THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA

(A Saudi Joint Stock Company)

Interim Condensed Consolidated Financial Statements (Unaudited)

For the three and nine months periods ended at

30 September 2017

INDEX **PAGE**

Independent auditor's review report	2
Interim condensed consolidated statement of financial position	3
Interim condensed consolidated statement of income	4
Interim condensed consolidated statement of comprehensive income	5
Interim condensed consolidated statement of cash flows	6
Interim condensed consolidated statement of changes in equity	7
Notes to the interim condensed consolidated financial statements	8-36

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Independent auditors' review report on the interim condensed consolidated financial statements to the shareholders of

The National Shipping Company of Saudi Arabia

(A Saudi Joint Stock Company)

Introduction:

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

Scope of Review:

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

Conclusion:

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

for Ernst & Young

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

Riyadh: 3 Safar 1439H
(23 October 2017)

ارنست ويونغ
ترخيص مهني رقم ٤٥
PROFESSIONAL LICENCE No. 45
ERNST & YOUNG

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

	Note	30 September 2017 SAR'000	31 December 2016 SAR'000
ASSETS			
NON-CURRENT ASSETS			
Property and equipment	6	**14,179,878**	13,661,896
Ships under construction	7	**1,390,749**	1,235,565
Intangible assets		**732,711**	772,064
Investment in an associate		**1,171,502**	1,123,848
Receivables from finance lease	8	**167,577**	207,498
Other investments		**23,616**	23,616
TOTAL NON-CURRENT ASSETS		**17,666,033**	17,024,487
CURRENT ASSETS			
Receivables from finance lease - current portion	8	**51,158**	44,232
Inventories		**274,217**	240,675
Trade receivables, net		**1,159,305**	1,091,606
Prepayments and other current assets		**485,179**	376,139
Murabaha and short-term deposits		**690,368**	1,908,262
Cash and cash equivalents		**222,986**	171,731
TOTAL CURRENT ASSETS		**2,883,213**	3,832,645
TOTAL ASSETS		**20,549,246**	20,857,132
EQUITY AND LIABILITIES			
EQUITY			
Share capital		**3,937,500**	3,937,500
Statutory reserve	12	**2,373,804**	2,373,804
Other reserves		**(6,694)**	(6,694)
Retained earnings	16	**2,982,218**	3,373,318
Equity attributable to equity holders of the parent company		**9,286,828**	9,677,928
Non-controlling interests		**419,560**	409,169
TOTAL EQUITY		**9,706,388**	10,087,097
NON-CURRENT LIABILITIES			
Sukuk and long term loans	9	**8,803,167**	8,663,558
Employees' benefits	10	**69,797**	65,482
TOTAL NON-CURRENT LIABILITIES		**8,872,964**	8,729,040
CURRENT LIABILITIES			
Long term loans - current portion	9	**951,098**	1,001,146
Trade and other payables		**718,449**	765,578
Other current liabilities		**68,091**	54,718
Provision for zakat and tax	14	**232,256**	219,553
TOTAL CURRENT LIABILITIES		**1,969,894**	2,040,995
TOTAL LIABILITIES		**10,842,858**	10,770,035
TOTAL EQUITY AND LIABILITIES		**20,549,246**	20,857,132

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

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

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

	Note	For the three-month period ended 30 September		For the nine-month period ended 30 September	
		2017	2016 (note 15)	**2017**	2016 (note 15)
		SAR'000	SAR'000	**SAR'000**	SAR'000
Revenues		**1,283,621**	1,374,125	**4,612,290**	5,167,112
Operating costs		**(1,118,994)**	(1,163,841)	**(3,786,209)**	(3,715,574)
Gross profit before bunker subsidy		**164,627**	210,284	**826,081**	1,451,538
Bunker subsidy		**44,914**	41,189	**128,750**	102,460
Gross profit		**209,541**	251,473	**954,831**	1,553,998
General and administrative expenses		**(36,323)**	(25,272)	**(112,356)**	(95,172)
Other income (expenses), net		**2,809**	8,205	**14,686**	(3,480)
Income from operations		**176,027**	234,406	**857,161**	1,455,346
Finance costs		**(91,196)**	(44,152)	**(236,305)**	(157,813)
Share in results of an associate		**4,717**	13,584	**47,654**	90,333
Income before zakat and tax		**89,548**	203,838	**668,510**	1,387,866
Zakat and tax		**(27,896)**	124,751	**(72,339)**	55,752
Net income for the period		**61,652**	328,589	**596,171**	1,443,618
Net income for the period attributable to:					
Equity holder of the parent company		**60,505**	315,381	**593,275**	1,415,406
Non-controlling interests		**1,147**	13,208	**2,896**	28,212
		61,652	328,589	**596,171**	1,443,618
Earnings per share (Saudi Riyal)	13				
Basic		**0.15**	0.80	**1.51**	3.59
Diluted		**0.15**	0.80	**1.51**	3.59

