 2017	Principal Activity	Location
NSCSA Inc. - USA	1991	**100**	100	Company's ship agent	USA
Mideast Ship Management Limited (JLT)	2010	**100**	100	Ships technical management	UAE
National Chemical Carriers Limited Co. (NCC)	1990	**80**	80	Petrochemicals transportation	KSA
Bahri Dry Bulk LLC (BDB)	2010	**60**	60	Dry bulk transportation	KSA
Bahri Bolloré Logistics (BBL)	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 consolidated financial statements are as follows:

Associate	Date of incorporation	Ownership % 2018	Ownership % 2017	Principal Activity	Location
Petredec Limited *	1980	**30.3**	30.3	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 year is recorded as per latest financial statements prepared by Petredec. The difference between the latest financial statements prepared by Petredec and the Group’s consolidated financial statements is two months. The fiscal year of Petredec starts on 1 September and ends on 31 August of each Gregorian year.

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.

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 (note 27)

Logistics sector: This sector consists of 6 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

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

2.2. Preparation of financial statements

(i) Historical cost convention

The 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 are recognized at the present value of future obligations using the Projected Unit Credit Method.

(ii) Functional and presentation currency

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

3. BASIS OF CONSOLIDATION

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

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

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

The Group re-assesses whether 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 year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

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

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

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

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

If the Group loses control over a subsidiary, it:

- De-recognizes the assets (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 consolidated statement of profit or loss;

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

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

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 consolidated financial statements.

Except as described below, the accounting policies applied in these consolidated financial statements are the same as those applied in the Group's consolidated financial statements 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 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 year of the contract, voyage and services.
Logistics revenue	Logistics revenue excluding liner primarily comprises order fulfilment and transportation services. Under IFRS 15, logistics revenue should be recognised at the point in time when the services are rendered to the customer.	The Group recognised the logistics revenue at the fair value of consideration received or receivable for goods and services and was recognised upon completion of the services.

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 arrangements, the Group is entitled 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

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.

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 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 years beginning on or after 1 January 2019 and earlier application is permitted; however, the Group has not early adopted them in preparing these 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.

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 years 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 performed a detailed analysis, subject to changes arising from additional information available to the Group during the year 2018. The actual impact of applying IFRS 16 on the consolidated financial statements in the year 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 year in which the estimates are revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

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

- Determining the estimated residual values impairment and useful lives of property and equipment
- Lease classification
- Leases: whether an arrangement contains a lease
- Measurement of defined benefit obligations, Key actuarial assumptions
- Investments in associate: whether Group has significant influence over investees
- Consolidation whether the Group has defacto control over investees
- Measurement of ECL allowance for trade receivables key assumption in determining the weighted average loss rate

Determining the estimated residual values and estimated useful lives of property and equipment

The estimated residual values and estimated useful life of the property and equipment are reviewed by management at each annual reporting period. Based on the review, prospective adjustments are made to the estimated residual value and estimated useful life of property and equipment.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.3. Significant accounting judgments, estimates and assumptions (continued)

Employees' benefits

Provision for employees' end of service benefits is made in accordance with the projected unit credit method as per IAS 19 taking into consideration the labor law of the respective country in which the subsidiary operates. The provision is recognized based on the present value of the defined benefit obligations. The present value of the defined benefit obligations is calculated using assumptions on the average annual rate of increase in salaries, average period of employment and an appropriate discount rate. The assumptions used are calculated on a consistent basis for each period and reflect management's best estimate. The discount rates are set in line with the best available estimate of market yields currently available at the reporting date with reference Saudi Arabia interest rate swap curve or other basis, if applicable.

Impairments of estimated value of receivables from finance lease

The Group is conducting a study to determine whether there is a decrease in the value of the financial lease receivables based on the nature and duration of the contract and the related terms.

