PROSPECTUS - PART 2 OF 2

PROSPECTUS PART 2 OF 2: THIS MUST BE READ IN CONJUNCTION WITH PART 1 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)

Bahri

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)

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 – Board Members*" 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

HSBC

Joint Lead Managers and Joint Bookrunners

HSBC Saudi Arabia Limited	**J.P. Morgan Saudi Arabia Limited**	**Samba Capital & Investment Management Company**
HSBC	J.P.Morgan	sambacapital سامباكابيتال

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

A. APPENDIX

CONSOLIDATED FINANCIAL STATEMENTS

- The National Shipping Company of Saudi Arabia (Bahri) unaudited interim condensed consolidated financial statements (and limited review report thereon) as of and for the three-month period ended 31 March 2015
- The National Shipping Company of Saudi Arabia (Bahri) consolidated audited financial statements (and audit report thereon) for the financial year ended 31 December 2014
- The National Shipping Company of Saudi Arabia (Bahri) consolidated audited financial statements (and audit report thereon) for the financial year ended 31 December 2013
- The National Shipping Company of Saudi Arabia (Bahri) consolidated audited financial statements (and audit report thereon) for the financial year ended 31 December 2012

THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA (BAHRI) UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (AND LIMITED REVIEW REPORT THEREON) AS OF AND FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2015

Bahri البحري

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

INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2015 AND INDEPENDENT AUDITORS' LIMITED REVIEW REPORT

Bahri البحري

(The National Shipping Company of Saudi Arabia)
(A Saudi Joint Stock Company)
Interim Consolidated Financial Statements (Unaudited)
For the three month period ended 31 March 2015
and independent auditors' limited review report

Contents

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LIMITED REVIEW REPORT
TO THE SHAREHOLDERS OF
THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA
(A SAUDI JOINT STOCK COMPANY)

SCOPE

We have reviewed the accompanying interim consolidated balance sheet of The National Shipping Company of Saudi Arabia - a Saudi Joint Stock Company ("the Company") and its subsidiaries ("the Group") as at 31 March 2015, and the related interim consolidated statements of income and cash flows for the three month period then ended. These interim consolidated financial statements are the responsibility of the Group's management and have been prepared by them and submitted to us together with all the information and explanations which we required. We conducted our limited review in accordance with the Standard on Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants (SOCPA). A limited review consists principally of applying analytical procedures to financial data and information and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

CONCLUSION

Based on our limited review, we are not aware of any material modifications that should be made to the accompanying interim consolidated financial statements for them to be in conformity with accounting standards generally accepted in the Kingdom of Saudi Arabia.

For Ernst & Young

Rashid S. Al-Rashoud
Certified Public Accountant
Registration No. 366

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

Riyadh: 26 Jamad Al-Thani 1436H
(15 April 2015)

Bahri البحري

(The National Shipping Company of Saudi Arabia)
(A Saudi Joint Stock Company)
Interim Consolidated Balance Sheet
(In Thousands Saudi Riyals)

ASSETS	Note	As at 31 March 2015 (Unaudited)	As at 31 December 2014 (Audited)	As at 31 March 2014 (Unaudited)
Current assets:				
Bank balances and cash	3	164,543	168,957	154,879
Murabaha and short term deposits	3	368,316	221,111	185,866
Trade receivables, net		763,564	642,167	610,272
Lease receivable for vessels, net		22,866	21,140	16,707
Prepaid expenses and other receivables		162,338	162,041	90,322
Agents' current accounts		75,510	76,334	53,848
Inventories		264,902	327,490	214,473
Accrued bunker subsidy, net		201,625	197,407	123,785
Total current assets		2,023,664	1,816,647	1,450,152
Non-current assets:				
Lease receivable for vessels , net		351,607	358,282	374,472
Investments held to maturity		10,587	10,587	40,587
Investments available for sale		13,533	13,533	14,399
Investment in an associated company	4	957,530	905,758	905,592
Deferred dry-docking cost, net		128,712	122,166	121,822
Intangible assets, net		889,991	903,501	-
Fixed assets, net		12,804,769	12,980,017	9,181,393
Ships under construction and others	5	15,931	12,039	229,293
Total non-current assets		15,172,660	15,305,883	10,867,558
Total assets		17,196,324	17,122,530	12,317,710
LIABILITIES AND EQUITY				
Current liabilities:				
Accounts payable and accruals		587,170	496,625	356,556
Murabaha and long-term financing -current portion	6	555,839	558,304	579,024
Short term Murabaha financing		3,182,813	3,459,313	237,500
Unclaimed dividends		33,720	33,882	346,982
Zakat and withholding tax	8	173,710	142,898	140,163
Incomplete voyages		5,293	9,813	5,338
Total current liabilities		4,538,545	4,700,835	1,665,563
Non-current liabilities:				
Murabaha and long-term financing	6	3,984,146	4,152,888	4,498,847
Employees' end of service benefits		50,647	52,834	46,587
Other liabilities	9	30,704	30,704	30,704
Total non-current liabilities		4,065,497	4,236,426	4,576,138
Total liabilities		8,604,042	8,937,261	6,241,701
Equity:				
Shareholders' equity				
Share capital	1	3,937,500	3,937,500	3,150,000
Statutory reserve		2,055,973	2,016,132	1,017,575
Retained earnings		2,220,011	1,861,440	1,558,414
Unrealized losses on available for sale investments		-	-	(115)
Total shareholders' equity		8,213,484	7,815,072	5,725,874
Non-controlling interests	1	378,798	370,197	350,135
Total equity		8,592,282	8,185,269	6,076,009
Total liabilities and equity		17,196,324	17,122,530	12,317,710

The accompanying notes from (1) to (14) form an integral part of these interim consolidated financial statements.

