

## PROSPECTUS - PART 1 OF 2

PROSPECTUS PART 1 OF 2: THIS MUST BE READ IN CONJUNCTION WITH PART 2 OF 2 OF THE PROSPECTUS OF THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA (BAHRI) DATED 14/08/1436H (CORRESPONDING TO 01/06/2015G) (AVAILABLE ON THE WEBSITE OF THE CAPITAL MARKET AUTHORITY [WWW.CMA.ORG.SA](http://WWW.CMA.ORG.SA))



### THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA (BAHRI)

a joint stock company incorporated under the laws of the Kingdom of Saudi Arabia

by Royal Decree no. M/5 dated 12/02/1398H (corresponding to 22/01/1978G)

with commercial registration no. 1010026026 dated 01/12/1399H (corresponding to 22/10/1979G)

is offering

### SAR 3,900,000,000 SUKUK EXPIRING 2022G

The National Shipping Company of Saudi Arabia (Bahri) (hereinafter referred to as the "**Issuer**", "**Bahri**" or the "**Company**") is issuing sukuk due 2022 (the "**Sukuk**") at par, without discount or premium.

Semi-annually on 30 July and 30 January in each year up to and including 30 July 2022G, or, if any such day is not a Business Day (as defined in the terms and conditions of the Sukuk in the section headed "*Terms and Conditions of the Sukuk*" in this Prospectus (the "**Conditions**")), the immediately following Business Day unless it would thereby fall into the next calendar month, in which event such day shall be brought forward to the immediately preceding Business Day (each a "**Periodic Distribution Date**"), the Issuer expects to pay an amount equal to the Periodic Distribution Amount (as defined in the Conditions) to the holders of the Sukuk (the "**Sukukholders**") calculated on the basis of the Benchmark Rate plus a Margin (each as defined in the Conditions), applied to the aggregate Nominal Value (as defined in the Conditions) of the Sukuk as are current on the Transfer Record Date (as defined in the Conditions) immediately preceding the last day of the relevant Periodic Distribution Period (as defined in the Conditions).

The Sukuk Assets (as defined in the Conditions) will be held by the Issuer and the Sukuk will be the subject of a declaration of agency (the "**Declaration of Agency**") to be dated on or about the Closing Date (as defined in the Conditions) between the Issuer and HSBC Saudi Arabia Limited (the "**Sukukholders' Agent**").

The obligations of the Issuer under each of the Sukuk Documents (as defined in the Conditions) to which it is a party will constitute direct, general, unconditional and unsecured obligations which will at all times rank at least *pari passu* with all other present and future unsecured obligations of the Issuer save for obligations as may be preferred by relevant provisions of law of general application.

Distributions of the Periodic Distribution Amounts under the Sukuk will be made from the Mudaraba Profit and the Murabaha Income (each as defined in the Conditions). In accordance with the Conditions, any amounts due and payable by the Issuer under the Mudaraba Agreement and the Murabaha Agreements (each as defined in the Conditions) in excess of the Periodic Distribution Amounts but not otherwise reinvested in accordance with the Conditions and the terms of such agreements shall be retained by the Issuer as a reserve (the "**Reserve**"). The Issuer shall not have the right to use and invest the monies (if any) standing to the credit of the Reserve for its own account but may use and invest any such monies in the Business Portfolio (as defined in the Conditions) for and on behalf of the Sukukholders. The Issuer shall pay the monies standing to the credit of the Reserve (if any) to the Sukukholders to compensate the Sukukholders for any shortfalls relating to Periodic Distribution Amounts and to compensate the Sukukholders for any loss relating to the Mudaraba Assets (as defined in the Conditions) as at the Liquidation Date (as defined in the Conditions) in the event that the Sukukholders have not received the Periodic Distribution Amounts and Sukuk Capital due to them in full, with the balance of the monies standing to the credit of the Reserve (if any) to be paid to the Issuer as an incentive fee following the liquidation of the Mudaraba (as defined in the Conditions) and the redemption or purchase and cancellation of the Sukuk on the Liquidation Date.

The Sukuk will be admitted to listing on the Saudi Arabian Stock Exchange ("**Tadawul**") and Tadawul will be appointed as registrar (the "**Registrar**", which expression includes any successor registrar) of the Sukuk (as described in the Conditions and section 18 "*Subscription and Sale*", respectively). The Sukuk will be in registered form in denominations of SAR 1,000,000, subject to a minimum initial subscription amount of SAR 1,000,000. The Sukuk will be represented at all times by interests in a registered form global sak, without coupons attached (the "**Global Sak**"), which will be deposited with the Sukukholders' Agent. The Sukuk may only be held in book entry dematerialised form and definitive sukuk will not be issued to Sukukholders in relation to their holdings of Sukuk.

The offering period for the Sukuk commences on 4 June 2015G and ends on 30 July 2022G (the "**Offer Period**") and the Sukuk will be allocated after the end of the Offer Period and issued on a date (the "**Closing Date**") notified by the Issuer and the Joint Lead Managers and Joint Bookrunners to the potential investors after the end of the Offer Period.

**The offering, sale and trading of the Sukuk is limited to persons who are Qualified Persons (as defined in the Conditions). In addition, the primary offering of the Sukuk will be only to Institutional Investors (as defined in section 18 "*Subscription and Sale*"), although Qualified Persons who are not Institutional Investors may subsequently be able to purchase Sukuk through Tadawul after the Sukuk have been listed.**

This Prospectus is an English translation of the official Arabic language Prospectus. Although prospective investors may choose to rely on this English translation of the Prospectus in making their investment decision without referring to the Arabic version, they would be doing so at their own risk as the Prospectus in Arabic is the only version on which an investment decision may be made. In case of any differences between the two, or any dispute regarding the interpretation of any provision in the Arabic version or the translation, the Arabic version shall prevail. The Issuer takes complete responsibility for the accuracy and completeness of the translation and none of the Joint Lead Managers and Joint Bookrunners, the Sukukholders' Agent nor any of their affiliates has verified, makes any representation or warranty, or takes any responsibility for the accuracy or completeness of the translation.

**A prospective purchaser of the Sukuk who is not a Qualified Person shall not be entitled to be registered as a Sukukholder. The Issuer will not pay any additional amounts in respect of withholding required by any law or regulation to any person who holds Sukuk but is not a Qualified Person.**

The Sukuk will be registered in the nominal value of SAR 1,000,000 for each sak (the "**Nominal Value**"). The aggregate Nominal Value (as defined in the Conditions), together with the anticipated net proceeds of the Sukuk to be issued and the Margin will be determined by agreement between the Issuer and the Joint Lead Managers and Joint Bookrunners (as specified herein) and announced on a date expected to be around 18 July 2015G (see section 18 "*Subscription and Sale*").

As at the date of this Prospectus, the authorised, issued and paid-up capital of the Issuer is SAR 3,937,500,000, consisting of 393,750,000 shares with a nominal value of SAR 10 per share, all of which are listed on Tadawul. As at the date of this Prospectus, 20 per cent. of the Issuer's capital is owned by Saudi Aramco Development Company and 22.55 per cent. is owned by the Public Investment Fund. The Issuer has not listed any debt instruments prior to the Sukuk. For a more detailed description, see section 7.2 "*Overview of the Company and the Bahri Group – Share Capital Evolution of the Company*".

An application has been made to the Authority (as defined below) to register the Sukuk and accept their admission to listing, and all requirements therefor have been met in accordance with the Listing Rules issued by the Board of the Authority issued pursuant to its resolution no. 3-11 2004G dated 20/08/1425H, as amended (the "**Listing Rules**"), subject to the waivers granted by the Authority as set out in section 15.3 "*General Information – Waivers*".

**An investment in the Sukuk involves certain risks and uncertainties. For a discussion of certain factors to be considered in connection with an investment in the Sukuk, see the "*Important Notice*" and "*Risk Factors*" sections of this Prospectus.**

This Prospectus includes information given in compliance with the Listing Rules of the Capital Market Authority of the Kingdom of Saudi Arabia (the "**Authority**"). The Directors, whose names appear in section 8 "*Management of the Company*" of this Prospectus, collectively and individually accept full responsibility for the accuracy of the information contained in this Prospectus, and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading. The Authority and the Saudi Stock Exchange do not take any responsibility for the contents of this Prospectus, do not make any representation as to its accuracy or completeness, and expressly disclaim any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Prospectus.

## **Sole Lead Coordinator**

### **HSBC Saudi Arabia Limited**



## **Joint Lead Managers and Joint Bookrunners**

**HSBC Saudi Arabia Limited**

**J.P. Morgan Saudi Arabia  
Limited**

**Samba Capital & Investment  
Management Company**



**J.P.Morgan**



This Prospectus is dated 14/08/1436H (corresponding to 01/06/2015G)

## IMPORTANT NOTICE

This Prospectus provides details relating to the Issuer and the Sukuk. When submitting an application to subscribe for the Sukuk, investors will be treated as applying on the basis of the information contained in this Prospectus, copies of which are available for collection from the Issuer or by visiting the websites of the Issuer ([www.bahri.sa](http://www.bahri.sa)) or the Authority ([www.cma.org.sa](http://www.cma.org.sa)).

HSBC Saudi Arabia Limited, J.P. Morgan Saudi Arabia Limited and Samba Capital & Investment Management Company have been appointed by the Issuer to act as financial advisors (the "**Financial Advisors**") and as joint lead managers and joint bookrunners (the "**Joint Lead Managers and Joint Bookrunners**") in relation to the Sukuk described herein. In connection with the offering of the Sukuk, no Person has been authorised to give any information or to make any representation about the Issuer or the Sukuk (other than as contained in this Prospectus) and, if given or made, any such other information or representation should not be relied upon as having been made by the Issuer or the Joint Lead Managers and Joint Bookrunners.

Each of the Financial Advisors and Joint Lead Managers and Joint Bookrunners is not acting for any person in connection with the offering of the Sukuk and, unless otherwise required by relevant regulations, the Financial Advisors and Joint Lead Managers and Joint Bookrunners will not regard any person (whether or not a recipient of this Prospectus or any other offering material relating to the Sukuk) as its client or customer (as such terms are defined in the Authorised Persons Regulations issued by the Authority) in relation to the offer, sale and trade of the Sukuk. Unless otherwise required by relevant regulations, none of the Joint Lead Managers and Joint Bookrunners shall be responsible to anyone for providing the protections afforded to clients or customers of the Joint Lead Managers and Joint Bookrunners, or for providing advice in relation to the offering of the Sukuk, the contents of this Prospectus or any other offering material relating to the Sukuk, or any transaction, arrangement or other matter referred to in this Prospectus.

This Prospectus contains information given in compliance with the Listing Rules. The sole purpose of this Prospectus is to provide background information about the Issuer to assist each recipient of this Prospectus in making an independent evaluation and appraisal of the Issuer, the offering and any investment in the Sukuk. The Directors, whose names appear in section 8 "*Management of the Company – Board Members*", collectively and individually accept full responsibility for the accuracy of the information contained in this Prospectus relating to the Issuer and the Sukuk and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading. The Authority and Tadawul do not take any responsibility for the contents of this Prospectus, do not make any representation as to its accuracy or completeness, and expressly disclaim any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Prospectus.

While the Issuer has made all reasonable enquiries as to the accuracy of the information contained in this Prospectus as at the date hereof, substantial portions of the market and industry information herein are derived from external sources, and while neither the Issuer, the Joint Lead Managers and Joint Bookrunners or their respective advisers have any reason to believe that any of the market and industry information is materially inaccurate, such information has not been independently verified and no representation is made with respect to the accuracy or completeness of any of this information.

The information contained in this Prospectus is subject to change. In particular, the actual financial state of the Issuer and the value of the Sukuk may be adversely affected by future developments in inflation, financing charges, taxation, calculation of zakat or other economic, political and other factors, over which the Issuer has no control. Neither the Issuer nor the Directors of the Issuer, intend to update or otherwise revise any information or forward-looking statements in this Prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Prospectus might not occur in the way they are expected, or at all. Prospective investors should consider all forward-looking statements in light of these explanations and should not rely on the

forward-looking statements independently from the explanations. Neither the delivery of this Prospectus nor any oral, written or printed interaction in relation to the Sukuk is intended to be, or should be construed as or relied upon in any way as, a promise or representation as to future earnings, results or events.

Neither this Prospectus nor any other information supplied in connection with the Sukuk is to be regarded as a recommendation on the part of the Issuer, the Joint Lead Managers and Joint Bookrunners, the Sukukholders' Agent or any of their respective advisers or affiliates to participate in the offering of the Sukuk. Information provided herein is of a general nature and has been prepared without taking into account any potential investor's investment objectives, financial situation or particular investment needs. Prior to making an investment decision, each recipient of this Prospectus is responsible for obtaining his own independent professional advice from a financial advisor licensed by the Authority in relation to the Issuer or the offering of the Sukuk and for making his own independent evaluation and appraisal of the Issuer, of an investment in the Sukuk and of the information and assumptions contained herein, using such advice, analysis and projections as he deems necessary in making any investment decision.

Neither the Joint Lead Managers and Joint Bookrunners nor the Sukukholders' Agent accept any liability or make any representation, warranty or undertaking, express or implied, in relation to the accuracy or completeness of the information contained in this Prospectus or any other information provided by the Issuer in connection with the Issuer or the Sukuk or for any statement made or purported to be made by a Joint Lead Manager and Joint Bookrunner or on its behalf in connection with the Issuer or the Sukuk. Each person receiving the Prospectus is deemed to have not relied on any of the Joint Lead Managers and Joint Bookrunners in connection with its investigation of the accuracy of such information or its investment decision and each person must rely on its own assessment of the Issuer and the Sukuk. Each person must rely on their own evaluation of the Issuer and the Sukuk and nothing contained in this Prospectus is, or is to be construed as, or shall be relied on as a promise, warranty or representation, whether as to the past or future, by any of the Joint Lead Managers and Joint Bookrunners in any respect. To the fullest extent permitted by law, Joint Lead Managers and Joint Bookrunners do not accept any responsibility whatsoever for the contents of this Prospectus.

The distribution of this Prospectus in any country other than the Kingdom of Saudi Arabia (the "**Kingdom**") is expressly prohibited. The Issuer and the Joint Lead Managers and Joint Bookrunners require persons in possession of this Prospectus to inform themselves about and to observe all such legal or regulatory restrictions in this regard.

### **Important Dates for Subscribers and Methods of Application**

During the Offer Period, the Joint Lead Managers and Joint Bookrunners may solicit expressions of interest from potential investors for acquiring the Sukuk, during which time the Issuer and the Joint Lead Managers and Joint Bookrunners shall consult and agree on the Margin.

Persons wishing to purchase the Sukuk will be required to submit a duly completed form (an "**Investor Application Form**") to the Joint Lead Managers and Joint Bookrunners before the end of the Offer Period and shall make payment for the Sukuk in accordance with the instructions contained in the Investor Application Form. Investor Application Forms will be available from the Joint Lead Managers and Joint Bookrunners. Applications to purchase Sukuk for less than SAR 1,000,000 or in amounts which are not higher integral multiples of SAR 1,000,000 thereafter, or from applicants who are not Institutional Investors, will not be accepted.

Only natural persons who are nationals of the Kingdom or legal persons with a permanent establishment in the Kingdom, and which, in either case, maintain a bank account in the Kingdom ("**Qualified Persons**") may be registered as Sukukholders. However, while Qualified Persons may be registered as Sukukholders, the primary offering of the Sukuk will be only to Institutional Investors. An "**Institutional Investor**" means a Qualified Person who is also one of the following:

- (a) a person who is authorised to carry on securities business by the Authority;
- (b) an exempt person as specified in Annex 1 to the Securities Business Regulations of the Authority;
- (c) any of the following:
  - (i) any company which owns, or which is a member of a group which owns, net assets of not less than SAR 50 million;
  - (ii) any unincorporated body, partnership or other organisation which has net assets of not less than SAR 50 million; or
  - (iii) any person ("A") whilst acting in the capacity of director, officer or employee of a person ("B") falling within sub-paragraphs (i) or (ii) where A is responsible for B undertaking any securities activity; or
- (d) an institution that has received a licence to engage in banking business for the Saudi Arabian Monetary Agency (SAMA) in accordance with the laws of the Kingdom.

Qualified Persons who are not Institutional Investors may be able to subsequently purchase Sukuk from Institutional Investors after the end of the offer period and completion of the subscription process.

Potential investors are reminded that this Prospectus is made available to each potential investor on the basis that such potential investor is a person into whose possession the Prospectus may be lawfully delivered in accordance with the regulations of the jurisdiction in which such person is located. The potential investor may not deliver or disclose the contents of the Prospectus, electronically or otherwise, to any other person. If the potential investor received this document by e-mail, they should not reply by e-mail to this document. Any reply e-mail communications, including those generated by using the "Reply" function on the potential investor's e-mail software, will be ignored or rejected. If the potential investor receives this document by e-mail, their use of that e-mail will be at their own risk and it is their responsibility to take precautions to ensure that it is free from viruses and any other similar items of a destructive nature.

If the Prospectus has been sent to a potential investor in an electronic form, they must be aware that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Joint Lead Managers and Joint Bookrunners, the Issuer or any person who controls or is a director, officer, employee or agent of any of the Joint Lead Managers and Joint Bookrunners, the Issuer or any affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to potential investors in electronic format, the hard copy version available to potential investors on request from the Joint Lead Managers and Joint Bookrunners and the copy made available on the official website of the Authority or the Issuer.

This Prospectus is not intended for distribution to, or use by, any person or entity, in any jurisdiction or country where such distribution or use would be contrary to local law or regulation of such jurisdiction or country. Under no circumstances shall this Prospectus constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of any Sukuk in any jurisdiction in which such offer, solicitation or sale would be unlawful. Persons into whose possession the Prospectus comes are requested to inform themselves about, and to observe, any such restrictions. For a description of certain restrictions on offers, sales and deliveries of the Sukuk and on distribution of this Prospectus and other offering material relating to the Sukuk, see section 18 "*Subscription and Sale*".

Allocation of Sukuk will be at the discretion of the Issuer and the Joint Lead Managers and Joint Bookrunners and will be made following the end of the Offer Period. Once the allocation of Sukuk has been completed, the Issuer shall cause the Margin and the aggregate Nominal Amount, together with the anticipated aggregate net proceeds of the Sukuk to be issued, to be published on the websites of the Issuer and Tadawul.

Prospective investors are not to construe the contents of this Prospectus as constituting tax, zakat, investment, legal, regulatory or *Shari'ah* advice. Prior to purchasing any Sukuk, a prospective investor should consult with his, her or its own legal, financial, business, tax, zakat and *Shari'ah* advisers to determine the appropriateness and consequences of an investment in the Sukuk for such investor and arrive at an independent evaluation and appraisal of such investment.

The Sukuk may not be a suitable investment for all investors. Each potential investor in Sukuk must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Sukuk, the merits and risks of investing in the Sukuk and the information contained or incorporated by reference in this Prospectus;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Sukuk and the impact the Sukuk will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Sukuk;
- (iv) understand thoroughly the terms of the Sukuk and be familiar with the behaviour of any relevant indices and financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic and other factors that may affect its investment and its ability to bear the applicable risks.

The Sukuk are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase such complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Sukuk unless it has the expertise (either alone or with a financial adviser) to evaluate how the Sukuk will perform under changing conditions, the resulting effects on the value of the Sukuk and the impact this investment will have on the potential investor's overall investment portfolio.

Neither this Prospectus nor any other information supplied in connection with the Sukuk (a) is intended to provide the basis of any credit or other evaluation; or (b) should be considered as a recommendation by the Issuer or any of the Joint Lead Managers and Joint Bookrunners that any recipient of this Prospectus should purchase any Sukuk. Each investor contemplating purchasing any Sukuk should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer.

The Issuer reserves the right, to the maximum extent permitted by applicable laws and regulations, to terminate at any time any further participation by any party in the evaluation process and the offering of the Sukuk and/or reject all bids without any liability or responsibility. The Issuer shall have no obligation to inform any investor or bidder of the grounds of such termination or rejection. The cost and expenses incurred by any prospective investor or successful bidder (which includes, but is not limited to, cost of employing the services of financial, accounting, technical and legal advisers, travelling expenses, etc.) will be for their own account and neither the Issuer, the Sukukholders' Agent nor the Joint Lead Managers and Joint Bookrunners in any way would be held responsible for any

such cost, regardless of, without limitation, the conduct or outcome of the bidding, evaluation and selection process.

The Joint Lead Managers and Joint Bookrunners are not responsible for and take no responsibility for the movement of funds or securities on settlement of the offering or thereafter. Settlement of the Sukuk will be carried out in accordance with the procedures applicable to debt instruments listed on Tadawul. The Joint Lead Managers and Joint Bookrunners do not take any responsibility for or make any representation in connection with such processes.

All potential investors must carefully read the Prospectus, including the Conditions of the Sukuk, prior to completing an application for the purchase of the Sukuk since the execution of the Investor Application Form constitutes acceptance of and agreement to the Conditions.

### **Industry and Market Data**

In this Prospectus, information regarding the shipping industry and other data regarding the market segments in which the Issuer operates has been obtained from: (i) market research on the shipping industry conducted on behalf of the Company by McQuilling Services, LLC ("**McQuilling**"), an independent consulting firm specialising in the shipping industry, and (ii) publicly available information in respect of the shipping industry. Such information, sources, and estimates are believed to be reliable, but have not been independently verified by the Issuer, the Directors of the Issuer, whose names appear in section 8.1 "*Management of the Company – Board Members*", the Joint Lead Managers and Joint Bookrunners or any of their respective advisers and no representation is made with respect to their accuracy or completeness.

Industry and market data is subject to change and cannot always be verified with complete certainty due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties inherent in any survey of market size. None of the publications, reports or other published industry sources referred to in this Prospectus were commissioned by the Issuer or prepared at its request and the Issuer has not sought or obtained the consent from any of these sources to include such market data in this Prospectus.

### **Financial Information**

The consolidated financial statements of the Issuer as at and for the financial years ended 31 December 2012G, 2013G and 2014G and as at and for the three-month period ended 31 March 2015G have been prepared by the Issuer in accordance with the accounting standards issued by the Saudi Organisation for Certified Public Accountants (**SOCPA**) (applied and generally accepted in the Kingdom). The consolidated financial statements of the Issuer as at and for the financial years ended 31 December 2012G, 2013G and 2014G, respectively, as appended to this Prospectus have been audited in accordance with auditing standards issued by SOCPA (applied and generally accepted in the Kingdom) by Dr. Mohamed Al-Amri & Co. (a member of BDO International Limited) as at and for the financial year ended 31 December 2012G and by Ernst & Young & Co. (Public Accountants) as at and for the financial years ended 31 December 2013G and 2014G, as shown in their reports appended to this Prospectus, and the unaudited interim condensed consolidated financial statements of the Issuer as at and for the three-month period ended 31 March 2015G have been reviewed by Ernst & Young & Co. (Public Accountants) in accordance with the standard for review of interim financial statements issued by SOCPA (applied and generally accepted in the Kingdom), as shown in its report appended to this Prospectus, and each as incorporated elsewhere in this Prospectus.

The Issuer publishes its financial statements in Saudi Riyals.

In this Prospectus, unless otherwise specified, references to **SAR**, **Saudi Riyals** and **Riyals** are to the currency of the Kingdom and references to **halalah** are to the sub-unit of the Riyal.

Certain figures included in this Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

### **Use of Dates**

Dates are referred to in the Hijri (H) calendar and the Gregorian (G) calendar.

### **Forecasts and Forward Looking Statements**

Forecasts set forth in this Prospectus have been prepared on the basis of certain stated assumptions. Future operating conditions may differ from the assumptions used and consequently no representation or warranty is made with respect to the accuracy or completeness of any of these forecasts.

Certain statements in this Prospectus constitute "forward-looking-statements". Such statements can generally be identified by the use of certain words such as "plans", "estimates", "projects", "believes", "expects", "may", "will", "should", "are expected", "would be", "anticipates" or the negative or other variations of such terms or comparable terminology. These forward-looking statements reflect the current views of the Issuer with respect to future events, and are not a guarantee of future performance. Many factors could cause the actual results, performance or achievements of the Issuer to be significantly different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. Some of the risks and factors that could have such an effect are described in more detail in other sections of this Prospectus (see section 5 "*Risk Factors*"). Should any one or more of the risks or uncertainties materialise or any underlying assumptions on which a forward-looking statement is based prove to be inaccurate or incorrect, actual results may vary materially from those described in this Prospectus, as anticipated, believed, estimated, planned or expected.

With due regard to the requirements of the Listing Rules, the Issuer does not intend to update or otherwise revise any industry or market information or forward-looking statements in this Prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Prospectus might not occur in the manner anticipated by the Issuer and might not occur at all. Potential investors should consider all forward-looking statements in this context and, accordingly, should not primarily rely on any forward-looking statements.

References herein to "**this Prospectus**" shall be deemed to include this document dated 01 June 2015G together with supplements and amendments hereto, if any. This Prospectus contains in the Conditions a summary of the key provisions of each of the drafts as of the date of this Prospectus of the Mudaraba Agreement, the Master Murabaha Agreement, the Declaration of Agency and the Payment Administration Agreement (each as defined in the Conditions).

### **Supplementary Prospectus**

The Issuer shall prepare a supplement to this Prospectus in accordance with the requirements of the Authority if, at any time after the date of this Prospectus but before the Sukuk are listed on Tadawul, the Issuer becomes aware that:

- (i) there has been a significant change in material matters contained in this Prospectus or any other document required by the Listing Rules of the Authority; or
- (ii) additional significant matters have become known which would have been required to be included in this Prospectus.

Except in the aforementioned circumstances, the Issuer does not intend to update or otherwise revise any industry or market information or forward-looking statements in this Prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties



and assumptions, the forward-looking events and circumstances discussed in this Prospectus might not eventuate in the manner anticipated by the Issuer and might not occur at all. Potential investors should consider all forward-looking statements in this context and, accordingly, should not place undue reliance on any forward-looking statements.

The Joint Lead Managers and Joint Bookrunners are under no obligation to update or otherwise revise the information contained in this Prospectus after the date hereof or to undertake a review of the Issuer during the lifetime of the Sukuk or to advise any investor in the Sukuk of any information coming to their attention.

## CORPORATE DIRECTORY

### ISSUER

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### SUKUKHOLDERS' AGENT

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### PAYMENT ADMINISTRATOR

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##### **Independent Shari'ah Advisor of J.P. Morgan**

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All of the above-mentioned advisers have given their written consent to the publication of their names, addresses, logos and statements (wherever applicable and in the context in which they appear and are quoted) in this Prospectus and have not withdrawn such consent as at the date hereof.

**COMMERCIAL BANKS TO THE ISSUER**

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## 1. OFFER SUMMARY

*The following summary information does not purport to be complete and should be read as an introduction to, and in conjunction with, the more detailed information appearing elsewhere in this Prospectus from which it is derived. Any decision by a prospective investor to invest in the Sukuk should be based on a consideration of this Prospectus as a whole. Prospective investors should carefully read the entire document, including the financial statements and related notes, before making an investment decision. In particular, prospective investors should consider carefully the factors set forth under the headings "Important Notice" and "Risk Factors" before making any investment decision. Capitalised terms used but not defined in this summary have the meanings given to them in section 16 "Terms and Conditions of the Sukuk".*

<b>Issuer:</b>	<p>The National Shipping Company of Saudi Arabia (the "<b>Issuer</b>", "<b>Bahri</b>" or the "<b>Company</b>") was established in 1978G by Royal Decree No. M/5 dated 12/02/1398H (corresponding to 22/01/1978G) as a Saudi Arabian joint stock company and registered under commercial registration number 1010026026 dated 01/12/1399H (corresponding to 22/10/1979G). The Company's registered office is at Bahri Building #569, Sitten Street, Malaz Area, P.O. Box 8931, Riyadh 11492, KSA.</p>
<b>Activities of the Issuer:</b>	<p>The principal business activities of the Bahri Group are divided into the following six (6) categories:</p> <ul style="list-style-type: none"><li>• Crude oil transportation;</li><li>• gas and offshore;</li><li>• chemicals transportation;</li><li>• dry bulk transportation;</li><li>• general cargo transportation; and</li><li>• carrier management.</li></ul> <p>The Company's mission is to connect economies through providing excellence in global logistics services, thereby facilitating the sharing of prosperity across the world. The Company was established to provide and ensure safe passage for goods produced in the Kingdom and the Company's mission has remained the same with the expansion in the scope of its services since its establishment. The Company is committed to its corporate values of being "Driven", "Relentless", "Transparent" and "Considered". By consistently focusing on these values and responsible business fundamentals, the Company believes that it can become a leading service provider which applies the principles of best corporate commercial practices to run a world-class fleet, whilst building mutually beneficial relationships with all of its stakeholders.</p>
<b>Substantial Shareholders:</b>	<p>As at the date of this Prospectus, Saudi Aramco Development Company owns 78,750,000 shares representing 20 per cent. of the share capital of the Issuer, while the Public Investment Fund owns 88,808,202 shares representing 22.55 per cent. of the share capital.</p>



<b>Share Capital of the Issuer:</b>	As at the date of this Prospectus, the authorised and paid-up share capital of the Issuer is SAR 3,937,500,000, consisting of 393,750,000 shares with a nominal value of SAR 10 per share.
<b>Joint Lead Managers and Joint Bookrunners:</b>	HSBC Saudi Arabia Limited, whose registered address is 7267 Olaya Road – Al Murooj, Riyadh 12283-2255, Kingdom of Saudi Arabia, J.P. Morgan Saudi Arabia Limited, whose registered office is Al Faisaliah Tower, King Fahad Road, PO Box 51907, Riyadh 11553, Kingdom of Saudi Arabia and Samba Capital & Investment Management Company, whose registered address is Kingdom Tower, PO Box 220007, Riyadh 11311, Kingdom of Saudi Arabia.
<b>Sukukholders' Agent:</b>	HSBC Saudi Arabia Limited, whose registered address is 7267 Olaya Road – Al Murooj, Riyadh 12283-2255, Kingdom of Saudi Arabia.
<b>Payment Administrator:</b>	HSBC Saudi Arabia Limited, whose registered address is 7267 Olaya Road – Al Murooj, Riyadh 12283-2255, Kingdom of Saudi Arabia.
<b>Registrar:</b>	The Saudi Stock Exchange (" <b>Tadawul</b> "), whose registered address is NCCI building, North Tower, King Fahd Road, PO Box 60612, Riyadh 11555, Kingdom of Saudi Arabia.
<b>Account Bank:</b>	The Saudi British Bank, whose registered address is Prince Abdulaziz Bin Musaad Bin Jalawi Street (Dabaab), PO Box 9084, Riyadh 11413, Kingdom of Saudi Arabia.
<b>Sukuk:</b>	SAR 3,900,000,000 due 2022G.
<b>Issue Price:</b>	One hundred per cent. (100%) of the aggregate Nominal Value of the Sukuk.
<b>Aggregate Nominal Value:</b>	SAR 3,900,000,000.
<b>Currency:</b>	The Sukuk will be denominated in Saudi Arabian Riyals.
<b>Term:</b>	The Sukuk will expire on 30 July 2022G unless previously purchased and cancelled by the Issuer in accordance with Condition 9 ( <i>Purchase of Sukuk</i> ).
<b>Use of Proceeds:</b>	The Issuer intends to use the proceeds of the issuance of the Sukuk to repay the amounts borrowed under the Murabaha Bridge Facility amounting to SAR 3,182,812,500 with the

	balance, if any to be used for general corporate purposes.
<b>Targeted Investors:</b>	The offering, sale and trading of the Sukuk is limited solely to Qualified Persons (as defined in the Conditions). In addition, the primary offering of the Sukuk will be only to Institutional Investors (as defined in section 18 " <i>Subscription and Sale</i> "), although Qualified Persons who are not Institutional Investors may subsequently be able to purchase Sukuk through Tadawul after the Sukuk have been listed.
<b>Subscription Method:</b>	During the Offer Period, the Joint Lead Managers and Joint Bookrunners may solicit expressions of interest from potential investors for acquiring the Sukuk. Persons wishing to purchase the Sukuk will be required to submit an Investor Application Form to any one of the Joint Lead Managers and Joint Bookrunners before the end of the Offer Period. Persons who are not Institutional Investors may be able subsequently to purchase Sukuk through Tadawul from Institutional Investors after the end of the offer period and the completion of the subscription process. See section 18 " <i>Subscription and Sale</i> ".
<b>Minimum Number of Sukuk:</b>	One sak.
<b>Minimum Subscription Amount:</b>	SAR 1,000,000.
<b>Maximum Number of Sukuk that can be subscribed:</b>	3,900 sukuk.
<b>Maximum Subscription Amount:</b>	SAR 3,900,000,000.
<b>Allocation and Offering Restrictions:</b>	Allocation of Sukuk will be at the discretion of the Issuer and the Joint Lead Managers and Joint Bookrunners and will be made at the end of the Offer Period. For a more detailed description of these and other restrictions on offers, sales and trading of Sukuk, see section 18 " <i>Subscription and Sale</i> ".
<b>Surplus Refund to Investors:</b>	In the event of partial or complete rejection of an Investor Application Form for any reason, whether due to a surplus or otherwise, the amounts received in respect of the rejected application, partially or completely as the case may be, will be returned to the Investor without any discounts by wire transfer to the bank account from which the funds were received no later than ten business days from the end of the Offer Period.

<b>Offer Period:</b>	The period commencing 4 June 2015G and ending 30 July 2022G.
<b>Form of the Sukuk:</b>	The Sukuk will only be issued in dematerialised registered form and will be represented at all times by interests in a registered form global sak (as more particularly described in Condition 3 ( <i>Form and Denomination</i> )), which will be deposited with the Sukukholders' Agent.
<b>Denominations:</b>	The Sukuk will be issued in denominations of SAR 1,000,000.
<b>Status of the Sukuk:</b>	<p>The Sukuk constitute undivided ownership interests in the Sukuk Assets and will at all times rank <i>pari passu</i> among themselves. The payment obligations of the Issuer under each of the Sukuk Documents (as defined below) to which it is a party (the "<b>Payment Obligations</b>") will constitute direct, general, unconditional and unsecured obligations which will at all times rank at least <i>pari passu</i> with all other present and future unsecured obligations of the Issuer save for obligations as may be preferred by provisions of applicable law that are both mandatory and of general application. The obligations of the Issuer to the Sukukholders are not secured by any assets or security or guarantee by a third party.</p> <p>No Sukukholder may exercise or claim any right of set-off in respect of any amount owed to it by the Issuer arising under or in connection with the Payment Obligations and each Sukukholder, by virtue of its subscription, purchase or holding of any Sukuk, shall be deemed to have waived all such rights of set-off to the fullest extent permitted by relevant laws and regulations.</p>
<b>Periodic Distribution Dates:</b>	Periodic Distributions Amounts shall be payable semi-annually on 30 July and 30 January in each year, commencing on 30 January 2016G, up to and including 30 July 2022G. If any Periodic Distribution Date is not a Business Day, it shall be postponed to the immediately following Business Day unless it would thereby fall into the next calendar month, in which event such Periodic Distribution Date shall be brought forward to the immediately preceding Business Day.
<b>Periodic Distribution Amount:</b>	On each Periodic Distribution Date, the Issuer shall instruct the Payment Administrator to distribute to the Sukukholders <i>pro rata</i> a distribution in relation to the Sukuk equal to the applicable Periodic Distribution Amount which shall mean, for each Periodic Distribution Period, an amount equal to the product of:

	$\frac{P \times (S + M)}{360} \times D \text{ where}$
	<p>P = the aggregate Nominal Value of such Sukuk as are current on the Transfer Record Date immediately preceding the last day of such Periodic Distribution Period;</p> <p>S = the Benchmark Rate for such Periodic Distribution Period;</p> <p>M = the Margin; and</p> <p>D = the actual number of days in such Periodic Distribution Period.</p> <p>"<b>Margin</b>" has the meaning given to it in the Conditions.</p>
<b>Restrictions on debt instruments:</b>	<p>The offering, sale and trading of the Sukuk is limited solely to Qualified Persons (as defined in the Conditions). In addition, the primary offering of the Sukuk will be only to Institutional Investors (as defined in section 18 "<i>Subscription and Sale</i>"), although Qualified Persons who are not Institutional Investors may subsequently be able to purchase the Sukuk through Tadawul after the Sukuk have been listed.</p>
<b>Sukuk Capital:</b>	<p>The aggregate Nominal Value of the Sukuk that are current less any loss relating to the Sukuk Assets.</p>
<b>Sukuk Assets:</b>	<p>On the Closing Date, the Sukukholders' Agent shall, on behalf of the Sukukholders:</p> <ul style="list-style-type: none"> <li>(i) provide fifty one per cent. (51%) of the proceeds of the subscription of the Sukuk (the "<b>Mudaraba Capital</b>") to the Mudareb to apply as the capital of the mudaraba (the "<b>Mudaraba</b>") and, in accordance with the terms of the Mudaraba Agreement, the Mudareb shall invest the Mudaraba Capital in the Business Portfolio (as defined below); and</li> <li>(ii) apply forty nine per cent. (49%) of the proceeds of the subscription of the Sukuk in a murabaha arrangement to be entered into by the Seller with the Purchaser pursuant to the Master Murabaha Agreement and Condition 6(d) (<i>Murabaha Contracts</i>).</li> </ul> <p>"<b>Business Portfolio</b>" means the entire <i>Shari'ah</i>-compliant business operations of Bahri along with the investment of the Mudareb (for the benefit of the Sukukholders) and any other investments made pursuant to Condition 6(b) (<i>Business Portfolio</i>).</p>

	<p>The Mudaraba Assets, the Murabaha Assets and the Payment Obligations, together with any amounts standing to the credit of the Sukuk Account and the Reserve (described below) shall constitute the "<b>Sukuk Assets</b>".</p>
	<p>None of the Issuer (so long as it performs its obligations under the Sukuk Documents), the Sukukholders' Agent or the Joint Lead Managers and Joint Bookrunners are responsible for the performance or the profitability of the Sukuk Assets or for the share and amount of the distributions (if any) made to the Sukukholders.</p>
<b>Mudaraba Agreement:</b>	<p>Pursuant to the Mudaraba Agreement, the Mudareb (for the benefit of the Issuer and the Sukukholders) and Bahri (for its own account) shall each have an undivided ownership share of the Business Portfolio and all assets acquired through the Business Portfolio on the basis of the sharing of profit and the bearing of losses <i>pro rata</i> to their respective shares.</p> <p>The Mudareb's (for the benefit of the Issuer and the Sukukholders) and Bahri's (for its own account) respective entitlement to the Business Portfolio on the Closing Date shall be:</p> <ul style="list-style-type: none"> <li>(i) in the case of Bahri, 89.63% of the Business Portfolio; and</li> <li>(ii) in the case of the Mudareb, 10.37% of the Business Portfolio.</li> </ul> <p>Bahri shall have the right to invest further for its own account, in cash or in kind (whether from its own funds or funds sourced from credit facilities) and/or for others in the Business Portfolio. The Mudareb's (for the benefit of the Issuer and the Sukukholders) and Bahri's (for its own account) respective entitlement to the Business Portfolio shall be <i>pro rata</i> to their respective shares from time to time in the aggregate investment in the Business Portfolio.</p>
<b>Mudaraba Income:</b>	<p>The income from the Mudaraba Assets <i>less</i> total costs (consisting of direct costs and allocated costs of such activities) shall be the "<b>Mudaraba Income</b>".</p> <p>The proportional profit shares of the Sukukholders and the Mudareb in any Mudaraba Income, shall be calculated using the following ratios:</p> <ul style="list-style-type: none"> <li>(i) Sukukholders: 80% of any Mudaraba Income (the "<b>Mudaraba Profit</b>"); and</li> <li>(ii) Mudareb (for its own account): 20% of any Mudaraba Income (the "<b>Mudareb Profit</b>").</li> </ul>

	<p>The Mudaraba Profit shall be credited to a book-entry ledger account to be maintained by the Mudareb for and on behalf of the Sukukholders (the "<b>Collection Account</b>"). The Mudareb Profit shall be retained by the Mudareb for its own account.</p>
	<p>At or prior to 11.00 a.m. (Riyadh time) one (1) Business Day prior to each Periodic Distribution Date or any Partial Periodic Distribution Date (as defined in the Conditions), the Mudareb shall transfer from the Collection Account to the Sukuk Account (as defined in the Conditions) an amount on account, to cover any shortfall in payments of any Periodic Distribution Amount or Partial Periodic Distribution Amount (as defined in the Conditions), as applicable and the balance of the Collection Account shall be transferred to the Reserve.</p>
<b>Murabaha Contracts:</b>	<p>The Seller and the Purchaser shall enter into:</p> <ul style="list-style-type: none"> <li>(i) on the Closing Date, an initial murabaha transaction (the "<b>Initial Murabaha Transaction</b>") on the terms set out in the master murabaha agreement dated on or about the Closing Date (the "<b>Master Murabaha Agreement</b>"); and</li> <li>(ii) on the Closing Date and thereafter on the last Business Day of each Periodic Distribution Period for so long as any Sukuk remains current, a series of subsequent murabaha transactions (each a "<b>Subsequent Murabaha Transaction</b>") (in each case after the Purchaser has paid the Deferred Price for the preceding transaction into the Sukuk Account on the last Business Day of the relevant Periodic Distribution Period), the Cost Price of each such Subsequent Murabaha Transaction being equal to SAR 573,300,000 (the "<b>Subsequent Cost Price</b>").</li> </ul> <p>"<b>Seller</b>" means HSBC Saudi Arabia Limited in its capacity as Seller under the Murabaha Agreements and "<b>Purchaser</b>" means the Issuer in its capacity as purchaser under the Murabaha Agreements.</p> <p>The Subsequent Murabaha Profit shall constitute Murabaha Income and the Subsequent Cost Price shall be reinvested in a further Subsequent Murabaha Transaction on the last Business Day of each Periodic Distribution Period for so long as any Sukuk remains current.</p> <p>On the Liquidation Date (as defined in the Conditions), the Subsequent Cost Price shall constitute Murabaha Income.</p> <p>All Murabaha Income shall be paid to the Sukuk Account for application in accordance with Condition 6(f) (<i>Application of Proceeds – Sukuk Account</i>).</p>

<p><b>Sukuk Account:</b></p>	<p>At or prior to 11.00 a.m. (Riyadh time) one Business Day prior to the relevant Periodic Distribution Date, any Partial Periodic Distribution Date or the Liquidation Date, the Issuer shall instruct the Payment Administrator to pay monies standing to the credit of the Sukuk Account as follows:</p> <ul style="list-style-type: none"> <li>(i) <i>firstly</i>, to the extent not previously paid, to the Sukukholders' Agent, and any person appointed by the Sukukholders' Agent, in respect of the amounts owing to it under the Sukuk Documents or otherwise in respect of its capacity as Sukukholders' Agent;</li> <li>(ii) <i>secondly</i>, to the extent not previously paid, <i>pari passu</i> and rateably to each other Service Provider (as defined in section 4 "<i>Terms and Definitions</i>" and in the Conditions), to which the Issuer is liable to make a payment, in each case in respect of the amounts owing to each of them under the Sukuk Documents or otherwise in their respective capacities;</li> <li>(iii) <i>thirdly</i>, to each Sukukholder: <ul style="list-style-type: none"> <li>(A) the aggregate amount of any shortfall between the amounts paid to Sukukholders on any previous Periodic Distribution Date(s) the corresponding Periodic Distribution Amount(s) for such date(s) (each, a "<b>Shortfall</b>") to the extent these remain unpaid; and</li> <li>(B) the amount due for the current Periodic Distribution Period or Partial Periodic Distribution Period;</li> </ul> </li> <li>(iv) <i>fourthly</i>, on the Liquidation Date, the amount due to the Sukukholders to pay the Sukuk Capital; and</li> <li>(v) <i>fifthly</i>, any remaining amounts standing to the credit of the Sukuk Account shall be credited to the Reserve.</li> </ul>
<p><b>Reserve:</b></p>	<p>The Issuer shall maintain a book-entry ledger account (the "<b>Reserve</b>") and shall not have the right to use and invest the monies (if any) standing to the credit of the Reserve for its own account but may use and invest such monies in the Business Portfolio for and on behalf of the Sukukholders.</p> <p>Subject to Condition 6(c) (<i>Adjustment and set-off</i>), at or prior to 11.00 a.m. (Riyadh time) one Business Day prior to the relevant Periodic Distribution Date or any Partial Periodic Distribution Date, the Issuer shall pay monies standing to the credit of the Reserve (if any) as follows:</p>

	<p>(i) <i>firstly</i>, to the extent not previously paid, to the Sukukholders' Agent and any person appointed by the Sukukholders' Agent, in respect of the amounts owing to it under the Sukuk Documents or otherwise in respect of its capacity as Sukukholders' Agent;</p> <p>(ii) <i>secondly</i>, to the extent not previously paid, <i>pari passu</i> and rateably to each other Service Provider, to which the Issuer is liable to make a payment, in each case in respect of the amounts owing to each of them under the Sukuk Documents or otherwise in their respective capacities;</p> <p>(iii) <i>thirdly</i>, to the Payment Administrator to pay the aggregate amount of any Shortfall to the extent these remain unpaid; and</p> <p>(iv) <i>fourthly</i>, to the Payment Administrator to pay the amount due for the current Periodic Distribution Period or Partial Periodic Distribution Period to the extent these remain unpaid.</p> <p>On the Liquidation Date, the Issuer shall pay monies standing to the credit of the Reserve (if any) as follows:</p> <p>(i) <i>firstly</i>, to the extent not previously paid, to the Sukukholders' Agent and any person appointed by the Sukukholders' Agent, in respect of the amounts owing to it under the Sukuk Documents or otherwise in respect of its capacity as Sukukholders' Agent;</p> <p>(ii) <i>secondly</i>, to the extent not previously paid, <i>pari passu</i> and rateably to each other Service Provider to which the Issuer is liable to make a payment, in each case in respect of the amounts owing to each of them under the Sukuk Documents or otherwise in their respective capacities;</p> <p>(iii) <i>thirdly</i>, to the Payment Administrator to pay the amount due to the Sukukholders to pay the Sukuk Capital (including any amount necessary to compensate the Sukukholders for any loss relating to the Mudaraba Capital as at the Liquidation Date); and</p> <p>(iv) <i>fourthly</i>, the balance of the monies (if any) standing to the credit of the Reserve following redemption or purchase and cancellation of the Sukuk on the Liquidation Date, to be received by the Issuer (in its capacity as Mudareb) as an incentive fee for its performance.</p>
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<p><b>Redemption of Sukuk:</b></p>	<p>Unless previously redeemed, or purchased and cancelled, the Sukuk shall be redeemed on the Expiry Date by the Issuer. On the Expiry Date:</p> <ul style="list-style-type: none"> <li>(a) the Deferred Prices under the Master Murabaha Agreement shall be paid by the Issuer to the Sukuk Account;</li> <li>(b) the mudaraba shall be dissolved and the Mudaraba Capital (together with any profit, or less any loss, generated from the Mudaraba Assets) shall be paid to the Sukuk Account;</li> <li>(c) each Sukukholder shall, subject to Condition 6(c) (<i>Adjustment and set-off</i>), receive its pro rata share of the Sukuk Capital from the amounts standing to the credit of the Sukuk Account and the Reserve; and</li> <li>(d) to the extent that each Sukukholder has received its <i>pro rata</i> share of the Sukuk Capital together with any due but unpaid Periodic Distribution Amounts or Partial Periodic Distribution Amounts, the Sukukholders shall assign the remaining portion of the Sukuk Assets to the Issuer, and in such case the remaining Sukuk Assets shall revert automatically to the Issuer (for its own account).</li> </ul> <p>The sukuk can be redeemed early if the Sukukholders so request following an Event of Default (in the manner particularly described in Conditions 12 (<i>Events of Default</i>)) and 13 (<i>Enforcement and Exercise of Rights</i>)).</p>
<p><b>Taxation:</b></p>	<p>All payments shall be paid by the Issuer in respect of the Sukuk free and clear of withholding taxes of the Kingdom unless such withholding is required by applicable laws. In that event, the Issuer will pay the Sukukholders through the Payment Administrator (other than Sukukholders who are not or at any time cease to be Qualified Persons) such additional amounts to cover such withholding.</p> <p>Sukukholders should note that the Sukuk are being sold only to Qualified Persons and that only Qualified Persons may be registered as Sukukholders. No additional amounts in respect of any withholding required by any law or regulation to any person who holds Sukuk but is not a Qualified Person.</p> <p>The Sukukholders shall be responsible for any other capital gains tax, income tax or zakat assessed on them as a result of their holding of Sukuk.</p>

<b>Sukukholder Meetings:</b>	A summary of the provisions for convening meetings of Sukukholders to consider matters relating to their interests and take decisions in relation thereto as such is set forth under Condition 14(a) ( <i>Meetings of Sukukholders; Modification</i> ) and as further set out in the Declaration of Agency.
	Sukukholders should note that the provisions contained in the Declaration of Agency regarding Sukukholder meetings are subject to applicable Saudi Arabian law as may be amended from time to time and as applied in practice. In the event of any inconsistency between those provisions and applicable law as applied in practice, the applicable law shall prevail.
<b>Transfers:</b>	The Sukuk will be listed on Tadawul and can be traded in accordance with the trading procedures applicable to listed debt instruments. In all cases, however, holding the Sukuk must be limited to Qualified Persons.
<b>Sukuk Documents:</b>	The " <b>Sukuk Documents</b> " are the Mudaraba Agreement, the Declaration of Agency, the Registry Agreement, the Payment Administration Agreement, the Master Murabaha Agreement (including any document delivered or executed pursuant to a schedule to the Master Murabaha Agreement), the Sukuk (including the Global Sak and the Conditions) and fee letters (each as defined in the Conditions) delivered or executed by the Issuer in connection therewith and " <b>Sukuk Document</b> " shall mean any one of them as the context may require.
<b>Governing Law:</b>	The Sukuk Documents and the Sukuk are governed by, and are to be construed in accordance with, the laws and regulations of the Kingdom.
<b>Jurisdiction:</b>	The judicial authorities in the Kingdom (including the Committee for the Resolution of Securities Disputes and the Appeal Committee for the Resolution of Securities Conflicts in connection with disputes within the jurisdiction of the Authority and its implementing regulations (the " <b>Committees</b> ")) shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which may arise out of or in connection with the Sukuk or the Sukuk Documents and, for such purposes, all relevant parties (including the Issuer and the Sukukholders) irrevocably submit to the jurisdiction of the judicial authorities in the Kingdom. No suit, action or proceedings which may arise out of or in connection with the Sukuk or the Sukuk Documents may be filed or brought outside the Kingdom Arabia and no court or any judicial authority outside the Kingdom shall have jurisdiction to hear any such claim.

<b>Risk Factors:</b>	An investment in Sukuk should be made only after careful consideration of a potential Sukukholder's investment circumstances. See section 5 " <i>Risk Factors</i> ".
<b>Important Notice:</b>	A potential investor must carefully review the section of this prospectus entitled " <i>Important Notice</i> " before deciding to invest in the Sukuk.

## **2. SUMMARY OF BASIC INFORMATION**

*The summary of basic information set out below should be read as an introduction to, and is qualified in its entirety by reference to, the more extensive information contained elsewhere in this Prospectus. This summary may not contain all of the information that prospective investors should consider before deciding to invest in the Sukuk. Accordingly, any decision by a prospective investor to invest should be based on a consideration of this Prospectus as a whole. You should read this entire Prospectus carefully, including the financial statements and related notes and the information set forth under the headings "Risk Factors" and "Important Notice" before making any investment decision. Capitalised terms used but not defined in this summary have the meanings given to them in the "Terms and Definitions" section of this Prospectus.*

### **2.1 Description of the Issuer**

The National Shipping Company of Saudi Arabia (Bahri), a Saudi Joint Stock Company with Commercial Registration No. 1010026026, established by Royal Decree No. M/5 dated 12/02/1398H (corresponding to 22/01/1978G) and is engaged in the field of maritime transportation. For further details of the Company's activities see section 7, *"Overview of the Company and the Bahri Group"*.

### **2.2 Mission and Overall Strategy**

The Company's mission is to connect economies through providing excellence in global logistics services, thereby facilitating the sharing of prosperity across the world. The Company was first incorporated in order to ensure safe transit of the commodities produced within The Kingdom. The Company is continuing with its mission amid the huge expansion of the scope of its services scale since it was first incorporated. The Company is committed to its corporate values of being "Driven", "Relentless", "Transparent" and "Considered". By consistently focusing on these values and responsible business fundamentals, the Company believes that it can become a leading service provider which applies the principles of best corporate practices to run a world-class fleet, whilst building mutually beneficial relationships with all of its stakeholders. The overall strategy aims to expand the Company's business through the expansion of the fleet and increase the optimal use of resources, inter alia, with a view to enhancing its competitive edge in the global markets. (For further details, see section 7.4.1 *"Mission and Values"* and Section 7.4.2 *"Strategy"*).

### **2.3 Key Strengths and Competitive Advantages**

The Company believes that its key strengths and advantages lie in its qualified and experienced senior management, its state-of-the art fleet and its focus on the safety of its personnel on board the vessels. Please see Section 7.9, *"Competitive Advantages"* for further details.

### **2.4 Market Overview**

Tankers are ships designed to transport liquids in bulk, by way of the seaborne movement of cargo. They transport a wide variety of liquid cargoes such as crude oil and petroleum products, chemicals and vegetable oil. Historically, both in terms of the value and volume of cargo, the transportation of crude oil, petroleum and petroleum products has been one of the most important and recognizable types of sea-born trades. Oil and gas products contributed 30 per cent to the total global seaborne trade in 2013G. The volume of oil and gas cargo transported has increased 1.6 per cent per year on a compound annual growth basis since 1970G.

Energy consumption and demand for marine transportation are both related to world economic growth and economic activity requires and drives higher energy consumption. In terms of the global energy mix, a primary source of energy is crude oil and petroleum products, and increase of which is in line with an expanding global economy. This correlation is strongest in developing countries where energy use increases in tandem with industrial development.

Marine transportation demand arises from the energy consumption requirements of regional economies combined with geographically disparate sources of supply. This drives the demand for tankers which are used for transportation of crude petroleum and petroleum products from source regions to consuming regions.

The Saudi Arabian oil transportation market is therefore closely linked to Saudi Aramco's oil production and exports. According to McQuilling's report, approximately 70 to 90 per cent of Saudi Aramco's export volumes are sold on a FOB basis. For the remaining export volumes sold on a Cost, Insurance and Freight basis, Bahri has been the primary provider of shipping services to Saudi Aramco.

Demand for oil tankers is a function of several factors, including world oil demand and supply (which affects the amount of crude oil and refined products transported in tankers), and the relative locations of oil production, refining and consumption centres (which affects the distance over which the oil or refined products are transported).

Tanker demand is measured by the tons of cargo carried multiplied by the distance of the voyage in miles. Tanker demand is characterised by a variety of parameters. These include the type of cargo required to be transported and the ships capable of doing so; the parcel size of the cargo which is a function of the trade and is driven either by custom or any constraints at the loading or discharging port; the frequency of the demand for delivery of the cargo; and the various locations worldwide at which the cargoes are to be loaded and discharged which will in turn influence the number and variety of trade routes. These parameters are also a function of time which means that tanker operators need to focus on fleet deployment optimization to extract maximum efficiency.

In recent times, that dramatic increase in US light/sweet shale oil production and Canadian heavy/sour alternative-sourced crude production has reduced North American imports substantially.

Tankers are categorised depending on their deadweight tonnage ("DWT") and their cargo carrying capacity. Tanker demand can be categorised into six primary sectors based on the type of tanker which are:

- VLCC Tanker
- Suezmax Tanker
- Aframax Tanker
- Panamax Tanker
- Medium Range Tanker
- Handy Tanker

Very Large Crude Carrier ("VLCC") and Suezmax demand is comprised almost entirely of crude oil transport. Aframax, Panamax and Medium Range tanker demand comprises crude oil transport, dirty petroleum products such as fuel oil and of clean petroleum products such as gasoline, jet and diesel, and chemical transportation. About two-thirds of Aframax demand is for crude oil transportation with the balance comprising products transportation. Panamax tanker demand is derived of crude oil and dirty product transportation. The vast majority of cargoes transported on medium range tankers are petroleum products.

Smaller-sized tanker vessels are typically utilised for the transportation of refined petroleum products. Similar to crude oil tankers, bigger-sized vessels capable of carrying larger cargo quantities are used for longer distances and smaller-sized tankers are used for smaller cargo parcels and shorter distances.

### 3. SUMMARY OF FINANCIAL INFORMATION

#### 3.1 Balance Sheet Data (SAR Thousands)

The following table shows the Company's balance sheet for the Group data for the three (3) years ended 31 December 2012G, 2013G and 2014G, respectively (which was extracted from the audited Financial Statements included in this Prospectus). In addition to the Company's balance sheet as at 31 March 2015G (which was extracted from the unaudited Financial Statements for the three months ended 31 March 2015G and included in this Prospectus).

	2012G	2013G	2014G	31 March 2015G (unaudited)
<b>ASSETS</b>				
<b>Current assets</b>				
Bank balances and cash .....	105,651	106,525	<b>168,957</b>	164,543
Murabaha and short term deposits .....	292,656	237,940	<b>221,111</b>	368,316
Trade receivables, net .....	252,765	586,576	<b>642,167</b>	763,564
Bareboat lease receivable, net.....	10,143	15,256	<b>21,140</b>	22,866
Prepayments and other receivables .....	141,700	92,140	<b>162,041</b>	162,338
Agents' current accounts .....	27,814	53,120	<b>76,334</b>	75,510
Inventories.....	132,068	233,134	<b>327,490</b>	264,902
Accrued bunker subsidy, net.....	132,553	123,880	<b>197,407</b>	201,625
Incomplete voyages .....	21,375	4,456	-	-
Investment held for trading.....	26,384	-	-	-
<b>Total current assets</b> .....	<b>1,143,109</b>	<b>1,453,027</b>	<b>1,816,647</b>	<b>2,023,664</b>
<b>Non-current assets</b>				
Lease receivable for vessels, net.....	394,679	379,423	<b>358,282</b>	351,607
Investments held to maturity .....	40,587	40,587	<b>10,587</b>	10,587
Investments available for sale .....	57,834	14,399	<b>13,533</b>	13,533
Investment in an associated company .	651,982	841,985	<b>905,758</b>	957,530
Deferred dry-docking cost, net.....	98,675	104,672	<b>122,166</b>	128,712
Intangible assets, net .....	-	-	<b>903,501</b>	889,991
Fixed assets, net .....	7,503,701	8,512,152	<b>12,980,017</b>	12,804,769
Ships under construction and other .....	1,171,991	676,468	<b>12,039</b>	15,931
<b>Total non-current assets</b> .....	<b>9,919,449</b>	<b>10,569,686</b>	<b>15,305,883</b>	<b>15,172,660</b>
<b>Total assets</b> .....	<b>11,062,558</b>	<b>12,022,713</b>	<b>17,122,530</b>	<b>17,196,324</b>
<b>LIABILITIES AND EQUITY</b>				
<b>Current liabilities</b>				
Accounts payable and accruals .....	230,313	308,950	<b>496,625</b>	587,170
Murabaha and long-term financing - current portion.....	466,085	564,292	<b>558,304</b>	555,839
Short term Murabaha financing .....	160,000	337,000	<b>3,459,313</b>	3,182,813
Dividends Payable .....	30,941	32,088	<b>33,882</b>	33,720
Provision for zakat and withholding tax.....	118,778	138,907	<b>142,898</b>	173,710
Incomplete voyages .....	-	-	<b>9,813</b>	5,293
<b>Total current liabilities</b> .....	<b>1,006,117</b>	<b>1,381,237</b>	<b>4,700,835</b>	<b>4,538,545</b>
<b>Non-current liabilities</b>				
Murabaha and long-term financing .....	4,253,733	4,376,589	<b>4,152,888</b>	3,984,146
Employees' end of service benefits .....	40,213	46,760	<b>52,834</b>	50,647
Other liabilities.....	36,750	30,704	<b>30,704</b>	30,704
<b>Total non-current liabilities</b> .....	<b>4,330,696</b>	<b>4,454,053</b>	<b>4,236,426</b>	<b>4,065,497</b>

				<b>31 March 2015G (unaudited)</b>
<b>ASSETS</b>	<b>2012G</b>	<b>2013G</b>	<b>2014G</b>	
<b>Total liabilities</b> .....	<u>5,336,813</u>	<u>5,835,290</u>	<u><b>8,937,261</b></u>	<u>8,604,042</u>
<b>Equity</b>				
<b>Shareholders' equity</b>				
Share capital.....	3,150,000	3,150,000	<b>3,937,500</b>	3,937,500
Statutory reserve .....	922,834	998,060	<b>2,016,132</b>	2,055,973
Retained earnings.....	1,335,748	1,697,784	<b>1,861,440</b>	2,220,011
Unrealized (losses) gains on available for sale investments.....	<u>2,332</u>	<u>(115)</u>	<u>-</u>	<u>-</u>
<b>Total shareholders' equity</b> .....	<u>5,410,914</u>	<u>5,845,729</u>	<u><b>7,815,072</b></u>	<u>8,213,484</u>
Non-controlling interests .....	<u>314,831</u>	<u>341,694</u>	<u><b>370,197</b></u>	<u>378,798</u>
<b>Total equity</b> .....	<u>5,725,745</u>	<u>6,187,423</u>	<u><b>8,185,269</b></u>	<u>8,592,282</u>
<b>Total liabilities and equity</b> .....	<u><b>11,062,558</b></u>	<u><b>12,022,713</b></u>	<u><b>17,122,530</b></u>	<u><b>17,196,324</b></u>

### 3.2 Consolidated Statement of Income Data (*SAR Thousands*)

The following table shows the Company's income statement data for the three years ended 31 December 2012G, 2013G, and 2014G, respectively (which was extracted from the Audited Financial Statements included in this Prospectus) and to the three months ended 31 March 2015G (which was extracted from the Unaudited Financial Statements for the three months ends 31 March 2015G and included in this Prospectus).

	<b>2012G</b>	<b>2013G</b>	<b>2014G</b>	<b>31 March 2015G (unaudited)</b>
Operating revenues .....	2,464,628	2,846,698	<b>3,626,412</b>	1,642,457
Bunker cost .....	(875,097)	(943,406)	<b>(1,206,749)</b>	(331,915)
Other operating expenses .....	<u>(1,253,254)</u>	<u>(1,494,838)</u>	<u><b>(1,963,373)</b></u>	<u>(902,378)</u>
<b>Gross operating income before bunker subsidy</b> .....	336,277	408,454	<b>456,290</b>	408,164
Bunker subsidy.....	<u>200,572</u>	<u>171,108</u>	<u><b>217,936</b></u>	<u>47,049</u>
<b>Gross operating income</b> .....	<u>536,849</u>	<u>579,562</u>	<u><b>674,226</b></u>	<u>455,213</u>
General and administrative expenses..	<u>(83,063)</u>	<u>(79,123)</u>	<u><b>(98,875)</b></u>	<u>(27,269)</u>
<b>Operating income</b> .....	<u>453,786</u>	<u>500,439</u>	<u><b>575,351</b></u>	<u>427,944</u>
Share in results of an associated company .....	147,660	291,235	<b>131,956</b>	51,772
Finance charges.....	<u>(59,772)</u>	<u>(60,402)</u>	<u><b>(106,474)</b></u>	<u>(39,601)</u>
Other (expenses) income, net.....	<u>20,135</u>	<u>107,711</u>	<u><b>(1,053)</b></u>	<u>843</u>
<b>Income before zakat, tax and non- controlling interests</b> .....	<u>561,809</u>	<u>838,983</u>	<u><b>599,780</b></u>	<u>440,958</u>
Zakat and withholding tax, net.....	<u>(36,299)</u>	<u>(49,858)</u>	<u><b>(37,436)</b></u>	<u>(33,945)</u>
<b>Income before non-controlling interests</b> .....	<u>525,510</u>	<u>789,125</u>	<u><b>562,344</b></u>	<u>407,013</u>
Non-controlling interests .....	<u>(21,517)</u>	<u>(36,863)</u>	<u><b>(28,504)</b></u>	<u>(8,601)</u>
<b>Net income for the year</b> .....	<u><b>503,993</b></u>	<u><b>752,262</b></u>	<u><b>533,840</b></u>	<u><b>398,412</b></u>

	2012G	2013G	2014G	31 March 2015G (unaudited)
<b>Earnings Per Share (in SR):</b>				
<b>Attributable to operating income ....</b>	1.44	1.59	<b>1.70</b>	1,09
<b>Attributable to net income for the year .....</b>	1.60	2.39	<b>1.58</b>	1,01

### 3.3 Capitalization (*SAR Thousands*)

The following table sets forth the Company's capitalization and indebtedness as at 31 December 2014G and as at 31 March 2015G (unaudited). This table should be read together with section 9 "Management Discussion and Analysis of Financial Condition and Results of Operation" and the consolidated Financial Statements included in this Prospectus.

	As at 31 December 2014G	31 March 2015G (unaudited)
<b>Bank balances and cash .....</b>	<b>168,957</b>	<b>164,543</b>
<b>Debt:</b>		
Short-term debt <sup>1</sup> .....	4,017,617	3,738,652
Long-term debt <sup>2</sup> .....	4,152,888	3,984,146
<b>Total debt .....</b>	<b>8,170,505</b>	<b>7,722,798</b>
<b>Equity:</b>		
Share capital .....	3,937,500	3,937,500
Statutory reserve .....	2,016,132	2,055,973
Retained earnings .....	1,861,440	2,220,011
<b>Total equity .....</b>	<b>7,815,072</b>	<b>8,213,484</b>
<b>Total Capitalization<sup>3</sup> .....</b>	<b>15,985,577</b>	<b>15,936,282</b>

### 3.4 Consolidated Statement of Cash Flows Data (*SAR Thousands*)

The following table shows the Company's statement of cash flows data for the three (3) years ended 31 December 2012G, 2013G and 2014G, respectively and for the three months ended 31 March 2015G.

	2012G	2013G	2014G	31 March 2015G (unaudited)
Net cash from operating activities .....	686,594	644,771	940,856	613,641
Net cash used in investing activities .....	(658,474)	(769,881)	(3,474,732)	(5,608)
Net cash(used in) from financing activities .....	(92,474)	74,210	2,577,618	(447,870)
Net change in cash and cash equivalents	(64,354)	(50,900)	43,742	160,163

<sup>1</sup> Consisting of Murabaha financing, long-term loans-current portion and short-term Murabaha financing

<sup>2</sup> Murabaha financing and long-term loans

<sup>3</sup> Total capital = total debt + total equity



	2012G	2013G	2014G	31 March 2015G (unaudited)
during the year .....				
Cash and cash equivalents at the beginning of the year .....	384,820	320,466	269,566	313,308
Cash and cash equivalents at the end of the year.....	320,466	269,566	313,308	473,471

### 3.5 Key Financial Highlights (SAR Thousands)

The following table shows the Company's key financial highlights for the three (3) years ended 31 December 2012G, 2013G and 2014G, respectively. This table should be read together with the equations in section 9 "Management Discussion and Analysis of Financial Condition and Results of Operation" except for the below mentioned.

	For the Financial Years ended 31 December		
	2012G	2013G	2014G
Operating revenues .....	2,464,628	2,846,698	3,626,412
Cost of revenues – net of bunker subsidy <sup>4</sup> .....	(1,927,779)	(2,267,136)	(2,952,186)
Gross operating income .....	536,849	579,562	674,226
General and administrative expenses.....	(83,063)	(79,123)	(98,875)
Net income .....	503,993	752,262	533,840
<b>Financial condition</b>			
Current assets.....	1,143,109	1,453,027	1,816,647
Non-current assets.....	9,919,449	10,569,686	15,305,883
Total assets.....	11,062,558	12,022,713	17,122,530
Current liabilities .....	1,006,117	1,381,237	4,700,835
Total liabilities .....	5,336,813	5,835,290	8,937,261
Total equity .....	5,725,745	6,187,423	8,185,269
<b>Key indicators</b>			
Gross profit margin .....	21.78%	20.36%	18.59%
Net profit margin.....	20.45%	26.43%	14.72%
Net cash from operating activities .....	686,594	644,771	940,856
Net cash used in investing activities .....	(658,474)	(769,881)	(3,474,732)
Net cash(used in) from financing activities .....	(92,474)	74,210	2,577,618
Net change in cash and cash equivalents during the year .....	(64,354)	(50,900)	43,742
Current ratio (x) .....	1.14	1.05	0.39
Total liabilities to total assets.....	48.24%	48.54%	52.20%
Total liabilities to total equity .....	93.21%	94.31%	109.19%
Return on equity.....	9.31%	12.87%	6.83%
Return on total assets .....	4.56%	6.26%	3.12%
Revenue growth rate <sup>5</sup> .....	23.78%	15.50%	27.39%
Income growth rate <sup>6</sup> .....	75.82%	49.26%	(29.04%)

<sup>4</sup> Cost of revenues-net of bunker subsidy= (bunker cost+other operational cost) – bunker subsidy

<sup>5</sup> Revenue growth rate = {(year income- previous year income) / previous year income}\*100

<sup>6</sup> Earnings growth rate = {(year income"net" – pervious year income "net") / previous year income "net"}\*100

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#### 4. TERMS AND DEFINITIONS

*In this Prospectus the following terms shall have the meanings set out below:*

**"2007 Murabaha Facility"** means a murabaha facility of US\$437,878,000 dated 25 June 2007G with four commercial banks.

**"2007 Three Commercial Banks Murabaha Facility"** means a murabaha facility of US\$84,400,000 dated 18 March 2007G with three commercial banks.

**"2009 PIF Murabaha Facility"** means a murabaha facility of US\$280,000,000 dated 21 April 2009G with the Public Investment Fund.

**"2011 Murabaha Facility"** means a murabaha facility of US\$822,600,000 dated 22 June 2011G with two commercial banks.

**"2012G PIF Murabaha Facility"** means a murabaha facility of US\$120,000,000 dated 3 July 2012G with the Public Investment Fund.

**"Bridge Murabaha Facility"** means a murabaha facility of SAR 3,182,812,500 with three commercial banks granted to the Issuer pursuant to the murabaha facility agreement dated 23 June 2014G between the Issuer (as purchaser) and HSBC Saudi Arabia Limited (as investment agent), as the same may be amended from time to time.

**"Bridge Murabaha Facility Security"** means any Security Interest created pursuant to, or securing any obligation under, the murabaha facility agreement dated 23 June 2014G between the Issuer (as purchaser) and HSBC Saudi Arabia Limited (as investment agent), as the same may be amended from time to time.

**"Account Bank"** means The Saudi British Bank, where the Sukuk Account will be located.

**"Aframax or Aframax Tanker"** means a vessel that is smaller in size than a VLCC and is usually used for medium to short haul crude oil transportation with a DWT range of 75,000 to 120,000 metric tons.

**"aggregate Nominal Value"** means, at any time, the aggregate Nominal Value of the Sukuk that are current.

**"Applicable Accountancy Standards"** means the generally applicable accounting principles as applied by the Saudi Organisation for Certified Public Accountants.

**"ARASCO"** means the Arabian Agricultural Services Company.

**"Articles of Association"** means the articles of association of the Company.

**"Audited Financial Statements"** means the Group's audited consolidated financial statements for the financial years ended 31 December 2012G, 2013G and 2014G, and the notes thereto.

**"AUFGC"** means the Arabian United Float Glass Company, a company established in the Kingdom of Saudi Arabia pursuant to Ministerial Resolution No. (1299) dated 11/05/1427H (corresponding to 8 June 2008G). The company works in the field of manufacturing float glass and has commenced its operations in April of 2009G. Bahri owns 4.69% of this company's shares for the purpose of investment.

**"Authority"** means the Capital Market Authority in the Kingdom of Saudi Arabia.

**"Bahri" or "Company" or "Issuer"** means the National Shipping Company of Saudi Arabia (Bahri), a Saudi Joint Stock Company listed in the Saudi Arabian Stock Exchange (Tadawul).

**"Bahri Group" or the "Group"** means Bahri, and its subsidiaries: NSCSA (America) Inc. MidEast Ship Management Limited JLT, Bahri Dry Bulk Company LLC and National Chemical Carriers Co. Ltd.

**"Bahri Gas & Marine"** means the gas and marine services sector operated by a branch office of the Company located in Dubai, United Arab Emirates pursuant to commercial license No. JLT-69829. Bahri Gas & Marine has been established to study investment opportunities in the marine services field.

**"Bahri Oil Transportation"** means the oil transportation sector operated by a branch office of the Company located in Dubai, United Arab Emirates pursuant to commercial license No. JLT-65807. Bahri Oil Transportation has been established as a base to operate the Company's crude oil transportation business

**"BAPA"** means the agreement for the sale and purchase of certain business and assets of Vela entered into between the Company and Vela on 19/12/1433H (corresponding to 4/11/2012G), as amended on each of 03/09/1434H (corresponding to 11/07/2013G), 25/12/1434H (corresponding to 30/10/2013G), 28/2/1435H (corresponding to 31/12/2013G), 30/5/1435H (corresponding to 31/3/2014G) and 14/6/1435H (corresponding to 14/4/2014G) as further described in Section 13.1, "Summary of Material Agreements".

**"Bareboat charter"** means an agreement wherein the charterer "leases" the bare hull and machinery of the vessel, usually for an extended period of time, frequently for the life of the vessel, at an agreed periodic hire payment rate.

**"Board or Board of Directors"** means the board of directors of the Company.

**"Bolanter"** means a Bolanter Corporation N.V., a wholly-owned subsidiary of Saudi Aramco established in Curaçao.

**"Benchmark Rate"** has the meaning given to such term in Condition 8(b) (*Benchmark Rate*).

**"Business Day"** means a day on which commercial banks are open for general business in Saudi Arabia.

**"Business Portfolio"** means the entire Shari'ah-compliant business operations of Bahri along with the investment of the Mudareb (for the benefit of the Sukukholders) and any other investments made pursuant to Condition 6(b) (*Business Portfolio*).

**"By-Laws"** means the by-laws of the Company, which are summarised in Section 13.1 "Summary of the Company's By-Laws".

**"CAGR"** means the compound annual growth rate.

**"Capital Contribution"** has the meaning given to such term in Condition 6(e) (*Purchase of Commodities*).

**"Capital Contribution Notice"** means a notice from the Seller to the Payment Administrator and the Issuer notifying the Issuer and the Payment Administrator of the Capital Contribution required.

**"Cash Consideration"** means an amount equal to SAR 3,122,812,500 (equivalent to U.S.\$832,750,000) constituting the monetary element of the Total Consideration provided by the Issuer in relation to the Vela Transaction.

"**CEO**" means the Chief Executive Officer of the Company.

"**CFO**" means the Chief Financial Officer of the Company.

"**Chairman**" means the Chairman of the board of directors of the Company.

"**Closed Period**" has the meaning given to such term in Condition 4(e) (*Transfer Record Dates and Closed Periods*).

"**Closing Date**" means 30 July 2015.

"**Collection Account**" means a book-entry ledger account to be maintained by the Mudareb in for and on behalf of the Sukukholders.

"**Committee**" means the Committee for the Resolution of Securities Disputes and the Appeal Committee for the Resolution of Securities Conflicts.

"**Commodities**" means the commodities referred to in the Master Murabaha Agreement.

"**Companies Regulations or Companies Law**" means the regulations for companies in Saudi Arabia promulgated under Royal Decree No. M/6 dated 22/3/1385H (20 July 1965G), as amended, supplemented or replaced.

"**Competing Business**" means the business of owning, operating and/or chartering VLCCs for the carriage of Crude Oil produced in the Kingdom.

"**Condition**" means one of the terms and conditions of the Sukuk set out in section 16 "Terms and Conditions of the Sukuk" of this Prospectus.

"**Conditions**" means the terms and conditions of the Sukuk set out in the section headed "Terms and Conditions of the Sukuk" in this Prospectus and any reference to a numbered "**Condition**" is a reference to a correspondingly numbered provision thereof.

"**Confirmation of Terms**" has the meaning given to such term in Condition 6(e) (*Purchase of Commodities*).

"**Consideration Shares**" means 78,750,000 new shares, with an aggregate value of SAR 1,752,187,500 (equivalent to US\$467,250,000) constituting the non-monetary element of the Total Consideration provided by the Issuer in relation to the Vela Transaction.

"**Consolidated Tangible Net Worth**" means the total shareholders' equity of the Group as specified in the most recently published consolidated financial statements of the Group prepared in accordance with Applicable Accountancy Standards less the aggregate of any amounts attributable to goodwill or any other intangible asset.

"**Consolidated Total Liabilities**" means the total liabilities of the Group as specified in the most recently published consolidated financial statements of the Group prepared in accordance with Applicable Accountancy Standards.

"**Container Service Yard**" means the container service yard at Jeddah Islamic Port described in Section 7.7.3 "General Cargo".

"**Contract of Affreightment**" means the contract of affreightment entered into on 19/12/1433H (corresponding to 4/11/2012G) as amended on 14/6/1435H (corresponding to 14/4/2014G) by the Company and Bolanter to take effect on the date of First Completion, as further described in Section 13.2, "Summary of Material Agreements".

**"Control System"** means the control systems implemented by the Internal Audit Department to monitor the Company and the Group.

**"Corporate Governance Regulations"** means the Corporate Governance Regulations, issued by the CMA's board pursuant to its Resolution No. 1/212/2006 dated 21/10/1427H (corresponding to 12/11/2006G), as amended.

**"CPP or Clean Petroleum Products"** means refined crude oil products with a colour equal to or less than 2.5 on the National Petroleum Association scale.

**"Crude Oil"** means an Arabian heavy, Arabian medium, Arabian light, Arabian extra light or Arabian super light crude oil.

**"current"** has the meaning given to such term in Condition 2 (*Recitals*).

**"Declaration of Agency"** means the declaration of agency to be dated on or about the Closing Date between the Issuer and the Sukukholders' Agent.

**"Deferred Price"** has the meaning given to it in the Master Murabaha Agreement.

**"Deferred Price Payment Date"** has the meaning given to it in the Master Murabaha Agreement.

**"Delivered Basis"** means the sale of cargo on terms that require the seller to arrange for carriage by sea to their place of delivery.

**"Directors or members of the Board"** means the members of the board of directors of the Company.

**"DPP"** means dirty petroleum products refined from crude oil, whose colour is greater than 2.5 on the National Petroleum Association scale.

**"Dry-docking"** means the removal of a vessel from the water for inspection and/or repair.

**"DWT"** means is the measure of a vessel's carrying capacity being the number of tons of cargo, storages, bunkers, water ballast, fresh water, crew, passengers and baggage that a vessel can transport. This is measured by the difference in tons between (a) the vessel's lightship displacement (i.e. the weight of the vessel as built including boiler water, lubricating oil and its cooling water system) and (b) the vessel's fully loaded displacement such that the vessel's Plimsoll line (a measure used in the shipping industry to denote the legal limit to which a vessel can be loaded) is at the waterline.

**"DZIT"** means the Department of Zakat and Income Tax.

**"Event of Default"** means each of the events and circumstances set out in Condition 12 (*Events of Default*).

**"Event of Default Date"** has the meaning given to such term in Condition 12 (*Events of Default*).

**"Event of Default Notice"** has the meaning given to such term in Condition 12 (*Events of Default*).

**"Execution Date"** means 19/12/1433H (corresponding to 4 November 2012G).

**"Exercise Notice"** has the meaning given to such term in Condition 12 (*Events of Default*).

**"Exercise Period"** has the meaning given to such term in Condition 12 (*Events of Default*).

**"Existing Vessel"** means any vessel owned by the Issuer as at the Closing Date, which, for the avoidance of doubt, does not include any vessel that, as at the Closing Date, has been ordered by the Issuer or is under construction.

**"Expiry Date"** means the Periodic Distribution Date falling on 30 July 2022G.

**"Extraordinary Resolution"** means a resolution passed at a duly convened meeting of the Sukukholders by a majority of not less than 66⅔% of the aggregate Nominal Value of the Sukuk represented.

**"Financial Indebtedness"** means any indebtedness for or in respect of:

- (i) monies borrowed;
- (ii) any amount raised by acceptance under any acceptance credit facility or dematerialised equivalent;
- (iii) any amount raised pursuant to any debt instrument or any similar instrument;
- (iv) the amount of any liability in respect of any lease or hire purchase contract which would, in accordance with Applicable Accountancy Standards, be treated as a finance or capital lease;
- (v) receivables sold or discounted (other than any receivables to the extent they are sold on a non-recourse basis);
- (vi) any amount raised under any other transaction (including any forward sale or purchase agreement) having the commercial effect of a borrowing;
- (vii) any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price (and, when calculating the value of any derivative transaction, only the mark-to-market value (or, if the actual amount is due as a result of the termination or close-out of the derivative transaction, that amount) shall be taken into account);
- (viii) any counter-indemnity obligation in respect of a guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution excluding any performance bonds;
- (ix) any amount of any liability under an advance or deferred purchase agreement if one of the primary reasons behind the entry into this agreement is to raise finance;
- (x) any obligations incurred in respect of any Islamic financing arrangements; and
- (xi) (without double counting) the amount of any liability in respect of any guarantee or indemnity for any of the items referred to in paragraphs (i) to (x) above.