4.4. Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position comprise cash at banks, short-term deposits, and murabaha with original maturity of three months or less, which are subject to an insignificant risk of changes in value. Restricted cash and cash equivalents that are not available for use are excluded from cash and cash equivalents for the purposes of the consolidated statement of cash flows. Restricted cash and cash equivalents are related to amounts restricted for repayments of the current portion of loans that are due within 180 days from the date of the consolidated statement of financial position

4.5. Inventories

Inventories consisting of fuel and lubricants on board of vessels are shown as inventories at the consolidated statement of financial position date. Inventories are measured at the lower of cost or net realizable value. Cost of the used inventories are measured by using the First-in-First-out method including bunker inventory. Vessels spare parts and other consumables are charged to operating expenses upon 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 consolidated statement of profit or loss as incurred.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.6. Property and equipment (continued)

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

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

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

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

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of profit or loss when the asset is derecognized.
The residual values, useful lives and methods of depreciation of property and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

Spare parts and capitalized machines, meeting the definition of property, plant and equipment, are accounted as per the principles of IAS 16 with respect to property plant and equipment

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 year 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 year 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 consolidated statement of profit or loss in the expense category consistent with the function of the intangible asset.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.9. Investment in associates

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 of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the 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 consolidated Statement of profit or loss in the year 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 consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

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 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 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 year 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. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

4.12. Foreign currency transaction

The Group’s 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. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 yearically evaluates positions taken in the Zakat returns with respect to any Zakat differences. Zakat is charged to the consolidated statement of profit or loss. Additional Zakat liability, if any, related to prior years' assessments arising from GAZT are accounted for in the year in which the final assessments are finalized.

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

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

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint venture, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

4.15. Borrowing costs

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

4.16. 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.16. Impairment of non-financial assets (continued)

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

4.18. Cash dividends to shareholders

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 year in which they occur. Remeasurements are not reclassified to profit or loss in subsequent years.

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 years. That benefit is discounted to determine its present value if the impact is material. Remeasurements are recognised in profit or loss in the year 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 consolidated statement of profit or loss net of any reimbursement.

4.21. Contingent assets and liabilities

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.22. Earnings per share - EPS

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

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

4.23. Statutory reserve

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

4.24. Bunker subsidy

Bunker subsidy is recognized 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
- 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 year.

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

(In Thousands Saudi Riyals)

5. OPERATING SEGMENTS

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

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

SAR'000

31 December 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	(3,146,670)	(752,004)	(926,594)	(349,568)	(8,442)	(5,183,278)
Bunker subsidy	267,738	15,011	10,853	-	-	293,602
Gross profit	813,618	135,181	242,281	37,821	11,333	1,240,234
General and administrative expenses	(2,086)	(3,674)	(22,009)	(14,767)	(120,231)	(162,767)
Other income (expenses), net	9,884	(8,904)	6,405	1,165	2,168	10,718
Finance cost	(248,587)	(62,028)	(25,561)	(11,294)	(41,643)	(389,113)
Share in a result of an associate	-	-	-	-	(118,529)	(118,529)
Income before zakat & taxes	572,829	60,575	201,116	12,925	(266,902)	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.

Operating revenues include an amount of SAR 2.3 billion for the year ended 31 December 2018 (31 December 2017: SAR 2.5 billion). representing the Group's total revenues from one customer (ARAMCO and its affiliates - shareholder) which represents more than 10 % of the Group's operating revenues.

(In Thousands Saudi Riyals)

5. OPERATING SEGMENTS (continued)

SAR'000

31 December 2017	Oil transportation	Chemical	Logistic	Dry bulk transportation	Head office and Others	Total
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)	(20,485)	(44,635)	(308,435)
Share in a result of an associate	-	-	-	-	82,153	82,153
Income before zakat & taxes	613,935	36,553	326,214	12,791	(82,222)	907,271

(In Thousands Saudi Riyals)

5. OPERATING SEGMENTS (continued)

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

SAR'000

31 December 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

(In Thousands Saudi Riyals)

6. PROPERTY AND EQUIPMENT

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)**	**(7,864)**	**(2,337)**	-	-	**(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**	**15,571,344**	**4,844**	**5,235**	**205**	**125**	**14,417**	**1,378**	**15,623,148**

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

(In Thousands Saudi Riyals)

6. PROPERTY AND EQUIPMENT (continued)

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

*Certain vessels and tankers of the Group under fleet and equipment with a carrying value of SAR 9.3 billion at 31 December 2017, are pledged against the long-term loans.