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

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

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

	For the three-month period ended 30 September		For the nine-month period ended 30 September	
	2017	2016 (note 15)	**2017**	2016 (note 15)
	SAR'000	SAR'000	**SAR'000**	SAR'000
Net income for the period	**61,652**	328,589	**596,171**	1,443,618
Items not to be reclassified to interim condensed consolidated statement of income				
Re-measurement gains on defined benefit plans	-	1,092	-	3,275
Total comprehensive income for the period	**61,652**	329,681	**596,171**	1,446,893
Total comprehensive income attributable to:				
Equity holder of the parent company	**60,505**	316,473	**593,275**	1,418,681
Non-controlling interests	**1,147**	13,208	**2,896**	28,212
	61,652	329,681	**596,171**	1,446,893

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

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

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

	30 September 2017	30 September 2016
	SAR'000	SAR'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the period	**596,171**	1,443,618
Working capital adjustments:		
Depreciation of property and equipment	**663,761**	585,955
Amortization of intangible assets	**39,353**	37,656
Provision for doubtful receivables	**23,360**	1,012
Employees' benefits	**8,623**	5,582
Finance costs	**236,305**	157,813
Share in results of an associate	**(47,654)**	(90,333)
(Gain)/loss on sale of property and equipment	**(4,980)**	33,011
Zakat and tax provision (reversal of provision)	**72,339**	(55,752)
	1,587,278	2,118,562
Changes in:		
Inventories	**(33,542)**	(21,428)
Trade receivables	**(91,059)**	103,711
Prepayments and other current assets	**(103,606)**	(96,067)
Receivables from finance lease	**32,995**	26,945
Trade and other payables	**(58,040)**	(234,586)
Other current liabilities	**10,574**	(19,959)
Cash generated from operating activities	**1,344,600**	1,877,178
Finance costs paid	**(225,394)**	(148,889)
Zakat and tax paid	**(59,636)**	(32,919)
Board members' compensation	-	(1,800)
Paid employees' benefits	**(4,308)**	(2,950)
Net cash flows from operating activities	**1,055,262**	1,690,620
CASH FLOWS FROM INVESTING ACTIVITIES		
Intangible assets	-	26,625
Non-controlling interests	**7,495**	-
Proceeds from sale of property and equipment	**5,003**	26,710
Additions of property and equipment	**(120,636)**	(1,658,501)
Ships under construction	**(1,216,314)**	(245,362)
Other investments	-	(40)
Net cash flows used in investing activities	**(1,324,452)**	(1,850,568)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long term loans	**946,094**	2,141,387
Proceeds from short term loans	-	781,688
Repayment of long term loans	**(861,967)**	(452,403)
Repayment of short term loans	-	(781,688)
Dividends paid	**(981,576)**	(981,573)
Net cash flows (used in) from financing activities	**(897,449)**	707,411
Net (decrease) increase in cash and cash equivalents	**(1,166,639)**	547,463
Cash and cash equivalents at the beginning of the period	**2,079,993**	1,239,862
Cash and cash equivalents at end of the period	**913,354**	1,787,325
Major non-cash transactions:		
Ships under construction transferred to property and equipment	**1,061,130**	192,537

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

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

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

SAR'000	Attributable to equity holders of the parent company					Non-controlling interests	Total equity
	Share capital	Statutory reserve	Other reserves	Retained earnings	Equity attributable to equity holders of the parent company		
Nine months ended 30 September 2016							
Balance as at 1 January 2016	3,937,500	2,197,890	(11,061)	2,817,536	8,941,865	377,314	9,319,179
Total comprehensive income for the period	-	-	3,275	1,415,406	1,418,681	28,212	1,446,893
Transferred to statutory reserve	-	143,454	-	(143,454)	-	-	-
Dividends paid (note 16)	-	-	-	(984,375)	(984,375)	-	(984,375)
Board members' compensation	-	-	-	(1,800)	(1,800)	-	(1,800)
Balance as at 30 September 2016	3,937,500	2,341,344	(7,786)	3,103,313	9,374,371	405,526	9,779,897
Nine months ended 30 September 2017							
Balance as at 31 December 2016	3,937,500	2,373,804	(6,694)	3,373,318	9,677,928	409,169	10,087,097
Total comprehensive income for the period	-	-	-	593,275	593,275	2,896	596,171
Non-controlling interests	-	-	-	-	-	7,495	7,495
Dividends paid (note 16)	-	-	-	(984,375)	(984,375)	-	(984,375)
Balance as at 30 September 2017	**3,937,500**	**2,373,804**	**(6,694)**	**2,982,218**	**9,286,828**	**419,560**	**9,706,388**