**"First Completion"** means 21 July 2014G.

**"FOB"** means free-on-board basis of shipments where the seller pays for transportation of the goods to the port of shipment, plus loading costs. The buyer pays costs of marine freight transport, insurance, unloading and transportation from the arrival port to the final destination.

**"FOB Amendment Agreement"** means the agreement dated 5/2/1433H (corresponding to 31/12/2011G) between the Company and Saudi Aramco renewing the FOB Marine Fuel Sales Agreement. As further described in Section 14.1, "Summary of Material Agreements".

**"FOB Marine Fuel Sales Agreement"** means the agreement between the Company and Saudi Aramco dated 15/1/1432H (corresponding to 9/1/2011G) governing the terms under which Saudi Aramco sells marine fuel to the Company, as further described in Section 14.1, "Summary of Material Agreements".

**"GCC person"** means:

- (i) a citizen of any of the GCC countries (namely, the Kingdom, the United Arab Emirates, the Kingdom of Bahrain, the Sultanate of Oman, the State of Qatar and the State of Kuwait); and
- (ii) any legal entity owned by GCC citizens and established under the laws of a GCC country. A GCC person will include Mixed Companies, to the extent it is ultimately owned by Saudi/GCC nationals.

**"GDP"** means gross domestic product.

**"General Assembly"** means an Extraordinary General Assembly and/or an Ordinary General Assembly (as applicable).

**"Geometric Shape"** means the trademark in blue and grey with the word "Bahri" on it in Arabic lettering and the word "Bahri" in Roman lettering along with a geometric shape which is similar to the front of a vessel.

**"Global Sak"** means the registered form global sak representing the Sukuk.

**"Government"** means Government of the KSA.

**"GRCM"** means the Governance, Risk and Compliance Management System, implemented by Internal Audit Department.

**"Group"** means the Issuer and its consolidated Subsidiaries.

**"Group Company"** means a company within the Group.

**"IMO"** means the International Maritime Organisation, a sub-organization of the United Nations that sets the international safety, security and environmental standards for the marine shipping industry.

**"Income Tax Regulation"** means the income tax regulation issued by Royal Decree no. M/1 dated 15/01/1425H (corresponding to 06/03/2004G).

**"Initial Murabaha Cost Price"** has the meaning given to such term in Condition 6(d) (*Murabaha Contracts*).

**"Initial Murabaha Transaction"** has the meaning given to such term in Condition 6(d) (*Murabaha Contracts*).

**"Institutional Investor"** means a Qualified Person who is one of the following:

- (a) a person who is authorised to carry on securities business by the Authority;
- (b) an exempt person as specified in Annex 1 to the Securities Business Regulations of the Authority;
- (c) any of the following:
  - (i) any company which owns, or which is a member of a group which owns, net assets of not less than SAR 50 million;



- (ii) any unincorporated body, partnership or other organisation which has net assets of not less than SAR 50 million; or
- (iii) any person ("A") whilst acting in the capacity of director, officer or employee of a person ("B") falling within sub-paragraphs (i) or (ii) where A is responsible for B undertaking any securities activity; or
- (d) an institution that has received a licence to engage in banking business for the Saudi Arabian Monetary Agency (SAMA) in accordance with the laws of the Kingdom.

**"Internal Audit Department"** means the internal audit department of Bahri.

**"Investor Application Form"** means the form to be duly completed by persons wishing to purchase the Sukuk and submitted to the Joint Lead Managers and Joint Bookrunners before the end of the Offer Period.

**"ISM"** means the International Safety Management Code.

**"Joint Lead Managers and Joint Bookrunners"** means HSBC Saudi Arabia Limited, J.P. Morgan Saudi Arabia Limited and Samba Capital & Investment Management Company in their capacity as the joint lead managers and joint bookrunners.

**"Kingdom or KSA or Saudi Arabia"** means the Kingdom of Saudi Arabia.

**"Late Payment Amount"** means in relation to any Overdue Amount a late payment amount that is calculated on a daily basis in respect of the period from, and including, the due date for such Overdue Amount to, but excluding, the date of settlement in full of such Overdue Amount, as the product of: (i) 1% per annum; (ii) the Overdue Amount; and (iii) the number of days when such Overdue Amount is outstanding divided by 360.

**"Liabilities"** means any loss, damage, cost, fee, charge, claim, demand, expense, judgment, action, proceeding or other liability whatsoever (including, without limitation, in respect of taxes, duties, levies, imposts and other charges) and including any value added tax or similar tax charged or chargeable in respect thereof and legal fees and expenses on a full indemnity basis.

**"Liquidation Date"** means the Expiry Date or the Event of Default Date.

**"Listing Rules"** means the Listing Rules of the Capital Market Authority issued on 4 October 2004G, as amended.

**"London Tanker Broker Panel"** means an independent and impartial body located in London, United Kingdom, which provides a variety of shipping rate assessments on a fee-paying basis for individual oil companies, traders, tanker operators and other interests worldwide.

**"Long-Haul Voyages"** means a voyage where a VLCC carrying Crude Oil, during its laden leg, covers a Worldscale distance of more than 1,500 nautical miles between the relevant ports/lightening locations.

**"LPG"** means liquefied petroleum gas.

**"LR or Long Range"** means LR1 and LR2.

**"LR1"** means a Long Range tanker of about Panamax size.

**"LR2"** means a Long Range tanker of about Aframax size.

**"Major Oil Company"** means Total Oil Trading S.A., Exxon Mobil Corporation, Royal Dutch Shell plc, British Petroleum plc, Chevron Corporation, Statoil ASA, Repsol YPF, S.A., ConocoPhillips, Eni S.p.A. or Valero Energy Corporation or any of their respective affiliates.

**"Margin"** means, for each Periodic Distribution Period, 80 basis points.

**"Master Murabaha Agreement"** means the master murabaha agreement between the Seller and the Issuer dated on or about the Closing Date.

**"McQuilling"** means McQuilling Services, LLC, an independent consultancy firm specialising in the marine shipping field with headquarters in New York City, United States of America.

**"Mideast"** means Mideast Ship Management JLT Limited, a wholly-owned subsidiary of the Company incorporated in Dubai, UAE.

**"MOCI"** means The Ministry of Commerce and Industry.

**"MoD"** means the Ministry of Defence of Saudi Arabia.

**"MR or Medium Range"** means MR1 and MR2.

**"MR1"** means Medium Range 1 Product Tanker for vessels of 27,500 to 39,999 DWT.

**"MR2"** means Medium Range 2 Product Tanker for vessels of 40,000 to 54,999 DWT.

**"Mixed Companies"** means companies owned by both Saudi/GCC and non-Saudi/non-GCC nationals.

**"Mudaraba"** has the meaning given to such term in Condition 6(a) (*Sukuk Assets*).

**"Mudaraba Agreement"** means a mudaraba agreement dated on the Closing Date between the Issuer (in its capacity as Mudareb) and the Sukukholders' Agent.

**"Mudaraba Assets"** means the Mudareb's (for the benefit of the Issuer and the Sukukholders) share in the Business Portfolio, as calculated in accordance with Condition 6(b) (*Business Portfolio*).

**"Mudaraba Capital"** has the meaning given to such term in Condition 6(a) (*Sukuk Assets*).

**"Mudaraba Income"** means the income from the Mudaraba Assets less total costs (consisting of direct costs and allocated costs of such activities).

**"Mudaraba Profit"** has the meaning given to such term in Condition 6(b) (*Business Portfolio*).

**"Mudareb"** means the Issuer in its capacity as a mudareb for the Sukukholders.

**"Mudareb Profit"** has the meaning given to such term in Condition 6(b) (*Business Portfolio*).

**"Murabaha Agreements"** means each murabaha agreement entered into between the Seller and the Purchaser under the Master Murabaha Agreement and **"Murabaha Agreement"** means any one such agreement as the context may require.

**"Murabaha Assets"** means the rights of the Seller pursuant to the terms of the Master Murabaha Agreement.

**"Murabaha Benchmark Rate"** means the rate set by the Seller as being necessary to ensure that the profit element of the Deferred Price is at least equal to the Periodic Distribution Amount falling due on the day following the Deferred Price Payment Date.

**"Murabaha Contracts"** means each murabaha contract entered into between the Seller and the Purchaser under the Master Murabaha Agreement and **"Murabaha Contract"** means any one such contract as the context may require.

**"Murabaha Income"** means those amounts specified in Condition 6(d) (*Murabaha Contracts*) as constituting murabaha income.

**"Murabaha Profit"** has the meaning given to it in the Master Murabaha Agreement.

**"National Petroleum Association Scale"** means a benchmark to determine the classification of an oil product as either a clean or dirty grade, with the number one representing the cleanest grade and the number nine representing the dirtiest grade.

**"NCC Ship Management Agreement"** means the agreement between NCC and Mideast dated 10/08/1428H (corresponding to 24/8/2007G) governing the terms under which Mideast provides management services for NCC's ships, as further described in Section 14.1, "Summary of Material Agreements".

**"NCC"** means National Chemical Carriers, a subsidiary of the Company incorporated in Saudi Arabia as a limited liability company.

**"NCC JLT"** means National Chemical Carriers JLT.

**"Nominal Value"** means the nominal value of each Sak, being SAR1,000,000.

**"OECD"** means the Organisation for Economic Corporation and Development.

**"Offer Period"** means the offering period for the Sukuk commencing on 4 June 2015G and ending on a date notified by the Issuer and the Joint Lead Managers and Joint Bookrunners to the potential investors.

**"Ordinary General Assembly"** means an ordinary general assembly of the Shareholders convened in accordance with the By-Laws.

**"Overdue Amount"** means any amount that the Issuer fails to pay that is due and payable in accordance with the Sukuk Documents (taking into account any applicable grace period).

**"P&I Clubs Group"** means the international group of P&I clubs, a conglomerate of shipping and international navigation companies offering insurance to shipping and navigation companies internationally, through which Bahri insures its vessels.

**"P&I"** means protection and immunity.

**"Partial Periodic Distribution Amount"** means, in relation to any Partial Periodic Distribution Date, an amount calculated as follows:

$$\frac{P \times (S + M)}{360} \times D$$

where

P = the aggregate Nominal Value of such Sukuk as are current on the Transfer Record Date immediately preceding the Partial Periodic Distribution Date;

- S = the Benchmark Rate for the Periodic Distribution Period in which the Partial Periodic Distribution Date falls;
- M = the Margin; and
- D = the number of days between the immediately preceding Periodic Distribution Date and the Partial Periodic Distribution Date.

**"Partial Periodic Distribution Date"** means any date on which the Issuer is to redeem the Sukuk following an Event of Default.

**"Partial Periodic Distribution Period"** means the period commencing on the Periodic Distribution Date immediately preceding the Partial Periodic Distribution Date and ending on the Partial Periodic Distribution Date.

**"Payment Administration Agreement"** has the meaning given to such term in section 16 "Terms and Conditions of the Sukuk".

**"Payment Administrator"** has the meaning given to such term in section 16 "Terms and Conditions of the Sukuk".

**"Payment Obligations"** means all obligations of the Issuer to make payments to the Sukukholders of the Periodic Distribution Amounts, any Partial Periodic Distribution Amount and the Sukuk Capital and each other amount payable to the Sukukholders under the Sukuk Documents.

**"Periodic Determination Date"** means the second Business Day prior to the commencement of the relevant Periodic Distribution Period.

**"Periodic Distribution Amount"** means, for each Periodic Distribution Period, an amount calculated as follows:

$$\frac{P \times (S + M)}{360} \times D$$

where

- P = the aggregate Nominal Value of such Sukuk as are current on the Transfer Record Date immediately preceding the last day of such Periodic Distribution Period;
- S = the Benchmark Rate for such Periodic Distribution Period;
- M = the Margin; and
- D = the actual number of days in such Periodic Distribution Period.

**"Periodic Distribution Date"** means 30 July and 30 January in each year, commencing on 30 January 2016G, up to and including 30 July 2022G; provided however, that if any such day is not a Business Day, the Periodic Distribution Date will be the immediately following Business Day unless it would thereby fall into the next calendar month, in which event such Periodic Distribution Date shall be brought forward to the immediately preceding Business Day.

**"Periodic Distribution Period"** means the period from and including the Closing Date to but excluding the first Periodic Distribution Date, and each successive period from and including a Periodic Distribution Date to but excluding the next succeeding Periodic Distribution Date.

**"Permanent Establishment"** of a non-resident in the Kingdom means, subject to the exceptions stipulated in the Income Tax Regulation, a permanent place for the non-resident's activity where he conducts the activity either fully or partly; this also includes the activity conducted by the non-resident through an agent. A non-resident carrying out an activity in the Kingdom through a licensed branch (as defined in Article 4(b) 4 of the Income Tax Regulation) is considered to have a Permanent Establishment in the Kingdom.

**"Permitted Reorganisation"** means: (i) an amalgamation, reorganisation, merger or consolidation on terms approved by the Sukukholders' Agent or by an Extraordinary Resolution; or (ii) any restructuring on a solvent basis.

**"Permitted Security Interest"** means:

- (i) any Security Interest existing on the Closing Date;
- (ii) any Security Interest securing the Financial Indebtedness of a person existing at the time that such person is merged into, or consolidated with, the Issuer provided that such Security Interest was not created in contemplation of such merger or consolidation and does not extend to any other assets or property of the Issuer;
- (iii) any Security Interest existing on any property or assets prior to the acquisition thereof by the Issuer and not created in contemplation of such acquisition; or
- (iv) save in respect of the Bridge Murabaha Facility Security, to the extent the Bridge Murabaha Facility has been repaid in full, the renewal of or substitution for any Security Interest permitted by any of paragraphs (i) to (iii) (inclusive) of this definition, provided that, with respect to any such renewal or substitution, the principal amount secured thereby has not increased and the Security Interest has not been extended to any additional assets (other than the proceeds of such assets).

**"Person"** means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality.

**"Petredec"** means Petredec Limited, a company specialising in the trading and transporting of LPG established in Bermuda.

**"Products Tankers"** means refined petroleum product tankers.

**"Profit Rate Period"** means the period commencing on the Settlement Date of a Subsequent Murabaha Transaction and ending on the Deferred Price Payment Date for that Subsequent Murabaha Transaction.

**"Proprietary Fleet"** means oil companies owned or bareboat-chartered vessels.

**"Public Investment Fund"** means the Public Investment Fund in Saudi Arabia established by Royal Decree No. M/24, dated 25/06/1391H (corresponding to 17/08/1971G).

**"Purchase Order With Promise To Purchase"** has the meaning given to it in the Master Murabaha Agreement.

**"Purchaser"** means the Issuer in its capacity as purchaser under the Murabaha Contracts.

**"Qualified Person"** means:

- (i) a natural person who is resident in the Kingdom under the Income Tax Regulation; or
- (ii) a legal person who is considered to be resident in the Kingdom under the Income Tax Regulation and who is holding a current commercial registration number. However, the requirement for such legal person to hold a current commercial registration number would not apply to governmental entities or mutual funds established in the Kingdom and managed by a person authorised by the Authority,

and who, in each case, has a bank account with a local bank in the Kingdom.

**"Relationship Agreement"** means the relationship agreement in respect of future cooperation methods entered into between Saudi Aramco and the Company on 19/12/1433H (corresponding to 4/11/2012G) which provides for, amongst other things, certain exclusivity arrangements between, and the potential for future collaboration in other lines of business, where feasible, between, the Company and the Saudi Aramco Group as further described in Section 14.1, "Summary of Material Agreements".

**"Reference Banks"** means the principal Riyadh office of each of three major banks engaged in the Riyadh interbank market selected by or on behalf of the Payment Administrator and **"Reference Bank"** shall mean any one of them as the context may require, provided however, that once a Reference Bank has first been selected by the Payment Administrator or its duly appointed representative, such Reference Bank shall not be changed unless it ceases to be capable of acting as such.

**"Register"** means the registry system administered by the Registrar.

**"Registrar"** means the Saudi Arabian Stock Exchange (Tadawul) (and includes any successor registrar as may be appointed in accordance with the provisions of the Registry Agreement).

**"Registry Agreement"** means the registry and trading agreements to be entered into between the Issuer and the Registrar in relation to the Sukuk on or about the Closing Date.

**"Relevant Indebtedness"** means any present or future indebtedness which is in the form of, or represented or evidenced by, bonds, notes, debentures, debenture stock, loan stock, Sukuk Obligations in respect of certificates or other securities, in each case which for the time being are, or are intended to be or are capable of being, quoted, listed, dealt in or traded on any stock exchange, over-the-counter or other securities market.

**"Required Sukukholders"** means Sukukholders holding more than 50% of the aggregate Nominal Value of Sukuk as are current on such date.

**"Reserve"** has the meaning given to such term in Condition 6(g) (*Application of Proceeds – Reserve*).

**"Resident"** has the meaning given to such term under Article 3 of the Income Tax Regulation as follows:

- (i) A natural person is considered a resident in the Kingdom for a taxable year if he/she meets either of the following conditions:
  - (A) He/she has a permanent place of abode in the Kingdom and is physically present in the Kingdom for a total of not less than thirty (30) days in the taxable year; or
  - (B) He/she is physically present in the Kingdom for a period of not less than one hundred eighty three (183) days in the taxable year.

For the purposes of this paragraph, presence in the Kingdom for part of a day is considered presence for the whole day, except in the case of a person in transit between two (2) points outside the Kingdom.

- (ii) A company is considered resident in the Kingdom during the taxable year if it meets either of the following conditions:
  - (i) it is formed in accordance with the Saudi Arabian Companies Regulations promulgated by Royal Decree M/6 dated 22/03/1388H (corresponding to 21/07/1965G), as amended from time to time; or
  - (ii) its place of central control and management is located in the Kingdom.

**"RoCon"** means a hybrid vessel combining the features of a RoRo as well as a container vessel.

**"RoRo"** means a roll-on/roll-off vessel designed to carry wheeled cargo such as automobiles and trucks.

**"SABIC"** means the Saudi Basic Industries Corporation, a company established in the Kingdom of Saudi Arabia and a contributor in the joint venture with Bahri creating NCC in which Bahri owns 80% and SABIC owns 20%.

**"SADC"** means Saudi Aramco Development Company, a wholly-owned subsidiary of Saudi Aramco, incorporated in Saudi Arabia on 16/7/1434H (corresponding to 26 May 2013G) with commercial registration number 2052002216.

**"Sak"** has the meaning given to such term in section 16 "Terms and Conditions of the Sukuk".

**"SAPTC"** means Saudi Aramco Products Trading Company, a wholly-owned member of the Saudi Aramco Group.

**"SAR"** or **"Saudi Riyals"** means Saudi Arabian Riyal, the lawful currency of Saudi Arabia.

**"Saudi Aramco Group"** means Saudi Aramco and its subsidiaries.

**"Saudi Aramco"** means Saudi Arabian Oil Company.

**"SCPMA"** means the Supreme Council for Petroleum and Minerals Affairs of Saudi Arabia.

**"SCPMA Permission"** means the SCPMA written approval, endorsement or concurrence to or of the Vela Transaction, which was one of the regulatory approvals required for the Transaction.

**"Screen Rate"** means the offer rate in Saudi Riyals for a period equal to the relevant Periodic Distribution Period which appears on the Reuters Screen SUAA Page across from the caption "AVG" (or such other page as may replace that page on that service, or such other service as may be nominated by the Payment Administrator as the information vendor for the purpose of displaying comparable rates) through which the offers rate is determined in the Saudi interbank market "SIBOR".

**"Secondment Agreement"** means the secondment agreement entered into between the Company and Saudi Aramco on 19/12/1433H (corresponding to 4/11/2012G), pursuant to which certain shore-based employees of the Saudi Aramco Group may be seconded to the Bahri Group, as further described in Section 14.1, "Summary of Material Agreements".

**"Secretary"** means the secretary of the Board.

**"Security Interest"** means any mortgage, charge (fixed or floating), pledge, encumbrance, lien or hypothecation, any taking of title, reservation of title, set-off or trust arrangement for the purpose of taking security, any assignment by way of security or any other security interest securing any obligation of any Person or any other agreement or arrangement having a similar effect including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction. For the avoidance of doubt, a Security Interest does not include a guarantee, indemnity or other contingent obligation of the Issuer that is not secured by any of the Issuer's assets. For the avoidance of doubt, an ownership interest granted in an asset as a part of an unsecured Shari'ah-complaint financing arrangement shall not constitute a Security Interest for these purposes.

**"Seller"** means HSBC Saudi Arabia Limited in its capacity as Seller under the Murabaha Agreements.

**"Senior Officers"** means those officers of the Company identified in Section 8.4 "Senior Management".

**"Service Provider"** means the Sukukholders' Agent, the Payment Administrator and the Account Bank.

**"Services Agreement"** means the services agreement entered into between Vela and the Company on 19/12/1433H (corresponding to 4/11/2012G) as amended on 14/6/1435H (corresponding to 14/4/2014G) pursuant to which the vessel-based employees and certain shore-based employees of Vela will be offered employment by the Bahri Group, as further described in Section 14.1, "Summary of Material Agreements".

**"Settlement Date"** has the meaning given to it in the Master Murabaha Agreement.

**"Ship Management Agreement"** means the agreement between Company and Mideast (a wholly owned subsidiary of the Company) dated 4/1/1432H (corresponding to 1/1/2011G) governing the terms under which Mideast provides management services for the Company's ships. As further described in Section 14.1, "Summary of Material Agreements".

**"Shipping Agreements"** means the Contract of Affreightment and the Time Charter Agreement.

**"Shortfall"** has the meaning to such term in Condition 6(f)(iii)(A) (*Application of Proceeds – Sukuk Account*)

**"SOCPA"** means Saudi Organization for Certified Public Accountants.

**"Spot Charter or spot charter"** means a trip charter or voyage charter from a load port to a discharge port.

**"Subsequent Cost Price"** has the meaning given to such term in Condition 6(d) (*Murabaha Contracts*).

**"Subsequent Murabaha Profit"** has the meaning given to such term in Condition 6(d)(ii)(D) (*Murabaha Contracts*).

**"Subsequent Murabaha Transaction"** has the meaning given to such term in Condition 6(d) (*Murabaha Contracts*).

**"Subsidiary"** means an entity which is controlled, directly or indirectly, by the Issuer or in which the Issuer beneficially owns, directly or indirectly, more than 50 per cent. of the issued share capital or ownership or other equity interests or which is a Subsidiary of another Subsidiary of the Issuer, and **"control"** for this purpose means the power to direct the



management and policies of the entity whether through the ownership of voting shares, by contract or otherwise.

**"Substantial Part of Group Assets"** means 20 per cent. or more of the assets of the Group on a consolidated basis.

**"Sukuk"** has the meaning given to such term in section 16 "Terms and Conditions of the Sukuk".

**"Sukuk Account"** means an account held by the Issuer with the Account Bank (on behalf of the Sukukholders) and administered by the Payment Administrator.

**"Sukuk Assets"** means the Mudaraba Assets, the Murabaha Assets and the Payment Obligations, together with any amounts standing to the credit of the Sukuk Account and the Reserve.

**"Sukuk Capital"** means the aggregate Nominal Value of the Sukuk that are current less any loss relating to the Sukuk Assets.

**"Sukuk Documents"** means the Mudaraba Agreement, the Declaration of Agency, the Registry Agreement, the Payment Administration Agreement, the Master Murabaha Agreement (including any document delivered or executed pursuant to a schedule to the Master Murabaha Agreement), the Sukuk (including the Global Sak and the Conditions) and any fee letters delivered or executed by the Issuer in connection therewith and **"Sukuk Document"** shall mean any one of them as the context may require.

**"Sukuk Obligation"** means any undertaking or other obligation to pay money given in connection with the issue of certificates or other securities whether or not in return for consideration of any kind.

**"Sukukholder"** means a Person in whose name Sukuk are for the time being registered in the Register (or, in the case of a joint holding, the first named)..

**"Sukukholders' Agent"** has the meaning given to such term in section 16 "Terms and Conditions of the Sukuk".

**"Supplier"** has the meaning given to it in the Master Murabaha Agreement.

**"Tadawul"** means the Saudi Arabian Stock Exchange Company including the automated system for trading shares on the Exchange.

**"TCE"** means time charter equivalent used to measure revenues in United States Dollar for a single day.

**"Term"** has the meaning given to it in the Master Murabaha Agreement.

**"Time Charter"** means an agreement wherein the charterer has the full use of the vessel and its crew for a specified period of time, within a specified trading range.

**"Time Charter Agreement"** means the agreement between SAPTC and the Company dated 19/12/1433H (corresponding to 4/11/2012G) for the time charter of certain Vela Vessels (upon their delivery to the Company) by SAPTC, being five product tankers, the Aframax tanker and the single-hull floating storage VLCC, for a specified period of time, which took effect on First Completion, as further described in Section 14.1, "Summary of Material Agreements".

**"Transfer Record Date"** has the meaning given to such term in Condition 4(e) (*Transfer Record Dates and Closed Periods*).

**"Transportation and Cargo Service Agreement"** means the agreement between the Company and MoD dated 17/11/1432H (corresponding to 15/10/2011G) governing the terms under which the Company would ship military equipment. As further described in Section 14.1, "Material Agreements".

**"UAE"** means the United Arab Emirates.

**"US or USA or United States"** means the United States of America.

**"USD or US\$"** means US dollars, the lawful currency of USA.

**"Valuation Date"** has the meaning given to such term in Condition 6(c)(i) (*Adjustment and set-off*).

**"Vela"** means Vela Marine International Limited, a wholly-owned subsidiary of Saudi Aramco.

**"Vela Assets"** means 14 double-hull VLCCs, one single-hull floating-storage VLCC, four product tankers and one Aframax tanker along with everything belonging to such vessels, including:

- (a) certain vessel IT systems on such vessels;
- (b) the books and records (including, without limitation, documents of title, manuals and trading certificates) relating to such vessels; and
- (c) the historical equipment and maintenance data contained on each such vessel's software (but excluding any rights or title to such software).

**"Vela Group"** means Vela and its subsidiaries from time to time.

**"Vela Transaction"** means the merger of the Vela Assets and the operations related to this merger with the Company.

**"Vela Vessel" or "Vela Vessels"** means each of the vessels that comprises the Vela Assets.

**"Vice Chairman"** means the vice chairman of the Company's Board.

**"VLCC"** means a very large crude carrier with a DWT range of 200,000 to 319,999 metric tons.

**"Carrier" or "Carriers"** means any marine carrier or vessel.

## **5. RISK FACTORS**

*Prior to making an investment decision, prospective purchasers of the Sukuk should consider carefully, in the light of the circumstances and their investment objectives, all of the information contained in this Prospectus, including (without limitation) the Risk Factors described below. The following Risk Factors are not exhaustive and other considerations or factors, including some which may not be presently known to the Issuer, or which the Issuer presently deems to be immaterial, may impact on any investment in the Sukuk. Accordingly, prospective purchasers should make their own independent assessment of the risk related to any purchase of the Sukuk and the economic and regulatory environment in which the Issuer operates.*

### **5.1 Risks related to the Company**

#### *5.1.1 Dependence on the Relationship with Saudi Aramco*

The Saudi Aramco Group is currently the biggest customer of the Company in terms of shipping volumes, with 29.9 per cent and 33.1 per cent of the Group revenues coming from the Saudi Aramco Group during the financial years ended 31 December 2013G and 2014G respectively. Under the terms of the Vela Transaction, the Company gained exclusivity in relation to the carriage of all VLCC-sized Crude Oil cargoes sold on a Delivered Basis by members of the Saudi Aramco Group (which member, as at the date of this Prospectus, is Bolanter) that are shipped from certain locations that Saudi Aramco uses to ship Crude Oil in accordance with the terms of the Contract of Affreightment. Consequently, any deterioration in the relationship between the Company and Saudi Aramco or its subsidiaries may have an impact on these exclusivity arrangements which, in turn, may have a material adverse effect on the Company's business prospects, financial position and results of operations, which may affect the ability of the Company to satisfy its obligations to make the relevant payments under the Sukuk.

The Contract of Affreightment is a long-term arrangement with Bolanter. As such, it has an initial term of 10 years, terminable by either party giving not less than five years' notice at any time after 21 July 2019G. Furthermore, the Relationship Agreement will also terminate upon the termination of the Contract of Affreightment. There is no certainty that Saudi Aramco will wish to renew the Contract of Affreightment beyond its initial term of 10 years. In addition, the Contract of Affreightment can be terminated by Bolanter at any time before the expiry of its initial 10 year term in the event that the Company fails to nominate any compliant vessels for one month or fails to nominate a vessel in response to a valid cargo nomination on more than one occasion in any six month period (except where it is prevented from doing so by an event over which it has no control or Bolanter's own acts or omissions, or where the Company has nominated a vessel that complies with the specific criteria in the Contract of Affreightment but which was wrongly rejected by Bolanter). Any early termination of the Contract of Affreightment, and consequently the Relationship Agreement, could significantly reduce the Company's revenues which, in turn, will have a material adverse effect on its business prospects, financial position and results of operations, which may affect the ability of the Company to satisfy its obligations to make the relevant payments under the Sukuk. It should also be noted that a termination of the Contract of Affreightment or of the Relationship Agreement will not, of itself, constitute an Event of Default under the terms and conditions of the Sukuk.

#### *5.1.2 Focus on the Saudi Aramco Group*

The exclusivity arrangements that the Company have with the Saudi Aramco Group have increased the Company's focus on servicing the shipping requirements of the Saudi Aramco Group. While the Company seeks to maintain the same standards of service with its other customers, the Company remains dependent upon the Saudi Aramco Group for the majority of its business and revenues. Consequently, there is a risk that the Company may be unable to allocate sufficient resources to serve the shipping needs of customers other than the Saudi Aramco Group, which could adversely affect the Company's relationships with those customers. The loss of any of these other customers could adversely affect the revenues, profitability and results of operations of the Company, which may

affect the ability of the Company to satisfy its obligations to make the relevant payments under the Sukuk.

### *5.1.3 Risks associated with the Contract of Affreightment*

Under the terms of the Contract of Affreightment, the Company has exclusivity in relation to the carriage of all VLCC-sized Crude Oil cargoes sold on a Delivered Basis by members of the Saudi Aramco Group (which member, as at the date of this Prospectus, is Bolanter) that are shipped from certain locations that Saudi Aramco uses to ship Crude Oil. The Company receives a minimum guaranteed rate for the provision of such shipping services from Bolanter where Long-Haul voyages are performed by Company-owned vessels. This minimum guaranteed rate helps to reduce the exposure of the Company to shipping rate volatility, particularly when shipping rates fall below such minimum guaranteed rate. Conversely, when shipping rates exceed an agreed threshold, the Company is required to reimburse a proportion of such excess to Bolanter for any payment it has previously received pursuant to the minimum guaranteed rate mechanism (limited to the amounts received by the Company). The Company has the benefit of the minimum guaranteed rate only in relation to Long-Haul voyages performed by the Company-owned vessels in accordance with the Contract of Affreightment. Consequently, if Bolanter fails to nominate sufficient cargoes that require Long-Haul voyages, the Company may not be able to realise the full benefit of the minimum guaranteed rate under the Contract of Affreightment.

The Company believes that the disclosure of the actual minimum guaranteed rate and the agreed threshold rate in this Prospectus would not be in the best interests of the Company as such information is highly commercially sensitive and could detrimentally affect the Company's competitive position in the shipping market because the disclosure of such rates may: (a) have a negative impact on the Company's existing customers (including the Major Oil Companies) who may decide to do business with other shipping companies if the Company is unable to offer them similar rates; and (b) set a benchmark for the Company when entering into long-term shipping contracts in the future thereby preventing it from benefitting from an increase in the market shipping rates.

The Contract of Affreightment does not guarantee that the Saudi Aramco Group will be able to consistently nominate sufficient quantities of Crude Oil throughout the duration of the Contract of Affreightment, which may result in the Company not being able to perform the full extent of shipping services envisaged under the Contract of Affreightment. This may occur for a variety of reasons, including a decrease in worldwide demand for Crude Oil, rising domestic production of oil in countries such as the USA, that could lead to reduced demand for Crude Oil from such countries, expanding pipeline and rail capacity to coastal refining hubs and geopolitical risks in the Middle East which could have an adverse effect on the Kingdom's economy. This could affect the Company's expected revenues which may have a material adverse effect on its business prospects, financial position and results of operations, which may affect the ability of the Company to satisfy its obligations to make the relevant payments under the Sukuk.

Under the Contract of Affreightment, the Company nominates the vessels to be used for loading the Crude Oil cargoes nominated by the Saudi Aramco Group in accordance with specific criteria set out in the agreement. These criteria include the approval by the loading and discharging terminals, suitability to carry the nominated cargo, approval by Bolanter's vetting department, the vessel being free from arrest or detention and the vessel must not be owned, managed or operated by a party that is subject to sanctions by either the European Union or the law of any jurisdiction implementing a United Nations resolution or by the United States Office of Foreign Assets Control. If the Company does not provide a valid nomination to Bolanter, and subsequently fails to nominate a suitable alternative vessel, Bolanter shall not be obliged to ship that nominated cargo under the Contract of Affreightment and shall be free to make alternative arrangements for the carriage of such cargo. There is a risk that the Company may be unable to nominate a compliant vessel in the timeframe specified in the Contract of Affreightment or nominate an alternate compliant vessel.

The risks described above may result in the Company not receiving the full benefit of the exclusivity arrangements under the Contract of Affreightment. This could affect the Company's revenues which may have a material adverse effect on its business prospects, financial position and results of operations, which may affect the ability of the Company to satisfy its obligations to make the relevant payments under the Sukuk.

#### *5.1.4 Disposal of the Consideration Shares by SADC*

Under the terms of the Vela Transaction, SADC is not subject to any contractual restrictions in relation to the disposal of the Consideration Shares. If SADC were to dispose of some or all of the Consideration Shares, there is a risk that the Saudi Aramco Group may have less of an interest in the growth and development of the Company as they would hold fewer (or even no) shares in the Company and may not continue to support the long-term aspirations of the Company. This may adversely impact the relationship between the Saudi Aramco Group and the Company which could have a material adverse effect on the Company's business prospects, financial position and results of operations, which may affect the ability of the Company to satisfy its obligations to make the relevant payments under the Sukuk.

#### *5.1.5 Decrease in preference for Delivered Basis cargoes*

The Company's exclusivity arrangement with the Saudi Aramco Group is only in relation to the carriage of all VLCC-sized Crude Oil cargoes sold on a Delivered Basis by members of the Saudi Aramco Group (which member, as at the date of this Prospectus, is Bolanter) that are shipped from certain locations that Saudi Aramco uses to ship Crude Oil in accordance with the terms of the Contract of Affreightment, and not in relation to Crude Oil cargoes sold by the Saudi Aramco Group that are not sold on a Delivered Basis. Non-Delivered Basis of shipment means that the Company will not be required to transport the relevant cargoes from the port of discharge to the relevant storage location. Consequently, any decrease in the volumes of Crude Oil cargo shipments falling within the scope of the exclusivity arrangement, through a decrease in preference for Delivered Basis Crude Oil cargoes from the Saudi Aramco Group could have a material adverse effect on the Company's business prospects, financial position and results of operations, which may affect the ability of the Company to satisfy its obligations to make the relevant payments under the Sukuk.

#### *5.1.6 The Company's earnings and cash flows are affected by the performance of the tanker industry*

The tanker industry is both cyclical and volatile in terms of charter rates and profitability. Any future financial, economic or other global crisis shall have an adverse effect on the Company's ability to re-charter its vessels or to sell them on the expiration or termination of their charters. Fluctuations in charter rates and tanker values result from changes in the supply and demand for tanker capacity and changes in the supply and demand for oil and oil products. The factors affecting the supply and demand for tankers are outside of the Company's control and the nature, timing and degree of changes in the conditions of the tanker industry are unpredictable.

Historically, the tanker markets have been volatile as a result of the many conditions and factors that can affect the price, supply and demand for tanker capacity. The current low oil prices may further reduce demand for transportation of oil over longer distances and the supply of tankers to carry that oil, which shall materially affect the Company's revenues, profitability and results of operations, which may affect the ability of the Company to satisfy its obligations to make the relevant payments under the Sukuk.

#### *5.1.7 The Company will be partially dependent on spot charters and substantial fluctuations in spot charter rates in the future may adversely affect the Company's earnings*

In accordance with the terms of the Contract of Affreightment, the Company has exclusivity in relation to the carriage of all VLCC-sized Crude Oil cargoes sold on a Delivered Basis by members of the Saudi Aramco Group (which member, as at the date of this Prospectus, is Bolanter) that are

shipped from certain locations that Saudi Aramco uses to ship Crude Oil. Saudi Aramco Group's shipping requirements for Crude Oil sold on a Delivered Basis requires the use of around 50 VLCCs annually. The Company intends to satisfy its obligations under the Contract of Affreightment by employing its own fleet in an efficient manner through optimisation of trade routes and revenues as well as spot and medium term chartering-in of a number of VLCCs.

The spot charter market may fluctuate significantly based upon tanker and oil supply and demand. The Company's ability to procure competitive spot charter rates for the vessels it needs to charter-in to perform its obligations under the Contract of Affreightment will depend upon, among other things, obtaining profitable spot charters and minimising, to the extent possible, the time spent waiting for charters. The spot charter market is highly volatile, and, in the past four years, there have been periods when spot charter rates have declined below the operating cost of vessels. However, there is a risk that if spot charter rates increase in the future, the Company may not get the most profitable spot market rates which could result in increased costs for the Company. This may have an adverse effect on the Company's revenues, profitability and results of operations, which shall affect the ability of the Company to satisfy its obligations to make the relevant payments under the Sukuk.

*5.1.8 The security provided by the Company's long-term material contracts is dependent on the ability of its customers to perform those contracts*

The Company obtains long-term contracts with various customers across its different business segments. Most of these customers are leading companies in their industry or are Government related, but there can be no assurance that these customers would not face financial or other difficulties in the future, and become unable to perform the agreed contracts, partly or in whole. Such events may affect the revenues, profitability and results of operations of the Company, which may affect the ability of the Company to satisfy its obligations to make the relevant payments under the Sukuk.

*5.1.9 The Company may be unable to retain existing customers upon expiration of existing contracts or may be unable to attract new customers*

No assurance can be given that the Company's customers will continue to use its services in the future. In addition, as some of the Company's contracts are long-term in nature, if freight or charter rates rise or operating costs increase, the Company may not be able to make the necessary adjustments to the contractual rates to capitalise on such increased rates or address such increased operating costs until the existing contracts expire. Upon the expiration of existing contracts, there is also no assurance that the Company's customers will renew the contracts on similar terms or that suitable replacement contracts will be found, which may affect the revenues, profitability and results of operations of the Company, which will affect the ability of the Company to satisfy its obligations to make the relevant payments under the Sukuk.

*5.1.10 The Company's operations may be adversely affected by hostilities, terrorism and piracy*

The Company is subject to risks pertaining to conflicts worldwide, including in the Middle East. In the past, political and armed conflicts in this region have included attacks on vessels and other attempts to disrupt shipping in this area. The current political instability and hostilities in the region could have a material adverse effect on the Company's operations, revenues, profitability and results of operations, which shall affect the ability of the Company to satisfy its obligations to make the relevant payments under the Sukuk.

In common with other shipping operators, the Company is subject to the risk of terrorist threats to its vessels. In addition, anti-terrorist measures by countries such as the United States could increase the regulatory requirements to which carriers of cargo such as the Company will be subject. There is no assurance that the risk of terrorist threats or the burden of anti-terrorist regulations will not increase in the future, which shall have a material adverse effect on the Company's operations, revenues, profitability and results of operations, which may affect the ability of the Company to satisfy its obligations to make the relevant payments under the Sukuk.

In addition, the Company's business is also subject to risks associated with increasingly organized violent acts of piracy at sea. There can be no assurance that the Company's vessels and crew will not be seriously harmed or that a series of attacks may not adversely affect the safe operation of the Company's vessels, the management of the voyage schedule and the Company's operations as a whole. If acts of piracy result in the regions in which the Company's vessels operate being characterised as "**war risk**" zones by insurers, the insurance premiums payable could increase significantly, or become more difficult to obtain (see 5.1.25 "*Insurance Risks*"). In addition, the characterisation of regions as "war zones" may result in an increase in crew costs, including costs in connection with employing onboard security guards.

Furthermore, any act of sabotage or terrorism in respect of the Company's vessels or ports from which its vessels dock may have a material adverse effect on the Company's operations, revenues, profitability and results of operations, which may affect the ability of the Company to satisfy its obligations to make the relevant payments under the Sukuk.

#### *5.1.11 Changes in the price of bunker fuels may adversely affect the Company's profits*

The cost of bunker fuel is a significant expense in the Company's shipping operations which represents 39 per cent for the period between 2012G and 2014G, particularly in respect of those vessels employed in the spot market. An increase in the cost of bunker fuel can have a significant impact on the earnings of vessels operating in this market. With respect to the Company's vessels operating on a time-charter basis, whilst the charterer is generally responsible for the cost of bunker fuel, an increase in such cost may have an adverse effect on the charter rates that the Company is able to negotiate for its vessels.

The price and supply of bunker fuel is unpredictable and fluctuates based on events outside of the Company's control. Any sustained increase in the price of bunker fuels shall have an adverse effect on the Company's revenues, profitability and results of operations, which may affect the ability of the Company to satisfy its obligations to make the relevant payments under the Sukuk.

#### *5.1.12 If the Company's vessels suffer damage due to the inherent operational risks of the shipping industry, the Company may experience unexpected Dry-docking costs or delays*

The Company's vessels and their cargoes are exposed to the risk of being damaged or lost due to the occurrence of marine disasters, bad weather, mechanical failures, grounding, fire, explosions and collisions and other events. In the event that a vessel suffers damage, it may need to be repaired at a Dry-docking facility. The costs of Dry-docking repairs are unpredictable and may be in excess of the amount covered by the Company's insurance. If a vessel is required to undergo unplanned maintenance or repairs, the Company may suffer a loss in revenue. The loss of revenues while these vessels are being repaired and repositioned, as well as the actual cost of these repairs, shall adversely affect the Company's business, financial condition and results of operations, which may affect the ability of the Company to satisfy its obligations to make the relevant payments under the Sukuk.

#### *5.1.13 Container vessel capacities have increased in recent years, leading to overload and congestion in certain ports*

Global vessel capacity has increased in recent years, and is expected to continue to increase. Container vessel capacities have increased globally at a faster rate than the rate at which some container ports have increased their capacities. These factors have led to considerable delays in the processing of container shipments in affected ports. As a result of longer load and unload times, increases in container vessel capacities could lead to further port congestion, which could have a material adverse effect on container shipping traffic on affected service routes. This in turn could adversely affect the revenues, profitability and results of operations of the Company, which may affect the ability of the Company to satisfy its obligations to make the relevant payments under the Sukuk.

#### *5.1.14 The market value of the Company's vessels may fluctuate*

The market value of vessels fluctuates depending upon general economic and market conditions affecting the industry, demand for shipping capacity, the number, type, age and size of vessels in the world fleet, the price of newbuildings (which is affected by availability of shipyard berths and financing), the level of vessel scrapping, the impact of any port congestion on fleet productivity, the cost of other modes of transportation and swings in the historically cyclical shipping industry.

Declining vessel values could make it more difficult for the Company to raise cash by mortgaging vessels, which therefore, shall materially and adversely impact the Company's liquidity. In addition, the market value of the Company's fleet may decline below book value as the vessels age, and the Company will incur losses if it sells vessels below their depreciated book value, which could adversely affect the revenues, profitability and results of operations of the Company, which may affect the ability of the Company to satisfy its obligations to make the relevant payments under the Sukuk.

#### *5.1.15 Maritime claimants could arrest the Company's vessels*

Crewmembers, suppliers of goods and services to a vessel, shippers of cargo and other parties may be entitled to a maritime lien against that vessel (and, in some jurisdictions, any vessel owned or controlled by the same owner) for unsatisfied debts, claims or damages. In many jurisdictions, a maritime lienholder may enforce its lien by arresting a vessel and commencing foreclosure proceedings.

The arrest or attachment of one or more of the Company's vessels and the seizure of its containers may disrupt the Company's operations and, consequently, affect its cash flow. The Company may be required to pay large sums to have the arrest, attachment or seizure lifted. Any such claim, even one without merit, may result in substantial costs and diversion of resources and shall adversely affect the revenues, profitability and results of operations of the Company, which may affect the ability of the Company to satisfy its obligations to make the relevant payments under the Sukuk.

#### *5.1.16 Delays in deliveries of newbuildings or inability to complete the acquisition of newbuildings*

Any newbuildings that the Company may contract to acquire or order in the future could be delayed, not completed or canceled, which would delay or eliminate the Company's expected receipt of revenues from the operation of such newbuilding. The Company's receipt of newbuildings could be delayed, canceled, or otherwise not completed for various reasons including:

- work stoppages or other labour disturbances or other events that could disrupt the operations of the shipbuilder;
- the shipyard's refusal or inability to fulfil its contractual obligations, including its obligation to maintain agreed refund guarantees in place for the Company's benefit;
- quality or engineering problems;
- changes in governmental regulations or maritime self-regulatory organisation standards;
- lack of or delays in the receipt of necessary raw and construction materials, such as steel;
- bankruptcy or other financial crisis of the shipbuilder or one or more of its key vendors;
- a backlog of orders at the shipbuilder or one or more of its key vendors;
- hostilities or political or economic disturbances in the countries where the vessels are being built;



- weather interference or catastrophic event, such as a major earthquake or fire;
- the Company's requests for changes to the original vessel specifications;
- the Company's inability to obtain requisite permits or approvals;
- the Company's inability to finance the purchase of the vessel;
- a dispute with the shipyard, for example over the vessel specifications outlined in the shipbuilding contract; or
- significant currency fluctuations, for example in the country in which a shipyard operates.

If delivery of a vessel is materially delayed or cancelled, either by the shipbuilder (as a result of any of the above) or the Company, it shall affect the revenues, profitability and results of operations of the Company, which may affect the ability of the Company to satisfy its obligations to make the relevant payments under the Sukuk.

*5.1.17 The Company may be adversely affected by the aging of its vessels, equipment and other assets*

Normal wear and tear of the Company's vessels, equipment or other assets is a natural consequence of operations and results from exposure to the elements, including storms and salt water. The Company's vessels may also suffer from a breakdown of equipment and systems and are exposed to the dangers inherent in the use of heavy equipment necessary to load and unload cargo and prepare for transit. As a result, the Company's vessels, equipment or other assets and information systems used in its operations require periodic downtime for repairs and maintenance. If the time required for such repairs and maintenance exceeds the time anticipated, the Company's revenue will be less than anticipated.

In general, the cost of maintaining a vessel in good operating condition and in compliance with the applicable laws and regulations increases with the age of the vessel. As the Company's vessel fleet ages, costs will increase. Similarly, the Company will incur increased maintenance costs as its equipment fleet, such as container boxes, ages. Older vessels are more costly to maintain than more recently constructed vessels due to the normal wear and tear that occurs over the life of a vessel as well as improvements in technology that newer vessels benefit from. Cargo insurance rates are higher and fuel efficiency is lower, making older vessels less desirable to charterers. Governmental regulations and safety or other equipment standards relating to the age of vessels may also require expenditures for alterations or the addition of new equipment to the Company's vessels and may restrict the type of activities in which the vessels may engage. Such increased operating costs shall adversely affect the Company's earnings.

There can be no assurance that, as the Company's vessels and equipment age, market conditions will justify those expenditures or enable the Company to operate its vessels and equipment profitably during the remainder of their useful lives.

In addition, if any extraordinary or extensive repairs to the Company's vessels, equipment or other assets are required, due to any catastrophic event or otherwise, the Company's vessels, equipment or other assets would not be available for use or deployment. The costs of such repairs are unpredictable and could be substantial. The loss of earnings including any contractual penalties incurred as a result while the Company's vessels are being repaired and repositioned, as well as the actual cost of such repairs, would decrease its earnings. While insurance proceeds may cover the costs associated with such repairs, they would only compensate for the loss of use to a limited degree. In the event of any such extraordinary or extensive repairs, the Company's operations could experience major disruptions. The loss of the Company's vessels, equipment or assets or the inability to use its vessels, equipment or assets shall affect the revenues, profitability and results of operations of the Company, which may

affect the ability of the Company to satisfy its obligations to make the relevant payments under the Sukuk.

#### *5.1.18 Financing risk and funding requirements*

The Company has certain finance facilities that are subject to restrictive covenants which could have consequences that could shape the future direction of the Company's business operations (for further details of the Company's financing agreements see section 14.2 "*Legal information relating to the Company*"). The level of the Company's indebtedness, and the associated restrictive covenants imposed on the Company under the terms of its financing facilities, have important ongoing consequences for the Company, including:

- limiting the ability to obtain additional debt financing which is not already envisaged by the Company's management and its financing banks for working capital, capital expenditures or acquisitions;
- potentially limiting the Company's flexibility to react to competitive and other changes in its industry and economic conditions generally; and
- limiting cash flow available for general corporate purposes.

The occurrence of any of these events could have a material adverse effect on the Company's business revenues, profitability and results of operations, which may affect the ability of the Company to satisfy its obligations to make the relevant payments under the Sukuk.

#### *5.1.19 The Company may not be able to repay the Bridge Facility in full*

The Bahri Group has secured vessels with an aggregate book value of approximately SAR 10,095 million in favour of its creditors, representing 78 per cent. of the aggregate book value of the Bahri Group's total vessels. As at 31 December 2014G, the Bahri Group had total borrowings outstanding of SAR 8,171 million, of which vessels with a book value of approximately SAR 3,901 million were secured in favour of creditors under the SAR 3,182 million Bridge Facility. The Company intends to use the proceeds of the issuance of the Sukuk to repay the amounts outstanding under the Bridge Facility, with the balance, if any, to be used for general corporate purposes. There can be no assurance that the proceeds of the issuance of the Sukuk will be sufficient to repay the Bridge Facility in full. To the extent that the Bridge Facility is only partially repaid and the final maturity thereof is extended, the financiers under the Bridge Facility may not permit the assets of the Company which have been used to secure the Company's obligations under the Bridge Facility to be released to the extent of the partial repayment, or at all. In such circumstances, upon an insolvency of the Company, the Sukukholders would rank behind the financiers under the Bridge Facility to the extent of such security and accordingly, the pool of unsecured assets available to all creditors of the Company (including the Sukukholders) will not include such secured assets. In addition, to the extent that the financiers under the Bridge Facility do not agree to extend the final maturity thereof, the Company would need to repay the outstanding amounts under the Bridge Facility to avoid the occurrence of an event of default thereunder. It should also be noted that the Company will remain entitled under the Sukuk to grant new security in the future to other creditors (other than holders of other capital market instruments issued by the Company) over its remaining assets, with the exception of "Existing Vessels" (as defined in the Conditions) (see Condition 16 (*Financial Covenants*)). To the extent that the Company grants such security over its assets, the pool of unsecured assets that would potentially be available to the Sukukholders will be diminished.

#### *5.1.20 The Company may not be able to obtain sufficient financing for its operations*

As at 31 December 2014G, the Company had SAR 5,872 million of debt finance, of which SAR 3,788 million required either repayment or refinancing within 12 months. Should the Company be unable to refinance its short term working capital requirements or its long term facilities on acceptable terms, or

at all, it shall affect the revenues, profitability and results of operations of the Company, which may affect the ability of the Company to satisfy its obligations to make the relevant payments under the Sukuk.

In addition, in order to finance, or assist in the financing of its business, the Company may have to rely on its ability to procure financing (including loans from commercial banks), on competitive market terms. Should the Company be unable to obtain such financing in the future, or fail to meet its current financing obligations, it shall affect the revenues, profitability and results of operations of the Company, which may affect the ability of the Company to satisfy its obligations to make the relevant payments under the Sukuk.

#### *5.1.21 Risks related to developing and growing the Company's business*

There is no guarantee that the Company's business will grow to reflect the Company's strategy. Growth depends on several factors, including the Company's ability to manage its business effectively, retain key employees and customers and the existence of favourable market conditions to grow the Company's business. Any difficulties arising in these areas could have a material adverse effect on the Company's business revenues, profitability and results of operations, which may affect the ability of the Company to satisfy its obligations to make the relevant payments under the Sukuk.

#### *5.1.22 Dependence on Key Personnel*

The Company is dependent on the abilities and experience of its Senior Officers and other key personnel, including seamen, both in administrative and operational areas. The failure of the Company to retain its Senior Officers and key personnel may have a material adverse effect on the Company's business revenues, profitability and results of operations, which may affect the ability of the Company to satisfy its obligations to make the relevant payments under the Sukuk.

The Company is also dependent on agency seamen to staff certain voyages. Any inability of the Company to engage sufficient seamen to staff such voyages shall have a material adverse effect on the Company's business revenues, profitability and results of operations, which may affect the ability of the Company to satisfy its obligations to make the relevant payments under the Sukuk.

#### *5.1.23 Ability to maintain high-standards of Operations*

The Company's ability to maintain its existing customer base, win new customers and avoid liability to its customers is dependent on its ability to maintain very high standards of operations and efficient deployment of its fleet of vessels. There is no certainty that such standards will be maintained in the future. There is also a possibility that vessels owned by the Company suffer damage or are lost due to, for example, marine disasters, bad weather, fire or explosions. This shall have a material adverse effect on the operational efficiency of the Company, particularly if it results in a considerable decrease in the size of the Company's fleet of operational vessels. This could result in existing contracts with customers being terminated and/or the Company being unable to win new customers which shall have a material adverse effect on the Company's business prospects, financial position and results of operations, which may affect the ability of the Company to satisfy its obligations to make the relevant payments under the Sukuk.

#### *5.1.24 Saudization*

As of 31 December 2014G, approximately 65 per cent. of the Company's employees based in the Kingdom were Saudi nationals. In the spring of 2011G, the Ministry of Labour launched the "**Nitaqat**" programme which has been designed to encourage companies to recruit Saudi nationals and to gradually increase the percentage of Saudi nationals in their workforce. Under the "**Nitaqat**" programme, a company's compliance with the Saudization requirements is measured against the percentage of Saudi nationals in its workforce compared to the average percentage of Saudization at companies operating in the same sector. The companies are categorised into the following four categories:

- the Red Category;
- the Yellow Category;
- the Green Category (further divided into low green, middle green and high green); and
- the Platinum Category.

Companies falling within the Red Category are considered the least compliant with the required Saudization percentages, whereas companies falling within the Platinum Category are considered the most compliant with the required Saudization percentages. The current percentage of Saudi employees at the Company places it in the Platinum Category for its sector, meaning it is compliant with the requirements of the "**Nitaqat**" programme. However, there is no guarantee that the Company will be able to recruit and retain the same percentage of Saudi nationals and, as such, may fall short of continuing to comply with the requirements of the "**Nitaqat**" programme in the future, which are continuously revised by the Government. If the Company fails to do so, it may be categorised as falling within the Yellow or even the Red Categories (depending on the extent to which it is non-compliant with the "**Nitaqat**" programme). In such an event, the Company will be subject to a number of sanctions, including:

- the suspension of the Company's applications for work visas;
- the suspension of the Company's applications to transfer the sponsorship of an employee or a potential employee;
- the Company's expatriate employees will be prevented from changing their occupation in their work visas;
- the Company may not open files for its entities with the Ministry of Labour; and
- the Company's expatriate employees may transfer their employment and work visas to companies falling under the Green and Platinum Categories without the Company's consent.

The occurrence of all or any of the above events could have a material adverse effect on the Company's business prospects, financial condition and results of operations, which may affect the ability of the Company to satisfy its obligations to make the relevant payments under the Sukuk.

#### *5.1.25 Insurance Risks*

The operation of large oceangoing vessels and the use of the heavy equipment necessary to load and prepare those vessels for transit involve inherent risks, including, among other things, those of catastrophic loss, spills, personal injury and loss of life, maritime disaster, mechanical failure, fire, collision, stranding and loss of, or damage to, cargo as well as damage to or loss of vessels. Such events may be caused by human error, by accidents, war, terrorist attacks, piracy, political instability, business interruption, strikes or weather events. Any of these factors or events could result in the Company experiencing direct losses and liabilities, loss of income, increased costs, damage to its reputation or litigation against or by third parties.

To meet the cost of such contingencies, the Company's vessels are insured against oil pollution risk, war risk and all other third party liabilities arising in connection with the ownership or operation of the vessels. The Company's insurances policies do not, however, cover risks arising from damage caused by wear and tear and the wilful misconduct of the ship's crewmembers and office managers. The Company has not purchased the type of insurance covering loss of revenues due to delay or detention caused by political unrest, labour strikes, arrest, crew desertion, crew illness, infectious

diseases, stowaways and the inability to load or discharge cargo, all of which are considered as trading risks.

There can be no certainty that the Company's current insurance policies are sufficient to cover all losses and damages that may be suffered from these types of events or that the Company will be able to renew or expand its current insurance policies on commercially reasonable terms. Additionally, the Company's insurers may refuse to pay particular claims if it fails to take certain actions, such as failing to maintain certification of its vessels with applicable regulations.

More stringent security, environmental or other regulations may also come into force, expanding the liability the Company faces under its operations, and insurance for such additional liabilities may not be available at commercially reasonable rates, if at all. If the Company's insurance is insufficient to cover large claims and liabilities, its assets could be subject to attachment, seizure or other judicial processes, which shall affect the revenues, profitability and results of operations of the Company, which may affect the ability of the Company to satisfy its obligations to make the relevant payments under the Sukuk.

#### *5.1.26 Licences and Permits*

The Company is required to obtain and maintain appropriate licences, permits and regulatory consents in respect of its activities. For further details of the Company's licences and permits, see section 14.2 "*Legal information relating to the Company*".

Some of the Company's licences are for a limited duration and must be renewed periodically. In addition, most of the Company's licences provide that the Company may be subject to financial penalty, or the relevant licence may be suspended or terminated, if the Company fails to comply with the requirements of the relevant licence. Furthermore, when a licence is sought to be renewed or amended there can be no guarantee that the relevant authority would be prepared to renew or amend the scope of the relevant licence, or that if it were to do so that it would not impose conditions that were unfavourable to the Company. Whilst the Company believes that it has obtained the appropriate licences for its activities, there can be no guarantee that additional licences may not be required in the future. The failure to obtain, or comply with, all necessary licenses and permits shall have a material adverse effect on the Company's revenues, profitability and results of operations, which may affect the ability of the Company to satisfy its obligations to make the relevant payments under the Sukuk.

#### *5.1.27 Financial support provided by the Company to its subsidiaries may adversely affect the Sukukholders*

Certain of the Company's subsidiaries have incurred, and may continue to incur in the future, debt financing in order to finance their operations. If an event of default occurs in respect of any financing of any of the Company's subsidiaries, pursuant to the Events of Default set out in section 16 "*Terms and Conditions of the Sukuk*", this will not, of itself, result in an event of default in respect of the Sukuk. In the event that the Company provides any financial assistance to its subsidiaries and subsequently an Event of Default occurs in respect of the Sukuk, such financial support may not be recoverable from the relevant subsidiaries.

## **5.2 Risks related to the market and sector**

### *5.2.1 Risks related to the Global Economy*

The Company has and will continue to have a large exposure to the global oil shipping market. As such, the Company's business and financial performance is heavily dependent on the level of activities in the global trade volumes and the import and export volumes of oil which are based on the worldwide demand for oil. The Company's results of operations are also affected by the economies of the regions in which the Company operates which include the Arabian Gulf, the Far East, USA and West Africa. The demand for oil and related products in these regions is, in turn, closely linked to the regional economies and consequently a poor economic outlook for any of these regions can result in a

reduction in demand for oil and related products. In addition, the demand for oil shipments can be affected by a variety of factors including rising domestic production of oil in countries other than KSA and expanding pipeline and rail capacity to coastal refining hubs. Any potential growth in demand for crude oil cargoes are significantly affected by changes in global and regional economic, financial and political conditions that are outside of the Company's control, including as a result of the imposition of trade barriers, sanctions, boycotts and other measures, significant variations in the exchange rates applicable to currencies in the regions in which the Company operates, trade disputes and work stoppages, particularly in the transportation services industry, and acts of war, hostilities, natural disasters, epidemics, sabotage or other similar events. A significant reduction in the level of demand for oil and related product shipments could adversely affect the Company's business, financial condition and results of operations, as well as the Company's future growth, which may affect the ability of the Company to satisfy its obligations to make the relevant payments under the Sukuk.

### *5.2.2 Competition*

The shipping business is highly competitive and the Company faces competition from various shipping companies. This may affect the Company's revenues, profitability and results of operations, which may affect the ability of the Company to satisfy its obligations to make the relevant payments under the Sukuk.

Pursuant to the BAPA and the Relationship Agreement, each of Vela and Saudi Aramco have provided an undertaking to the Company that, save in the event of a national emergency, neither they nor any company over which they have board or voting control (or equivalent rights in a contractual joint venture) will compete with the Bahri Group in the business of owning, operating and/ or chartering VLCCs for the carriage of Crude Oil produced in the Kingdom. However, there are certain limited circumstances (in addition to the occurrence of a national emergency), where a Saudi Aramco Group company may engage in a Competing Business, such as the entry into mergers, acquisitions and joint ventures subject to the satisfaction of certain procedures, the chartering of VLCCs for carrying fuel oil cargoes, the carriage of any hydrocarbon product or derivative other than Crude Oil and the servicing of vessels. However, no Saudi Aramco Group company is precluded from (i) undertaking a Competing Business whose annual revenues comprise 15 per cent. or less of the total annual revenue of the relevant company or joint venture which is controlled by the relevant Saudi Aramco Group company which is undertaking such business or (ii) the acquisition of a target where the Competing Business comprises 15 per cent. or less of its annual revenues. If a Saudi Aramco Group company undertook a Competing Business with associated annual revenues which are more than 15 per cent. of the total annual revenues of such Saudi Aramco Group company, or if a Saudi Aramco Group company proposed to acquire all of or a controlling interest in a Competing Business with associated annual revenues which are more than 15 per cent. of the total annual revenues of the business being acquired, the relevant Saudi Aramco Group company shall notify the Company, and shall offer the Company a right of first refusal to acquire or participate in such Competing Business on terms to be agreed between the relevant Saudi Aramco Group company and the Company.

Consequently, there is a risk that Vela and/or Saudi Aramco may engage or continue to engage (as the case may be) in a Competing Business (in the limited scenarios described above) which could affect the market share of the Company and consequently affect the Company's revenues which may have a material adverse effect on its business prospects, financial position and results of operations, which may affect the ability of the Company to satisfy its obligations to make the relevant payments under the Sukuk.

### *5.2.3 Changes in the Foreign Exchange Policy*

As at the date of this Prospectus, the SAR is pegged to the US\$ at a fixed rate of SAR 3.75 to U.S.\$1.00. Any changes in this fixed exchange rate or the removal of such fixed exchange rate for any reason (including, without limitation, changes in the monetary policies of the Government or the US Federal Reserve) could expose the Company to diverse fluctuations in exchange rates which shall

negatively impact the Company's business, financial condition and result of operations, which may affect the ability of the Company to satisfy its obligations to make the relevant payments under the Sukuk.

### **5.3 Political, Regulatory and Environmental Risks**

#### *5.3.1 Political Risks*

The Company is subject to political and economic conditions in the Middle East and across its shipping routes and destinations. Since early 2011G there has been political unrest in a range of countries in the MENA region. This unrest has ranged from public demonstrations to, in extreme cases, armed conflict and civil war and has given rise to increased political uncertainty across the region. Any unrest or armed conflict that occurs in the vicinity of strategic shipping channels such as the Strait of Hormuz and Bab Al-Mandib may restrict the movement of vessels, which shall have an adverse effect on the Company's business, financial condition and result of operations, which may affect the ability of the Company to satisfy its obligations to make the relevant payments under the Sukuk.

The Company's business may be affected by the financial, political and general economic conditions prevailing from time to time in the Kingdom and the Middle East. It is not possible to predict the occurrence of events or circumstances such as war or hostilities, or the impact of such occurrences, and no assurance is given that the Company would be able to sustain its operations or profitability if adverse political events or circumstances were to occur. A general downturn or instability in the regional economy shall have a material adverse effect on the Company's business, results of operations and financial condition, which may affect the ability of the Company to satisfy its obligations to make the relevant payments under the Sukuk.

#### *5.3.2 The Company is subject to complex laws and regulations*

The shipping industry is highly regulated and the Company is affected by extensive and evolving safety and environmental protection laws, maritime liability laws and other regulations in the form of numerous international conventions or regimes and national, state and local laws in force in the jurisdictions in which the Company's vessels operate, as well as in the countries where such vessels are registered. Such laws and regulations may change materially. In particular, additional requirements to obtain permits or authorisations may come into force which could impose significant new burdens upon the Company's business and impact the Company's cost structure. The Company could face substantial liability for penalties, fines and damages and litigation if it fails to comply with such laws and regulations.

The Company's vessels are required to undergo annual surveys, intermediate surveys and special surveys to ensure each vessel's compliance with such laws and regulations. The Company's vessels' operating certificates and licenses are renewed during such annual surveys upon a finding that the vessel is in compliance with all such applicable laws and regulations. Failure to obtain and/or renew the certificates and permits necessary to operate the Company's vessels shall adversely affect the revenues, profitability and results of operations of the Company, which may affect the ability of the Company to satisfy its obligations to make the relevant payments under the Sukuk.

In addition, the Company's vessels have to operate within the rules, international conventions and regulations adopted by the International Maritime Organization ("**IMO**"), an agency of the United Nations, which includes the International Safety Management Code ("**ISM**C"). Under the ISMC, shipping companies and individual vessels are required to establish safety systems and procedures for pollution prevention that are certified by standardisation bodies. Accordingly, in order to continue operating and trading internationally, the Company's vessels have to be inspected on a regular basis in compliance with the requirements of the ISMC. The cost impact from meeting these requirements shall adversely affect the Company's revenues, profitability operational results and its ability to satisfy its obligations to make the relevant payments under the Sukuk. Failure to comply with such

requirements (as stated above) will expose the Company fines and restrict the Company fully or partially from operating its business in such jurisdiction until the Company satisfies such requirements. This shall adversely affect the revenues, profitability and results of operations of the Company, which may affect the ability of the Company to satisfy its obligations to make the relevant payments under the Sukuk.

The Company is also subject to various international treaties which deal with maritime liability issues, such as the Hague Rules of 1924G, the Hague-Visby Rules of 1968G, and the Hamburg Rules of 1980G. In particular, the Hague Rules and the Hague-Visby Rules are of great importance to the maritime liability regime and either one or both have been ratified by most countries that have a relevant shipping industry. Some countries have implemented the Hague and Hague-Visby Rules into national law and in other countries the treaties are applicable directly without transition into national laws. Changes in such maritime liability regimes to increase liability limits, liability for delay and liability in the case of errors in navigation, among others, shall adversely affect the revenues, profitability and results of operations of the Company, which may affect the ability of the Company to satisfy its obligations to make the relevant payments under the Sukuk.

In complying with IMO regulations and other regulations and law that may be adopted, the Company may be required to incur additional costs in meeting new maintenance and inspection requirements, in developing contingency arrangements for potential contamination by vessels and in obtaining insurance coverage. Because such conventions, laws and regulations are often revised, the Company is unable to predict the long-term costs of compliance. Additional laws and regulations may be adopted, which may require the Company to incur significant capital expenditures to keep its vessels in compliance and limit its ability to do business, which will adversely affect the revenues, profitability and results of operations of the Company, which may affect the ability of the Company to satisfy its obligations to make the relevant payments under the Sukuk.

#### *5.3.3 Risk of losing bunker fuel subsidy*

The Company, along with several other companies in the shipping sector in the Kingdom, currently receives the benefits of certain bunker fuel subsidies from the Saudi Arabian government pursuant to Ministerial Orders No. 8/890 of 20/05/1405H (corresponding to 10/2/1985G) and 8/690 of 08/08/1407H (corresponding to 7/4/1987G). If the ship is owned by a corporate entity, then in order for such ship to be eligible to receive the bunker fuel subsidy the corporate entity owning the relevant ship must be fully owned by Saudi nationals. There is a risk that any change in the regulations in the Kingdom relating to such bunker fuel subsidies could have a material adverse effect on the Company's revenues, profitability and results of operations. In addition, there is no guarantee that the Company could continue to avail of such bunker fuel subsidies particularly if there is any change in the Saudi Arabian government's policy either towards the Company (for example as a result of the Company not being fully owned by Saudi nationals) or more generally towards the shipping industry in the Kingdom.

In addition, the bunker fuel subsidy is also dependent on the availability of fuel with low sulphur content. Consequently, there is a risk that any reduction in the availability of such fuel for the Company shall adversely impact the bunker fuel subsidy that the Company receives and consequently may have a material adverse effect on the Company's revenues, profitability and results of operations, which may affect the ability of the Company to satisfy its obligations to make the relevant payments under the Sukuk.

#### *5.3.4 Environmental Risks*

Environmental laws often impose strict liability for the remediation of spills and releases of oil and hazardous substances. As such, the occurrence of such a spill or release could subject the Company to liability, irrespective of whether the Company was negligent or at fault. An oil or chemical spill may also result in significant liability for the Company, including fines, penalties, criminal liability and remediation costs for natural resource damages under international laws, as well as third-party



damages. Such an occurrence may also have an adverse effect on the reputation of the Company, which will result in decreased demand for the Company's services. The occurrence of any of these events shall have a material adverse effect on the Company's revenues, profitability and results of operations, which may affect the ability of the Company to satisfy its obligations to make the relevant payments under the Sukuk.

#### **5.4 Risk related to the Sukuk**

##### ***Suitability of investments***

The Sukuk may not be a suitable investment for all investors. Potential investors in the Sukuk must determine the suitability of that investment in light of their own circumstances. In particular, potential investors should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Sukuk, the merits and risks of investing in the Sukuk and the information contained, or incorporated by reference, in this Prospectus;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Sukuk and the impact that such investment may have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Sukuk, including where the currency of payment is different from the potential investor's currency;
- understand thoroughly the terms of the Sukuk and be familiar with the behaviour of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic and other factors that may affect its investment and its ability to bear the applicable risks.

The absence of any of the factors listed above may result in the investor entering into an investment that is not suitable for their financial situation and investment goals which may lead to adverse results or results that are contrary to their expectations or goals.

##### ***Legal investment considerations may restrict certain investments***

The investment activities of certain investors are subject to legal investment laws and regulations, or the review of such laws and regulations by certain governmental or regulatory authorities. Each potential investor should consult its legal advisers to determine whether and to what extent: (i) the Sukuk constitute legal investments for it; (ii) the Sukuk can be used as collateral for various types of borrowing; and (iii) other restrictions apply to any purchase or pledge of any Sukuk by the investor.

Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Sukuk under any applicable risk-based capital or similar rules and regulations to avoid breaching any laws and regulations or the provisions of contracts or agreements to which they are a party.

##### ***Certain Sukukholders may be exposed to currency conversion risks due to the Sukuk being denominated in Saudi Riyals***

Payments to Sukukholders will be made in Saudi Riyals. If an investor's financial activities are principally denominated in a currency other than Saudi Riyals, it will be subject to certain currency conversion risks. These risks include: (i) the risk that exchange rates may significantly change (including changes due to the devaluation of the Saudi Riyal or revaluation of the investor's currency);

and (ii) the risk that authorities with jurisdiction over the investor's currency may impose or modify exchange controls which could adversely affect an applicable exchange rate. In recent years, exchange rates between certain currencies have been volatile and such exchange rate volatility may continue in the future. Any appreciation of an investor's currency relative to the Saudi Riyal would decrease the currency equivalent value of the Periodic Distribution Amounts payable in respect of the Sukuk in the investor's currency, the investor's equivalent value of the Sukuk Capital payable on the Sukuk, and the investor's currency equivalent market value of the Sukuk. In addition, exchange controls could adversely affect the availability of a specified foreign currency at the time of payment of amounts on Sukuk. As a result, investors may receive less than expected, or no payment at all.

### ***Trading, settlement and listings***

The Sukuk will be listed on Tadawul and deposited in the Securities Depository Centre, and as such the Sukuk will be traded, cleared and settled in accordance with the procedures applicable to listed debt instruments. However, there can be no assurance that there will be no interruption to, or errors in, trading, clearing or settlement of the Sukuk. Moreover, secondary trading in the Sukuk market is limited and there can be no assurance that the Sukuk will be sold by the Sukukholders easily. The market value of the Sukuk may fluctuate. Consequently, any sale of Sukuk by Sukukholders in any secondary market may be at a price that is higher or lower than the initial offering price depending on many factors, including prevailing interest rates, the Issuer's performance and the market for similar securities or may not be possible at all.

The Issuer and the Joint Lead Managers and Joint Bookrunners are under no obligation to provide pricing on, or make a market in, the Sukuk. Accordingly, no assurance can be given as to the liquidity of, or trading market for, the Sukuk and an investor in the Sukuk must be prepared to hold the Sukuk for an indefinite period of time or until their maturity.

### ***Qualified Persons***

Prospective Sukukholders should note that the Sukuk are being sold only to Qualified Persons and that only Qualified Persons may be registered as Sukukholders. The Issuer shall not pay any additional amounts in respect of any withholding required by law to any person who holds Sukuk but is not a Qualified Person. Therefore, interested investors must ensure satisfaction of the requirements of being a Qualified Person to avoid such withholding or any other legal or regulatory consequences.

### ***Registry Agreement***

The Registry Agreement is required to complete registration of the Sukuk with Tadawul and such registration is necessary to facilitate trading of the Sukuk by investors through Tadawul. However, as of the Closing Date, the Registry Agreement may not have been signed and registration of the Sukuk with Tadawul may not have occurred. As such, investors should be aware that trading of the Sukuk cannot occur through Tadawul as of the Closing Date. Under the Placement Agency Agreement, the Issuer is required to sign the Registry Agreement and procure registration of the Sukuk with Tadawul as soon as practicable and, in any event, no later than ten (10) Business Days after the Closing Date.

### ***The secondary market generally***

There is currently no established secondary market for the Sukuk, and there can be no assurance that an active secondary market will develop for the Sukuk after they are issued and listed on Tadawul. Any sale of Sukuk by Sukukholders in any secondary market that may develop may be at a lower price than the original purchase price of the Sukuk for various reasons including the possibility that such market may not be active for lack of liquidity. In addition, Sukuk may be sold only to Qualified Persons (as defined in the Conditions) and therefore any access to a secondary market that may develop will be limited to Qualified Persons. Therefore, Sukukholders may not be able to sell their Sukuk easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have a material adverse effect on the market value of the Sukuk.

### ***The Sukuk are unsecured obligations of the Issuer***

The Sukuk are not debt obligations of the Issuer. The Sukuk represent undivided interests in the Sukuk Assets. Recourse to any party in respect of the Sukuk is limited to the Sukuk Assets, including the Payment Obligations of that party, the proceeds of which are the sole source of payments on the Sukuk.

Upon the occurrence of the Liquidation Date, the sole recourse of each Sukukholder will be against the Issuer to pay the Sukuk Capital under the Conditions and otherwise perform its obligations under the Sukuk Documents to which it is a party. The Sukukholders will otherwise have no other recourse to any assets of the Issuer, the Joint Lead Managers and Joint Bookrunners, the Payment Administrator, or the Sukukholders' Agent (to the extent that the Sukuk Assets have been exhausted) or any affiliate of any of the foregoing entities in respect of any shortfall in the expected amounts. There can be no assurance that the proceeds or the realisation of, or the enforcement with respect to, the Sukuk Assets and the Payment Obligations will be sufficient to make all payments due in respect of the Sukuk.

### ***Pari passu***

The Issuer has existing secured and unsecured financial obligations and may incur further obligations in the future (either through the issuance of other debt instruments or otherwise). The Sukuk will rank *pari passu* with the unsecured financial obligations of the Issuer. Secured creditors will take priority in recovering their exposure from the security granted to them. The existence of other financial obligations may reduce the amount recoverable by Sukukholders where the Issuer has no sufficient assets to satisfy its financial obligations or upon the occurrence of any other insolvency event. Accordingly, upon the occurrence of such events, there may not be a sufficient amount to satisfy the amounts owing to the Sukukholders which would result in the Sukukholders losing all or part of the amount invested in the Sukuk.

### ***No third-party guarantees***

Investors should be aware that no guarantee is or will be given in relation to the Sukuk by the shareholders of the Issuer or any other Person.

### ***Change of law***

The Conditions of the Sukuk are based on Saudi Arabian law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to Saudi Arabian law or administrative practice after the date of this Prospectus which could affect the legal status of the Sukuk and therefore affect the Issuer's ability to make the relevant payments due in respect of the Sukuk.

### ***Payments relating to the Sukuk***

Prospective Sukukholders should note that the Periodic Distribution Amount or Partial Periodic Distribution Amount on the relevant payment date will be paid from the Murabaha Income and the Mudaraba Profit.

As soon as is reasonably practicable upon the occurrence of the Liquidation Date, the Issuer shall conduct a review (based on management accounts) of the Mudaraba Assets (as defined in the Conditions) for the period starting on the Closing Date and ending on the occurrence of the Liquidation Date. If, based on such review, the Issuer determines that any Mudaraba Profit relating to any relevant Periodic Distribution Period or partial Periodic Distribution Period, as the case may be, was greater than the actual Mudaraba Profit for such period, then the Issuer shall have the right to deduct any such shortfall from the monies (if any) standing to the credit of the Reserve. If the monies (if any) standing to the credit of the Reserve are insufficient to cover such shortfall, the Issuer shall

have the right to set-off any such amount due from the Sukukholders against the Sukuk Capital to be paid to them by the Issuer pursuant to the Mudaraba Agreement.

### ***Murabaha Contracts risk***

#### *Taxation risk*

The Issuer will, pursuant to the terms of the Murabaha Agreements (as defined in the Conditions), acquire from time to time Commodities from the Seller (each as defined in the Murabaha Agreements) for subsequent on-sale to independent purchasers in any commodity market. Upon purchasing, and prior to on-selling, any Commodities, the Issuer will for a limited period assume the legal and beneficial title to the Commodities. It is possible that the acquisition of the Commodities, or the disposal thereof, may be, or may by virtue of a change in law become, subject to increased taxation. To the extent that taxation costs arise in respect of the Issuer's acquisition, ownership or disposition of the Commodities, there may be a material adverse effect on the Issuer's ability to perform its obligations (including payment obligations) under the Murabaha Agreements and, in turn, in respect of the Sukuk.

#### *Price fluctuation risk*

The price at which a commodity changes hands is determined as a function of its market as a whole, and both under- and over-supply of a commodity can have significant implications for the price at which it is traded. If, after the Issuer has purchased any Commodities, the market for the Commodities becomes over-supplied or flooded, the price at which the Commodities can be on-sold or traded subsequently may be adversely affected. Similarly, if after the Issuer has purchased the Commodities, additional governmental or import or export licences become applicable to the market for the Commodities, the price at which the Commodities can be sold or traded subsequently may also be adversely affected. The effect of such price fluctuations may have a material adverse impact on the Issuer's ability to secure on-sale prices for the Commodities and, in turn, have a material adverse effect on the Issuer's ability to perform its obligations (including payment obligations) under the Murabaha Agreements and, in turn in respect of the Sukuk.

#### *Commodity risk*

Upon purchasing Commodities from the Seller and prior to selling the Commodities to independent purchasers in any commodity market, the Issuer will for a limited period assume the operational risks associated with taking ownership of the Commodities. These risks include, without limitation:

- (a) that the Commodities may suffer damage of a nature that reduces their value whilst in storage or during transit;
- (b) that the Issuer's storage or transfer of the Commodities may cause environmental damage, such as pollution, leakage or contamination, which may breach environmental laws or regulations making the Issuer susceptible to legal or financial recourse;
- (c) that the Commodities may be liable to theft or vandalism; and
- (d) that the Commodities may be damaged by sabotage attacks, natural disasters, fire or other catastrophic events that are beyond the control of the Issuer.

To the extent that these risks are not mitigated, or fully covered, by any insurance taken out in respect of the Commodities, the occurrence of any of these events may have a material adverse effect on the value of the Commodities or the Issuer's ability to on-sell the Commodities which may, in turn, affect the Issuer's ability to perform its obligations (including payment obligations) under the Murabaha Agreements and, in turn in respect of the Sukuk.

### *Supplier risk*

From time to time, it will be necessary for the Issuer to acquire and on-sell (at satisfactory prices) specific quantities and types of Commodities in order to meet its obligations under the Murabaha Agreements and in respect of the Sukuk. The Issuer's ability to perform such obligations (including payment obligations) may be materially adversely affected in the event that the Issuer is unable to secure from Suppliers the requisite quantities or types of Commodities.