(In Thousands Saudi Riyals)

7. SHIPS UNDER CONSTRUCTION

The movement in ships under construction is as follows:

	2018	2017
Beginning balance	**959,390**	1,235,565
Additions	**936,660**	784,955
Transferred to property and equipment	**(1,757,286)**	(1,061,130)
Ending balance	**138,764**	959,390

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).

- 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.

8. INTANGIBLE ASSETS

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

	2018	2017
Cost		
Opening balance	**892,125**	892,125
Disposals	**-**	-
Ending balance	**892,125**	892,125
Accumulated amortization		
Opening balance	**(172,532)**	(120,061)
Charge for the year	**(52,184)**	(52,471)
Disposals	**-**	-
Ending balance	**(224,716)**	(172,532)
Net book value	**667,409**	719,593

9. INVESTMENT IN ASSOCIATES

The balance of investment in associates as at 31 December contains investments in the following companies:

	Note	**2018**	2017
Petredec Limited	9.1	**1,096,342**	1,171,911
International Maritime Industries Company	9.2	**168,999**	74,625
		1,265,341	1,246,536

(In Thousands Saudi Riyals)

9. INVESTMENT IN ASSOCIATES (continued)

9.1. Petredec Limited

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

	2018	2017
Beginning Balance	**1,171,911**	1,123,848
Share in results of an associated company	**(67,236)**	82,153
Investment in an associate share of OCI	**(8,333)**	-
Dividends received during the year	**-**	(34,090)
Ending balance	**1,096,342**	1,171,911

The fiscal year of Petredec Limited begins as at 1 September and ends as at 31 August of each Gregorian year. The Company's share in Petredec Limited results for the financial year is recorded as per latest financial statements prepared. The difference between the latest financial statements prepared by the associate company and the Group's consolidated financial statements is two months.

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

	31 October 2018	31 October 2017
Current assets	**4,514,325**	4,588,856
Non-current assets	**6,529,333**	6,276,377
Current liabilities	**(3,843,644)**	(3,480,982)
Non-current liabilities	**(3,806,830)**	(3,733,051)
Net assets before non-controlling interest	**3,393,184**	3,651,200
Non-controlling interest	**(36,228)**	(44,866)
Net assets	**3,356,956**	3,606,334
Group's share in net assets (30.30%)	**1,017,259**	1,092,828
Goodwill	**79,083**	79,083
Carrying amount of investment in an associate	**1,096,342**	1,171,911
Revenue	**29,255,265**	16,359,977
Net income before non-controlling interest	**(249,040)**	272,507
Non-controlling interest	**(337)**	(1,402)
Total net income for the year	**(249,377)**	271,105
Group's share of total comprehensive income (30.30 %)	**(75,569)**	82,153

The associate has SAR 800 million contingent liabilities and capital commitments as at 31 October 2018 (31 October 2017: SAR 1300 million).

During 2017, the Group commenced with the process to sell part of its 30.3% in Petredec Limited. As part of the deal, Haydock Holdings Limited, the other partner in Petredec Ltd., will also sell part of its 69.7% stake in Petredec Limited, bringing the total ownership of the new investor to 13% of Petredec Ltd share capital. In October 2018, the group decided to stop the process of selling part of its stake in Petredec Limited due to dispute between all the related parties on the final agreement terms.