Bahri البحري

(The National Shipping Company of Saudi Arabia)
(A Saudi Joint Stock Company)
Interim Consolidated Statement of Income
(Unaudited)
(In Thousands Saudi Riyals)

	Note	For the three-month period ended 31 March 2015 (Unaudited)	2014 (Unaudited)
Operating revenues		1,642,457	771,006
Bunker cost		(331,915)	(237,183)
Other operating expenses		(902,378)	(389,982)
Gross operating income before bunker subsidy		408,164	143,841
Bunker subsidy		47,049	43,555
Gross operating income		455,213	187,396
General and administrative expenses		(27,269)	(20,667)
Operating income		427,944	166,729
Share in results of an associated company	4	51,772	63,607
Finance charges	6	(39,601)	(16,960)
Other income, net	10	843	844
Income before zakat, withholding tax and non-controlling interests		440,958	214,220
Zakat and withholding tax	8	(33,945)	(10,634)
Income before non-controlling interests		407,013	203,586
Non-controlling interests in consolidated subsidiaries' net income		(8,601)	(8,441)
Net income for the period		398,412	195,145
Earnings Per Share (in SR):			
Attributable to operating income	7	1.09	0.53
Attributable to net income for the period	7	1.01	0.62

The accompanying notes from (1) to (14) form an integral part of these interim consolidated financial statements.

Bahri البحري

(The National Shipping Company of Saudi Arabia)
(A Saudi Joint Stock Company)
Interim Consolidated Statement of Cash Flows
(Unaudited)
(In Thousands Saudi Riyals)

	Note	For the three-month period ended 31 March 2015 (Unaudited)	2014 (Unaudited)
Cash flows from operating activities:			
Net income for the period		398,412	195,145
Adjustments to reconcile net income for the period to net cash flows from operating activities:			
Depreciation		176,214	117,099
Amortization of deferred dry-docking costs		13,109	11,022
Amortization of intangible assets		13,510	-
Share in results of an associated company	4	(51,772)	(63,607)
Gain on sale of fixed assets		(1,532)	(65)
Non-controlling interests in consolidated subsidiaries' net income		8,601	8,441
Zakat and withholding tax	8	33,945	10,634
Employees' end of service benefits, net		(2,187)	(173)
		588,300	278,496
Changes in operating assets and liabilities:			
Trade receivables, net		(121,397)	(23,696)
Lease receivable for vessels, net		4,949	3,500
Prepaid expenses and other receivables		(297)	1,818
Agents' current accounts		824	(728)
Inventories		62,588	18,661
Accrued bunker subsidy, net		(4,218)	95
Incomplete voyages		(4,520)	9,794
Accounts payable and accruals		90,545	47,606
Zakat and withholding tax paid	8	(3,133)	(9,378)
Net cash flows from operating activities		613,641	326,168
Cash flows from investing activities:			
Murabaha and short-term deposits		17,373	18,023
Additions to fixed assets		(1,065)	(5,421)
Proceeds from sale of fixed assets		1,631	65
Ships under construction and others, net		(3,892)	(333,744)
Deferred dry-docking costs		(19,655)	(28,172)
Net cash used in investing activities		(5,608)	(349,249)
Cash flows from financing activities:			
Repayment of short-term Murabaha financing		(276,500)	(99,500)
Proceeds from Murabaha and long-term financing		-	293,464
Repayment of Murabaha and long-term financing		(171,208)	(156,474)
Dividends paid		(162)	(106)
Net cash (used in) from financing activities		(447,870)	37,384
Net change in cash and cash equivalents during the period		160,163	14,303
Cash and cash equivalents at the beginning of the period		313,308	269,566
Cash and cash equivalents at the end of the period	3	473,471	283,869
Major non-cash transactions:			
Ships under construction and others transferred to fixed assets		-	780,919

The accompanying notes from (1) to (14) form an integral part of these interim consolidated financial statements.

(In Thousands Saudi Riyals)

1. ORGANIZATION AND OPERATIONS

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

The Company and its subsidiaries listed below (the "Group") are primarily engaged in purchasing, sale and operating of vessels for the transportation of cargo and passengers, and all of the marine transport activities. The Group performs its operations through four distinct segments which are Crude oil transportation and Gas & marine services, chemicals, general cargo (liners), and dry bulk. The Group is also engaged in the ownership of lands, properties inside or outside the kingdom, ownership of shares in other existing companies or merge with them and participate with others in establishing companies with similar activities or complementary activities.

During the year ended 31 December 2014, the capital has been increased from SAR 3,150,000,000 to SAR 3,937,500,000 by transferring the ownership of six vessels from Vela company (note 13). The number of shares and the capital paid as of 31 March are as follows:

2015		2014	
Number of shares*	**Capital paid**	Number of shares*	Capital paid
393,750,000	**3,937,500,000**	315,000,000	3,150,000,000

* The par value per share is amounting to SR 10.