### ***Risks relating to the Mudaraba Assets***

Pursuant to the Mudaraba Agreement, 51 per cent. of the proceeds of the Sukuk will be directly invested in the activities of the Issuer with a view to earning profit therefrom, which may in turn be applied towards payments due to Sukukholders in respect of the Sukuk. In the event that any of the risks relating to the business of the Company mentioned above (see section 5.2 "*Risk relating to the market*") or otherwise materialise and impact the Issuer's business, the value of and profit earned from the investment in such Mudaraba Assets may drop which may, in turn, have a material adverse effect on the Issuer's ability to fulfil its repayment obligations in respect of the Sukuk.

### ***There is no assurance that the Sukuk will be Shari'ah compliant***

Prospective Sukukholders should note that different *Shari'ah* advisers, and Saudi courts and judicial committees, may form different opinions on identical issues and therefore prospective Sukukholders should consult their own legal and *Shari'ah* advisers to receive an opinion on the compliance of the Sukuk with *Shari'ah* principles. Prospective Sukukholders should also note that although HSBC Saudi Arabia Executive *Shari'ah* Committee, the independent *Shari'ah* adviser of J.P. Morgan Saudi Arabia Limited and the *Shari'ah* Executive Committee of Samba Financial Group's *Shari'ah* Supervisory Board have issued pronouncements confirming that the Sukuk are in compliance with *Shari'ah* principles, such pronouncements would not bind a Saudi Arabian court or judicial committee, including in the context of any insolvency or bankruptcy proceedings relating to the Issuer and any Saudi Arabian court or judicial committee will have the discretion to make its own determination about whether the Sukuk, the Sukuk Documents and the related structure (or any part thereof) complies with Saudi law and *Shari'ah* principles and therefore is enforceable. Accordingly, no person (including, without limitation, the Issuer, the Sukukholders' Agent, the Joint Lead Managers and Joint Bookrunners) make any representation that the Sukuk, the Conditions and any other Sukuk Document comply with *Shari'ah* principles and in particular no representation is made regarding the *Shari'ah* pronouncements issued by HSBC Saudi Arabia Executive *Shari'ah* Committee, the independent *Shari'ah* adviser of J.P. Morgan Saudi Arabia Limited and the *Shari'ah* Executive Committee of Samba Financial Group's *Shari'ah* Supervisory Board regarding the Sukuk, which pronouncements are subject to change and disagreement from other *Shari'ah* scholars. Accordingly, there is no assurance that the Sukuk will be considered to be *Shari'ah* compliant by any Person other than the members of HSBC Saudi Arabia Executive *Shari'ah* Committee, the independent *Shari'ah* adviser of J.P. Morgan Saudi Arabia Limited and the *Shari'ah* Executive Committee of Samba Financial Group's *Shari'ah* Supervisory Board.

### ***Modification and Waivers***

The Conditions contain provisions for calling meetings of the Sukukholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Sukukholders, including Sukukholders who did not attend and vote at the relevant meeting and the Sukukholders who voted in a manner contrary to the majority.

### ***Governing law, jurisdiction and enforceability***

The Sukuk are governed by, and are to be construed in accordance with, the laws of the Kingdom, which are based on Islamic, or *Shari'ah*, law. There are a number of courts and judicial committees in the Kingdom which have jurisdiction in respect of certain types of claims. Disputes are generally heard before the general courts of the Kingdom unless jurisdiction for a particular type of dispute is

awarded to another court or judicial committee. Disputes of a commercial nature are resolved before the Grievances Board, the jurisdiction of which in relation to commercial disputes is currently subject to reform (as further discussed below). Disputes arising under the Capital Market Law of the Kingdom (issued by Royal Decree No. (M/30) dated 02/06/1424H (corresponding to 31/07/2003G), as amended) and its implementing regulations are heard before two special judicial bodies known as the Committee for the Resolution of Securities Disputes and the Appeal Committee for the Resolution of Securities Conflicts (the "**Committees**").

As per Condition 18 (*Governing Law and Jurisdiction*), the judicial authorities in the Kingdom (including the Committees in connection with disputes within the jurisdiction of the Authority and its implementing regulations) are likely to have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which may arise out of or in connection with the Sukuk Documents and the Sukuk. In addition, prospective Sukukholders should note that, to the best of the Issuer's knowledge, no securities of a similar nature to the Sukuk have previously been the subject of adjudicatory interpretation or enforcement in the Kingdom. Investors should also be aware that, generally, the courts and judicial committees of the Kingdom, including the Committees, have a wide discretion as to how principles of Islamic *Shari'ah* are applied to a particular set of circumstances and previous decisions of such courts and judicial committees are not considered as establishing binding precedents for deciding subsequent disputes. The decisions of the various courts and judicial committees of the Kingdom and Royal Decrees, ministerial decisions and resolutions, departmental circulars and other pronouncements of official bodies of the Kingdom which have the force of law are not generally or consistently indexed and collected in a central place or made publicly available. Accordingly, it is uncertain exactly how and to what extent any Sukuk, the Conditions and/or the Sukuk Documents would be enforced by the Committees or, should circumstances dictate that they have jurisdiction, a Saudi Arabian court or any other Saudi Arabian adjudicatory body.

The Government has approved a restructuring of the judicial system, including the establishment of a Supreme Court as well as commercial, personal status and labour tribunals. The new Judiciary Law and Grievances Board Law were enacted by Royal Decree No. M/78 dated 19/09/1428H (corresponding to 01/10/2007G) but have not yet been fully implemented. Under the new judiciary law, the Supreme Court has been given all the functions (other than certain administrative responsibilities) of the Supreme Judiciary Council, which previously served as the Kingdom's highest tribunal. It is envisaged that the Grievances Board's current jurisdiction over commercial disputes will also pass to a new Commercial Court as part of this restructuring. It is not clear at this stage what impact on the Sukuk Documents or the Sukuk or any claim under the Sukuk Documents or the Sukuk this restructuring may have.

### ***Events of default***

There is a risk that the courts and judicial committees of the Kingdom would not give effect to an event of default other than one consisting of the non-payment of due amounts.

### ***Penalties and indemnities***

There is a risk that should any provision of the Sukuk Documents be construed by a court or judicial committee of the Kingdom to be an agreement to pay a penalty rather than a genuine estimate of loss incurred, such provision would not be enforced in the Kingdom. Further, any indemnity provided by the Issuer pursuant to the Sukuk Documents or in relation to the Sukuk may not be enforceable under the laws and regulations of the Kingdom to the extent that it (a) purports to be effective notwithstanding any judgment or order of a court to the contrary or (b) is contrary to any applicable law or public policy relating thereto.

### ***Tax consequences in the Kingdom***

The Sukukholders may be subject to payment of income tax, withholding tax, zakat or other taxation in the Kingdom as a result of acquiring, holding or disposing of the Sukuk. Each prospective

Sukukholder must take its own professional advice as to the tax consequences for such Sukukholder of acquiring, holding or disposing of the Sukuk. For a further discussion of taxation and zakat issues relating to the acquisition, holding or disposal of the Sukuk, see section 20 "*Taxation and Zakat*".

## 6. MARKET AND INDUSTRY OVERVIEW

*The source of the information contained in this section "Market and Industry Overview" covering the shipping industry and tanker market is from independent market research carried out by McQuilling but should not be relied upon in making, or refraining from making, any investment decision.*

*The Company believes that the information provided in this Prospectus from external sources, including that by McQuilling is from credible sources. This information, however, was not independently verified by the Company, its Board members, the Joint Lead Managers and Joint Bookrunners or any of their respective advisers, so there is no guarantee by them of the accuracy or completeness of this information.*

The Company appointed McQuilling in 2015G to conduct a study and prepare a report on the shipping industry and tanker market. McQuilling was founded in 1972G and is based in New York, USA. McQuilling is an independent consulting firm specialising in the shipping industry.

Unless expressly stated otherwise, the report prepared by McQuilling is the source of the information relating to the tanker market in this Section 6. The study was conducted and the report was prepared by McQuilling in February 2015G and, therefore, it does not reflect market developments since the start of the reporting year. However, the Company believes that the information set out in this Section 6 has not changed significantly from such date and therefore, on balance, it still reflects the fundamentals of the tanker market as at the date of this Prospectus.

McQuilling has provided and not withdrawn its written consent for the use of its findings in this Prospectus. Neither McQuilling nor its employees or any of their relatives or affiliates has any shareholding or interest of any kind in the Company or any of its affiliates or related parties.

All percentages in the information in this section are rounded to the nearest whole number.

The information in the other parts of this Section 6 comes from publicly available sources in respect of the shipping industry and the tanker market. This includes a report titled "Review of Maritime Transport", Reports by the UNCTAD Secretariat, Geneva, Switzerland, 2014G which is available on the website of UNCTAD ([www.unctad.org](http://www.unctad.org)), a report titled "Cross Currents" by the International Monetary Fund (IMF), January, 2015G which is available on the IMF's website ([www.imf.org](http://www.imf.org)). In addition, information set out in the website of the US Energy Information Administration ([www.eia.gov](http://www.eia.gov)) and the IMO – International Maritime Organization ([www.imo.org](http://www.imo.org)) was also used, amongst other sources.

### **Tanker Market Fundamentals**

Tankers are ships designed to transport liquids in bulk, by way of the seaborne movement of cargo. They transport a wide variety of liquid cargoes such as crude oil and petroleum products, chemicals and vegetable oil. Historically, both in terms of the value and volume of cargo, the transportation of crude oil, petroleum and petroleum products has been one of the most important and recognizable types of sea-born trades. Oil and gas products contributed 30 per cent to the total global seaborne trade in 2013G, as illustrated in Figure 6-1. The volume of oil and gas cargo transported has increased 1.6 per cent per year on a compound annual growth basis since 1970G.



# World Seaborne Trade, Selected Years in Millions of Tons Loaded: 1970–2013G

Year	Oil & Gas	Main Bulks*	Other Dry Cargo	Total (all cargos)
1970	55%	17%	28%	10,654,450
1980	51%	16%	33%	15,149,360
1990	44%	25%	32%	16,392,720
2000	36%	22%	42%	24,474,560
2005	34%	24%	42%	29,075,810
2006	35%	24%	41%	31,493,829
2007	34%	24%	41%	32,858,912
2008	33%	25%	42%	33,657,737
2009	34%	27%	40%	32,137,762
2010	33%	28%	39%	34,390,765
2011	32%	28%	40%	35,927,787
2012	31%	30%	39%	37,615,730
2013G	30%	31%	40%	39,051,320

*Number in the table may not add due to rounding*

*Seaborne liquid chemicals transport included in the column labelled "Oil & Gas"*

*\* Iron ore, grains, coal, bauxite/alumina and phosphate; ~ Billion Tons*

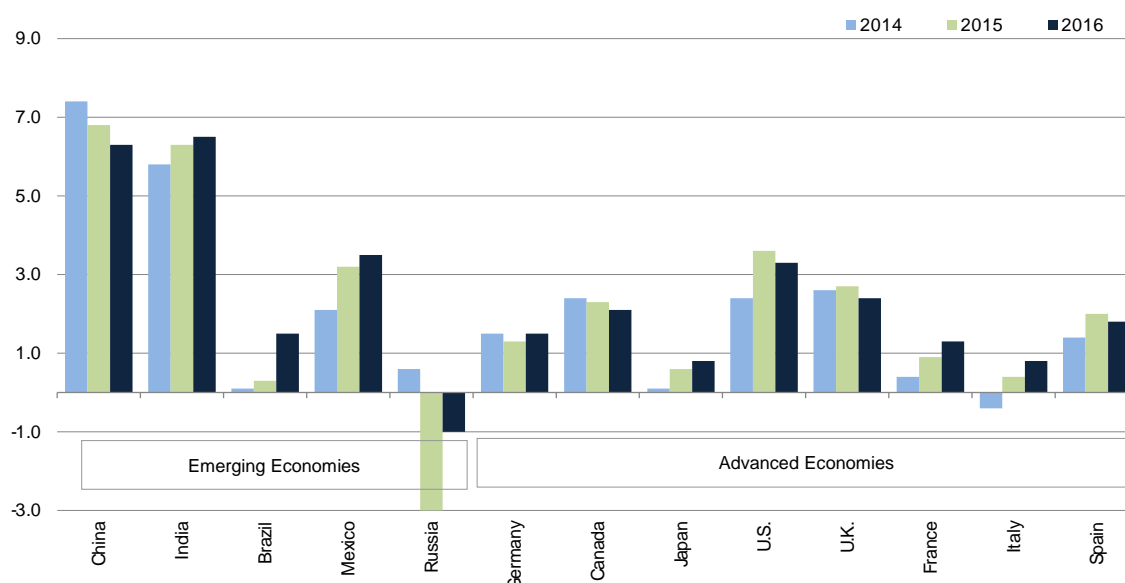
**Source: "Review of Maritime Transport", Reports by the UNCTAD Secretariat, Geneva, Switzerland, 2014G**

Energy consumption and demand for marine transportation are both related to world economic growth. Economic activity requires and drives higher energy consumption. In terms of the global energy mix, a primary source of energy is crude oil and petroleum products, which increase in line with an expanding global economy. This correlation is strongest in developing countries where energy use increases in tandem with industrial development.

Marine transportation demand arises from the energy consumption requirements of regional economies combined with geographically disparate sources of supply. This drives the demand for tankers which are used for transportation of crude petroleum and petroleum products from source regions to consuming regions. Figure 6-1 below illustrates the gross domestic product ("GDP") growth rate across select countries between 2014G and 2016G:

## Global GDP Growth Rates 2014G–2016G

(Per Cent Purchasing Power Parity Basis)



Source: International Monetary Fund, *World Economic Outlook*, January 2015G

## Saudi Oil and Transportation Market

### Saudi Oil Market

The Saudi Arabian Oil Company (Saudi Aramco) is the state-owned oil company of the Kingdom of Saudi Arabia (KSA). It manages the world's largest proven conventional crude oil and condensate reserves of approximately 265.8 billion barrels as at 2013G, representing approximately 18 per cent of the world's 2013G proven crude oil reserves, and approximately 293.7 trillion cubic feet of natural gas reserves, or approximately 4 per cent of the world's 2013G proven natural gas reserves.<sup>7</sup>

In 2014G, Saudi Aramco produced 9.7 million barrels per day of crude oil through its main oil facilities in Abqaiq, Haradh, Khurais, Khursaniyah, Nuayyim, Qatif and Shaybah. Of this, Saudi Aramco exported on average 7.1 million barrels daily or approximately 73 per cent of its production.<sup>8</sup> Asia was the main importer of Saudi crude oil (67 per cent) followed by North America (18 per cent) and Europe (13 per cent).<sup>9</sup>

### Saudi Oil Transportation Market

The Saudi Arabian oil transportation market is therefore closely linked to Saudi Aramco's oil production and exports. According to McQuilling's report, approximately 70 to 90 per cent of Saudi Aramco's export volumes are sold on a FOB basis. For the remaining export volumes sold on a Cost, Insurance and Freight basis, Bahri has been the primary provider of shipping services to Saudi Aramco.

### Oil Tanker Demand

Demand for oil tankers is a function of several factors, including world oil demand and supply (which affects the amount of crude oil and refined products transported in tankers), and the relative locations

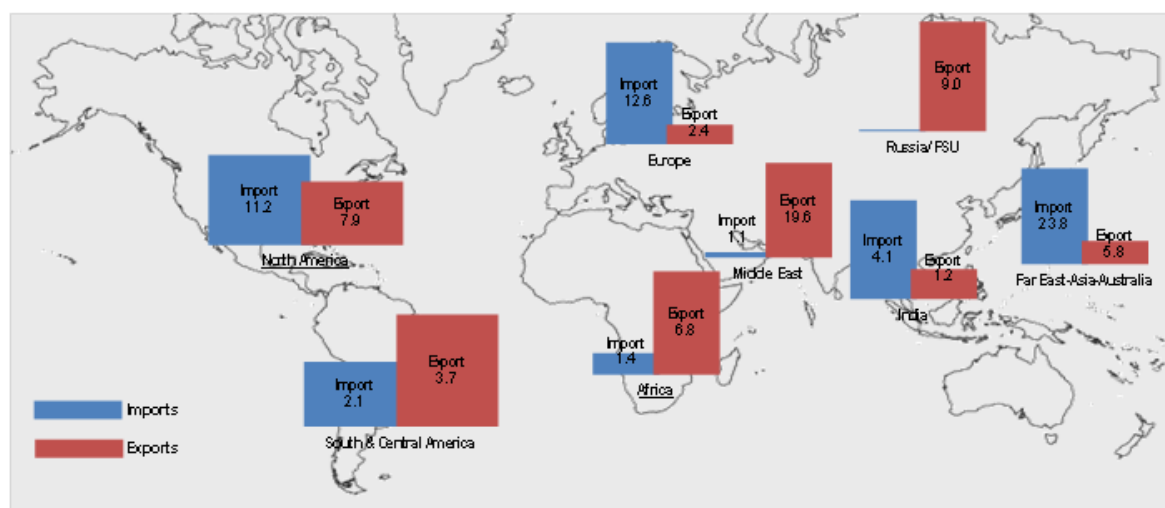
<sup>7</sup> Source: OPEC's Annual Statistics Bulletin 2014G

<sup>8</sup> Source: JODI World Database, November 2014G

<sup>9</sup> Source: JBC Energy

of oil production, refining and consumption centres (which affects the distance over which the oil or refined products are transported). Figure 6-2 illustrates the major crude oil and petroleum product exporting and importing regions in the world.

### Crude & Products Inter-Regional Movements, 2013G (Million Barrels per Day)



Source: BP Statistical Review of World Energy, 2014G

Figure 6-2 below illustrates the inter-regional movements of crude oil and related products in 2013G:

### Crude & Products Inter-Regional Movements, 2013G (Thousand Barrels per Day)

TO:

FROM:	North America	South & Central America	Europe	Russia & FSU	Middle East	Africa	India	Far East-Asia-Australia	Exports
North America	4,887	1,163	939	2	78	136	140	537	7,881
South & Central America	1,707	-	368	2	2	6	632	993	3,710
Europe	729	193	-	104	258	598	13	507	2,400
Russia/FSU	525	15	5,989	-	273	36	42	2,168	9,048
Middle East	2,145	133	2,074	9	-	334	2,509	12,399	19,603
Africa	967	382	2,965	3	25	-	642	1,846	6,830
India	63	93	173	1	364	177	-	367	1,236
Far East-Asia-Australia	154	156	129	11	76	128	117	4,994	5,765
Imports	11,176	2,134	12,637	130	1,076	1,416	4,094	23,811	56,473

Source: BP Statistical Review of World Energy, 2014G

Tanker demand is measured by the tons of cargo carried multiplied by the distance of the voyage in miles. Tanker demand is characterised by a variety of parameters. These include the type of cargo

required to be transported and the ships capable of doing so; the parcel size of the cargo which is a function of the trade and is driven either by custom or any constraints at the loading or discharging port; the frequency of the demand for delivery of the cargo; and the various locations worldwide at which the cargoes are to be loaded and discharged which will in turn influence the number and variety of trade routes. These parameters are also a function of time which means that tanker operators need to focus on fleet deployment optimization to extract maximum efficiency.

In recent times, that dramatic increase in US light/sweet shale oil production and Canadian heavy/sour alternative-sourced crude production has reduced North American imports substantially.

### **Types of Tanker Vessels**

Tankers are categorised depending on their deadweight tonnage ("**DWT**") and their cargo carrying capacity. Tanker demand can be categorised into six primary sectors based on the type of tanker which are:

- VLCC Tanker
- Suezmax Tanker
- Aframax Tanker
- Panamax Tanker
- Medium Range Tanker
- Handy Tanker

The table below sets out some of the key specifications of such tankers:

### Tanker Size Classes

<i>Vessel Class</i>	<i>Description</i>	<i>Deadweight Range (tons)</i>	<i>Capacity (000 barrels of oil)</i>
<b>VLCC</b>	<i>Very Large Crude Carrier</i>	<i>200,000 To 319,999</i>	<i>2,000</i>
<b>Suezmax</b>	<i>Crude Carrier</i>	<i>120,000 To 199,999</i>	<i>1,000</i>
<b>Aframax/LR2</b>	<i>Crude Carrier/ Clean Carrier</i>	<i>75,000 To 119,999</i>	<i>750</i>
<b>Panamax/LR1</b>	<i>Crude/Clean/Chemicals Products Carrier</i>	<i>55,000 To 74,999</i>	<i>400</i>
<b>MR2</b>	<i>Medium Range Clean/Chemicals Products Carrier</i>	<i>40,000 To 54,999</i>	<i>360</i>
<b>MR1</b>	<i>Medium Range Clean/Chemicals Products Carrier</i>	<i>27,500 To 39,999</i>	<i>270</i>
<b>Handy</b>	<i>Clean/Chemicals Products Carrier</i>	<i>10,000 To 27,499</i>	<i>180</i>

### Source: McQuilling

Very Large Crude Carrier ("VLCC") and Suezmax demand is comprised almost entirely of crude oil transport. Aframax, Panamax and Medium Range tanker demand comprises crude oil transport, dirty petroleum products such as fuel oil and of clean petroleum products such as gasoline, jet and diesel, and chemical transportation. About two-thirds of Aframax demand is for crude oil transportation with the balance comprising products transportation. Panamax tanker demand is derived of crude oil and dirty product transportation. The vast majority of cargoes transported on medium range tankers are petroleum products.

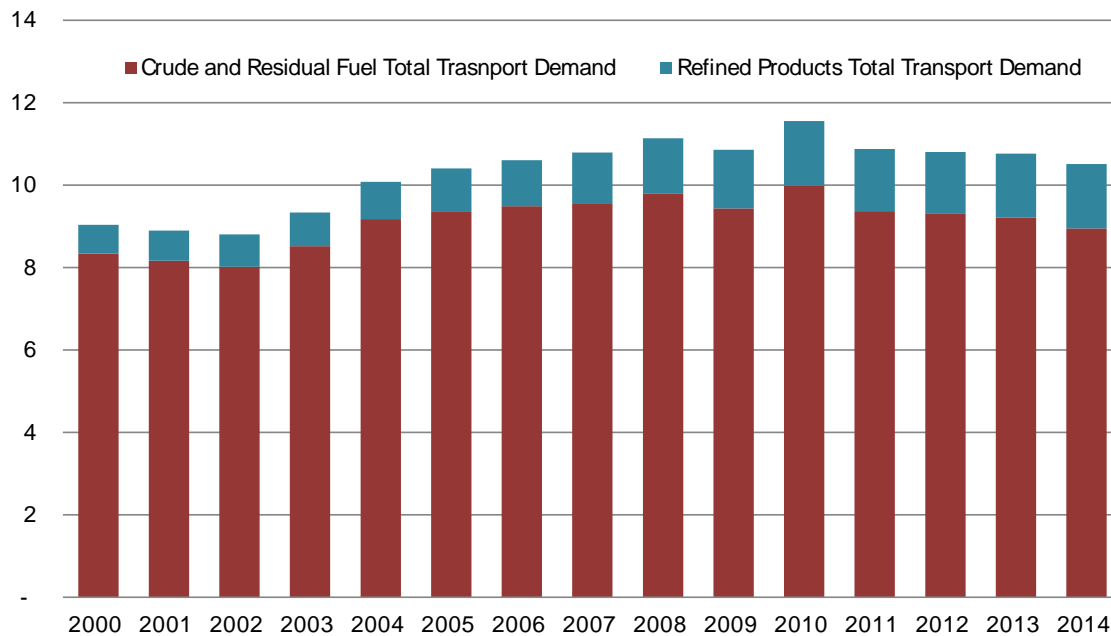
Smaller-sized tanker vessels are typically utilised for the transportation of refined petroleum products. Similar to crude oil tankers, bigger-sized vessels capable of carrying larger cargo quantities are used for longer distances and smaller-sized tankers are used for smaller cargo parcels and shorter distances.

Refined petroleum product tankers ("**Products Tankers**") in general are categorised as "Long Range" ("**LR**") and "Medium Range" ("**MR**") tankers. LR Product Tankers can be further sub-divided into "Long Range 1" ("**LR1**") tankers of about Panamax size and "Long Range 2" ("**LR2**") tankers of about Aframax size. MR Product Tankers can further be sub-divided into "Medium Range 1" ("**MR1**" category) for vessels of 27,500 to 39,999 DWT and "Medium Range 2" ("**MR2**") for vessels of 40,000 to 54,999 DWT. In Figure 6-4, the count of single voyage shipments, or fixtures, is displayed by the sector of tanker. This is based on McQuilling's proprietary data. In terms of the number of single voyages for 2014G, the Aframax sector is the workhorse of dirty petroleum product transportation while MR2s dominate the number of shipments for clean petroleum product transportation.

Figure 6-3 below illustrates total ton-mile demand for CPP and DPP transport between 2000G and 2014G. Figure 6-4 illustrates spot market demand for the different CPP and DPP vessel classes during 2014G.

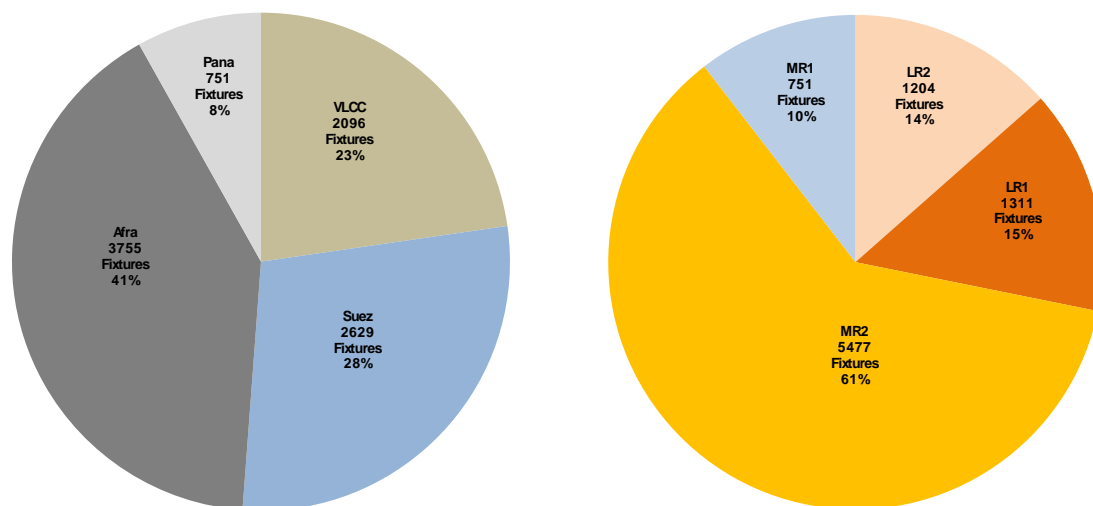
**Figure 6-3: Total Ton-Mile Demand in Trillion Ton Miles, 2000-2014G**

**Trillion Ton Miles**



*Source: McQuilling*

**Figure 6-4: Single voyages by sector of tanker, 2014G**



*Dirty Petroleum Product Transportation*

*Clean Petroleum Product Transportation*

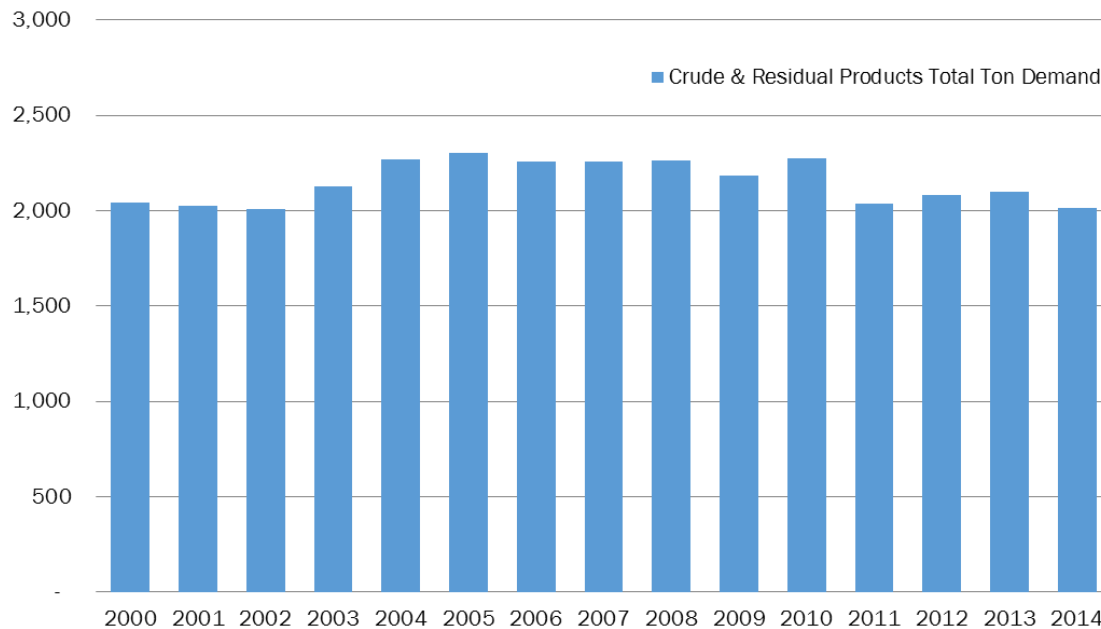
*Source: McQuilling*

## Tanker Demand

### Dirty Tanker Demand

**Figure 6-5: Tanker Demand – Crude and Residual Fuels Transport 2000-2014G**

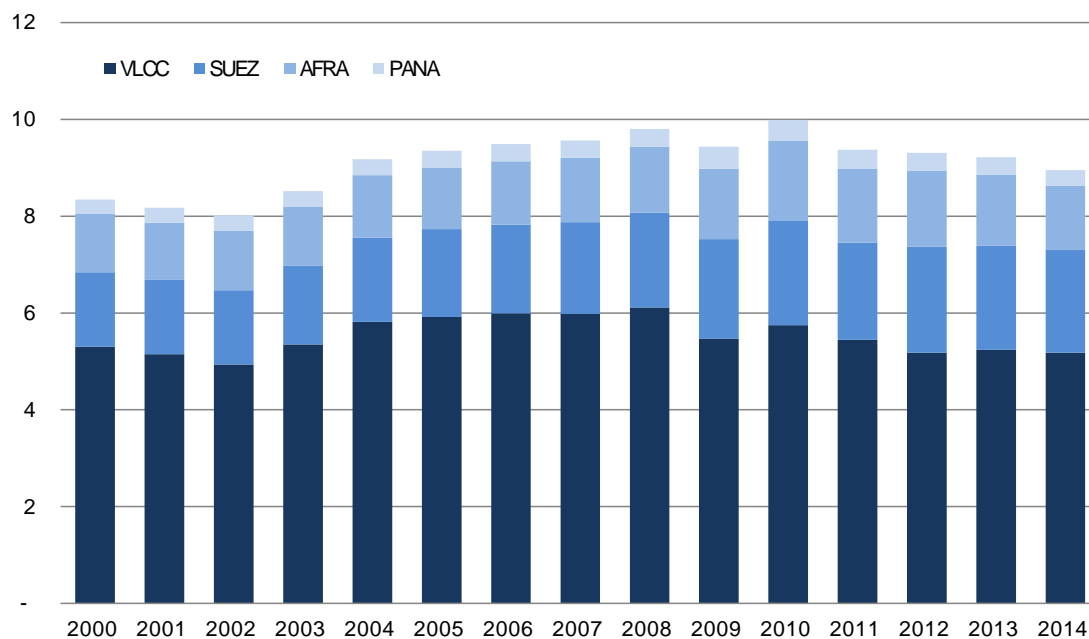
(Million Tons)



Source: McQuilling

**Figure 6-6: Tanker Demand – Crude and Residual Fuels Transport 2000-2014G**

(Trillion Ton Miles)



Source: McQuilling

Liquid products refined from crude oil, whose colour is greater than 2.5 on the National Petroleum Association scale are classified as dirty petroleum products ("**DPP**"). DPP includes fuel oil, low sulfur waxy residue and carbon black feedstock. Total tanker demand has been declining since 2010G as North American crude production has increased. In 2014G, total tanker demand contracted by 1.7 per cent from 2013G levels and approximately 9 per cent from the peak in 2010G. DPP demand (red bars) totaled 8.95 trillion ton-miles, down approximately 2.9 per cent from 2013G totals. This does not include crude and residual fuel transportation on MR tankers due to its small demand relative to the entire market. CPP demand has grown modestly over the past five years, but because it represents only 15 per cent of total tanker demand, its impact on overall demand is marginal. In 2014G, CPP total demand increased by 1.2 per cent over 2013G figures, reaching 1.57 trillion ton-miles.

VLCC demand is the most predictable across all vessel classes since these large tankers are used to move substantial volumes of crude oil from a relatively small number of producing regions to the most prominent demand markets across the globe. The top 10 trades comprise 93 per cent, or 4.84 trillion ton-miles of overall VLCC demand. The AG>US trade decreased by 7 per cent from 2013G levels; however, it remains the second largest trade in the VLCC sector. AG exports to the US have steadily decreased since 2003G, sliding from 2.3 million b/d in 2003G to 826,000 b/d in October, 2014G. The AG>US trade is one of the trades that has been negatively impacted from rising North American production. Since a variety of crudes are produced in the Arabian Gulf, heavy crude exports to the US have been less impacted. Increases in Canadian production over the next years will put pressure on the heavy crude AG>US trade but the rate of production expansion will be influenced by world crude oil prices. The AG>East trade continues to serve as the principal trade route in the VLCC sector. Fast paced economic expansion in non-OECD Asia is increasing the size of the middle classes. Non-OECD Asia and the Middle East are expected to see exceptional growth in the personal transportation sector over the next five years.

Canadian exports to the US have had a considerable impact on the global supply chain and we project that this phenomenon will escalate through 2019G. Canada is a net exporter of crude oil and as productivity from their oil sands increases, Canadian exports to the US will expand as well. Due to intermodal transportation constraints, Canadian crudes are currently not reaching coastal ports to load tankers for more distant export markets in any significant volumes. The US is the main beneficiary of Canada's growing export trade, absorbing approximately 97 per cent of its international crude sales.

Since 2005G, exports of heavy Canadian crudes to the US increased by 1.5 million b/d, while the US simultaneously increased light crude production by 4 million b/d. Considering the wide range of crude grades available from unconventional North American plays, commercializing the oil sands and shale industries has had widespread effects on global trade flows.

West African crude supply to the Far East fell by 1 per cent in 2014G, but remained the third largest trade in the VLCC sector. West Africa VLCC demand fell by approximately 2.75 per cent in 2014G from 2013G levels. West Africa producers have turned to the Indian-Sub Continent to market their displaced supply. West Africa>India exports on VLCCs increased by 9 per cent between 2013G and 2014G.

Finally, the VLCC trades that expanded the most in 2014G were the Caribbean>Far East and the EC South America>Far East trade, which grew by 39 per cent and 139 per cent, respectively. These trades saw the greatest benefit of increasing demand from non-OECD Asia. The EC South America to North America East Coast trade was completely reduced to zero ton-miles in 2014G. This trade was nearly completely absorbed by the Far East trade.

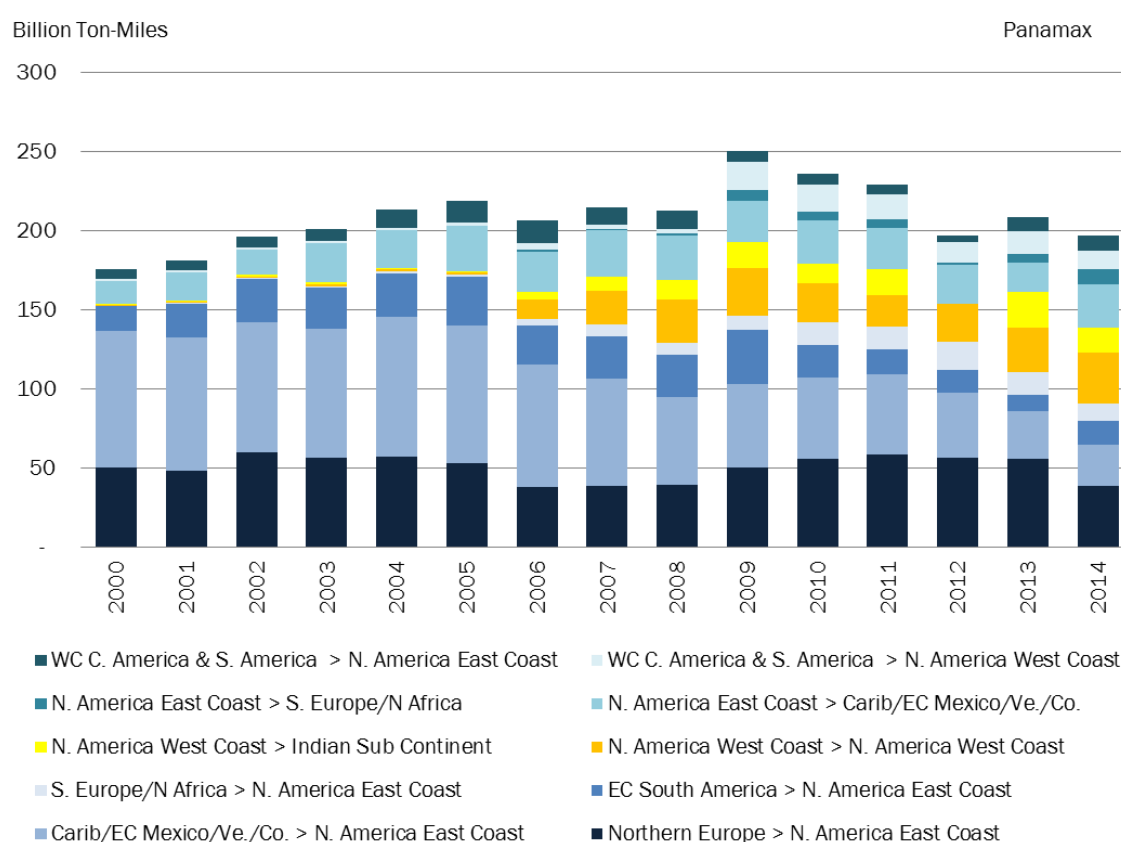
West Africa>Northern Europe was the top trade for Suezmaxes in 2014G, recording 217 billion ton-miles, a 12 per cent increase from 2013G levels, which was positively impacted by a decrease in trade flows to the US. The Caribbean>Far East also picked up demand as a result of declining US imports, in parallel with the VLCC trade. McQuilling expects this trend to continue through 2019G.



Total Aframax demand grew steadily during the period from 2000G through 2010G, but has been trending downward for the past five years. A decrease in Aframax market share can be partially attributed to a shift of tonnage into the Suezmax sector, in large part because of the vessel's versatility to supply a diverse set of markets. Additional factors include reduction in trade on the historically significant Caribbean>US Gulf route and inter-Europe trade. In 2014G McQuilling measured a decline of 10 per cent in total Aframax demand worldwide, from 1.46 trillion ton-miles in 2013G to 1.32 trillion ton-miles in 2014G. In 2014G, the Panamax sector represented about 3.6 per cent, or 323 billion ton-miles, of total DPP tanker demand, which translates to an 11.7 per cent contraction between 2013G and 2014G. The Panamax sector has seen demand disappear as traditional trades such as Caribbean>US Atlantic Coast are eliminated with evolving trade changes. A growing Canadian program of exports to the US West Coast and abroad has stemmed the decline, but not reversed it (Figure 6-7, gold and yellow bars).

## Top Ten Panamax Trades - 2000-2014G

### Billion Ton Miles



Source: McQuilling

Changes in the sources of supply of crude oil and refined products and the demand centers that they serve influences the tanker market by altering the trade matrix for the various vessel classes. Some tanker trades decline in volume of cargo carried while others strengthen. New trades emerge while others disappear. The net effect may be to increase or decrease demand of one type of vessel while increasing or decreasing demand for another.

## Clean Tanker Demand

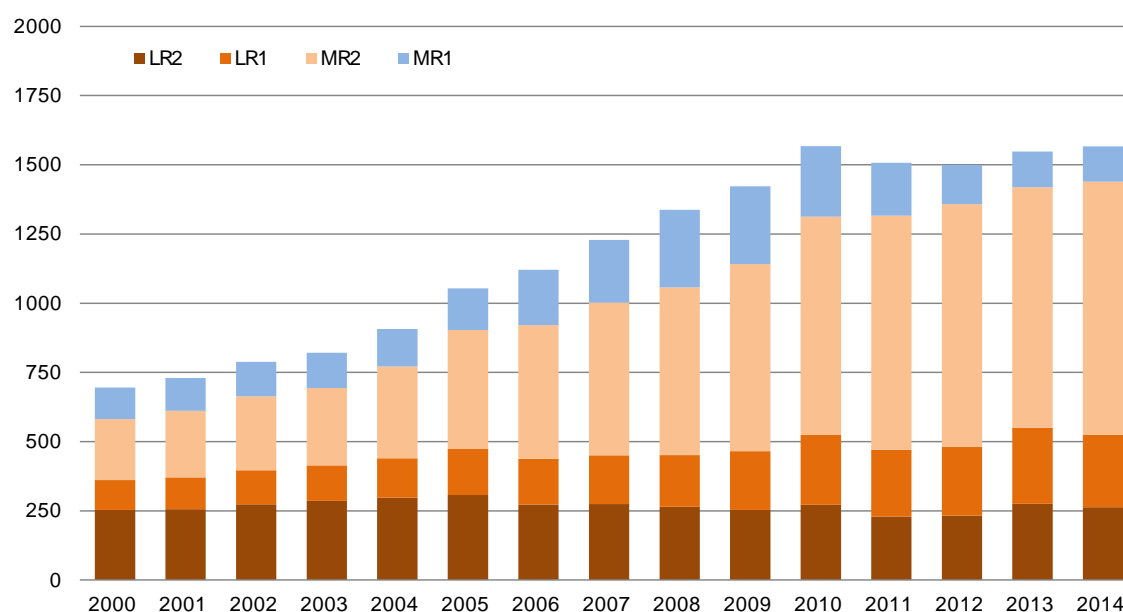
Clean Petroleum Products ("CPP") are refined products from crude oil with a colour equal to or less than 2.5 on the National Petroleum Association scale. These include gasoline, jet fuel, diesel etc.

The trades of clean petroleum products are less established than those for crude oil as demand fundamentals can be influenced by a host of factors. This is due to the fact that the only real consumer of oil is a refinery. Meanwhile, clean products are used for transportation, heating, industry and as a back-up fuel. Clean tanker trading can be altered by regional swings in supply and demand, weather, state subsidies, legislation or crop harvest, just to name a few.

In 2014G, total CPP tanker demand increased by 1.2 per cent over 2013G levels. This rise in demand was impacted by the above mentioned factors and the evolution of longer clean product trading routes in the LR class. The latter has been supported by US refiners' access to lower cost crude oil, resulting in healthy export volumes.

## **Tanker Demand – Clean Petroleum Products Transport 2000-2014G**

### ***Billion Ton Miles***



***Source: McQuilling***

Total 2014G CPP trade between the Middle East and Far East increased 4 per cent over 2013G levels, after contracting by 5 per cent from 2012G to 2013G. The Middle East produced approximately 8.8 million b/d of refined products in 2014G, or 10 per cent of global demand. An additional 800,000 b/d of refining capacity is planned to come online through this forecast period (2015-2019G); 400,000 b/d in Saudi Arabia and 400,000 b/d in Abu Dhabi. As these plans are implemented a significant shift in Middle East CPP supply will inevitably affect clean tanker trade flows.

The European refining sector has been struggling for the past five years. Since 2008G, 13 European refineries have closed. Despite the reduction in capacity, Europe still has about 2 million b/d of overcapacity. The overcapacity has weighed on refining margins, further worsening the outlook for the sector. As production output has begun to decline in the North Sea, Europe has had a difficult time remaining competitive against lower cost producers. Conversely, the US refining sector has been prospering from abundant, inexpensive domestic feedstocks.

Fixture fractions which are derived from McQuilling's proprietary trade data shows that trade continued to evolve towards larger tonnage throughout 2014G. For the top 15-trades, LR vessels' share rose by approximately 3 per cent while MRs contracted by the same amount.

The MR2-sized product carrier is the pillar of the clean tanker fleet. This segment represented 58 per cent of the total transport demand for refined products in 2014G. The long range LR1 and LR2

vessels each represented about 17 per cent of transport demand. Similar to Panamax tankers on the dirty tanker side, the MR1 class (27,500 DWT-40,000 DWT) of product carriers represent a small slice of demand and are deployed mainly in regional niche markets.

Throughout 2014G, proprietary data indicates global clean petroleum product tanker fixtures number just below 9,000 representing a 13 per cent year-on-year increase. MR2 fixtures rose by 13 per cent while LR2 and LR1 fixtures increased by 11 per cent and 13 per cent, respectively from 2013G to 2014G.

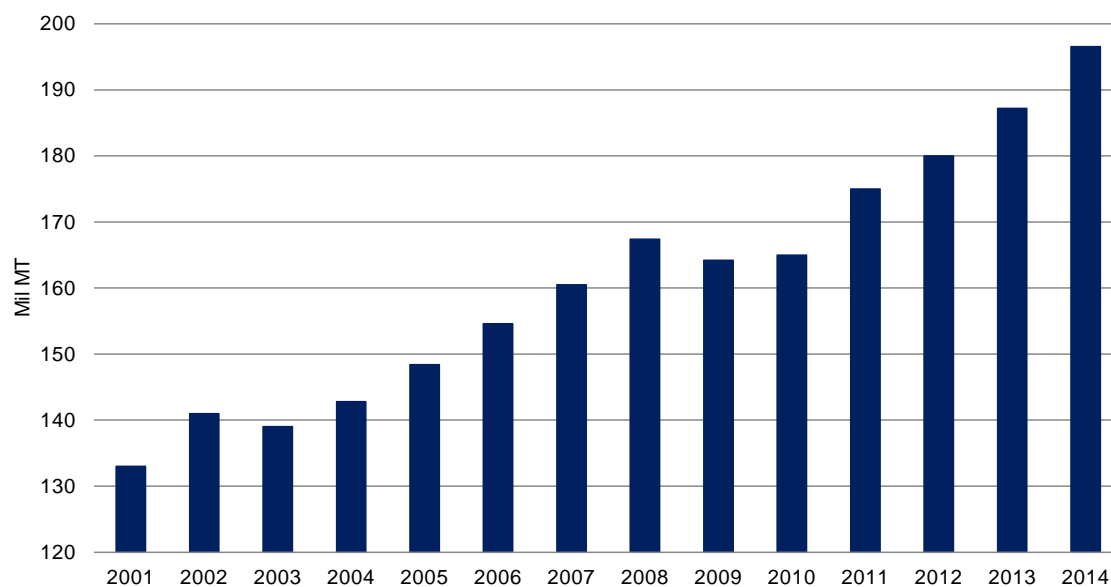
### **Chemical Tanker Demand**

Total chemical tanker demand includes global seaborne trade of commodity chemicals as well as vegetable oils, which closely tracks global GDP growth. Asia remains the largest driver for chemical shipments, accounting for 70 per cent market share by count. Since 2000G, the highest chemicals demand growth was witnessed in 2002G by 6.0 per cent to 140 million mt, followed by a decline of 1.9 per cent during the 2009G financial crisis. As of 2014G, total seaborne chemical trade approximates 200 million mt, or 3 per cent CAGR since 2001G.

Seaborne trade of chemicals occupies approximately 20 per cent of total global production, with clear growth expectation among developing economies in the long term backed by fast-rising middle-class population to drive demand of general chemicals. However, to date, China currently maintains 20-25 per cent lower consumption per capita than that in US and Eurozone and is expected to remain so up to 2018G as significant restructuring reforms intensify and notable property value correction occurs. A "New Normal" GDP growth of 6 per cent is likely, suggesting detrimental cutbacks in the domestic chemical sector in China and correspondingly conservative global chemical trade over the next few years.

### **Tanker Demand – Chemical and Vegetable Oil Transport 2001-2014G**

*Million Metric Tons*



*Source: McQuilling*

With current oil price slumped by nearly 50 per cent since mid-2014G, projects are re-evaluated and may be potentially delayed or cancelled. In particular, coal chemicals in China requiring high capital expenditures, operational expertise and minimum operating rate of at least 80 per cent comes under threat, as most units are planned by green-field joint ventures. McQuilling's internal forecasts show

that feasibility of such projects may be undermined with oil price below US \$80 per bbl. The latest cancellation in the Middle East came from Qatar Petroleum and Shell US \$6.5 billion Al-Karaana chemical complex. Yasref's Yanbu Aromatics facility was also delayed since late 2014G for start-up rescheduled for first half 2015G. McQuilling expects such events to lead similar sentiments in the market going forward.

Meantime, there are likely to be intensifying trade protectionist schemes. Starting 1 February 2015G, Russia slashed export duties of Benzene, Toluene and Xylene (BTX) by a third, equivalent to a drop by nearly 80 per cent since September 2014G while India imposes full range of anti-dumping duties including for Purified Terephthalic Acid (PTA) from China, European Union, South Korea and Thailand; as well as for Acetone from Taiwan and Saudi Arabia. As players anticipate volatile downstream prices in the next few months, global chemical trade is expected to remain in a flux and activities to resume upon stabilization of prices that reflect sustainable fundamentals – foreseen to happen nearer towards second half of 2015G.

The latest forecasts for peak shale oil-gas production also showed a possible delay to beyond 2019G. This could lead to re-evaluation of new chemical projects in US resulting in lower net deficit of Aromatics, as well as tendency to revert back to Naphtha feedstock for existing facilities amid slower rationalization of such facilities across Eurozone – all favouring the production of wide-ranging long-carbon chain downstream chemical products globally. Coupled with a weaker recovery expected across emerging economies in Asia, in particular for China which is less-focused on GDP growth amid intensifying efforts towards domestic reforms, the market may witness heightening challenges involving the long-haul re-exports of Aromatics from Asia into US as well as from Middle East/India into Eurozone. Further, persisting low oil prices can lead to lower demand for biofuels, which can reduce medium term import impetus for palm as a feedstock towards biodiesel production in Eurozone. With these trade shifts potentially out of sight within 2020G, McQuilling foresees demand requirements for large chemical tankers to dip to 1-2 per cent per annum, outpaced by a strong tonnage growth forecast characterized by delivery of 157 such chemical tankers by 2017G, representing 29.1 per cent total fleet growth or 8.9 per cent per annum. Chemical tanker freight sentiment is expected to remain in a lull over the next few years.

### **Tanker Supply**

Three factors determine tonnage supply available to transport existing demand, namely: (i) the addition of new vessels that are delivered from shipyards; (ii) vessels that are removed for scrapping or conversion to non-oil transporting vessels; and (iii) reductions in supply due to factors that limit the actual availability or utilization of vessels. Tanker vessel supply can be affected in the short term by several factors ranging from demand for floating storage of crude oil or refined petroleum products to port congestion that reduces vessel availability, and in certain cases, by the geographical dislocation due to unforeseen factors such as extreme weather conditions.

The supply of tankers across the fleet has as much impact on the freight rates being traded as does the demand for crude oil and clean petroleum products transportation. In recent years, elevated vessel supply pressured market fundamentals.

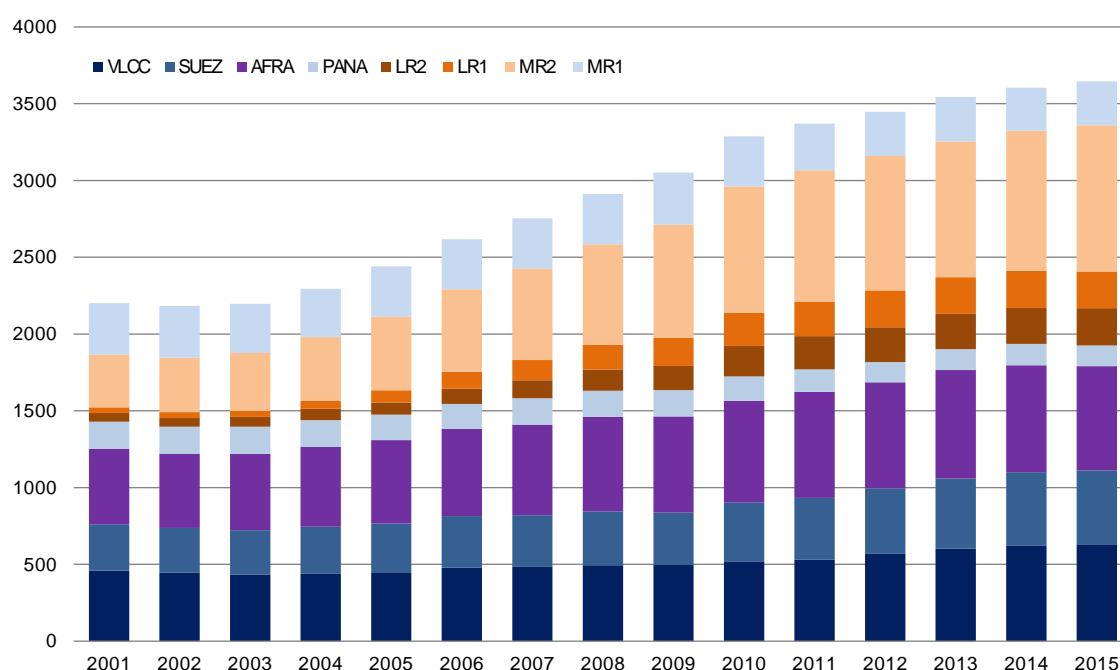
The positive market outlook that transpired in the middle of the last decade, combined with strong earnings, resulted in owners rushing to secure available slots at ship yards. These vessels exited shipyards at the beginning of the global economic crisis exacerbating the impact on tanker earnings. The low crude price environment due to an oil supply overhang caused by North American production may help stimulate global economic growth, particularly for net oil importing countries. China is likely to continue to add to its Strategic Petroleum Reserve stockpiles while prices are low. At the same time, India is expected to benefit from the reform policies of Prime Minister Modi and grow at 6.3 per cent in 2015G.

At the start of 2015G, the tanker trading fleet size 27,500 DWT and above, excluding vessels with IMO 1 and 2 classifications<sup>10</sup> totaled 3,645 vessels. This represents an approximate 1 per cent net fleet growth year-on-year. Throughout the forecast period of 2015-2019G the annualized growth rate will remain at 2.2 per cent with an expected total fleet of 4,068 vessels (above 27,500 DWT) in 2019G.

Figure 6-10 illustrates the global supply of tankers from 2001G to January 1 2015G.

At the start of 2015G there were 631 VLCC tankers in the trading fleet while in the Suezmax class, McQuilling recorded 481 ships. The Aframax fleet began 2015G with 679 vessels, a reduction of 18 ships from 2014G. This sector has been under pressure as near-sourced imports to the US have been reducing due to pipeline and rail deliveries, but could be appreciated more with the anticipated expansion of the Panama Canal in 2016G. Crude carrying Panamax vessels totaled 135 to start the year, a reduction of four year-on-year.

### Global Tanker Supply – Number of Vessels by Type, 2001–2015G

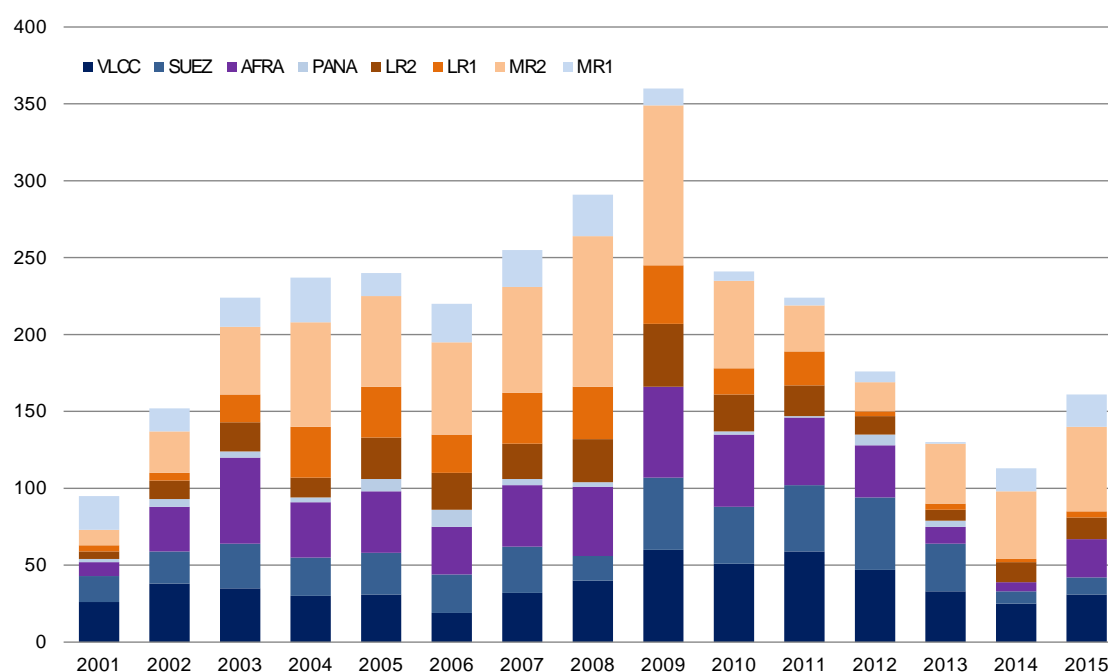


Source: McQuilling/Lloyds Register Fairplay

\*IMO 1 and 2 vessels are omitted in LR2, LR1, MR2, MR1 inventories

<sup>10</sup> The IMO adopts a global technical classification system in relation to all vessels with certain specifications which are classified on a numerical basis e.g. class 1 vessels and class 2 vessels.

## Global Tanker Supply – Number of Vessel Additions by Type, 2001–2015G



*2015G data represents estimated deliveries*

*Source: McQuilling/Lloyds Register Fairplay*

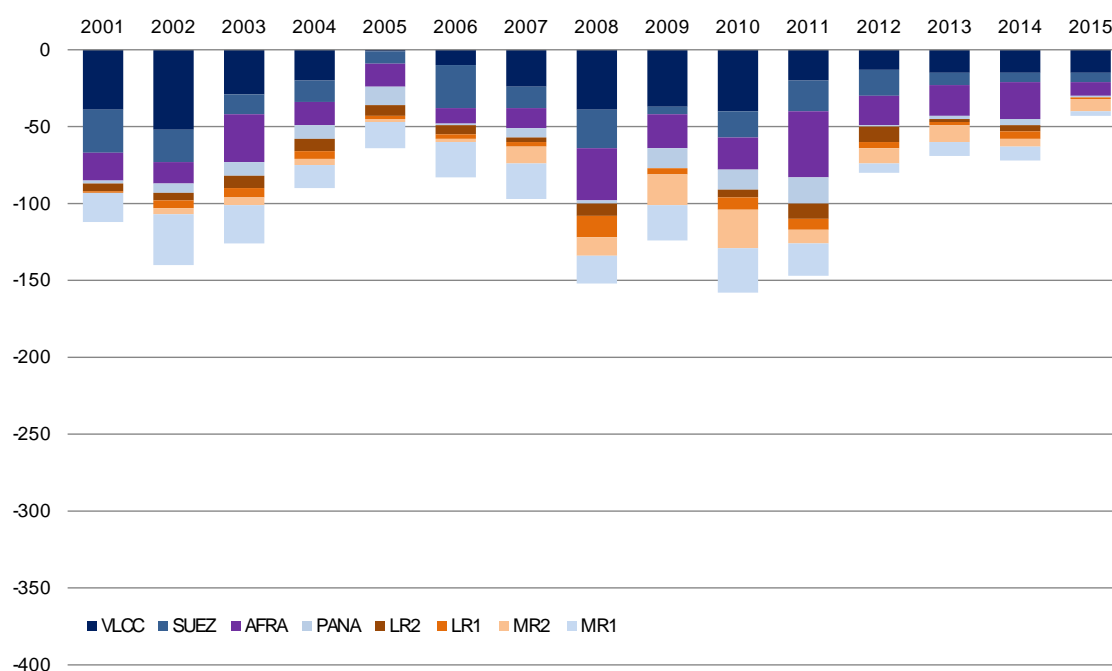
## Orderbook Relative to Trading Inventory – 2015G

	<i>VLCC</i>	<i>Suezmax</i>	<i>Aframax</i>	<i>Panamax</i>	<i>LR2</i>	<i>LR1</i>	<i>MR2</i>	<i>MR1</i>
<b>Orderbook</b>	<b>90</b>	<b>55</b>	<b>60</b>	<b>14</b>	<b>32</b>	<b>25</b>	<b>143</b>	<b>60</b>
<b>Trading Fleet*</b>	<b>631</b>	<b>481</b>	<b>679</b>	<b>135</b>	<b>243</b>	<b>238</b>	<b>952</b>	<b>286</b>
<b>Per Cent</b>	<b>14.3</b>	<b>11.4</b>	<b>8.8</b>	<b>10.4</b>	<b>13.2</b>	<b>10.5</b>	<b>15.0</b>	<b>21.0</b>

*Source: McQuilling*

*\*Beginning Trading Inventory for 2015G*

## Global Tanker Supply – Number of Vessel Deletions by Type, 2001–2015G



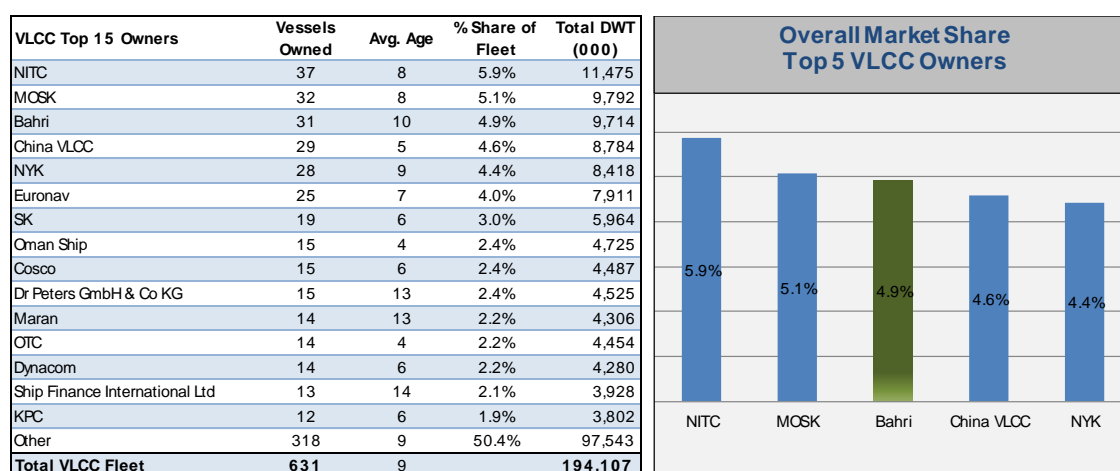
*2015G data represents estimated deletions*

*Source: McQuilling/Lloyds Register Fairplay*

## Tanker Fleets

The figure below illustrates the ownership of VLCCs in the global market as of January 2015G:

### VLCC Ownership Overview as of January 2015G\*



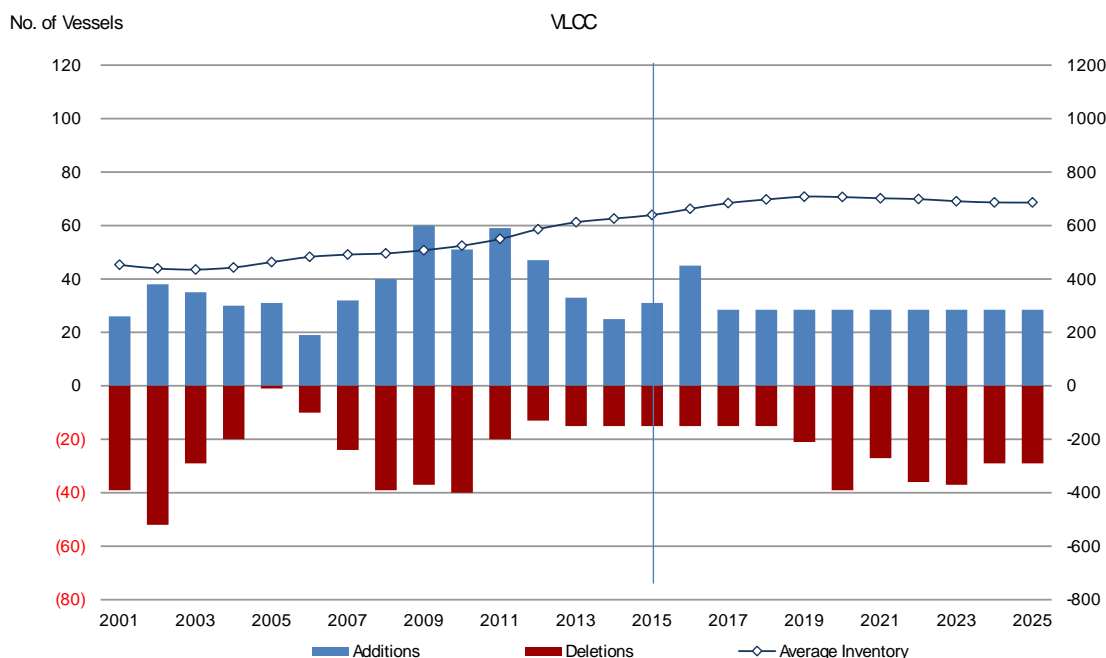
*\*Vessels Owned by Bahri Does Not Include the Faridah, formerly known as the Alphard Star*

*Source: McQuilling*

As of January 2015G, there were approximately 631 VLCCs trading, with a DWT of 200,000 and above. The VLCC fleet segment represents about 17 per cent of the global tanker market representing 27,500 DWT and above, with an average vessel size of 307,618 DWT. The current available VLCC fleet globally is relatively young with an average age of 9 years. The total firm orderbook starting in

2015G is 90 vessels, or about 14 per cent of the current VLCC fleet. There are 140 owners of VLCCs with the top 15 the owners representing 49 per cent of the current fleet. The figure below shows the evolution of the net trading fleet since 2001G and assumed additions and deletions through 2025G:

### VLCC Trading Fleet: Historic and Projected Additions and Deletions



**Source: McQuilling**

Over the next few years, the average net trading inventory of VLCCs is projected to increase between 1.5 percent and 3.5 per cent annually with the year 2016G experiencing the largest gain in recent times. In the same period, total demand continues to grow slowly, at up to 1.0 per cent annually.

Owning and operating a fleet of large tankers requires similar organizational effort, emphasis and commitment of resources as a fleet of the same number of smaller vessels. In general, the larger vessels will experience greater earnings potential but will also require larger capital outlays and financial structures.

Transportation demand for large tankers is heavily influenced by the overall world economy, the growth in energy demand and specifically, oil demand. This influence is manifested by a strong correlation of large tanker freight rates to the interaction of tonnage supply and demand. The majority of large tanker demand is on trades originating in the Middle East for either the Far East or destinations in the Western Hemisphere. The other significant load region is West Africa with destinations in the Far East and the Western Atlantic region. These regions and trades will continue to occupy the top spots for the foreseeable future, but emerging sources of supply (South America, China, Russia) and users for crude oil (China, USA) may significantly affect transportation demand in the future by altering the trade matrix and corresponding global fleet deployment.

### MR (Medium Range / Products) Tankers

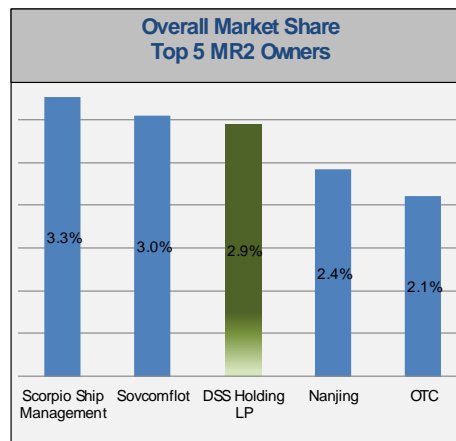
This sector has developed two distinct segments: MR1 and MR2 tankers. MR1 tankers are sized 27,500 – 39,999 DWT and MR2 tankers are sized 40,000 – 54,999 DWT. The MR1 sector consists of about 286 trading vessels after deducting chemical carriers and those employed in special services. The average age of the entire MR1 (IMO 3) fleet is approximately 12 years. The MR2 (IMO 3) sector consists of about 952 trading vessels after deducting chemical carriers and those employed in special services. This segment is amongst the youngest in the global fleet of Product Tankers at an average age of 10 years.



Trading of clean products, supported by high volumes of product exports from the USA and increased demand from Latin America, has helped provide owners of this category of tonnage with increased utilisation of their vessels leading to more profitable operations.

## MR2 - 40-49,999 DWT, Non IMO I/II Ownership Overview as of January 2015G

MR2 - Non IMO I/II	Vessels Owned	Avg. Age	% Share of Fleet	Total DWT (000)
Scorpio Ship Management	31	2	3.3%	1,552
Sovcomflot	29	11	3.0%	1,338
DSS Holding LP	28	7	2.9%	1,356
Nanjing	23	9	2.4%	1,067
OTC	20	8	2.1%	969
China Shipping Group	18	9	1.9%	777
NYK	14	7	1.5%	656
CSG	14	8	1.5%	669
Interiorient Navigation Germany	13	8	1.4%	625
Seaworld Management	12	12	1.3%	560
MOSK	12	8	1.3%	567
Polys Haji-Ioannou Group	11	15	1.2%	510
Thenamaris	11	6	1.2%	534
Parakou Shipping	10	8	1.1%	512
Ardmore Shipping Ltd	10	6	1.1%	479
Other	696	10	73.1%	32,556
<b>Total MR2 (Non IMO I/II)</b>	<b>952</b>	<b>10</b>		<b>44,727</b>



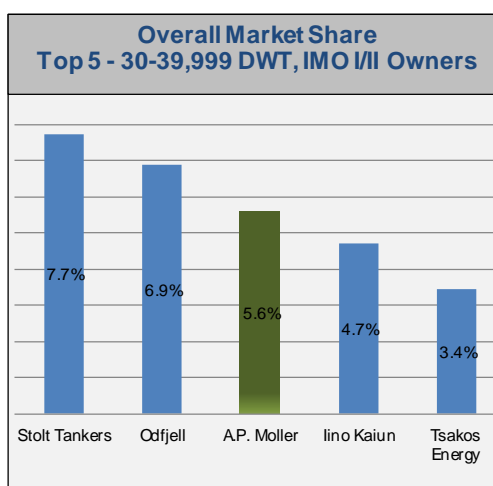
Source: McQuilling

## Chemical Tankers

The figures below illustrate the global chemical tanker ownership for the 30-39,000 DWT range and the 40-49,000 DWT range, each with IMO I/II or IMO II classification:

## 30-39 DWT, IMO I/II (Chemical Tanker) Ownership Overview as of December 2014G

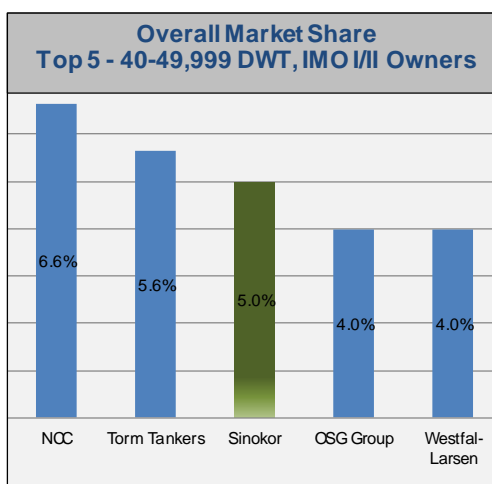
MR1, IMO I/II Top 15 Owners	Vessels Owned	Avg Age	% Share of Fleet	Total DWT
Stolt Tankers	18	18	7.7%	661,703
Odfjell	16	15	6.9%	594,167
A.P. Moller	13	8	5.6%	489,538
Iino Kaiun	11	9	4.7%	371,497
Tsakos Energy	8	9	3.4%	311,554
Offen	8	7	3.4%	298,369
MISC Chemicals	7	5	3.0%	265,777
Wilmar Trading (Raffles)	8	17	3.4%	263,830
Jo Tankers	7	14	3.0%	252,458
Vroon	6	9	2.6%	224,928
Brostrom Tankers SAS	5	12	2.1%	184,541
Tokyo Marine	5	6	2.1%	177,572
Montenari	4	7	1.7%	149,912
Capital Product Partners	4	9	1.7%	146,886
Doun Kisen	4	8	1.7%	133,174
Others	109	10	46.8%	3,912,292
<b>Grand Total</b>	<b>233</b>	<b>10</b>	<b>100.0%</b>	<b>8,438,198</b>



Source: McQuilling / KTR Maritime

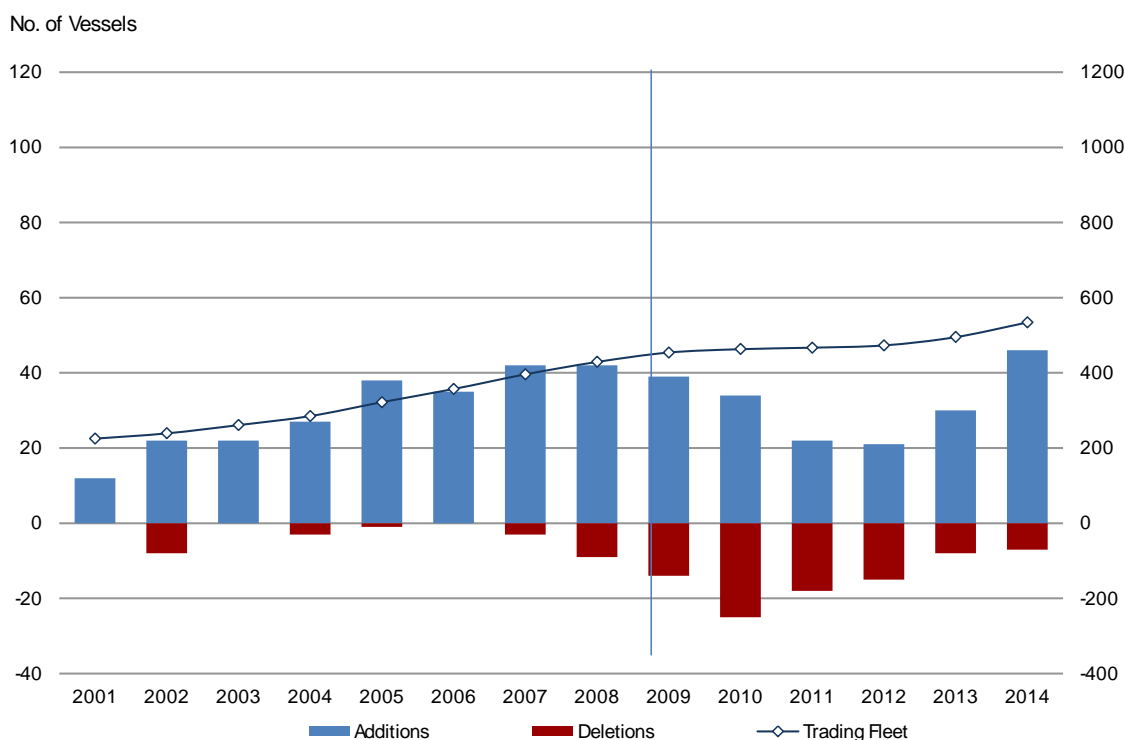
## 40-49 DWT, IMO I/II (Chemical Tanker) Ownership Overview as of December 2014G

MR2, IMO I/II	Vessels Owned	Avg Age	% Share of Fleet	Total DWT
<b>Top 15 Owners</b>				
NCC	20	6	6.6%	914,952
Torm Tankers	17	12	5.6%	783,903
Sinokor	15	1	5.0%	746,335
CSG Group	12	6	4.0%	561,103
Westfal-Larsen	12	9	4.0%	544,059
Aurora Tankers	12	14	4.0%	536,986
Navios Acquisition	10	2	3.3%	490,563
d'Amico	10	6	3.3%	479,913
Anglo-Atlantic S.S.	10	8	3.3%	462,700
Mitsui OSK Lines	9	11	3.0%	413,154
Odyssey	9	7	3.0%	401,228
UACC	8	4	2.7%	360,317
Stolt Tankers	8	10	2.7%	342,448
Formosa	7	6	2.3%	319,393
Scorpio Tankers	6	1	2.0%	298,955
Others	136	11	45.2%	6,320,031
<b>Grand Total</b>	<b>301</b>	<b>7</b>	<b>100.0%</b>	<b>13,976,040</b>



Source: McQuilling/ KTR Maritime

### 30-49 DWT, IMO I/II (Chemical Tanker) Trading Fleet



Source: McQuilling/ KTR Maritime

Excluding those with IMO III classification already included in the MR discussion, as of December 2014G, there are approximately 1,811 chemical tankers (>10,000 DWT) currently trading, of which 233 tankers are in the 30,000 to 39,999 DWT and 301 tankers in the 40,000 to 49,999 DWT.

These two chemical fleet segments represent 29.5 per cent of the chemical tanker fleet, with an average age of 9.0 years.

These vessels are largely deployed on West of Suez voyages, long-haul voyages from Asia into USG, as well as Middle East eastbound directions for transportation of easy chemicals. Carriage of vegetable/animal oils via these tankers is also common, including those from South America into US, Eurozone, India and Far East destinations. Active trade triangulation and close monitoring of time in port are among the key factors towards maximizing utilization rate and profitability in operating these

tankers. Growing parcelling needs in specialities has also led to rising share of tankers with higher number of segregations.

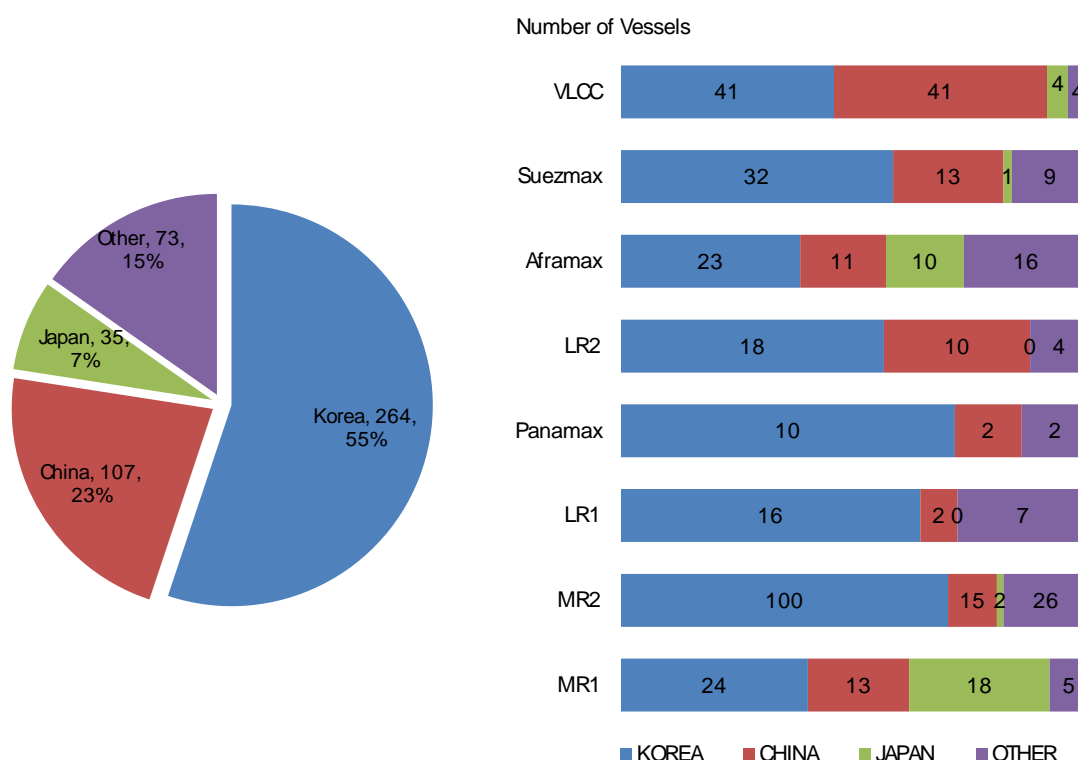
### Tanker Fleet Age Profile

The age profile of the global tanker fleet has been reduced from over 20 years to a global average of 10 years due to the mandatory phase-out of single hull tankers and continuing scrutiny with regard to vetting requirements combined with technical restrictions at major load/discharge ports. MR1s are the oldest at 12 years, while Panamaxs have an average age of 11 years. VLCCs are relatively young with an average age of 9 years, due to a large number of newbuild deliveries. LR2s and Suezmaxes are the youngest fleets with an average age of 8 years. It is expected that the overall global fleet should get even younger over the next few years as orderbooks deliver during this period and older tonnage that is less suitable for trading is sold for scrap.