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

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

1. THE COMPANY, ITS SUBSIDIARIES AND ITS BUSINESS DESCRIPTION

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

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

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

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

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

* During the second quarter of the year 2017, Bahri Dry Bulk Company (a subsidiary) and Koninklijke Bunge B.V. (Netherlands company) has established Bahri Bunge Dry Bulk company in the UAE, with capital of SAR 18.7 million. The joint venture engages in chartering vessels for the purpose of importing and exporting dry bulk commodities between the Middle East and the world, and within the Middle East. Bahri Dry Bulk Company owns 60% of share capital while Koninklijke Bunge B.V. company owns 40% of capital.

During the nine months period ended 30 September 2017, Bahri announced the establishment of BahriBollore logistics company in Saudi Arabia, with a capital of SAR 15 million. The newly established company provide comprehensive logistics services including freight brokerage, transportation and all services associated with transportation. Bahri owns 60% of share capital while Bollore company share 40% of capital.

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

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

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

Group's Fleet: As at 30 September 2017, the Group owns eighty-seven vessels (31 December 2016: eighty-three vessels) operating in various sectors as the following:

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

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

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

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

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

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

2. BASIS OF PREPARATION

2.1. Statement of compliance

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

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

2.2. Preparation of financial statements

(i) Historical cost convention

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

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

(ii) Functional and presentation currency

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

3. BASIS OF CONSOLIDATION

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES

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

New standards, amendment to standards and interpretations

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

a. Disclosure initiative (amendments to IAS 7)

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

New standards, amendment to standards and interpretations (continued)

d. Other amendments

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

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

Standards issued but not yet effective

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

a. IFRS 9 Financial instruments

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

The Group plans to adopt the new standard on the required effective date. Overall, The Group performed a preliminary assessment of IFRS 9, which is subject to changes arising from a more detailed ongoing analysis.

Classification and measurement

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Standards issued but not yet effective (continued)

a. IFRS 9 Financial instruments (continued)

Impairment

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

Hedge accounting

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

Disclosure

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

b. IFRS 15 Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs. IFRS 15 is effective for annual periods beginning on or after 1 January 2018. The Group performed a preliminary assessment of IFRS 15, which is subject to changes arising from a more detailed ongoing analysis.

c. IFRS 16 Leases

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

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

Determining whether an arrangement contains a lease

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

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

Transition

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.2. Significant accounting judgments, estimates and assumptions

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

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

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

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

4.3. Cash and cash equivalents

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

4.4. Inventories

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

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

4.5. Investment in an associate and joint venture

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

4.6. Property and equipment

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

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.6. Property and equipment (continued)

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

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

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

4.7. Goodwill and other intangible assets

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

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

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

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

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

4.8. Receivable from finance lease

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.8. Receivable from finance lease (continued)

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

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

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

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

4.9. Financial Instruments

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

Financial assets

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.9. Financial instruments (continued)

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

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

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

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.9. Financial instruments (continued)

Financial assets carried at amortized cost

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

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

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

AFS financial assets

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

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

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

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

Financial liabilities

Initial recognition and measurement

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.9. Financial instruments (continued)

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

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

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

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

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

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

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

This category generally applies to interest-bearing loans.

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.9. Financial instruments (continued)

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

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

4.10. Classification of assets and liabilities to current and non-current

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

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

All other assets are classified as non-current.

A liability is current when:

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

The Group classifies all other liabilities as non-current.

4.11. Revenue

Revenue from transportation

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.11. Revenue (continued)

Revenue from pool arrangement

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

Onerous contracts

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

Other income

Other income is recognized when earned.

4.12. Foreign currency translation

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

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 reporting date. 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 interim condensed 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 interim condensed consolidated statement of income, respectively).

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 interim condensed consolidated statement of income.

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.

4.13. Zakat and Tax

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

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