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

Name	Activity	Location	Date of incorporation	Effective Ownership 2015	Effective Ownership 2014
NSCSA (America) Inc.	Company's ships agent	USA	1991	**100%**	100%
Mideast Ship Management Ltd. (JLT)	Ship management	Dubai	2010	**100%**	100%
National Chemical Carriers Ltd. Co. (NCC)	Petrochemicals transportation	Riyadh	1990	**80%**	80%
Bahri Dry Bulk LLC	Dry Bulk transportation	Riyadh	2010	**60%**	60%

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

Name	Accounting method	Activity	Location	Date of incorporation	Effective Ownership 2015	Effective Ownership 2014
Petredec Ltd, *	Equity method	Liquefied petroleum gas transportation	Bermuda	1980	**30.30%**	30.30%

* As the year-end for Petredec is different from the Company's year-end, the share of the Company in its net income/loss is included in the books according to the latest financial statements prepared by Petredec. The difference between the latest financial statement prepared by Petredec and the Company's consolidated financial statements is two months. The fiscal year for Petredec starts on September 1 and ends on August 31 of each Gregorian year.

1. ORGANIZATION AND OPERATIONS (continued)

The Group Fleet:

The Group owns 72 vessels operating in various sectors as the following:

Oil Transportation Sector: the Company owns thirty two huge oil tankers, out of which thirty one oil tankers operating in the spot market, while one tanker is leased to ARAMCO Trading Company. The company also owns five product tankers all of which are leased to ARAMCO Trading Company. In addition, **General Cargo Transportation Sector** owns six RoCon vessels operate on commercial lines between North America and Europe, the Middle East and the Indian subcontinent.

National Chemical Carriers Company (subsidiary) owns Twenty-four specialized tankers distributed as following:

- Three tankers are leased in the form of iron under capital lease signed on January 30, 2009, with "ODFjell SE".
- Twelve tankers that are self-operated by the Company.
- Eight tankers are leased to the International Shipping and Transportation Co, Ltd. a subsidiary of Saudi Basic Industries Corporation "SABIC".
- One tanker operates in a pool with ODFjell SE and managed by the Company.

Bahri Dry Bulk (subsidiary) owns five vessels specialized in transporting dry bulk cargo, all of which are leased to the Arabian Agricultural Services Co. (ARASCO).

2. SIGNIFICANT ACCOUNTING POLICIES

a. Accounting convention

The accompanying interim consolidated financial statements are prepared in accordance with the accounting standard interim financial reporting issued by the Saudi Organization for Certified Public Accountants (SOCPA) and under the historical cost convention, except for investments available for sale and the financial derivatives, which are measured at fair value, The Company applies the accruals basis of accounting in recognizing revenues and expenses.

The significant accounting policies adopted are consistent with those described in the annual consolidated financial statements for the year ended December 31, 2014.

b. Period of financial statements

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

The interim consolidated financial statements are prepared on the integration basis of financial periods, where each interim consolidated financial period is considered as complementary to the fiscal year as a whole. Accordingly, each period's revenues, gains, expenses and losses are recognized during that period. All adjustments which the Group management deemed necessary to fairly present the financial position and the results of the Group have been made. The interim results may not be an accurate indication of the annual results of operations.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

c. *Basis of consolidation*

- These interim consolidated financial statements include assets, liabilities and the Company's results of operations and its subsidiaries listed in Note (1) above.

- The subsidiary company is that in which the Company has, direct or indirect long term investment, comprising an interest of more than 50% in the voting capital and over which it exercises practical control. The subsidiary company is consolidated from the date the company obtains control until such control ceases.

- All significant inter-group accounts and transactions as well as realized gains (losses) on these transactions are eliminated on consolidation.

- Non-controlling interest represents share of profit or loss and net assets not owned by the Company, and is included as a separate item in the interim consolidated statement of financial position and interim consolidated statement of income.

d. *Use of estimates*

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

e. *Cash and cash equivalents*

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

f. *Trade accounts receivable*

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

g. *Accounting for finance leases*

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

2. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

h. ***Inventories***

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

i. ***Deferred dry-docking costs***

Deferred dry-docking costs are amortized over a period of two to five years from the date of completion of dry-docking depending on the type of vessel. Where a vessel undergoes another dry-docking operation during the specified amortization period, any unamortized balance of deferred costs related to the previous dry-docking of the vessel is fully amortised at the interim consolidated statement of income at the period of new dry-docking operation is started.

j. ***Investments***

1- Investments in associated companies:

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

2- Investments in securities:

Investments in securities are classified into three categories as follows:

- Investments held for trading

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

- Investments held to maturity

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

- Investments available for sale

  Certain investments are classified as available for sale if the conditions of classification as held for trading or investments held to maturity are not met, The available for sale investments are stated at fair value and unrealized gains or losses are recognized under shareholders' equity, The realized gains or losses from sale of investments are recognized in the interim consolidated statement of income in the period in which these investments are sold. If there is a permanent decline in the value of these investments or objective evidence for impairment, the unrealized loss is transferred to the interim consolidated statement of income. If there is an intention to sell the available for sale investment within 12 months from the interim consolidated balance sheet date, it is reported under current assets, otherwise under non-current assets.

(In Thousands Saudi Riyals)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

k. *Intangible assets*

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

l. *Fixed assets, net*

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

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

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

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

Gain or loss from disposal of fixed asset is determined by comparing proceeds from disposal with the carrying value recognized in the interim consolidated statement of income.