### Tanker Building Shipyards

The chart below illustrates the countries that are building the majority of tankers as of 2015G:

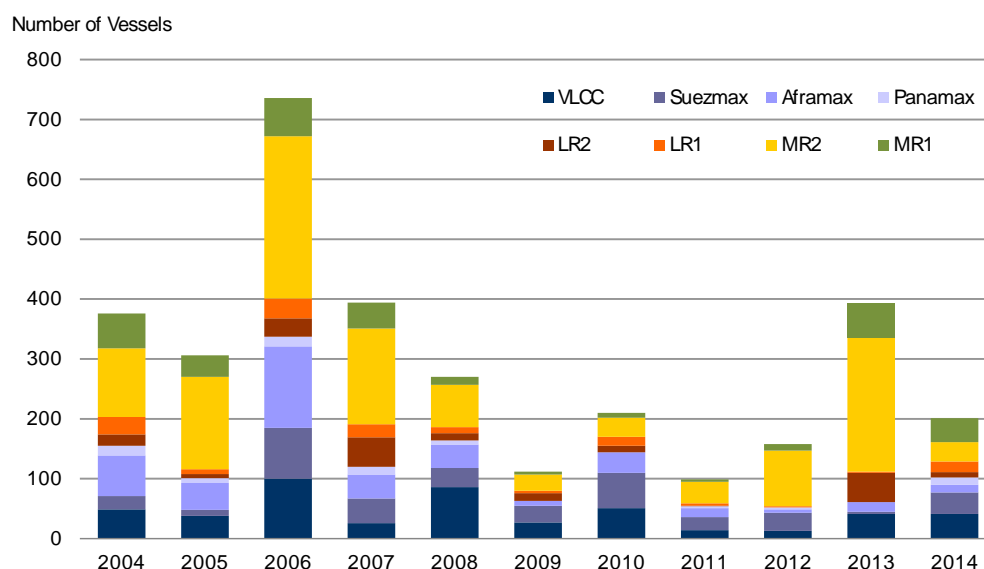
#### Country Breakdown of Tanker Building / Segments January 2015G



**Source: McQuilling**

After peaking in 2006G, tanker contracting gradually slid to a low of 99 orders in 2011G (Figure 7.2). In the following 2 years, 2012G and 2013G, orders for MR2s totaled 316, with over 220 being ordered in 2013G alone. In 2014G, total orders declined by 189 vessels from 2013G to just over 200 vessels. The orders were distributed fairly evenly between dirty and clean tankers, with 99 dirty tankers being placed on order led by 41 VLCCs. In the clean sector, 72 medium range tankers were placed on order.

## Tanker Contracting 2004G–2014G



**Source: McQuilling /Lloyds Register Fairplay**

In 2011G, 2012G and 2013G McQuilling's proprietary data shows that 36, 93 and 223 MR2s were respectively ordered, highlighted by the yellow columns in Figure 6-20. These orders were the primary factor in taking 2013G contracting figures to 392, the highest level since 2007G's total of 394, but still well below the ordering frenzy of 736 that took place in 2006G. Initially, this was driven by expectations that refining capacity on the US East Coast would continue to contract, boosting import requirements. However, on the back of increased domestic production and reduced feedstock costs, optimism is now driven by rising demand in Africa, lower European refinery capacity and evolving trade flows originating from the Middle East, Far East and India.

MR1 ordering activity at 40 could be described as relatively robust when compared to previous years. However, these vessels orders are at the upper end of the size range and trade as MR2s.

In 2013G there were 41 orders placed for VLCCs, the highest level since at least 2010G. In 2014G, an equal number of VLCCs were ordered highlighting the growing optimism in the future of crude tanker trades.

On the back of reduced US demand for light-sweet crude and the subsequent pressure on the WAF/USAC trade on Suezmax tankers, contracting narrowed massively year-on-year from 30 in 2012G to 4 in 2013G. However, in 2014G, the number of orders for this vessel class increased significantly to 36 as trade from West Africa to the UKC replaced the decline in flows to the US.

Ordering activity in the Aframax and Panamax sectors was relatively modest. Throughout 2014G, 13 Aframax orders were placed, which appears in line with the age profile of the current trading fleet. There were 12 orders placed for uncoated Panamax vessels in 2014G.

There were 49 LR2 contracts in 2013G, with the interest in the sector being driven by the expectation that CPP trade routes will evolve to longer distances; however, the number declined to only 9 vessels in 2014G. LR1 contracting was 18 vessels in 2014G, up from only 2 in the prior year.

There are 54 shipyards on record for 2015G tankers above 27,500 DWT in their orderbook. This is one more than what was recorded at the start of 2014G. The dominant share of orders continues to be held by Korean yards, which make up 55 per cent of those placed. This is nine percentage points higher last year's level as the "other" classification decreased its share by the same amount. The share

of orders placed at shipyards in China decreased by three percentage points to 23 per cent, while those from Japan increased by three percentage points to 7 per cent

When looking at the orderbook by vessel class, South Korea possesses the majority of orders for clean tankers while orders for crude tankers appear to be more evenly distributed. China and Korea are tied for the largest share of VLCC orders, at 41 each. Shipyards located in other countries have received the majority of orders for Aframax and MR2 classed vessels. Japanese yards have 18 orders for MR1 tankers which may be attributed to increased technical specifications.

## **Freight Market**

The fleet of tankers that are trading, at the date of this Prospectus, may be deployed as part of a fleet of tankers owned and controlled by an independent shipping company or as part of a controlled fleet of vessels by an oil company or a company engaged in the trading of oil and related products. Commercially, the use of the vessel will be contractually committed under one or more of several configurations depending on a variety of commercial and economic considerations. The contracts for the use of the vessel are typically referred to as "charters" and the actual form of the contracts termed "charter parties". The primary commercial arrangements for the use of vessels for the carriage of cargoes are described below:

***Spot –charter (or) Voyage charter:*** An agreement between an owner and charterer wherein the charterer has the use of the vessel's full carrying capacity, or some portion thereof, for one voyage from load port(s) to discharge port(s) within a specific range. Freight is paid either at a unit cost for a specified cargo size, or on a lump sum basis with the assumption that the charterer may or may not, at his discretion, use the full carrying capacity. In order to facilitate negotiating and administering the costs related to this type of charter the "Worldwide Tanker Nominal Freight Scale" (or Worldscale as it is commonly referred to) which is a unified system of establishing the freight rate for a given oil tanker's cargo with all its attendant terms and conditions are frequently used. Freight is due and payable on completion of discharge.

***Period or Time Charter*** - An agreement wherein the charterer has the full use of the vessel and its crew for a specified period of time, within a specified trading range. Freight is based on periodic hire payments and the Charterer is responsible for paying all port and fuel costs as well as other agreed costs. The vessel is provided by the owner fully outfitted with a crew to operate it. Freight is normally payable monthly in advance, usually due on the first day of each month.

***Contract of affreightment*** - An agreement wherein the charterer and owner agree to move a total quantity of cargo, in specified sizes per voyage, over a period of time on one or more of the owner's vessels, within a specified trading range. Freight is usually based on a unit cost for a given cargo size per voyage. Like a voyage charter, freight is usually paid on completion of discharge.

***Bareboat charter*** - An agreement wherein the charterer "leases" the bare hull and machinery of the vessel, usually for an extended period of time, frequently for the life of the vessel, at an agreed periodic hire payment rate. The charterer provides and pays for all costs including Dry-docking, crew, stores, spares, equipment, lubricants, port charges and other necessary items. This arrangement is essentially a financing vehicle. Bareboat charter hire payments can be arranged as monthly, quarterly, semi-annually, in advance or in arrears payments depending on the agreement between parties.

A "Period Chartered Fleet" is made up of vessels from other owners' fleets contracted to be available to the charterer for various periods, from less than one year to many years. These vessels are hired by the charterer, but are manned and technically managed by others. The hire rate is either a fixed daily rate (predominately quoted in US \$/per day) or a market rate determined by using an industry index. Depending on the period of the contract, the responsibility for scheduling and deploying these vessels to carry cargoes remains with the charterer. In the case of a time charter contract or a consecutive voyage contract, daily employment of the vessel is the responsibility of the charterer. Consequently, if the charterer is unable to arrange business for such vessel, the charterer is still committed to pay for

the vessel for the time agreed with the owner of the vessel. For a contract of affreightment, the charterer typically nominates to the vessel owner the requirement for a vessel for the carriage of cargoes that it needs to be transported by sea and the vessel owner subsequently supplies the appropriate vessel for the task, the scheduling and utilization being the responsibility of the vessel owner. A contract of affreightment may be viewed as a period charter commitment or a spot commitment, depending on the specific terms of the agreement. For details of the Company's Contract of Affreightment, see Section 13.2, "Summary of Material Agreements". Freight payments to the vessel owner are typically based on a fixed unit rate per quantity of cargo (metric tons or barrels) or may be based on a market rate determined by using an industry index. Freight Service Agreements (or FSA) provide for a general framework transportation agreement between the company and a vessel owner similar to a contract of affreightment, but without any minimum requirements. FSAs are a relatively new concept in the marketplace.

**Commercial Shipping Pools** - Commercial shipping pools were established to help ship owners manage cyclicity in the freight markets. They allow ship owners to obtain a managed portfolio approach to their business by consolidating services, achieving economies of scale and potentially outperforming the spot market. Ship owners contribute similarly sized tonnage to each pool which is run by professionals with close relationships to brokers and customers. Technical management of the ships is typically retained by the ship owners. Each vessel earns revenue independently when trading in the spot market based on the rates negotiated for the voyage. All pool revenues are consolidated at the end of each month then distributed to each ship owner based on pool points assigned to each vessel. Pool points are a ranking system applied to the vessels and vary according to the respective vessels' cargo capacity, speed and fuel consumption.

Vessel participation in pools allows ship owners to achieve cost savings by centralizing commercial management of the vessels. A high level of service is extended to customers as the pools typically operate high quality ships with reliable scheduling and up-to-date market information. Economies of scale are achieved by operating a larger fleet which can be operated flexibly to offer reliable scheduling and reduce vessel waiting days. Vessel schedule optimisation in the pool improves utilization percentages by minimizing the ballast legs of voyages through greater triangulation.

There are currently three major VLCC commercial shipping pools: VLCC Chartering, Navig8, and SeaWolf. Over the course of 2014G, the Nova pool ceased operations while the Unique pool commercially manages vessels for one owner – General Maritime.

In October 2014G, TI formed VLCC Chartering LTD., a joint venture with Norway-based Frontline, which along with its associated companies committed a fleet of around 25 VLCCs to the already existing TI pool of approximately 42 vessels.

Navig8 launched its VL8 VLCC pool in March 2010G with three tankers from both John Fredriksen's VTN Shipping and Oman Shipping. Since then, Oman Shipping has increased its contribution to 15 VLCCs. Commercial management of the VL8 pool will be conducted out of Singapore, London, Geneva and Connecticut, while operations will be handled out of Singapore and London. The marketing will also take place in Muscat.

Heidmar's newest shipping pool is its SeaWolf VLCC pool. It was established in 2010G and focuses on triangulation of voyages between the Atlantic and Pacific Ocean. Partners in the pool are: Grand China Logistics, Heidmar, Hainan, TMS Tankers, and U-Ming. The company has recorded earnings that are consistently higher than the spot market, with operational efficiency and transparency provided through industry leading IT software. Seawolf Tankers Inc. is managed by Heidmar Inc. with offices in the United States, England, and Singapore, as general agents.

The table below illustrates the number of VLCCs by owner participating in commercial shipping pools. The 99 pool participating VLCCs represents about 16 per cent of the trading VLCC fleet.

## VLCC Vessels Trading in Commercial Shipping Pools

### Pool Operators

#### Vessel Owners

VLCC Chartering Vessel Owners	Vessel Count	Average Age
	<b>70</b>	<b>11</b>
AP Moller	1	4
China Shipping Development*	1	6
Dr Peters GmbH & Co KG	2	15
Essar	2	12
Euronav	23	7
Genmar*	1	14
Frontline	3	12
Frontline 2012 Ltd	4	6
Independent Tankers Corp Ltd	1	15
Knightsbridge Tankers Ltd	1	20
Mercator	1	9
Nathalin	1	18
Nissen Kaiun*	1	5
Oak Maritime Canada Inc	2	4
Orient Enterprise Ltd	1	19
OSG	8	11
Salamon AG	1	18
Ship Finance International Ltd	12	14
Sincere Navigation Corp	1	10
Sinochem International Corp	1	4
Wah Kwong	1	8
Yinson Holdings Bhd	1	17

\* Operated by Trafigura

Navig8 Vessel Owners	Vessel Count	Average Age
	<b>21</b>	<b>6</b>
Daewoo Shipbuilding & Marine	2	4
Eletson Corporation	1	13
Frontline	1	6
Navios	2	5
Oman Ship	15	4

SeaWolf Vessel Owners	Vessel Count	Average Age
	<b>8</b>	<b>10</b>
Grand China Logistics Group	2	16
Hainan Group	1	1
TMS Tankers Ltd	4	11
U-Ming	1	11

Source: McQuilling

In times past, many oil companies owned or bareboat-chartered vessels (their "**proprietary fleet**"), then period chartered additional vessels to cover a portion of their marine transportation requirements. The combination of their proprietary fleet and these period chartered vessels was referred to as their "controlled fleet" because the companies had control over the deployment and scheduling of the vessels in this fleet. To cover the balance of their marine transport requirements, the oil companies spot chartered vessels from independent owners on single-voyage charters. From time-to-time, oil companies found that in certain periods, they had no cargoes to schedule on a vessel or vessels in their controlled fleet for a certain period of time. In these cases, they "relet" or "outchartered" these vessels to other oil companies but this was an exception rather than the rule. In this period, oil companies maintained large proprietary fleets covering 50 per cent or more of their maritime transportation requirements and commonly period chartered enough vessels to cover another 20-30 per cent of their requirement, leaving the remaining 20-30 per cent of their requirements to be covered on single-voyage spot charters.

Over the last few decades, oil companies have reduced their proprietary fleets drastically as capital was deployed elsewhere in these organizations. This has led to an increase of period chartering from independent ship owners. In recent times, 50 per cent coverage of marine transportation requirements, made up of a majority of period chartered vessels, is a representative guideline for the controlled fleets oil companies.

The emergence of commercial shipping pools and oil traders who also charter vessels blur the definition of a "controlled fleet". In addition to spot chartering vessels, oil traders may period charter large numbers of vessels from independent owners or even other oil traders (in the traditional sense, these vessels form the "controlled fleet" of these trading companies). However, in many cases these vessels are routinely chartered on spot voyages to other traders or oil companies, rather than held to cover the firm's own oil transportation requirements. Commercial shipping pools are responsible for the scheduling and deployment of vessels contributed to the pool from independent owners. In this sense, while the effective control of the vessels change from the head owner to the pool manager, the vessel is still controlled by an independent ship operator.

Against this evolving ownership, effective control and deployment of the fleet, last year (2014G), the following breakdown of the fleet was observed:

#### **VLCC Vessels – Controlled Fleet and Period Charter, 2014G**

	Oil Company			Independent Owner / Operator			VLCC Fleet
	Proprietary	Period Charter	Subtotal	Pool	Individual	Subtotal	Total
<b>No. Vessels</b>	134	144	278	99	254	353	631
<b>Per cent</b>	21%	23%	44%	16%	40%	56%	100%

**Source: McQuilling**

Forty four per cent of the fleet was engaged as controlled tonnage of the oil companies as either proprietary vessels or period chartered vessels. Fifty six per cent of the vessels in the global VLCC fleet were controlled by independent owners, acting individually or as part of a pooling arrangement. About thirty per cent of independently-controlled vessels are currently participating in pooling arrangements.

#### **Spot Market Overview**

**Spot Chartered Vessels** are arranged on a voyage-by-voyage basis. Charterers typically solicit owners of vessels for this business directly or using brokers as intermediaries as and when there is a shipping



requirement and are responsible for paying a freight payment to the owner in exchange for the owner loading, transporting and discharging the company's cargo from the load port(s) to the discharge port(s).

The table below illustrates the historical estimated earnings for vessel owners from one year and three year time charters as well as spot charters between 2000G and December 2014G:

**VLCC - Estimated Owners Time Charter Earnings for 1-Year, 3-Year Time Charters and Spot Charters at US \$/day**

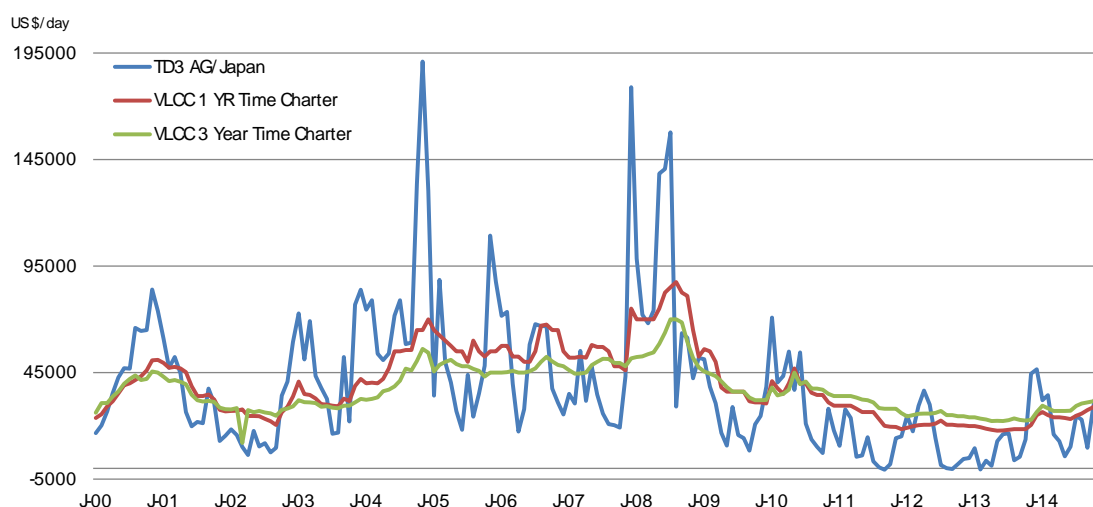
VLCC (320,000 DWT)			
Date	1-Year US\$/ day	3-Year US\$/ day	TD3 - Spot US\$/ day
2000	38,058	38,076	49,025
2001	38,713	35,250	32,526
2002	25,885	25,879	19,985
2003	33,915	30,210	47,424
2004	52,542	42,077	86,338
2005	56,875	47,150	50,147
2006	57,875	47,327	48,726
2007	54,375	48,358	43,945
2008	74,250	58,545	83,859
2009	38,917	37,478	24,729
2010	37,139	37,549	33,190
2011	23,989	30,222	10,254
2012	20,396	25,214	13,948
2013	19,315	23,225	14,217
<b>2014</b>			
Jan	26,500	29,500	32,068
Feb	25,000	28,250	34,382
Mar	24,000	27,000	16,037
Apr	24,000	27,000	12,849
May	23,750	27,000	5,748
Jun	23,200	27,100	10,266
Jul	24,750	29,375	24,698
Aug	25,750	30,500	22,844
Sep	27,400	31,000	9,699
Oct	28,750	31,500	28,610
Nov	31,500	33,000	41,571
Dec	33,700	33,700	69,309
<b>Average</b>	<b>26,525</b>	<b>29,577</b>	<b>25,673</b>

**Source: McQuilling**

In 2014G, spot market rate volatility was apparent. At the beginning of 2014G rates were supported by increased demand and seasonality. The firm earnings environment was pressured during the second and third quarters of 2014G as weakening global demand could not keep pace with tonnage supply. However, as crude prices plummeted in the latter half of the year, demand for crude, primarily from China supported a rise which has carried over into 2015G. Additionally, the floating storage economics prompted charterers to take VLCCs on period employment. McQuilling estimates

approximately 30 VLCCs have been taken on period employment since the beginning of 2015G which has tightened tonnage availability.

### VLCC Estimated Owners Earnings: 1-Year, and 3-Year Time Charter, Spot Market, US\$/day



**Source: McQuilling**

The figures for spot market rates in the figure above are displayed as a Time Charter Equivalent ("TCE") rate. TCE is the format for reporting revenues on a US \$/day basis and is found by dividing the result of voyage revenue less voyage costs by the number of round trip voyage days.

Towards the end of 2014G, spot rates and TCE earnings started to find support from a variety of factors. These ranged from China filling its strategic petroleum reserves to weather delays to a port **explosion**. In December 2014G, China imported about 7.3 million b/d of crude, the highest level on record, exceeding the previous high by 10 per cent. China's ability to import crude at lower prices may accelerate their stockpiling objectives helping to support rates throughout 2015G.

### Chemical Tanker Spot Market

#### Chemical Tanker Estimated Owners Earnings: MR2 IMO II and LR1 Easy Chemicals, US\$/day



**Source: McQuilling**

Persistent tonnage overhang especially for large tankers have led to weak freight sentiments, with most ship owners declaring operating losses. To date, the decline in bunker costs since their peak during the first half of 2014G has offered some relief to ship owners; however, general freight **has** hit

"rock-bottom" as advised by industry participants. Charterers are likely to still prefer the spot market as freight sentiments remain in a lull. Ship owners may occasionally swing into the clean petroleum product market as chemical cargo enquiries decline. Going forward, with the massive deliveries projected to enter the market, intense freight undercutting among the large chemical tankers is anticipated as well as heightened trade cannibalization between easy chemicals and clean petroleum products tankers.

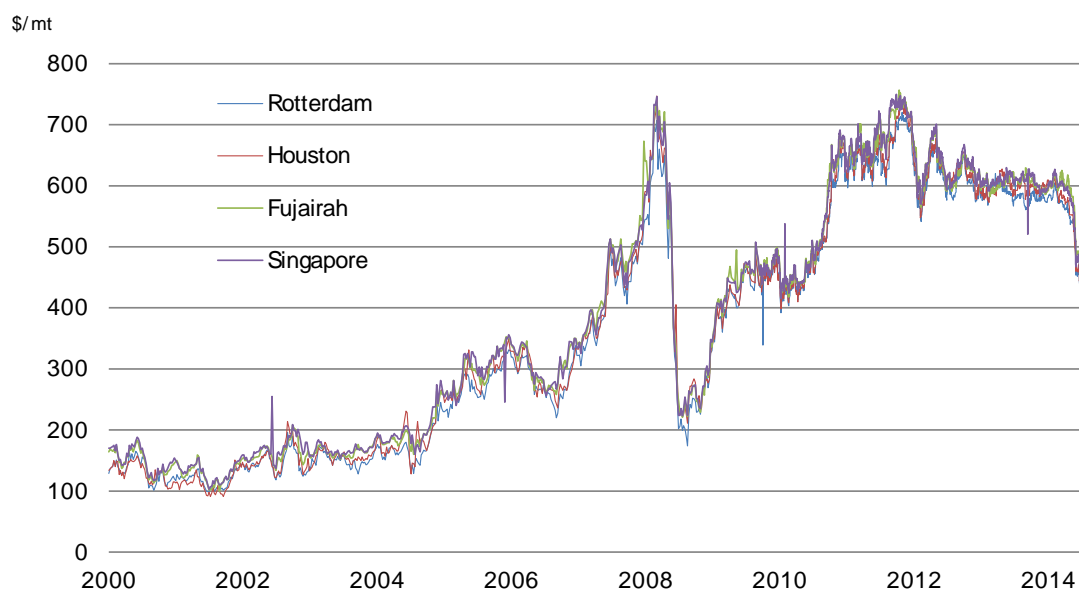
## Bunker Fuel Price

Recent international regulations require vessels to use bunker fuel with low sulfur content in order to minimise emissions, particularly in certain routes that deliver to the USA/Canada, the Baltic Sea and the English Channel. Low sulfur content bunker fuels tend to be more expensive than high sulfur bunker fuel. Consequently, vessels usually carry at least two types of bunker fuel: high sulfur and low sulfur. By far, the largest percentage of variable costs on spot voyage charters are port charges and bunker fuel costs. The ratio of bunker fuel costs to port charges is a function of the particular voyage. For long haul voyages, bunker fuel costs comprise the bulk of the variable costs, often exceeding 90 per cent in certain cases. This is particularly true during periods of high bunker fuel prices. Rising bunker fuel prices impacts the TCE rate. Brent is used as a global benchmark to forecast bunker prices as it is not subject to local issues that affect some other benchmarks.

In the second half of 2014G, an oversupply of global crude supply due to rising North American shale oil production led to a decline of over 55 per cent of the price of Brent. The impact on bunker prices was similar as by the end of 2014G, HSFO bunker prices were trending below US \$300/mt.

The table below illustrates the bunker fuel prices between 2000G and December 2014G:

### Historic Bunker Fuel Prices, US\$ per metric ton (HSFO 380-cst)



*Source: McQuilling/ World Fuel Services*

## Asset Markets

The VLCC tanker class started the year off in a positive fashion as market sentiment improved amid a firming earnings environment in the fourth quarter of 2013G. Newbuilding values climbed as high as US \$102.5 million in April 2014G; however, have retreated by US \$5.0 million since then. The current value (February 2015G) of a VLCC newbuilding is US \$97.0 million. Secondhand values also appreciated for most of the year with prices for 5-YR old VLCC tankers reaching a high of US \$75.9

million in September 2014G while their 10-YR old counterparts hitting a high of US \$48.5 million in August 2014G. The fourth quarter of 2014G saw prices pressured for the secondhand tankers with both 5-YR and 10-YR values easing by about US \$2.3 million from the previous quarter. Despite the softness in the market toward the end of the year, February 2015G values for these secondhand tankers represent approximately a 25 per cent and 21 per cent increase from the same month last year.

MR2 tankers (40,000 – 54,999 DWT) were the poorest performers in terms of their asset prices in 2014G reversing gains made the year before. Newbuilding values stayed at about US \$36 million for the year, hitting a peak of US \$38 million during the summer (June/July) while recording a low of US \$34.5 in October 2014G. Currently (February 2015G), the price for an MR2 newbuilding rests at US \$36.5 million, a slight increase of 1.4 per cent from the same period last year. While newbuilding values more or less remained at similar levels from the year before, the secondhand market experienced a downturn as TCE earnings levels remained below expectations. The 5-Year old MR2 lost about 11.6 per cent of its value between January 2014G and January 2015G and the 10-Year old experienced similar performance with a 10.3 per cent decline. Currently, (February 2015G), the 5-Year and 10-Year MR2 tankers are valued at US \$26.5 and US \$16.0 million.

### Current VLCC and MR Tanker Prices: Newbuilding and Secondhand

*February 2015G (US\$ mil)*

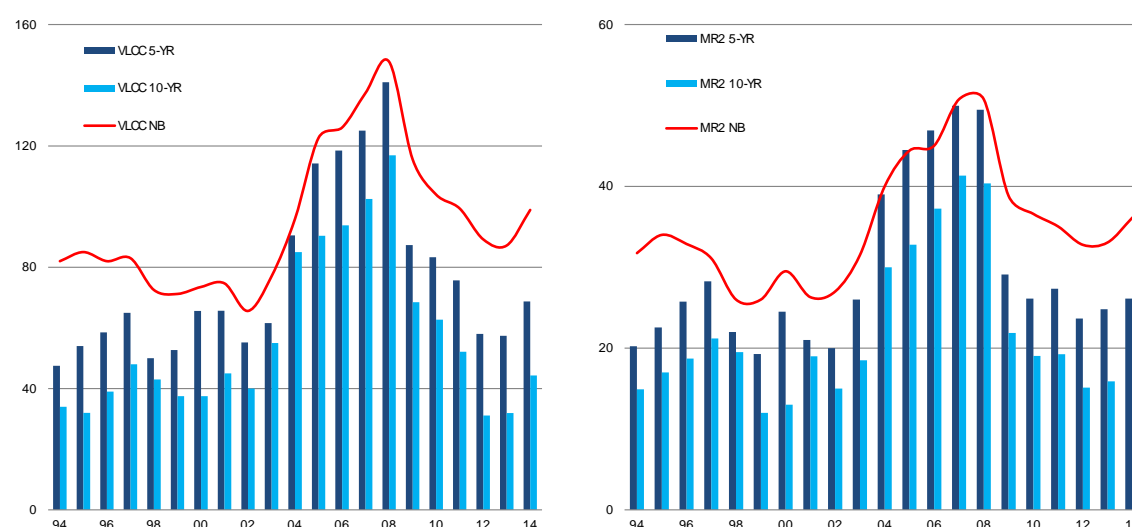
	VLCC	MR
N/B	97.0	36.5
5 YR	72.5	26.5
10 YR	47.5	16.0
SCRAP	17.4	4.2

*Source: McQuilling*

The chart below illustrates the historic VLCC and MR tanker prices for both newbuilds as well as secondhand vessels:

### VLCC and MR Tanker Prices: Newbuilding and Secondhand

*US \$ million*



**Source: McQuilling**

The past several years have significantly altered the financing landscape of the shipping industry. The year 2014G saw a decline in private equity capital investing in the shipping industry; however, alternative debt including "baby bonds" and other corporate debt increased their percentage. Looking ahead to 2015G, traditional debt financing will likely continue to represent less than 65 per cent of total capital committed to the industry, with market share being absorbed by export-import institutions located primarily in the Asian region. Private equity is likely to focus on consolidation opportunities in the tanker markets as growth capital has been committed in years past.

### **Allocation of Capital to Shipping Market**

**2007-2014G**

Year	Value of Shipping Deals (US \$ mil)	Public Equity (per cent)	Private Equity (per cent)	Bank Debt (per cent)	Other Debt (per cent)
2007G	179,895	18	0	68	14
2008G	113,910	6	1	84	9
2009G	48,421	12	1	70	17
2010G	83,042	12	1	70	17
2011G	94,071	17	5	57	21
2012G	74,116	6	4	57	33
2013G	94,826	12	8	63	17
2014G*	70,247	10	5	63	22

**Source: Marine Money, McQuilling Services**

**\*2014G includes data up to December 1st**

**Source: Marine Money**

### **Current Industry Trends**

Emission Control Areas - In 2008G, the International Maritime Organization agreed to new regulations aimed at reducing emissions from the shipping industry through a gradual series of steps (Figure 6-10). On January 1, 2012G the global sulfur limit was reduced to 3.5 per cent from 4.5 per cent. In August 2012G, the US and Canadian waters became an Emission Control Area (ECA), joining the previously established Baltic Sea and English Channel. Beginning this year, sulfur content is limited to 0.1 per cent in ECA zones.

### **IMO Annex VI Planned Cut-Off Dates**

	Base	2012G	2015G	2020G*
Open Ocean Sulfur Content (per cent)	4.5	3.5	3.5	0.5
Open Ocean Fuel Type	IFO	IFO	IFO	MDO
Emission Control Area Sulfur Content (per cent)	1.0	1.0	0.1	0.1

	Base	2012G	2015G	2020G*
Emission Control Area Fuel Type	MDO	MDO	MGO	MGO
* Subject to 2018G review – Could be delayed until 2025G				

**Source: IMO**

The 2015G International Maritime Organization (IMO) Emission Control Areas (ECA) regulations, which mandate vessels to switch to low sulfur fuels within designated waters in the EU and North America, went into effect on January 1, 2015G. The regulation caps the sulfur content of bunker fuel used within the designated ECA zones at 0.1 per cent, a reduction from the 1.0 per cent sulfur content fuels allowed prior to the implementation of the new guidelines. Three strategies that have been adopted by ship operators in order to comply with these regulations are: switching to low sulfur fuels while motoring within ECA zones; using exhaust cleaning systems to remove sulfur dioxide from emissions; and, retrofitting vessels with liquefied natural gas (LNG) propulsion systems.

**Switching to Low Sulfur Distillates** - Switching from Heavy Fuel Oil (HFO) to low sulfur fuels, like Marine Gas Oil (MGO), enables ship operators to comply with the 2015G ECA laws without purchasing additional cleaning equipment or swapping out propulsion systems.

**Exhaust Scrubbers** - Some operators have opted to use exhaust gas cleaning systems, commonly referred to as scrubbers. By using scrubbers, operators can continue to burn HFO and still comply with low sulfur regulations since the scrubbers remove upwards of 98 per cent of sulfur dioxide from vessel emissions.

**Switching to LNG** - The third commonly considered ECA compliance option for ship operators is to switch propulsion systems to burn LNG. LNG powered vessels are relatively new to the maritime industry so the fuel supply infrastructure is not well developed. The 2015G ECA regulations also stipulate that by 2025G, low sulfur fuels will be mandatory for transit outside the ECA zones. The future regulation will mandate a reduction in fuel sulfur content from 3.5 per cent to 0.5 per cent for vessels transiting open seas, leading ship owners to consider longer-term strategies.

**Fixed Rate Differentials – ECA Zones** - In 2015G, the Worldscale Association has added a fixed rate differential to be included as an additional revenue item for vessels transiting ECA zones and burning MDO/MGO fuels. For vessels transiting the North American ECA zones, the Worldscale association calculates additional revenue on charterer's account of US \$65.31 per mile while if transiting in the Baltic and North Sea ECA zones, the additional revenue is calculated by using US \$48.35 per mile. These fixed rate differential items are incorporated into TCE calculations for the five-year forecast.

## 7. OVERVIEW OF THE COMPANY AND ITS GROUP

### 7.1 *Historical Background*

The National Shipping Company of Saudi Arabia ("**Bahri**" or the "**Company**") was established in 1978G by Royal Decree No. M/5 dated 12/02/1398H (corresponding to 22/01/1978G) as a Saudi Arabian joint stock company and registered under commercial registration number 1010026026. The Company's registered office is at Bahri Building #569, Sitteen Street, Malaz Area, P.O. Box 8931, Riyadh 11492, KSA. In 1981G, the Company commenced shipping operations in general cargo with a fleet of two multi-purpose vessels, increasing its fleet to four vessels in 1983G.

In 1985G, the Company expanded into the chemical transportation sector through the purchase of one chemical tanker. The Company subsequently formed Arabian Chemical Carriers, a 50:50 joint venture company with United Arab Shipping Company. Arabian Chemical Carriers acquired one chemical tanker, which was time-chartered to Saudi Basic Industries Corporation ("**SABIC**"). In 1990G, the Company and SABIC established National Chemical Carriers ("**NCC**") as an 80:20 joint venture company to specialise in purchasing, chartering and operating specialised tankers to transport chemical products (for further details, see Section 7.8.3, "*National Chemical Carriers NCC*"). In 2007G, the Company sold its 50 per cent. stake in Arabian Chemical Carriers to United Arab Shipping Company for SAR 23.4 million, thereby streamlining the operations of the Company in the chemical products transportation sector.

In 1991G, the Company incorporated NSCSA (America) Inc. to act as a general agent of the Company. NSCSA (America) Inc. arranges the transportation of container, break-bulk and RoRo cargos to and from North America on the Company's general cargo vessels. In addition, NSCSA (America) Inc. manages the Company's various liner service functions in North America (for further details, see Section 7.8.1, "*NSCSA (America) Inc.*").

In 1992G, the Company decided to expand its business into the transportation of crude oil and placed orders for five VLCCs. These five VLCCs entered into service between 1996G and 1997G. In 2001G, the Company acquired four additional VLCCs, thereby expanding its fleet of VLCCs to nine vessels. Through subsequent vessel acquisitions and following completion of the Vela Transaction (described below), the Company's fleet of VLCCs grew to reach 31 vessels as at 31 December 2014G.

During the same year, the Company rented a container service yard at Jeddah Islamic Port (the "**Container Service Yard**"). The Container Service Yard provides additional storage facilities to the Company's customers (for further details, see Section 7.7.3, "*General Cargo*").

The table below sets out the details of Vela Vessel acquisitions made pursuant to the Vela Transaction:

Table 7.1: Details of the Vela Vessel acquisitions

Date transferred	Vessel Number	Name of Vela Vessel	Class of vessel	Consideration
21 July 2014G	1	Matar Star, subsequently changed to Nisalah	VLCC	17,071,349 shares of the consideration shares of SAR 379,837,500
7 August 2014G	2	Capricorn Star, subsequently changed to Lulu	VLCC	8,745,506 shares of the consideration shares of SAR 194,587,500

<b>Date transferred</b>	<b>Vessel Number</b>	<b>Name of Vela Vessel</b>	<b>Class of vessel</b>	<b>Consideration</b>
11 August 2014G	3	Almizan Star, subsequently changed to Khuzama	VLCC	14,548,315 shares of the consideration shares of SAR 323,700,000
14 August 2014G	4	Virgo Star, subsequently changed to Ghinah	VLCC	17,071,349 shares of the consideration shares of SAR 379,837,500
21 August 2014G	5	Antares Star, subsequently changed to Niban	VLCC	17,071,349 shares of the consideration shares of SAR 379,837,500
8 September 2014G	6	Pisces Star, subsequently changed to Hilwah	VLCC	4,242,133 shares of the consideration shares of SAR 94,387,500  Cash consideration of SAR 81,675,000 (equivalent to U.S.\$ 21,780,000)
15 September 2014G	7	Sirius Star, subsequently changed to Manifah	VLCC	Cash consideration of SAR 323,700,000 (equivalent to U.S.\$ 86,320,000)
18 September 2014G	8	Leo Star, subsequently changed to Tinat	VLCC	Cash consideration of SAR 171,412,500 (equivalent to U.S.\$ 45,710,000)
22 September 2014G	9	Aries Star, subsequently changed to Shiblah	VLCC	Cash consideration of SAR 194,587,500 (equivalent to U.S.\$ 51,890,000)
2 October 2014G	10	Vega Star, subsequently changed to Shaybah	VLCC	Cash consideration of SAR 323,700,000 (equivalent to U.S.\$ 86,320,000)
8 October 2014G	11	Saiph Star, subsequently changed to Karan	VLCC	Cash consideration of SAR 344,550,000 (equivalent to U.S.\$ 91,880,000)
13 October 2014G	12	Homam Star, subsequently changed to Farha	VLCC	Cash consideration of SAR 379,837,500 (equivalent to U.S.\$ 101,290,000)



Date transferred	Vessel Number	Name of Vela Vessel	Class of vessel	Consideration
23 October 2014G	13	Alnasl Star, subsequently changed to Bahri Jasmine	Product Tanker	Cash consideration of SAR 108,262,500 (equivalent to U.S.\$ 28,870,000)
29 October 2014G	14	Janah Star, subsequently changed to Jaladi	VLCC	Cash consideration of SAR 335,287,500 (equivalent to U.S.\$ 89,410,000)
13 November 2014G	15	Albutain Star, subsequently changed to Jaham	VLCC	Cash consideration of SAR 323,700,000 (equivalent to U.S.\$ 86,320,000)
18 November 2014G	16	Zaurak Star, subsequently changed to Bahri Tulip	Product Tanker	Cash consideration of SAR 114,637,500 (equivalent to U.S.\$ 30,570,000)
27 November 2014G	17	Altair Star, subsequently changed to Bahri Iris	Product Tanker	Cash consideration of SAR 108,262,500 (equivalent to U.S.\$ 28,870,000)
1 December 2014G	18	Altarf Star, subsequently changed to Bahri Rose	Product Tanker	Cash consideration of SAR 114,637,500 (equivalent to U.S.\$ 30,570,000)
8 December 2014G	19	Alphard Star, subsequently changed to Faridah	Floating storage hull VLCC	Cash consideration of SAR 97,875,000 (equivalent to U.S.\$ 26,100,000)
15 December 2014G	20	Aldebaran Star, subsequently changed to Khafji	Product Tanker	Cash consideration of SAR 100,687,500 (equivalent to U.S.\$ 26,850,000)

In 1996G, the Company incorporated Mideast Ship Management Ltd. ("**Mideast**") as a joint venture equally between the Company and Acomarit, a ship management company based in Scotland. Mideast was incorporated to provide management services to the Company and other members of the Bahri Group in order to improve the Bahri Group's operational efficiencies. In 2005G, the Company acquired the shares in Mideast held by Acomarit, thereby becoming Mideast's sole shareholder. Since its incorporation, Mideast has grown its management services from the management of nine vessels to the management of 69 vessels as at 31 December 2014G. Mideast manages a mixture of chemical carriers, VLCC's, RoCon's and Dry Bulk vessels (for further details, see Section 7.8.2, "*Mideast Ship Management Limited*").

In 2005G, the Company acquired a 30.3 per cent. shareholding in Petredec Limited ("**Petredec**"), a company specialising in the trading and transporting of LPG. This acquisition marked the Company's entry into the LPG transportation segment (for further details, see Section 7.8.5, "*Petredec*").

In September 2010G, the Company and Arabian Agricultural Services Company ("**ARASCO**") established Bahri Dry Bulk as a joint venture whereby 60 per cent is owned by the Company and 40 per cent is owned by ARASCO, to specialise in transporting dry bulk cargo. Bahri Dry Bulk commenced operations in 2012G (for further details, see Section 7.8.4, "*Bahri Dry Bulk*").

On 4 November 2012G, the Company and Vela International Marine Limited ("**Vela**"), a wholly-owned subsidiary of the Saudi Arabian Oil Company ("**Saudi Aramco**"), entered into a business and asset purchase agreement (the "**BAPA**") relating to the merger of Vela's entire fleet of vessels (comprising 14 double-hull VLCCs, a single-hull floating storage VLCC, and five product tankers (together, the "**Vela Vessels**"), along with certain assets relating to such Vela Vessels including vessel IT systems, historical equipment and maintenance data and certain books and records (together with the Vela Vessels, the "**Vela Assets**") and operations related to these vessels with the Company, as well as the entry by the Company into a contract of affreightment (the "**Contract of Affreightment**") and a time charter agreement (the "**Time Charter Agreement**", together with the Contract of Affreightment, the "**Shipping Agreements**") with certain subsidiaries of Saudi Aramco (together with Saudi Aramco, the "**Saudi Aramco Group**") (the "**Vela Transaction**"). Under the terms of the Vela Transaction, the Company gained exclusivity in relation to the carriage of all VLCC-sized Crude Oil cargoes sold on a delivered basis by members of the Saudi Aramco Group which are shipped from certain locations that Saudi Aramco uses to ship crude oil in accordance with the terms of the Contract of Affreightment.

Under the terms of the Vela Transaction, the Company paid a total consideration of an amount equal to SAR 4,875,000,000 (equivalent to U.S.\$1,300,000,000) to Vela. This consideration was satisfied by the Company: (i) issuing 78,750,000 new shares, representing 20 per cent. of the issued share capital of the Company (the "**Consideration Shares**") at an agreed price of SAR 22.25 per new share to Saudi Aramco Development Company ("**SADC**"), a wholly-owned subsidiary of Saudi Aramco, with an aggregate value equal to SAR 1,752,187,500 (equivalent to U.S.\$467,250,000); and (ii) making a cash payment to Vela of an amount equal to SAR 3,122,812,500 (equivalent to U.S.\$832,750,000) (the "**Cash Consideration**").

On 15 September 2014G, following the transfer of the sixth Vela Vessel, Hilwah, the Company issued and registered the Consideration Shares in the name of SADC.

In addition to the entry into the Vela Transaction, the following table illustrates certain other key milestones in the Company's history:

Table 7.2: The important stages in the Company's history

Name	Milestone
1979G	Establishment of the company whereas the commencement of the actual operations began in 1981G in the general cargo segment
1985G	Expansion into the chemical transportation sector through the acquisition of two chemical tankers
1990G	Entry into the chemicals transportation segment through the establishment of NCC
1991G	Establishment of NSCSA (America) Inc.
1996G	Commencement of operations in the crude oil transportation segment
1996G	Establishment of Mideast
2004-2006G	Formalisation of the crude oil shipping business and acquisition of eight new VLCCs
2005G	Entry into the LPG segment through the acquisition of a 30.3% interest in Petredec
2010G	Entry into the dry bulk segment through the establishment of Bahri Dry Bulk
2013G	Signed a memorandum of understanding with Saudi Aramco to conduct a feasibility study for a potential world-class maritime yard in the Kingdom

Name	Milestone
2014G	Completion of acquisition of Vela Assets

Source: Company

In the 12 month period preceding the date of this Prospectus, there has been no interruption in the business of the Company or any member of the Bahri Group, which may have, or has had a significant effect on the Company's financial position.

As at the date of this Prospectus, no material change in the nature of the business of the Company is contemplated.

As at the date of this Prospectus, the Company and its subsidiaries do not have a policy in respect of the research and development of new products or services.

## **7.2 *Share Capital Evolution of the Company***

On incorporation, the authorised, issued and paid up share capital of the Company was SAR 500,000,000, consisting of 5,000,000 shares with a nominal value of SAR 100 per share.

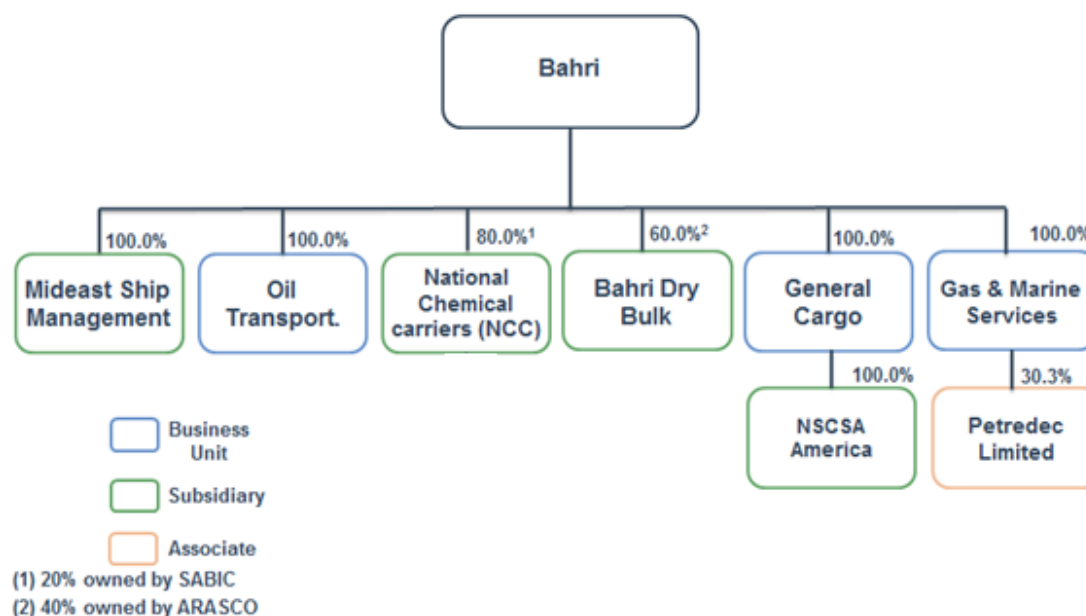
Pursuant to the resolution of the Extraordinary General Assembly held:

- on 10/08/1402H (corresponding to 02/06/1982G), the authorised, issued and paid up share capital of the Company was increased to SAR 2,000,000,000, consisting of 20,000,000 shares with a nominal value of SAR 100 per share;
- on 29/01/1419H (corresponding to 25/05/1998G), the authorised, issued and paid up share capital of the Company was divided into 40,000,000 shares to reduce the nominal value from SAR 100 per share to SAR 50 per share;
- pursuant to Resolution No. 40 of the Council of Ministers dated 27/02/1427H (corresponding to 27/03/2006G), the nominal value per share was reduced from SAR 50 per share to SAR 10 per share and accordingly the number of authorised, issued and paid up shares in the Company increased from 40,000,000 shares with the value of SAR 50 per share to 200,000,000 shares with the value of SAR 10 per share;
- on 12/03/1427H (corresponding to 10/04/2006G), the authorised, issued and paid up share capital of the Company was increased through the capitalisation of SAR 250,000,000 retained earnings to SAR 2,250,000,000, consisting of 225,000,000 shares with a nominal value of SAR 10 per share;
- on 04/11/1427H (corresponding to 25/11/2006G), the authorised, issued and paid up share capital of the Company was increased through a rights issue to SAR 3,150,000,000, consisting of 315,000,000 Shares with a nominal value of SAR 10 per share;
- on 21/08/1435H (corresponding to 19/06/2014G), in connection with the Vela Transaction, the authorised, issued and paid up share capital of the Company was increased to SAR 3,937,500,000, consisting of 393,750,000 Shares with a nominal value of SAR 10 per share.

### 7.3 *Bahri Group Structure*

The following chart sets out the structure of the Bahri Group as at the date of this Prospectus:

**Chart 7.1: Bahri Group Structure**



Source: Company

### 7.4 *Mission and Strategy*

#### 7.4.1 *Mission and values*

The Company's mission is to connect economies through providing excellence in global logistics services, thereby facilitating the sharing of prosperity across the world. The Company is committed to its corporate values of being "Driven", "Relentless", "Transparent" and "Considered". By consistently focusing on these values and responsible business fundamentals, the Company believes that it can become a leading service provider which applies the principles of best corporate practices to run a world-class fleet, whilst building mutually beneficial relationships with all of its stakeholders.

#### 7.4.2 *Strategy*

On 17/12/1426H (corresponding to 19/12/2005G), the Board approved the Company's first five-year strategic plan, the principal objective of which was to expand the Company's operations in the oil and chemical transportation sectors through the acquisition of new vessels. In 2008G, the Company put in place a more comprehensive five-year plan to enhance the Company's expansion strategy. This strategic plan was adopted by a Board resolution on 4/11/1429H (corresponding to 2/11/2008G) and sought to affirm and consolidate the Company's strong financial and operational position, with a view to enhancing its competitive edge in the global markets. Since the adoption of this plan, the Company's strategy has been to expand the business through the expansion of the fleet, optimise its use of resources, diversify its investments, effectively monitor the markets, reduce operating costs and adopt international processes of implementation. As at the date of this Prospectus, the Company is in the process of developing and implementing a new five year strategic plan.

The most recent five-year strategic plan that expired in 2013G consisted of the following components:

- expansion of the crude oil vessels fleet of the Company;
- operation of crude oil vessels in an optimal manner in the spot market and through time-charter contracts;
- exploration of markets for optimal operation of NCC's fleet;
- expansion of the general cargo operations to support the national economy of Saudi Arabia;
- improvement of operational management in each of the Bahri Group's business segments; and
- the exploration of investment opportunities for potential expansion.

## **7.5 Achievements**

The Company considers that its most significant achievements during the five years immediately prior to the date of this Prospectus are:

- the successful implementation of the Company's strategy through expanding its VLCC, chemical and general cargo fleet and related commercial operations;
- the successful completion of the Vela Transaction and the acquisition of the Vela Vessels;
- the collaboration with Saudi Aramco in dry bulk, chemicals and other areas through the Vela Transaction;
- continued diversification of its services, including the establishment of Bahri Dry Bulk and the commencement of its operations (for further information, see Section 7.8.4 "*Bahri Dry Bulk*");
- successful recruitment and retention of Saudi nationals across its operations, including IT, HR, finance, logistics, ship management and strategic operations (for further information see Section 8.7 "*Employees and Saudization*");
- award of the ISO 9001:2008 certification for conforming to established management systems in the Company's offices in the Middle East (for further information see Section 7.8 "*Overview of the Bahri Group Companies*");
- implementation of the customer care center to provide online service information to customers, including voyage schedules, cargo tracking, real-time vessel location and expected port arrival and departure times;
- winning the BMG Financial Group's Transparency Award in 2010G, which recognises publicly-listed companies that excel at publishing financial statements and disclosing company activities accurately and in a timely manner;
- being selected as one of the top 50 companies in the Arab world to embody the standard of social environmental index and governance in December 2011G. This index has been developed by the Hawkamah Institute of Corporate Governance, Dubai in cooperation with Standard & Poor's (a global financial services company);
- successful re-branding of the Company as "Bahri" in 2012G to symbolise the culmination of more than thirty years of operations and to reflect the Company's position as one of the leading maritime transportation companies in the world with a keen understanding of diverse client needs in many markets;

- being awarded the Euromoney 2012G award for the best managed transport and shipping company in the Middle East;
- being recognised as one of the top companies in the Arab region by Forbes Middle East in 2013G; and
- being awarded the "Seatrade 2013G Global Perform Award" on 10 May 2013G in recognition of the Company's high standards of success in 2012G and to recognize the excellent achievements of the Company in the global maritime industry.

## **7.6 *New Initiatives and Plans***

The Company continuously looks to improve the quality of its proposition. This is achieved by maintaining a modern fleet, providing regular training to its employees, developing the services provided to its customers and enhancing the Company's systems and procedures. In 2015G, the Company expects to implement the following initiatives and plans:

- supporting the Kingdom's growing petroleum, chemical and manufacturing industries and providing greater security in marine transportation for the Kingdom; and
- continued roll-out of the IT upgrade (as described in Section 7.9.5, "*Deployment of Information Technology*").

In addition, in 2013G, the Company signed a memorandum of understanding with Saudi Aramco and Singapore's Sembcorp Marine to conduct a feasibility study for a potential world-class maritime yard project in the Kingdom. On 24 November 2014G, this memorandum of understanding was extended to be valid until 29 October 2015G. Within the Company this project would, if the Company's participation is approved by the Company's board of directors, be managed by the Gas & Offshore unit.

## **7.7 *Overview of the Bahri Group's Business Activities***

The principal business activities of the Bahri Group are divided into the following six categories:

Crude oil transportation, gas & offshore services, chemicals transportation, dry bulk transportation, general cargo transportation and ship management. Of these activities, the chemicals operation is run through NCC, the ship management operations are run through Mideast and the dry bulk operations are run through Bahri Dry Bulk, each of which are subsidiaries of the Company. The oil transportation and gas & offshore operations as well as the general cargo operations are run by the Company through branch arrangements. NSCSA (America) Inc., a subsidiary of the Company, also runs general cargo operations. As at the date of this Prospectus, there are no important new products or activities provided by the company or its subsidiaries.

The principal business activities of the Company are further described below and in Section 7.8 "*Overview of Bahri Group Companies*":

### **7.7.1 *Crude Oil Transportation***

In 1992G, the Company entered the crude oil transportation segment through the ordering of five VLCCs, which entered into service between 1996G and 1997G. In 2001G, the Company acquired four additional VLCCs, bringing the VLCC fleet of the Company to nine vessels.

In 2005G, the Company formalised its crude oil transportation business through the opening of a branch office in Dubai, UAE called Bahri Oil & Gas, with commercial licence number JLT-65807 ("**Bahri Oil & Gas**"). Bahri Oil & Gas was setup as a base to operate the Company's crude oil transportation business, which sought to leverage Dubai's position as an international hub in the crude oil transportation market. In 2014G Bahri Oil & Gas was

divided into two separate segments: Bahri Oil Transportation and Bahri for Gas & Offshore services.

In 2004G and 2006G, the Company placed orders for eight new VLCCs which were delivered between 2007G and 2009G. The Company's VLCC business has steadily grown to become the Company's largest business segment by reference to assets and operating revenue. Following the completion of the Vela Transaction, the Company's VLCC fleet grew to 31 vessels, which is the third largest fleet of VLCCs globally as at the date of this Prospectus.

Each of the Company's VLCCs has a capacity of at least 2.2 million barrels and a dead weight tonnage of 300,000 tons. The VLCC fleet usually operates on both short and long period time charters and in the spot market. Since 2011G, due to the poor spot market rates and the consequential impact on time charter rates, the Company has refrained from entering into medium or long-term time charter contracts at low rates. The Company's VLCC fleet comprises of the following:

Table 7.3: The VLCC owned by the company

	<b>Name</b>	<b>DWT(MT)</b>	<b>Built</b>	<b>Type</b>	<b>Flag</b>
1	Ramlah.....	300,361	1996G	Double-Hull	Bahamas
2	Ghawar .....	300,361	1996G	Double-Hull	Bahamas
3	Watban.....	300,361	1996G	Double-Hull	Bahamas
4	Hawtah.....	300,361	1996G	Double-Hull	Bahamas
5	Safaniyah .....	300,361	1997G	Double-Hull	Bahamas
6	Harad .....	302,700	2001G	Double-Hull	Bahamas
7	Marjan.....	302,977	2002G	Double-Hull	Bahamas
8	Safwa .....	302,977	2002G	Double-Hull	Bahamas
9	Abqaiq .....	302,977	2002G	Double-Hull	Bahamas
10	Hilwah .....	316,808	2002G	Double-Hull	Liberia
11	Tinat.....	316,502	2002G	Double-Hull	Liberia
12	Lulu .....	316,507	2003G	Double-Hull	Liberia
13	Shiblah.....	316,476	2003G	Double-Hull	Liberia
14	Wafrah .....	317,788	2007G	Double-Hull	Bahamas
15	Layla .....	317,821	2007G	Double-Hull	Bahamas
16	Jana .....	317,693	2008G	Double-Hull	Bahamas
17	Habari .....	317,664	2008G	Double-Hull	Bahamas
18	Khuzama.....	319,428	2008G	Double-Hull	Liberia
19	Manifah.....	319,428	2008G	Double-Hull	Liberia
20	Jaladi.....	319,428	2008G	Double-Hull	Liberia
21	Jaham.....	319,428	2008G	Double-Hull	Liberia
22	Shaybah .....	319,428	2008G	Double-Hull	Liberia
23	Karan .....	319,410	2009G	Double-Hull	Liberia
24	Kahla.....	317,361	2009G	Double-Hull	Bahamas
25	Dorra.....	317,693	2009G	Double-Hull	Bahamas
26	Ghazal.....	317,693	2009G	Double-Hull	Saudi Arabia
27	Sahba .....	317,693	2009G	Double-Hull	Bahamas
28	Nisalah.....	319,141	2010G	Double-Hull	Liberia
29	Ghinah .....	319,141	2010G	Double-Hull	Liberia
30	Niban .....	319,286	2010G	Double-Hull	Liberia

	<u>Name</u>	<u>DWT(MT)</u>	<u>Built</u>	<u>Type</u>	<u>Flag</u>
31	Farha .....	319,286	2010G	Double-Hull	Liberia

Source: Company

7.4 The breakdown of voyages performed by the Company's VLCCs for the years 2010G, 2011G, 2012G, 2013G and 2014G, based on the main routes of operation of the Company, is set out below.

<u>Route</u>	<u>2010G</u>	<u>2011G</u>	<u>2012G</u>	<u>2013G</u>	<u>2014G</u>
Arabian Gulf / Far East .....	44 Per cent.	45 Per cent.	23 Per cent.	1 Per cent.	1 Per cent.
Arabian Gulf / United States of America.....	25 Per cent.	30 Per cent.	41 Per cent.	48 Per cent.	35 Per cent.
West Atlantic / Far East.....	31 Per cent.	25 Per cent.	36 Per cent.	51 Per cent.	28 Per cent.
Arabian Gulf / Red Sea .....	0 Per cent.	0 Per cent.	0 Per cent.	0 Per cent.	7 Per cent.
Red Sea .....	0 Per cent.	0 Per cent.	0 Per cent.	0 Per cent.	23 Per cent.
Other .....	0 Per cent.	0 Per cent.	0 Per cent.	0 Per cent.	6 Per cent.
<b>Total .....</b>	<b>100 Per cent.</b>	<b>100 Per cent.</b>	<b>100 Per cent.</b>	<b>100 Per cent.</b>	<b>100 Per cent.</b>

Source: Company

When required to fulfil the needs of its customers, from time to time, the Company also charters vessels on a voyage by voyage basis.

#### 7.7.2 Gas & Offshore

The gas & offshore segment was established in 2014G and managed through Bahri Gas & Offshore in order to allow the Oil Transportation segment to focus solely on the Company's oil transportation business, which expanded as a result of the Vela Transaction.

The Gas & Offshore segment focuses on exploring the available investment opportunities in the offshore sector, in line with the Company's overall strategic plan for expansion and business diversification. In addition to the offshore sector, the segment also manages the Company's gas business and its investment in Petredec (for further information, see Section 7.8.5 "Petredec"). Gas & Offshore is managed through the Company's Dubai branch, Bahri Oil & Gas.

#### 7.7.3 General Cargo

The Company was established in 1979G and its actual operations commenced in 1981G in general cargo. As at the date of this Prospectus, the Company operates its general cargo services across an extensive geographical area, covering the Middle East, the Indian sub-continent, the east coast of North America and the Mediterranean.

The general cargo fleet also operates a liner service for the carriage of both general cargoes and passengers from the east coast of the USA and Canada to the Indian sub-continent. This service passes through Livorno Port in Italy, Jeddah Islamic Port on the Red Sea, King Abdul Aziz Port in Dammam and Jebel Ali Port on the Arabian Gulf coast, along its route to the Indian sub-continent.

Following the Company's incorporation, the cargo operations were rapidly expanded in Saudi Arabia through the opening of branch offices in Jeddah (in 1982G), Dammam (in 1983G) and Jubail (in 1984G). These branch offices allowed the Company to increase the scale and network of its general cargo operations. In 2000G, the Company opened a liaison office in Mumbai, India, to expand its presence in the Indian sub-continent.



The Company's general cargo fleet initially comprised of two multi-purpose RoRo, which was increased to four vessels in 1983G. These RoRo vessels carried containers, break bulk and RoRo cargoes. In 2013G and 2014G, the Company expanded its business in this segment by taking delivery of six new RoCon vessels, which have better capacity utilisation and lower fuel consumption than the Company's RoRo vessels. The six new RoCon vessels were delivered to the Company on 24/3/1434H (corresponding to 5/2/2013G), 20/6/1434H (corresponding to 30/4/2013G), 15/9/1434H (corresponding to 23/7/2013G), 24/12/1434H (corresponding to 29/10/2013G), 8/3/1435H (corresponding to 9/1/2014G) and 28/6/1435H (corresponding to 28/4/2014G).

The Company's original fleet of four multi-purpose RoRo vessels were disposed of in 2013G, as the RoCon vessels were delivered.

As part of the Company's strategy of expanding its general cargo operations and extending its customer base, the Company was successful in being awarded a three year contract by the Ministry of Defence in the Kingdom. Pursuant to this contract, which was dated 13/10/1432H (corresponding to 11/9/2011G) and had a value of SAR 230,000,000, the Company was appointed as an official carrier for all the branches of the Kingdom's armed forces sectors to transport cargo by sea to and from the Kingdom. This contract was renewed in 2013G for an additional term of five years, with a value of SAR 383,335,000. This contract will continue until 12/1/1441H (corresponding to 11/9/2019G) (for further details, see section 14.1 "Summary of Material Agreements").

The Company has also been successful in being awarded a five year contract by the Ministry of Interior in the Kingdom. Pursuant to this contract, which was dated 28/04/1436H (corresponding to 17/02/2015G) and had a value of SAR 400,000,000, the Company was appointed as an official carrier to transport all new and old military equipment to and from the Kingdom. This contract will continue for 1,800 calendar days (for further details, see section 14.1 "Summary of Material Agreements").

A summary of the amount of general cargo carried by the Company's RoRos in the years 2010G, 2011G, 2012G, 2013G and the Company's new RoCons in 2013G and 2014G is as follows:

Table 7.5: Amounts of general cargo from 2010G to 2014G

Year	Amount of general cargo (DWT)	Containers	Number of liner voyages
2010G.....	551,613	19,738	15
2011G.....	623,457	18,945	14
2012G.....	573,183	17,822	13
2013G.....	387,793	11,526	13
2014G.....	328,336	8,544	17

Source: Company

The general cargo business is a liner business with the following port rotation: Dammam – Jebel Ali – Mumbai – Jeddah – Izmir – Livorno – Baltimore – Houston – Jacksonville – Savannah – Wilmington – Baltimore – Halifax – Jeddah – Dammam.

The details of the Company's fleet of RoCons are set out below:

Table 7.6: Company's fleet of RoCons

	Vessel	DWT	Speed (knots)	Flag	Built
1	Bahri Abha.....	26,000	17	KSA	2013G
2	Bahri Hofuf.....	26,000	17	KSA	2013G
3	Bahri Tabuk.....	26,000	17	KSA	2013G
4	Bahri Jazan.....	26,000	17	KSA	2013G

	<u>Vessel</u>	<u>DWT</u>	<u>Speed (knots)</u>	<u>Flag</u>	<u>Built</u>
5	Bahri Jeddah .....	26,000	17	KSA	2014G
6	Bahri Yanbu.....	26,000	17	KSA	2014G

Source: Company

In 1992G, the Company entered into a long-term lease with the Saudi Port Authority to lease a Container Service Yard adjacent to Jeddah Islamic Port to provide additional storage facilities to its customers. The Container Service Yard has an area of 120,000 square metres, of which 95,000 square metres is used for container storage. The remaining 25,000 square metres is used as workshop space. The lease was renewed for an additional 10 years in 2006G with the option to renew for a further five years.

The Container Service Yard is used to provide additional storage facilities to the Company's customers as well as the Company's own containers. The Container Service Yard allows for the rapid clearance of customers' shipments thereby enhancing the Company's position as a freight forwarder.

## **7.8 Overview of the Bahri Group Companies**

### **7.8.1 NSCSA (America) Inc.**

NSCSA (America) Inc. was incorporated on 24 July 1991G as a wholly-owned subsidiary of the Company in the State of New York. NSCSA (America) Inc. has an authorised share capital of 1,000 shares with a value of U.S.\$1,000,000.

NSCSA (America) Inc. acts as the general agent for the Company and performs general cargo operations. NSCSA (America) Inc. initially operated out of an office in Staten Island, New York and later moved its headquarters to Baltimore, Maryland in the autumn of 1992G. The Port of Baltimore is one of the largest ports for RoRos on the east coast of the United States.

As a general agent of the Company, NSCSA (America) Inc. is engaged in developing the Company's business and maintaining its relationships and co-ordinating with its customers in North America.

As at 31 December 2014G, NSCSA (America) Inc. employed 39 personnel, 35 of whom were based in the Baltimore office. NSCSA (America) Inc. also had four external sales personnel based in New Jersey, New York and Illinois to service customers in these regions and two port captains/vessel planners in Houston, Texas and Baltimore, Maryland, to cover the entire vessel cargo planning and related services.

### **7.8.2 Mideast Ship Management Ltd.**

In 1996G, Mideast Ship Management Ltd. ("**Mideast**") was established as a joint venture company by the Company and Acomarit, a ship management company based in Scotland. Mideast is based in Dubai, UAE, and provides ship management services to the Company and other members of the Bahri Group.

In 2005G, the Company acquired all of Acomarit's shares in Mideast. As at the date of this Prospectus, Mideast is a wholly-owned subsidiary of the Company. Mideast is established in the Dubai Multi Commodities Centre Free Zone, Dubai, UAE and has a share capital of AED 300,000.

As of 31 December 2014G, Mideast provides technical management services to 69 vessels, including the Company's VLCCs, RoCons, the chemical tankers owned by NCC and dry bulk vessels owned by Bahri Dry Bulk.

Mideast's main objective is to provide specialised technical management for all vessels owned by the Bahri Group, which aims to ensure standardised technical and operational management and assist the Bahri Group in achieving operational efficiencies. Mideast's services include:

- insurance and claim handling in relation to Mideast's managed vessels, including hull machinery and protection and indemnity insurance;
- technical reporting to the Company regarding the performance and status of the vessels, fuel consumption, results of periodic inspections and related recommendations; and
- periodic financial reporting to the Company on operating expenses and annual budgeting; and
- production of monthly, quarterly and annual reports on operating costs and preparation of budgets in conjunction with various business units that operate each vessel.

In addition, Mideast retains the capability to provide the following services, although such services are not provided as at the date of this Prospectus:

- commercial management of vessels belonging to the Bahri Group;
- sale and purchase of third party services; and
- technical and marine consultancy.

Mideast also recruits the crews working on the Bahri Group's vessels and provides training to such crews on all new processes adopted by the Company. For this purpose, Mideast has a specialised team of dedicated captains, engineers and technicians with high technical expertise and extensive experience in the management, as well as the technical and administrative operation of its fleet. Mideast carries out the training of employees of the Bahri Group at all levels and currently has cadets enrolled from the Kingdom, Europe, India and the Philippines.

As at 31 December 2014G, Mideast employed 1,894 employees, made up of 30 different nationalities, of whom 1,735 were employed on board the vessels; out of which, 439 are permanent employees including 69 Saudis. 154 were based onshore in Dubai, UAE.

Mideast is recognised as one of the leading ship management companies globally and this recognition is supported by its ISO 9001:2008 and ISO 14001:2004 accreditations (for further information, see Section 7.13, "*Quality Assurance*").

#### 7.8.3 *National Chemical Carriers (NCC)*

In 1990G, NCC was established by the Company and SABIC as a joint venture company. NCC specialises in the purchase, chartering and operation of chemical tankers to transport chemicals and related products. NCC was incorporated as a limited liability company in Saudi Arabia with a share capital of SAR 200,000,000, which was increased to SAR 500,000,000 in 1992G and further increased to SAR 610,000,000 in 2006G. As at the date of this Prospectus, NCC's share capital is owned 80 per cent. by the Company and 20 per cent. by SABIC.

NCC originally owned nine chemical tankers which have since been phased out replaced by a modern fleet of 24 chemical tankers. NCC's fleet has grown considerably since it was incorporated and is currently one of the largest chemical fleets in the world serving over 150 ports worldwide.

Chemical cargoes are usually divided into organic, inorganic, vegetable oils, animal fats and other products. NCC vessels are designed to the highest specification and are capable of carrying a wide range of chemical cargoes, thereby enabling NCC to serve a large segment of the liquid chemical transportation market.

In June 2009G, NCC entered into a 50:50 joint venture agreement with Odfjell SE of Norway to establish a joint operating company in the Dubai Multi-Commodities Centre Free Zone, UAE. This joint venture company was originally called NCC Odfjell Chemical Tankers JLT. However, on 1 June 2013G, it was renamed as National Chemical Carriers JLT ("NCC JLT"). NCC JLT was established to commercially operate NCC's and Odfjell SE's combined fleet of coated chemical tankers for the transportation of chemical cargoes. NCC JLT commenced operations in January 2010G.

On 1 June 2013G, NCC acquired all of Odfjell's shareholding in NCC JLT and the existing pool arrangement under which NCC JLT's and Odfjell's vessels were operating was dissolved. As at the date of this Prospectus, NCC JLT continues to co-operate with Odfjell and each of NCC JLT and Odfjell have contributed one 75,000 DWT large chemical tanker to a pool arrangement that will be commercially managed by NCC. In 2014G, NCC JLT was transferred into a branch of NCC and is no longer an independent legal entity from NCC.

As at the date of this Prospectus, NCC owns 24 vessels (with an average age of 6.7 years) which are able to transport a vast array of chemical products that are used across a number of industries. NCC's fleet includes NCC Fajr, a state of the art chemical tanker with a large size of DWT of 75,000 and very high quality standard of specification. As at the date of this Prospectus, NCC's owned and operated vessels are being used in the following manner:

- twelve vessels are operating in the spot market;
- eight vessels are chartered to SABIC;
- three vessels are leased to Odfjell SE under a bareboat capital lease arrangement;
- one large tanker operational in a pool arrangement.

As at 31 December 2014G, NCC and its subsidiary had 36 employees working in the areas of fleet operations, port operation support and chartering (commercial) and also employs support staff to provide services relating to accounting, IT and human resources.

NCC has been an extremely profitable venture and has grown steadily over the years since its establishment. There are five directors on the board of NCC of whom four (including the vice chairman) are representatives of the Company and one is a representative of SABIC.

The chemical cargo carried by the chemical tankers owned by NCC in the years 2010G, 2011G, 2012G, 2013G and 2014G is as follows:

**Table 7.7: Details of the chemical cargo carried by the chemical tankers from 2010G to 2013G**

Year	Total number of voyages	Total amount of chemical cargo carried (tons)	Year on year growth in total amount of chemical cargo carried	Number of voyages by vessels operation in the pool arrangement managed by NCC	(Amount of chemical cargo carried by vessels in the pool arrangement managed by NCC (tons))
2010 .....	80	2,871,763	-	22	836,000
2011 .....	95	3,540,101	23.3 Per cent	40	1,450,101
2012G.....	127	4,592,461	29.7 Per cent	70	2,515,461
2013G.....	156	5,689,913	23.9 Per cent	92	3,102,084

Year	Total number of voyages	Total amount of chemical cargo carried (tons)	Year on year growth in total amount of chemical cargo carried	Number of voyages by vessels operation in the pool arrangement managed by NCC	(Amount of chemical cargo carried by vessels in the pool arrangement managed by NCC (tons))
2014G.....	213	4,066,460	(28.5) Per cent	147	1,257,000

Source: Company

Details of the chemical carrier fleet of NCC are set out in the table below.

**Table 7.8: The chemical carrier fleet of NCC**

	Carrier	Number of Tanks	year Built	Flag	Speed (Knots)
1	NCC Mekka .....	52	1995	Norway	16
2	NCC Riyadh.....	52	1995	Norway	16
3	NCC Jubail.....	52	1996	Norway	16
4	NCC Najd.....	22	2005	KSA	15
5	NCC Hijaz.....	22	2005	KSA	15
6	NCC Tihama .....	22	2006	KSA	15
7	NCC Abha.....	22	2006	KSA	15
8	NCC Tabuk .....	22	2006	KSA	15
9	NCC Qassim .....	22	2006	KSA	15
10	NCC Rabigh.....	22	2007	KSA	15
11	NCC Sudair.....	22	2007	KSA	15
12	NCC Dammam.....	22	2008	KSA	15
13	NCC Haiel.....	22	2008	KSA	15
14	NCC Noor .....	22	2011	KSA	15
15	NCC Huda.....	22	2011	KSA	15
16	NCC Amal .....	22	2011	KSA	15
17	NCC Safa .....	22	2011	KSA	15
18	NCC Danah .....	22	2011	KSA	15
19	NCC Nasma .....	22	2011	KSA	15
20	NCC Shams.....	22	2012G	KSA	15
21	NCC Najem.....	22	2012G	KSA	15
22	NCC Reem .....	22	2012G	KSA	15
23	NCC Sama .....	22	2012G	KSA	15
24	NCC Fajr.....	30	2013G	KSA	14

Source: Company

The breakdown of voyages performed by the Company's chemical carrier fleet for the year ended 31 December 2014G, based on the main routes of operation of the Company, is set out below.

**Table 7.9: The company's chemical carrier fleet routes:**

Route	2014G
Middle East - Far East .....	29.13 Per cent
Middle East (Regional) .....	21.84 Per cent
Europe - Middle East .....	15.05 Per cent
Middle East –Europe .....	13.59 Per cent
Far East (Regional) .....	13.11 Per cent
Far East Europe.....	5.83 Per cent
Europe – USA.....	0.97 Per cent
USA – Europe.....	0.48 Per cent
<b>Total .....</b>	<b>100.00%</b>

Source: Company

#### 7.8.4 Bahri Dry Bulk

On 28 August 2010G, the Company and ARASCO incorporated Bahri Dry Bulk as a joint venture company. Bahri Dry Bulk specialises in the ownership, chartering and operation of vessels transporting dry bulk commodities. Bahri Dry Bulk is a limited liability company incorporated in Saudi Arabia and its current share capital is SAR 200,000,000, which is owned 60 per cent. by the Company and 40 per cent. by ARASCO.

Bahri Dry Bulk commenced its operations in 2012G with the charter of two ships which focused on transporting grain products and other dry bulk cargo into the Kingdom for ARASCO. The board of directors of Bahri Dry Bulk comprises of five directors, two of whom are senior executives of the Company. Two directors represent ARASCO and the remaining three represent Bahri.

As at the date of this Prospectus, Bahri Dry Bulk operates five cargo vessels which are modern design, green, low emission bulk carriers. These vessels were received on 26/01/1435H (corresponding to 29/11/2013G), 14/03/1435H (corresponding to 15/01/2014G), 26/03/1435H (corresponding to 27/01/2014G), 26/04/1435H (corresponding to 26/02/2014G) and 30/05/1435H (corresponding to 31/03/2014G). As at the date of this Prospectus, these vessels are chartered to ARASCO for the transportation of ARASCO's grain imports and other dry bulk commodities. This arrangement is long term agreement and expected to continue in the future.

On 17/1/1435H (corresponding to 20/11/2013G), Bahri Dry Bulk entered into a *Shari'a* compliant financing facility for SAR 420,000,000 with Bank Albilad. The purpose of the facility was to finance 70 per cent. of the cost of building the five new dry bulk vessels mentioned above. The facility has a term of 11 years including a one year grace period. The five vessels are currently mortgaged to Bank Albilad as collateral for the financing.

As at 31 December 2014G, Bahri Dry Bulk had one employee, who was also a director.

#### 7.8.5 Petredec

In 2005G, as part of its strategic expansion and diversification, the Company acquired a minority shareholding in the LPG trading company, Petredec. Petredec is a limited liability company that was incorporated in Bermuda in 1980G. As at the date of this Prospectus, Petredec's issued share capital is U.S.\$6,111,111, which is owned 30.3 per cent. by the Company and 69.7 per cent. by Haydock Holdings Limited.

Petredec has offices in Monaco, Singapore and the Bahamas. Petredec opened its Singapore office in 1995G to trade in the developing eastern markets as well as engage in LPG trading through large and small ships in South East Asia and the Far East.

Petredec operates largely in the trade and transport of LPG and is supported by a fleet of specialised LPG carriers. As at 31 December 2014G, this fleet consisted of 59 vessels of various sizes, of which 28 are owned by Petredec itself (including carriers that are under construction), two carriers are on bareboat charter contracts and 29 carriers are on time chartered agreements).

Petredec's operations cover the Asian, European, Caribbean and Middle Eastern markets. As at 31 December 2014G, Petredec had 174 employees.

## **7.9      *Competitive Advantages***

The Company believes that there are a number of factors that provide it with an advantage over its competitors and provide a platform for sustainable and profitable growth. The key competitive advantages are outlined below.

### **7.9.1      *Qualified and Experienced Senior Management Team***

The Company's senior management team has significant experience both in shipping and in the wider transportation sector. Their experience in the wider commercial environment in the Kingdom, and their education, bring to the Company a track record for delivering success and a proven ability to produce results.

### **7.9.2      *State-of-the-art Fleet***

The Company prioritises the maintenance and development of its fleet so that it can offer to its customers the safety, security and reliability that a modern fleet provides.

### **7.9.3      *Lower operational cost***

The Company enjoys a low cost of financing given its strong balance sheet and efficient operations. Because the Company is incorporated in the Kingdom, and owned by Saudi nationals, it is entitled to receive subsidies on the bunker fuels consumed by vessels owned or chartered by it or its wholly-owned subsidiaries for voyages originating in the Kingdom. As the majority of the voyages that the Bahri Group's owned or chartered vessels make, originate in the Kingdom, these subsidies make a significant impact on the Company's profitability which, in turn, enables the Company to invest in other parts of its business.

### **7.9.4      *Risk management***

The Company dedicates significant time and resources to identifying and assessing the risks that it and the Bahri Group's business face at the financial, operational and information levels. As a result, the Company believes that it has developed risk management strategies to actively and effectively manage its risk. The risk management strategies have been implemented within the framework of the Company's stated goals, objectives, internal controls and organisational priorities. In recognition of this, the Company has been awarded by Oracle for its excellence and leadership following the successful implementation of the Oracle Corporate Governance Risk Management and Compliance System (part of the unified Enterprise Resource Planning System), the first company in the Kingdom to receive such award, a recognising its excellence in leadership. As a result, departments and individuals within the Company are aware of their responsibilities in applying the appropriate risk management controls. This reduces the Company's risk profile and enables it to safeguard its resources.

#### *7.9.5 Deployment of Information Technology*

The Company completed the second phase of its IT strategy in 2011G, which comprised a range of initiatives and strategic projects to support the Company's development across all of its businesses and enhance their competitive edge. As part of this phase, the Company completed the initial implementation of the unified system for enterprise resources planning and set up a back up information technology centre to ensure continuity of critical systems. Previously, the Company's websites had been developed to meet the requirements of customers, investors and visitors, and an employee internet portal established to enhance internal communication at the Company. The Company believes that these measures will drive efficiency and communication, greatly enhancing its proposition.

#### *7.9.6 In-House Technical Ship Management*

By establishing a single entity, Mideast, to provide technical and operational ship management across the Bahri Group's fleet, the Company has been able to maintain uniformly high standards for the Bahri Group's vessels. Mideast is committed to adopting the highest quality standards, safety rules and environmental protection practices by following the directives issued by the IMO, as well as the laws of individual jurisdictions into whose ports the Company's and the Bahri Group's vessels may call. In addition, Mideast operates in accordance with the requirements of international maritime organisations and the standards of international oil and chemical producing companies, as well as other clients whose expectations continuously increase. By having a single entity to implement standards across the Bahri Group's fleet, the Company is able to deploy a fleet of uniformly high quality in all of its business segments while keeping costs down.

#### *7.9.7 Marketing and customer service*

The Company is seeking to become a leader in its field and, as part of that, is focused on providing optimal service to its customers across its businesses. Although its core clients consist of oil producers, refineries, manufacturers and exporters of chemicals, the Company serves a broad base of customers in general cargo and has developed a strategy to identify their requirements and provide a service to meet their needs.