(In Thousands Saudi Riyals)

9. INVESTMENT IN ASSOCIATES (continued)

9.2. International Maritime Industries Company

In 2017, International Maritime Industries Company has been established in KSA with capital of SAR 1,107 million between the Company, (ARAMCO), Hyundai Heavy Industries (South Korean Company) and Lamprell Power Company Limited (a UAE-based Company). The Group share in the established company represents 19.9% and amounting to SAR 169 million. The new company has not started its operations as at 31 December 2018.
The movement of investment in IMI as at 31 December is as follows:

	2018	2017
Beginning Balance	**74,625**	-
Additional paid in capital	**145,667**	74,625
Share in results of an associated company	**(51,293)**	-
Ending balance	**168,999**	74,625

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

	2018	2017
Current assets	**861,758**	375,000
Non-current assets	**125,513**	-
Current liabilities	**(136,748)**	-
Non-current liabilities	**(1,283)**	-
Net assets	**849,240**	375,000
Group's share in net assets (19.9%)	**168,999**	74,625
Carrying amount of investment in an associate	**168,999**	74,625
Revenue	**-**	-
Total net income for the year	**(257,756)**	-
Group's share of total comprehensive income (19.9%)	**(51,293)**	-

10. RECEIVABLES FROM FINANCE LEASE

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

The net lease receivable balance is summarized as follows:

	2018	2017
Accounts receivable from finance leases	**6,626**	84,296
Unguaranteed residual value at the end of the contract*	**105,562**	116,231
Gross finance lease	**112,188**	200,527
Unearned lease finance income	**(1,079)**	(21,932)
Net of receivables from finance lease	**111,109**	178,595
Current portion	**5,547**	56,860
Non-current portion	**105,562**	121,735
	111,109	178,595

(In Thousands Saudi Riyals)

10. RECEIVABLES FROM FINANCE LEASE (continued)

*The Group has reviewed the unguaranteed residual value at the end of the lease agreement as at 31 December 2018, and found a reduction amounted to SR 10.6 million. An impairment of SR 10.6 million has been recognized and charged to the consolidated statement of profit or loss.

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

	MLPs 2018	**PV of MLPs 2018**	MLPs 2017	PV of MLPs 2017
Less than one year	**6,626**	**5,547**	77,670	56,860
More than one year but less than five years	**105,562**	**105,562**	122,857	121,735
Net investment receivable in finance leases	**112,188**	**111,109**	200,527	178,595

11. OTHER INVESTMENTS, INCLUDING DERIVATIVES

The balance of other investments includes the following:

	2018	2017
Derivatives	**69,207**	67,572
Investments available for sale	**7,334**	10,711
Investment in government bonds	**83**	83
	76,624	78,366

12. INVENTORIES

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

	2018	2017
Fuel	**283,496**	232,874
Lubricant	**53,616**	51,171
Others	**6,933**	6,714
	344,045	290,759

Fuel expenses amounted to SAR 1,552 million for the year ended 31 December 2018 (2017: SAR 1,084 million).

13. TRADE AND OTHER RECEIVABLES

Trade receivable includes the following items:

	2018	2017
Trade receivables	**681,868**	774,957
Receivable from related parties (Note 26)	**761,269**	277,481
	1,443,137	1,052,438
Less: Provision for doubtful debts	**(54,068)**	(32,766)
	1,389,069	1,019,672
Contract assets (unbilled revenue)	**494,647**	455,316
Trade receivables and other receivable,	**1,883,716**	1,474,988

The movement of provision for doubtful debts is as follows:

	2018	2017
Opening balance	**32,766**	31,128
Movement during the year (Note 22)	**21,302**	1,638
Ending balance	**54,068**	32,766

(In Thousands Saudi Riyals)

13. TRADE AND OTHER RECEIVABLES (continued)

The aging of trade receivables is as follows:

	2018	2017
Less than 6 months	**1,622,209**	1,032,313
From 6 months to 12 months	**134,449**	242,249
More than 12 months	**181,126**	233,192
Total trade and other receivables	**1,937,784**	1,507,754
Less: Provision for doubtful debts	**(54,068)**	(32,766)
Trade and other receivables, net	**1,883,716**	1,474,988

Included in trade receivables amounts due from Government entities amounting to SAR 413 million as at 31 December 2018 (2017: SAR 782 million). These amounts represent 22% of the net trade receivables as at 31 December 2018 (31 December 2017: 53%). 81% of the amounts due for more than one year are amounts due from Government entities.