Maintenance and routine repairs which do not materially extend the estimated useful life of an asset are charged to the interim consolidated statement of income when incurred. Major renewals and improvements, if any, are capitalized and the assets replaced are retired.

m. *Impairment of non-current assets*

The carrying value of non-current assets is reviewed for any indication of a loss as a result of impairment. If such indication exists, the recoverable amount, which is the higher of the asset's fair value less cost to sell or the gross future discounted cash flows, is estimated to identify the loss amount. If the recoverable amount cannot be determined for an asset, the grouped will estimate the recoverable amount of the cash-generating units which the asset belongs to.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

n. *Accounts payable and accruals*

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

o. *Provisions*

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

p. *Zakat and income taxes*

Zakat is provided for in accordance with the regulations of the Department of Zakat and Income Tax (DZIT) in the Kingdom of Saudi Arabian, and the provision is charged to the interim consolidated statement of income based on the higher of the zakat base or adjusted net income for each individual company. Provision is made for withholding tax on payments to non-resident parties and is charged to the interim consolidated statement of income. For subsidiaries outside the Kingdom of Saudi Arabia, income tax is provided for in accordance with the regulations applicable in the respective countries and is charged to the interim consolidated statement of income.

q. *Employees' end of service benefits*

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

r. *Hedge agreements and derivative financial instruments*

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

s. Statuary reserve

In accordance with article (125) of Saudi Arabian Regulations for Companies, the Group is required to transfer 10% of net income to the statuary reserve. The Company may discontinue such transfers when the reserve equals 50% of the paid-up capital, the share premium is also added to the statutory reserve. The reserve is not available for distribution to shareholders.

t. Revenue recognition

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

- ***Transport of Crude Oil, Petrochemical, and Dry Bulk:*** Revenues from transport of oil, petrochemicals, and dry bulk are recognized when earned over the agreed-upon period of the contract, voyage and services.

- ***General Cargo Transportation:*** the Group follows the complete voyage policy in determining the revenues and expenses of the period for vessels transporting general cargo. A voyage is considered to be a "Complete Voyage" when a vessel has sailed from the last discharging port of a voyage. Shipping revenues, direct expenses, and indirect expenses of incomplete voyage are deferred until it is completed. Incomplete voyages are shown at the net amount in the interim consolidated balance sheet as "Incomplete Voyages".

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

- Other income is recorded when earned.

u. Bunker subsidy

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

v. Expenses

Direct and indirect operating costs are classified as operating expenses. All other expenses are classified as general and administrative expenses.

w. Borrowing costs

Borrowings are recognized at the proceeds received, net of transactions costs incurred, Borrowing costs that are directly attributable to the acquisition, construction or production of assets are capitalized as part of those assets. Other borrowing costs are charged to the interim consolidated statement of income.

x. Foreign currency transactions

Foreign currency transactions are translated into Saudi riyals at prevailing exchange rates at the transaction date. Monetary assets and liabilities denominated in foreign currencies at the interim consolidated balance sheet date are translated into Saudi riyals at the prevailing exchange rates on that date. Exchange differences are included in the interim consolidated statement of income.

Assets and liabilities shown in the financial statements of the consolidated subsidiaries denominated in foreign currencies are translated into Saudi riyals at exchange rates prevailing at the interim consolidated balance sheet date. Revenues and expenses of the consolidated subsidiaries denominated in foreign currencies are translated into Saudi riyals at average exchange rates for the period.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

x. *Foreign currency transactions (continued)*

The components of equity, other than retained earnings (or accumulated losses, if any) are translated at the date of occurrence of each component. Exchange differences, if material, are included in a separate line item within shareholders' equity.

y. *Operating leases*

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

z. *Earnings per share and proposed dividends*

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

aa. *Segment reporting*

Operating segment

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

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

(In Thousands Saudi Riyals)

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent Bank balances and cash, and investments in Murabaha and short-term deposits, out of which SR 59.39 million as of 31 March 2015 (2014:SR 56.88 million) are restricted for repayment of current portion of Loan installments falling due within 180 days from the interim consolidated balance sheet date.

For the purpose of the interim consolidated statement of cash flows, cash and cash equivalents comprise the following:

	31 March 2015 (Unaudited)	31 December 2014 (Audited)	31 March 2014 (Unaudited)
Bank balances and cash	164,543	168,957	154,879
Amounts restricted by banks	(9,722)	-	(18,856)
	154,821	168,957	136,023
Investment in Murabaha and short-term deposits	368,316	221,111	185,866
Amounts restricted by banks	(49,666)	(76,760)	(38,020)
	318,650	144,351	147,846
Cash and cash equivalents balance at the end of the period	473,471	313,308	283,869

4. INVESTMENT IN AN ASSOCIATED COMPANY

Summary of the movement in investment in an associated company is as follows:

	31 March 2015 (Unaudited)	31 December 2014 (Audited)	31 March 2014 (Unaudited)
Balance, beginning of the period	905,758	841,985	841,985
Group's share in results of an associated company	51,772	131,956	63,607
Dividends received during the period	-	(68,183)	-
Balance, end of the period	957,530	905,758	905,592

(In Thousands Saudi Riyals)