#### *7.9.8 Quality of Ship and Crew*

The quality of the officers and crew on board each of the Company's vessels is the most critical aspect of the Company's operations and success. Experienced, well trained and motivated personnel on board the vessels are essential if the Company is to ensure efficient and safe operations. The Company places great importance on enhancing the quality of both its vessels and the related crew as the absence of operational troubles and inefficiencies enhances the reputation of the Company and ensures that charterers continue to indicate a preference to charter vessels from the Company.

#### *7.9.9 Safety*

The Company places utmost importance on ensuring the safety of the personnel on board the Company's vessels, the safety standards of the Company's vessels and the environment. The Company aims to operate to the highest standards possible, and is regularly audited by reputed external agencies as well as some of the major oil companies in the world.

#### *7.9.10 Human resources*

The Company considers its human resources to be critical for fulfilling its missions and meeting its objectives. The Company selects employees on the basis of their academic and technical abilities, and previous experience, in order to meet its business requirements. It has implemented policies to ensure that its employees have the experience and training to perform their roles effectively. For example, it provided over 6,352 hours of training during 2014G, amounting to approximately 35 hours per employee.



## 7.10 Major Customers and Suppliers

### 7.10.1 Major Customers (oil cargo segment)

The Company's major customers (with respect to the oil cargo segment), together with the percentage of the total turnover of the segment that each of them contributed for the years 2010G, 2011G, 2012G, 2013G and 2014G is set out below.

**Table 7.10: Major customers by year**

2010		2011		2012G		2013G		2014G	
Customer	% of Turn over	Customer	% of Turn over	Customer	% of Turn over	Customer	% of Turn over	Customer	% of Turn over
Hanjin	14.4 Per cent	Hanjin	15.1 Per cent	Vela*	28.6 Per cent	Vela*	53.7 Per cent	Bolanter Corporation N.V.*	34.4 Per cent
Vela	9.8 Per cent	Vela*	14.3 Per cent	Reliance	19.2 Per cent	Reliance	13.5 Per cent	Vela International Marine Ltd.*	19.1 Per cent
BP	9.7 Per cent	Exxon	10.7 Per cent	S-Oil	11.9 Per cent	Petrochina	12.4 Per cent	Reliance Industries Ltd.	18.9 Per cent
Petrochina	9.7 Per cent	S-Oil	10.1 Per cent	Hamjin	9.4 Per cent	Hanjin	9.8 Per cent	PetroChina	13.4 Per cent
Euronav	7.5 Per cent	Reliance	8.5 Per cent	Petrochina	7.3 Per cent	IOC	2.9 Per cent	Unipec	4.8 Per cent
NA	NA	NA	NA	NA	NA	Unipec	2.8 Per cent	Essar Oil Ltd.	4.1 Per cent

Source: Company

\* Part of the Saudi Aramco Group

As part of the Vela Transaction, the Company has entered into the Contract of Affreightment. The Contract of Affreightment is a long-term arrangement with Bolanter Corporation N.V. ("**Bolanter**"), a wholly-owned subsidiary of Saudi Aramco. The Contract of Affreightment has an initial term of 10 years, terminable by either party giving not less than five years' notice at any time after the fifth anniversary of the agreement becoming effective. Under the terms of the Time Charter Agreement, Saudi Aramco Products Trading Company ("**SAPTC**"), a wholly-owned subsidiary of Saudi Aramco, will hire the four product tankers, the Aframax tanker and the floating storage VLCC (forming part of the Vela Vessels) from the Company for a minimum period of five years (or, in the case of the floating storage VLCC, until 31 December 2016G).

The terms of this agreement are further described in Section 14.1 "*Summary of Material Agreements*".

### 7.10.2 Major Customers (General cargo segment)

The Company's major customers (with respect to the General cargo segment), together with the percentage of the total turnover of the segment that each of them contributed for the years 2010G, 2011G, 2012G, 2013G and 2014G is set out below.

**Table 7.11: Major customers in the general cargo segment**

2010		2011		2012G		2013G		2014G	
Customer	% of Turnover	Customer	% of Turnover	Customer	% of Turnover	Customer	% of Turnover	Customer	% of Turnover
Ministry of Defence	1.8 Per cent	Ministry of Defence	5.2 Per cent	Ministry of Defence	24.6 Per cent	Ministry of Defence	35.4 Per cent	Ministry of Defence	28.4 Per cent
CNH America Llc.	1.5 Per cent	Arabian Bemco Contracting Co. Ltd	2.9 Per cent	Pacorini USA	5.0 Per cent	Aramco Services co	3.1 Per cent	Sadara	3.1 Per cent
IMCO Services Inc.	1.5 Per cent	Pacorini USA	2.4 Per cent	Al Arrab contracting company	4.5 Per cent	Saudi National Guard	2.0 Per cent	Saudi National Guard	2.6 Per cent
Prime Metals Corporation	1.5 Per cent	Al Salem Air Conditioning	1.8 Per cent	Saudi National Guard	3.4 Per cent	Ashjr Electrical Product Co.	1.9 Per cent	CNH America Llc.	2.6 Per cent
Alstrom Energy	1.3 Per cent	Bartho Co.	1.4 Per cent	Aramco Services co	1.6 Per cent	Sadara	1.7 Per cent	Saudi Railway Company-SAR	2.2 Per cent

Source: Company

### 7.10.3 Major Suppliers (oil cargo segment)

The Company's major bunker fuel suppliers (across the VLCC segment of its business), together with the percentage of the total expenditure of the Company spent on each of them for the years 2010G, 2011G, 2012G, 2013G and 2014G is set out below.

**Table 7.12: Major suppliers in the oil transfer segment**

2010		2011		2012G		2013G		2014G	
Supplier	% of Turnover	Supplier	% of Turn over	Supplier	% of Turn over	Supplier	% of Turn over	Supplier	% of Turn over
Saudi Arabian Bunkering Services	47 Per cent	Saudi Aramco Saudi Arabian	51 Per cent	Saudi Aramco Saudi Arabian	60 Per cent	Saudi Aramco Saudi Arabian	65 Per cent	Saudi Aramco Saudi Arabian	67 Per cent
O.W. Bunker And Trading Co Ltd A/S	13 Per cent	Saudi Arabian Bunkering Services	30 Per cent	Saudi Arabian Bunkering Services	18 Per cent	Saudi Arabian Bunkering Services	10 Per cent	Chemoil Corporation USA	10 Per cent
FAL Energy	12 Per cent	Chemoil Corporation USA	5 Per cent	Chemoil Corporation USA	6 Per cent	O.W.Bunker	8 Per cent	O.W.Bunker	7 Per cent
Bakri	11 Per cent	BP	4 Per cent	BP	5 Per cent	BP	6 Per cent	Saudi Arabian Bunkering Services	4 Per cent

Source: Company

#### 7.10.4 Major Suppliers (General cargo segment)

The Company's major bunker fuel suppliers (across the General cargo segment of its business), together with the percentage of the total expenditure of the Company spent on each of them for the years 2013G and 2014G is set out below.

**Table 7.13: Major suppliers for general cargo segment**

2013G		2014G	
Supplier	% of Turnover	Supplier	% of Turnover
BAKRI	12	BAKRI	20
SABS	8	CEPSA	10
SSMS	2	SABS	8
CHEMOIL	2	SSMS	5
HYUNDAI OIL	2	S-OIL	2
S-OIL	2	O.W. BUNKER	2
SINANJU	1	EBOMAR S.R.L	1
TANKOIL	1	BOMINFLOT	1
SHELL E.T.	1	PETROLEUM	1
SENTEK	1	IBCO	1
GS	1	N/A	N/A
CEPSA	1	N/A	N/A
PANOIL	1	N/A	N/A
PETROLEUM	1	N/A	N/A

Source: Company

#### 7.11 Environment and Safety

The Company recognises the importance of the environment in which it operates and is committed to enhancing the environmental performance of its fleet. To this end, it has coated its vessels with silicon-based hull coatings and retro-fitted engines with cylinder lubricating oil systems, in each case in order to reduce fuel consumption and, in turn, harmful emissions. The Company strives to ensure to the extent possible that equipment fitted onboard the Company's vessels uses environmentally-friendly gases and that chemicals used onboard are both environmentally-friendly and biodegradable.

The Company is, and endeavours that its vessels and crew are, committed to:

- periodic testing of its fleet and equipment by third party consultants to ensure compliance with the latest International Regulations and Standards on Marine Pollution;
- effective ballast water management practices to prevent contamination of sea water;
- equipping the ships with modern fuel saving technologies;
- using advanced coatings on all of the vessels to reduce fuel consumption;

- implementing precautionary principles; and
- promoting the use of best environmental practice at all times.

#### **7.12 Information Technology**

The Company recognises the importance of information technology in achieving its objectives and as such the Information Technology Department seeks to apply best practice standards in the areas of systems security, protection of computer hardware, software, information media IT and communications software. The IT Department has implemented software to ensure safety and confidentiality of Company information and to protect such information from unauthorised access.

#### **7.13 Quality Assurance**

The Company's quality management department continues to manage, direct and conduct training programs in the field of the international quality management system, ISO 9001:2000. This includes running courses, workshops and training programs for its quality control personnel and key controllers to obtain the relevant qualifications and to improve its corporate quality management system.

In 2006G, the Company was awarded ISO 9001:2000 and, in 2009G, it upgraded its quality management system to comply with the standards of ISO 9001:2008. In 2012G, the Company had developed sufficient quality systems to embark on the implementation of ISO 9001:2008 in its general cargo business.

The Company regularly reviews and upgrades the safety procedures of its fleet, and conducts an assessment of such procedures, so that its safety and security procedures are in compliance with ISO 9001-2000.

#### **7.14 Social Responsibility**

The Company recognises the importance of an economically healthy society and takes a proactive approach to the local community, shareholders and investors. As such, the Company endeavours to manage its business processes with a view to producing a positive impact on society. The Company strives to deliver quality service, identify the most profitable long-term business opportunities, maximise employee care, develop communities, respect the environment and encourage responsible citizenship.

The Company takes an active role in and supports a number of operations and charitable organisations in order to contribute to the welfare of society. In 2014G, these included:

- sponsoring the language and Communication Unit Program of the Disabled Children Association;
- participation in the National Festival for Heritage and Culture;
- participation in activities for the National Day of the Kingdom; and
- providing a free Bahri Hijri calendar application for mobile phones.

## 8. MANAGEMENT OF THE COMPANY

### 8.1 Board Members

The Company has an experienced Board of Directors, comprising highly qualified and respected individuals in the Saudi Arabian business community.

**Table 8.1: Board members**

Name	Nationality	Position	Status	Independence	Direct or indirect Share ownership	Member Since
Abdulrahman Mohammad Al-Mofadhi*	Saudi Arabian	Chairman	Non-executive	Non-Independent	N.A.	1/1/2014G
Mohammed Abdulaziz AlSarhan	Saudi Arabian	Vice-Chairman	Non-executive	Independent	202,000	1/1/2008G
Esam Hamad AlMubarak*	Saudi Arabian	Member	Non-executive	Non-Independent	80,000	1/1/2005G
Saleh Nasser Al Jasser	Saudi Arabian	Member	Non-executive	Independent	N.A.	15/7/2014G
Saleh Abdullah Al Debasi*	Saudi Arabian	Member	Non-executive	Non-Independent	2,500	1/1/2008G
Farraj Mansour Abothenain	Saudi Arabian	Member	Non-executive	Independent	25,000	1/1/2008G
Abdullah Ali AlAjaji	Saudi Arabian	Member	Non-executive	Independent	N.A.	1/1/2012G
Said Abdullatif Al-Hadrami**	Saudi Arabian	Member	Non-executive	Non-Independent	N.A.	16/9/2014G
Bader Abdulkadir Ghouth**	Saudi Arabian	Member	Non-executive	Non-Independent	N.A.	16/9/2014G

Source: Company as of 9/3/1435H corresponding to 31/12/2014G

\* These Directors were appointed by the Public Investment Fund, which is a major shareholder in the Company.

\*\* These Directors were appointed by SADC.

#### 8.1.1 Summary of the Biographies of Directors

##### Abdulrahman Mohammad Al-Mofadhi

- Nationality: Saudi Arabian
- Position: Chairman
- Education: Master in Business Administration, University of Michigan, USA (1984G). Bachelor of Economics, King Saudi University, Saudi Arabia (1979G).
- Experience: Abdulrahman Al-Mofadhi has around 35 years of professional experience. He began his career in 1979G at the Saudi Fund for Development until 1997G as an Economic Advisor. In 1997G, he became an Advisor to the Executive Director for Saudi Arabia at the World Bank. In 2000G, he became the Alternate Executive Director for Saudi Arabia at the

World Bank. From 2006G, he served as the Executive Director for Saudi Arabia at the World Bank until 2012G. He has been the Alternate Governing Board Representative for Saudi Arabia at the OPEC Fund for International Development since 2012G. He has been the chairman for Saudi Real Estate Company (listed on the Tadawul and operating in the Real Estate sector) since 2013G, board member of National Commercial Bank since 2012G, board member of the Saudi Stock Exchange Company since 2014G, vice-chairman of Tadawul and chairman of Bahri since 2014G. Since 2012G, he has also served as the Acting Secretary General of the Public Investment Fund.

#### **Mohammed Abdulaziz Al-Sarhan**

- Nationality: Saudi Arabian
- Position: Vice Chairman
- Education: Bachelor of Science in Mathematics and minor in Computer Science Oregon State University, Oregon, USA (1977G) and several specialised training courses from international universities such as Harvard Business School and London Business School.
- Experience: Mohammed Al-Sarhan has around 36 years of professional experience in various industries including the oil and food industries. Since 2001G he has been the Vice President of Al Faisaliah Group. He began his career in 1977G with Riyadh Petromin Refinery where he was a Manager until 1980G and then General Director from 1980G until 1989G. In 1989G, Mohammed Al-Sarhan joined SMREC as Vice President, a role he held until 1993G.

He has also been a Board Member of Saudi Arabian Public Transport Company (SAPTCO) (listed on the Tadawul and operating in the transport sector) from 2002G to 2012G and chairman of Al Safi Danone Co. Ltd. since 2010G (limited liability company operating in the milk and dairy production industry), a board member of Al-Faisaliah Group Holding Co. since 2011G (closed joint stock company operating in different sectors), a board member of Civil Aviation Holding Company since 2011G (closed joint stock company operating in the aviation sectors), and on the board of trustees at Al Yamamah University (limited liability company operating in the educational sector). A board member at the Al-Bayan holding group for the same year (closed joint stock company operating in the real estate investment and projects management), he is also the chairman of Bahri Dry Bulk from 2010G to 2013G (limited liability company operating in the offshore transportation) and has been a board member of National Chemical Carriers since 2014G and a Director of the Company since 2008G.

#### **Esam Hamad Al-Mubarak**

- Nationality: Saudi Arabian
- Position: Director
- Education: Bachelor of Quantitative Methods, King Saudi University, Saudi Arabia (1982G). He holds various specialised certificates from reputable institutions such as the Institute of Diplomatic Studies, Riyadh 1984G. Institute of Public Administration, Riyadh 1985G. International Institute UN, Geneva 1989G. WTO Institute, Geneva 1999G. Taiwan's Trade Institute, Taiwan 2002G.
- Experience: Esam Al-Mubarak has around 31 years of professional experience. Since beginning his career, he has held several important positions within the Ministry of Commerce & Industry, including as trade attaché to Geneva and Director General to External Trade. He has been Deputy Minister for International Trade since 2013G. Prior to that, he was

the Assistant Deputy Minister for Industry Affairs from 2010G until 2013G, and an Advisor to the Minister of Commerce & Industry from 2007G until 2010G.

Esam Al-Mubarak was a Board Member of Saudi Railways Organization between 2006G and 2010G and a Board member of the Technical and Vocational Training Corporation between 2010G and 2012G. He has been a member of the Preparatory Committee of Supreme Council of Petroleum and Minerals Affairs from 2010G until 2013G, the Acting General Secretary of the Saudi Export Development Authority from 2011G until 2012G and the Acting Secretary General of the Saudi Commission for Accredited Foreign Resident since 2012G. He is also the chairman of Bahri Dry Bulk since 2014G and has been a Director of the Company as a representative of PIF since 2005G.

#### **Saleh Nasser Al Jasser**

- Nationality: Saudi Arabian
- Position: Director
- Education: Master of Business Administration, King Saud University, Saudi Arabia (1995G). Bachelor of Science in Industrial Engineering, King Abdulaziz University, Jeddah, Saudi Arabia (1990G).
- Experience: Saleh Al-Jasser has around 30 years of professional experience. He has been the Director General of Saudi Arabian Airlines since August 2014G. Prior to this, he was CEO of Abdul Latif Jameel from 2003G to 2010G. He was also the CEO of Bahri from 2010G to 2014G. He is a board member of The Saudi Arabian Airlines (Governmental organization) since 2012G. He is a board member in various companies e.g. a board member of The Saudi Arabian Airlines Company for Air Transportation (limited liability company operating in the air transportation sector) since 2014G, a board member of The Saudi Arabian Airlines for Catering (joint stock company operating in the catering services for the airlines and companies in the remote areas) since 2014G, a board member of The Saudi Arabian Airlines Company for Limited Supplying (limited liability company operating in the air cargo sector) since 2014G, a board member of The Saudi Arabian Airlines Company for Aviation Manufacturing and Engineering (limited liability Company operating in the aircraft maintenance sector) since 2014G and lastly a board member of The Saudi Arabian Airlines Ground Services Company (closed joint stock company operating in the ground services) since 2011G.

#### **Saleh Abdullah Al Debasi**

- Nationality: Saudi Arabian
- Position: Director
- Education: Masters in Public Management, University of Pittsburgh, USA (1987G). Bachelors in Geography, Imam Muhammad Ibn Saud Islamic University, Saudi Arabia (1981G).
- Experience: Saleh Al Debasi has around 26 years of professional experience. He was the Head of the Military sector of the Ministry of Finance for Budget and Organizational Affairs between 2002G and 2011G. He has since been promoted to his current role of Assistant Deputy Minister. He has also been a board member of Marafiq Utility (as a representative of the Public Investment Fund) since 2012G (governmental company operating in the field of electricity and water and sanitation). A board member of the Saudi-Moroccan Company (as a representative of the Saudi Government) since 2012G (the company is equally owned by the Saudi and the Moroccan governments and operating in developing the joint development project). He has also been a board member of Saudi Railway Company since 2012G

(governmental company operating in the field of transportation services). He has been a Director of the Company as a representative of PIF since 2008G.

#### **Farraj Mansour Abothenain**

- Nationality: Saudi Arabian
- Position: Director
- Education: Bachelor in Industrial Management, Milwaukee University of Engineering, USA (1981G). Associate Credit Programme, Chase Manhattan Bank, New York, USA (1983G) and a number of specialised courses in management
- Experience: Farraj Abothenain has around 32 years of professional experience. He was a Senior Vice President for Finance & Investment at National Industrialization Company (listed on the Tadawul under the petrochemical industries sector) between 1999G and 2008G. He has also been a board member of Astra Industrial Group (listed on Tadawul under the industrial sector) since 2009G, The National Petrochemical Company "Petrochem" (listed on the Tadawul under the petrochemical industries sector) since 2010G, and Bawan Company (listed on the Tadawul under the building and construction sector) since 2011G. He has been a Director of the Company since 2008G. He has been a partner and chairman of Central Company for Development since 2008G (limited liability company operating in ccommunications, security and safety).

#### **Abdullah Ali Al-Ajaji**

- Nationality: Saudi Arabian
- Position: Director
- Education: Masters in Law (LLM), Case Western Reserve University, Ohio, USA (2000G). Bachelor in Social Science, Imam Muhammad Ibn Saud Islamic University (1984G). Higher Diploma in Legal Studies from the Institute of Public Administration, Kingdom of Saudi Arabia 1986G. International law program, the Institute of Diplomatic Studies, Kingdom of Saudi Arabia 1989G. Islamic Culture Diploma, College of Shari'ah, Kingdom of Saudi Arabia 1992G.
- Experience: Abdullah Al-Ajaji has around 29 years of professional experience. He has been a Director of Legal Affairs in Public Pension Agency PPA and a Deputy Governor of the Public Pension Agency PPA for Pension Affairs since 2008G. He has been a board member of Qassim Cement Company (listed on the Tadawul under the cement and its derivatives segment) since 2010G. He has been a Director of the Company since 2011G.

#### **Said Abdullatif Al-Hadrami**

- Nationality: Saudi Arabian
- Position: Director
- Education: Master of Business Administration, King Fahd University of Petroleum and Minerals, Saudi Arabia (1990G). Bachelor in Industrial Management, King Fahd University of Petroleum and Minerals, Saudi Arabia (1985G).
- Experience: Said Al Hadrami has been the CEO of Saudi Aramco Petroleum Products Trading Company (Aramco Trading) since January, 2011G (a limited liability Company operating in the Petroleum Products Trading sector). Prior to assuming his position, he worked for approximately 5 years with the Saudi Consolidated Electric Company beginning



in 1985G, following which he spent 21 years with Saudi Aramco. Said Al-Hadrami has held various management positions with Saudi Aramco and served on the boards of several Saudi Aramco joint ventures including Saudi Aramco Lubricating Oil Company from 2002G to 2004G, Arab Petroleum Pipelines Company from 2008G to 2011G, Saudi Petroleum Overseas Ltd, CEO of Saudi Aramco Total Refining and Petrochemical Company (SATORP) from 2010G to 2011G (limited liability company operating in the Petroleum refining sector), a board member of (SATORP) from 2008G to the date of this prospectus. Al-Hadrami has worked as a director of sales and marketing of crude oil of Saudi Aramco company from 2008G to 2010G (governmental company operating in the industry of petroleum and its derivatives sector), a board member of S-Oil Corporation since 2015G (general joint stock company in South Korea – operating in the Petroleum refining sector) and a board member of Bahri since 2014G.

#### **Bader Abdulkadir Ghouth**

- Nationality: Saudi Arabian
- Position: Director
- Education: MSC Planning & Management, Polytechnic Central London (1986G).
- Experience: Bader Ghouth has been the Manager of the Marine Department in Saudi Aramco Company since April, 2011G. Prior to assuming this position, he worked for approximately 3 years as the Managing Director of Saudi Petroleum Ltd. in London from 2008G to 2011G. Previously he worked with Vela as a Marine Operation Manager for approximately 6 years from 2002G to 2008G. He started his carrier with Saudi Aramco in the Terminal Operation Department where he was the port captain of all Saudi Aramco ports and terminal from 1987G until 2002G. He has been a board member of Bahri since 2014G.

### **8.3 *The Secretary of the Board***

#### **Ahmed Sulaiman Al-Eidan**

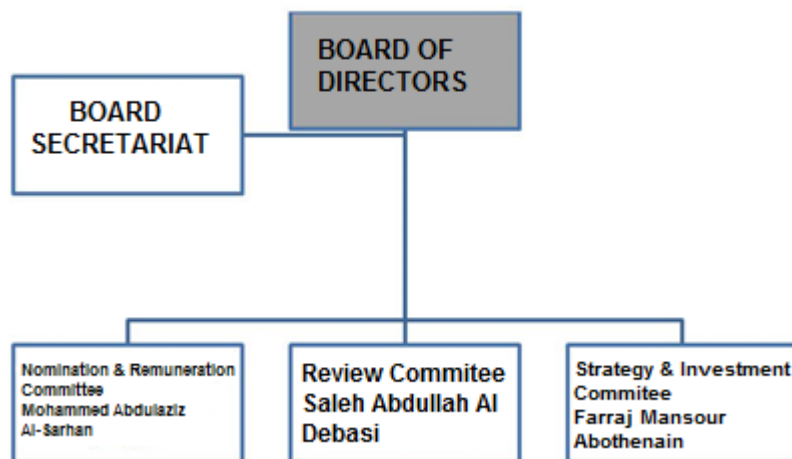
- Nationality: Saudi Arabian
- Position: Assistant Chief Executive Officer, Board Secretariat & Communication
- Education: Internal Auditor Fellowship, US General Accounting Office, Washington, D.C., USA (1988G). Bachelor of Science in Business Administration, California State University, California, USA (1981G).
- Experience: Ahmed Al-Eidan has around 47 years of professional experience in the transportation and government sectors and in the areas of accounting, financial and operations auditing. He began his career with the General Auditing Bureau, Riyadh in 1966G and held various positions, the last being Director General, Audit in 1990G. He joined the Company in March 1990G as Internal Audit Department Manager & Secretary to the Board and was promoted to Internal Audit Director in 1991G. In 1993G, he was assigned as VCEO-Fleet Management Division and was transferred and assigned to become Regional Manager (Eastern Region), Dammam in 1996G. In 2000G, he was assigned back to Riyadh as Director, Internal Audit Department and was made Internal Audit Director & Board Secretary in 2004G. Ahmed Al-Eidan was promoted to Vice Chief Executive Officer, Internal Audit & Control and Board Secretary in 2007G and was then promoted again in 2008G to Assistant Chief Executive Officer, Board Secretariat & Communication.

## 8.4 Senior Management

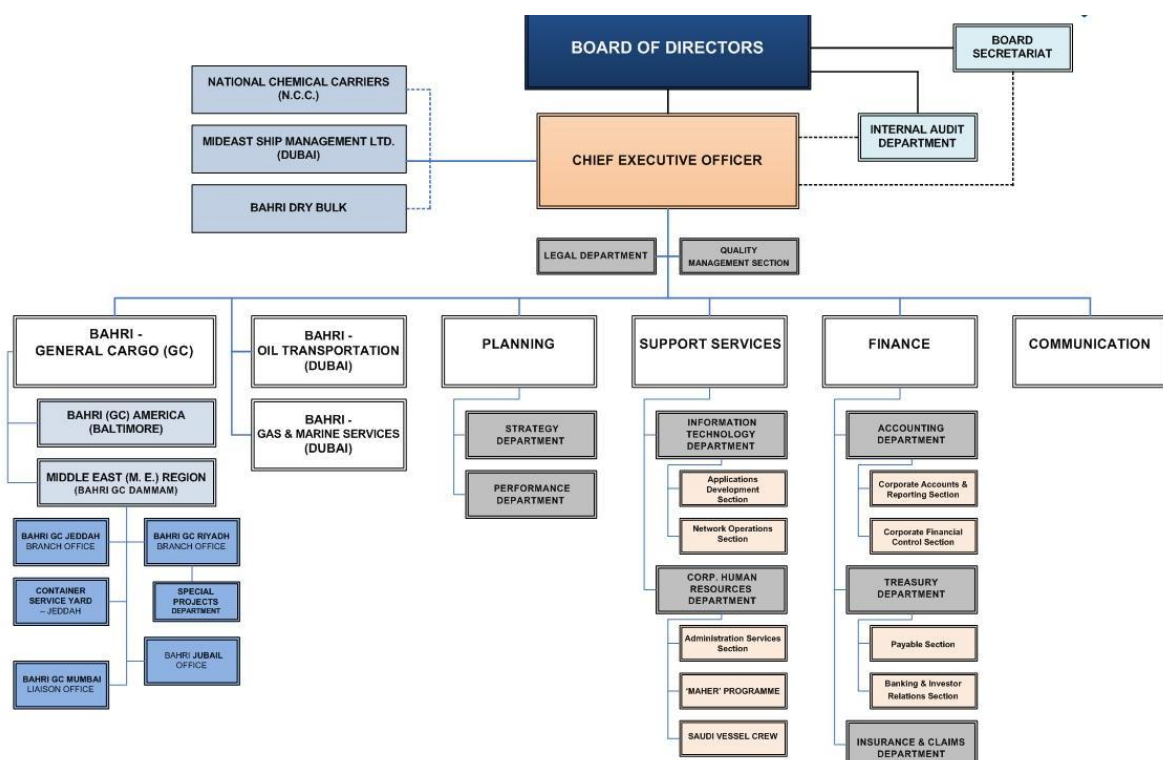
The Company is managed by a highly experienced team with the appropriate knowledge and skills to manage the Company's operations. The Company is organised into seven departments/units, each of which reports to the CEO.

The organisational structure of the company is set out in the structure chart below:

**Figure 8.1: The Organizational Structure of the Company**



**Figure 8.2: BAHRI Organizational Chart**



Source: Company

The Company's senior management team is comprised of the following:

Table 8.2: The Company's senior management

Name	Position	Nationality	No. of Shares held as of 31/12/2014G
Engr. Ibrahim Abdulrahman Al-Omar.....	CEO	Saudi Arabian	-
Mohammed Omair Al-Otaibi.....	Vice Chief Executive Officer, Finance	Saudi Arabian	-
Saleh Abdulrahman Al-Shamekh.....	President of Gas & Offshore	Saudi Arabian	-
Naser Mohammed Al-Abdulkareem .....	President of Oil Transportation	Saudi Arabian	-
Ahmed Sulaiman Al-Eidan .....	Assistant Chief Executive Officer, Board Secretariat & Communication	Saudi Arabian	-
Majed Hamad Al-Shenaiber .....	Vice Chief Executive Officer, Support Services	Saudi Arabian	-
Mansour Ibrahim Bin Dokhi .....	Corporate HR Manager	Saudi Arabian	-

Source: Company

#### 8.4.1 *Biographies of Senior Management*

##### **Engr. Ibrahim Abdulrahman Al-Omar**

- Nationality: Saudi Arabian
- Position: CEO
- Education: Bachelor degree in Electrical Engineering from King Fahad University of Petroleum and Minerals, Saudi Arabia (1999G), Leadership Development Program, Harvard Business School, USA (Candidate since June 2013G).
- Experience: Engr. Ibrahim Al-Omar has more than fifteen years of experience in different business sectors. During his career, he has held several senior positions at companies, such as Vice President Personal Business Unit at STC, Chief Executive Officer of Viva Bahrain, Chief Product Business Development Officer at Mobily.

##### **Mohammed Omair Al-Otaibi**

- Nationality: Saudi Arabian
- Position: Vice Chief Executive Officer, Finance
- Education: Advanced Management Programme, Harvard Business School, USA, (2013G). Executive Management Program, University of Michigan, USA (2001G). Banking Strategy and Management, International Ireland Development, Ireland (1996G). Master of Business Administration, Western Michigan University, Haworth Business School, Michigan, USA (1993G).
- Experience: Mohammed Omair Al-Otaibi has around 30 years of professional experience in the transportation and banking sectors. He began his career with Saudi Arabian Airlines in

1983G and held various positions in Ticketing & Sales. Prior to joining the Company, he held managerial positions with the Samba Financial Group between 2003G and 2005G including as Assistant General Manager of Commercial & Islamic Banking. During his career, he has also worked for Saudi Hollandi Bank as both Relationship Manager and Head of Islamic Banking. Mohammed Al-Otaibi joined the Company in May 2005G as Treasury Manager and was promoted in September 2006G to Vice Chief Executive Officer – Finance and in 2014G he was made Vice Chief Executive Officer – Business Development and Planning. Alongside his role with the Company, Mohammad Al-Otaibi was a board member of Arabian United Float Glass from 2006G to 2013G and a board member of National Chemical Carriers from 2009G to 2013G and is a current board member of Mideast Ship Management, NSCSA America Inc., West of England and International Shipowners Reinsurance Company. Appointments he has held since January 2011G, May 2011G and September 2012G respectively.

- The Company's CFO, Mohammed Omair Al-Otaibi has resigned from the Company. The resignation was approved by the Board on 19 May 2015G and will take effect on 1 July 2015G. The Company is in the process of appointing a new chief financial officer.

#### **Saleh Abdulrahman Al-Shamekh**

- Nationality: Saudi Arabian
- Position: President of Gas & Offshore
- Education: Master of Business Administration, Minnesota State University, Minnesota, USA (1985G). Bachelor of Science in Business Administration, Minnesota State University, Minnesota, USA (1981G). Associate in Arts, Willmar Community College, Minnesota, USA (1979G).
- Experience: Saleh Al-Shamekh has around 34 years of professional experience, of which 27 years were in the liner/ tanker shipping and oil and gas sectors. He began his career in 1981G as an Administrative Assistant at the Project Management department at the National Guard. Between 1982G and 1986G he was a Lecturer and Teaching Assistant at King Khalid Military Academy, National Guard, Riyadh, following which he served at the King Faisal Specialist Hospital, Riyadh as a Planning Analyst from 1986G until 1988G. Saleh Al-Shamekh first joined the Company in 1988G as Marketing Manager. In early 1992G, he was promoted to Regional General Manager (Middle East) and then in April 1992G he was appointed Vice Chief Executive, Corporate Planning & Development. He left the Company later that year but re-joined in 1994G as Vice Chief Executive, Corporate Planning & Development and in 1995G was made Acting Vice Chief Executive Officer-Lines. In 1997G, he was made Vice Chief Executive Officer-Lines. Between 2001G and 2005G, he served as Vice Chief Executive Officer, Tanker Division before being made Vice President (Oil & Gas) and subsequently made President (Oil & Gas) in 2007G. He was also appointed as President of Bahri Oil & Gas, Dubai in 2005G and President of Gas & Offshore in 2013G.

#### **Naser Mohammed Al-Abdulkareem**

- Nationality: Saudi Arabian
- Position: President of Oil Transportation
- Education: Master of Business Administration, King Fahad University of Petroleum and Minerals (1993G), Saudi Arabia. Bachelor of Science in Industrial Management, King Fahad University of Petroleum and Minerals (1989G), Saudi Arabia.

- **Experience:** After working for Procter & Gamble and Saudi Electric Company for four years, Naser joined Saudi Aramco in 1994G and held various key positions in Material Supply, Marine Operations, Assistant to the President, Finance, and Commercial Operations. He was also appointed by Vela's Board as Board Officer and Treasurer & Controller. In 2011G, with the official formation of Sadara Chemical Company (Sadara), a joint venture between Dow Chemical Company and Saudi Aramco, he was appointed as the Vice President for Business & Services of Sadara. In 2012G, with the major undertaking to merge Vela and Bahri, Naser was assigned back to Vela International Marine Limited to oversee the merger between the two companies. After the successful completion of the transaction, he was appointed by Bahri's Board as President of Bahri Oil Transportation in 2014G.

#### **Ahmed Sulaiman Al-Eidan**

(See Section 8.3 "*The Secretary of the Board*" for resume details).

#### **Majed Hamad Al-Shenaiber**

- **Nationality:** Saudi Arabian
- **Position:** Vice Chief Executive Officer for Support Services
- **Education:** Management Acceleration Programme, INSEAD (France & Singapore), (2009G). Diploma in Operation Systems, The Institute of Public Administration, Riyadh, Saudi Arabia (1994G).
- **Experience:** Majed Al-Shenaiber has around 19 years of professional experience in the area of computer and information technology. He has been with the Company since September 1994G when he started his career as a Trainee. He has held various positions within the IT Department such as System Operator, Systems Administrator, Supervisor-Computer Operations, Supervisor-Network Management & Operations, and Acting Manager. He was the Manager of the IT Department from 2001G until 2013G. In 2014G, he became the Vice Chief Executive Officer for Support Services.

#### **Mansour Ibrahim Bin Dokhi**

- **Nationality:** Saudi Arabian
- **Position:** Corporate HR Manager
- **Education:** Certificate in Personnel Practice, Chartered Institute of Personnel & Development, UK (2010G). Bachelor of Arts in English Language and its Arts, Al-Imam Muhammad Ibn Saud Islamic University, Riyadh, Saudi Arabia (2000G).
- **Experience:** Mansour Ibrahim Bin Dokhi has around 13 years of professional experience in human resources development and management. He began his career in 2000G as a Trainer Assistant (Unit Command & Operations) at Vinnell Arabia where he worked until 2005G. In 2005G, he joined Olayan Financing Company, Riyadh as Group Recruitment & Manpower Planning Manager. Between 2008G and 2012G, he worked at International Systems Engineering Ltd. Co. Riyadh as HR Manager-Recruitment, Resourcing & Reward. He joined the Company in September 2012G as Human Resources & Corporate Administration Manager.

### **8.5 Corporate Governance**

The Company endeavours to ensure that its internal policies comply with best corporate governance practices. To this end, the Company's corporate governance regulations (the "**Company Corporate Governance Regulations**") were approved by the Board on 20/12/2009G and are based on the

Company's Articles of Association and internal regulations. The Company Corporate Governance Regulations are consistent with the Corporate Governance Regulations and the Companies Law.

The Company considers the adoption of high standards of corporate governance as an important factor in its success. Adherence to the Company Corporate Governance Regulations will help to ensure that the Board fulfils its obligations and acts in the best interests of the shareholders.

The Board comprises nine Directors appointed for a term not exceeding three years. The term of the current Board will run until no later than 31/12/2016G.

The Company has internal control systems which have been adopted in all its departments. As at the date of this Prospectus, the Company has three Board committees: the Strategy and Investment Committee; the Audit Committee; and the Nomination and Remuneration Committee. The committees oversee and review the Company's operations within their particular areas of expertise and present their findings and suggestions to the Board.

The Board endeavours to ensure that:

- each committee has clear terms of reference that outline its specific roles and responsibilities; and
- minutes of all meetings are prepared, reviewed and approved by the Board.

#### 8.5.1 *Strategy and Investment Committee*

The duties and responsibilities of the Strategy and Investment Committee include the following:

- overseeing the development of the Company's strategy and future plans;
- reviewing and assessing the Company's strategic principles and their implementation on a periodic basis;
- providing recommendations to the Board to support and adopt certain investment projects;
- recommending investment projects with a view to diversifying the Company's sources of income sources;
- reviewing and assessing the performance of the Company's executive management;
- reviewing the Company's monthly financial performance;
- reviewing, amending, recommending and assessing compliance with (on a periodic basis) the Company's operational plan and estimated budget; and
- considering any issues referred to it by the Board.

The Strategy and Investment Committee is comprised of the following members:

**Table 8.3: Strategy**

<b>Name</b>	<b>Role</b>
Farraj Mansour Abothenain .....	Chairman
Esam Hamad Al-Mubarak .....	Member
Abdulrahman Mohammad Al-Mofadhi .....	Member
Said Abdullatif Al-Hadrami .....	Member

<b>Name</b>	<b>Role</b>
Bader Abdulkadir Gouth.....	Member

Source: Company

#### 8.5.2 *Audit Committee*

The Audit Committee oversees the adequacy of the Company's internal control systems to ensure that they safeguard the interests of shareholders. The Audit Committee is authorised to examine all relevant information, data, reports, records and/or any other relevant matters, which it considers important to access; review the interim and annual financial statements and accounting policies; nominate the Company's auditor for the respective fiscal year and verify the independence of the Company's internal auditors. The duties and responsibilities of this committee include the following:

- engaging or dismissing the external auditors and recommending their compensation to the Board;
- supervising the activities of the external auditors including approving any activity beyond the agreed scope of work;
- reviewing the comments of the external auditors on the annual financial statements and following-up on the decisions that have been taken in light of the comments;
- reviewing the interim and annual financial statements prior to presenting them to the Board;
- supervising the Company's internal auditing department to monitor its effectiveness in carrying out the tasks and duties assigned to it by the Board;
- reviewing the internal auditing system and drafting a written report with its recommendations;
- reviewing the internal audit reports and pursuing the implementation of the recommendations set out therein;
- reviewing and commenting on the audit plan with the external auditor; and
- reviewing and commenting on the applicable accounting policies and providing the Board with recommendations thereon.

The Audit Committee is comprised of the following members:

**Table 8.4: The Audit Committee members**

<b>Name</b>	<b>Role</b>
Saleh Abdullah Al Debasi .....	Chairman
Nasser Mohammad Al-Kahtani .....	Member
Abdullah Ali Al-Ajaji.....	Member
Dr Saad Saleh Al-Rwaita.....	Member

Source: Company

### 8.5.3 *Nomination and Remuneration Committee*

The duties and responsibilities of the Nomination and Remuneration Committee include the following:

- the nomination of the members of the Board for each term;
- the annual review of the needs and skills required for membership of the Board;
- the ongoing review of the structure of the Board including recommending changes as necessary;
- identifying any weaknesses within the current Board and making proposals to have them addressed in the next term;
- confirming, on an annual basis, the independence of any appointed independent Directors and ensuring that there are no conflicts of interest; and
- developing clear performance based policies for compensation and emoluments of the members of the Board and the senior executives.

The Nomination and Remuneration Committee is comprised of the following members:

**Table 8.5: The Nomination and Remuneration Committee Members**

<b>Name</b>	<b>Role</b>
Mohammed Abdulaziz Al-Sarhan .....	Chairman
Said Abdullatif Al-Hadrami .....	Member
Saleh Abdullah Al Debasi .....	Member

Source: Company

### 8.6 *Internal Audit*

The Internal Audit Department seeks to ensure that the Company's business units and offices comply with any applicable rules, standards, policies, procedures, controls, government laws and legislation.

The Internal Audit Department has implemented control systems applications (the "**Control Systems**") which monitor both the Company and the Group Companies. The Control Systems are designed to protect the assets of the Company, maintain and protect its accounting records against any unauthorised use, and ensure that the Company's accounting policies are consistently applied, so as to obtain reliable financial reporting.

The Internal Audit Department has implemented the Governance, Risk and Compliance Management System ("**GRCM**"), which is a component of the unified Enterprise Resource Planning ("**ERP**") system. GRCM was introduced to improve the Company's audit functions, enhance transparency, control risk and provide a system for the overall control of the Company's dealings and operations. GRCM has facilitated the ability of the Company to convert its internal audit functions into an electronic operating system.



## 8.7 *Responsibilities and Compensation of Directors and Senior Management*

### 8.7.1 *Directors*

The members of the Board are appointed in accordance with the By-Laws and exercise their powers pursuant to the By-Laws and the Companies Regulations. The members of the current Board have been appointed for a period ending on 02/04/1438H (corresponding to 31/12/2016G).

The responsibilities of the Chairman and the other members of the Board can be summarised as follows:

#### 8.7.1.1 *The Chairman*

- Ensuring the clarity of the Board's functions, framework of duties, and the basis for the division of responsibilities;
- Ensuring the clarity and precision of the Board's business plan and priority of topics brought before the Board;
- Ensuring that the Board's responsibilities adhere to and fulfil the vision and strategy of the Company;
- Leading the Board in selecting the CEO;
- Supporting the committees through administrative guidance and performance evaluation;
- Voting in relation to the appointment of senior management and executive officers; and
- Assessing the performance of the Directors.

#### 8.7.1.2 *The Board*

- Approving the mission and vision statements;
- Participating in the overall direction and planning of the Company's future plans;
- Overseeing the Strategy and Investment Committee in ensuring the effective implementation of policies and objectives of the Company;
- Participating in determining the Company's strategies and priorities and monitoring the effective and efficient utilization of the Company's assets;
- Approving the appointment of the CEO, the members of the senior management and executive officers;
- Documenting the deliberations and the resolutions issued by the Board through minutes executed by its members;
- Including any related-party transactions on the agenda of the General Assemblies to approve the same;
- Assisting in the evaluation and assessment of the executive officers and Board members; and
- Approving the Company's annual budget.

### 8.7.2 CEO

Engr. Ibrahim Abdulrahman Al-Omar is employed as the Chief Executive Officer of the Company under an employment contract dated 1/10/2014G. The term of the agreement is unspecified.

Engr. Ibrahim Abdulrahman Al-Omar's remuneration consists of a monthly salary, housing and transportation allowances as well as medical, social security, retirement benefits and an annual bonus linked to the Company's performance which is approved by the Board.

As at 31 December 2014G, Engr. Ibrahim Abdulrahman Al-Omar holds no shares in the Company.

### 8.7.3 CFO

Mohammed bin Omair Al-Otaibi is employed as the Chief Financial Officer of the Company under an employment contract dated 1 May 2005G. The term of the agreement is unspecified.

The Company's CFO, Mohammed Omair Al-Otaibi has resigned from the Company. The resignation was approved by the Board on 19 May 2015G and will take effect on 1 July 2015G. The Company is in the process of appointing a new chief financial officer.

Mohammed Omair Al-Otaibi's remuneration consists of a monthly salary, housing and transportation allowances as well as medical, social security, retirement benefits and an annual bonus linked to the Company's performance which is approved by the Board.

As at 31 December 2014G, Mohammed Omair Al-Otaibi holds no shares in the Company.

### 8.7.4 Remuneration of Directors and Executive Management

The total remuneration paid to the Directors for the financial years ended 31 December 2012G, 2013G and 2014G amounted to SAR 3,777,152, SAR 3,846,877 and SAR 3,807,339 respectively.

The total remuneration paid to five of the Company's Senior Officers including the CEO and the deputy CFO for the years ended 31 December 2012G, 2013G and 2014G amounted to SAR 11,736,000, SAR 16,034,000 and SAR 14,699,000 respectively.

The Directors and the CEO are prohibited from voting on decisions relating to their own remuneration. The Directors and the Senior Officers of the Company are prohibited from borrowing from the Company.

## 8.8 Employees and Saudization

As of 31 December 2014G, the Bahri Group had approximately 888 employees. Approximately 198 of the Bahri Group's employees are based in Saudi Arabia while 690 employees work internationally. As of 31 December 2014G, the Company alone employed 118 Saudi nationals and 64 expatriates, representing approximately 64.84 percent and 35.16 percent respectively of the Company's total workforce based in Saudi Arabia and NCC employs 11 of the Saudi nationals and 5 expatriates, representing 68.75 per cent. and 31.25 per cent. respectively of its total workforce based in Saudi Arabia.

The split between Saudis and Non-Saudis in the senior management of the Company is set out in the table below.

**Table 8.6: The senior management of the Company and its subsidiaries**

	<u>Saudis</u>	<u>Non Saudis</u>	<u>Total</u>
31 December 2012G.....			
CEO Office .....	1	0	1
Communication.....	1	0	1

	Saudis	Non Saudis	Total
Finance.....	1	0	1
Business Development.....	1	0	1
General Cargo.....	1	0	1
Bahri Oil & Gas.....	1	0	1
NCC.....	1	0	1
Mideast.....	0	1	1
NSCSA (America) Inc.....	0	1	1
<b>Total as at 31 December 2012G</b> .....	<b>7</b>	<b>2</b>	<b>9</b>
31 December 2013G.....			
CEO Office.....	1	0	1
Communication.....	1	0	1
Finance.....	1	0	1
Business Development.....	1	0	1
General Cargo.....	1	0	1
Bahri Oil & Gas.....	1	0	1
NCC.....	1	0	1
Mideast.....	0	1	1
NSCSA (America) Inc.....	0	1	1
<b>Total as at 31 December 2013G</b> .....	<b>7</b>	<b>2</b>	<b>9</b>
31 December 2014G.....			
CEO Office.....	1	0	1
Communication.....	1	0	1
Finance.....	1	0	1
Business Development.....	0	0	0
General Cargo.....	1	0	1
Bahri Dry Bulk.....	0	1	1
Bahri Gas & Marine.....	1	0	1
Bahri Oil Transportation.....	1	0	1
NCC.....	1	0	1
Mideast.....	0	1	1
NSCSA (America) Inc.....	0	1	1
<b>Total as at 31 December 2014G</b> .....	<b>7</b>	<b>3</b>	<b>10</b>

Source: Company

In addition to the Bahri Group's permanent employees, the Bahri Group also engages staff as seaman on a voyage by voyage basis. Other than senior officers on the Bahri Group's VLCCs and Saudi national seamen, all other seamen are engaged in this manner. Depending on the route of the voyage, the Bahri Group also engages seamen through third party manning agencies.

The split between Saudis and Non-Saudis in the administrative and operational staff of the Company is set out in the table below:

**Table 8.7: The administrative and operational staff of the Company and its subsidiaries**

	Saudis		Non-Saudis		Total
	Administrative	Operational	Administrative	Operational	
31 December 2012G					
Corporate Office.....	36	14	24	14	88
General Cargo.....	12	44	7	26	89
Bahri Oil & Gas.....	1	1	4	6	12
Bahri (Mumbai).....	0	0	4	4	8
NSCSA(America)Inc. ....	0	0	15	22	37
Mideast.....	3	0	42	45	90
NCC.....	10	0	6	1	17
<b>Total as at 31 December 2012G</b>	<b>62</b>	<b>59</b>	<b>102</b>	<b>118</b>	<b>341</b>
31 December 2013G					
Corporate Office.....	51	14	12	14	91
General Cargo.....	12	55	7	21	95
Bahri Oil & Gas.....	1	1	4	7	13
Bahri (Mumbai).....	0	0	4	4	8
NSCSA(America)Inc. ....	0	0	15	24	39

	Saudis		Non-Saudis		Total
	Administrative	Operational	Administrative	Operational	
Mideast.....	2	0	42	63	107
NCC .....	10	0	6	1	17
<b>Total as at 31 December 2013G</b>	<b>76</b>	<b>70</b>	<b>90</b>	<b>134</b>	<b>370</b>

31 December 2014G

Corporate Office.....	53	4	25	6	88
General Cargo .....	22	39	16	16	93
Bahri Dry Bulk.....	0	0	0	1	1
Bahri Gas & Marine .....	1	1	1	0	3
Bahri Oil Transportation .....	3	4	7	14	28
Bahri (Mumbai) Representative Office .....	0	0	3	4	7
NSCSA(America)Inc. ....	0	0	15	24	39
Mideast.....	4	9	77	64	154
NCC JLT.....	2	1	8	9	20
NCC KSA .....	11	0	4	1	16
Vessel Crew .....	0	69	0	370	439
<b>Total as at 31 December 2014G</b>	<b>96</b>	<b>127</b>	<b>156</b>	<b>509</b>	<b>888</b>

Source: Company

The strength and success of the Company can be attributed to the expertise and experience of its employees. It is our policy to ensure that the staff have adequate experience and receive the necessary training to enable them to perform their duties and tasks effectively and efficiently.

A total of 6,352 hours of training on various subjects were utilised by the Company's employees during 2014G.

#### 8.9 Saudization Policies

The table below illustrates the Company's\* present Saudi based workforce, broken down by department.

**Table 8.8: The Saudi based workforce, broken down by department.**

	2012G		2013G		2014G	
	Saudi	Non-Saudi	Saudi	Non-Saudi	Saudi	Non-Saudi
Bahri (KSA) .....	59.89 Per cent.	40.11 Per cent.	61.83 Per cent.	38.17 Per cent.	64.84 Per cent.	35.16 Per cent.
NCC .....	58.82 Per cent.	41.18 Per cent.	58.82 Per cent.	41.18 Per cent.	68.75 Per cent.	31.25 Per cent.
<b>Total .....</b>	<b>59.79 Per cent.</b>	<b>40.21 Per cent.</b>	<b>61.58 Per cent.</b>	<b>38.42 Per cent.</b>	<b>65.15 Per cent.</b>	<b>34.85 Per cent.</b>

Source: Company

\*Bahri Dry Bulk is currently managed by the Company

As at 31 December 2014G, approximately 118 (excluding NCC employees) of the Company's employees who are based in Saudi Arabia were Saudi nationals. The Company has been, and continues to be, fully committed to achieving the Government's policy on Saudization. For this reason, training and the development of Saudi skills and capabilities are a high priority of the Company. The Company has worked closely with the Ministry of Labour in this regard and as a result has implemented a comprehensive plan to increase the number of Saudi nationals that it employs in order to continue to exceed the national goal.

## **9. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following management discussion and analysis of financial condition and results of operations section provides an analytical review of the Company's consolidated operational performance and financial condition during the financial years ended 31 December 2012G, 2013G and 2014G. It is based upon, and should be read in conjunction with, the Company's consolidated audited financial statements for the financial years ended 31 December 2012G, 2013G and 2014G, and the notes thereto (the "**Audited Financial Statements**"), which are included in this Prospectus. The Company's Audited Financial Statements for the financial year ended 31 December 2012G were audited by BDO Dr. Mohamed Al-Amri & Co., and the Company's Audited Financial Statements for the financial years ended 31 December 2013G and 2014G were audited by Ernst & Young & Co. (Public Accountants), as stated in their audit reports included in this Prospectus.

All amounts are in SAR, unless stated otherwise. Further, amounts are rounded off to nearest millions and along with the percentages, presented to one decimal place. References to "CAGR" refer to Compound Annual Growth Rate over the financial years ended 31 December 2012G to 31 December 2014G.

BDO Dr. Mohamed Al-Amri & Co. and Ernst & Young & Co. (Public Accountants) do not have any shareholding or interest of any kind in the Company. They have furnished and not withdrawn their written consent for the inclusion of their names, logos and audit reports on the consolidated Audited Financial Statements for the financial year ended 31 December 2012G and the financial years ended 31 December 2013G and 2014G, respectively, in the Prospectus.

This discussion and analysis may contain forward-looking statements that involve risks and uncertainties. The Company's actual results could differ materially from those indicated in any forward-looking statements as a result of various factors, including those discussed below and elsewhere in this Prospectus, particularly under Section 5, "Risk Factors".

### **9.1 Directors' Declaration for Financial Information**

The Board of Directors declare to the best of their knowledge and belief that the tables of financial information presented in this section are prepared on a consolidated basis, extracted without material adjustment from the Audited Financial Statements and include financial information presented in a form consistent with that which is adopted in the Issuer's annual consolidated financial statements, and that the Audited Financial Statements have been prepared in accordance with SOCPA Accounting Standards.

The Board of Directors declare that there has been no material adverse change in the financial or trading position of the Company during the financial years ended 31 December 2012G, 2013G and 2014G, and the period up to and including the date of this Prospectus.

The Board of Directors further declare that the Company will have a sufficient working capital for the 12 months immediately following the date of the publication of the Prospectus.

The Board of Directors, the CEO, the Secretary and the Senior Executives declare that they have not at any time been bankrupt or been subject to bankruptcy proceedings as at the date of this Prospectus.

The Board of Directors declare that no shares of the Company or its subsidiaries are under option as at 31 December 2014G.

Save as disclosed herein, the Board of Directors declare that there are no other mortgages, rights and charges on the Company's or its subsidiaries' properties or the properties of the members of the Bahri Group, as of the date of this Prospectus, except as disclosed in this section and elsewhere in this Prospectus.

No commissions, discounts, brokerages or other non-cash compensation were granted by the Company or its subsidiaries to any member of their Board, senior managers, promoter or expert in connection to the issue or sale of any securities in the three years immediately preceding the date of this Prospectus.

## 9.2 Definitions

**Gross operating income margin** - refers to the gross operating income as a percentage of operating revenues.

**Operating income margin** - refers to the operating income as a percentage of operating revenues.

**Net income margin** - refers to the net income as a percentage of operating revenues.

**Return on assets** - refers to the net income as a percentage of total assets.

**Assets turnover** - refers to operative revenues as a percentage of total assets.

**Return on equity** - refers to net income as a percentage of equity.

**Fixed assets turnover** - refers to operating revenue as a percentage of fixed assets.

**Financing charges coverage** - refers to the ratio of the sum of operating income, share in results of associated companies and other income/(expenses) to the finance charges.

**Earnings per share from operating income** - refers to the operating income divided by the Company's weighted average number of shares outstanding during the year.

**Earnings per share from net income** - refers to the net income divided by the Company's weighted average number of shares outstanding during the year.

**Debt to equity** - refers to the ratio of total long-term and short-term borrowings to equity.

**Debt to capital** - refers to the total long-term and short-term borrowings as a percentage of total capital (which comprise bank borrowings and equity).

**Current ratio** - refers to the ratio of current assets to current liabilities.

## 9.3 Company Overview

The Company is a Saudi joint stock company and was established by Royal Decree No. M/5 dated 12/02/1398H (corresponding to 22/01/1978G), and registered under Commercial Registration No. 1010026026 dated 01/12/1399H (corresponding to 22/10/1979G), issued in Riyadh, KSA.

Bahri Group and its associated company are engaged in the purchase, sales, charter and operation of vessels for the transportation of crude oil, liquefied petroleum gas ("**LPG**"), petrochemicals, general cargo, passengers and other activities related to the maritime transportation industry.

The Company owns 31 double-hull VLCCs, which are operating in the spot charter market and one single-hull floating storage VLCC. In addition, the Company owns six RoCons operating on the liner trade between North America, Europe, the Middle East and the Indian Subcontinent.

### 9.3.1 Subsidiaries/Associate overview

The Company's investments in subsidiaries/associate companies are summarised in the table below. The Consolidated Audited Financial Statements include the activities of the Company and its subsidiaries, in which the Company owns more than 50 per cent. of the share capital, of such

companies. An associate company refers to any company which the Company owns between 20-50 per cent. of its share capital.

**Table 9.1 Subsidiaries and associate companies**

Name of the Company	Paid Share capital (31/12/2014G) Thousands SAR	Ownership % (31/1/2014G)	Relation	Activity	Country of Establishment	Date of incorporation	Geographical scope of activity
<b>Subsidiaries</b>							
NSCSA (America) Inc.	3,750	100.0%	Subsidiary	Bahri Ships Agent	USA	1991G	Global
National Chemical Carriers Company Limited	610,000	80.0%	Subsidiary	Petrochemical Transportation	KSA	1990G	Global
Bahri Dry Bulk LLC	200,000	60.0%	Subsidiary	Dry Bulk Transportation	KSA	2010G	Global
Mideast Ship Management Limited (JLT)	306.54	100.0%	Subsidiary	Technical Ship Management	UAE	2010G	Global
<b>Associate companies</b>							
Petreddec Limited	22,916.6	30.3%	Associate	LPG Transportation	Bermuda	1980G	Global

*Source: Company*

#### ***NSCSA (America) Inc.***

NSCSA (America) Inc. was incorporated in 1991G in the United States of America. It is engaged in the shipping agency business as general agent for the Company in the United States and Canada.

#### ***National Chemical Carriers ("NCC")***

NCC is a limited liability company with a share capital of SAR 610 million. The Company owns 80 per cent. of NCC's share capital while the remaining 20 per cent. is owned by Saudi Basic Industries Corporation ("SABIC").

NCC signed a 50:50 joint venture agreement with Odfjell SE of Norway on 22/06/1430H (corresponding to 15 June 2009G), to establish a company in Dubai (United Arab Emirates), by the name of NCC-Odfjell Chemical Tankers JLT, to commercially operate the two companies' combined fleets of coated<sup>11</sup> chemical tankers in a pool, for the transportation of chemicals, vegetable oils and refined petroleum products on a world-wide basis, with a focus on the growing production and export market of the Arabian Gulf Region. NCC-Odfjell Chemical Tankers JLT commenced operations in 2010G.

<sup>11</sup> Chemical tankers are universally recognised special type of tankers which are coated and insulated from inside to fit transferring specific chemicals.

NCC signed an agreement with Odfjell on 9 April 2013G, to acquire Odfjell's 50 per cent. stake in NCC-Odfjell Chemical Tankers JLT at net book value, thereby becoming a 100 per cent. owner, following which the existing pool arrangement under which NCC JLT's and Odfjell's vessels were operating was dissolved. The purchase was effective from 1 June 2013G and the registered name of NCC-Odfjell Chemical Tankers JLT was changed to National Chemical Carriers JLT, effective from the same date. In 2014G, NCC JLT became a branch of NCC and therefore it is no longer a separate legal entity from NCC.

As at the date of this Prospectus, NCC JLT continues to co-operate with Odfjell and each of NCC JLT and Odfjell have contributed one 75,000 DWT large chemical tanker to a pool arrangement that will be commercially managed by NCC.

### ***Bahri Dry Bulk***

On 28th August 2010G, the Company entered into an agreement with Arabian Agricultural Services Company ("**ARASCO**") to establish Bahri Dry Bulk for dry bulk cargo transportation, with a capital of SAR 200 million, of which 60 per cent. is owned by the Company while the remaining 40 per cent. is owned by ARASCO. Bahri Dry Bulk commenced its commercial operations in the second quarter of 2012G.

Bahri Dry Bulk's operations focus on transporting agricultural output and other dry bulk cargo globally.

### ***Mideast Ship Management Limited (JLT) ("Mideast")***

Mideast was established as a joint venture company by the Company and Acomarit, a ship management company based in Scotland. Mideast is based in Dubai, UAE, and provides professional ship management services to the Company's fleet and its subsidiaries. Mideast currently manages 69 vessels, including the Company's VLCCs, RoCons, dry bulk vessels owned by Bahri Dry Bulk and the chemical carriers owned by NCC. The key services offered by Mideast include insurance and claim handling, technical management, periodic financial reporting, technical and marine consultancy services in relation to the Company's vessels.

### ***Petreddec Limited***

In 2005G, as part of its strategic expansion and diversification, the Company acquired a minority shareholding in Petreddec, a company incorporated in Bermuda. Petreddec operates largely in the trade and transport of LPG and as at 31/12/2013G (corresponding to 28/2/1435H) is supported by a fleet of specialised LPG carriers, consisting of 59 vessels of various sizes, of which 28 are owned by Petreddec itself (including carriers that are under construction as of the date of the Prospectus), two carriers are on Bareboat Charter contracts, 29 carriers are on time charter agreements.

Petreddec's operations cover the Asian, European, Caribbean and Middle Eastern markets.

## **9.3.2 Strategic shipping segments overview**

The Company's management operates its business on the basis of the following independent strategic shipping segments:

- Oil Transportation
- Gas and Offshore
- Chemical Transportation
- General Cargo Transportation



- Dry Bulk Transportation
- Ship Management

### ***Oil Transportation***

The oil transportation segment is the largest operating segment of the Company in terms of assets owned and operating revenue. This segment is engaged in the marine transportation of Crude Oil through its fleet of 31 double-hulled VLCCs. It operates the VLCCs under spot and long-term charter agreements. The Company determines the charter rates based on internationally acceptable prevailing rates at the time of signing the contracts while the prevailing market prices are applied in the case of spot market charters.

The 31 double-hull VLCCs operated by the Company represent a capacity of at least 2.2 million barrels and more than 300,000 DWT.

### ***Gas & Offshore***

The gas & offshore segment was established in 2014G in order to allow the oil transportation segment to focus solely on the Company's oil transportation business, which expanded as a result of the Vela Transaction.

The Gas & Offshore segment focuses on exploring the available investment opportunities in the offshore sector, in line with the Company's overall strategic plan for expansion and business diversification. In addition to the offshore sector, the segment also manages the Company's gas business and its investment in Petredec.

### ***Chemical Transportation***

The Company operates in this segment through NCC. NCC owns 24 chemical tankers, out of which three were leased to Odfjell SE, a Norwegian company, on 30 January 2009G under a bareboat capital lease arrangement, one is operating in a pool with NCC JLT and eight are chartered to International Shipping and Transportation Company Limited, a subsidiary of Saudi Basic Industries Corporation. The remaining twelve vessels are operating in the spot market.

### ***General Cargo Transportation***

The general cargo transportation segment provides liner services, cargo transportation, freight forwarding and container services through its fleet of RoCons, conventional and container vessels. It offers liner service by operating RoCons/Conventional/Container vessels in the Arabian Gulf-Indian sub-continent, Red Sea, Mediterranean and the US-Canada (East Coast). The general cargo fleet also operates a liner service for the carriage of both general cargoes and passengers from the east coast of the USA and Canada to the Indian sub-continent.

### ***Dry Bulk Transportation***

The Company signed a joint venture agreement with ARASCO for the incorporation of Bahri Dry Bulk, a specialised dry bulk cargo transportation company and with an ownership percentage of 60 per cent. by the Company and 40 per cent. by ARASCO respectively. The new subsidiary commenced its commercial operations in the second quarter of 2012G. The Company Dry Bulk's operations focus on transporting wheat, corn and other dry bulk cargo globally.

### ***Ship Management***

The Company operates this segment through its fully owned subsidiary in the UAE, Mideast Ship Management Limited (JLT). Mideast provides professional ship management services to the Company's fleet and its subsidiaries. Mideast currently manages 69 vessels, including the Company's

VLCCs, RoCons, dry bulk vessels owned by Bahri Dry Bulk and the chemical carriers owned by NCC. The key services offered by Mideast include insurance and claim handling, technical management, periodic financial reporting, technical and marine consultancy services in relation to the Company's vessels.

#### **9.4 Share Capital**

The authorised and paid-up capital of the Company is SAR 3,937.5 million comprised of 393,750,000 shares with a nominal value of SAR 10 each as of 31 December 2014G.

During 2014G, the Company's share capital was increased from SAR 3,150.0 million to SAR 3,937.5 million through the issuance of 78.75 million shares as part consideration for the Vela Transaction.

#### **9.5 Main Factors Affecting the Results of Operations**

A discussion about the most significant factors that have affected, or are expected to affect, our financial condition and results of operations has been included in Section 5, "*Risk Factors*". There are no governmental, economic, financial, monetary or political policies or other factors which have affected or could affect crucially (directly or indirectly) in the Company's operations regardless of what is described in section 5, "*Risk Factors*").

#### **9.6 Seasonality/Business Cycles**

The business of the Company is affected by seasonality and business cycles which is also reflected in global shipping rates.

#### **9.7 Significant Accounting Policies**

The Audited Financial Statements for the years ending on 31 December 2012G, 2013G and 2014G, and the notes thereto, which are included elsewhere in this Prospectus, have been prepared in compliance with the standards and regulations promulgated by SOCPA and with the relevant provisions of the Companies Law and the By-Laws relating to the preparation and presentation of financial statements. The Company publishes its consolidated financial statements in SAR.

The Company's accounting policies are integral to understanding its results of operations and financial condition presented in the consolidated financial statements and related notes thereto. The summary of the Company's principal significant accounting policies is set out in Note 2 of the Notes to the Consolidated Financial Statements as of and for the years ended 31 December 2012G, 2013G and 2014G and are summarised below.

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and of income and expenses during the relevant reporting period. These estimates and judgments are based on the management's best knowledge of current events and actions. The Company's management believes that the following significant accounting policies, due to the judgment, estimates and assumptions inherent in the application thereof, are critical to an understanding of the Company's financial statements.

##### **9.7.1 Revenue recognition**

The Group follows the accrual basis of accounting for the revenues and expenses for the period voyages as follows: Transport of Crude Oil, Petrochemicals, and Dry Bulk. Revenues from transport of oil, petrochemicals, and dry bulk are recognised when earned over agreed-upon period of the contract, voyage and services.

*General Cargo Transportation:* the Group follows the complete voyage policy in determining the revenues and expenses of the period for vessels transporting general cargo i.e. RoCons. A voyage is considered to be "Completed" when a vessel has sailed from the last discharging port of a voyage. Shipping revenues, direct and indirect operating expenses of incomplete voyage are deferred until

such voyages are Completed. Incomplete voyages are shown at the net amount in the consolidated balance sheet as "Incomplete Voyages".

Revenues from charter and other associated activities are recorded when services are rendered over the duration of the related contractual services. Other income is recorded when earned.

#### **9.7.2 Bunker subsidy**

Bunker subsidy is a compensation paid by the Saudi Arabian Government through Saudi Aramco Saudi Arabian shippers, in accordance with the government legislation, which stipulates a number of criteria that need to be met to qualify for the subsidy. Bunker subsidy is computed on bunker fuel quantities purchased and consumed by the Group, and these are recorded in the consolidated statement of income. Provisions are made against any amounts that might not be collectable.

#### **9.7.3 Borrowing costs**

Borrowings are recognised as the proceeds received, net of transactions costs incurred. Borrowing costs that are directly attributable to the acquisition, construction and production of qualifying assets are capitalised as part of those assets. Other borrowing costs are charged to the consolidated statement of income.

#### **9.7.4 Hedging 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 and such derivative financial instruments are initially measured at fair value on the contract date and are re-measured to fair value on subsequent reporting dates.

Changes in the fair value of derivative financial instruments that are designated as effective hedges of future cash flows are recognised directly in equity, if material and the ineffective portion is recognised immediately in the consolidated statement of income. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gain or loss on the derivative that had previously been recognised 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 recognised in the consolidated statement of income in the same period for 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 recognised in the consolidated statement of income as they arise. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualified for hedge accounting.

At the time of such expiry, sale, termination or exercise, for forecast transactions, any cumulative gain or loss on the hedging instrument recognised 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 recognised in equity is transferred to consolidated statement of income for the period.

#### **9.7.5 Deferred Dry-docking costs**

Deferred Dry-docking costs are amortised over a period of two to five years from the date of completion of Dry-docking depending on the type of vessel. Where a vessel undergoes another Dry-docking operation during the specified amortisation period, any unamortised balance of deferred costs

related to the previous Dry-docking of the vessel is amortised in the consolidated statement of income in the period that ends at the beginning of the new Dry-docking operation.

## 9.8 Results of Operations

### 9.8.1 Consolidated Statement of Income

The following table sets out the Company's consolidated income statements for the financial years ended 31 December 2012G, 2013G, and 2014G:

**Table 9.2 Consolidated Statement of Income**

	Year ended 31 Dec			Increase/(Decrease)	
	2012G	2013G	2014G	2013G as compared to 2012G	2014G as compared to 2013G
<b>SAR' million</b>					
<b>Operating revenues</b> .....	2,464.6	2,846.7	3,626.4	15.5%	27.4%
<b>Bunker cost</b> .....	(875.1)	(943.4)	(1,206.7)	7.8%	27.9%
<b>Other Operating expenses</b> .....	(1,253.3)	(1,494.8)	(1,963.4)	19.3%	31.3%
<b>Gross operating income before bunker subsidy</b> .....	336.3	408.5	456.3	21.5%	11.7%
<b>Bunker subsidy</b> .....	200.6	171.1	217.9	(14.7%)	27.4%
<b>Gross operating income</b> .....	536.8	579.6	674.2	8.0%	16.3%
<b>General and administration expenses</b> .....	(83.1)	(79.1)	(98.9)	(4.8%)	25.0%
<b>Operating income</b> .....	453.8	500.4	575.4	10.3%	15.0%
<b>Share in results of associated company</b> .....	147.7	291.2	132.0	97.2%	(54.7%)
<b>Financing charges</b> .....	(59.8)	(60.4)	(106.5)	1.0%	76.3%
<b>Other income (expenses)- net</b> ....	20.1	107.7	(1.1)	435.8%	(101.0%)
<b>income before Zakat, tax, and non-controlling interests</b> .....	561.8	839.0	599.8	49.3%	(28.5%)
<b>Zakat &amp; withholding tax, net</b> ....	(36.3)	(49.9)	(37.4)	37.5%	(25.1%)
<b>Income before non-controlling interests</b> .....	525.5	789.1	562.3	50.2%	(28.7%)
<b>Non-controlling interests</b> .....	(21.5)	(36.9)	(28.5)	71.6%	(22.8%)
<b>Net income for the year</b> .....	<b>504.0</b>	<b>752.3</b>	<b>533.8</b>	<b>49.3%</b>	<b>(29.0%)</b>

Source: Company.

The operating revenue of the Company increased at a CAGR<sup>12</sup> of 21.3 per cent. between 2012G and 2014G. Oil transportation segment contributed, on average, 57.4 per cent. to the total operating revenue of the Company during the period from 1 January 2012G to 31 December 2014G.

The acquisition of 100 per cent. ownership of NCC JLT (formerly NCC Odfjell Chemical Tankers JLT), by NCC and the cessation of pool arrangement with Odfjell was the key driver for the 15.5 per cent. revenue growth reported by the Company in 2013G. NCC JLT was subsequently changed to a branch in 2014G. In 2014G, the Company reported a further 27.4 per cent. growth in operating revenue, which was mainly attributable to expansion of the Company's oil transportation business following acquisition of vessels from Vela.

Bunker cost represents fuel costs for the vessels in operation during the year. Bunker costs ranged between 33.1 per cent. and 35.5 per cent. of the total operating revenue during the period from 1 January 2012G to 31 December 2014G. The oil transportation segment accounted for, on average, 77.7 per cent. of the total bunker consumption cost during period from 1 January 2012G to 31 December 2014G. Bunker fuel costs increased by SAR 331.6 million, or at a compound annual growth rate of 17.4 per cent. over the period 2012G to 2014G. The increase in bunker costs can be traced to an increase in operating days for the Company's VLCCs engaged in spot market operations and chemical transportation vessels.

Other operating expenses mainly represent ship running costs (mainly crew costs), depreciation and amortisation expenses. Other operating expenses averaged 52.5 per cent of total operating revenue during the period from 1 January 2012G to 31 December 2014G. It increased at a CAGR of 25.2 per cent. between 2012-14G mainly due to the increase in the number of vessels in operation during the period between 1 January 2012G and 31 December 2014G.

The Company achieved consistent growth in gross operating income during 2012-14G. It increased by SAR 42.8 million, or 8.0 per cent. in 2013G and further by SAR 94.6 million, or 16.3 per cent., in 2014G. The growth in gross operating income was mainly driven by the expansion of the Company's operations, particularly the oil transportation and chemical transportation segments.

The growth in gross operating income in 2013G was supplemented by an increase in the Company's share of income from associates, which increased by 97.2 per cent., resulting in a SAR 248.3 million or 49.3 per cent. increase in the Company's net profit for 2013G, as compared to 2012G. However, a SAR 159.2 million, or 54.7 per cent. decline in the share of income from associates in 2014G, mainly due to a decline in financial performance of Petredec, led to an overall SAR 218.5 million, or 29.0 per cent. lower net income of the Company for 2014G, as compared to 2013G.

### ***Key performance indicators***

The key performance indicators for the Company are set out in the table below:

**Table 9.3 Key performance indicators**

	Year ended 31 Dec		
	2012G	2013G	2014G
Gross operating income margin .....	21.8%	20.4%	18.6%
Operating income margin .....	18.4%	17.6%	15.9%
Net income margin .....	20.4%	26.4%	14.7%
Return on assets .....	4.6%	6.3%	3.1%

<sup>12</sup> CAGR calculated as ((Ending Value (2014)/Basic Value(2012))^(1/years))-1

	Year ended 31 Dec		
	2012G	2013G	2014G
Asset turnover .....	22.3%	23.7%	21.2%
Return on equity .....	9.3%	12.9%	6.8%
Fixed asset turnover	32.8%	33.4%	27.9%
Financing charges coverage .....	10.4	14.9	6.6
Earnings per share from gross operating income (SAR) .....	1.44	1.59	1.70
Earnings per share from net income (SAR) .....	1.60	2.39	1.58
Debt to equity .....	0.9	0.9	1.0
Debt to capital .....	46.0%	46.0%	50.0%
Current ratio .....	1.1	1.1	0.4

Source: Company.

### Operating revenues

Following is a table of the Company's operating revenues by segment during the years ended 31 December 2012G, 2013G, and 2014G:

**Table 9.4 Operating revenues by segment**

	Year ended 31 Dec			Increase/(Decrease)	
	2012G	2013G	2014G	2013G as compared to 2012G	2014G as compared to 2013G
<b>SAR' million</b>					
Oil transportation .....	1,474.5	1,506.8	2,152.3	2.2%	42.8%
Chemical .....	440.9	663.9	802.9	50.6%	20.9%
General cargo .....	510.1	562.2	550.4	10.2%	(2.1%)
Dry bulk .....	39.2	113.9	120.8	190.6%	6.1%
<b>Total .....</b>	<b>2,464.6</b>	<b>2,846.7</b>	<b>3,626.4</b>	<b>15.5%</b>	<b>27.4%</b>

Source: Company.

### Oil transportation

The oil transportation segment contributed, on average, 57.4 per cent. of total operating revenue during the financial years ended 31 December 2012G, 2013G, and 2014G.

In 2012G, the Company signed a long term Contract of Affreightment ("COA") with Saudi Aramco. The long term contract includes a minimum guaranteed rate for the provision of shipping services from Bolanter where Long-Haul voyages are performed by Company-owned vessels, in order to reduce the exposure of the Company to shipping rate volatility, particularly when shipping rates fall below such minimum guaranteed rate. The minimum guaranteed rate does not apply to shipments that

are effected by the Company through the chartering of third party vessels or to shipments that are not made on a delivered basis. Conversely, when shipping rates exceed an agreed threshold, the Company is required to reimburse a proportion of such excess to Bolanter for any payment it has previously received pursuant to the minimum guaranteed rate mechanism, limited to the amounts it so received.

Operating revenue from the oil transportation segment increased by SAR 32.3 million or 2.2 per cent. in 2013G, as compared to 2012G mainly due to an increase in the revenue from VLCCs operating in the spot market, from SAR 1,280.3 million in 2012G to SAR 1,358.5 million in 2013G, resulting from:

- Average time charter equivalent rates obtained by the Company's vessels operating in the spot market increased by 11.9 per cent. (from SAR 118,033 /day to SAR 132,060/day), in line with the movement of time charter equivalent rates in the global markets.
- Shifting of the VLCC Harad to the spot market and a decline in dry-dock days, which resulted in 96 incremental operating days in 2013G, for VLCCs operating in the spot market.

Operating revenue from the oil transportation segment witnessed an increase of SAR 645.5 million or 42.8 per cent. in 2014G, as compared to 2013G. The increase in revenue was attributable to:

- Acquisition of Vela's vessels during 2014G and the use of additional chartered-in vessels, which resulted in a 34.8 per cent. increase or 1,850 additional operating days for the Company's vessels in 2014G, as compared to 2013G.
- A global recovery in time charter equivalent rates, especially towards the end the year resulted in the average time charter rates of the Company's VLCCs increasing by 16.1 per cent., from SAR 132,060/day in 2013G to SAR 153,259/day in 2014G.

Key customers of the oil transportation segment include:

- Bolanter Corporation N.V
- Vela International Marine Limited
- Reliance Industries Limited
- PetroChina Company Limited
- Unipet

### ***Chemical***

Operating revenue from the chemical transportation segment reported an increase of SAR 223.0 million or 50.6 per cent., in 2013G as compared to 2012G and further by SAR 139.0 million, or 20.9 per cent., in 2014G, as compared to 2013G.

The increase in operating revenue was mainly attributable to the cessation of the pool arrangement with Odfjell and the addition of one new chemical transportation vessel to the Company's fleet, in 2013G. During the pool arrangement period, operating revenue from the vessels operating in the pool was presented net of voyage related expenses attributable to those vessels. Following the cessation of the pool arrangement, voyage related expenses were presented separately, as operating expenses, thereby resulting in higher operating revenue. Further, as a result of the cessation of the pool arrangement, operating days for the NCC operated chemical transportation vessels increased from 5,851 days in 2012G to 8,426 days in 2013G and further to 8,733 days in 2014G.

Key customers of the chemical transportation segment include:

- SABIC

- Saudi Aramco
- Qatar Chemical and Petrochemical Marketing and Distribution Company ("Muntajat")
- Trafigura Beheer BV
- PetroChina Company Limited

### ***General cargo***

Variation in the operating revenue from the general cargo segment was primarily driven by the cargo volume shipped under the agreement to provide transportation and logistics to the Ministry of Defence ("**MoD**"), which is effective from September 2011G.

In 2013G, an increase in shipped volumes for the MoD resulted in SAR 80.0 million additional revenue, which contributed to the SAR 52.1 million, or 10.2 per cent., growth in operating revenue of the general cargo segment, as compared to 2012G.

Operating revenue from the general cargo segment declined by SAR 11.8 million or 2.1 per cent. in 2014G, as compared to 2013G. The decline in revenue was primarily attributable to a reduced amount of revenue generated from the MoD agreement in 2014G, as a result of lower shipped volumes. However, other business segments of the general cargo segment i.e. liner, freight forwarding and container shipment yard, reported revenue growth of SAR 12.2 million, SAR 23.7 million, and SAR 3.2 million, respectively, in 2014G, thereby partially offsetting the decline in revenue from the MoD.

Key customers of the general cargo segment include:

- MoD
- American Railcar Industries
- Aramco Services Company
- Saudi National Guard
- CNH America LLC

### ***Dry bulk segment***

The dry bulk segment commenced operations in the second quarter of 2012G. Operating revenue from the dry bulk segment increased by SAR 74.7 million, or 190.6 per cent. in 2013G, as four time chartered vessels and one owned vessels were included in the Company's fleet. The delivered vessels replaced the chartered vessels in operation previously.

Bahri Dry Bulk received delivery of two dry bulk vessels in January 2014G, one vessel in February 2014G and one vessel in March 2014G. The addition of these vessels to the Company's fleet resulted in 583 additional operating days and was the key driver for the SAR 6.9 million or 6.1 per cent. increase in revenue from the dry bulk segment in 2014G, as compared to 2013G.

ARASCO is the sole customer for the dry bulk segment.

### ***Bunker cost***

The following table summarises segment wise bunker costs during the years ended 31 December 2012G, 2013G and 2014G.



**Table 9.5 Bunker consumption cost by segment**

	Year ended 31 Dec			Increase/(Decrease)	
	2012G	2013G	2014G	2013G as compared to 2012G	2014G as compared to 2013G
<b>SAR' million</b>					
Oil transportation .....	724.6	701.6	916.9	(3.2%)	30.7%
Chemical .....	-	109.5	190.2	<i>nm</i>	73.7%
General cargo .....	150.5	132.3	99.6	(12.1%)	(24.7%)
<b>Total .....</b>	<b>875.1</b>	<b>943.4</b>	<b>1,206.7</b>	<b>7.8%</b>	<b>27.9%</b>

*Source: Company*

Bunker consumption cost represents fuel costs for the vessels in operation during the year. Bunker fuel is mainly sourced from Saudi Aramco. The oil transportation segment accounted for, on average, 77.7 per cent. of the total bunker consumption cost during the period from 1 January 2012G to 31 December 2014G.