14. PREPAYMENTS AND OTHER CURRENT ASSETS

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

	2018	2017
Prepaid expenses	**262,657**	189,305
Recoverable bunker cost	**153,774**	66,746
Insurance claims	**33,863**	7,443
Employees advances	**17,274**	13,644
Others	**27,114**	20,241
	494,682	297,379

15. CASH AND CASH EQUIVALENTS

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

	2018	2017
Bank balances and cash	**228,513**	497,520
Murabaha and short term deposits (Note 15.1)	**364,293**	692,921
Cash and cash equivalents in statement of cash flows	**592,806**	1,190,441
Amounts restricted by banks		
- Bank balances and cash	**(17,681)**	(17,993)
- Murabaha and short term deposits	**(105,091)**	(87,715)
Total amounts restricted by banks	**(122,772)**	(105,708)

15.1 Murabaha and Short-Term Deposits

Murabaha and short-term deposit comprise of the following:

	2018	2017
Murabaha and short - term deposits in USD	**310,582**	379,452
Murabaha and short - term deposits in Saudi Riyals	**53,711**	313,469
	364,293	692,921

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

(In Thousands Saudi Riyals)

16. SHARE CAPITAL

The Company's share capital is comprised of 393,750 thousand shares with a par value of SAR 10 per share. Total authorized, issued, and outstanding shares are SAR 3,937,500,000 as at 31 December 2018 and 31 December 2017. Fully paid and issued shares of SAR 10 each.

17. STATUTORY RESERVE

In accordance with the Regulations for Companies in Saudi Arabia, the Company is required to transfer 10% of net income for the year to a statutory reserve until such reserve amounts to 30% of its share capital. This reserve is not available for distribution to shareholders.

Statutory reserve movement:

	2018	2017
Opening statutory reserve	**964,732**	884,701
Transfers to statutory reserve	**48,120**	80,031
Ending statutory reserve	**1,012,852**	964,732

18. SUKUK, LONG TERM AND SHORT-TERM LOANS

	Note	**2018**	2017
Sukuk	18.1	**3,900,000**	3,900,000
Murabaha loans	18.2	**6,144,523**	6,268,676
Commercial loans	18.3	**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	18.4	**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

18.1 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).

18.2 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 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).

(In Thousands Saudi Riyals)

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

18.3 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).

18.4. 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.

18.5. Commitments

Loans agreements include commitments mainly related to maintaining certain ratios of leverage, debt to equity ratio and other commitments. Under the terms of these agreements, banks are entitled to demand immediate repayment of loans if none of these undertakings are met.

18.6 Long term, short term loans related to subsidiary

18.6.1 National Chemical Carriers Limited Co.

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

	2018	2017
Murabaha loans	**1,545,082**	1,754,317
Commercial loans	**127,094**	163,406
Total long-term loans	**1,672,176**	1,917,723
Less: Total current portion	**(245,547)**	(245,547)
Non-current long-term loans	**1,426,629**	1,672,176
Less: prepaid financing	**(5,044)**	(5,734)
Net non-current long-term loans	**1,421,585**	1,666,442

18.6.2 Bahri Dry Bulk LLC

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

	2018	2017
Murabaha loans	**403,050**	324,450
Total long-term loans	**403,050**	324,450
Less: Total current portion	**(29,400)**	(29,400)
Non-current long-term loans	**373,650**	295,050
Less: prepaid financing	**(4,907)**	(1,829)
Net non-current long-term loans	**368,743**	293,221
Short-Term Loans	**6,000**	-
Current Portion of Long-Term Loans	**29,400**	29,400
Loans - Current Liabilities	**35,400**	29,400
Loans - Non-Current Liabilities	**368,743**	293,221
	404,143	322,621

(In Thousands Saudi Riyals)

19. EMPLOYEES' BENEFITS

	2018	2017
Opening balance	**69,467**	65,482
Current service cost	**9,591**	7,860
Interest cost	**2,511**	2,608
Benefits paid	**(12,026)**	(5,131)
Re-measurement gain (loss) on defined benefit plans	**384**	(1,352)
Ending balance	**69,927**	69,467