5. SHIPS UNDER CONSTRUCTION AND OTHERS

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

31 March 2015 (Unaudited)				
	The Company	**National Chemical Carriers**	**Bahri Dry Bulk Company**	**Total**
Beginning Balance	**12,039**	-	-	**12,039**
Additions	**3,892**	-	-	**3,892**
Ending Balance	**15,931**	-	-	**15,931**

31 December 2014 (Audited)				
	The Company	National Chemical Carriers	Bahri Dry Bulk Company	Total
Beginning Balance	440,313	-	236,155	676,468
Additions	125,503	-	276,021	401,524
Transferred to fixed assets	(553,777)	-	(512,176)	(1,065,953)
Ending Balance	12,039	-	-	12,039

31 March 2014 (Unaudited)				
	The Company	National Chemical Carriers	Bahri Dry Bulk Company	Total
Beginning Balance	440,313	-	236,155	676,468
Additions	57,941	-	275,803	333,744
Transferred to fixed assets	(268,961)	-	(511,958)	(780,919)
Ending Balance	229,293	-	-	229,293

(In Thousands Saudi Riyals)

6. MURABAHA AND LONG-TERM FINANCING

The Group has signed various Murabaha and short term financing agreements to finance the acquisition of Vela's vessels and its related expenses as well as to finance its working capital requirements (note 13).

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

The following table shows the details of the Murabaha and long-term financing:

31 March 2015 (Unaudited)				
Financing	**The Company**	**Subsidiaries**	**Total**	**%**
Murabaha financing	**1,304,206**	**1,975,280**	**3,279,486**	**72%**
Commercial loans	**32**	**-**	**32**	**0%**
Public Investment Fund "Murabaha financing"	**988,125**	**-**	**988,125**	**22%**
Public Investment Fund finance "commercial loans"	**-**	**272,342**	**272,342**	**6%**
Total Murabaha and long term financing	**2,292,363**	**2,247,622**	**4,539,985**	**100%**
Current portion of Murabaha and long-term financing	**(326,485)**	**(229,354)**	**(555,839)**	**-**
Non-current portion of long-term financing	**1,965,878**	**2,018,268**	**3,984,146**	**-**

31 December 2014 (Audited)				
Financing	The Company	Subsidiaries	Total	%
Murabaha financing	1,338,306	2,026,135	3,364,441	71%
Commercial loans	32	-	32	0%
Public Investment Fund "Murabaha financing"	1,074,375	-	1,074,375	23%
Public Investment Fund finance "commercial loans"	-	272,344	272,344	6%
Total Murabaha and long term financing	2,412,713	2,298,479	4,711,192	100%
Current portion of Murabaha and long-term financing	(328,950)	(229,354)	(558,304)	-
Non-current portion of long-term financing	2,083,763	2,069,125	4,152,888	-

31 March 2014 (Unaudited)				
Financing	The Company	Subsidiaries	Total	%
Murabaha financing	1,395,791	2,167,017	3,562,808	70%
Commercial loans	32	-	32	0%
Public Investment Fund "Murabaha financing"	1,183,125	-	1,183,125	23%
Public Investment Fund finance "commercial loans"	23,250	308,656	331,906	7%
Total Murabaha and long term financing	2,602,198	2,475,673	5,077,871	100%
Current portion of Murabaha and long-term financing	(350,975)	(228,049)	(579,024)	-
Non-current portion of long-term financing	2,251,223	2,247,624	4,498,847	-

(In Thousands Saudi Riyals)

6. MURABAHA AND LONG-TERM FINANCING (continued)

- The finance cost is calculated as per the financing agreements at market prevailing rates.
- Certain VLCCs and petrochemical carriers that are financed by banks are mortgaged in favor of the lending banks.

7. EARNINGS PER SHARE AND DIVIDENDS

Earnings per share is calculated based on the number of shares outstanding during the period ended 31 March 2015 and 2014 totaling 393.75 million shares and 315 million shares respectively.

The General Assembly approved in its meeting held on 1 April 2015, a distribution of cash dividends of 10% of the share capital amounting to SR 393.75 million, representing SR 1 per share for the year 2014.

8. ZAKAT AND WITHHOLDING TAX

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

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

The Company has filed its zakat returns up to 2012. The zakat assessments have been agreed with the Department of Zakat and Income Tax ("DZIT") for all the years up to 2000. The "DZIT" has raised the zakat assessment for the years 2001 to 2007 claiming additional zakat liabilities of SR 22 million. The Company filed an appeal against certain items included in these assessments and its treatment. The DZIT has accepted this appeal in from and discussed the appeal with the second preliminary Appeal Committee. The Company did not receive the final assessments for the years from 2008 until 2012.

9. OTHER LIABILITIES

This item represents the total amounts received from one of the ships building companies as at 31 March 2015 and 2014 against charging this company with the repair costs of the tanks related to the new six vessels built for National Chemical Carrier Company (subsidiary). Therefore, it was agreed to charge the ships building company an amount of SR 6.12 million for each ship. As National Chemical Carrier Company doesn't have a maintenance plan for the remaining vessels for the next 12 months. This item was classified as non-current liabilities.