Bunker consumption cost for the oil transportation segment decreased by SAR 23.0 million, or 3.2 per cent., in 2013G, as compared to 2012G, mainly as a result of a 5.5 per cent. decline in the average bunker fuel price (to US\$ 691/MT) in 2013G. This was partially offset by an increase in bunker consumption cost as a result of 108 incremental VLCC operating days during 2013G, as compared to 2012G.

Bunker consumption cost for the oil transportation segment increased by SAR 215.4 million, or 30.7 per cent. in 2014G, as compared to 2013G. The increase in bunker cost was driven by the higher number of operating days and increased consumption as a result of expansion in the Company's fleet following the acquisition of vessels from Vela. This was partially offset by a 5.6 per cent. decline in (to USD 652/MT) average bunker fuel price in 2014G, as a result of lower bunker fuel prices in the international market.

Chemical transportation tankers operated in a pool arrangement (through a 50:50 joint venture with Odfjell) and third party charters in 2012G, resulting in no bunker cost. During 2013G, NCC acquired 100 per cent. ownership of National Chemical Tankers JLT (formerly NCC Odfjell Chemical Tankers JLT), ending the pool arrangement. As a result, a bunker fuel consumption cost of SAR 109.5 million was recorded in 2013G. Bunker consumption cost for the chemical transportation tankers increased by SAR 80.7 million, or 73.7 per cent. in 2014G, mainly as a result of higher fuel consumption due to 307 additional operating days of chemical transportation vessels during the year.

Bunker fuel consumption cost of the general cargo transportation segment declined by SAR 18.2 million, or 12.1 per cent., in 2013G, as compared to 2012G. The decline in cost was due to a combination of better fuel efficiency of the new vessels inducted in the Company's fleet during 2013G, leading to lower bunker fuel consumption and a decline in average bunker costs.

Bunker consumption cost of the general cargo segment declined by SAR 32.7 million or 24.7 per cent. in 2014G as compared to 2013G. The decline in cost was attributable to 5.6 per cent. lower average bunker cost during 2014G.

### ***Other operating expenses***

The following table summarises details of other operating expenses during the years ended 31 December 2012G, 2013G and 2014G:

**Table 9.6 Other operating expenses**

	Year ended 31 Dec			Increase/(Decrease)	
	2012G	2013G	2014G	2013G as compared to 2012G	2014G as compared to 2013G
<b>SAR ' million</b>					
Vessel related expenses .....	489.9	572.7	778.7	16.9%	36.0%
Cargo related expenses .....	184.9	222.6	237.5	20.4%	6.7%
Voyage related expenses.....	142.1	204.3	313.1	43.8%	53.3%
Depreciation and amortization ...	423.1	459.6	591.2	8.6%	28.6%
Others .....	13.3	35.6	43.0	167.7%	20.8%
<b>Total.....</b>	<b>1,253.3</b>	<b>1,494.8</b>	<b>1,963.4</b>	<b>19.3%</b>	<b>31.3%</b>

*Source: Company*

Other operating expenses mainly represent vessels related (ship running costs), depreciation and amortisation expenses, which together averaged 70.6 per cent. of the total other operating expenses during 2012-14G. Other operating expenses averaged 52.5 per cent. of total operating revenue during the period from 1 January 2012G to 31 December 2014G and increased at a CAGR of 25.2 per cent. during 2012-14G.

Key suppliers of the Company and its subsidiaries include:

- Saudi Aramco
- Chemoil Corporation USA
- O.W.Bunker
- Saudi Arabian Bunkering Services
- BAKRI International Energy Company Limited
- Campania Espanola de Petroleos (Saudi Arabia)
- Saudi Shipping & Maritime Services
- S-OIL
- International Bunker Supplies PTY Limited
- Peninsula Petroleum
- Ship Oil Limited
- North of England P&I Association
- Tawuniya

- **Britania Steam Ship Insurance**

### ***Vessel related cost***

Vessel related costs increased by SAR 82.8 million, or 16.9 per cent. in 2013G, as compared to 2012G, mainly as a result of the cessation of pool arrangement for chemical transportation vessels with Odfjell. This led to 965 incremental operating days for the Company's vessels, leading to the increase in vessel related costs.

Vessel related costs increased by SAR 206.0 million or 36.0 per cent. in 2014G, as compared to 2013G, primarily due to the 34.8 per cent increase in operating days for the VLCCs operating in the spot market in 2014G.

### ***Cargo related expenses***

Cargo related expenses represent mainly cargo loading/unloading and agency fees and commission relating to the general cargo segment. Cargo related expenses increased SAR 37.7 million, or 20.4 per cent, in 2013G, as compared to 2012G, mainly due to increased shipment volume related to the MoD contract (referred to above).

Cargo related expenses increased by SAR 14.9 million or 6.7 per cent. in 2014G, as compared to 2013G. The incremental expenses were attributable mainly to the freight forwarding operations and certain overhead expenses.

### ***Voyage related expenses***

Voyage related expenses mainly included port charges, Suez Canal charges and brokerage/agency commissions.

Voyage related expenses increased by SAR 62.2 million, or 43.8 per cent in 2013G, as compared to 2012G, mainly due to additional bunker costs incurred as a result of the shifting of vessels previously operating in pool arrangement with Odfjell, to charter agreements.

Voyage related expenses increased by SAR 108.8 million or 53.3 per cent. in 2014G, as compared to 2013G, mainly due to reclassification of voyage related expenses for vessels previously operating in pool arrangement from revenue to operating expenses, as explained above.

### ***Depreciation and amortisation***

Depreciation costs related to the depreciation of the vessels owned by the Company, while amortisation costs represent the allocation of the vessels' Dry-docking costs over a period of between two to five years.

Depreciation and amortisation expense increased by SAR 36.5 million, or 8.6 per cent., in 2013G, as compared to 2012G and was mainly attributable to the addition of four cargo transportation vessels to the Company's fleet and the cessation of the pool arrangement for the chemical transport vessels with Odfjell.

Depreciation and amortisation expense increased by SAR 131.6 million or 28.6 per cent. in 2014G, as compared to 2013G. The increase was attributable to the purchase of vessels from Vela in 2014G, which led to higher net book value of the Company's vessel related assets.

### ***Others***

Other mainly includes administrative expenses related to the Company's Dubai office out of which the Company's Oil transportation operations are managed.

### ***Bunker subsidy***

The Company receives 30 per cent. of bunker fuel cost as subsidy from the Saudi Arabian Government through Saudi Aramco on fulfilment of certain voyage and cargo related conditions, including:

- the Company is owned 100 per cent. by Saudi Arabian shareholders;
- the vessel is Saudi Arabian flagged;
- the vessel utilises bunker purchased from a Saudi Arabian supplier;
- the vessel transports cargo to and from Saudi Arabian seaports;
- the voyage commences and terminates at a Saudi Arabian seaport; and
- request for subsidy is submitted within 90 days following the completion of the voyage.

The following table provides a segment wise breakdown of the bunker subsidy received during the financial years ended 31 December 2012G, 2013G, and 2014G.

### **9.7 Bunker subsidy by segment**

	<b>Year ended 31 Dec</b>			<b>Increase/(Decrease)</b>	
	<b>2012G</b>	<b>2013G</b>	<b>2014G</b>	<b>2013G as compared to 2012G</b>	<b>2014G as compared to 2013G</b>
<b>SAR' million</b>					
Oil transportation .....	157.5	143.9	174.4	(8.6%)	21.2%
Chemical .....	2.2	6.5	23.8	195.5%	266.2%
General cargo .....	40.9	20.7	19.7	(49.4%)	(4.8%)
<b>Total .....</b>	<b>200.6</b>	<b>171.1</b>	<b>217.9</b>	<b>(14.7%)</b>	<b>27.4%</b>

*Source: Company*

Bunker subsidy income represented 22.9 per cent. of bunker cost in 2012G and 18.1 per cent. in each of 2013G and 2014G.

Bunker subsidy income decreased by SAR 29.5 million, or 14.7 per cent., in 2013G as compared to 2012G, mainly due to increased bunker refuelling outside KSA (for which no subsidy is provided), combined with a decline in average bunker costs during the year.

Bunker subsidy income increased by SAR 46.8 million or 27.4 per cent. in 2014G, as compared to 2013G. The increase in bunker subsidy income resulted from higher bunker consumption during 2014G, driven by an increase in the operating days of the Company's vessels.

### ***General and administration costs***

The following table summarises the Company's general and administration costs for the financial years ended 31 December 2012G, 2013G and 2014G.

**Table 9.8 General and administration costs**

	Year ended 31 Dec			Increase/(Decrease)			
	2012G	2013G	2014G	2013G compared 2012G	as to	2014G compared 2013G	as to
<b>SAR' million</b>							
Employees' cost .....	66.5	57.9	65.9	(12.9%)		13.8%	
Professional, legal and consultation fees.....	-	7.5	10.4	-		38.7%	
Depreciation.....	3.3	3.6	6.0	9.1%		66.7%	
Provision for doubtful debts.....	-	0.0	4.4	-		nm	
Others .....	8.5	10.1	12.2	18.8%		20.8%	
Board of Directors expenses .....	4.7	-	-	(100%)		nm	
<b>Total.....</b>	<b>83.1</b>	<b>79.1</b>	<b>98.9</b>	<b>(4.8%)</b>		<b>25.0%</b>	

*Source: Company*

General and administrative expenses represented 3.4 per cent., 2.8 per cent. and 2.7 per cent. of the total operating revenues during 2012G, 2013G and 2014G respectively. General and administration costs mainly comprised employees' costs, which averaged 73.3 per cent. of the total general and administration costs.

General and administration costs declined by SAR 4.0 million, or 4.8 per cent., in 2013G, as compared to 2012G, mainly as a result of the reclassification of certain employee costs and other expenses to operating expenses. As at 31 December 2014G, general and administration costs were SAR 19.8 million, or 25.0 per cent. higher as compared to 31 December 2013G. This increase in general and administration costs was mainly attributable to the higher number of employees, which was mainly due to the addition of staff following the Vela Transaction, compensation increments implemented during the year and higher bonus payments.

Provision for doubtful debts of SAR 4.4 million recorded in 2014G was mainly attributable to certain receivable balances pertaining to NCC, which were considered doubtful by the management.

Other expenses represent general and administrative expenses and other miscellaneous expenses.

#### ***Share in results of associated company***

The following table summarises the Company's share in the results of the respective associated entities, recorded in the financial years ended 31 December 2012G, 2013G and 2014G.

**Table 9.9 Share in results of associated companies**

	Year ended 31 Dec			Increase/(Decrease)			
	2012G	2013G	2014G	2013G compared 2012G	as to	2014G compared 2013G	as to
<b>SAR' million</b>							
Petreddec Ltd. ....	143.9	291.2	132.0	102.4%		(54.7%)	

	<u>Year ended 31 Dec</u>			<u>Increase/(Decrease)</u>			
	<u>2012G</u>	<u>2013G</u>	<u>2014G</u>	<u>2013G compared to 2012G</u>	<u>as to 2013G</u>	<u>2014G compared to 2013G</u>	<u>as to</u>
<b>SAR' million</b>							
NCC-Odfjell Chemical Tankers JLT	3.8	-	-	(100.0%)		nm	
<b>Total .....</b>	147.7	291.2	132.0	97.2%		(54.7%)	

*Source: Company*

The share of income from associated companies increased by SAR 143.5 million, or 97.2 per cent., during 2013G, as compared to 2012G respectively, mainly due to the positive impact of mark-to-market valuation movements in the hedge instruments used by Petredec.

The share income from associated companies declined by 159.2 million or 54.7 per cent. in 2014G, as compared to 2013G, mainly as Petredec reported a decline in earnings due to the negative impact of mark-to-market valuation movements in the hedge instruments used by Petredec. Petredec utilises various derivative financial instruments for the purpose of hedging, as part of its LPG trading operations.

### ***Finance charges***

The following table summarises finance charges recorded in the financial years ended 31 December 2012G, 2013G and 2014G.

**Table 9.10 Finance charges**

	<u>Year ended 31 Dec</u>			<u>Increase/(Decrease)</u>	
	<u>2012G</u>	<u>2013G</u>	<u>2014G</u>	<u>2013G as compared to 2012G</u>	<u>2014G as compared to 2013G</u>
<b>SAR' million</b>					
Finance charges .....	59.8	60.4	106.5	1.0%	76.3%

*Source: Company*

Finance charges represented interest paid on financing utilised by the Company during the period. Finance charges increased by SAR 0.6 million in 2013G as compared to 2012G, mainly due to incremental finance facilities utilised during the period.

Finance charges increased by SAR 46.1 million or 76.3 per cent. in 2014G, as compared to 2013G, mainly as result of the short-term Murabaha finance facility entered into by the Company in 2014G, for the purpose of financing the purchase of vessels from Vela. This increase in finance charges was also due to the unrealised loss caused by the reclassification of the derivative financial instruments to a number of associated companies during for the year ended 31 December 2014G, with a total amount of 16.4 million, reclassified as finance charges.

### ***Other income/ (losses)***

The following table shows other income (losses) of the Company for the financial years ended 31 December 2012G, 2013G and 2014G.

**Table 9.11 Other income/(losses)**

	Year ended 31 Dec			Increase/(Decrease)	
	2012G	2013G	2014G	2013G as compared to 2012G	2014G as compared to 2013G
<b>SAR' million</b>					
Gain on sale of fixed assets.....	12.5	75.5	3.1	504.0%	(95.9%)
Net gain from investment .....	7.3	18.5	(2.4)	153.4%	(113.0%)
Cancellation of building ships under construction settlement .....	-	16.3	-	<i>nm</i>	(100.0%)
Increase recoveries from insurance claims.....	1.5	6.6	2.3	340.0%	(65.2%)
Vessel repair settlement.....	-	5.2	-	<i>nm</i>	(100.0%)
Decline other than temporary in investment available for sale.....	-	(17.7)	-	<i>nm</i>	(100.0%)
Other .....	(1.2)	3.2	(4.1)	(366.7%)	(228.1%)
<b>Total.....</b>	<b>20.1</b>	<b>107.7</b>	<b>(1.1)</b>	<b>435.8%</b>	<b>(101.0%)</b>

*Source: Company*

Other income in 2012G mainly comprised gain on sale of fixed assets of SAR 10.7 million on the sale of a 6,146 sqm piece of land located in Riyadh, KSA and SAR 1.8 million on account of gain due to the disposal of containers present in ports in Saudi Arabia during 2012G.

Other income increased by SAR 87.6 million in 2013G, as compared to 2012G, mainly due to:

- Gain on sale of fixed assets of SAR 75.5 million in 2013G, representing the sale of cargo transportation vessels; Saudi Abha, Diriyah, Hofuf and Tabuk and cargo containers.
- Recovery on cancelled ship construction contract for NCC Badar.
- Increase in income from investments by SAR 11.2 million in 2013G, due to gain on sale of the Company's held for trading investments.
- Recovery against insurance claim SAR 6.6 million in 2013G, relating to NCC Jubail and NCC Qassim.

This was offset by an impairment loss of SAR 17.7 million on the Company's investment in Arabian Float Glass Company.

The Company reported other loss of SAR 1.1 million in 2014G, as compared to other income of SAR 107.7 million in 2013G, representing a 101.0 per cent. decline. This was mainly attributable to the lower gain on sale of fixed assets and the absence of recovery on cancelled ships construction contracts, which was reported in 2013G.

#### ***Zakat and Withholding provision***

The following table shows Zakat and withholding provision during the financial years ended 31 December 2012G, 2013G and 2014G.

**Table 9.12 Zakat and Withholding Provision**

	<u>Year ended 31 Dec</u>			<u>Increase/(Decrease)</u>	
	<u>2012G</u>	<u>2013G</u>	<u>2014G</u>	<u>2013G as compared to 2012G</u>	<u>2014G as compared to 2013G</u>
<b>SAR' million</b>					
Zakat provision .....	32.9	43.6	33.4	32.5%	(23.4%)
Tax provision .....	3.4	6.3	4.0	85.3%	(36.5%)
<b>Total .....</b>	<b>36.3</b>	<b>49.9</b>	<b>37.4</b>	<b>37.5%</b>	<b>(25.1%)</b>

*Source: Company*

The main components of the Company's Zakat base according to the Zakat and Income Tax Regulations comprises of shareholders' equity, provisions as of the beginning of the year, long-term loans and adjusted net income, subtracted from which are the net book values of fixed assets, investments and some other items.

#### ***The Company's Zakat and tax status***

The Company has filed its zakat returns up to 2012G and the withholding tax returns up to November 2013G. The zakat assessments have been agreed with the Department of Zakat and Income Tax ("DZIT") for all the years up to 2000G. The DZIT has raised the zakat assessment for the years 2001G to 2007G claiming additional zakat liabilities of SR 22 million. The Company filed an appeal against these certain items included in these assessments and DZIT treatment. The DZIT has accepted this appeal in form and discussed the appeal with the second Preliminary Appeal Committee. The Company has paid its Zakat expense for the year 2013G, and it will file the Zakat return for 2013G during 2015G.

The Company has not received the final assessments for the years from 2008G until 2012G. The Company considers that adequate provision is maintained as at 31 December 2014G for any potential zakat and withholding tax.

#### ***Zakat and Tax status for the subsidiary (NCC)***

NCC has submitted the zakat returns for all years up to the year ended 31 December 2013G and the withholding tax returns up to November 2014G and paid the zakat and withholding taxes due accordingly. NCC has received zakat and withholding tax assessments for the years 1991G to 2004G and filed an appeal against some items included in these assessments and treatment. In April 2010G, NCC reached an agreement with the DZIT for a final settlement of the above assessments in the amount of SAR 54 million. SAR 26 million of this amount was paid during 2011G and the remaining balance is to be paid in instalments over five years starting July 2012G. NCC has received zakat and withholding tax assessments for the years 2005G to 2008G and filed an appeal against a number of items included in these assessments and their treatment, which are still pending. NCC considers that the provision for zakat and withholding tax is adequate as of 31 December 2014G.

#### ***Zakat and Tax status for Bahri Dry Bulk***

Bahri Dry Bulk has submitted its zakat returns for the years up to 2012G, and has not received any zakat assessment from the DZIT yet. Bahri Dry Bulk will submit its zakat and withholding tax returns for the years up to the year ended 31 December 2013G during 2015G. Bahri Dry Bulk believes that it maintains an adequate provision for zakat and withholding tax as at 31 December 2014G.



### ***Non-controlling interest***

Non-controlling interest in the consolidated income statement represented the share of net income belonging to the minority shareholders of the Company's subsidiaries.

The following table sets out the share of net income of minority shareholders in the Company's subsidiaries during the financial years ended 31 December 2012G, 2013G and 2014G.

**Table 9.13 Non-controlling interest**

	<u>Year ended 31 Dec</u>			<u>Increase/(Decrease)</u>	
	<u>2012G</u>	<u>2013G</u>	<u>2014G</u>	<u>2013G as compared to 2012G</u>	<u>2014G as compared to 2013G</u>
<b>SAR' million</b>					
NCC.....	19.6	25.3	14.9	29.1%	(41.1%)
Bahri Dry Bulk .....	1.9	11.6	13.6	510.5%	17.2%
<b>Total .....</b>	<b>21.5</b>	<b>36.9</b>	<b>28.5</b>	<b>71.6%</b>	<b>(22.8%)</b>

*Source: Company*

### **Consolidated Balance sheet**

The following table sets out the Company's balance sheet as at the years ended 31 December 2012G, 2013G and 2014G:

**Table 9.14 Summary consolidated balance sheet**

	<u>As at 31 Dec</u>			<u>Increase/(Decrease)</u>	
	<u>2012G</u>	<u>2013G</u>	<u>2014G</u>	<u>2013G as compared to 2012G</u>	<u>2014G as compared to 2013G</u>
<b>SAR' million</b>					
Current assets.....	1,143.1	1,453.0	1,816.6	27.1%	25.0%
Non-current assets .....	9,919.4	10,569.7	15,305.9	6.6%	44.8%
Total assets .....	11,062.6	12,022.7	17,122.5	8.7%	42.4%
Current liabilities .....	1,006.1	1,381.2	4,700.8	37.3%	240.3%
Non-current liabilities	4,330.7	4,454.1	4,236.4	2.8%	(4.9%)
Equity .....	5,725.7	6,187.4	8,185.3	8.1%	32.3%
<b>Total liabilities and equity .....</b>	<b>11,062.6</b>	<b>12,022.7</b>	<b>17,122.5</b>	<b>8.7%</b>	<b>42.4%</b>

*Source: Company*

### ***Current assets***

The following table sets out the Company's current assets as at the years ended 31 December 2012G, 2013G and 2014G.

**Table 9.15 Current assets**

	<b>As at 31 Dec</b>			<b>Increase/(Decrease)</b>	
	<b>2012G</b>	<b>2013G</b>	<b>2014G</b>	<b>2013G as compared to 2012G</b>	<b>2014G as compared to 2013G</b>
<b>SAR' million</b>					
Bank balances and cash .....	105.7	106.5	169.0	0.8%	58.7%
Murabaha and short-term deposits ..	292.7	237.9	221.1	(18.7%)	(7.1%)
Trade receivables, net .....	252.8	586.6	642.2	132.0%	9.5%
Bareboat lease receivable, net.....	10.1	15.3	21.1	51.5%	37.9%
Prepaid expenses and other receivables .....	141.7	92.1	162.0	(35.0%)	75.9%
Agents' current accounts .....	27.8	53.1	76.3	91.0%	43.7%
Inventories .....	132.1	233.1	327.5	76.5%	40.5%
Accrued bunker subsidy- net .....	132.6	123.9	197.4	(6.6%)	59.3%
Incomplete voyages .....	21.4	4.5	-	(79.0%)	(100.0%)
Investments held for trading .....	26.4	-	-	(100.0%)	nm
<b>Total current assets.....</b>	<b>1,143.1</b>	<b>1,453.0</b>	<b>1,816.6</b>	<b>27.1%</b>	<b>25.0%</b>

*Source: Company*

Trade receivables, inventory and investments in Murabaha and short-term deposits together formed 65.6 per cent. of the Company's current assets at 31 December 2014G and individually contributed 35.4 per cent., 18.0 per cent. and 12.2 per cent. to the total current assets, respectively.

The Company's current assets increased by SAR 309.9 million at 31 December 2013G, as compared to 31 December 2012G, mainly due to a SAR 333.8 million increase in trade receivables and other debit balances and SAR 101.0 million increase in inventory balance.

The Company's current assets increased by SAR 363.6 million at 31 December 2014G, as compared to 31 December 2013G, mainly due to a SAR 94.4 million increase in inventories, a SAR 73.5 million increase in accrued bunker subsidy and a SAR 69.9 million increase in prepaid expenses and other receivables, as compared to 2013G.

### ***Cash, bank balances, investment in Murabaha and short-term deposits***

Cash and cash equivalents represent cash in hand and at local and foreign financial institutions. Movement in the period-end cash balances was driven by the operating and investing cash flows of the Company. The Company follows a policy of investing surplus cash in low risk Murabaha deposits. As at 31 December 2012G, 2013G and 2014G cash and cash equivalents of SAR 77.8 million, SAR74.9 million and SAR 76.8 million (respectively) were restricted for the repayment of current portion of loan instalments due within 180 days from the consolidated balance sheet date for such year.

### ***Trade receivables and other debit balances – net***

The following table sets out the details of the trade receivables and other debit balances as at 31 December 2012G, 2013G and 2014G.

**Table 9.16 Trade receivables, net**

	<u>As at 31 Dec</u>			<u>Increase/(Decrease)</u>	
	<u>2012G</u>	<u>2013G</u>	<u>2014G</u>	<u>2013G as compared to 2012G</u>	<u>2014G as compared to 2013G</u>
<b>SAR' million</b>					
Total balance before doubtful debts.....	265.9	590.6	650.5	122.1%	10.1%
Provision for doubtful debts.....	(13.2)	(4.1)	(8.4)	(68.9%)	104.9%
<b>Total receivables, net .....</b>	<b>252.8</b>	<b>586.6</b>	<b>642.2</b>	<b>132.0%</b>	<b>9.5%</b>

*Source: Company*

Trade receivables of the Company mainly represent freight amounts outstanding from general cargo and VLCCs charterers, and formed 2.3 per cent., 4.9 per cent. and 3.8 per cent. of the Company's total assets at 31 December 2012G, 2013G and 2014G respectively.

The Company's trade receivables increased by SAR 333.8 million at 31 December 2013G, as compared to 31 December 2012G. The increase was mainly attributable to:

- Recording of receivables from Vela related to minimum guaranteed rates under the Interim Contract of Affreightment, which resulted in a SAR 149.6 million increase in incremental receivables.
- Increase in trade receivables of NCC, by SAR 107.6 million, representing uncollected charter receivables, cost compensation from International Shipping & Transportation Company Limited, bunker subsidy and guarantee claims.
- Increase in receivables relating to oil transportation segment, by SAR 75.0 million, as a result of revenue growth.

The Company's trade receivables increased by SAR 55.6 million at 31 December 2014G, as compared to 31 December 2013G. The increase was mainly attributable to the expanded operations of the oil transportation segment, following the Company's acquisition of vessels from Vela.

The provision for doubtful debts is based on specific provisioning, based on the management's expectation of the collectability of the outstanding amount

According to the provisioning policy, provision for doubtful debts will be considered as follows:

- All outstanding freight for two years or more;
- All outstanding freight that is subject to legal proceedings;
- In case the agent is terminated due to any reason and there is outstanding freight against that agent, which was not paid by him before or after the termination of his role as an agent.
- In addition to the above, all such outstanding freight for which agents, branches, regional offices and general cargoes are recommended as doubtful.

During 2014G, the Company recorded SAR 4.4 million additional provision for doubtful debts, which was mainly attributable to certain customer balances of NCC, the recovery of which was considered doubtful by the management.

***Pre-paid expenses and other debit balances***

The following table summarises prepaid expenses as at 31 December 2012G, 2013G and 2014G.

**Table 9.17 Pre-paid expenses and other receivables**

	As at 31 Dec			Increase/(Decrease)	
	2012G	2013G	2014G	2013G as compared to 2012G	2014G as compared to 2013G
<b>SAR' million</b>					
Prepaid expenses.....	59.0	58.0	122.4	(1.7%)	111.0%
Advances to suppliers .....	7.5	9.6	5.5	28.0%	(42.7%)
Insurance claims .....	15.5	4.7	8.2	(69.7%)	74.5%
Employee receivables .....	5.3	3.2	2.0	(39.6%)	(37.5%)
Due from related parties .....	50.1	-	-	(100.0%)	nm
Others .....	4.4	16.7	24.0	279.5%	43.7%
<b>Prepaid expenses and other receivables .....</b>	<b>141.7</b>	<b>92.1</b>	<b>162.0</b>	<b>(35.0%)</b>	<b>75.9%</b>

*Source: Company*

Pre-paid expenses of the Company are mainly on account of Protection & Indemnity insurance, hull insurance and financing cost. Insurance pre-payments mainly relate to pool insurance arrangements with North of England Protection & Indemnity Association and West of England Protection & Indemnity Association. Pre-paid re-financing costs relate to various fees, such as: arrangement fee, administration fee, annual agency fee etc., paid initially on the finalisation of the financing agreements. The pre-paid financing costs are amortised over the term of the loan.

Prepaid expenses and other receivables of the Company declined by SAR 49.6 million as at 31 December 2013G, as compared to 31 December 2012G, mainly as a result of the settlement of amounts due to related parties. As at 31 December 2014G, prepaid expenses and other receivables were SAR 69.9 million higher as compared to 31 December 2013G, which was primarily attributable to an increase in the balance of prepaid expenses. The increase in prepaid expenses in 2014G was partially offset by a SAR 4.1 million decline in advances to suppliers and a SAR 1.2 million decline in employee receivables.

Pre-paid expenses declined by SAR 1.0 million as at 31 December 2013G, as compared to 31 December 2012G mainly due to a decrease in the prepaid financing cost of RoCon vessels. As at 31 December 2014G, pre-paid expenses increased by SAR 64.4 million, as compared to 31 December 2013G, mainly due to the SAR 25.0 million expenses attributable to financial and legal advisory services obtained in connection with the Vela Transaction, and increase in other prepaid expenses, mainly rent and insurance.

Advances to suppliers relate to the various materials and service providers to the Company. Advances to suppliers increased by SAR 2.1 million at 31 December 2013G, as compared to 31 December 2012G, mainly due to higher balance for advance payments made against certain voyage related

expenses. This was followed by a 42.7 per cent. decline, to SAR 5.5 million, as at 31 December 2014G, as a result of lower incentives for suppliers related to Mideast.

Insurance claims mainly comprise cargo claims and insurance claims from insurance companies. The claims decreased by SAR 10.8 million at 31 December 2013G as compared to 31 December 2012G mainly as a result of collection of insurance claims in 2013G. Insurance claims balance increased by SAR 3.5 million between 31 December 2013G and 31 December 2014G, which was due to a decline in provision against insurance claims related to the cargo transportation segment.

Employee receivables comprise shore employees' salaries and allowances paid in advance and personal loans. Employee receivables declined by SAR 2.1 million at 31 December 2013G, as compared to 31 December 2012G, and further by SAR 1.2 million at 31 December 2014G. The decline in employee receivables balance was mainly as a result of change in the Company's policy for providing employee loans.

Due from related parties of SAR 50.1 million at 31 December 2012G was on account of working capital related to vessels previously operating in pool arrangement with Odjfell. This amount was settled in full in 2013G.

Other debit balances mainly include advances to government agencies and miscellaneous receivables.

### ***Bareboat lease receivable – net***

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

Bareboat lease receivables, net represent the current amount of the total bareboat receivable of NCC, from Odjfell, on account of the agreements signed on 30 January 2009G for the charter of three vessels under a bareboat lease arrangement for a period of 10 years. The arrangement qualifies as a finance lease as it transfers substantially all the risks and rewards to Odjfell and also gives it a purchase option.

The following table sets out the details of bareboat receivables at 31 December 2012G, 2013G and 2014G.

**Table 9.18 Bareboat lease receivables, net**

	As at 31 Dec			Increase/(Decrease)	
	2012G	2013G	2014G	2013G as compared to 2012G	2014G as compared to 2013G
<b>SAR' million</b>					
Future minimum lease payments	411.4	354.1	292.9	(13.9%)	(17.3%)
Un-guaranteed residual value at the end of the lease term .....	247.9	247.9	247.9	-	-
Total.....	659.3	602.0	540.8	(8.7%)	(10.2%)
Unearned income .....	(254.5)	(207.3)	(161.3)	(18.5%)	(22.2%)
Total.....	404.8	394.7	379.4	(2.5%)	(3.9%)
Current lease receivables - net ....	10.1	15.3	21.1	51.5%	37.9%

	As at 31 Dec			Increase/(Decrease)	
	2012G	2013G	2014G	2013G as compared to 2012G	2014G as compared to 2013G
Non-current portion .....	394.7	379.4	358.3	(3.9%)	(5.6%)
<b>Total .....</b>	<b>404.8</b>	<b>394.7</b>	<b>379.4</b>	<b>(2.5%)</b>	<b>(3.9%)</b>

*Source: Company*

The present value of the future minimum lease payments is recorded using annual cash flows stipulated in the terms of the agreement, discounted to arrive at the net present value.

Bareboat receivables declined from SAR 404.8 million at 31 December 2012G to SAR 379.4 million as at 31 December 2014G mainly due to the decline in present value of future minimum lease payments from SAR 411.4 million as at 31 December 2012G to SAR 292.9 million, as the Company received lease payments in line with the agreed payment schedule.

### ***Agents' current account***

The following table summarises Agent's current account at 31 December 2012G, 2013G and 2014G.

**Table 9.19 Agents' current account**

	As at 31 Dec			Increase/(Decrease)	
	2012G	2013G	2014G	2013G as compared to 2012G	2014G as compared to 2013G
<b>SAR' million</b>					
Agents' current account.....	27.8	53.1	76.3	91.0%	43.7%

*Source: Company*

Agent's current account relate to advances outstanding with the broker agents in lieu of voyages and expenses. The advances increased from SAR 27.8 million at 31 December 2012G to SAR 53.1 million at 31 December 2013G, mainly due to an increase relating to agents' current account of the general cargo transportation. As at 31 December 2014G, the advances increased by SAR 23.2 million, as compared to 31 December 2013G, mainly due to the increase of SAR 32.1 million in the current account of port agents as a result of the increase in the number of vessels.

### ***Inventory***

Inventory primarily represents stores of bunker fuel and lubricant oil on-board the vessels of the Company.

The following table sets out the details of inventory at 31 December 2012G, 2013G and 2014G.

**Table 9.20 Inventory**

	As at 31 Dec			Increase/(Decrease)	
	2012G	2013G	2014G	2013G as compared to 2012G	2014G as compared to 2013G
<b>SAR' million</b>					
Fuel .....	108.1	198.2	270.3	83.3%	36.4%

	As at 31 Dec			Increase/(Decrease)	
	2012G	2013G	2014G	2013G as compared to 2012G	2014G as compared to 2013G
<b>SAR' million</b>					
Lubricants .....	24.0	32.5	51.7	35.4%	59.1%
Other .....	-	2.5	5.5	nm	120.0%
<b>Total .....</b>	<b>132.1</b>	<b>233.1</b>	<b>327.5</b>	<b>76.5%</b>	<b>40.5%</b>

Source: Company

The movement in the inventory held reflected the increase in the operating days for the VLCCs operating in the spot market, variation in the average bunker price and the number of incomplete voyages at each of 31 December 2012G, 2013G and 2014G.

#### **Investments held for trading**

The following table sets out investments held for trading as at 31 December 2012G, 2013G and 2014G.

**Table 9.21 Investments held for trading**

	As at 31 Dec			Increase/(Decrease)	
	2012G	2013G	2014G	2013G as compared to 2012G	2014G as compared to 2013G
<b>SAR' million</b>					
Investments held for trading .....	26.4	-	-	(100.0%)	-

Source: Company

Investments held for trading represent an investment portfolio in local equities, stated at period end fair value. These investments were redeemed in 2013G for a gain of SAR 9.9 million.

#### **Accrued bunker subsidy-net**

Net-accrued bunker subsidy represents receivables from the Saudi Aramco against the subsidy provided on the sale of bunker fuel to the Company on voyages qualifying for the subsidy.

The following table sets out the gross net accrued bunker subsidy as at 31 December 2012G, 2013G and 2014G.

**Table 9.22 Accrued bunker subsidy net**

	As at 31 Dec			Increase/(Decrease)	
	2012G	2013G	2014G	2013G as compared to 2012G	2014G as compared to 2013G
<b>SAR' million</b>					
Accrued bunker subsidy.....	171.1	146.2	235.4	(14.6%)	61.0%

	As at 31 Dec			Increase/(Decrease)	
	2012G	2013G	2014G	2013G as compared to 2012G	2014G as compared to 2013G
<b>SAR' million</b>					
Provision for doubtful bunker subsidy .....	(38.5)	(22.3)	(38.0)	(42.1%)	70.4%
Accrued bunker subsidy .....	132.6	123.9	197.4	(6.6%)	59.3%

*Source: Company*

The Company maintains a provision, representing 6 per cent. and 17 per cent. of the accrued bunker subsidy against RoRo and VLCCs voyages, respectively which is recorded at period end on the basis of the historic collection of subsidies.

Net accrued bunker subsidy declined by SAR 8.7 million at 31 December 2013G, as compared to 31 December 2012G, mainly due to the increase of supplementing bunker outside KSA (which does not provide bunker subsidy), mainly as a result of lower bunker consumption by RoRo vessels during 2013G.

Accrued bunker subsidy, net increased by SAR 73.5 million at 31 December 2014G, as compared to 2013G, mainly as a result of a higher bunker consumption during the year due to increase in the number of operating days of the Company's vessels.

### ***Incomplete voyages***

Revenues and operating expenses associated with voyages that are in progress as at the respective period end dates are recorded in the balance sheet. The status of a voyage is considered incomplete if it has yet to sail from the last discharge port of the voyage.

General Cargo Transportation: the Company follows the completed voyage policy in determining the revenues and expenses of the year for vessels transporting general cargo (RoCons). A voyage is considered "Completed Voyage" when a vessel has sailed from the last discharging port of a voyage. Incomplete voyages are shown at the net amount in the consolidated balance sheet under "Incomplete Voyages". Revenues from chartering and other associated activities are recorded when services are rendered and are recorded in conformity with contract period, voyage durations, and agreed upon services. Other income is recorded when earned.

Cure Oil Transportation: the Company follows the completed voyage policy in determining the revenues of the year for vessels transporting crude oil. A voyage is considered to be a "Completed Voyage" from the date the vessel unloads its previous voyage load up to the date of the unloading the current voyage load at the final destination port.

Variation in the year-end balance for revenues and operating expenses related to incomplete voyages resulted from a number of factors, including the number and route of such voyages. As at 31 December 2014G, the Company reported a liability of SAR 9.8 million, representing net operating expenses related to incomplete voyages

### ***Non-current assets***

The following table sets out the non-current assets of the Company at 31 December 2012G, 2013G and 2014G.



**Table 9.23 Non-current assets**

	As at 31 Dec			Increase/(Decrease)	
	2012G	2013G	2014G	2013G as compared to 2012G	2014G as compared to 2013G
<b>SAR' million</b>					
Lease receivable for vessels-net .....	394.7	379.4	358.3	(3.9%)	(5.6%)
Investments held to maturity.	40.6	40.6	10.6	-	(73.9%)
Investments available for sale.....	57.8	14.4	13.5	(75.1%)	(6.3%)
Investments in associated companies .....	652.0	842.0	905.8	29.1%	7.6%
Deferred dry-docking costs, net .....	98.7	104.7	122.2	6.1%	16.7%
Intangible assets, net .....	-	-	903.5	-	nm
Fixed assets, net.....	7,503.7	8,512.2	12,980.0	13.4%	52.5%
Ships under construction and other.....	1,172.0	676.5	12.0	(42.3%)	(98.2%)
<b>Total non-current assets .....</b>	<b>9,919.5</b>	<b>10,569.7</b>	<b>15,305.9</b>	<b>6.6%</b>	<b>44.8%</b>

*Source: Company*

The non-current assets of the Company mainly comprise fixed assets, which formed 84.8 per cent. of the total non-current assets and 75.8 per cent. of the total assets of the Company as at 31 December 2014G.

Total non-current assets of the Company increased by SAR 650.2 million at 31 December 2013G as compared to 2012G, mainly due to SAR 1,008.5 million increase in net fixed assets, (representing the addition of general cargo, bulk and chemical transportation vessels) and SAR 190.0 million increase in investment in associated companies and others.

Total non-current assets of the Company increased by SAR 4,736.2 million at 31 December 2014G as compared to 2013G, mainly due to SAR 4,467.8 million higher balance for fixed assets, which mainly represented the vessels acquired from Vela during 2014G.

#### ***Lease receivables for vessels-net***

Net lease receivables for vessels represent the payments receivable after one year, under the Bareboat charter agreement for three vessels with Odfjell, for a period of 10 years. The non-current bareboat receivables decreased from SAR 394.7 million at 31 December 2012G to SAR 358.3 million at 31 December 2014G in accordance with the provisions of the agreement.

#### ***Investments held to maturity***

Investment held to maturity mainly represents the Company's and NCC's investment in Sukuk with a total principal amount of SAR 40.6 million. The maturity date of the Group's investment in Sukuk is 30 December 2019G. As at 31 December 2014G, investments held to maturity decreased by SAR 30.0 million, as compared to 31 December 2013G, as a result of a call option exercised by the Sukuk issuer during 2014G.

In addition, investments held to maturity include an amount of US\$ 145,000 placed as collateral by NSCSA (America) Inc., for United States Custom bonds. The bonds were obtained as part of agency services provided to the Company.

### *Investments available for sale*

Investments available for sale represented the Company's investments in mutual funds managed by CMA authorised persons and its 4.69 per cent. ownership of Arabian United Float Glass Company ("AUFGC") as at 31 December 2014G.

The Company participated in establishing AUFGC. It was established through a Ministerial Decision No. (1299) dated 11/05/1427H (corresponding to 8 June 2006G). AUFGC is engaged in the manufacturing of float glass and commenced its operations in April 2009G.

An investment of SAR 20 million was made in 2006G for the ownership of 2,000,000 fully paid shares in AUFGC, representing 10 per cent. of the share capital. In addition, the Company paid SAR 1,200,000 by 30th September 2012G as its share of the establishment and development costs of AUFGC. The Company also subscribed for shares in an amount of SAR 10 million in a rights issue in 2012G, representing 1,000,000 additional shares. As a result, the total investment increased to SAR 30.0 million. The Company's ownership reached 10.9 per cent. of the share capital because some shareholders did not participate in the rights issue.

AUFGC subsequently decreased its capital on 15/7/1434H corresponding to 25 May 2013G from SAR 275,000,000 to SAR 113,048,410 through writing off losses of SAR 161,951,590. As a result of this capital reduction, Bahri's shares decreased from 3,000,000 shares to 1,233,255 shares. The capital was increased again from SAR 113,048,410 to SAR 263,048,410 through a rights issue in 2013G. Bahri did not participate in the rights issue, accordingly, its ownership was diluted from 10.9 per cent. to 4.69 per cent. as at 31 December 2014G.

Investments available for sales declined by SAR 0.9 million as at 31 December 2014G, as compared to 31 December 2013G, which was due to liquidation of the Company's investment in mutual funds.

### *Investment in associated companies*

The following table sets out the details for the investments in associated companies as at 31 December 2012G, 2013G and 2014G.

**Table 9.24 Investment in associated companies**

	As at 31 Dec			Increase/(Decrease)	
	2012G	2013G	2014G	2013G as compared to 2012G	2014G as compared to 2013G
<b>SAR' million</b>					
Opening balance .....	540.2	652.0	842.0	20.7%	29.1%
Share in results of associated companies .....	147.7	291.2	132.0	97.2%	(54.7%)
Dividends received during the year .....	(35.9)	(96.6)	(68.2)	169.1%	(29.4%)
Transferred to a subsidiary company .....	-	(4.6)	-	nm	(100.0%)
<b>Closing balance .....</b>	<b>652.0</b>	<b>842.0</b>	<b>905.8</b>	<b>29.1%</b>	<b>7.6%</b>

*Source: Company*

Total investments in associated companies increased at a CAGR of 17.9 per cent. during the financial year 31 December 2012G to 31 December 2014G. This increase was mainly due to the increase in the Company's share of net income of associated companies, offset by dividends received during the respective periods. In 2013G, NCC JLT (formerly NCC Odfjell Chemical Tankers JLT) was considered as part of NCC. NCC JLT was subsequent changed to a branch in 2014G.

### ***Deferred Dry-docking costs***

Consistent with shipping industry operations, the Company's vessels are also subject to regularly scheduled Dry-docking. The cost of Dry-docking is deferred and amortised over a period of two-five years. The following table sets out the movement in the deferred Dry-docking costs between 31 December 2012G and 31 December 2014G.

**Table 9.25 Deferred Dry-docking costs**

	<u>As at 31 Dec</u>			<u>Increase/(Decrease)</u>	
	<u>2012G</u>	<u>2013G</u>	<u>2014G</u>	<u>2013G as compared to 2012G</u>	<u>2014G as compared to 2013G</u>
<b>SAR' million</b>					
Balance at the beginning of the year .....	67.2	98.7	104.7	46.9%	6.1%
Additions during the year .....	69.5	52.0	64.5	(25.2%)	24.0%
Amortization during the year .....	(38.1)	(46.0)	(47.0)	20.7%	2.2%
<b>Balance at the end of the year .....</b>	<b>98.7</b>	<b>104.7</b>	<b>122.2</b>	<b>6.1%</b>	<b>16.7%</b>

*Source: Company*

During the year ended 31 December 2012G, additional expense of SAR 69.5 million was made, mainly representing the costs of major scheduled Dry-docking expense of SAR 55.8 million for the VLCCs.

Deferred Dry-docking increased by SAR 6.0 million as at 31 December 2013G, as compared to 31 December 2012G, mainly as a result of additional Dry-docking expense of SAR 52.0 million, partially offset by amortisation of Dry-docking costs incurred in the prior periods. Additional Dry-docking costs in 2013G mainly represented the scheduled Dry-docking of Ramlah, Habari, Jana and Hawtah during the year.

As at 31 December 2014G, deferred dry-docking increased by SAR 17.5 million, compared to 2013G, resulting mainly from seven Bahri vessels (Ghawar, Safaniyah, Watban, Kahla, Dorra, Ghazal and Sahba) which were dry-docked during the year, at a cost of SAR 61.2 million.

### ***Net fixed assets***

**Table 9.26 Fixed assets, net**

	<u>As at 31 Dec</u>			<u>Increase/(Decrease)</u>	
	<u>2012G</u>	<u>2013G</u>	<u>2014G</u>	<u>2013G as compared to 2012G</u>	<u>2014G as compared to 2013G</u>
<b>SAR' million</b>					
Land .....	1.9	1.9	1.9	-	-

	As at 31 Dec			Increase/(Decrease)	
	2012G	2013G	2014G	2013G as compared to 2012G	2014G as compared to 2013G
Buildings and improvements .....	36.6	36.3	34.1	(0.8%)	(6.1%)
Fleet and equipment.....	7,450.6	8,459.9	12,929.5	13.5%	52.8%
Containers and trailers .....	0.1	0.1	0.2	-	100.0%
Furniture and fixtures.....	1.6	1.9	2.5	18.8%	31.6%
Tools and office equipment .....	0.2	0.3	0.2	50.0%	(33.3%)
Motor vehicles .....	0.3	0.1	0.3	(66.7%)	200.0%
Computers equipment.....	10.2	9.5	9.5	(6.9%)	-
Container yard .....	2.3	2.0	1.6	(13.0%)	(20.0%)
Others .....	0.0	0.3	0.2	nm	(33.3%)
<b>Net fixed assets .....</b>	<b>7,503.7</b>	<b>8,512.2</b>	<b>12,980.0</b>	<b>13.4%</b>	<b>52.5%</b>

Source: Company

The Company's fixed assets principally comprise VLCCs, RoRos and the specialised chemical transportation vessels owned by NCC.

During 2012G, the Company sold a 6,146 sqm piece of land located in Riyadh, with a carrying value of SAR 13.6 million. A gain of SAR 10.7 million was recorded on this sale in 2012G.

Fleet and equipment balance of the Company increased by SAR 1,009.3 million, or 13.5 per cent., at 31 December 2013G, as compared to 31 December 2012G. The increase was mainly attributable to the addition of one petrochemical vessel, four new general cargo transportation vessels and one dry bulk transportation vessel in the Company's fleet, during 2013G.

As at 31 December 2014G, net fixed assets increased by SAR 4,467.8 million, compared to 2013G, mainly due to the addition of vessels acquired from Vela, two RoCoN and four RoRo vessels.

The Company and its subsidiaries did not have any fixed assets obtained under capital lease as at 31 December 2014G. Further, the Company and its subsidiaries had no planned material fixed assets, including leased assets as at 31 December 2014G.

In accordance with its depreciation policy, the Company depreciates its fixed assets on a straight line basis, as per the following annual rates:

**Table 9.27 Depreciation rates**

Depreciation rates	
Items	Rate
Buildings and improvements .....	5 - 33.3%
Fleet and equipment.....	4 - 15%
Containers and trailers .....	8.33 - 20%

**Depreciation rates**

Items	Rate
Furniture and fixtures.....	10%
Tools and office equipment .....	2.5 - 25%
Motor vehicles .....	20 - 25%
Computers equipment.....	15 - 25%
Container yard .....	10 - 25%
Others .....	7 - 15%

*Source: Company*

Currently no changes are contemplated in the Company's and its subsidiaries' depreciation policy for fixed assets.

**Ships under construction**

The following table sets out the movement in the balance for the ships under construction at 31 December 2012G, 2013G and 2014G.

**Table 9.28 Ships under construction**

	As at 31 Dec			Increase/(Decrease)	
	2012G	2013G	2014G	2013G as compared to 2012G	2014G as compared to 2013G
<b>SAR' million</b>					
Opening balance .....	1,237.1	1,172.0	676.5	(5.3%)	(42.3%)
Additions .....	635.9	1,160.4	401.5	82.5%	(65.4%)
Disposals.....	(51.8)	(184.9)	-	256.9%	(100.0%)
Transfers to fixed assets.....	(649.3)	(1,471.0)	(1,066.0)	126.6%	(27.5%)
<b>Closing balance .....</b>	<b>1,172.0</b>	<b>676.5</b>	<b>12.0</b>	<b>(42.3%)</b>	<b>(98.2%)</b>

*Source: Company*

The balance of ships under construction mainly represents costs incurred by the Company and its subsidiaries, NCC and Bahri Dry Bulk, towards the contracts for construction of new RoCons and chemical tankers and bulk carriers.

Additions to ships under construction represents the amounts paid by the Company and its subsidiaries to various shipbuilding yards, as per the terms of the contract. Transfer to fixed assets reflects the completion and commission of vessels.

During 2012G, four new chemical tankers were made part of the NCC fleet. This is represented by the transfer to SAR 649.3 million to the fixed assets. The transfer to fixed assets of SAR 1,471.0 million in 2013G was on account of four RoCon vessels, one bulk transportation vessel and one chemical transportation vessel, which were completed and commissioned in the Company's fleet during 2013G. The transfer to fixed assets of SAR 1,066.0 million in 2014G represented the completion and commissioning of two RoCon and four RoRo vessels during the year.

Balance of SAR 12.0 million at 31 December 2014G mainly related to in-progress projects for the implementation of certain IT systems in the Company.

### ***Current liabilities***

The following table sets out the current liabilities of the Company as at 31 December 2012G, 2013G and 2014G.

**Table 9.29 Current liabilities**

	As at 31 Dec			Increase/(Decrease)	
	2012G	2013G	2014G	2013G as compared to 2012G	2014G as compared to 2013G
<b>SAR' million</b>					
Accounts payable and accruals .....	230.3	309.0	496.6	34.2%	60.7%
Murabaha and long-term financing-current portion.....	466.1	564.3	558.3	21.1%	(1.1%)
Short term Murabaha financing .....	160.0	337.0	3,459.3	110.6%	926.5%
Dividends payable .....	30.9	32.1	33.9	3.9%	5.6%
Provision for zakat and withholding tax .....	118.8	138.9	142.9	16.9%	2.9%
Incomplete voyages .....	-	-	9.8	nm	nm
<b>Total current liabilities .....</b>	<b>1,006.1</b>	<b>1,381.2</b>	<b>4,700.8</b>	<b>37.3%</b>	<b>240.3%</b>

*Source: Company*

The current liabilities of the Company mainly represent trade payables and loans. Total current liabilities increased by SAR 3,694.7 million between 31 December 2012G and 31 December 2014G. The increase mainly resulted from higher loan repayments due within one year and additional short term finance availed in 2012G and 2013G. As at 31 December 2014G, current liabilities increased by SAR 3,319.6 million as compared to 2013G, this was mainly the result of the increase in short term loans by SAR 3,122.3 million and the increase in accounts payables and other credit balances by SAR 187.6 million.

### ***Accounts payables and other credit balances***

The following table sets out the accounts payables and other debit balances of the Company as at 31 December 2012G, 2013G and 2014G.

**Table 9.30 Accounts payables and other credit balances**

	As at 31 Dec			Increase/(Decrease)	
	2012G	2013G	2014G	2013G as compared to 2012G	2014G as compared to 2013G
<b>SAR' million</b>					
Trade payables .....	176.3	208.8	453.7	18.4%	117.3%
Accrued expenses .....	28.9	77.1	17.1	166.8%	(77.8%)

Value of shares sold belonging to old shareholders .....	22.1	22.0	21.7	(0.5%)	(1.4%)
Other credit balances .....	3.0	1.0	4.1	(66.7%)	310.0%
<b>Total account payables and other credit balances .....</b>	<b>230.3</b>	<b>309.0</b>	<b>496.6</b>	<b>34.2%</b>	<b>60.7%</b>

*Source: Company*

Trade payables and accrued expenses mainly comprise outstanding payments to the Company's suppliers and accrued ship running costs, such as: fuel costs, insurance charges, brokerage agency expenses and port charges.

Increase in trade payables of SAR 32.5 million at 31 December 2013G, as compared to 31 December 2012G, was mainly attributable to a variation in the bunker clearing account, which represents outstanding payment for the purchase of bunker fuel. Trade payables increased by SAR 244.9 million between 31 December 2013G and 31 December 2014G. The increase in trade payables was predominantly due to the increase of the Group's vessels during 2014G where the Group acquired 20 tanker vessels, two vessels for the general cargo segment and four vessels for the dry bulk segment which led to an expansion of the Company's operations. This increase was also due to the receipt of service bills related to the Company's operations purchases before the year end of 2014G from accrued expenses to trade payables.

Accrued expenses increased by SAR 48.2 million at 31 December 2013G, as compared to 31 December 2012G mainly as a result of change in presentation of accrued expenses related to Mideast, from net to gross basis. During 2014G, certain balances were reclassified from accrued balances to trade payables, thereby resulting the SAR 60.0 million decline in accrued balances at 31 December 2014G, as compared to 31 December 2013G.

Other credit balances increased by SAR 3.1 million, to reach SAR 4.1 million at 31 December 2014G, mainly due to higher deferred revenue balance related to the chemical transportation segment (represented by NCC).

Value of shares sold belonging to old shareholders represent the profit on the sale of unclaimed shares of the Company.

#### ***Current portion of long-term financing, Murabaha and short term financing***

Current portion of Murabaha and long-term finance represents instalments payable against long-term financing obtained by the Company, within a 12 months period from the balance sheet date. Balance for the current portion of Murabaha and long-term finance payable accounted for 46.3 per cent., 40.9 per cent. and 11.9 per cent. of the total current liabilities at 31 December 2012G, 2013G and 2014G.

During 2014G, the Company entered into a short-term Murabaha agreement of SAR 3,182.8 million with local lenders to finance the cash consideration for the purchase of vessels from Vela. As a result, the short-term finance payable at 31 December 2014G increased by SAR 3,122.3 million, as compared to 31 December 2013G.

#### ***Provision for Zakat and withholding tax***

Provision for zakat and withholding tax accounted for 11.8 per cent., 10.1 per cent. and 3.0 per cent. of the total current liabilities at 31 December 2012G, 2013G and 2014G. During 2013G and 2014G, provision for Zakat and withholding tax exceeded payments made during the year, thereby resulting in the SAR 20.1 million and SAR 4.0 million increase in zakat and tax payable as at 31 December 2013G and 31 December 2014G, as compared to 31 December 2012G and 31 December 2013G respectively.

### ***Non-current liabilities***

The following table sets out the non-current liabilities of the Company as at 31 December 2012G, 2013G and 2014G.

**Table 9.31 Non-current liabilities**

	As at 31 Dec			Increase/(Decrease)	
	2012G	2013G	2014G	2013G as compared to 2012G	2014G as compared to 2013G
<b>SAR' million</b>					
Murabaha and long term financing .....	4,253.7	4,376.6	4,152.9	2.9%	(5.1%)
Employees' end of service benefits .....	40.2	46.8	52.8	16.4%	12.8%
Other liabilities .....	36.8	30.7	30.7	(16.6%)	-
<b>Total non-current liabilities .....</b>	<b>4,330.7</b>	<b>4,454.1</b>	<b>4,236.4</b>	<b>2.8%</b>	<b>(4.9%)</b>

*Source: Company*

### ***Murabaha and long term financing***

The Company and its subsidiaries have entered into various Murabaha financing and long term loan agreements, mainly to finance the building of new VLCCs, chemical carriers, dry bulk vessels and a new office in Dubai. Some of the Company's VLCCs, NCC's petrochemical carriers and Bahri Dry Bulk vessels are mortgaged in favour of the financing banks.

The following table details the Murabaha and other long term finance obtained by the Company:

**Table 9.32 Murabaha and long term financing**

	As at 31 Dec			Increase/(Decrease)	
	2012G	2013G	2014G	2013G as compared to 2012G	2014G as compared to 2013G
<b>SAR' million</b>					
Murabaha Financing .....	3,159.1	3,783.9	3,364.4	19.8%	(11.1%)
Commercial loans .....	345.0	-	-	(100.0%)	nm
Public Investment Fund finance – Murabaha .....	1,155.0	825.0	1,074.4	(28.6%)	30.2%
Public Investment Fund finance – Commercial .....	60.8	331.9	272.3	445.9%	(18.0%)
<b>Total Murabaha and long-term financing .....</b>	<b>4,719.8</b>	<b>4,940.9</b>	<b>4,711.2</b>	<b>4.7%</b>	<b>(4.6%)</b>
Current portion of Murabaha and long term financing .....	(466.1)	(564.3)	(558.3)	21.1%	(1.1%)
<b>Non-current portion of Murabaha and long term financing .....</b>	<b>4,253.7</b>	<b>4,376.6</b>	<b>4,152.9</b>	<b>2.9%</b>	<b>(5.1%)</b>



Source: Company

Non-current portion of Murabaha and long-term financing comprised 79.7 per cent., 75.0 per cent. and 46.5 per cent. of the total liabilities of the Company at 31 December 2012G, 2013G and 2014G. Balance for non-current portion of Murabaha and long-term financing increased by SAR 122.9 million at 31 December 2013G, as compared to 31 December 2012G mainly due to drawdown of the Murabaha finance facility obtained for the construction of cargo transportation vessels. This was followed by a decline in the balance of non-current portion of Murabaha and long-term financing by SAR 223.7 million, as a result of scheduled repayments of Murabaha and commercial facilities.

#### *Employees' end of service benefits*

The Company has provided for employees' end of service benefits in compliance with the labour law provisions of the Kingdom. End of service benefits formed 0.8 per cent., of total liabilities as at 31 December 2012G and 31 December 2013G, and 0.6 per cent. as at 31 December 2014G. The benefits increased by SAR 6.6 million, or 16.4 per cent., and SAR 6.0 million, or 12.8 per cent. as at 31 December 2013G and 31 December 2014G respectively, as compared to 31 December 2012G and 31 December 2013G mainly as a result of upward revision in employees' salaries and combined with an increase in the period of employment of the Company's and its subsidiaries' employees.

#### *Other liabilities*

The Company's subsidiary, NCC, received compensation from SLS (a shipyard) amounting to SAR 36.8 million during 2012G. This compensation is to be offset against future Dry-docking costs related to six vessels. During 2013G, repairs were performed for one of the vessels, leading to a decline in the other liabilities by SAR 6.1 million at 31 December 2013G as compared to 31 December 2012G. The Company has no plan to carry out Dry-docking for five remaining vessels in the 12 months following 31 December 2014G and accordingly the compensation amount has been treated as non-current liability as at 31 December 2014G.

#### *Shareholders' equity*

The following table summarises the breakdown of shareholders' equity ending as at 31 December 2012G, 2013G and 2014G.

**Table 9.33 Shareholders' equity**

	As at 31 Dec			Increase/(Decrease)	
	2012G	2013G	2014G	2013G as compared to 2012G	2014G as compared to 2013G
<b>SAR' million</b>					
Paid-up share capital .....	3,150.0	3,150.0	3,937.5	-	25.0%
Statutory reserve .....	922.8	998.1	2,016.1	8.2%	102.0%
Retained earnings.....	1,335.7	1,697.8	1,861.4	27.1%	9.6%
Unrealised gain/(loss) from available for sale investments .....	2.3	(0.1)	-	(104.3%)	(100.0%)
Total shareholders' equity .....	5,410.9	5,845.7	7,815.1	8.0%	33.7%
Non-controlling interest.....	314.8	341.7	370.2	8.5%	8.3%
<b>Total .....</b>	<b>5,725.7</b>	<b>6,187.4</b>	<b>8,185.3</b>	<b>8.1%</b>	<b>32.3%</b>

*Source: Company*

The Company's current share capital is SAR 3,937.5 million, divided into 393.75 million ordinary shares with a nominal value of SAR 10 each as of 31 December 2014G.

During 2014G, the Company's share capital was increased from SAR 3,150.0 million to SAR 3,937.5 million through the issuance of 78.75 million shares, at an agreed price of SAR 22.25 per share and representing 20 per cent. of the increased issued share capital of the Company, as part consideration for acquisition of vessels from Vela.

There are no substantial changes in the capital of the subsidiaries during the three years immediately preceding the date of application for registration pursuant to the listing rules.

In accordance with Article 125 of the Saudi Arabian Regulations for Companies, the Group is required to transfer, 10 per cent. of its net income to the statutory reserve. The Company may discontinue such transfers when the reserve equals 50 per cent. of the Company's paid-up capital. The share premium is also added to the statutory reserve and the reserve is not available for distribution to shareholders.

Retained earnings accounted for 23.3 per cent., 27.4 per cent. and 22.7 per cent. of total shareholder's equity as at 31 December 2012G, 2013G and 2014G, respectively. Retained earnings increased from SAR 1,335.7 million as at 31 December 2012G to SAR 1,861.4 million as at 31 December 2014G due to the net income recorded by the Company in 2013G and 2014G.

Unrealised gains (loss) on available for sale investments are recorded in the shareholders' equity in accordance with applicable accounting policy.

### ***Commitments and contingencies***

The Company's or its subsidiaries had no capital commitments as at 31 December 2014G.

The Company had contingent liabilities represented by outstanding letters of guarantee amounting SAR 275.6 million as at 31 December 2014G, which were issued in the ordinary course of business.

The following table sets out the details of such contingent liabilities as at 31 December 2014G.

**Table 9.34 Contingent liabilities**

<b>Party</b>	<b>Type</b>	<b>Amount (SAR' million)</b>
Saudi Aramco .....	Open-ended bond	225.0
DZIT .....	Payment bond	28.5
MoD.....	Performance bond	19.2
Port Authority – Jeddah .....	Payment bond	2.0
Others .....	Performance/payment bond	0.9
<b>Total.....</b>		<b>275.6</b>

*Source: Company*

### ***Derivative financial instruments***

Certain subsidiaries of the Company had derivative financial instruments, including commission rate cap options, with a nominal amount of SAR 1.53 billion as of 31 December 2014G. The unrealised losses from the revaluation of such agreements for the year amounted to SAR 16.4 million in 31

December 2014G and these losses were included in the financial charges. Derivative financial instruments are revaluated in a regular basis to recorded any unrealised gains or losses, if any.

### Consolidated cash flow statement

The following table sets out a summary of the cash flows of the Company for the years ended 31 December 2012G, 2013G and 2014G.

**Table 9.35 Summary of the consolidated cash flow**

	Year ended 31 Dec			Increase/(Decrease)	
	2012G	2013G	2014G	2013G as compared to 2012G	2014G as compared to 2013G
<b>SAR' million</b>					
Net cash from operating activities .....	686.6	644.8	940.9	(6.1%)	45.9%
Net cash used in investing activities ....	(658.5)	(769.9)	(3,474.7)	16.9%	351.3%
Net cash from (used in) financing activities .....	(92.5)	74.2	2,577.6	(180.2%)	3,373.9%
Net change in cash and cash equivalents .....	(64.4)	(50.9)	43.7	(21.0%)	(185.9%)
Cash and cash equivalents at the beginning of the year .....	384.8	320.5	269.6	(16.7%)	(15.9%)
Cash and cash equivalents at the end of the year .....	320.5	269.6	313.3	(15.9%)	16.2%

*Source: Company*

The Company's net cash flows during the reporting period were principally driven by the positive net cash flows from operating activities, loan finance obtained/repayment and investment in the construction and acquisition of new vessels.

The Company reported a net cash outflow of SAR 64.4 million in 2012G mainly due to additions of SAR 584.2 million for ships under construction and repayments of Murabaha and long term financing of SAR 688.8 million.

The Company reported net cash outflow of SAR 50.9 million in 2013G mainly as a result of payments of SAR 975.5 million for the various vessels under construction. This was partially offset by operating cash inflow of SAR 644.8 million and net utilisation of finance facilities of SAR 398.1 million in 2013G.

The Company reported net cash inflow of SAR 43.7 million in 2014G as operating cash inflows of SAR 940.9 million and utilisation of finance facilities offset the cash outflow from investing activities of SAR 3,474.7 million, which mainly represented the addition in fixed assets as a result of acquisition of vessels from Vela.

***Cash flow from operating activities***

**Table 9.36 Cash flow from operating activities**

	Year ended 31 Dec			Increase/(Decrease)	
	2012G	2013G	2014G	2013G as compared to 2012G	2014G as compared to 2013G
<b>SAR' million</b>					
Net income for the year .....	504.0	752.3	533.8	49.3%	(29.0%)
<b>Adjustments to reconcile net income for the year to net cash flows from operating activities:</b>					
Depreciation.....	392.2	423.5	540.7	8.0%	27.7%
Amortisation of deferred dry-docking costs .....	38.1	46.0	47.0	20.7%	2.2%
Amortisation of intangible assets .....	-	-	15.2	-	nm
Provision for doubtful debts.....	-	0.0	4.4	nm	nm
Unrealised gain on investments held for trading .....	(6.1)	-	-	(100.0%)	nm
Unrealised gain on available for sale investment.....	-	(2.6)	-	nm	(100.0%)
Share in results of associated companies .....	(147.7)	(291.2)	(132.0)	97.2%	(54.7%)
Gains from sale of fixed assets .....	(12.5)	(75.5)	(3.1)	504.0%	(95.9%)
Non-controlling interests .....	21.5	36.9	28.5	71.6%	(22.8%)
Provision for zakat (zakat and withholding tax).....	36.3	49.9	37.4	37.5%	(25.1%)
Employees end of service benefits- net.	12.2	6.5	6.1	(46.7%)	(6.2%)
<b>Change in operating assets and liabilities:</b>					
Trade receivables, net .....	(1.8)	(329.2)	(60.0)	18,188.9%	(81.8%)
Bareboat lease receivable, net.....	7.5	10.1	15.3	34.7%	51.5%
Prepaid expenses and other receivables	(64.7)	49.6	(69.9)	(176.7%)	(240.9%)
Agents' current accounts .....	(5.5)	(25.3)	(23.2)	360.0%	(8.3%)
Inventories .....	13.0	(101.1)	(94.4)	(877.7%)	(6.6%)
Accrued bunker subsidy- net .....	(44.8)	8.7	(73.5)	(119.4%)	(944.8%)
Incomplete voyages .....	(9.3)	16.9	14.3	(281.7%)	(15.4%)
Accounts payable and accruals .....	(60.4)	78.6	187.7	(230.1%)	138.8%
Zakat and withholding tax paid.....	(22.1)	(29.7)	(33.4)	34.4%	12.5%

	Year ended 31 Dec			Increase/(Decrease)	
	2012G	2013G	2014G	2013G as compared to 2012G	2014G as compared to 2013G
Investments held for trading .....	-	26.4	-	-	(100.0%)
Other Liabilities .....	36.8	(6.0)	-	(116.3%)	(100.0%)
<b>Net cash from operating activities</b>	<b>686.6</b>	<b>644.8</b>	<b>940.9</b>	<b>(6.1%)</b>	<b>45.9%</b>

*Source: Company*

Cash flow from operating activities mainly comprises the inflow of profits earned by the Company. Variations in the net cash position during the reporting period were driven by the fluctuations in the net income and the operating assets and liabilities of the Company, as explained earlier.

Cash flow from operating activities decreased by SAR 41.8 million in 2013G, as compared to 2012G, mainly due to SAR 329.2 million increase in trade receivables. This increase in trade receivables was attributable to the recording of receivables from Vela related to minimum guaranteed rates under the Interim Contract of Affreightment, which resulted in a SAR 149.6 million increase in incremental receivables.

Cash flow from operating activities increased by SAR 296.1 million in 2014G, as compared to 2013G. The increase in cash from operating activities largely resulted from a lesser increase in trade receivables and an increase trade payables of the Company as at 31 December 2014G, as compared to 31 December 2013G. Consequently, the additional investment in the Company's working capital was lower in 2014G as compared to 2013G, which positively impacted operating cash flow for the year.

#### *Cash flow from investing activities*

**Table 9.37 Cash flow from investing activities**

	Year ended 31 Dec			Increase/(Decrease)	
	2012G	2013G	2014G	2013G as compared to 2012G	2014G as compared to 2013G
<b>SAR' million</b>					
Murabaha and short-term deposits .....	(43.4)	2.9	(1.9)	(106.7%)	(165.5%)
Investments held to maturity .....	(10.0)	-	30.0	(100%)	nm
Investments available for sale .....	(7.9)	43.6	1.0	(651.9%)	(97.7%)
Intangible assets .....	-	-	(581.8)	nm	nm
Dividends received from an associated company .....	35.9	96.6	68.2	169.1%	(29.4%)
Additions to fixed assets .....	(23.9)	(4.2)	(2,527.6)	(82.4%)	60,080.9%
Proceeds from sale of fixed assets .....	44.6	118.8	3.3	166.4%	(97.2%)
Ships under construction and other- net.	(584.2)	(975.5)	(401.5)	67.0%	(58.8%)
Deferred Dry-docking costs .....	(69.5)	(52.0)	(64.5)	(25.2%)	24.0%

	Year ended 31 Dec			Increase/(Decrease)	
	2012G	2013G	2014G	2013G as compared to 2012G	2014G as compared to 2013G
Net cash used in investing activities....	(658.5)	(769.9)	(3,474.7)	16.9%	351.3%

Source: Company

Net cash used in investing activities mainly represented the construction and acquisition costs of vessels during 2012G, 2013G and 2014G. Cash outflows of SAR 584.2 million, SAR 975.5 million and SAR 401.5 million represented the construction costs of vessels under construction during the years ended 31 December 2012G, 2013G and 2014G respectively.

Cash outflow of SAR 2,527.6 million for addition of fixed assets in 2014G primarily related to the cash consideration paid for the acquisition of vessels from Vela.

Cash outflow of SAR 581.8 million for the purchase of intangible assets in 2014G represented the cash consideration paid for the acquisition of intangible assets as part of the Vela Transaction.

### *Cash flow from financing activities*

**Table 9.38 Cash flow from financing activities**

	Year ended 31 Dec			Increase/(Decrease)	
	2012G	2013G	2014G	2013G as compared to 2012G	2014G as compared to 2013G
<b>SAR' million</b>					
Proceeds from short term Murabaha financing .....	96.0	177.0	3,122.3	84.4%	1,664.0%
Proceeds from Murabaha and longterm financing .....	657.6	807.8	334.6	22.8%	(58.6%)
Repayments against Murabaha and long term financing .....	(688.8)	(586.8)	(564.3)	(14.8%)	(3.8%)
Dividends paid .....	(157.3)	(313.9)	(313.2)	99.6%	(0.2%)
Board's members compensation .....	-	-	(1.8)	-	nm
Non-controlling interests .....	-	(10.0)	-	nm	(100.0%)
<b>Net cash provided from (used in) financing activities .....</b>	<b>(92.5)</b>	<b>74.2</b>	<b>2,577.6</b>	<b>(180.2%)</b>	<b>3,373.9%</b>

Source: Company

Cash flow from financing activities of the Company was mainly driven by contractual re-payments of loans obtained from financing institutions and additional draw-downs.

Additional long term loans of SAR 657.6 million, SAR 807.8 million and SAR 334.6 million, obtained in financial year 2012G, 2013G and 2014G respectively were utilised to finance the construction of new vessels. The Company utilised a short term Murabaha finance facility in 2014G to finance the cash consideration for the acquisition of vessels from Vela.

The Company paid regular dividends, comprising 40.9 per cent, 97.9 per cent. and 116.2 per cent. of opening cash and cash equivalents balance during the years ended 31 December 2012G, 2013G and 2014G respectively.

The following table summarises the cash and cash equivalents balance of the Company as at 31 December 2012G, 2013G and 2014G.

**Table 9.39 Cash and cash equivalents**

	As at 31 Dec			Increase/(Decrease)	
	2012G	2013G	2014G	2013G as compared to 2012G	2014G as compared to 2013G
<b>SAR' million</b>					
Cash in hand and at banks.....	105.7	106.5	169.0	0.8%	58.7%
Amounts restricted by banks.....	(10.7)	(9.4)	-	(12.1%)	(100.0%)
<b>Net cash in hand and at banks</b>	<b>95.0</b>	<b>97.1</b>	<b>169.0</b>	<b>2.2%</b>	<b>74.0%</b>
Investments in Murabaha & short-term deposits.....	292.7	237.9	221.1	(18.7%)	(7.1%)
Amounts restricted by banks.....	(67.2)	(65.5)	(76.8)	(2.5%)	17.3%
Net investment in Murabaha and short term deposits.....	225.5	172.5	144.4	(23.5%)	(16.3%)
<b>Total cash and cash equivalents.....</b>	<b>320.5</b>	<b>269.6</b>	<b>313.3</b>	<b>(15.9%)</b>	<b>16.2%</b>

*Source: Company*

Cash and cash equivalents represent cash in hand, bank balances, investments in Murabaha and short-term deposits, and investments that can be liquidated to cash and maturing within three months or less from the date of acquisition which is available to the Company and its subsidiaries without any restrictions. They are presented net of amounts restricted by banks for the purpose of repayments of term loans.

#### **9.8.4 Funding Structure**

The Company has maintained strong relationships with local and international financial institutions over the past years and adopted Sharia-compliant investment financing policies. This combined with a strong financial position and abundant surplus cash, enables the Company to meet its obligations and finance its various projects.

As a result of adopting a Sharia-compliant financing strategy, the Company did not have any conventional loans outstanding as at 31 December 2014G.

The Company has a centralised treasury department located at its head office that is responsible for investing and managing its cash flows and funding profile. Historically the Company has pursued a conservative financial policy in the investment of its surplus cash in low risk investments, allowing easy access to additional liquidity when required.

The Company's subsidiaries, Bahri Dry Bulk and NCC have obtained long term finance facilities in order to finance the construction of vessels. These facilities are classified as 'non-recourse', i.e. the

subsidiary generally secures these facilities with its own assets, contractual rights and cash flows and there is no recourse to the Company under any guarantee or other forms of credit support.

Treasury function of Bahri Dry Bulk is managed by the Company's treasury department. NCC operates and manages its treasury operations, cash flows and financing separately, through its treasury department located at its Riyadh head office.

### *Existing financing agreements*

The following table sets out the breakdown of the finance facilities availed by the Company and its subsidiaries as at 31 December 2014G:

**Table 9.40 Existing financing agreements**

Facility	Approved limit	Type	Purpose	Grant date	Utilisation at 31 December 2014G	Outstanding amount at 31 December 2014G SAR ' million	Maturity date	No. of instalments	Security / Guarantee (if any)
Bahri	SAR' million				SAR ' million				
<b>Long term</b>									
A	316.5	Murabaha	Finance construction of VLCCs	18-Mar-07	Fully utilised	163.5	8-Aug-17	40	Mortgaged 1 VLCC
B	1,641.9	Murabaha	Finance construction of six VLCCs	25-Jun-07	Fully utilised	418.6	2-Mar-19	40	Mortgaged 3 VLCCs
C	1,050.0	Murabaha	Refinance existing facilities and part finance the construction of three VLCCs	21-Apr-09	Fully utilised	675	2-Mar-19	14	Mortgaged 2 VLCCs
D	822.6	Murabaha	Finance construction of four cargo vessels	22-Jun-11	Fully utilised	756.2	30-Apr-24	40	Mortgaged 4 Ro-Ro Container Ships
E	450.0	Murabaha	Finance construction of two cargo vessels	3-Jul-12	Fully utilised	399.4	2-Oct-23	40	Mortgaged 2 Ro-Ro Container Ships
<b>Short term</b>									
F	3,182.8	Murabaha	Finance acquisition of 15 VLCCs, 4 Product Tankers & 1 Aframax Tanker from Vela	23-Jun-14	Fully utilised	3182.8	23-Jun-15	na	Mortgaged 15 VLCCs, 4 Product Tankers & 1 Aframax Tanker
G	200.0	Murabaha	Working capital finance	30-Sep-13	125	125	30-Sep-15	na	Corporate Guarantee
H	187.5	Murabaha	Working capital finance	28-Aug-13	151.5	151.5	28-Aug-15	na	Corporate Guarantee
I	200.0	Murabaha	Working capital	20-Mar-13	0	0	20-Mar-15	na	Corporate Guarantee



Facility	Approved limit	Type	Purpose	Grant date	Utilisation at 31 December 2014G	Outstanding amount at 31 December 2014G SAR ' million	Maturity date	No. of instalments	Security / Guarantee (if any)
Bahri	SAR' million				SAR ' million				
			finance						
J	125.0	Murabaha	Working capital finance	1-Apr-14	0	0	1-Apr-15	na	Corporate Guarantee
<b>Bahri Dry Bulk</b>									
A	420.0	Murabaha	Finance construction of Bulk Carriers	20-Nov-13	Fully utilised	412.7	8-Aug-24	40	Mortgaged 5 Bulk Carriers
<b>NCC</b>									
A	196.0	Murabaha	Finance 1 DSME Ship	26-Jul-11	Fully utilised	182.2	30-Nov-23	17	Mortgaged 1 vessel
B	258.0	Murabaha	Finance 2 SLS Ships	27-Mar-11	Fully utilised	202.2	27-Dec-21	13	Mortgaged 2 vessels
C	937.5	Murabaha	Finance 6 SLS Ships	28-Dec-07	610	520.4	21-Nov-22	14	Mortgaged 5 vessels
D	414.4	Murabaha	Finance 3 SLS Ships	20-Oct-07	Fully utilised	327.3	6-Aug-21	11	Mortgaged 3 vessels
E	435.8	Conventional	Finance 4 HMD Ships	18-Aug-07	Fully utilised	272.3	14-Apr-22	14	Mortgaged 4 vessels
F	787.5	Murabaha	Finance 6 HMD Ships	5-Aug-07	Fully utilised	381.4	25-Aug-17	4	Mortgaged 6 vessels

Source: Company

As at 31 December 2014G the Company had unutilised short term finance facilities of SAR 436.0 million, while NCC had unutilised long term finance facilities of SAR 327.5 million.

The following table sets out the maturity profile of the Company's and its subsidiaries' long term borrowing facilities as at 31 December 2014G.

**Table 9.41 Maturity profile**

	As at 31 Dec
	2014G
<b>SAR' million</b>	
Within one year.....	558.3
One year to five years .....	2,457.3
More than five years .....	1,695.6
<b>Total.....</b>	<b>4,711.2</b>

Source: Company

Other than presented in this section, the Company and its subsidiaries did not have any other borrowings or indebtedness, including bank overdrafts, liabilities under acceptances, acceptance credits or hire purchase commitments, as at 31 December 2014G.

**10. USE OF PROCEEDS**

- 10.1 The Issuer intends to use the proceeds of the issuance of the Sukuk to repay the amounts borrowed under the Murabaha Bridge Facility with the balance, if any, to be used for general corporate purposes.
- 10.2 The Issuer estimates in aggregate its costs and expenses in relation to the issue of the Sukuk to approximately amount to SAR 17,222,178.86 including, without limitation, listing, legal and accounting fees and expenses, agency fees and the combined management and selling commission, costs and other expenses of the Joint Lead Managers and Joint Bookrunners.

## **11. STATEMENTS BY EXPERTS**

- 11.1 As at the date of this Prospectus, none of the experts identified in the "*Corporate Directory*" section of this Prospectus, being the auditors to the Issuer and the Market Consultant, have any shareholding or interest of any kind in the Issuer or any of its subsidiaries. The Issuer also confirms that, none of the Joint Lead Managers and Joint Bookrunners or any of the legal advisers, own any shares or have any interest of any kind in the Issuer or any of its subsidiaries.
- 11.2 Ernst & Young & Co. (Public Accountants) has given and not withdrawn its written consent to the inclusion, in this Prospectus, of Ernst & Young's name, logo, auditor's report on the audited financial statements of the Issuer as at and for the financial years ending 31 December 2013G and 2014G and the limited review report on the interim condensed consolidated financial statements of the Issuer as at and for the three-month period ended 31 March 2015G in the form and context in which it is included in this Prospectus. Ernst & Young is a professional company that provides assurance, tax and advisory services. It has approximately 190,000 employees in more than 150 countries. It is licensed in the Kingdom by the Ministry of Commerce and Industry as a professional company under license number 45/11/323 dated 04/09/1412H under the commercial registry issued by the Ministry of Commerce and Industry.
- 11.3 Dr. Mohamed Al-Amri & Company (a member of BDO International Limited) has given and not withdrawn its written consent to the inclusion, in this Prospectus, of the name, logo and auditor's report of Dr. Mohamed Al-Amri & Company (a member of BDO International Limited) on the audited financial statements of the Issuer as at and for the financial years ending 31 December 2012G of Dr. Mohamed Al-Amri & Company (a member of BDO International Limited) in the form and context in which it is included in this Prospectus. Dr. Mohamed Al-Amri & Company (a member of BDO International Limited) is a professional company that provides assurance, tax and advisory services in the Kingdom since 1979G. It is licensed in the Kingdom by the Ministry of Commerce and Industry as a professional company under license number 66/11/323 under the commercial registry issued by the Ministry of Commerce and Industry, and it is independent member of the British limited company (BDO International Limited) that has over 60,000 employees in more than 150 countries.
- 11.4 McQuilling Services, LLC has given and not withdrawn its written consent to the inclusion, in this Prospectus, of McQuilling Services' name, logo and each statement made by it in the form and context in which it is included in this Prospectus. It was established in 1972G with its headquarters' in New York, USA operating in maritime transport sector as an independent company.