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

	2018	2017
Discount rate	**4.15%**	4.00%
Withdrawal rate – for the first two years of service	**30.00%**	30.00%
Withdrawal rate – third year of service and above	**9.00%**	3.00%
Future salaries increase - for the first three years	**6.37%**	3.00%
Future salaries increase - fourth year and after	**6.37%**	5.50%

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

	2018	2017
Discount rate		
0.5 % increase	**(2,259)**	(3,582)
0.5% decrease	**2,406**	3,887
Withdrawal rate		
10% increase	**(778)**	600
10% decrease	**845**	(675)
Future salary increases		
1% increase	**5,163**	8,319
1% decrease	**(4,645)**	(7,193)

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

20. TRADE AND OTHER PAYABLES

	2018	2017
Trade payables	**457,582**	382,988
Accrued expenses	**272,501**	211,431
Unclaimed dividend	**47,875**	40,051
Value of sold shares (related to previous shareholders)	**20,014**	21,482
Others	**75,368**	38,995
	873,340	694,947

(In Thousands Saudi Riyals)

21. ZAKAT AND TAXES

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

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

	2018	2017
Opening balance	**232,029**	219,553
Provided for the year	**80,910**	88,525
Payments during the year	**(98,037)**	(76,049)
Ending balance	**214,902**	232,029

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

	2018	2017
Opening balance	**12,235**	-
Provided for the year	**11,276**	12,235
Ending balance	**23,511**	12,235

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 following years 2013-2017. The Company believes that adequate provisions have been made against any potential zakat and taxes liabilities.

Zakat and Taxes status for National Chemical Carriers Company
The Company has submitted its zakat returns for all fiscal years up to 2017 to the General Authority of Zakat and Tax (the "GAZT"), zakat assessments have been agreed with the General Authority of Zakat and Tax ("GAZT") for all the years up to 2004. The Company has received from the GAZT zakat assessments for the years 2005 to 2008 and for the years from 2009 to 2012 claiming additional payments of SAR 10 million and SAR 42 million respectively. The Company has filed an appeal against the Preliminary Appeal Committee resolution related to the assessment for the years from 2005 to 2008 to the higher appeal committee and still not resolved as of the date of these financial statement.
The Company also filed an appeal against the assessment for the years from 2009 to 2012, and the appeal is still under review with the GAZT. The Company's management believes that the provision for zakat and withholding tax is sufficient as at 31 December 2017.
The Company did not receive from GAZT the zakat assessments for the years from 2013 to 2017. The subsidiary company believes that adequate provisions have been made against any potential zakat and taxes liabilities.

Zakat and Tax status for Bahri Dry Bulk
The Company submitted its zakat returns for the years up to 2017. The GAZT has not issue any zakat assessments on the subsidiary company since 2010 (date of incorporation). The subsidiary company believes that adequate provisions have been made against any potential zakat and taxes liabilities.

22. GENERAL AND ADMINISTRATIVE EXPENSES

	2018	2017
Employees salaries and benefits	**100,190**	91,833
Professional, legal and consultation fees	**12,239**	22,682
Amortization of prepaid expenses	**12,348**	15,075
Rent	**10,080**	10,146
Depreciation	**5,824**	4,898
Provision for doubtful debts (note 13)	**21,302**	1,638
Others	**784**	25,002
	162,767	171,274

(In Thousands Saudi Riyals)

23. OTHER INCOME / (EXPENSES), NET

	2018	2017
Impairment of assets	**(13,987)**	(31,725)
Finance Income	**7,544**	8,051
Gains (loss) from disposal of property and equipment	**11,921**	5,286
Others	**5,240**	2,534
	10,718	(15,854)

24. FINANCE COSTS

	2018	2017
Murabaha financing	**239,802**	148,461
Saudi Riyal sukuk	**127,599**	118,339
Drivatives re-valuation	**17,447**	38,133
Commercial loans	**4,265**	3,502
	389,113	308,435