10. OTHER INCOME, NET

Other income, net for the period ended 31 March comprise the following:

	2015 (Unaudited)	2014 (Unaudited)
Gains from sale of fixed assets	1,532	65
Net gain from investments	92	446
Others	(781)	333
	843	844

(In Thousands Saudi Riyals)

11. CAPITAL CONTINGENT LIABILITIES

The Group has no capital commitments relating to building of Rocon ships as at 31 March 2015 (31 March 2014: SR 51 million).

The Group has outstanding letters of guarantee of SR 295.59 million as at 31 March 2015 (2014: SR 264.90 million) issued during the normal course of business.

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

12. SEGMENTAL INFORMATION

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

	2015 (Unaudited)				
	Oil Transportation	Petrochemical Transportation	General Cargo Transportation	Dry Bulk Transportation	Total
Operating revenues	**1,275,026**	**201,338**	**138,061**	**28,032**	**1,642,457**
Bunker costs	**(276,196)**	**(34,755)**	**(20,964)**	**-**	**(331,915)**
Other operating expenses	**(652,487)**	**(120,377)**	**(114,805)**	**(14,709)**	**(902,378)**
Total operating expenses	**(928,683)**	**(155,132)**	**(135,769)**	**(14,709)**	**(1,234,293)**
Gross operating income before bunker subsidy	**346,343**	**46,206**	**2,292**	**13,323**	**408,164**
Bunker subsidy	**39,705**	**2,662**	**4,682**	**-**	**47,049**
Gross operating income	**386,048**	**48,868**	**6,974**	**13,323**	**455,213**

	2014 (Unaudited)				
	Oil Transportation	Petrochemical Transportation	General Cargo Transportation	Dry Bulk Transportation	Total
Operating revenues	414,237	193,665	131,811	31,293	771,006
Bunker costs	(168,415)	(50,781)	(17,987)	-	(237,183)
Other operating expenses	(155,774)	(117,491)	(99,056)	(17,661)	(389,982)
Total operating expenses	(324,189)	(168,272)	(117,043)	(17,661)	(627,165)
Gross operating income before bunker subsidy	90,048	25,393	14,768	13,632	143,841
Bunker subsidy	31,047	8,692	3,816	-	43,555
Gross operating income	121,095	34,085	18,584	13,632	187,396

(In Thousands Saudi Riyals)

12. SEGMENTAL INFORMATION (continued)

- The Group vessels are operating in several parts of the world.

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

2015 (Unaudited)

	Oil Transportation	Petrochemical Transportation	General Cargo Transportation	Dry Bulk Transportation	Shared Assets and Liabilities*	Total
Assets	**10,133,912**	**3,382,255**	**1,728,491**	**693,971**	**1,257,695**	**17,196,324**
Liabilities	**4,799,858**	**2,023,271**	**1,181,390**	**426,115**	**173,408**	**8,604,042**

2014 (Unaudited)

	Oil Transportation	Petrochemical Transportation	General Cargo Transportation	Dry Bulk Transportation	Shared Assets and Liabilities*	Total
Assets	5,204,003	3,480,705	1,805,341	696,141	1,131,520	12,317,710
Liabilities	1,605,437	2,205,440	1,258,961	456,862	715,001	6,241,701

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

13. THE SIGNED AGREEMENTS WITH ARAMCO AND VELA

A. Overview of the agreements

On November 4, 2012 the Company signed an agreement with Saudi Aramco whereby the ownership of all Vela International Marine Ltd.'s fleet. (Vela) will be transferred to the Company after obtaining required regulatory approvals. The Vela's fleet consists of twenty oil tankers as follows:

- Fourteen VLCCs.
- One VLCC for floating storage.
- Five refined petroleum product tankers.

Pursuant to the merger agreement, Bahri will pay to Vela a total consideration of approximately SR 4.88 billion (equivalent to US$1.3 billion). The consideration will comprise a cash payment amounting to SR 3.12 billion (equivalent to US$ 832.75 million) in addition to 78.75 million new Bahri shares to be issued to Vela at an agreed price of SR 22.25 per share for the value of six oil tankers received from Vela and its ownership has been legally transferred to the company on 8 September 2014, which increased the Company's issued number of shares after the merger to 393.75 million shares. The par value of 10 per share relating to capital increase amounting to SR 787.50 million has been included with the capital increase, the share premium of (SR 12.25 per share) amounting to SR 964.69 million has been included within the statutory reserve. and the new shares issued to Saudi Aramco Developing Company (which is wholly owned by Saudi Aramco) will equal 20% of Bahri's share capital and it will have a fair representation in Bahri's Board.

The vessels previously owned by Vela have been gradually received during the second half of 2014 effective from 21 July 2014 to December 2014.

13. THE SIGNED AGREEMENTS WITH ARAMCO AND VELA (continued)

A. Overview of the agreements (continued)

According to the terms of a long-term shipping contract with a minimum period of 10 years, the Company will be the exclusive carrier to Saudi Aramco for the transportation of crude oil sold by Saudi Aramco on the FOB basis. According to this contract and to meet Saudi Aramco's demand which is estimated to be 50 VLCC's, the Company plans to best optimize the utilization of its post-merger fleet, in addition to charter VLCC's when necessary.

The long-term shipping contract includes an agreed upon terms protects the Company when freight rates falls below the minimum agreed limit. On the other hand if freight rates increased above specific limit agreed on (compensation limit) the Company will compensate Saudi Aramco for the amounts previously paid to the Company upon the decline of freight rates below the minimum limited.