## 12. DECLARATIONS

12.1 The Board of Directors, CEO, Vice CEO-Finance, the Secretary and Senior Executives make the following declarations:

- They have not at any time been declared bankrupt or been subject to bankruptcy or insolvency proceedings;
- They have not been employed in a managerial or supervisory capacity by an insolvent company in the five years preceding the date of this Prospectus;
- Except as disclosed in Section 8 "*Management of the Company*", neither they nor any of their relatives have a direct interest in the Company or its subsidiaries;
- Except as relevant to the Vela Transaction, there have not been any commissions, discounts, brokerages or other non-cash compensation granted within the three years immediately preceding the application for registration and admission to listing in connection with the issue or offer of any securities by the Company or its subsidiaries;
- Neither the Board of Directors nor the CEO has the right to vote on their respective remuneration or on any contract or proposal in which they have a material interest; and
- Except as disclosed in Section 14.2.6 "*Related Party Agreements*"; they do not themselves, nor do any of their relatives or affiliates, have any material interest in any written or verbal contract or arrangement in effect or contemplated at the date of the Prospectus which is significant in relation to the business of the Company.

12.2 In addition to the above declarations, the Board of Directors make the following declarations:

- There has not been any interruption in the business of the Company or any of the Company's subsidiaries which may have or has had a significant effect on the financial position in the last twelve (12) months;
- There has not been any material adverse change in the financial or trading position of the Company or the Company's subsidiaries in the three financial years preceding the application for registration and admission to listing and during the period covered in the external auditor's report up to the date of the approval of the Prospectus;
- Except as disclosed in Section 2.14 "*Legal Information relating to the Company*", there are no debt instruments issued by the Company or authorized but unissued (other than the Sukuk), and there are no term loans or any other outstanding loans or debts including bank overdrafts, liabilities under acceptances, acceptance credits or hire purchase commitments;
- After reviewing the expected cash flow requirements, the Company has, on its own or with its subsidiaries, a sufficient working capital for the 12 months immediately following the date of the publication of the prospectus;
- Neither the Company nor any of the Company's subsidiaries has any policy on the research and development of new products and production processes;
- Neither the Company nor any of the Company's subsidiaries has any employee share schemes in place or any other arrangements involving the employees in the capital;

- Except as disclosed in Section 9.7.4 "*Hedging reserve for loans commission*" under Section 9 "*Management Discussion and Analysis of Financial Condition and Results of Operations*", neither the Company nor any of the Company's subsidiaries have contractually based securities or other assets whose value may be subject to fluctuations or be difficult to ascertain with certainty, significantly affecting the assessment of the issuer's financial position. However, the Company and the Company's subsidiaries have swap agreements in place to hedge the fluctuations of the financing cost concluded in the ordinary course of business;
- Except as disclosed in Section 14.2.4 "*Material Assets of the Company and related Mortgages*" under Section 14 "*Legal Information*", none of the Company's other material assets are under mortgage;
- The Company does not currently have any material contingent liabilities or guarantees;
- The Board of Directors has no powers or rights to borrow from the Company; and
- The Company and the Company's subsidiaries have received the approval of the lending banks to this issuance as required under the loan agreements concluded with such lending banks.

12.3 The Directors undertake that:

- The Company will comply with the Corporate Governance Regulations issued by the Authority; and
- The Company will comply with the requirements of Article 69 and 70 of the Companies Regulations and will comply with the relevant requirements of the Corporate Governance Regulations issued by the Authority.

### **13. SUMMARY OF THE COMPANY'S BY-LAWS**

The current provisions of the By-Laws are summarised below.

#### **13.1 *Name of the Company***

The National Shipping Company of Saudi Arabia, a Saudi Joint Stock Company.

#### **13.2 *Head Office***

The head office of the Company is in Riyadh, Saudi Arabia with two branches in Jeddah and Dammam. The Board of Directors may open branches, offices or agencies within or outside of Saudi Arabia.

#### **13.3 *Objectives of the Company***

The objectives of the Company are as follows:

- Purchase and sell vessels and other floating means of transportation to support transporting cargos heading to Saudi Arabia regularly and to maintain cargo prices consistency and ensure transportation of national security demands at all times;
- Transport Saudi Arabian exports;
- Transport passengers, goods, commodities and livestock to and from Saudi Arabia by sea;
- Recruit Saudi engineers, officers and seamen to work on vessels, at dry docks in the maintenance of vessels and in other shipping related activities and to train Saudi nationals in these areas;
- Participate in all activities related to marine transportation such as salvage, shipping agency, brokerage, cargo clearance, stowage, storage and other activities related to the shipping industry;
- Obtain concessions, benefits or rights from different governments with the aim to serve the Company's interests;

Undertake all activities related to the facilitation of tourism and Hajj, Import and export of shipping equipment;

- Enter into any transactions, contracts and take any actions that relate or connect, for any reason, to its objectives which the Company sees necessary and appropriate to achieve all or some of its objectives or facilitate such achievements;
- Participate in establishing any other company, or invest in it, or acquire its assets and its businesses both inside and outside Saudi Arabia, which relates to the Company business; and
- Own any immovable assets that's the Company sees necessary to achieve any of its objectives in any part of Saudi Arabia or abroad, and to register the same under its name with all ministries and other appropriate government authorities, and to invest such assets directly or through leasing or by any other means.

The Company may, to meet its objectives and goals, work on supporting the Saudization of its jobs within vessels employees, support maritime navigation education in Saudi Arabia,

develop a national special registrar for vessels, establish a national assembly for maritime navigation, and use maintenance and repairs centres available in the country.

**13.4 *Term of the Company***

The Company has an unlimited term.

**13.5 *Capital of the Company***

The share capital of the Company is SAR 3,937,500,000, consisting of 393,750,000 Shares with a nominal value of SAR 10 per share. Shares should not be issued at less than the par value.

**13.6 *Share Register***

The Shares shall be transferred by recording such transfers in the E-Shareholders' register in accordance with the Capital Market Law and its implementing regulations. The transfer of title to a Share shall not be effective vis-à-vis the Company or any third party except from the date on which the transfer is recorded in such E-Shareholders' register in accordance with the laws and regulations that regulate shares transfer. Ownership of the Shares by a Shareholder entails the acceptance by the Shareholder of the Company's By-Laws and his submission to the resolutions duly passed by the General Assemblies.

**13.7 *Increase of Capital***

The Extraordinary General Assembly may issue a resolution (based on a recommendation by the Board) to increase the Company's capital by issuing new Shares having the same nominal value as the original Shares, provided that the original Shares have been paid in full. If the new Shares are issued at a price higher than their nominal value, any such amount in excess of the nominal value shall be added to the Company's statutory reserve after deducting any related expenses. Such resolution should specify the amount of the increase, the price at which the Shares will be issued and whether the existing shareholders will have priority to subscribe for the Shares issued pursuant to such increase.

**13.8 *Decrease of Capital***

The Company may reduce its capital by a resolution of the Extraordinary General Assembly based on a recommendation made by the Board. Such resolution shall specify the amount of the reduction and method for undertaking such reduction.

**13.9 *Debt Instruments***

The Company may issue debt instruments (such as bonds and sukuk), both in Saudi Riyals or other currencies, and for any length of time, either in one or several parts or through a series of issuances under one or more programs established by the Company from time to time. The Board of Directors also have full powers to determine and report the amount and terms and conditions of these debt instruments, provided that the total loans and debt instruments outstanding does not exceed three times the shareholders' equity in the Company according to the latest audited financial statements of the Company.

**13.10 *Constitution of the Board of Directors***

The Board comprises of nine members, three of whom are appointed by the Government (represented by the Public Investment Fund). The Shareholder Saudi Aramco Company for Development shall appoint two members and the remaining four members are elected to the Board by the General Assembly, excluding the Public Investment Fund and Saudi Aramco Company for Development.

Post the expiry of the Board's term on 31/12/2016G, the General Assembly shall elect all nine members of the Board by way of accumulative voting method in accordance with the Corporate Governance regulations, as amended from time to time, issued by the Capital Market Authority.

The term of the Board is three years.

#### 13.11 ***Qualification Shares***

Each member of the Board shall be a holder of a number of Shares no less than one thousand Shares. Such Shares shall be deposited in a bank designated by the Minister of Commerce and Industry within 30 days from the date of the appointment of the Director. Should a Director fail to submit such qualification Shares within the specified period, his appointment to the Board shall be deemed null and void.

#### 13.12 ***Vacancies***

A Director's membership of the Board shall be terminated upon the expiry of the Board's term, on the Director's resignation or death or if he becomes ineligible, based on the Board's view, to pursue his duties as a director pursuant to any applicable laws or regulations in the Kingdom. If the seat of a Director becomes vacant, the Board may appoint a temporary member to the vacant seat, provided that such appointment shall be laid before the next Ordinary General Assembly. The new Director shall complete the rest of his predecessor's term.

If the number of Directors falls below the quorum required for a Board meeting, an Ordinary General Assembly must be convened as soon as possible to appoint new Directors to the vacant seats on the Board.

#### 13.13 ***Powers of the Board of Directors***

Without prejudice to the powers conferred on the General Assembly, the Board shall be vested with the widest powers to manage the business of the Company inside and outside Saudi Arabia. Furthermore, the By-laws of the Company lists, by way of example, a number of specific powers the Board has.

The Company's By-Laws do not provide any authority to be given to the Board of Directors or the Chief Executive to have the right to vote on a contract or proposal in which they have an interest or to vote on their remunerations or the right to borrow from the Company.

#### 13.14 ***Chairman, Vice Chairman and Secretary***

The Board shall appoint a Chairman and Vice Chairman from among its members. The Chairman shall have the power to convene the Board to meet, preside over its meeting and represent the Company.

The Board of Directors shall appoint a Secretary from among its members or otherwise and shall specify his duties and remuneration.

#### 13.15 ***Board Meetings***

The Board of Directors shall be convened upon notice given by the Chairman or the Director presiding over the Board in his absence. The Chairman shall call a meeting of the Board if so requested in writing by any two Directors. The Board shall convene at least four times a year.



### 13.16 ***Quorum and Representation***

A Board meeting shall be quorate only if attended by at least 50 per cent. of the Board members. A Director may appoint in writing another Board member to attend a Board meeting as his proxy and such proxy shall have two votes. It is not permissible for a Board member to represent more than one Director at the same meeting.

Resolutions of the Board shall be adopted with the approval of the majority vote of the members present. In case of an equality of votes, the Chairman of the Board or the Director presiding over the Board in the absence of the Chairman shall have a casting vote.

The Board may, when it sees necessary, pass resolutions by way of circular unless one of the Directors requested in writing to convene a meeting to discuss such resolutions. Such resolutions were passed by way of circular shall be discussed represented to the Board of Directors at the first meeting follows passing such resolutions.

### 13.17 ***Minutes of Meetings***

Deliberations and resolutions of the Board shall be recorded in the form of minutes. Such minutes shall also be recorded in a register to be signed by the Chairman and the Secretary. Board members who expressed an opposing opinion to the resolution that was passed at the Board meeting may request to record their opposing opinion in such register.

### 13.18 ***Committees of the Board***

The Board of Directors may appoint an appropriate number of committees as per the Company's requirements. The Board of Directors shall specify the term, powers and purpose of each committee and shall also specify how the Board will supervise such committee.

The Company's By-Laws does not include any other provisions relating to the Company's administrative and supervisory affairs and its monitoring committees.

### 13.19 ***General Assembly***

A General Assembly that is duly convened is deemed to represent all of the Shareholders and as such any resolutions that are passed at a General Assembly shall be binding on all of the Shareholders. Any Shareholder who holds 10 Shares has the right to attend a General Assembly. Each Shareholder may authorise in writing another Shareholder (other than a member of the Board of Directors or employees of the Company) to attend the General Assembly on his behalf. The Shareholders may participate and vote in the General Assembly meetings via electronic means in a accordance with the relevant rules and regulations issued by the relevant authorities.

### 13.20 ***Ordinary General Assembly***

The general meetings of the Shareholders are either Ordinary General Assemblies or Extraordinary General Assemblies. With the exception of those matters specifically reserved for Extraordinary General Assemblies, Ordinary General Assemblies shall have full jurisdiction over all matters related to the Company. Ordinary General Assemblies must be convened at least once a year, within six months following the end of the Company's fiscal year at the Company's head office or at the place and time announced in the invitation for the meeting.

### 13.21 ***Extraordinary General Assembly***

Without prejudice to the limitations set out in the Companies Law, the Extraordinary General Assembly shall have the power to:

- amend the Company's By-Laws;
- dissolve the Company or merge with another company or establishment;
- dispose of the business which the Company was incorporated to undertake; and
- increase or reduce in the Company's capital.

Furthermore, the Extraordinary General Assembly may pass resolutions on matters falling within the competence of the Ordinary General Assembly, subject to the same requirements applicable to the Ordinary General Assembly.

### 13.22 ***Manner of Convening General Assemblies***

The General Assembly may be convened by the Board of Directors. The Board of Directors must convene a meeting of the Ordinary General Assembly if requested to do so by the auditors or by Shareholders representing at least five per cent. of the Company's capital. The Company must publish an invitation to Shareholders to attend the General Assembly in the Official Gazette and in a daily newspaper circulated in the location of the head office of the Company, at least 25 days prior to the date of the General Assembly. The invitation must include the agenda of the meeting. Alternatively, the Company may send a notice containing the invitation to the Shareholders to attend the General Assembly by registered mail during the period set out above. A copy of the notice and the agenda shall also be sent during the notice period set out above to the Companies Department at MOCI.

### 13.23 ***Quorum of Ordinary General Assembly***

A meeting of the Ordinary General Assembly shall be quorate if attended by Shareholders representing at least 50 per cent. of the Company's capital. If such quorum is not present at the first meeting, a second meeting shall be held within 30 days following the time set for the first meeting. The quorum for such second meeting shall be any number of Shares represented in such second meeting.

### 13.24 ***Quorum of Extraordinary General Assembly***

A meeting of the Extraordinary General Assembly shall be quorate if attended by Shareholders representing at least 50 per cent. of the Company's capital. If such quorum is not present at the first meeting, a second meeting shall be convened in the same manner as set out for the Ordinary General Assembly. The Companies Law provides that the quorum for such second meeting shall be the attendance by Shareholders representing at least 25 per cent. of the Company's capital.

### 13.25 ***Voting Rights***

Each Shareholder shall have one vote for each Shares he owns or represents at the General Assembly.

The Company's By-Laws does not include any provisions related to the rights or limitations related to the Company's shares or any other securities as well as any provisions regulating the amendment of the rights attaching to, or the classes of, the securities.

### 13.26 ***Voting Majorities***

Resolutions of the Ordinary General Assembly shall be passed if supported by an absolute majority of the Shares represented at the meeting. Resolutions of the Extraordinary General Assembly shall be passed if supported by a majority of at least two-thirds (2/3) of the Shares represented at the meeting. If the resolution to be adopted at the Extraordinary General Assembly relates to an increase or reduction of the Company's share capital, dissolving the Company prior to the expiry of its term or merging the Company with another company or establishment, then such resolution shall be passed if supported by a majority of at least three-quarters (3/4) of the Shares represented at the meeting.

### 13.27 ***Proceedings of the General Assembly***

The General Assembly shall be presided over by the Chairman or the Director presiding over the Board in his absence. The Chairman shall appoint a secretary for the General Assembly, pending on the General Assembly approval of such appointment. A list shall be prepared showing the names of the Shareholders present in person or represented by proxy, the number of the shares held by each, the number of votes attaching to such Shares. Any interested person shall be able to view such list.

### 13.28 ***Appointment of Auditor***

The Company shall have one auditor or more to be selected from the auditors licensed to practice in Saudi Arabia. The auditor shall be appointed by the General Assembly which shall determine its compensation. The auditor shall audit the Company's accounts both inside and outside the Kingdom relating to the year for which it was appointed.

### 13.29 ***Financial Year***

The Company's fiscal year shall commence on 1 January and expire on 31 December of each *Gregorian year*.

### 13.30 ***Annual Accounts***

The Board of Directors shall prepare at the end of each fiscal year an inventory of the Company's assets and liabilities, the Company's balance sheet and profit and loss account, a report on the Company's activities and its financial position for the preceding year and its proposals as to the distribution of the net profits. The Board of Directors shall prepare such documents at least 60 days prior to the convening of the annual Ordinary General Assembly. The Board of Directors shall provide such documents to the auditor at least fifty five days prior to the time set for convening the annual Ordinary General Assembly. Such documents shall be signed by the Chairman of the Board and a set thereof shall be available at the Company's head office for inspection by Shareholders at least 25 days prior to the time set for convening the General Assembly. The Chairman shall prompt the Company's balance sheet, profit and loss account, a comprehensive summary of the Board of Directors' report, and the full text of the auditor's report to be published in a newspaper circulated in the city where the Company's head office is located, and shall send copies of such documents to the Companies Department at MOCI at least 25 days prior to the date set for convening the annual Ordinary General Assembly.

### 13.31 ***Distribution of Annual Profits***

After deducting all general expenses and other costs, the Company's annual net profits shall be allocated as follows:

- 10 per cent. of the annual net profits shall be set aside to form a statutory reserve. Such setting aside may be discontinued by the Ordinary General Assembly when the statutory reserve totals one-half (1/2) of the Company's capital; and
- the remainder shall be distributed to the Shareholders.

#### 13.32 ***Dissolution and Liquidation***

When the Company's losses equal (3/4) of its capital, the Board of Directors must convene an Extraordinary General Assembly meeting to decide on the dissolving the Company or continuing its business. In the event the Extraordinary General Assembly decided to dissolve the Company, an Extraordinary General Assembly shall determine the method of liquidation and appoint the liquidator. The Board's mandate will expire upon the appointment of a liquidator but the General Assembly's authority shall last throughout the liquidation period.

#### 13.33 ***The Companies Law***

The Companies Law shall apply to all other matters not specifically provided for in the By-Laws.

## 14. LEGAL INFORMATION

### 14.1 *Summary of Material Agreements*

The Company has entered into a number of material agreements (i) in relation to the Vela Transaction; (ii) with lenders and (iii) with customers. The Company is also a party to a number of leases pertaining to premises occupied by members of the Bahri Group. These agreements and/or leases (summarised below) may or may not be material. The material agreements relating to the Vela Transaction are summarised below in Section 14.1.1 "*Summary of the Vela Transaction Documents*" while the other material agreements and leases, amongst other things, are summarised in Section 14.2 "*Legal information relating to the Company*".

#### 14.1.1 *Summary of the Vela Transaction Documents*

The Company has entered into a number of key agreements in relation to the Vela Transaction, a summary of each of which is provided below:

##### 14.1.1.1 *Summary of the principal terms of the BAPA*

On 19/12/1433H (corresponding to 4/11/2012G) (the "**Execution Date**"), the Company and Vela entered into an agreement for the merger of Vela's entire fleet of vessels and operations related to these vessels with the Company which was amended by the Company and Vela on each of 3/9/1434H (corresponding to 11/7/2013G), 25/12/1434H (corresponding to 30/10/2013G), 28/2/1435H (corresponding to 31/12/2013G), 30/5/1435H (corresponding to 31/3/2014G) and 14/6/1435H (corresponding to 14/4/2014G). Pursuant to the deed of adherence dated 3/9/1434H (corresponding to 11/7/2013G) between SADC, the Company and Vela, SADC also became a party to the BAPA and accordingly assumed certain rights and obligations under the BAPA.

As at the date of this Prospectus, the Company has already acquired Vela's entire fleet of vessels pursuant to the BAPA. In addition to documenting the transfer of these assets, the BAPA also contains ongoing obligations and restrictions.

As part of the SCPMA Permission, for so long as the Contract of Affreightment is in effect, the Company will also become the National Champion and be subject to the National Shipping Obligations which will require it to maintain a fleet of vessels with minimum tonnage to transport crude oil to support national transportation priorities in times of national emergency in Saudi Arabia.

Under the terms of the BAPA, Vela also undertakes to the Company that, save in the event of a national emergency, from First Completion until the termination of the Contract of Affreightment, no Vela Group company will compete with the Bahri Group in the business of owning, operating and/or chartering VLCCs for the carriage of Crude Oil produced in the Kingdom.

However, there are certain limited circumstances (in addition to the occurrence of a national emergency) where the Vela Group may engage in a Competing Business, such as the entry into mergers, acquisitions and joint ventures subject to the satisfaction of certain procedures, the chartering of VLCCs for carrying fuel oil cargoes, the carriage of any hydrocarbon product

or derivative other than Crude Oil and the servicing of vessels. In addition, neither any Vela Group company nor any joint venture in which any Vela Group company has an interest, is precluded from undertaking a Competing Business which was undertaken by such Vela Group company or joint venture prior to the Execution Date. Further, no Vela Group company is precluded from (i) undertaking a Competing Business whose annual revenues comprise 15 per cent. or less of the total annual revenue of such Vela Group company (as appropriate) which is undertaking such business or (ii) the acquisition of a target where the Competing Business comprises 15 per cent. or less of its annual revenues. However, if a Vela Group company undertook a Competing Business with associated annual revenues which are more than 15 per cent. of the total annual revenues of such Vela Group company, or if a Vela Group company proposed to acquire all of or a controlling interest in a Competing Business with associated annual revenues which are more than 15 per cent. of the total annual revenues of the business being acquired, the relevant Vela Group company shall notify the Company, and shall offer the Company a right of first refusal to acquire or participate in such Competing Business on terms to be agreed between the relevant Vela Group company and the Company.

Saudi Aramco has also given a similar undertaking not to compete with the Bahri Group, under the Relationship Agreement. For further details, see Section 14.1.1.2 *"Summary of the principal terms of the Relationship Agreement"*.

Vela has also undertaken not to, and procured that any company over which Vela has board or voting control (or has equivalent rights in a contractual joint venture) will not, approach or solicit any employees transferred to the Bahri Group pursuant to the Services Agreement for a period of two years from the date of transfer of any such employee to the Bahri Group.

#### 14.1.1.2 *Summary of the principal terms of the Relationship Agreement*

Saudi Aramco and the Company entered into the Relationship Agreement, dated 19/12/1433H (corresponding to 4/11/2012G), which governs the relationship and mutual rights and obligations between the Company and Saudi Aramco. The Relationship Agreement includes an undertaking by Saudi Aramco which provides the Company with exclusivity in relation to the carriage of VLCC-sized Crude Oil cargoes (as described further below). In addition, the Relationship Agreement also imposes a non-compete obligation on members of the Saudi Aramco Group as further described below.

##### *Exclusivity*

The Relationship Agreement provides that the Company will, in accordance with the terms of the Contract of Affreightment, become the exclusive provider of VLCC shipping services to Saudi Aramco for all VLCC-sized Crude Oil cargoes that are sold by Saudi Aramco or its representatives that are to be shipped from terminals in the Kingdom, Sidi Kerir (an offshore location, off the coast of Egypt, that links to the Sumed oil pipeline) (in certain circumstances) and certain storage locations, **provided that** Saudi Aramco and/or its nominee are able to nominate the relevant vessel.

- Non-Compete obligation of the Saudi Aramco Group

Under the Relationship Agreement, Saudi Aramco undertakes to the Company that, save in the case of national emergency, from First Completion until the termination of the Contract of Affreightment, Saudi Aramco and companies over which Saudi Aramco exercises voting or board control (including any contractual joint ventures over which it exercises such control) will not compete with the Bahri Group in the business of owning, operating and/or chartering VLCCs for the carriage of Crude Oil produced in the Kingdom.

However, there are certain limited circumstances (in addition to the occurrence of a national emergency), where a Saudi Aramco Group company may engage in a Competing Business, such as the entry into mergers, acquisitions and joint ventures subject to the satisfaction of certain procedures, the chartering of VLCCs for carrying fuel oil cargoes, the carriage of any hydrocarbon product or derivative other than Crude Oil and the servicing of vessels. In addition, neither any Saudi Aramco Group company, nor any joint venture in which any Saudi Aramco Group company has an interest, is precluded from undertaking a Competing Business which was undertaken by such Saudi Aramco Group company or joint venture prior to the Execution Date. Further, no Saudi Aramco Group company is precluded from (i) undertaking a Competing Business whose annual revenues comprise 15 per cent. or less of the total annual revenue of the relevant Saudi Aramco Group company or the joint venture which is controlled by the relevant Saudi Aramco Group company which is undertaking such business or (ii) the acquisition of a target where the Competing Business comprises 15 per cent. or less of the relevant Saudi Aramco Group company's annual revenues. However, if a Saudi Aramco Group company undertook a Competing Business with associated annual revenues which are more than 15 per cent. of the total annual revenues of such Saudi Aramco Group company, or if a Saudi Aramco Group company proposed to acquire all of or a controlling interest in a Competing Business with associated annual revenues which are more than 15 per cent. of the total annual revenues of the business being acquired, the relevant Saudi Aramco Group company shall notify the Company, and shall offer the Company a right of first refusal to acquire or participate in such Competing Business on terms to be agreed between the relevant Saudi Aramco Group company and the Company.

#### *Supply of bunker fuels*

From the First Completion Date and for so long as the Contract of Affreightment remains in force, Saudi Aramco undertakes to use commercially reasonable efforts to supply bunker fuels, to any vessel that is wholly owned by or bareboat-chartered by the Bahri Group at a port or terminal to be reasonably determined by Saudi Aramco, in priority over other commercial shipping vessel operators. However, no Saudi Aramco Group company shall be under any obligations to offer bunker fuels to a Bahri Group company if such action would result in such Saudi Aramco Group company not being able to satisfy its commitments to, and the needs of, any other Saudi Aramco Group company, or such action would result in Saudi Aramco or the relevant Saudi Aramco Group company being in breach of any pre-existing contractual arrangement with a third party, or any applicable law. There is no obligation on Saudi Aramco to guarantee the availability of bunker fuels to any Bahri Group company, or bunker fuels at a specific price or of any specific quality.

#### *Future cooperation between Saudi Aramco and the Company*

The Company and Saudi Aramco have agreed to discuss, where commercially feasible, the possibility of further cooperation between them in respect of other lines of business, including, but not limited to, chemicals, drybulks, terminals, logistics and offshore support services, in order to further the Company's aspiration of becoming a national shipping champion to serve the Kingdom's growing maritime transportation needs and developing the maritime industry in the Kingdom.

#### *Term and termination*

The Relationship Agreement is effective from the time that the First Completion Conditions have either been satisfied or waived in accordance with the BAPA. The Relationship Agreement will automatically terminate upon the termination of the Contract of Affreightment.

#### *14.1.1.3 Summary of the principal terms of the Secondment Agreement*

The Company and Saudi Aramco entered into an agreement on 19/12/1433H (corresponding to 4/11/2012G), whereby four shorebased employees of the Saudi Aramco Group may be seconded to the Bahri Group to fill certain positions relating to the Vela Assets, as well as in the business of the Bahri Group (including chartering, scheduling, operations and marine planning). Either the Company or Saudi Aramco may propose a secondment on the basis of their requirements, and, if they agree that a secondment is appropriate, will agree the identity of the secondee, the services to be provided, the secondment period and location, and the billing rate payable by the Company to Saudi Aramco. The billing rate will be based on the equivalent remuneration that an employee of the Company holding an equivalent position, grade and level of seniority (including length of service) as the secondee would receive.

Subject to the Company's compliance with applicable law and regulation, and not having taken any action that may cause the secondee to terminate his employment with Saudi Aramco, Saudi Aramco will indemnify the Company in respect of any liabilities arising from the employment rights of each secondee (under their employment agreements and applicable law) during the period of his secondment to the Company. The aggregate liability of Saudi Aramco for claims under the agreement (excluding claims arising from the secondee's employment contract with Saudi Aramco) is capped to the total amount of the secondment fees actually received by Saudi Aramco from the Company. The Secondment Agreement contains protections for Saudi Aramco if a secondee terminates his employment by Saudi Aramco because of his experience while seconded to the Bahri Group.

#### *Term and termination*

The Secondment Agreement will become effective on the First Completion Date and will be effective for five years from that date (unless Saudi Aramco and the Company agree to extend such term) or, if earlier, until termination of the BAPA. Saudi Aramco and the Company may also terminate the Secondment Agreement with immediate effect at any time by mutual consent. In addition, either the Company or Saudi Aramco may terminate the Secondment Agreement if the other party commits a material breach, which it does not remedy within a 30 day period.



#### 14.1.2 *Summary of the Shipping Documents*

##### 14.1.2.1 *Summary of the principal terms of the Contract of Affreightment*

The Company and Bolanter entered into the Contract of Affreightment dated 19/12/1433H (corresponding to 4/11/2012G) as amended on 14/6/1435H (corresponding to 14/4/2014G), pursuant to which the Company has agreed to provide tonnage and shipping services on an exclusive basis to Bolanter for the transportation of certain VLCC sized Crude Oil cargoes produced in the Kingdom of Saudi Arabia and shipped on a Delivered Basis, as further described below. Each voyage under this agreement is to be performed in accordance with an industry standard form of voyage charterparty as amended by the terms of the Contract of Affreightment.

##### *Exclusivity*

The Contract of Affreightment requires Bolanter to support the exclusivity arrangements whereby:

- the Company will, in accordance with the terms of the Contract of Affreightment, have the exclusive right to ship all VLCC-sized Crude Oil cargoes produced in the Kingdom and sold by members of the Saudi Aramco Group (such member, which as at the date of this Prospectus, is Bolanter) that are to be shipped from terminals in the Kingdom, Sidi Kerir (an offshore location, off the coast of Egypt, that links to the Sumed oil pipeline) (in certain circumstances) and certain storage locations, **provided that** Saudi Aramco and/or its nominee are able to nominate the carrying vessel; and
- for non-VLCC-sized cargoes of Crude Oil produced in Saudi Arabia that satisfy certain criteria, Saudi Aramco's relevant nominee will notify the Company of such non-VLCC-sized cargoes so that the Company can make an offer to carry such cargo.

##### *Nomination*

Under the Contract of Affreightment, Bolanter will provide the Company with a schedule of cargoes to be shipped 20 days prior to the first day of each calendar month, to include load port (from a list specified in the Contract of Affreightment), cargo quantities and grades, discharging port(s) and anticipated loading date(s). The Company will nominate the vessels to be used for loading such cargoes in accordance with the timeframes set out in the Contract of Affreightment. The Company can request an extension of 10 days from Bolanter, in addition to the time period for nomination specified in the Contract of Affreightment, in order to nominate a suitable vessel. The Contract of Affreightment contains various criteria that the nominated vessels must comply with, including, approval by the loading and discharging terminals, suitability to carry the nominated cargo, approval by Bolanter's vetting department, the vessel being free from arrest or detention and the vessel must not be owned, managed or operated by a party that is subject to sanctions by either the European Union or the law of any jurisdiction implementing a United Nations resolution or by the United States Office of Foreign Assets Control. If the Company does not provide a valid nomination to Bolanter, and subsequently fails to nominate a suitable alternative vessel, Bolanter shall not be obliged to ship that nominated cargo under the Contract

of Affreightment and shall be free to make alternative arrangements for the carriage of such cargo.

#### *Freight and demurrage*

The demurrage rate (being the rate payable if Bolanter fails to load or discharge a vessel under the Contract of Affreightment within an agreed time) and the freight rate for each voyage shall be determined by reference to a market rate assessment by the London Tanker Broker Panel (an independent body which provides rate assessments for taker operations), pursuant to a mechanism set out in the Contract of Affreightment. Long-Haul Voyages are subject to an agreed minimum freight rate and demurrage rate when performed by vessels owned by the Company.

#### *Floor and reimbursement rates*

Under the Contract of Affreightment, the Company will receive a minimum guaranteed rate for the provision of such shipping services from Bolanter where Long-Haul Voyages are performed by Company-owned vessels, in order to reduce the exposure of the Company to shipping rate volatility, particularly when shipping rates fall below such minimum guaranteed rate. Conversely, when shipping rates exceed an agreed threshold, the Company is required to reimburse a proportion of such excess to Bolanter for any payment it has previously received pursuant to the minimum guaranteed rate mechanism, limited to the amounts it so received. The minimum guaranteed rate will not be applicable where the Company performs the relevant shipping services using chartered vessels and not Company owned vessels.

#### *Limitations on Liability*

In the event of termination of the Contract of Affreightment by reason of a breach by either Bolanter or the Company, the Contract of Affreightment agreement provides that the losses recoverable by the other party shall not exceed an amount equal to SAR 3,937,500,000 (equivalent to US\$1,050,000,000) in aggregate.

#### *Term and termination*

The Contract of Affreightment is a long-term arrangement with Bolanter. As such, it has an initial term of 10 years, terminable by either party giving not less than five years' notice at any time after the fifth anniversary of the Contract of Affreightment becoming effective which will be the date the first Vela VLCC is delivered to the Company pursuant to the BAPA. The ownership of the Contract of Affreightment was assigned on 24/09/1435H (corresponding to 21/07/2014G).

The Company shall have the option to terminate the Contract of Affreightment if Bolanter fails to nominate any cargoes under the Contract of Affreightment for three consecutive months (save if it has been prevented from doing so by an event over which it has no control or due to the Company's own actions or omissions). Bolanter shall have the option to terminate the Contract of Affreightment in the event that the Company fails to nominate any compliant vessels for one month or fails to nominate a vessel in response to a valid cargo nomination on more than one occasion in any six month period (except where it is prevented from doing so by an event over which it has no control or Bolanter's own acts or omissions, or where the Company has nominated a vessel that complies with the criteria in the

Contract of Affreightment but which was wrongly rejected by Bolanter). The Company considers the possibility of Bolanter terminating the Contract of Affreightment on the basis of non-compliance with the nomination criteria or nomination time-frames to be remote as most of the Company's fleet of vessels (including the Vela Vessels) satisfy the relevant nomination criteria as at the date of this Prospectus. Written notice shall be given to the other party within fourteen days of the relevant event. Bolanter or the Company shall otherwise only be entitled to terminate the Contract of Affreightment by mutual agreement.

#### *14.1.2.2 Summary of the principal terms of the Time Charter Agreement*

The Company and SAPTC entered into the Time Charter Agreement dated 19/12/1433H (corresponding to 4/11/2012G), a framework agreement under which SAPTC undertakes to time-charter from the Company the five product tankers and the single-hull floating-storage VLCC, which form part of the Vela Vessels. These vessels will be used by Saudi Aramco for the transportation of products, in the case of the product tankers, Crude Oil in the case of the Aframax tanker and storage in the case of the single-hull floating-storage VLCC for an initial period of five years (except in the case of the floating-storage VLCC, whose time-charter period is expected to be until 20/3/1437H (corresponding to 31/12/2016G) or longer, as described below). Under the Time Charter Agreement, each Vela Vessel that is subject to the Time Charter Agreement would be time chartered in accordance with the template time charterparty agreement, whose terms have been agreed by the Company and the SAPTC.

##### *Rates of hire*

The daily rate of hire for each charterparty shall be determined by reference to a market rate assessment of hire by the London Tanker Broker Panel (an independent body which provides rate assessments for tanker operators), pursuant to a mechanism set out in the Time Charter Agreement.

##### *Limitations of liability*

In the event of termination of the Time Charter Agreement as a result of a breach by either SAPTC or the Company, SAPTC and the Company agree that each other's liability shall be capped at an amount equal to SAR 937,500,000 (equivalent to US\$250,000,000) in aggregate.

##### *Term and Termination*

The term of the time charter for each product tanker shall commence once the first product tanker is delivered to SAPTC under its respective time charter, which commenced on 29/12/1435H (corresponding to 23/10/2014G) and shall continue for five years.

Unless terminated by either party by giving written notice no less than nine months prior to the expiry of the original term, the time charter for each product tanker shall be extended for an additional five years.

However, the single-hull floating-storage VLCC shall be time chartered until 31 December 2016G. However, if Dry-docking is required by the Classification Society, such term may be adjusted as follows:

- where such Dry-docking is prior to 31 December 2015G, SAPTC

shall have the option to extend the charter term up to 31 December 2020G, (and such Dry-docking shall be at Vela's expense) but the time charter will terminate immediately prior to the expiry of the extended time-charter period or, if a second Dry-docking is required within this period, at that Dry-docking's latest due date in the Company's option; and

- where such Dry-docking is after 31 December 2015G, the time charter shall continue until the date when such Dry-docking is due.

## 14.2 *Legal information relating to the Company*

### 14.2.1 *Real Property*

#### 14.2.1.1 *Freehold*

The Company owns the following freehold properties as at 31 December 2014G:

**Table: 14.1 The Real Property Owned by the Company**

<b>Branch</b>	<b>Owner</b>	<b>Address</b>
Riyadh Office	Bahri	Building #569 Sitteen Street, Malaz Area, P.O. Box 8931, Riyadh 11492, KSA
Mideast Ship Management	Mideast Ship Management Limited JLT	Floor Nos. 37 and 38, P2 Armada Towers, Jumeirah Lake Towers, P.O. Box 32890, Dubai, United Arab Emirates

#### 14.2.1.2 *Leasehold*

In addition to the freehold properties, the Company has the following leasehold properties the details of which are:

**Table: 14.2 The Leasehold Properties of the Company**

<b>Location</b>	<b>Rent period</b>	<b>Beginning of the contract</b>	<b>Contract duration</b>	<b>Address</b>
Airport Office	Yearly	29 February 2012G	3 years, renewed until 22/12/2017 G	Office no. 1688, King Khalid Airport, Riyadh, KSA

<b>Location</b>	<b>Rent period</b>	<b>Beginning of the contract</b>	<b>Contract duration</b>	<b>Address</b>
Dry Port	Yearly	3 August 2011G	5 years	Dry Port, Riyadh, KSA
Jeddah Office	Yearly	1 May 2014G	5 years/ Renewable on a yearly basis	Medina Road, Jeddah 7575 Bldg, Next to Lexus Cars Showroom, P.O. Box 9598, Jeddah 21423 Kingdom of Saudi Arabia
Containers Yard	Yearly	2 November 2006G	10 years / Renewable for 5 years	Jeddah Islamic Port. Jeddah, KSA
Dammam Office	Yearly	5 November 2013G	5 years /Renewable on a yearly basis	King Saud Street, Alsafa District, Dammam
Dammam Port Office	Yearly	7 August 2014G	1 year/ Renewable on a yearly basis	King Saud Raod (AlGhishla Road) Al-Safa Area, P.O. Box 3732, Dammam 31481 Kingdom of Saudi Arabia
Jubail Office	Yearly	1 March 2014G	1 year/ renewed until 01/03/2016 G	2nd Floor, Al-Khonaini Building (Riyadh Bank), Jeddah Street P.O. Box 955 Aljubail 31951
Bahri India (liaison office)	Monthly	1 September 2007G	Ongoing	(NSCSA Liason Office) Mumbai 4th Floor, Orient House, ADI Marzban,

<u>Location</u>	<u>Rent period</u>	<u>Beginning of the contract</u>	<u>Contract duration</u>	<u>Address</u>
				Path Ballrad Estate, Mumbai, 400001 India
Bahri GC-America	Monthly	1 August 2011G	5 years, 3 months	Suite 400 East Pratt Street. Baltimore, MIF 21202-3117, USA

Source: Company

#### 14.2.2 Finance Arrangements

As at 31 December 2014G, the Company has entered into the following finance facilities:

- A murabaha facility of SAR 3,182,812,500 dated 25/08/1435H (corresponding to 23/06/2014G) with three commercial banks (the "**Bridge Murabaha Facility**");
- A murabaha facility of approximately US\$120,000,000 dated 3 July 2012G with the Public Investment Fund (the "**2012G PIF Murabaha Facility**");
- A murabaha facility of approximately SAR 822,600,000 dated 22 June 2011G with two commercial banks (the "**2011 Murabaha Facility**");
- A murabaha facility of approximately US\$280,000,000 dated 21 April 2009G with the Public Investment Fund (the "**2009 PIF Murabaha Facility**");
- A murabaha facility of approximately US\$437,878,000 dated 25 June 2007G with four commercial banks (the "**2007 Murabaha Facility**"); and
- A murabaha facility of approximately US\$84,400,000 dated 18 March 2007G with three commercial banks (the "**2007 Three Commercial Banks Murabaha Facility**").

**Table 14.3: Summary of Finance Agreements**

The following table summarises the key terms of some of the above facilities:

<u>Facility Profile &amp; date</u>	<u>Purpose</u>	<u>Original Amount</u>	<u>Amount Settled</u>	<u>Outstanding Amount 31/12/2014G</u>	<u>Security Package</u>	<u>Term/ Maturity date</u>
Bridge Murabaha Facility with 3 Commercial Banks	To fund all of the cash consideration as well as the costs incurred by the company in relation to Vela	SAR 3,182,812,500	SAR 0	SAR 3,182,812,500	Mortgages	06/09/1436H (corresponding to 23/06/2015G)

Facility Profile & date	Purpose	Original Amount	Amount Settled	Outstanding Amount 31/12/2014G	Security Package	Term/ Maturity date
Transaction						
2012G PIF Murabaha Facility	To assist with the part financing for the building of two RoCons Hull 8087 and Bahri Tabuk	US\$ 120,000,000	US\$ 13,500,000	US\$ 106,500,000	Pre-delivery security assignments Mortgages General assignments Account Pledges	2 October 2023G
2011 Murabaha Facility with 2 Commercial Banks	To partially finance the acquisition of four RoCons i.e. Hull 8085, 8086, 8089 & 8090	SAR 822,600,000	SAR 66,440,769.30	SAR 756,159,230.70	Pre-delivery security assignments Mortgages General assignments Account pledges	30 April 2024G
2009 PIF Murabaha Facility	To refinance the debt related to the vessel Wafrah and to refinance/ finance the acquisition of 3 VLCCs named, Dorra, Ghazal, & Sahba	US\$ 280,000,000	US\$ 100,000,000	US\$ 180,000,000	Pre-delivery security assignments Mortgages General assignments Account Pledges	2 March 2019G
2007 Murabaha Facility with 4 Commercial Banks	To assist with the part financing for the acquisition of 6 VLCCs, named, Jana, Habari, Kahla, Dorra, Ghazal & Sahba.	US\$ 437,878,000	US\$ 326,245,462.20	US\$ 111,632,537.80	Pre-delivery security assignments, Mortgages General assignments Account Pledge, general assignments, account pledges and a qualified time charter assignment	2 March 2019G
2007 Three Commercial Banks Murabaha Facility	To partially finance the acquisition of vessel named Layla	US\$ 84,400,000	US\$ 40,793,333.14	US\$ 43,606,666.86	Pre-delivery Security Assignment, the Deed of Covenant, the General Assignment, Mortgage, the Accounts Pledge; the Other Ship Security Documents.	8 August 2017G

Source: Company

### 14.2.3 *Licences and Permits*

As at 31 December 2014G, the Company has a Ministry of Transport license in respect of its international shipping activities. This licence was issued on 06/05/1434H (corresponding to 18/03/2013G) and is due to expire on 05/05/1437H (corresponding to 14/02/2016G). Both Bahri and Bahri Dry Bulk also hold licenses from the Ministry of Transport which are valid as at the date of this Prospectus. The Company believes that it does not require any other licences or permits in respect of its international shipping activities.

### 14.2.4 *Material Assets of the Company and related Mortgages*

The material assets of the Company are the vessels owned by the Company as at the date of this Prospectus, some of which are subject to mortgages as stated below:

**Table: 14.4 Material Assets of the Company and related Mortgages**

<b>Vessels</b>	<b>Flag</b>	<b>Type</b>	<b>Mortgage/No Mortgage</b>	<b>Mortgage until (year)</b>
Bahri Tabuk	Saudi Arabia	RoCon	Mortgage - HSBC Saudi Arabia Limited	2023G
Bahri Hofuf	Saudi Arabia	RoCon	Mortgage - HSBC Saudi Arabia Limited	2023G
Bahri Abha	Saudi Arabia	RoCon	Mortgage - HSBC Saudi Arabia Limited	2023G
Bahri Jazan	Saudi Arabia	RoCon	Mortgage - HSBC Saudi Arabia Limited	2023G
Bahri Jeddah	Saudi Arabia	RoCon	Mortgage - HSBC Saudi Arabia Limited	2024G
Bahri Yanbu	Saudi Arabia	RoCon	Mortgage - HSBC Saudi Arabia Limited	2024G
Ramlah	Bahamas	VLCC	No Mortgage	No Mortgage
Ghawar	Bahamas	VLCC	No Mortgage	No Mortgage
Watban	Bahamas	VLCC	No Mortgage	No Mortgage
Hawtah	Bahamas	VLCC	No Mortgage	No Mortgage
Safaniyah	Bahamas	VLCC	No Mortgage	No Mortgage
Ghazal	Saudi Arabia	VLCC	No Mortgage	No Mortgage
Sahba	Bahamas	VLCC	No Mortgage	No Mortgage
Harad	Bahamas	VLCC	No Mortgage	No Mortgage
Marjan	Bahamas	VLCC	No Mortgage	No Mortgage
Safwa	Bahamas	VLCC	No Mortgage	No Mortgage
Abqaiq	Bahamas	VLCC	No Mortgage	No Mortgage
Layla	Bahamas	VLCC	Mortgage - HSBC Bank Plc	2017G
Jana	Bahamas	VLCC	Mortgage - BNP Paribas Suisse SA	2018G
Habari	Bahamas	VLCC	Mortgage - BNP Paribas Suisse SA	2018G
Kahla	Bahamas	VLCC	Mortgage - BNP Paribas Suisse SA	2019G
Wafrah	Bahamas	VLCC	Mortgage - SAMBA	2019G
Dorra	Bahamas	VLCC	Mortgage - SAMBA	2019G
NCC Riyadh	Norway	Chemical	No Mortgage	No Mortgage
NCC Mekka	Norway	Chemical	No Mortgage	No Mortgage
NCC Jubail	Norway	Chemical	No Mortgage	No Mortgage



<b>Vessels</b>	<b>Flag</b>	<b>Type</b>	<b>Mortgage/No Mortgage</b>	<b>Mortgage until (year)</b>
NCC Najd	Saudi Arabia	Chemical	Mortgage - Riyadh Bank	2017G
NCC Hijaz	Saudi Arabia	Chemical	Mortgage - Riyadh Bank	2017G
NCC Tihama	Saudi Arabia	Chemical	Mortgage - Riyadh Bank	2017G
NCC Abha	Saudi Arabia	Chemical	Mortgage - Riyadh Bank	2017G
NCC Tabuk	Saudi Arabia	Chemical	Mortgage - Riyadh Bank	2017G
NCC Qassim	Saudi Arabia	Chemical	Mortgage - Riyadh Bank	2017G
NCC Amal	Saudi Arabia	Chemical	Mortgage - SAMBA	2020G
NCC Safa	Saudi Arabia	Chemical	Mortgage - SAMBA	2020G
NCC Danah	Saudi Arabia	Chemical	Mortgage - SAMBA	2020G
NCC Noor	Saudi Arabia	Chemical	Mortgage - SAMBA	2021G
NCC Huda	Saudi Arabia	Chemical	Mortgage - SAMBA	2021G
NCC Rabigh	Saudi Arabia	Chemical	No Mortgage <sup>13</sup>	No Mortgage
NCC Sudair	Saudi Arabia	Chemical	No Mortgage <sup>14</sup>	No Mortgage
NCC Dammam	Saudi Arabia	Chemical	No Mortgage <sup>15</sup>	No Mortgage
NCC Haiel	Saudi Arabia	Chemical	Mortgaged <sup>16</sup>	No Mortgage
NCC Nasma	Saudi Arabia	Chemical	Mortgaged-Riyad Bank	2022G
NCC Shams	Saudi Arabia	Chemical	Mortgaged-Riyad Bank	2022G
NCC Najem	Saudi Arabia	Chemical	Mortgaged-Riyad Bank	2022G
NCC Reem	Saudi Arabia	Chemical	Mortgaged-Riyad Bank	2022G

<sup>13</sup> It was agreed to mortgage this vessel for the benefit of PIF as part of the securities provided by the NCC under the financial facilities signed between the parties on 18 August 2007G, up to the date of this Prospectus no mortgage agreements related to this vessel has been signed, except that the parties to the financial facilities intend to sign this mortgage agreements in the near future. Therefore, if this mortgage agreement is signed, it is expected to be mortgaged until 2022G.

<sup>14</sup> It was agreed to mortgage this vessel for the benefit of PIF as part of the securities provided by the NCC under the financial facilities signed between the parties on 18 August 2007G, up to the date of this Prospectus no mortgage agreements related to this vessel has been signed, except that the parties to the financial facilities intend to sign this mortgage agreements in the near future. Therefore, if this mortgage agreement is signed, it is expected to be mortgaged until 2022G.

<sup>15</sup> It was agreed to mortgage this vessel for the benefit of PIF as part of the securities provided by the NCC under the financial facilities signed between the parties on 18 August 2007G, up to the date of this Prospectus no mortgage agreements related to this vessel has been signed, except that the parties to the financial facilities intend to sign this mortgage agreements in the near future. Therefore, if this mortgage agreement is signed, it is expected to be mortgaged until 2022G.

<sup>16</sup> It was agreed to mortgage this vessel for the benefit of PIF as part of the securities provided by the NCC under the financial facilities signed between the parties on 18 August 2007G, up to the date of this Prospectus no mortgage agreements related to this vessel has been signed, except that the parties to the financial facilities intend to sign this mortgage agreements in the near future. Therefore, if this mortgage agreement is signed, it is expected to be mortgaged until 2022G.

<u>Vessels</u>	<u>Flag</u>	<u>Type</u>	<u>Mortgage/No Mortgage</u>	<u>Mortgage until (year)</u>
NCC Sama	Saudi Arabia	Chemical	Mortgaged-Riyad Bank	2022G
NCC Fajr	Saudi Arabia	Chemical	Mortgaged-Riyad Bank	2023G
Bahri Arasco	Saudi Arabia	Dry Bulk	Mortgage - Albilad	2024G
Bahri Grain	Saudi Arabia	Dry Bulk	Mortgage - Albilad	2024G
Bahri Wafi	Saudi Arabia	Dry Bulk	Mortgage - Albilad	2024G
Bahri Trader	Saudi Arabia	Dry Bulk	Mortgage - Albilad	2024G
Bahri Bulk	Saudi Arabia	Dry Bulk	Mortgage - Albilad	2024G

Source: Company

#### 14.2.5 *Material Agreements*

##### 14.2.5.1 *Summary of principal terms of the transportation and cargo service agreement with the Ministry of Defence of Saudi Arabia (the "MoD") (the "Transportation and Cargo Service Agreement")*

The Company and the MoD entered into the Transportation and Cargo Service Agreement dated 17/11/1432H (corresponding to 15/10/2011G), an agreement governing the terms under which the Company would ship military equipment. The Company received a letter from the Ministry of Defense dated 27/2/1435H (corresponding to 10/12/2013G) approving the renewal of the agreement for an additional five years.

##### *Value*

The total value of the Transportation and Cargo Service Agreement is SAR 230,000,000 (corresponding to approximately US\$ 61,325,430) for the first three years and SAR 383,335,000 (corresponding to approximately US\$ 102,222,667) for the next five years.

##### *Term and termination*

The agreement was effective from 13/10/1432H (corresponding to 11/09/2011G) and shall, following the renewal by the Ministry of Defence, remain valid until 12/1/1441H (corresponding to 11/09/2019G).

The MoD may terminate the agreement in the event that:

- it is found that the Company (directly/indirectly) offered a bribe to an official employed by the MoD;
- the Company delays commencement of work, slows down execution or fails to fulfil its obligations under the agreement and fails to remedy any such breach within 15 days;
- the Company assigns or sublets the agreement without obtaining prior written permission from the MoD; or
- the Company enters into insolvency proceedings.

#### *Other key terms*

The Company is responsible for the insurance of all equipment shipped under the Transportation and Cargo Service Agreement.

The Company may not assign the Transportation and Cargo Service Agreement without prior written consent from the MoD.

In the event of a delay, the MoD is entitled to deduct 1 per cent. of the transportation cost of the equipment being shipped on a weekly basis up until a maximum of 10 per cent. of the total value of the agreement.

#### *14.2.5.2 Summary of principal terms of the transportation and cargo service agreement with the Ministry of Interior of Saudi Arabia (the "MoI") (the "Transportation and Cargo Service Agreement for MoI")*

The Company and the MoI entered into the Transportation and Cargo Service Agreement for MoI dated 28/04/1436H (corresponding to 17/2/2015G), an agreement governing the terms under which the Company would ship military equipment.

#### *Value*

The total value of the Transportation and Cargo Service Agreement for MoI is SAR 400,000,000 (corresponding to approximately US\$ 106,666,667) for the next five years.

#### *Term and termination*

The agreement was effective from 28/04/1436H (corresponding to 17/2/2015G) and shall remain valid for 1,800 calendar days.

The MoI may terminate the agreement in the event that:

- it is found that the Company (directly/indirectly) offered a bribe to an official employed by the MoI;
- the Company delays commencement of work, slows down execution or fails to fulfil its obligations under the agreement and fails to remedy any such breach within 15 days;
- the Company assigns or sublets the agreement without obtaining prior written permission from the MoI; or
- the Company enters into insolvency proceedings.

#### *Other key terms*

The Company is responsible for the insurance of all equipment shipped under the Transportation and Cargo Service Agreement.

The Company may not assign the Transportation and Cargo Service Agreement without prior written consent from the MoI.

In the event of a delay, the MoI is entitled to deduct 1 per cent. of the transportation cost of the equipment being shipped on a weekly basis up until a maximum of 10 per cent. of the total value of the agreement.

In addition, if the Company fails to enter any cargo information of any shipment in the IT system, then MoI can impose a 1 per cent. penalty for each day, but this penalty shall not exceed 10 per cent. of the total value of the transaction.

Any delay or default by the Company in relation to the scope of work and its specifications, may result in a fine being imposed by MoI. Such a fine may only be imposed after sending a written warning, and such fines shall not exceed 10 per cent. of the total value of the contract.

The Company is responsible for an annual training program for three days for 30 of MoI's employees.

#### 14.2.5.3 *Summary of principal terms of FOB marine fuel sales agreement with Saudi Aramco (the "FOB Marine Fuel Sales Agreement")*

The Company and Saudi Aramco entered into the FOB Marine Fuel Sales Agreement dated 15/1/1432H (corresponding to 9/1/2011G), an agreement governing the terms under which Saudi Aramco sells marine fuel to the Company. The parties renewed the agreement by entering into an amendment agreement dated 5/2/1433H (corresponding to 31/12/2011G) (the "**FOB Amendment Agreement**"). The parties entered into an amended agreement dated 18/2/1434H (corresponding to 31/12/2012G).

##### *Sale and purchase arrangement*

Under the agreement (as amended) the Company purchases from Saudi Aramco and is delivered 240,000 metric tonnes of marine fuel per year. The price payable by the Company per metric ton is variable and is determined by a discount mechanism in the agreement (calculated by reference to Saudi Aramco's listed weekly price for marine fuel on any given delivery date).

##### *Term and termination*

The FOB Marine Fuel Sales Agreement was effective from 4/1/1432H (corresponding to 1/1/2011G) until 5/2/1433H (corresponding to 31/12/11G). The FOB Marine Fuel Sales Agreement (as amended) was renewed for an initial period of twelve months until 17/2/1434H (corresponding to 31/12/2012G) which has been renewed and amended for a further period of twelve months until 28/2/1435H (corresponding to 31/12/2013G) after which the term of the FOB Marine Fuels Sales Agreement (as amended by the FOB Amendment Agreement) would be automatically extended for a further twelve months. The agreement will continue to be automatically extended on a yearly basis unless terminated by the parties.

The parties may terminate the agreement without cause by sending a written notice to the other party at least thirty days prior to the expiry date of the agreement.

#### 14.2.6 *Related Party Agreements*

##### 14.2.6.1 *Summary of principal terms of the ship management agreement between the Company and Mideast (the "Ship Management Agreement")*

The Company and Mideast (a wholly owned subsidiary of the Company) entered into the Ship Management Agreement dated 4/1/1432H (corresponding to 1/1/2011G), an agreement sets the terms under which

Mideast provides management services for the Company's ships. The Ship Management Agreement was amended by the parties on 4/12/1432H (corresponding to 1/11/2011G).

*Services*

Under the agreement, Mideast provides technical and crew management services for the Company. In consideration for such services, the Company pays technical services support charges of US\$ 10,000 to Mideast per ship, per month.

*Term and termination*

The Ship Management Agreement was effective from 4/1/1432H (corresponding to 1/1/2011G) and will be valid until terminated by one of the parties. The parties may terminate the agreement without cause by sending a written notice to the other party at least two months prior to the proposed termination date.

14.2.6.2 *Summary of principal terms of the ship management agreement between NCC and Mideast (the "NCC Ship Management Agreement")*

NCC and Mideast entered into the NCC Ship Management Agreement dated 10/08/1428H (corresponding to 24/8/2007G), an agreement governing the terms under which Mideast provides management services for NCC's ships. The NCC Ship Management Agreement was amended by the parties on (i) 26/4/1432H (corresponding to 1/4/2011G) and (ii) 11/10/1432H (corresponding to 10/9/2011G).

*Services*

Under the agreement, Mideast provide technical and crew management services for NCC's ships. In consideration for such services, NCC pays management fees to Mideast on a monthly basis.

*Term and termination*

The NCC Ship Management Agreement was effective from 10/08/1428H (corresponding to 24/8/2007G) and will be valid until terminated by one of the parties. The parties may terminate the agreement without cause by sending a written notice to the other party at least three months prior to the proposed termination date.

14.2.6.3 *Summary of principal terms of the contract of affreightment with S-Oil Corporation, Seoul, South Korea (the "S-Oil Contract of Affreightment")*

The Company entered into the S-Oil Contract of Affreightment on 08/04/2015G. S-Oil Corporation, Seoul, South Korea ("**S-Oil**") is a related party of the Company. Under the S-Oil Contract of Affreightment, the Company has agreed to provide VLCC transportation services to S-Oil in respect of crude oil cargoes. These cargoes will be transported from the Arabian Gulf and the Red Sea to Onsan, Korea.

*Value*

The expected minimum annual revenue derived from the S-Oil Contract of Affreightment is approximately SAR 250 million.

### *Term and termination*

The effective commencement of the S-Oil Contract of Affreightment is 1 June 2015G. The term of the S-Oil Contract of Affreightment is 10 years.

As S-Oil is a related party of the Company and as at the date of this Prospectus, the S-Oil Contract of Affreightment has not been approved or authorized by the Company's General Assembly. The Company plans to present the S-Oil Contract of Affreightment to the General Assembly for approval.

Further, it is worth noting that the agreements listed under sections 14.1.1 "*Summary of the Vela Transaction Documents*", 14.1.2 "*Summary of the Shipping Documents*" and 14.2.5.3 *Summary of principal terms of FOB marine fuel sales agreement with Saudi Aramco* are agreements between the Company and Aramco Group which is one of the Company's major shareholders (through SADC).

It should be noted that the Company, according to the details mentioned in Section 14.2.2 "*Financial arrangements*", have obtained a number of facilities from PIF, which is one of the major shareholders in the Company.

#### *14.2.7 Intellectual Property*

On 28/4/1433H (corresponding to 21/3/2012G), the Company registered its trademark under Category 39 in its name at the Directorate of Trademarks at MOCI. The trademark comprises, in blue and grey, the word "Al-Bahri" in Arabic lettering and the word "Bahri" in Roman lettering along with a geometric shape which is similar to the front of a vessel (the "**Geometric Shape**"). The word "Al-Bahri" is only protected under this trademark if used in conjunction with the Geometric Shape.

On 15/6/1428H (corresponding to 1/7/2007H), NCC registered its trademark under Category 39 in its name at the Directorate of Trademarks at MOCI. The trademark comprises a ship's fin containing the letters "NCC" written in Roman lettering.

With the exception of the Company's logo and the National Chemical Carriers Ltd logo mentioned above and registered as trademarks in the Kingdom, there are no trademarks or patents, copyright or any other intellectual property rights of significance for the Company's business or profitability.

#### *14.2.8 Insurance*

The Company has the benefit of various insurance policies in respect of the vessels that it owns and the personnel that it employs. A summary of the various insurance policies that the Company has obtained as at the date of this Prospectus is set out in the table below:

<u>Type of Policy/Cover</u>	<u>Insurer/Provider</u>	<u>Nature of Coverage</u>	<u>Limit of Liability</u>
Protection and Indemnity (" <b>P&amp;I</b> ")	Various P&I clubs within the "International Group of P&I Clubs" through which Bahri insures its vessels (the " <b>P&amp;I Clubs Group</b> ")	Third-party liabilities and associated expenses of ship owners/operators.	US\$ 7bn per incident subject to the following sub-limits:  oil pollution liability - US\$ 1bn per incident

Type of Policy/Cover	Insurer/Provider	Nature of Coverage	Limit of Liability
			crew liabilities - US\$ 3bn per incident
			passengers - US\$ 2bn
Freight, Demurrage and Defence ("FDD")	P&I Clubs Group	The legal costs that a ship owner or charterer incurs in taking action to recover or to defend freight and demurrage related disputes incidents.	Minimum US\$ 5 million per claim, Sub-limit of US\$ 2 million in respect of negligent repair or alteration on 2 vessels
Hull and Machinery Cover	Tawuniya (London Market)	Covers vessels against any damage to their hull, their collision liabilities and all other marine perils.	Insured sums for each fleet is currently: RoCon US\$ 405,384,050  VLCCs/Product Tankers: US\$ 2,143,683,570; and  Chemical tankers: US\$ 734,442,278
Certificate of Financial Responsibility Cover	Maritime Insurance Solutions Limited (MISL) earlier known as Shoreline	Financial guarantees to satisfy the requirements of the United States Oil Pollution Act 1990 and Comprehensive Environmental Response Compensation and Liability Act.	Limit per tanker is the greater of US\$ 1,900 per gross ton or US\$ 16,000,000,  Limit per vessel for the other vessels is the greater of US\$ 950 per gross ton or US\$ 800,000
NVOCC/Freight forwarding entry	TT Club, London	Liabilities arising out of shipments made on non-Bahri vessels	US\$ 2,000,000 (for any one accident with no limit on the number of accidents per policy year).
Ship Handling Equipment	TT Club, London	Ship handling equipment such as forklifts, container handlers, tug masters and power boss deck sweeper.	General limit US\$ 7.5 million for each accident all interests.
Mortgages Additional Insurance Perils/Mortgages Interest Insurance Cover	Arranged by lead banks under the Company's various facilities agreements	Outstanding loan amounts receivable to the relevant bank.  Bahri pays the premium to the insurance provider in coordination with the lead bank.	As per the relevant facility agreement.

<b>Type of Policy/Cover</b>	<b>Insurer/Provider</b>	<b>Nature of Coverage</b>	<b>Limit of Liability</b>
Open policy for Ministry of Defence Shipments World-wide	Tawuniya	Land, air and sea shipments pertaining to Ministry of Defence world-wide maximum any one shipment. The insurance certificates are issued based on the fortnightly declarations sent by Bahri to Tawuniya.	SAR 187.5 million
Non-marine insurance	Various providers	Non-marine assets such as electronic equipment and property.	Variable depending on the type of policy
Director and employee Group life insurance (Takaful)	Tawuniya	Worldwide cover for directors and employees working at Bahri's offices in Riyadh, Jeddah, Dammam and Jubail.	24 month's salary up to a maximum of SAR 2 million
Employee Health Insurance	Tawuniya	Health insurance for Bahri's entire staff and their dependents.	Maximum annual limit of SAR 500,000 per person
Electronic Bank Transfer	Tawuniya	To cover negligence of use.	SAR 5 million for each authorized employee.
Company Main Building	Tawuniya	Cover main office building against fire and other perils.	SAR 2,940,368

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Source: Company

#### 14.2.9 *Litigation and Disputes*

Bahri confirms that, as at the date of this Prospectus, neither it, nor any member of the Bahri Group, is a party to any litigation arrangements or arbitration that would individually or collectively materially impact Bahri's financial position or that of the members of the Bahri Group and the results of their work negatively, and according to Bahri's knowledge there is no lawsuit or arbitral case threatening to be raised or expected individually or collectively on Bahri or the members of the Bahri Group that influence substantially and negatively the financial position of the members Bahri group and the results of their work.

##### *Disputes*

The Board of Directors confirms that the Company and the members of the Bahri Group are not a party to any dispute or proceedings (whether existing or threatened) which could have a material adverse effect on the Company's or the Bahri Group's financial position.



## **15. GENERAL INFORMATION**

### **15.1 Authorisation of Sukuk**

The Ordinary General Meeting of the Issuer adopted a resolution at its meeting held on 12/06/1436H (corresponding to 01/04/2015G) approving the issuance of Sukuk and authorising the Board of Directors of the Issuer to determine the timing, the amounts and the terms applicable to any Sukuk issued by the Issuer.

The Board of Directors of the Issuer authorised the issuance of the sukuk by its circular resolution dated 02/07/1436H (corresponding to 21/04/2105G).

The Issuer has obtained all necessary regulatory consents, approvals and authorisations in connection with the issuance of the Sukuk and entry into of the Sukuk Documents to which it is a party.

### **15.2 Expenses**

The Issuer estimates in aggregate its costs and expenses in relation to the issue of the Sukuk to approximately amount to SAR 17,222,178.86.

### **15.3 Waivers**

For the purposes of paragraph 20 (Waivers) of Annex 5 (Contents of a Prospectus for Debt Instruments and Convertible Debt Instruments) of the Listing Rules, the Company would like to clarify that the Authority has waived the following requirements of the Listing Rules in connection with the issuance of the Sukuk:

Schedule 15-1: Waivers from the requirements of the Listing Rules

<b>Item</b>	<b>Content of the Article</b>	<b>Waiver requested</b>
<b>1.</b>	Article 18(a) (Underwriting) under Part 4 (Registration and Listing)	This provision states that the offer must be fully underwritten by an underwriter authorised by the Authority.  A request to waive the requirement to fully underwrite the offer has been submitted.
<b>2.</b>	Article 19(b)(17) (Application for Registration and Admission to Listing and Supporting Documents) under Part 4 (Registration and Listing)	This provision states that the issuer must submit to the Authority the financial due diligence report regarding the application.  A request to waive the requirement for a financial due diligence report has been submitted.
<b>3.</b>	Article 25(a) (Publication of Prospectus and Formal Notices) under Part 4 (Registration and Listing)	This provision states that the issuer must publish the prospectus and ensure that it is made available to the public at least fourteen (14) days prior to the start of the offering.  A request to waive the fourteen (14) day time limit preceding the offering has been submitted.
<b>4.</b>	Clause 23 of Annex 5 of the Listing Rules	This provision states that certain documents must be made available for inspection within a time period of no less than twenty (20) days before the end of the Offer Period.  A request to waive the minimum time period for making documents available for inspection before the end of the offer period has been submitted. Instead, the documents will be made available from the beginning of the Offer Period

Item	Content of the Article	Waiver requested
		and will continue to be made available so long as the Sukuk remain outstanding.
5.	Clause 13(2)(b) of Annex 5 of the Listing Rules	<p>This provision states that a report by a certified external auditor must be prepared in accordance with the requirements of Annex 6 of the Listing Rules where the issuer has undergone restructuring or an alteration in capital using external financing in the three (3) financial years immediately preceding the date of the application for registration and admission to listing.</p> <p>A request to waive the certified external auditor's report in accordance with the requirements of Annex 6 of the Listing Rules has been submitted.</p>

#### 15.4 Joint Lead Managers and Joint Bookrunners transacting with the Issuer

The Joint Lead Managers and Joint Bookrunners and their respective affiliates have performed, and may in the future perform, various financial advisory, investment banking and/or commercial banking services for, and may arrange loans and other non-public market financing for, and enter into derivative transactions with, the Issuer or the Bahri Group for which they have and may receive customary fees. In particular, in the ordinary course of their business activities, the Joint Lead Managers and Joint Bookrunners and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer and its affiliates. Certain of the Joint Lead Managers and Joint Bookrunners or their affiliates that have a lending relationship with the Issuer and its affiliates routinely hedge their credit exposure to the Issuer and its affiliates consistent with their customary risk management policies. Typically, such Joint Lead Managers and Joint Bookrunners and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Sukuk. Any such short positions could adversely affect future trading prices of the Sukuk. The Joint Lead Managers and Joint Bookrunners and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

The Issuer entered in connection with the Murabaha Bridge Facility into a murabaha facility agreement and an investment agency agreement, both dated 23 June 2014G, with certain of the Joint Lead Managers and Joint Bookrunners and their respective affiliates, including HSBC Saudi Arabia Limited, Samba Financial Group, the Saudi British Bank and JPMorgan Chase Bank N.A.

## 16. TERMS AND CONDITIONS OF THE SUKUK

### TERMS AND CONDITIONS OF THE SUKUK

*The following is the text of the Terms and Conditions of the Sukuk which will be attached and (subject to the provisions thereof) apply to the Global Sak (the "Conditions"):*

#### **INTRODUCTION**

An application has been made to the Authority for the registration and admission to listing of the Sukuk. Please see section 15 "*General Information*" of the Prospectus for a description of the resolutions and approvals by virtue of which the Sukuk will be issued and offered.

Each of the Sukuk expiring 2022G (the "**Sukuk**" and each a "**Sak**") represents an undivided ownership interest in the Sukuk Assets (as defined herein) and will at all times rank *pari passu* amongst themselves. The Sukuk Assets will be held by the National Shipping Company of Saudi Arabia (Bahri), whose registered address is Bahri Building #569, Sitteen Street, Malaz, PO Box 8931, Riyadh 11492, Kingdom of Saudi Arabia, in its capacity as issuer (the "**Issuer**") for the benefit of the registered holders of the Sukuk (the "**Sukukholders**") pursuant to a declaration of agency (the "**Declaration of Agency**") to be entered into on or about the Closing Date (as defined herein) between the Issuer and HSBC Saudi Arabia Limited as Sukukholders' agent, whose registered address is 7267 Olaya - Al Murooj, Riyadh 12283-2255, Kingdom of Saudi Arabia (the "**Sukukholders' Agent**", which expression includes any successor Sukukholders' agent in relation to the Sukuk). The obligations of the Issuer in respect of the Sukuk are not secured. Pursuant to the Declaration of Agency, the Sukukholders' Agent will be appointed to act as agent for and on behalf of the Sukukholders. Each Sukukholder by subscribing to, acquiring and holding Sukuk agrees to the terms of the Declaration of Agency including, but not limited to, the Sukukholders' ability, by way of Extraordinary Resolution, to revoke their appointment of the Sukukholders' Agent by not less than thirty (30) days' notice to the Sukukholders' Agent; provided, however, that such revocation shall not take effect until a successor has been duly appointed in accordance with the Declaration of Agency.

In these Conditions, references to "Sukuk" shall be references to the Sukuk as represented by a Global Sak as described in Condition 3 (*Form and Denomination*).

Payments relating to the Sukuk will be made pursuant to a payments administration agreement to be entered into on or about the Closing Date (the "**Payments Administration Agreement**") between, amongst others, the Issuer and HSBC Saudi Arabia Limited, whose registered address is 7267 Olaya - Al Murooj, Riyadh 12283-2255, Kingdom of Saudi Arabia, in its capacity as payments administrator (the "**Payments Administrator**", which expression includes any successor or other payments administrator appointed in respect of the Sukuk).

Subscription to the Sukuk is done by way of submitting an investor application form to the Joint Lead Managers and Joint Bookrunners (as defined below) in accordance with the conditions detailed in section 18 "*Subscription and Sale*" of the Prospectus.

Allocation of Sukuk will be at the discretion of the Issuer and the Joint Lead Managers and Joint Bookrunners and will be made no later than ten (10) Business Days following the end of the Offer Period as detailed in section 18 "*Subscription and Sale*" of the Prospectus.

Please see section 18 "*Subscription and Sale*" of the Prospectus regarding the date upon which it is expected that trading in the Sukuk will commence.

Each initial Sukukholder, by subscribing to, acquiring and holding Sukuk, shall be deemed to authorise, ratify and approve the entry by the Sukukholders' Agent into the Sukuk Documents (as defined herein) to which it is a party and agrees to the terms of each of the Sukuk Documents.

Certain provisions of these Conditions are summaries of the Sukuk Documents (as defined herein) and are subject to its detailed provisions. The Sukukholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Sukuk Documents applicable to them. For so long as any Sukuk are current, copies of the Declaration of Agency, the Payment Administration Agreement, the Mudaraba Agreement (as defined herein) and the Master Murabaha Agreement (as defined herein) are available for inspection from the Closing Date by Sukukholders during normal business hours at the specified offices of the Issuer set out in the "*Corporate Directory*" section of the Prospectus.

## 1. DEFINITIONS

Words and expressions used in these Conditions shall have the meanings set out below:

**"Account Bank"** means The Saudi British Bank.

**"aggregate Nominal Value"** means, at any time, the aggregate Nominal Value of the Sukuk that are current.

**"Applicable Accountancy Standards"** means the generally applicable accountancy principles as applied by the Saudi Organisation for Certified Public Accountants.

**"Authority"** means the Capital Market Authority in the Kingdom of Saudi Arabia.

**"Bahri"** means the National Shipping Company of Saudi Arabia (Bahri), a Saudi Arabian joint stock company with commercial registration number 1010026026 acting either in its own capacity or on behalf of others (except as Mudareb under the Mudaraba Agreement).

**"Benchmark Rate"** has the meaning given to such term in Condition 8(b) (*Benchmark Rate*).

**"Business Day"** means a day on which commercial banks are open for general business in Saudi Arabia.

**"Business Portfolio"** means the entire *Shari'ah*-compliant business operations of Bahri along with the investment of the Mudareb (for the benefit of the Sukukholders) and any other investments made pursuant to Condition 6(b) (*Business Portfolio*).

**"Capital Contribution"** has the meaning given to such term in Condition 6(e) (*Purchase of Commodities*).

**"Capital Contribution Notice"** means a notice from the Seller to the Payment Administrator and the Issuer notifying the Issuer and the Payment Administrator of the Capital Contribution required.

**"Closed Period"** has the meaning given to such term in Condition 4(e) (*Transfer Record Dates and Closed Periods*).

**"Closing Date"** means 30 July 2015.

**"Collection Account"** means a book-entry ledger account to be maintained by the Mudareb in for and on behalf of the Sukukholders.

**"Committee"** means the Committee for the Resolution of Securities Disputes the Appeal Committee for the Resolution of Securities Conflicts.

**"Commodities"** means the commodities referred to in the Master Murabaha Agreement.

**"Companies Regulations"** means the regulations for companies in Saudi Arabia promulgated under Royal Decree No. M/6 dated 22/3/1385H (20 July 1965G), as amended, supplemented or replaced.

**"Confirmation of Terms"** has the meaning given to such term in Condition 6(e) (*Purchase of Commodities*).

**"Consolidated Tangible Net Worth"** means the total shareholders' equity of the Group as specified in the most recently published consolidated financial statements of the Group prepared in accordance with Applicable Accountancy Standards less the aggregate of any amounts attributable to goodwill or any other intangible asset.

**"Consolidated Total Liabilities"** means the total liabilities of the Group as specified in the most recently published consolidated financial statements of the Group prepared in accordance with Applicable Accountancy Standards.

**"current"** has the meaning given to such term in Condition 2 (*Recitals*).

**"Declaration of Agency"** has the meaning given to it above under "*Introduction*".

**"Deferred Price"** has the meaning given to it in the Master Murabaha Agreement.

**"Deferred Price Payment Date"** has the meaning given to it in the Master Murabaha Agreement.

**"Event of Default"** means each of the events and circumstances set out in Condition 12 (*Events of Default*).

**"Event of Default Date"** has the meaning given to such term in Condition 12 (*Events of Default*).

**"Event of Default Notice"** has the meaning given to such term in Condition 12 (*Events of Default*).

**"Exercise Notice"** has the meaning given to such term in Condition 12 (*Events of Default*).

**"Exercise Period"** has the meaning given to such term in Condition 12 (*Events of Default*).

**"Existing Vessel"** means any vessel owned by the Issuer as at the Closing Date, which, for the avoidance of doubt, does not include any vessel that, as at the Closing Date, has been ordered by the Issuer or is under construction.

**"Expiry Date"** means the Periodic Distribution Date falling on 30 July 2022G.

**"Extraordinary Resolution"** means a resolution passed at a duly convened meeting of the Sukukholders by a majority of not less than 66⅔% of the aggregate Nominal Value of the Sukuk represented.

**"Financial Indebtedness"** means any indebtedness for or in respect of:

- (i) monies borrowed;
- (ii) any amount raised by acceptance under any acceptance credit facility or dematerialised equivalent;
- (iii) any amount raised pursuant to any debt instrument or any similar instrument;

- (iv) the amount of any liability in respect of any lease or hire purchase contract which would, in accordance with Applicable Accountancy Standards, be treated as a finance or capital lease;
- (v) receivables sold or discounted (other than any receivables to the extent they are sold on a non-recourse basis);
- (vi) any amount raised under any other transaction (including any forward sale or purchase agreement) having the commercial effect of a borrowing;
- (vii) any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price (and, when calculating the value of any derivative transaction, only the mark-to-market value (or, if the actual amount is due as a result of the termination or close-out of the derivative transaction, that amount) shall be taken into account);
- (viii) any counter-indemnity obligation in respect of a guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution excluding any performance bonds;
- (ix) any amount of any liability under an advance or deferred purchase agreement if one of the primary reasons behind the entry into this agreement is to raise finance;
- (x) any obligations incurred in respect of any Islamic financing arrangements; and
- (xi) (without double counting) the amount of any liability in respect of any guarantee or indemnity for any of the items referred to in paragraphs (i) to (x) above.

**"Global Sak"** means the registered form global sak representing the Sukuk.

**"Group"** means the Issuer and its consolidated Subsidiaries.

**"Income Tax Regulation"** means the income tax regulation issued by a Royal Decree no. M/1 dated 15/01/1425H.

**"Initial Murabaha Cost Price"** has the meaning given to such term in Condition 6(d) (*Murabaha Contracts*).

**"Initial Murabaha Transaction"** has the meaning given to such term in Condition 6(d) (*Murabaha Contracts*).

**"Issuer"** means the National Shipping Company of Saudi Arabia (Bahri).

**"Joint Lead Managers and Joint Bookrunners"** means HSBC Saudi Arabia Limited, J.P. Morgan Saudi Arabia Limited and Samba Capital & Investment Management Company in their capacity as the joint lead managers and joint bookrunners.

**"Late Payment Amount"** means in relation to any Overdue Amount a late payment amount that is calculated on a daily basis in respect of the period from, and including, the due date for such Overdue Amount to, but excluding, the date of settlement in full of such Overdue Amount, as the product of: (i) 1% per annum; (ii) the Overdue Amount; and (iii) the number of days when such Overdue Amount is outstanding divided by 360.

**"Liabilities"** means any loss, damage, cost, fee, charge, claim, demand, expense, judgment, action, proceeding or other liability whatsoever (including, without limitation, in respect of taxes, duties, levies, imposts and other charges) and including any value added tax or similar tax charged or chargeable in respect thereof and legal fees and expenses on a full indemnity basis.

**"Liquidation Date"** means the Expiry Date or the Event of Default Date.

**"Margin"** means, for each Periodic Distribution Period, 80 basis points.

**"Master Murabaha Agreement"** means the master murabaha agreement between the Seller and the Issuer dated on or about the Closing Date.

**"Mudaraba"** has the meaning given to such term in Condition 6(a) (*Sukuk Assets*).

**"Mudaraba Agreement"** means a mudaraba agreement dated on the Closing Date between the Issuer (in its capacity as Mudareb) and the Sukukholders' Agent.

**"Mudaraba Assets"** means the Mudareb's (for the benefit of the Issuer and the Sukukholders) share in the Business Portfolio, as calculated in accordance with Condition 6(b) (*Business Portfolio*).

**"Mudaraba Capital"** has the meaning given to such term in Condition 6(a) (*Sukuk Assets*).

**"Mudaraba Profit"** has the meaning given to such term in Condition 6(b) (*Business Portfolio*).

**"Mudareb"** means the Issuer in its capacity as a mudareb for the Sukukholders.

**"Mudareb Profit"** has the meaning given to such term in Condition 6(b) (*Business Portfolio*).

**"Murabaha Agreements"** means each murabaha agreement entered into between the Seller and the Purchaser under the Master Murabaha Agreement and **"Murabaha Agreement"** means any one such agreement as the context may require.

**"Murabaha Assets"** means the rights of the Seller pursuant to the terms of the Master Murabaha Agreement.

**"Murabaha Benchmark Rate"** means the rate set by the Seller as being necessary to ensure that the profit element of the Deferred Price is at least equal to the Periodic Distribution Amount falling due on the day following the Deferred Price Payment Date.