25. EARNINGS PER SHARE

	2018	2017
Net income for the year attributable to equity holders of the parent Company	**481,238**	800,313
Weighted average number of ordinary shares outstanding during the year	**393,750,000**	393,750,000
Earnings per share – basic	**1.22**	2.03
Earnings per share – diluted	**1.22**	2.03

26. RELATED PARTIES

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

Operating revenues that generated from related parties as follows:

	2018	2017
ARAMCO and its subsidiaries - *shareholder*	**2,288,360**	2,480,029
International Shipping and Transportation Co. Ltd. - *affiliate*	**460,466**	43,530
Arabian Agricultural Services Company (ARASCO) - *affiliate*	**112,059**	112,367

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

	2018	2017
ARAMCO and its subsidiaries – *shareholder*	**651,454**	266,075
International Shipping and Transportation Co. Ltd. – *affiliate*	**109,354**	11,406
Arabian Agricultural Services Company (ARASCO) - affiliate	**461**	-
	761,269	277,481

(In Thousands Saudi Riyals)

26. RELATED PARTIES (continued)

Compensation of key management personnel:

	2018	2017
Salaries and compensations	**8,425**	10,147
Termination benefits	**2,643**	2,328
Total Compensation	**11,068**	12,475

27. JOINT OPERATIONS

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

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

28. FINANCIAL INSTRUMENTS

28.1. Financial Assets

	Note	**2018**	2017
Derivatives not designated as hedging instruments:			
CAP commission options	28.3	**69,207**	67,572
AFS financial assets at fair value through OCI			
Unquoted equity shares	11	**7,334**	10,711
Total instruments at fair value financial		**76,541**	78,283
Financial assets at amortized cost			
Trade receivables, net	13	**1,883,716**	1,474,988
Other investments	11	**83**	83
Murabaha and short-term deposits	15.1	**364,293**	692,921
Total financial assets at amortized cost		**2,248,092**	2,167,992
Total financial assets		**2,324,633**	2,246,275

28.2 Financial Liabilities

	Note	**2018**	2017
Financial liabilities at amortized cost			
Sukuk and Short/ long Term loans	18	**10,196,663**	10,255,874
Trade and other payables and other liabilities	20	**873,340**	694,947
Total financial liabilities at amortized cost		**11,070,003**	10,950,821
Total financial liabilities		**11,070,003**	10,950,821

(In Thousands Saudi Riyals)

28. FINANCIAL INSTRUMENTS (continued)

28.3 Fair values of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in an arm's length transaction. Financial instruments comprised of financial assets and financial liabilities.

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

The fair value hierarchy is as follows:

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

	2017			
	Qouted prices in the active market (Level 1)	Significant observable inputs (Level 2)	Significant Unobservable inputs (Level 3)	Total
	SAR'000	SAR'000	SAR'000	SAR'000
FVOCI – equity instrument:				
Unquoted equity shares *	-	-	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.

28.4 Financial Risk Management

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

(In Thousands Saudi Riyals)

28 FINANCIAL INSTRUMENTS (continued)

28.4 Financial Risk Management (continued)

The financial instruments in the consolidated statement of financial position are comprised primarily of cash and cash equivalent, investments, trade receivables, financing, trade payables, other accrued expenses, derivative financial instruments and loans and sukuk.

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

28.4.1. Credit risk

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

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

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

28.4.2. Liquidity risk

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

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

	2018					
	Within 3 months	**3 to 12 months**	**1 to 5 years**	**More than 5years**	**No fixed maturity**	**Total**
Short term loans	**96,000**	**-**	**-**	**-**	**-**	**96,000**
Long term loans	**332,819**	**554,997**	**3,185,265**	**2,198,536**	**-**	**6,271,617**
Sukuk	**-**	**-**	**3,900,000**	**-**	**-**	**3,900,000**
Trade payable and other current liabilities	**455,391**	**352,787**	**17,326**	**-**	**47,836**	**873,340**
	884,210	**907,784**	**7,102,591**	**2,198,536**	**47,836**	**11,140,957**