B. Murabaha financing and cash consideration

On June, 22 2014, the Company signed Murabah agreement with various banks for an amount of SR 3,182,812,500 to finance the cash consideration of merger of Vela fleet and operations, as well as the merger of related expenses. This bridge financing is for 12 months. On April 1, 2015 , The General Assembly approved the issuance of tradeable debt instruments which include Sukuk & bonds.

The Company is currently working to finalize the issuance of long term Sukuk in an amount that does not exceed SR 3.93 billion, and expects to issue it during the second quarter of 2015 after obtaining the necessary approvals.

14. RECLASSIFICATION

Certain comparative figures of the 31 March 2014 interim consolidated financial statements have been reclassified to conform to the current period presentation.

THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA (BAHRI) AUDITED CONSOLIDATED FINANCIAL STATEMENTS (AND AUDIT REPORT THEREON) FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

Bahri البحري

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

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014 AND AUDITORS' REPORT

Bahri البحري

(The National Shipping Company of Saudi Arabia)
(A Saudi Joint Stock Company)
Consolidated Financial Statements
For the year ended December 31, 2014
And Auditors' report

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Building a better
working world

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

Scope of Audit

We have audited the accompanying consolidated balance sheet of The National Shipping Company of Saudi Arabia - a Saudi Joint Stock Company ("the Company"), and its subsidiaries ("the Group") as at 31 December 2014 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended. These consolidated financial statements are the responsibility of the Group's management and have been prepared by them in accordance with the provisions of Article 123 of the Saudi Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the consolidated financial statements.

Unqualified Opinion

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

i) present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2014 and the consolidated results of its operations and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.

ii) comply with the requirements of the Regulations for Companies and the Company's by-laws in so far as they affect the preparation and presentation of the consolidated financial statements.

for Ernst & Young

Rashid S. Al Rashoud
Certified Public Accountant
Registration No. 366

ارنست ويونغ
ERNST & YOUNG
PROFESSIONAL LICENCE No. 45

Riyadh: 4 Jumada Awwal 1436H
(23 February 2015)

Bahri البحري

(The National Shipping Company of Saudi Arabia)
(A Saudi Joint Stock Company)
Consolidated Statements of Balance Sheet
As at 31 December 2014
(In Thousands Saudi Riyals)

	Note	2014	2013
ASSETS			
Current assets			
Bank balances and cash	3	168,957	106,525
Murabaha and short term deposits	3,4	221,111	237,940
Trade receivables, net	5	642,167	586,576
Bareboat lease receivable, net	6	21,140	15,256
Prepayments and other receivables	7	162,041	92,140
Agents' current accounts		76,334	53,120
Inventories	8	327,490	233,134
Accrued bunker subsidy, net	9	197,407	123,880
Incomplete voyages		-	4,456
Total current assets		1,816,647	1,453,027
Non-current assets			
Lease receivable for vessels , net	6	358,282	379,423
Investments held to maturity		10,587	40,587
Investments available for sale		13,533	14,399
Investment in an associated company	10	905,758	841,985
Deferred dry-docking cost, net	11	122,166	104,672
Intangible assets, net	12, 26	903,501	-
Fixed assets, net	13	12,980,017	8,512,152
Ships under construction and other	14	12,039	676,468
Total non-current assets		15,305,883	10,569,686
Total assets		17,122,530	12,022,713
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accruals	15	496,625	308,950
Murabaha and long-term financing -current portion	16	558,304	564,292
Short term Murabaha financing	16, 26 E	3,459,313	337,000
Dividends Payable	17	33,882	32,088
Provision for zakat and withholding tax	18	142,898	138,907
Incomplete voyages		9,813	-
Total current liabilities		4,700,835	1,381,237
Non-current liabilities			
Murabaha and long-term financing	16	4,152,888	4,376,589
Employees' end of service benefits		52,834	46,760
Other liabilities	19	30,704	30,704
Total non-current liabilities		4,236,426	4,454,053
Total liabilities		8,937,261	5,835,290
Equity			
Shareholders' equity			
Share capital	1	3,937,500	3,150,000
Statutory reserve	26 D	2,016,132	998,060
Retained earnings	17	1,861,440	1,697,784
Unrealized loss from available for sale investments		-	(115)
Total shareholders' equity		7,815,072	5,845,729
Non-controlling interests		370,197	341,694
Total equity		8,185,269	6,187,423
Total liabilities and equity		17,122,530	12,022,713

The accompanying notes from (1) to (29) form an integral part of these consolidated financial statements.

Bahri البحري

(The National Shipping Company of Saudi Arabia)
(A Saudi Joint Stock Company)
Consolidated Statements of Income
For the Year Ended 31 December, 2014
(In Thousands Saudi Riyals)

	Note	2014	2013
Operating revenues	24	3,626,412	2,846,698
Bunker cost	24	(1,206,749)	(943,406)
Other operating expenses	24	(1,963,373)	(1,494,838)
Gross operating income before bunker subsidy		456,290	408,454
Bunker subsidy		217,936	171,108
Gross operating income		674,226	579,562
General and administrative expenses	21	(98,875)	(79,123)
Operating income		575,351	500,439
Share in results of an associated company	10	131,956	291,235
Finance charges	16	(106,474)	(60,402)
Other (expenses) income, net	22	(1,053)	107,711
Income before zakat, tax and non-controlling interests		599,780	838,983
Zakat and withholding tax, net	18	(37,436)	(49,858)
Income before non-controlling interests		562,344	789,125
Non-controlling interests		(28,504)	(36,863)
Net income for the year		533,840	752,262
Earnings Per Share (in SR):			
Attributable to operating income	17	1.70	1.59
Attributable to net income for the year	17	1.58	2.39

The accompanying notes from (1) to (29) form an integral part of these consolidated financial statements.