**"Murabaha Bridge Facility"** means the facilities granted to the Issuer pursuant to the murabaha facility agreement dated 23 June 2014G between the Issuer (as purchaser) and HSBC Saudi Arabia Limited (as investment agent), as the same may be amended from time to time.

**"Murabaha Bridge Facility Security"** means any Security Interest created pursuant to, or securing any obligation under, the murabaha facility agreement dated 23 June 2014G between the Issuer (as purchaser) and HSBC Saudi Arabia Limited (as investment agent), as the same may be amended from time to time.

**"Murabaha Contracts"** means each murabaha contract entered into between the Seller and the Purchaser under the Master Murabaha Agreement and **"Murabaha Contract"** means any one such contract as the context may require.

**"Murabaha Income"** means those amounts specified in Condition 6(d) (*Murabaha Contracts*) as constituting murabaha income.

**"Murabaha Profit"** has the meaning given to it in the Master Murabaha Agreement.

**"Nominal Value"** means the nominal value of each Sak, being SAR1,000,000.

**"Overdue Amount"** means any amount that the Issuer fails to pay that is due and payable in accordance with the Sukuk Documents (taking into account any applicable grace period).

**"Partial Periodic Distribution Amount"** means, in relation to any Partial Periodic Distribution Date, an amount calculated as follows:

$$\frac{P \times (S + M)}{360} \times D$$

where

- P = the aggregate Nominal Value of such Sukuk as are current on the Transfer Record Date immediately preceding the Partial Periodic Distribution Date;
- S = the Benchmark Rate for the Periodic Distribution Period in which the Partial Periodic Distribution Date falls;
- M = the Margin; and
- D = the number of days between the immediately preceding Periodic Distribution Date and the Partial Periodic Distribution Date.

**"Partial Periodic Distribution Date"** means any date on which the Issuer is to redeem the Sukuk following an Event of Default.

**"Partial Periodic Distribution Period"** means the period commencing on the Periodic Distribution Date immediately preceding the Partial Periodic Distribution Date and ending on the Partial Periodic Distribution Date.

**"Payment Administration Agreement"** has the meaning given to it above under *"Introduction"*.

**"Payment Administrator"** has the meaning given to it above under *"Introduction"*.

**"Payment Obligations"** means all obligations of the Issuer to make payments to the Sukukholders of the Periodic Distribution Amounts, any Partial Periodic Distribution Amount and the Sukuk Capital and each other amount payable to the Sukukholders under the Sukuk Documents.

**"Periodic Determination Date"** means the second Business Day prior to the commencement of the relevant Periodic Distribution Period.

**"Periodic Distribution Amount"** means, for each Periodic Distribution Period, an amount calculated as follows:

$$\frac{P \times (S + M)}{360} \times D$$

where

- P = the aggregate Nominal Value of such Sukuk as are current on the Transfer Record Date immediately preceding the last day of such Periodic Distribution Period;
- S = the Benchmark Rate for such Periodic Distribution Period;
- M = the Margin; and
- D = the actual number of days in such Periodic Distribution Period.



**"Periodic Distribution Date"** means the date of the semi-annual distributions to be made on 30 July and 30 January in each year, commencing on 30 January 2016G, up to and including 30 July 2022G; *provided however, that* if any such day is not a Business Day, the Periodic Distribution Date will be the immediately following Business Day unless it would thereby fall into the next calendar month, in which event such Periodic Distribution Date shall be brought forward to the immediately preceding Business Day.

**"Periodic Distribution Period"** means the period from and including the Closing Date to but excluding the first Periodic Distribution Date, and each successive period from and including a Periodic Distribution Date to but excluding the next succeeding Periodic Distribution Date.

**"Permitted Reorganisation"** means: (i) an amalgamation, reorganisation, merger or consolidation on terms approved by the Sukukholders' Agent or by an Extraordinary Resolution; or (ii) any restructuring on a solvent basis.

**"Permitted Security Interest"** means:

- (i) any Security Interest existing on the Closing Date;
- (ii) any Security Interest securing the Financial Indebtedness of a person existing at the time that such person is merged into, or consolidated with, the Issuer provided that such Security Interest was not created in contemplation of such merger or consolidation and does not extend to any other assets or property of the Issuer;
- (iii) any Security Interest existing on any property or assets prior to the acquisition thereof by the Issuer and not created in contemplation of such acquisition; or
- (iv) save in respect of the Murabaha Bridge Facility Security, to the extent the Murabaha Bridge Facility has been repaid in full, the renewal of or substitution for any Security Interest permitted by any of paragraphs (i) to (iii) (inclusive) of this definition, provided that, with respect to any such renewal or substitution, the principal amount secured thereby has not increased and the Security Interest has not been extended to any additional assets (other than the proceeds of such assets).

**"Person"** means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality.

**"Profit Rate Period"** means the period commencing on the Settlement Date of a Subsequent Murabaha Transaction and ending on the Deferred Price Payment Date for that Subsequent Murabaha Transaction.

**"Purchase Order With Promise To Purchase"** has the meaning given to it in the Master Murabaha Agreement.

**"Purchaser"** means the Issuer in its capacity as purchaser under the Murabaha Contracts.

**"Qualified Person"** means:

- (i) a natural person who is resident in Saudi Arabia under the Income Tax Regulation; or
- (ii) a legal person who is considered to be resident in Saudi Arabia under the Income Tax Regulation and who is holding a current commercial registration number. However, the requirement for such legal person to hold a current commercial registration number would not apply to Saudi Arabian governmental entities and mutual funds established in Saudi Arabia and managed by a person authorised by the Authority,

and who, in each case, has a bank account with a local bank in Saudi Arabia.

**"Reference Banks"** means the principal Riyadh office of each of three major banks engaged in the Riyadh interbank market selected by or on behalf of the Payment Administrator and **"Reference Bank"** shall mean any one of them as the context may require, provided however, that once a Reference Bank has first been selected by the Payment Administrator or its duly appointed representative, such Reference Bank shall not be changed unless it ceases to be capable of acting as such.

**"Register"** means the registry system administered by the Registrar.

**"Registrar"** means the Saudi Arabian Stock Exchange (Tadawul) (and includes any successor registrar as may be appointed in accordance with the provisions of the Registry Agreement).

**"Registry Agreement"** means the registry and trading agreements to be entered into between the Issuer and the Registrar in relation to the Sukuk on or about the Closing Date.

**"Relevant Indebtedness"** means any present or future indebtedness which is in the form of, or represented or evidenced by, bonds, notes, debentures, debenture stock, loan stock, Sukuk Obligations in respect of certificates or other securities, in each case which for the time being are, or are intended to be or are capable of being, quoted, listed, dealt in or traded on any stock exchange, over-the-counter or other securities market.

**"Required Sukukholders"** means Sukukholders holding more than 50% of the aggregate Nominal Value of Sukuk as are current on such date.

**"Reserve"** has the meaning given to such term in Condition 6(g) (*Application of Proceeds - Reserve*).

**"Sak"** has the meaning given to it above under *"Introduction"*.

**"SAR"** or **"Saudi Riyals"** means the lawful currency of Saudi Arabia.

**"Saudi Arabia"** means the Kingdom of Saudi Arabia.

**"Screen Rate"** means the offer rate in Saudi Riyals for a period equal to the relevant Periodic Distribution Period which appears on the Reuters Screen SUAA Page across from the caption "AVG" (or such other page as may replace that page on that service, or such other service as may be nominated by the Payment Administrator as the information vendor for the purpose of displaying comparable rates).

**"Security Interest"** means any mortgage, charge (fixed or floating), pledge, encumbrance, lien or hypothecation, any taking of title, reservation of title, set-off or trust arrangement for the purpose of taking security, any assignment by way of security or any other security interest securing any obligation of any Person or any other agreement or arrangement having a similar effect including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction. For the avoidance of doubt, a Security Interest does not include a guarantee, indemnity or other contingent obligation of the Issuer that is not secured by any of the Issuer's assets and, for the avoidance of doubt, an ownership interest granted in an asset as a part of an unsecured *Shari'ah*-complaint financing arrangement shall not constitute a Security Interest for the purpose of this definition.

**"Seller"** means HSBC Saudi Arabia Limited in its capacity as Seller under the Murabaha Agreements.

**"Service Provider"** means the Sukukholders' Agent, the Payment Administrator and the Account Bank.

**"Settlement Date"** has the meaning given to it in the Master Murabaha Agreement.

**"Shortfall"** has the meaning given to such term in Condition 6(f)(iii)(A) (*Application of Proceeds – Sukuk Account*)

**"Subsequent Cost Price"** has the meaning given to such term in Condition 6(d)(ii)(A) (*Murabaha Contracts*).

**"Subsequent Murabaha Profit"** has the meaning given to such term in Condition 6(f)(iii)(A) (*Murabaha Contracts*)

**"Subsequent Murabaha Transaction"** has the meaning given to such term in Condition 6(d)(ii) (*Murabaha Contracts*).

**"Subsidiary"** means an entity which is controlled, directly or indirectly, by the Issuer or in which the Issuer beneficially owns, directly or indirectly, more than 50 per cent. of the issued share capital or ownership or other equity interests or which is a Subsidiary of another Subsidiary of the Issuer, and **"control"** for this purpose means the power to direct the management and policies of the entity whether through the ownership of voting shares, by contract or otherwise.

**"Substantial Part of Group Assets"** means 20 per cent. or more of the assets of the Group on a consolidated basis.

**"Sukuk"** has the meaning given to it above under *"Introduction"*.

**"Sukuk Account"** means an account held by the Issuer with the Account Bank (on behalf of the Sukukholders) and administered by the Payment Administrator.

**"Sukuk Assets"** means the Mudaraba Assets, the Murabaha Assets and the Payment Obligations, together with any amounts standing to the credit of the Sukuk Account and the Reserve.

**"Sukuk Capital"** means the aggregate Nominal Value of the Sukuk that are current less any loss relating to the Sukuk Assets.

**"Sukuk Documents"** means the Mudaraba Agreement, the Declaration of Agency, the Registry Agreement, the Payment Administration Agreement, the Master Murabaha Agreement (including any document delivered or executed pursuant to a schedule to the Master Murabaha Agreement), the Sukuk (including the Global Sak and the Conditions) and any fee letters delivered or executed by the Issuer in connection therewith and **"Sukuk Document"** shall mean any one of them as the context may require.

**"Sukuk Obligation"** means any undertaking or other obligation to pay money given in connection with the issue of certificates or other securities whether or not in return for consideration of any kind.

**"Sukukholder"** means a Person in whose name Sukuk are for the time being registered in the Register (or, in the case of a joint holding, the first named).

**"Sukukholders' Agent"** has the meaning given to it above under *"Introduction"*.

**"Supplier"** has the meaning given to it in the Master Murabaha Agreement.

**"Term"** has the meaning given to it in the Master Murabaha Agreement.

**"Transfer Record Date"** has the meaning given to such term in Condition 4(e) (*Transfer Record Dates and Closed Periods*).

"**Valuation Date**" has the meaning given to such term in Condition 6(c)(i) (*Adjustment and set-off*).

## **2. RECITALS**

Without prejudice to its status for any other purpose, each of the Sukuk shall be considered to be "**current**" unless it has been redeemed pursuant to Condition 11 (*Redemption of Sukuk*), or purchased under Condition 9 (*Purchase of Sukuk*) or liquidated under Condition 12 (*Events of Default*) and in each case has been cancelled in accordance with Condition 9(b) (*Cancellation*); *provided however, that*, for the purposes of: (i) ascertaining the right to attend and vote at any meeting of Sukukholders or by written resolution; (ii) Condition 14 (*Meetings of Sukukholders; Modification*) and of Schedule 3 of the Declaration of Agency (*Provisions for Meetings of Sukukholders*); (iii) Condition 12 (*Events of Default*); (iv) Condition 13 (*Enforcement and Exercise of Rights*); (v) any discretion, power or authority (whether contained in the Conditions or the Sukuk Documents or vested by operation of law) which the Sukukholders' Agent is required, expressly or impliedly, to exercise in or by reference to the interests of the Sukukholders or any of them; and (vi) the determination by the Sukukholders' Agent whether any event, circumstance, matter or thing is, in its opinion, materially prejudicial to the interests of the Sukukholders or any of them, those Sukuk (if any) which are for the time being held by or for the benefit of the Issuer or any Subsidiary of the Issuer (unless and until ceasing to be so held) shall be deemed not to be current.

All references in these Conditions to an agreement, instrument or other document (including to any Sukuk Document and the Sukuk including Global Sak) shall be construed as a reference to that agreement, instrument or other document as the same may be amended, supplemented, replaced or novated.

## **3. FORM AND DENOMINATION**

The Sukuk are issued in dematerialised registered form in the denomination of SAR1,000,000. The Sukuk will be collectively represented by the Global Sak which will be deposited with the Sukukholders' Agent. Individual Sukuk representing holdings of the Global Sak will not be issued but Sukukholders will on request be entitled to receive a statement from the Registrar recording their holding of Sukuk. The Global Sak will represent all of the Sukuk and the ownership by the Sukukholders of an undivided ownership interest in the Sukuk Assets.

## **4. REGISTER, TITLE AND TRANSFERS**

### **(a) Register**

The Registrar will maintain the Register in respect of the Sukuk in accordance with the provisions of the Registry Agreement. Only a Qualified Person may be registered as a Sukukholder.

### **(b) Title**

Each Sukukholder who is a Qualified Person shall (except as otherwise required by law) be treated as the absolute owner of such Sukuk for all purposes regardless of any notice of ownership, trust or any other interest therein.

### **(c) Transfers**

Subject to paragraphs (e) and (f) below, the Sukuk may be transferred in accordance with the regulations and procedures established by the Registrar by delivering to the Registrar such information as such regulations and procedures shall require. The ownership of Sukuk may not be transferred unless:

- (i) the Nominal Value of Sukuk to be transferred together with the Nominal Value of any Sukuk already held by the party acquiring the Sukuk shall be at least SAR1,000,000;
- (ii) where not all the Sukuk held by a Sukukholder are being transferred, the Nominal Value of the Sukuk which will be owned by the transferor after such transfer is at least SAR1,000,000; and
- (iii) the transferee is a Qualified Person.

The Sukuk will not be tradable as a matter of *Shari'ah* if the Mudaraba Assets at any time comprise less than 25% of the Sukuk Assets.

**(d) Transfer charges**

The transfer of Sukuk will be subject to a charge by the Registrar in accordance with its schedule of charges in force for its services and all such charges shall be borne solely by the transferring Sukukholder and the transferee in accordance with the Registrar's practice. For the avoidance of doubt the Sukukholders' Agent shall not be liable to pay any charges imposed by the Registrar.

**(e) Transfer Record Dates and Closed Periods**

No Sukukholders may require the transfer of any Sukuk to be effected during the period starting at the opening of business no less than seven Business Days prior to a due date for payment of any Periodic Distribution Amount or any other principal or distribution in respect of the Sukuk or, if such a day is not a Business Day, on the next following Business Day (a "**Transfer Record Date**") and ending on (and including) the applicable due date itself (each such period being a "**Closed Period**"). However, notwithstanding such registration, all payments shall continue to be paid to such Persons as are registered as Sukukholders of the Sukuk at the opening of business on the relevant Transfer Record Date. The Registrar may after the Closing Date modify these Conditions insofar as they relate to the registration of transfers effected during Closed Periods by notice to the Issuer and the Sukukholders.

**(f) Regulations concerning transfers and registration**

All transfers of Sukuk and entries on the Register are subject to the regulations and procedures of the Registrar and the provisions of the Registry Agreement. The regulations may be changed by the Registrar at any time when necessary.

**5. STATUS; SET-OFF**

**(a) Status**

The Sukuk constitute undivided ownership interests in the Sukuk Assets and will at all times rank *pari passu* among themselves. The Payment Obligations will constitute direct, general, unconditional and unsecured obligations which will at all times rank at least *pari passu* with all other present and future unsecured obligations of the Issuer save for obligations as may be preferred by provisions of law that are both mandatory and of general application. The obligations of the Issuer to the Sukukholders are not secured by any assets or security or guarantee by a third party.

**(b) No Set-off**

No Sukukholder may exercise or claim any right of set-off in respect of any amount owed to it by the Issuer arising under or in connection with the Payment Obligations and each Sukukholder by virtue of its subscription, purchase or holding of any Sukuk shall be deemed

to have waived all such rights of set-off to the fullest extent permitted by applicable laws and regulations.

## **6. SUKUK**

### **(a) Sukuk Assets**

On the Closing Date, the Sukukholders' Agent shall, on behalf of the Sukukholders:

- (i) provide 51% of the proceeds of the subscription of the Sukuk (the "**Mudaraba Capital**") to the Mudareb to apply as the capital of the Mudaraba (the "**Mudaraba**") and, in accordance with the terms of the Mudaraba Agreement, the Mudareb shall invest the Mudaraba Capital in the Business Portfolio; and
- (ii) apply 49% of the proceeds of the subscription of the Sukuk in a murabaha arrangement to be entered into by the Seller with the Purchaser pursuant to the Master Murabaha Agreement and Condition 6(d) (*Murabaha Contracts*).

None of the Issuer (so long as it performs its obligations under the Sukuk Documents), the Sukukholders' Agent or the Joint Lead Managers and Bookrunners are responsible for the performance or the profitability of the Sukuk Assets or for the share and amount of the distributions (if any) made to the Sukukholders.

### **(b) Business Portfolio**

On the Closing Date, the Mudareb, on behalf of the Issuer and the Sukukholders, shall invest in the Business Portfolio in cash, the amount of SAR1,989,000,000.

The Mudareb (for the benefit of the Issuer and the Sukukholders) and Bahri (for its own account) shall each have an undivided ownership share of the Business Portfolio and all assets acquired from or through the Business Portfolio on the basis of the sharing of profit and the bearing of losses *pro rata* to their respective shares.

The Mudareb's (for the benefit of the Issuer and the Sukukholders) and Bahri's (for its own account) respective entitlement to the Business Portfolio on the Closing Date shall be:

- (i) in the case of Bahri, 89.63% of the Business Portfolio; and
- (ii) in the case of the Mudareb, 10.37% of the Business Portfolio.

Bahri shall have the right to invest further for its own account, in cash or in kind (whether from its own funds or funds sourced from credit facilities) and/or for others in the Business Portfolio. The Mudareb's (for the benefit of the Issuer and the Sukukholders) and Bahri's (for its own account) respective entitlement to the Business Portfolio shall be *pro rata* to their respective shares from time to time in the aggregate investment in the Business Portfolio.

The income from the Mudaraba Assets *less* total costs (consisting of direct costs and allocated costs of such activities) shall be the "**Mudaraba Income**".

The proportional profit shares of the Sukukholders and the Mudareb in any Mudaraba Income shall be calculated using the following ratios:

- (i) Sukukholders: 80% of any Mudaraba Income (the "**Mudaraba Profit**"); and
- (ii) Mudareb (for its own account): 20% of any Mudaraba Income (the "**Mudareb Profit**").

The Mudaraba Profit shall be credited to the Collection Account. The Mudareb Profit shall be retained by the Mudareb for its own account.

For the purposes of calculating the amounts standing to the credit of the Collection Account, one Business Day prior to each Periodic Distribution Date or any Partial Periodic Distribution Date, the Mudareb shall calculate the Mudaraba Income received during the Periodic Distribution Period or Partial Periodic Distribution Period:

- (i) on the basis of a constructive liquidation of the Business Portfolio one Business Day prior to the relevant Periodic Distribution Date or Partial Periodic Distribution Date; and
- (iii) on the Mudareb's management accounts for the relevant period.

At or prior to 11.00 a.m. (Riyadh time) one Business Day prior to each Periodic Distribution Date or any Partial Periodic Distribution Date, the Mudareb shall transfer from the Collection Account to the Sukuk Account an amount on account to cover any shortfall in payments of any Periodic Distribution Amount or Partial Periodic Distribution Amount, as applicable, and the balance of the Collection Account shall be credited to the Reserve.

**(c) Adjustment and set-off**

- (i) The Mudareb shall conduct an annual review (based on management accounts) of the Mudaraba Assets by comparing the value of the Mudaraba Assets as of the last day of each financial year of Bahri (a "**Valuation Date**") with the value of the Mudaraba Assets as at the previous Valuation Date (or, in the case of the first Valuation Date, at the Closing Date) in accordance with Applicable Accountancy Standards.
- (ii) As soon as is reasonably practicable upon the occurrence of the Liquidation Date, the Mudareb shall conduct a review (based on management accounts) of the Mudaraba Assets for the period starting on the Closing Date and ending on the date of occurrence of the Liquidation Date by comparing the value of the Mudaraba Assets as at the Liquidation Date with the value of the Mudaraba Assets as at the last Valuation Date (or, where the Liquidation Date occurs before the first Valuation Date, as at the Closing Date) in accordance with Applicable Accounting Standards.
- (iii) If, based on a review of the Mudaraba Assets pursuant to paragraphs (i) and (ii) above, the Mudareb determines that any payment on account distributed in any Periodic Distribution Period or Partial Periodic Distribution Period, as the case may be, was greater than the actual Mudaraba Profit for such period (an "**Overpayment**"), then the Mudareb shall have the right to deduct any such Overpayment from the monies (if any) standing to the credit of the Reserve.

**(d) Murabaha Contracts**

The Seller and the Purchaser shall enter into:

- (i) on the Closing Date, an initial murabaha transaction (the "**Initial Murabaha Transaction**") on the terms set out in the Master Murabaha Agreement. The Initial Murabaha Transaction shall include, without limitation, the following terms:
  - (A) the Cost Price shall be equal to SAR1,337,700,000 (the "**Initial Murabaha Cost Price**");
  - (B) subject to sub-paragraph (F) below, the Term shall be for 7 years;
  - (C) the Murabaha Profit shall be SAR2,562,300,000;

- (D) the Deferred Price shall be SAR3,900,000,000;
  - (E) the Deferred Price shall (subject to sub-paragraph (F) below) be paid in one instalment and the Deferred Price Payment Date will be on the Expiry Date;
  - (F) on the Liquidation Date, the Deferred Price under the Initial Murabaha Transaction shall become immediately due and payable and each such amount shall constitute Murabaha Income.
- (ii) on the Closing Date and thereafter on the last Business Day of each Periodic Distribution Period for so long as any Sukuk remains current, a series of subsequent murabaha transaction on the terms set out in the Master Murabaha Agreement (each a "**Subsequent Murabaha Transaction**") (in each case after the Purchaser has paid the Deferred Price for the preceding transaction into the Sukuk Account on the last Business Day of the relevant Periodic Distribution Period). Each Subsequent Murabaha Transaction shall include, without limitation, that:
- (A) the Cost Price shall be equal to SAR573,300,000 (the "**Subsequent Cost Price**");
  - (B) subject to sub-paragraphs (C) and (E) below, the Term shall be for 6 months;
  - (C) the Deferred Price shall be paid in one instalment and the Deferred Price Payment Date shall be the last Business Day of the relevant Periodic Distribution Period;
  - (D) the Murabaha Profit shall (subject to sub-paragraph (E) below) be calculated in accordance with the Murabaha Benchmark Rate available at the time and the Profit Rate Period shall be a period of 6 months (the "**Subsequent Murabaha Profit**"); and
  - (E) on an Event of Default Date, any Deferred Price not yet due shall become immediately due and payable and each such amount shall constitute Murabaha Income.

The Subsequent Murabaha Profit shall constitute Murabaha Income and the Subsequent Cost Price shall be reinvested in a further Subsequent Murabaha Transaction on the last Business Day of each Periodic Distribution Period for so long as any Sukuk remains current. On the Liquidation Date the Subsequent Cost Price shall constitute Murabaha Income.

All Murabaha Income shall be paid to the Sukuk Account for application in accordance with Condition 6(f) (*Application of Proceeds – Sukuk Account*).

**(e) Purchase of Commodities**

As soon as practicable following delivery by the Purchaser to the Seller of a duly completed Purchase Order With Promise To Purchase in accordance with the terms of the Master Murabaha Agreement, and by no later than 9.00 a.m. (Riyadh time) one Business Day prior to the applicable Settlement Date, if the Seller wishes to enter into the murabaha transaction, the Seller shall deliver to the Issuer and the Payment Administrator a Capital Contribution Notice which shall notify the Issuer and the Payment Administrator of the relevant Cost Price payable in respect of such Purchase Order With Promise To Purchase (each a "**Capital Contribution**"). The Issuer shall instruct the Payment Administrator, on receipt of a Capital Contribution Notice, to instruct the Account Bank to pay such Capital Contribution from the Sukuk Account, to the Seller, or to the order of the Seller, directly to the relevant Supplier by no later than 11.00 a.m. (Riyadh time) on the applicable Settlement Date.



As soon as practicable upon completion of the purchase of the relevant Commodities and acquisition of title to the Commodities by the Seller, and no later than 1.00 p.m. (Riyadh time) on the applicable Settlement Date, the Seller shall confirm the Additional Costs (as defined in the Master Murabaha Agreement) and the Murabaha Profit and notify the Purchaser of the same by delivering a confirmation of terms (a "**Confirmation of Terms**") to the Purchaser.

As soon as practicable upon the Seller delivering the relevant Confirmation of Terms to the Purchaser, and no later than 2.00 p.m. (Riyadh time) on the applicable Settlement Date, upon its receipt of a Confirmation of Terms, the Purchaser shall deliver to the Seller a duly completed notice of offer to purchase the Commodities and, as soon as practicable thereafter and no later than 3.00 p.m. (Riyadh time) on the applicable Settlement Date, the Seller will deliver to the Purchaser a notice of acceptance of such offer.

In accordance with each Murabaha Agreement, the Seller unconditionally and irrevocably instructs the Purchaser to pay any amount payable to the Seller, or to the order of the Seller, in respect of a Deferred Price directly to the Sukuk Account.

**(f) Application of Proceeds – Sukuk Account**

At or prior to 11.00 a.m. (Riyadh time) one Business Day prior to the relevant Periodic Distribution Date, any Partial Periodic Distribution Date or the Liquidation Date, the Issuer shall instruct the Payment Administrator to pay monies standing to the credit of the Sukuk Account as follows:

- (i) *firstly*, to the extent not previously paid, to the Sukukholders' Agent, and any person appointed by the Sukukholders' Agent, in respect of the amounts owing to it under the Sukuk Documents or otherwise in respect of its capacity as Sukukholders' Agent;
- (ii) *secondly*, to the extent not previously paid, *pari passu* and rateably to each other Service Provider, to which the Issuer is liable to make a payment, in each case in respect of the amounts owing to each of them under the Sukuk Documents or otherwise in their respective capacities;
- (iii) *thirdly*, to each Sukukholder:
  - (A) the aggregate amount of any shortfall between the amounts paid to Sukukholders on any previous Periodic Distribution Date(s) the corresponding Periodic Distribution Amount(s) for such date(s) (each, a "**Shortfall**") to the extent these remain unpaid; and
  - (B) the amount due for the current Periodic Distribution Period or Partial Periodic Distribution Period;
- (iv) *fourthly*, on the Liquidation Date, the amount due to the Sukukholders to pay the Sukuk Capital; and
- (v) *fifthly*, any remaining amounts standing to the credit of the Sukuk Account shall be credited to the Reserve.

**(g) Application of Proceeds – Reserve**

The Issuer shall maintain a book-entry ledger account (the "**Reserve**") and the Issuer shall not have the right to use and invest the monies (if any) standing to the credit of the Reserve for its own account but may use and invest such monies in the Business Portfolio for and on behalf of the Sukukholders.

Subject to Condition 6(c) (*Adjustment and set-off*), at or prior to 11.00 a.m. (Riyadh time) one Business Day prior to the relevant Periodic Distribution Date or any Partial Periodic Distribution Date, the Issuer shall pay monies standing to the credit of the Reserve (if any) as follows:

- (i) *firstly*, to the extent not previously paid, to the Sukukholders' Agent and any person appointed by the Sukukholders' Agent, in respect of the amounts owing to it under the Sukuk Documents or otherwise in respect of its capacity as Sukukholders' Agent;
- (ii) *secondly*, to the extent not previously paid, *pari passu* and rateably to each other Service Provider, to which the Issuer is liable to make a payment, in each case in respect of the amounts owing to each of them under the Sukuk Documents or otherwise in their respective capacities;
- (iii) *thirdly*, to the Payment Administrator to pay the aggregate amount of any Shortfall to the extent these remain unpaid; and
- (iv) *fourthly*, to the Payment Administrator to pay the amount due for the current Periodic Distribution Period or Partial Periodic Distribution Period to the extent these remain unpaid.

On the Liquidation Date, the Issuer shall pay monies standing to the credit of the Reserve (if any) as follows:

- (i) *firstly*, to the extent not previously paid, to the Sukukholders' Agent and any person appointed by the Sukukholders' Agent, in respect of the amounts owing to it under the Sukuk Documents or otherwise in respect of its capacity as Sukukholders' Agent;
- (v) *secondly*, to the extent not previously paid, *pari passu* and rateably to each other Service Provider to which the Issuer is liable to make a payment, in each case in respect of the amounts owing to each of them under the Sukuk Documents or otherwise in their respective capacities;
- (vi) *thirdly*, to the Payment Administrator to pay the amount due to the Sukukholders to pay the Sukuk Capital (including any amount necessary to compensate the Sukukholders for any loss relating to the Mudaraba Capital as at the Liquidation Date); and
- (vii) *fourthly*, the balance of the monies (if any) standing to the credit of the Reserve, to be received by the Issuer (in its capacity as Mudareb) as an incentive fee for its performance.

## **7. FINANCIAL COVENANTS**

The Issuer covenants and undertakes that, among other things, so long as any Sukuk remains current:

- (a) it shall ensure that at all times its Consolidated Tangible Net Worth is not less than six billion Saudi Arabian Riyals (SAR6,000,000,000);
- (b) it shall ensure that at all times the ratio of Consolidated Total Liabilities to Consolidated Tangible Net Worth is less than 3:1;
- (c) it will not create or permit to subsist any Security Interest, other than a Permitted Security Interest, upon, or with respect to, the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness, or any guarantee or indemnity in respect of any Relevant

Indebtedness, without at the same time or prior thereto securing the Sukuk equally and rateably with the same Security Interest as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity or such other Security Interest as shall be approved by an Extraordinary Resolution of the Sukukholders; and

- (d) it will not create or permit to subsist any Security Interest, other than a Permitted Security Interest, over all or any part of any Existing Vessel.

## **8. PERIODIC DISTRIBUTIONS**

### **(a) Periodic Distribution Dates**

Subject to Condition 6(f) (*Application of Proceeds – Sukuk Account*) and Condition 10 (*Payments*)), the Issuer shall instruct the Payment Administrator to distribute to the Sukukholders *pro rata* a distribution in relation to the Sukuk on each Periodic Distribution Date equal to the applicable Periodic Distribution Amount.

### **(b) Benchmark Rate**

The Benchmark Rate for each Periodic Distribution Period shall be determined by or on behalf of the Payment Administrator on the following basis:

- (i) the Payment Administrator will determine the Screen Rate as of 11.00 a.m. (Riyadh time) on the Periodic Determination Date; or
- (ii) if such rate does not appear on that page, the Payment Administrator will:
  - (A) request that the principal office in Saudi Arabia of each of the Reference Banks or any substitute reference bank in the Saudi interbank market appointed by the Payment Administrator, provide a similar quotation of the rate in Saudi Riyals offered by it in the Saudi interbank market at approximately 11.00 a.m. (Riyadh time) on the Periodic Determination Date to prime banks in the Saudi interbank market for a period equal to the relevant Periodic Distribution Period and in an amount that is representative for a single transaction in that market at that time; and
  - (B) determine the arithmetic mean (rounded, if necessary, to the nearest ten thousandth of a percentage point, 0.00005 being rounded upwards) of such quotations where two or more quotations are available,

and the "**Benchmark Rate**" shall be the rate or (as the case may be) the arithmetic mean so determined; *provided however*, that if the Payment Administrator is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Periodic Distribution Period, the Benchmark Rate applicable to the Sukuk during such Periodic Distribution Period will be the Benchmark Rate or (as the case may be) arithmetic mean last so determined in relation to the Sukuk in respect of the most recent preceding Periodic Distribution Period.

### **(c) Notification**

The Payment Administrator shall cause the Screen Rate and the Periodic Distribution Amount determined by it, together with the relevant Periodic Distribution Date, to be notified to the Issuer and the Sukukholders' Agent as soon as practicable after such determination but in any event not later than the first day of the relevant Periodic Distribution Period. Notice thereof shall also promptly be provided to the Registrar. The Payment Administrator shall be entitled to recalculate any Periodic Distribution Amount (on the basis of the foregoing provisions)

without notice in the event of an extension or shortening of the relevant Periodic Distribution Period.

**(d) Cessation of accrual**

No further amounts shall be payable on any Sukuk from and including its due date for redemption unless, upon due presentation, payment in respect of the Sukuk is improperly withheld or refused or unless default is otherwise made in respect of payment, in which event such amounts payable on the Sukuk shall continue to be due and payable and the Issuer shall have an obligation to pay the Late Payment Amount on such delayed payments to a charity licensed in Saudi Arabia chosen by the Sukukholders' Agent.

**(e) Notifications**

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 8 by the Payment Administrator shall (in the absence of gross negligence, wilful misconduct, fraud or manifest error) be binding on the Issuer, the Sukukholders' Agent and the Sukukholders and (subject as aforesaid) no liability to any such Person will attach to the Payment Administrator in connection with the exercise or non exercise by it of its powers, duties and discretions under this Condition 8.

**9. PURCHASE OF SUKUK**

**(a) Optional Purchase**

The Issuer or its Subsidiaries may at any time purchase Sukuk in the open market or otherwise and at any price agreed between the Sukukholder and the Issuer or the relevant Subsidiary.

**(b) Cancellation**

If any Sukuk are purchased by the Issuer or any of its Subsidiaries, such Sukuk shall be cancelled and may not be reissued or resold.

**10. PAYMENTS**

**(a) General**

Payments under the Sukuk shall be made by wire transfer to a Saudi Riyals account maintained by the Sukukholder with a bank in Saudi Arabia. The relevant account shall be as notified in writing to the Registrar and the Issuer by the Sukukholder not later than 15 days before the date of the relevant payment.

**(b) Payments subject to Applicable Laws**

All payments in respect of the Sukuk are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment.

**(c) Payments on Business Days**

Payment instructions shall be initiated to be paid on the due date, or, if the due date is not a Business Day, postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event the due date shall be the immediately preceding Business Day. A Sukukholder shall not be entitled to any distribution or other payment in respect of any delay in payment resulting from the due date for a payment not being a Business Day.

**(d) Transfer Record Date**

Each payment in respect of the Sukuk shall be made to the Person shown as the Sukukholder in the Register at the opening of business in the place of the Registrar's specified office on the Transfer Record Date, subject to (for the avoidance of doubt) such Person being a Qualified Person.

**11. REDEMPTION OF SUKUK**

Unless previously redeemed, or purchased and cancelled, the Sukuk shall be redeemed on the Expiry Date by the Issuer. On the Expiry Date:

- (a) the Deferred Prices under the Master Murabaha Agreement shall be paid by the Issuer to the Sukuk Account;
- (b) the Mudaraba shall be dissolved and the Mudaraba Capital (together with any profit, or less any loss, generated from the Mudaraba Assets) shall be paid to the Sukuk Account;
- (c) each Sukukholder shall, subject to Condition 6(c) (*Adjustment and set-off*), receive its *pro rata* share of the Sukuk Capital from the amounts standing to the credit of the Sukuk Account and the Reserve; and
- (d) to the extent that each Sukukholder has received their *pro rata* share of the Sukuk Capital together with any due but unpaid Periodic Distribution Amounts or Partial Periodic Distribution Amounts, the Sukukholders shall assign the remaining portion of the Sukuk Assets to the Issuer, and in such case the remaining Sukuk Assets shall revert automatically to the Issuer (for its own account).

**12. EVENTS OF DEFAULT**

The occurrence of any of the following events and circumstances shall constitute an "**Event of Default**":

- (a) *Non-payment of Periodic Distribution Amount*: the amount distributed to Sukukholders on any Periodic Distribution Date is less than the Periodic Distribution Amount for such Periodic Distribution Date and such shortfall in amounts has not been paid in full five Business Days after its due date;
- (b) *Non-payment of Sukuk Capital*: the Issuer fails to pay the Sukuk Capital to the Sukukholders on the Expiry Date and such amount has not been paid in full five Business Days after its due date;
- (c) *Breach of other obligations*: the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Sukuk Documents, including for the avoidance of doubt and without limitation its undertakings under Condition 7 (*Financial Covenants*), and (except: (i) in any case where the failure is incapable of remedy where no continuation or notice as is hereunder mentioned will be required; or (ii) in the event of a breach of the undertakings in Condition 7 (*Financial Covenants*)) such default remains unremedied for 30 days after the Issuer becoming aware of the default or written notice thereof, addressed to the Issuer by any Sukukholder and/or the Sukukholders' Agent has been delivered to the Issuer;
- (d) *Cross default*: the occurrence of any of the following:

- (i) any Financial Indebtedness of the Issuer is neither paid when due nor paid within any originally applicable grace period;
- (ii) an event of default or any provision having a similar effect (howsoever described) occurs and is continuing under any Financial Indebtedness of the Issuer;
- (iii) any Financial Indebtedness of the Issuer becomes due and payable prior to its stated maturity as a result of an acceleration event (howsoever described) following an event of default; or
- (iv) any Security Interest given by the Issuer for any Financial Indebtedness becomes enforceable or any step is taken to enforce the Security Interest (including the taking of possession or the appointment of a receiver, manager or other similar person, but excluding the issue of any notification to the Issuer that such Security Interest has become enforceable) unless the full amount of the Financial Indebtedness which is secured by the relevant Security Interest is discharged within ninety (90) days of the later of the first date on which: (a) a step is taken to enforce the relevant Security Interest; and (b) the Issuer is notified that a step has been taken to enforce the relevant Security Interest,

provided that the amount of Financial Indebtedness referred to in sub-paragraph (i), (ii), (iii) or (iv) above individually or in the aggregate, exceeds SAR75,000,000 (or its equivalent in any other currency or currencies);

- (e) *Unsatisfied judgment*: one or more judgment(s), order(s) or arbitral award(s) for the payment of an amount in excess of SAR75,000,000 (or its equivalent in any other currency or currencies), whether individually or in aggregate is rendered against the Issuer and continue(s) unsatisfied and unstayed for a period of 30 days after the date(s) thereof, unless such judgment(s), order(s) or arbitral award(s) are being appealed in good faith and in respect of which adequate provision has been made in accordance with Applicable Accountancy Standards;
- (f) *Insolvency*: (i) the Issuer becomes insolvent or is unable to pay its debts as they fall due; (ii) an administrator or liquidator is appointed over the whole of the undertakings, assets and revenues of the Issuer or a Substantial Part of Group Assets (or application for any such appointment is made), save in connection with a Permitted Reorganisation, and such appointment is not discharged within 30 days; (iii) the Issuer takes any action for a readjustment or deferment of any of its obligations for the benefit of its creditors or makes a general assignment or an arrangement or composition with or for the benefit of its creditors (including any arrangement under the Settlement to Avoid Bankruptcy Law) or declares a moratorium in respect of any of its Financial Indebtedness or any guarantee of any Financial Indebtedness given by it; or (iv) the Issuer ceases or threatens to cease to carry on all of its business or any part of its business that comprises a Substantial Part of Group Assets (otherwise than for the purposes of a Permitted Reorganisation);
- (g) *Creditors' process*: any expropriation, attachment, sequestration, distress or execution affects any asset of the Issuer and is not discharged within ninety (90) days, provided that no Event of Default will occur under this paragraph (g) if the aggregate of the assets affected by any such expropriation,

attachment, sequestration, distress or execution is less than SAR75,000,000 at anytime (or its equivalent in any other currency or currencies);

- (h) *Winding up*: an order is made or an effective resolution is passed for the winding-up, liquidation or dissolution of the Issuer (otherwise than for the purposes of a Permitted Reorganisation);
- (i) *Analogous event*: any event occurs under the laws, regulations or rules of Saudi Arabia that has an analogous effect to any of the events referred to paragraphs (e) (*Unsatisfied judgment*) to (h) (*Winding up*) (inclusive) above; or
- (j) *Unlawfulness*: it is or becomes unlawful for the Issuer to perform or comply with any or all of its obligations under or in respect of the Sukuk or the Sukuk Documents to which it is a party or any of the Sukuk Documents are held by a court not to be legally effective, or the Issuer repudiates or evidences an intention to repudiate any of the Sukuk Documents to which it is a party.

If an Event of Default occurs and is continuing and has not been waived by the Sukukholders' Agent pursuant to the terms of the Declaration of Agency, the Sukukholders' Agent shall (subject to being indemnified and/or secured and/or prefunded to its satisfaction) as soon as is reasonably practicable after it receives notice thereof give notice of the occurrence of such Event of Default to the Sukukholders, requiring them to indicate within a period of up to 15 days, or such other date as is notified to the Sukukholders by the Sukukholders' Agent (the "**Exercise Period**"), whether they wish to exercise their rights pursuant to this Condition 12. Any Sukukholder may then deliver a notice (an "**Event of Default Notice**") within such Exercise Period to the Sukukholders' Agent.

If the Sukukholders' Agent receives Event of Default Notices from the Required Sukukholders within the Exercise Period and such Required Sukukholders declare their intention to exercise their rights pursuant to this Condition 12, the Sukukholders' Agent shall (subject to being indemnified and/or secured and/or prefunded to its satisfaction) promptly deliver to the Issuer an exercise notice (the "**Exercise Notice**") so notifying the Issuer (with a copy to the Sukukholders).

Upon delivery of the Exercise Notice pursuant to this Condition 12, the Sukukholders' Agent may, at any time, and is irrevocably authorised on behalf of the Sukukholders to: (i) enforce such rights as it may have under the Sukuk Documents following an Event of Default; (ii) demand that the Issuer transfer to the Sukukholders' Agent, from the proceeds of the winding-up or liquidation of the Mudaraba and the acceleration of the Deferred Prices, an amount equal to the aggregate of the Sukuk Capital and any Partial Periodic Distribution Amount, calculated as of the date of the Exercise Notice (the "**Event of Default Date**"); and (iii) file claims and proofs, give receipts and take all such proceedings and do all such things as the Sukukholders' Agent sees fit to recover the Sukuk Capital and Partial Periodic Distribution Amount from the Issuer.

### 13. ENFORCEMENT AND EXERCISE OF RIGHTS

- (a) The Sukukholders' Agent may at any time, at its absolute discretion and without notice, take such proceedings against the Issuer as it may think fit to enforce the provisions of the Sukuk and the Sukuk Documents, and it shall not be bound in any circumstances to take any such action unless directed or requested to do so: (i) by an Extraordinary Resolution; or (ii) in writing by Sukukholders who hold more than 50% of the aggregate Nominal Value of Sukuk as are current on such date, and in either case then only if it shall be indemnified and/or

secured and/or prefunded to its satisfaction against all Liabilities to which it may thereby render itself liable or which it may incur by so doing.

- (b) No Sukukholder shall be entitled to proceed directly against the Issuer unless: (i) the Sukukholders' Agent fails to do so within 60 calendar days of becoming bound to do so in accordance with this Condition 13; (ii) such failure is continuing, and (iii) the relevant Sukukholder (or such Sukukholder together with the other Sukukholders who propose to proceed directly against the Issuer) holds at least twenty-five per cent. (25%) of the aggregate Nominal Amount of the Sukuk then current on such date. Under no circumstances shall the Sukukholders' Agent or any Sukukholders have any right to cause the sale or other disposition of any of the Sukuk Assets except pursuant to the Conditions, and the sole right of the Sukukholders' Agent and Sukukholders against the Issuer shall be to demand the enforcement of the obligations of the Issuer to pay the amounts due to the Sukukholders under the Sukuk Documents.

#### **14. MEETINGS OF SUKUKHOLDERS; MODIFICATION**

##### **(a) Meetings of Sukukholders**

The Declaration of Agency contains provisions for convening meetings of Sukukholders to consider any matter affecting their interests, including the sanctioning by an Extraordinary Resolution of a modification of the Sukuk, these Conditions or any relevant provision of the Sukuk Documents, subject to also obtaining the Issuer's approval. Such a meeting may be convened by the Issuer or the Sukukholders' Agent and shall be convened by the Issuer upon the request in writing of Sukukholders holding not less than 10% of the aggregate Nominal Value of the Sukuk as are current as at such date. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing at least 50% of the aggregate Nominal Value of such of the Sukuk as are current as at such date. The quorum at any adjourned meeting convened to vote on an Extraordinary Resolution, will be two or more persons holding or representing at least 25% of the aggregate Nominal Value of such of the Sukuk as are current as at such date.

Any Extraordinary Resolution passed at any such meeting shall be binding on all Sukukholders, whether present or not. The Declaration of Agency provides that any written resolution signed by or on behalf of the holders of not less than sixty six and two thirds per cent. (66⅔%) of the aggregate Nominal Value of the Sukuk as are current as at such date shall be as valid and effective as a duly passed Extraordinary Resolution.

Sukukholders should note that the provisions contained in the Declaration of Agency regarding Sukukholder meetings are subject to applicable Saudi Arabian law as may be amended from time to time and as applied in practice. In the event of any inconsistency between those provisions and applicable law as applied in practice, the applicable law shall prevail.

##### **(b) Modification**

The Declaration of Agency provides that the Sukukholders' Agent may agree, without the consent of the Sukukholders, to any modification of, or to any waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Sukuk Documents, or may determine that a potential Event of Default or an Event of Default, shall not be treated as such which in any such case, in the opinion of the Sukukholders' Agent, is not materially prejudicial to the interests of the Sukukholders or to any modification of any of these Conditions or any of the provisions of the Sukuk Documents which is (in the opinion of the Sukukholders' Agent) of a formal, minor or technical nature or which is made to correct a manifest error or to comply with mandatory provisions of law. Any such modification, waiver, authorisation or determination shall be binding on the Sukukholders and, unless the



Sukukholders' Agent agrees otherwise, any such modification shall be notified by the Issuer to the Sukukholders as soon as practicable thereafter in accordance with Condition 17 (*Notices*).

In connection with the exercise by it of any of its powers, authorities or discretions (including, but without limitation, any modification, waiver, authorisation or substitution), the Sukukholders' Agent shall have regard to the interests of the Sukukholders as a class and, in particular but without limitation, need not have regard to the consequences of such exercise for individual Sukukholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory, and the Sukukholders' Agent shall not be entitled to require, nor shall any Sukukholder be entitled to claim, from the Issuer or any other Person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Sukukholders.

## **15. TAXATION**

All payments shall be paid by the Issuer in respect of the Sukuk free and clear of withholding taxes of Saudi Arabia unless such withholding is required by applicable laws. In that event, the Issuer will pay the Sukukholders through the Payment Administrator (other than Sukukholders who are not, or at any time cease to be, Qualified Persons) such additional amounts to cover such withholding.

Sukukholders should note that the Sukuk are being sold only to Qualified Persons and that only Qualified Persons may be registered as Sukukholders. No additional amounts in respect of any withholding required by any law or regulation shall be paid to any person who holds Sukuk but is not a Qualified Person.

The Sukukholders shall be responsible for any other capital gains tax, income tax or zakat assessed on them as a result of their holding of Sukuk.

## **16. INDEMNIFICATION AND LIABILITY OF THE SUKUKHOLDERS' AGENT**

The Declaration of Agency contains provisions for the indemnification of the Sukukholders' Agent in certain circumstances and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured and/or prefunded to its satisfaction, in particular, in connection with the exercise of any of its rights in respect of the Sukuk Assets. The Sukukholders' Agent shall in no circumstances take any action unless directed to do so in accordance with Condition 13 (*Enforcement and Exercise of Rights*), and then only if it shall have been indemnified and/or secured and/or prefunded to its satisfaction.

The Sukukholders' Agent makes no representation and assumes no responsibility for the validity, sufficiency or enforceability of the obligations of the Issuer under any Sukuk Document to which the Issuer is a party and shall not under any circumstances have any liability or be obliged to account to the Sukukholders in respect of any payment which should have been made by the Issuer or on its behalf, but is not so made, and shall not in any circumstances have any liability arising from the Sukuk Assets other than as expressly provided in these Conditions or in the Declaration of Agency.

The Sukukholders' Agent is excepted from: (a) any liability in respect of any loss or theft of the Sukuk Assets or any cash; (b) any obligation to insure the Sukuk Assets or any cash; and (c) any claim arising from the fact that the Sukuk Assets or any cash is held by or on behalf of the Sukukholders' Agent or on deposit, unless such loss or theft arises as a result of the gross negligence or wilful misconduct of the Sukukholders' Agent.

The Declaration of Agency also contains provisions pursuant to which the Sukukholders' Agent is entitled, *inter alia*, (i) to enter into business transactions with the Issuer and/or any of the Issuer's Subsidiaries and to act as agent or trustee for the holders of any other securities

issued or guaranteed by, or relating to, the Issuer and/or any of the Issuer's Subsidiaries, (ii) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such agencyship or trusteeship without regard to the interests of, or consequences for, the Sukukholders, and (iii) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

## **17. NOTICES**

All notices to the Sukukholders will be sent to them by registered mail to their respective addresses on the Register. Any such notice shall be deemed to have been given on the fifth day of mailing. In addition, notices of any meetings of Sukukholders shall be sent at least 25 days prior to the date set for the initial meeting and at least 30 days prior to the date set for any adjourned meeting and shall be valid if sent to the Sukukholders by registered mail to their respective addresses in the Register.

## **18. GOVERNING LAW AND JURISDICTION**

### **(a) Governing law**

The Sukuk Documents and the Sukuk are governed by, and are to be construed in accordance with, the laws of Saudi Arabia.

### **(b) Jurisdiction**

The judicial authorities in the Kingdom (including the Committees in connection with disputes within the jurisdiction of the Authority and its implementing regulations) shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which may arise out of or in connection with the Sukuk or the Sukuk Documents and, for such purposes, all relevant parties (including the Issuer and the Sukukholders) irrevocably submit to the jurisdiction of the judicial authorities in the Kingdom. No suit, action or proceedings which may arise out of or in connection with the Sukuk or the Sukuk Documents may be filed or brought outside Saudi Arabia and no court or any judicial authority outside Saudi Arabia shall have jurisdiction to hear any such claim.

## 17. SUMMARY OF THE SUKUK DOCUMENTS

*The following is a summary of certain key provisions of the Mudaraba Agreement and Master Murabaha Agreement. This summary is for information purposes only and is not intended to be (nor should it be construed as being) all inclusive. Prospective Sukukholders should note that this summary is not a substitute for reviewing the relevant Sukuk Documents in full, which are available for inspection during normal business hours at the registered office of the Issuer, being Bahri Building #569, Siteen Street, Malaz Area, PO Box 8931 Area, Riyadh 11492, Kingdom of Saudi Arabia. Prospective Sukukholders are reminded that pursuant to the Conditions, all Sukukholders are bound by, and are deemed to have notice of, all the provisions of the Sukuk Documents.*

*Terms used in this section shall have the meaning given to them in the Conditions.*

### **Mudaraba Agreement**

The Company (in its capacities as Issuer and as Mudareb) and the Sukukholders' Agent are party to the Mudaraba Agreement, pursuant to which the Sukukholders' Agent (on behalf of the Sukukholders) irrevocably appoints the Company as Mudareb. The relationship between the Mudareb on the one hand and the Issuer and the Sukukholders on the other is that of Mudareb and rab al-maal. The Mudareb is irrevocably authorised by the Sukukholders' Agent to take such action on behalf of the Sukukholders to hold the Mudaraba Assets for and on behalf of the Sukukholders. The Mudareb's authorities are limited to those specifically provided for in the Mudaraba Agreement and the other Sukuk Documents.

The Mudareb shall manage, administer, perform and discharge its obligations relating to the Mudaraba Assets (with absolute freedom and discretion acting reasonably) and perform the following duties in respect of the Mudaraba Assets for so long as any Sukuk remain current: (a) maintain appropriate collection procedures in relation to the amounts falling due in respect of the Mudaraba Assets; (b) ensure that all Mudaraba Profit is credited to the Collection Account and calculate the Mudaraba Profit; (c) ensure that accounting books and income and expenses of the Mudaraba Assets are regularly recorded and that its accounts are prepared in conformity with Applicable Accountancy Standards; and (d) ensure that all material regulatory, zakat and taxation requirements are met. The Mudareb shall be entitled to commingle its own assets and funds with the Mudaraba Assets.

One Business Day prior to each Periodic Distribution Date or any Partial Periodic Distribution Date, the Mudareb shall transfer from the Collection Account to the Sukuk Account an amount on account, to cover any shortfall in payments of any Periodic Distribution Amount or Partial Periodic Distribution Amount, as applicable, and the balance of the Collection Account shall be credited to the Reserve.

The Mudareb (for the benefit of the Issuer and the Sukukholders) and Bahri (for its own account), shall each have an undivided ownership share of the Business Portfolio on the basis of the sharing of profit and the bearing of losses pro rata to their respective shares. The Sukukholders and the Mudarab shall each have a proportional share of the Mudaraba Income (referred to, respectively, as the Mudaraba Profit and the Mudareb Profit).

On the Liquidation Date, the Mudaraba Agreement will terminate and the Mudaraba will be dissolved. Each Sukukholder shall receive its proportional share in the Mudaraba Assets on liquidation. The Sukukholders shall have the right to assign all or part of their share in the Mudaraba Assets to Bahri and in such case such assets shall revert automatically to Bahri.

The Mudaraba Agreement shall commence on the Closing Date and terminate on the earlier of the Expiry Date or the date on which the Sukuk are redeemed or purchased and cancelled. The Mudaraba Agreement is governed by the laws of the Kingdom.

## **Master Murabaha Agreement**

The Company (in its capacity as Purchaser) and HSBC Saudi Arabia Limited in its capacity as Seller are party to a Master Murabaha Agreement, pursuant to which the Purchaser may avail itself of a murabaha based financing facility to be made available to it by the Seller. Subject to the terms and conditions of the Master Murabaha Agreement, the Seller agrees to sell on behalf of the Issuer and the Sukukholders on a murabaha basis to the Purchaser the Commodities purchased from the nominated Suppliers at a price(s) negotiated between the Purchaser and the Seller. Once the Seller has acquired the Commodities, the Seller will sell the Commodities to the Purchaser on deferred payment terms providing for the Purchaser to pay to the Seller the Deferred Price.

The Purchaser shall apply the proceeds from the on-sale of any Commodities purchased by it under a Murabaha Contract for the purposes set out in the Prospectus. The Seller shall not be bound to monitor or verify the purpose or purposes for which the Purchaser uses the proceeds of any on-sale of Commodities purchased by it under any Murabaha Contract.

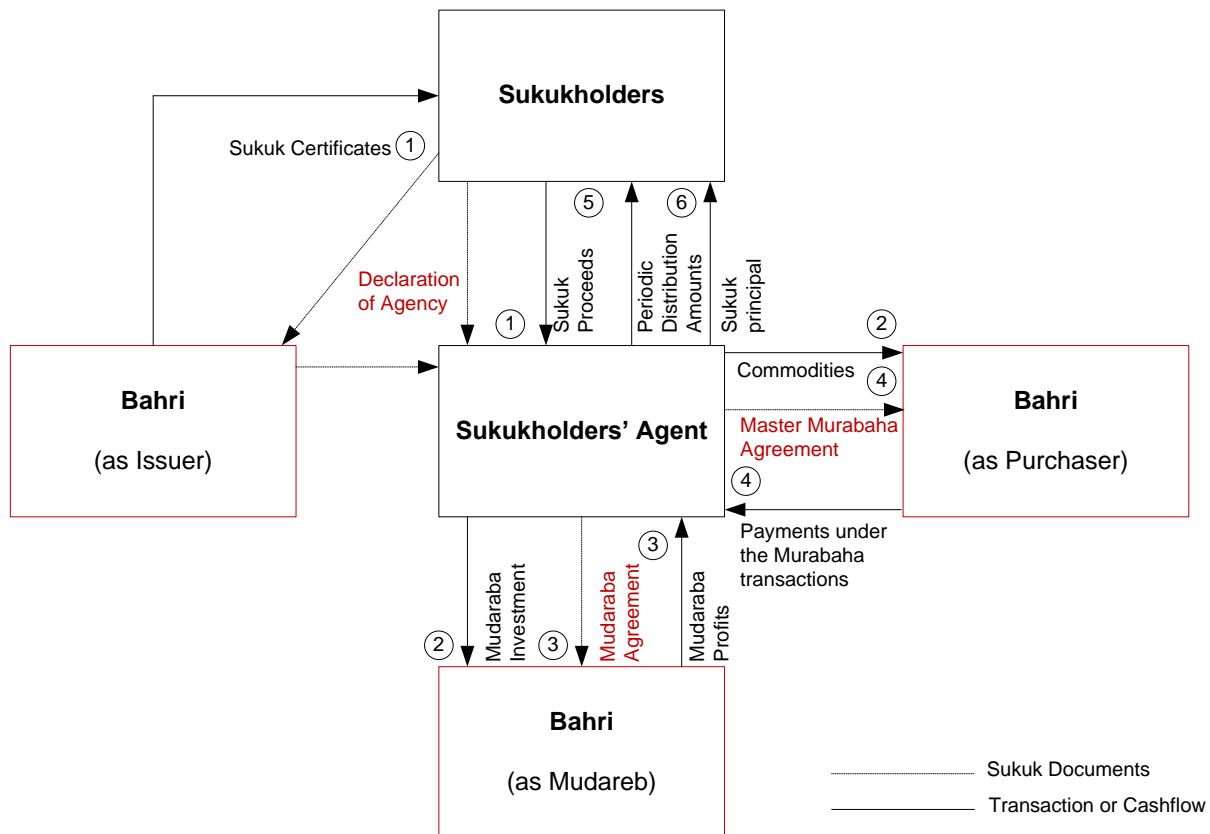
On the occurrence of an Event of Default and at any time during which such Event of Default is continuing, the Seller may exercise any or all of the following actions:

- (i) demand that the Purchaser immediately pay all or part of the Total Murabaha Facility Outstanding (defined as the amount of the Deferred Price that has not yet been paid by the Purchaser to the Seller) and that the Purchaser immediately pay any other sums owed to the Seller by the Purchaser under the Master Murabaha Agreement; or
- (ii) cancel the murabaha facility commitment.

The Master Murabaha Agreement is governed by the laws of the Kingdom.

## **Diagram of the Sukuk Structure**

Set out below is a simplified diagram of the Sukuk structure. Prospective sukukholders are referred to the Conditions set out in section 15 "*Terms and Conditions of the Sukuk*" for a more detailed description of certain cash flows and for an explanation of the meaning of certain capitalized terms used below. The diagram set out below is a simplified diagram for illustration purposes only and is not intended to be (nor should it be construed as being) all inclusive. Prospective sukukholders should note that this diagram is not a substitute for reviewing the Conditions set out in this Prospectus and the Sukuk Documents in full, which shall be binding on prospective sukukholders.



## 18. SUBSCRIPTION AND SALE

### Joint Lead Managers and Joint Bookrunners

HSBC Saudi Arabia Limited, whose registered address is 7267 Olaya Road – Al Murooj, Riyadh 12283-2255, Kingdom of Saudi Arabia, J.P. Morgan Saudi Arabia Limited, whose registered office is Al Faisaliah Tower, King Fahad Road, PO Box 51907, Riyadh 11553, Kingdom of Saudi Arabia and Samba Capital & Investment Management Company, whose registered address is Kingdom Tower, PO Box 220007, Riyadh 11311, Kingdom of Saudi Arabia.

### Placement Agency Agreement

The Joint Lead Managers and Joint Bookrunners will enter into a placement agency agreement on or prior to the Closing Date (as the same may be amended, supplemented or novated, the "**Placement Agency Agreement**") with the Issuer relating to the placement of the Sukuk. Pursuant to the Placement Agency Agreement, the Joint Lead Managers and Joint Bookrunners will agree, on the terms provided therein, to use reasonable efforts to procure persons to purchase the Sukuk. The Placement Agency Agreement will be subject to a number of conditions and may, in certain circumstances, be terminated by the Joint Lead Managers and Joint Bookrunners prior to payment of the net proceeds of the issue of the Sukuk to the Issuer. If the Placement Agency Agreement is terminated prior to the Closing Date, the offer of Sukuk may also terminate and any proceeds received from subscribers will be refunded.

The Issuer has agreed to indemnify the Joint Lead Managers and Joint Bookrunners against certain liabilities in connection with the offer and sale of the Sukuk. The Joint Lead Managers and Joint Bookrunners will be entitled to a combined management and selling commission for performing such services.

### Application by potential investors

During the Offer Period, the Joint Lead Managers and Joint Bookrunners may solicit expressions of interest from potential investors for acquiring the Sukuk, during which time the Issuer and the Joint Lead Managers and Joint Bookrunners shall consult and agree on the Margin.

Persons wishing to purchase the Sukuk will be required to submit an Investor Application Form to any one of the Joint Lead Managers and Joint Bookrunners before the end of the Offer Period. Investor Application Forms will be available from any of the Joint Lead Managers and Joint Bookrunners. Persons wishing to purchase the Sukuk will be required to declare that they have read and understood the Prospectus (including Sections 5 "*Risk Factors*" and 16 "*Terms and Conditions of the Sukuk*") and the terms and conditions of the Investor Application Form and accept in full and agree to the basis on which the offer of Sukuk is made. They will also be required to declare that they are resident for tax purposes in the Kingdom and that all the information provided in the Investor Application Form is true and correct.

Applications to purchase Sukuk for less than SAR 1,000,000 or in higher amounts which are not higher integral multiples of SAR 1,000,000 thereafter or from applicants who are not Institutional Investors will not be accepted. Persons who are not Institutional Investors but who are Qualified Persons may be able to subsequently purchase Sukuk through Tadawul once the Sukuk have been listed.

Allocation of Sukuk will be at the discretion of the Issuer and the Joint Lead Managers and Joint Bookrunners and will be made no later than ten (10) Business Days following the end of the Offer Period. Once the allocation of Sukuk has been completed, the Issuer shall cause the Margin and the aggregate Nominal Amount, together with the anticipated aggregate net proceeds of the Sukuk to be issued to be published on the websites of the Issuer and Tadawul.

There will be no temporary documents of title issued with respect of the Sukuk.

Only persons who are Qualified Persons as defined in Condition 1 (*Definitions*) may be registered as Sukukholders. "**Qualified Person**" for these purposes means:

- (a) a natural person who is a national of the Kingdom under the Income Tax Regulation; or
- (b) a legal person who is considered to be resident of the Kingdom under the Income Tax Regulation and who is holding a current commercial registration number. However, the requirement for such legal person to hold a current commercial registration number would not apply to Saudi Arabian governmental entities and mutual funds established in the Kingdom and managed by a person authorised by the Authority,

and who, in each case, had a bank account with a local bank in the Kingdom.

However, while Qualified Persons may be registered as Sukukholders, the primary offering of the Sukuk will be only to Institutional Investors (as defined herein).

"**Institutional Investor**" means a Qualified Person who is one of the following:

- (a) a person who is authorised to carry on securities business by the Authority;
- (b) an exempt person as specified in Annex 1 to the Securities Business Regulations of the Authority;
- (c) any of the following:
  - (i) any company which owns, or which is a member of a group which owns, net assets of not less than SAR 50 million;
  - (ii) any unincorporated body, partnership or other organisation which has net assets of not less than SAR 50 million; or
  - (iii) any person ("A") whilst acting in the capacity of director, officer or employee of a person ("B") falling within sub-paragraphs (i) or (ii) where A is responsible for B undertaking any securities activity; or
- (d) an institution that has received a licence to engage in banking business in accordance with the laws of the Kingdom.

All potential investors must carefully read the Conditions of the Sukuk prior to completing an application for the purchase of the Sukuk since the execution of the Investor Application Form constitutes acceptance of and agreement to the Conditions.

## **General**

Other than the application for listing of the Sukuk on Tadawul, no action has been or will be taken in any jurisdiction by the Issuer or the Joint Lead Managers and Joint Bookrunners that would, or is intended to, permit an offering of the Sukuk, or possession or distribution of this Prospectus or any other offering material thereto, where action for that purpose is required. Persons into whose hands this Prospectus comes are required by the Issuer and the Joint Lead Managers and Joint Bookrunners to comply with all applicable laws and regulations in relation to the purchase, offer, sale or trade of the Sukuk, in all cases at their own expense.

## **Clearing, Settlement and Trading**

The Sukuk will be listed on Tadawul and as such will be traded, cleared and settled in accordance with the procedures applicable to debt instruments listed on Tadawul. The Issuer cannot predict the date on which trading in the Sukuk will commence and potential investors must look at sub-section 5.4.6 entitled "*Registry Agreement*" of the "*Risk Factors*" section of this Prospectus.

## **Transfers and Payments**

The Registrar will maintain a register in respect of the Sukuk in accordance with the provisions of the Registry Agreement. All the transfers shall be effected as per Condition 4 (*Register, title and transfers*).

In addition, pursuant to Condition 10 (*Payments*), payments under the Sukuk shall be made by wire transfer to Saudi Riyal denominated accounts in the Kingdom as notified to the Registrar and the Issuer by the Sukukholders not later than fifteen (15) days prior to the date of the relevant payment. Accordingly, investors will need to make appropriate arrangements to receive payments under any Sukuk in such an account. Investors are required to consult with their own advisers as to the requirements of setting up the accounts referred to above and must take any necessary action in respect of opening such account themselves. Neither the Issuer nor the Joint Lead Managers and Joint Bookrunners shall have any responsibility for ensuring that investors comply with the correct process, regulations and requirements in relation to opening such accounts in order to hold Sukuk and receive payments and none of them accept any liability for any loss arising directly or indirectly as a consequence of any action or inaction in respect of setting up such accounts.



## **19. SHARI'AH ADVISORY COMMITTEE AND PRONOUNCEMENT**

*Prospective Sukukholders should not rely on the pronouncements referred to below in deciding whether to make an investment in the Sukuk and should consult their own Shari'ah advisers as to whether the proposed transaction described in the pronouncement referred to above is in compliance with Shari'ah principles.*

### **Pronouncement of HSBC Saudi Arabia Executive *Shari'ah* Committee**

Copies of the pronouncement issued by HSBC Saudi Arabia Executive *Shari'ah* Committee relating to the Sukuk and confirming that, in their view, the proposed issue of the Sukuk and the related structure and mechanism described in the Sukuk Documents are in compliance with *Shari'ah* principles, shall be distributed to prospective Sukukholders upon request by HSBC Saudi Arabia Limited.

### **Overview of HSBC Saudi Arabia Executive *Shari'ah* Committee**

HSBC Saudi Arabia Executive *Shari'ah* Committee is an independent committee appointed by the board of directors of HSBC Saudi Arabia Limited. It meets regularly for review and appraisal to ensure full compliance with *Shari'ah* of transactions conducted by HSBC Saudi Arabia Limited, its affiliated institutions or its clients.

### **Members of HSBC Saudi Arabia Executive *Shari'ah* Committee who issued the pronouncement in relation to the Sukuk**

*Sheikh Dr. Mohamed Ali Elgari*

Dr. Elgari holds a Ph.D. in economics from the University of California. He is a professor of Islamic Economics and the director of the Centre for Research in Islamic Economics at King Abdul Aziz University in Jeddah. He is an expert at the International Fiqh Academy of the Organization of Islamic Conference and the Islamic World League, and has published several articles and books on Islamic finance. Dr. Elgari is member of *Shari'ah* Boards of many Islamic Banks and Takaful Companies including those of HSBC, SABB, Dow Jones, International Islamic Fund Market, Citi Islamic Investment bank and Merrill Lynch.

*Sheikh Nizam Yaquby*

Sheikh Yaquby is a graduate in Economics and Comparative Religion from McGill University and is an internationally acclaimed scholar in the Islamic banking industry. He has been a teacher of Tafsir since 1976G. He advises a number of banks and financial institutions including HSBC, Abu Dhabi Islamic Bank, BNP Paribas, Dow Jones, Lloyds TSB, Citi Islamic Investment Bank E.C. Bahrain and Standard Chartered on matters pertaining to Islamic banking and finance.

### **Pronouncement by J.P. Morgan *Shari'ah* Adviser**

The transaction structure relating to the Sukuk (as described in this Prospectus) has been reviewed by the independent *Shari'ah* adviser of J.P. Morgan, Sheikh Dr. Mohamed Ali Elgari, who has issued a pronouncement confirming that, in his view, the Sukuk are in compliance with *Shari'ah* principles. Copies of the aforementioned pronouncement shall be distributed to prospective Sukukholders upon request by J.P. Morgan Saudi Arabia Limited. Prospective Sukukholders should not rely on this review and/or pronouncement in deciding whether to make an investment in any Sukuk and should consult their own *Shari'ah* advisers as to whether the Sukuk are in compliance with *Shari'ah* principles.

Please see the biography of Sheikh Dr. Mohamed Ali Elgari set out above.

### **Pronouncement of the Shari'ah Executive Committee of Samba Financial Group's *Shari'ah* Supervisory Board**

Copies of the pronouncement issued by the *Shari'ah* Executive Committee of Samba Financial Group's *Shari'ah* Supervisory Board relating to the Sukuk and confirming that, in their view, the proposed issue of the Sukuk and the related structure and mechanism described in the Sukuk Documents are in compliance with *Shari'ah* principles, shall be distributed to prospective Sukukholders upon request by Samba Capital & Investment Management Company.

### **Overview of the Shari'ah Executive Committee of Samba Financial Group's *Shari'ah* Supervisory Board**

The *Shari'ah* Executive Committee is appointed by the *Shari'ah* Supervisory Board of Samba Financial Group. It meets regularly for review and appraisal to ensure full compliance with *Shari'ah* of transactions conducted by Samba Financial Group, its affiliated institutions or its clients.

### **Members of the Shari'ah Executive Committee of Samba Financial Group's *Shari'ah* Supervisory Board who issued the pronouncement in relation to the Sukuk**

*Sheikh Dr. Mohamed Ali Elgari*

Please see the biography of Sheikh Dr. Mohamed Ali Elgari set out above.

*Sheikh Dr. Abdul Sattar Abu Ghuddah*

Sheikh Dr. Abu Ghuddah holds several degrees in Islamic Law from different universities including Damascus University and Al Azhar University in Cairo where he obtained his PhD in Islamic Law. He is an active member of the Islamic *Fiqh* Academy in Jeddah and the accounting and auditing organisations of a number of Islamic Financial Institutions. Dr. Abu Ghuddah teaches *Fiqh*, Islamic studies and Arabic in Riyadh and has performed research for the *Fiqh* encyclopaedia on behalf of the Ministry of Awqaf and Islamic Affairs in Kuwait (also being a member of the Ministry's Fatwa Board from 1982 to 1990G). He also holds the positions of *Shari'ah* Adviser and Director of the Department of Financial Instruments at Al-Bakara Investment Co. of Saudi Arabia and is a member of the *Shari'ah* boards of many Islamic banks and financial institutions.

## **20. TAXATION AND ZAKAT**

*The following is a general description of certain Saudi Arabian zakat/tax considerations relating to the Sukuk. It does not purport to be a complete analysis of all zakat/tax considerations relating to the Sukuk nor does it address the considerations that are dependent on individual circumstances. Prospective purchasers of the Sukuk should consult their own tax and zakat advisers to determine the zakat/tax consequences for them of acquiring, holding and disposing of any Sukuk and receiving distributions, payments of principal, profit and/or other amounts under the Sukuk and the consequences of such actions under the zakat/tax regulations of the Kingdom.*

*This summary is based upon the regulations in effect in the Kingdom at the date of this Prospectus and is subject to any changes in law occurring after such date, which changes could be made on a retroactive basis. Prospective Sukukholders should note that the Issuer is not obliged to update this section for any subsequent changes or modification to the applicable zakat and tax regulations.*

### **20.1 GCC Sukukholders resident in the Kingdom**

Sukukholders who are GCC persons and Resident in the Kingdom (both as defined in paragraph 20.5 below) are not subject to Saudi Arabian corporate income tax, whether by withholding or direct assessment, in respect of any payment or gain realised in respect of the Sukuk.

However, such Sukukholders, except GCC natural persons, will be subject to zakat. The current practice of the Department of Zakat and Income Tax (the "DZIT") is to not allow long-term investments in sukuk to be deducted from the zakat base of the investor, as stipulated under Ministerial Resolution No. 1005 dated 15 May 2007G. This summary does not consider the extent to which a potential Sukukholder would be liable to zakat as a consequence of acquiring, holding or disposing of its Sukuk.

### **20.2 Non-GCC persons resident in the Kingdom**

Sukukholders who are non-GCC persons resident in the Kingdom, as defined in Article 3 of the Income Tax Regulation (as defined in section 20.5(b) below) will be subject to Saudi Arabian income tax at the rate of twenty per cent. (20%) on any profit payment received or gain (including capital gains, if the Sukuk are not traded on the Saudi Arabian Stock Exchange) realised in respect of the Sukuk. However such persons will not be subject to any zakat in this respect.

### **20.3 Sukukholders who are non-Resident in the Kingdom**

Citizens of GCC Countries, other than the Kingdom, with a Permanent Establishment (as defined in section 20.5(c) below) in the Kingdom and a legal entity established under the laws of a GCC country, other than the Kingdom, with a Permanent Establishment in the Kingdom will be subject to Saudi Arabian income tax.

Sukukholders who are not Residents in the Kingdom (whether such Sukukholders are Saudi Arabian/GCC nationals or non-Saudi Arabian/GCC nationals including Sukukholders resident in the GCC) and do not have Permanent Establishment in the Kingdom for tax purposes will be subject to withholding tax at the rate of five per cent. (5%) (rate applicable on loan charges or interest based on Saudi Arabian tax law and the DZIT's practices), on profit payments (i.e. the portion representing return on investment in the Sukuk) in respect of the Sukuk as they are considered to be akin to loan charges or interest.

In a few limited instances, Sukukholders may claim a refund of the withholding taxes where a double tax treaty is in place between the Kingdom and the country where the Sukukholder has a tax residence and where such treaty provides for exemption or refund.

Sukukholders who are non-Residents with a Permanent Establishment in the Kingdom (as defined in Article 4 of the Income Tax Regulation) will be subject to Saudi Arabian income tax on the

Permanent Establishment's income at the rate of twenty per cent. (20%) and will also be subject to a withholding tax at the rate of five per cent. (5%) on profit payments (i.e. the portion representing return on investment in the Sukuk) in respect of the Sukuk.

All payments in respect of the Sukuk to a Sukukholder who has a Permanent Establishment in the Kingdom, to the extent that such payments are attributable to the Permanent Establishment, will be part of the Permanent Establishment's gross income that is subject to income tax after deduction of allowable costs and certain other adjustments. Such income will be subject to corporate tax and withholding tax as mentioned above.

The capital gains arising from the disposal of the Sukuk (if not traded on the Saudi Arabian Stock Exchange) will be subject to a twenty per cent. (20%) tax.

## **20.4 General**

Sukukholders who are natural persons with or without a Permanent Establishment in the Kingdom at the time of their death will not be subject to inheritance or other taxes of a similar nature in the Kingdom under Saudi Arabian tax law.

Sukukholders will not be deemed to be resident, domiciled or carrying on business in the Kingdom solely by reason of holding any Sukuk.

## **20.5 Definitions**

For the purposes of this summary:

- (a) A "**GCC person**" means:
  - (i) a citizen of any of the GCC countries (namely, the Kingdom, the United Arab Emirates, the Kingdom of Bahrain, the Sultanate of Oman, the State of Qatar and the State of Kuwait); and
  - (ii) any legal entity owned by GCC citizens and established under the laws of a GCC country. A GCC person will include a company owned by both Saudi/GCC and non-Saudi/(non-GCC) nationals ("**Mixed Companies**"), to the extent it is ultimately owned by Saudi/GCC nationals.
- (b) The "**Income Tax Regulation**" means the Income Tax Regulation issued by Royal Decree No. M/1 dated 15/01/1425H (corresponding to 06/03/2004G).
- (c) A "**Permanent Establishment**" of a non-resident in the Kingdom means, subject to the exceptions stipulated in the Income Tax Regulation, a permanent establishment of a non-resident in the Kingdom which represents a permanent place for the non-resident's activity where he conducts the activity either fully or partly; this also includes the activity conducted by the non-resident through an agent. A non-resident carrying out an activity in the Kingdom through a licensed branch (as defined in Article 4(b)(4) of the Income Tax Regulation) is considered to have a Permanent Establishment in the Kingdom.
- (d) A "**Resident**" is defined under Article 3 of the Income Tax Regulation as follows:
  - (i) A natural person is considered a resident in the Kingdom for a taxable year if he/she meets either of the following conditions:
    - (A) He/she has a permanent place of residence in the Kingdom and resides in the Kingdom for a total of not less than thirty (30) days in the taxable year; or
    - (B) He/she is physically present in the Kingdom for a period of not less than one hundred eighty three (183) days in the taxable year.

For the purposes of this paragraph, presence in the Kingdom for part of a day is considered presence for the whole day, except in the case of a person in transit between two points outside the Kingdom.

- (ii) A company is considered resident in the Kingdom during the taxable year if it meets either of the following conditions:
  - (A) it is formed in accordance with the Saudi Arabian Companies Regulations promulgated by Royal Decree M/6 dated 22/03/1388H (corresponding to 21/07/1965G), as amended from time to time; or
  - (B) its place of central control and management is located in the Kingdom.

## 21. DOCUMENTS AVAILABLE FOR INSPECTION

From the date of this Prospectus and for so long as any Sukuk remain outstanding, copies of the following documents may be inspected during normal business hours at the registered office of the Issuer, being Bahri Building #569, Siteen Street, Malaz Area, PO Box 8931 Area, Riyadh 11492, Kingdom of Saudi Arabia:

- (a) the bylaws of the Issuer;
- (b) the articles of association of the Issuer;
- (c) the commercial registration certificate of the Issuer;
- (d) the resolution of the ordinary general meeting of the shareholders of the Issuer dated 12/06/1436H (corresponding to 01/04/2015G) approving the issuance by the Issuer of the Sukuk;
- (e) the resolution of the Board of Directors issued by circulation on 02/07/1436H (corresponding to 21/04/2015G), authorising the issuance of the Sukuk;
- (f) any contract or arrangement in effect or contemplated at the time of submission of the Prospectus in which a director or senior executive or any of their relatives is interested in relation to the business of the Issuer or the Issuer's Subsidiaries;
- (g) the related party agreements specified in section 14.2.6 ("*Related Party Agreements*") of this Prospectus;
- (h) the audited consolidated financial statements of the Issuer as at and for the years ended 31 December 2012G, 2013G and 2014G, and the unaudited interim condensed consolidated financial statements of the Issuer as at and for the three-month period ended 31 March 2015G;
- (i) the audited financial statements of the Issuer's Subsidiaries as at and for the years ended 31 December 2012G, 2013G and 2014G, and the unaudited interim financial statements of the Issuer's Subsidiaries as at and for the three-month period ended 31 March 2015G; and
- (j) the report on the shipping and marine vessels industry prepared by McQuilling (the "**Market Report**") from which the information set forth in section 6 "*Market and Industry Overview*" of this Prospectus was provided.

From the date of this Prospectus until the Closing Date, drafts of the following documents may be inspected during normal business hours at the registered office of the Issuer:

- (a) the Declaration of Agency;
- (b) the Mudaraba Agreement;
- (c) the Master Murabaha Agreement; and
- (d) the Payment Administration Agreement.

From the Closing Date and for so long as the Sukuk are current, executed copies of these documents may be inspected during normal business hours at the registered office of the Issuer.

### 21.1 External Auditors' Report

The consolidated financial statements of the Issuer as at and for the financial years ended 31 December 2012G, 2013G and 2014G and as at and for the three-month period ended 31 March 2015G have been prepared by the Issuer in accordance with the accounting standards issued by SOCPA (applied and generally accepted in the Kingdom). The consolidated financial statements of the Issuer

as at and for the financial years ended 31 December 2012G, 2013G and 2014G, respectively, as appended to this Prospectus have been audited in accordance with auditing standards issued by SOCPA (applied and generally accepted in the Kingdom) by Dr. Mohamed Al-Amri & Co. (a member of BDO International Limited) as at and for the financial year ended 31 December 2012G and by Ernst & Yong & Co. (Public Accountants) as at and for the financial years ended 31 December 2013G and 2014G, as shown in their reports appended to this Prospectus, and the unaudited interim condensed consolidated financial statements of the Issuer as at and for the three-month period ended 31 March 2015G have been reviewed by Ernst & Young in accordance with the standards for review of interim financial statements issued by SOCPA (applied and generally accepted in the Kingdom), as shown in its report appended to this Prospectus, and each as incorporated elsewhere in this Prospectus.

## **21.2 Guarantees**

The Issuer confirms that it will not provide any guarantees, pledges or other similar commitments in connection with the Sukuk.