(In Thousands Saudi Riyals)

28. FINANCIAL INSTRUMENTS (continued)

28.4. Financial Risk Management (continued)

28.4.2. Liquidity risk (continued)

	2017					
	Within 3 months	3 to 12 months	1 to 5 years	More than 5years	No fixed maturity	Total
Long term loans	281,296	793,993	3,181,590	2,175,203	-	6,432,082
Sukuk	-	-	-	3,900,000	-	3,900,000
Trade payable and other current liabilities	520,038	107,906	26,992	-	40,011	694,947
	801,334	901,899	3,208,582	6,075,203	40,011	11,027,029

The Company has unutilized credit facilities of SAR 1,234 million as at 31 December 2018 (31 December 2017: SAR 2,154 million) to meet liquidity requirements.

28.4.3 Market risk

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

Currency risk

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

Commission rate risk

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

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

	2018	2017
Profit rate		
Increase by 100 base points	**102,518**	99,602
Decrease by 100 base points	**(102,518)**	(99,602)

Other price risk

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

(In Thousands Saudi Riyals)

28. FINANCIAL INSTRUMENTS (continued)

28.4. Financial Risk Management (continued)

28.4.4 Capital management

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

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

	2018	2017
Sukuk and long-term loan (note 18)	**10,171,617**	10,332,082
Trade and other payables (note 20)	**873,340**	694,947
Less: Cash and cash equivalent (note 15)	**(470,034)**	(1,084,733)
Net Debt	**10,574,923**	9,942,296
Total equity	**9,819,301**	9,918,031
Total capital	**9,819,301**	9,918,031
Capital and net debt	**20,394,224**	19,860,327
Gearing ratio	**51.85%**	50.06%

29. CAPITAL COMMITMENTS AND CONTINGENCIES

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 an 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.

Contingencies

The Group has outstanding bank letters of guarantee for SAR 269 million as at 31 December 2018 (31 December 2017: SAR 314 million) issued for the Group's normal course of business. Also, Bahri issued Corporate Guarantees to subsidiaries for SAR 429 million as of 31 December 2018 (31 December 2017: 433 million) & to assocciates for SAR 746.25 million as of 31 December 2018 (31 December 2017: SAR Nil)

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

(In Thousands Saudi Riyals)

29. CAPITAL COMMITMENTS AND CONTINGENCIES (continued)

Operating lease commitments – Group as a lessor

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

	2018	2017
Within one year	**392,509**	536,336
After one year but not more than five years	**1,268,573**	1,372,579
More than five years	**113,851**	703,042
	1,774,933	2,611,957

Income from time charter agreements under operating lease amounted SAR 436 million for the year ended 31 December 2018 (31 December 2017: SAR 584 million).

30. 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 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.

31. NON-CONTROLLING INTERESTS IN SUBSIDIARIES

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

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

(In Thousands Saudi Riyals)

31. NON-CONTROLLING INTERESTS IN SUBSIDIARIES (continued)

2017	National Chemical Carrier Company Limited	Bahri Dry Bulk LLC & Bahri Bunge Dry Bulk	Total
Non-controlling interest Percentage	20%	40%	
Non-current assets	3,096,785	591,586	3,688,371
Current assets	456,312	87,586	543,898
Non-current liabilities	(1,669,399)	(301,762)	(1,971,161)
Current liabilities	(451,948)	(55,909)	(507,857)
Net assets	1,431,750	321,501	1,753,251
Non-controlling interests relating to the subsidiary	-	7,862	7,862
Net assets attributable to non-controlling interests	286,350	136,463	422,813
Revenue	805,270	362,297	1,167,567
Net income	14,429	8,033	22,462
Non-controlling interests relating to the subsidiary	-	99	99
Net income attributable to non-controlling interests	2,886	3,312	6,198

32. 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 consolidated statement of financial position of the Group as part of these consolidated financial statements.

33. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Board of Directors has approved the consolidated financial statements for the year ended 31 December 2018 on their meeting held on 26 Jumad Thani 1440H (corresponding to 3 March 2019)