Bahri البحري

(The National Shipping Company of Saudi Arabia)
(A Saudi Joint Stock Company)
Consolidated Statements of Cash Flow
For the Year Ended 31 December 2014
(In Thousands Saudi Riyals)

	Note	2014	2013
Cash flows from operating activities:			
Net income for the year		533,840	752,262
Adjustments to reconcile net income for the year to net cash flows from operating activities:			
Depreciation	13	540,673	423,523
Amortization of deferred dry-docking costs	11	46,965	46,012
Amortization of intangible assets	12	15,249	-
Provision for doubtful debt	5,21	4,360	8
Share in results of an associated company	10	(131,956)	(291,235)
Gains from sale of fixed assets	22	(3,096)	(75,496)
Non-controlling interests		28,504	36,863
Zakat and withholding tax, net	18	37,436	49,858
Employees' end of service benefits, net		6,074	6,547
Unrealized gain from available for sale investments		-	(2,562)
		1,078,049	945,780
Changes in operating assets and liabilities:			
Trade receivables, net		(59,951)	(329,178)
Bareboat lease receivable, net		15,257	10,143
Prepayments and other receivables		(69,901)	49,560
Agents' current accounts		(23,214)	(25,306)
Inventories		(94,356)	(101,066)
Accrued bunker subsidy, net		(73,527)	8,673
Incomplete voyages		14,269	16,919
Accounts payable and accruals		187,675	78,637
Zakat and withholding tax paid	18	(33,445)	(29,729)
Investments held for trading		-	26,384
Other liabilities	19	-	(6,046)
Net cash from operating activities		940,856	644,771

The accompanying notes from (1) to (29) form an integral part of these consolidated financial statements.

Bahri البحري

(The National Shipping Company of Saudi Arabia)
(A Saudi Joint Stock Company)
Consolidated Statements of Cash Flow - Continued
For the Year Ended 31 December 2014
(In Thousands Saudi Riyals)

	Note	2014	2013
Cash flows from investing activities:			
Murabaha and short-term deposits		(1,862)	2,942
Investments available for sale		981	43,550
Investments held to maturity		30,000	-
Dividends received from an associated company	10	68,183	96,591
Intangible assets	12	(581,792)	-
Additions to fixed assets	13	(2,527,590)	(4,216)
Proceeds from sale of fixed assets		3,331	118,768
Ships under construction and others, net	14	(401,524)	(975,507)
Deferred dry-docking costs	11	(64,459)	(52,009)
Net cash used in investing activities		(3,474,732)	(769,881)
Cash flows from financing activities:			
Proceeds from short-term Murabaha financing		3,122,313	177,000
Proceeds from Murabaha and long-term financing		334,595	807,835
Repayment of Murabaha and long-term financing		(564,284)	(586,772)
Dividends paid		(313,206)	(313,853)
Board's Members Compensations		(1,800)	-
Non-controlling interests		-	(10,000)
Net cash(used in) from financing activities		2,577,618	74,210
Net change in cash and cash equivalents during the year		43,742	(50,900)
Cash and cash equivalents at the beginning of the year		269,566	320,466
Cash and cash equivalents at the end of the year	3	313,308	269,566
Major non-cash transactions:			
Ships under construction and others transferred to fixed assets	13,14	1,065,953	1,471,030
Vessels value of shares consideration		1,752,188	-
Unrealized losses from investments available for sale		-	(115)
Associated company transferred to subsidiary company		-	4,641

The accompanying notes from (1) to (29) form an integral part of these consolidated financial statements.

Bahri البحري

(The National Shipping Company of Saudi Arabia)
(A Saudi Joint Stock Company)
Consolidated Statements of Change in Shareholders' Equity
For the Year Ended 31 December 2014
(In Thousands Saudi Riyals)

	Share capital	Statutory reserve	Retained earnings	Unrealized loss from available for sale investments	Total
Balance as at December 31, 2012	3,150,000	922,834	1,335,748	2,332	5,410,914
Net income for the year	-	-	752,262	-	752,262
Transfer to statutory reserve	-	75,226	(75,226)	-	-
Dividends (note 17)	-	-	(315,000)	-	(315,000)
Unrealized loss from available for sale investments, net	-	-	-	(2447)	(2,447)
Balance as at December 31, 2013	3,150,000	998,060	1,697,784	(115)	5,845,729
Capital increase during the year (note 26)	787,500	-	-	-	787,500
Share premium of new shares during the year (note 26)	-	964,688	-	-	964,688
Net income for the year	-	-	533,840	-	533,840
Transfer to statutory reserve	-	53,384	(53,384)	-	-
Dividends (note 17)	-	-	(315,000)	-	(315,000)
Boards' Members Compensation	-	-	(1,800)	-	(1,800)
Unrealized loss from available for sale investments, net	-	-	-	115	115
Balance as at December 31, 2014	**3,937,500**	**2,016,132**	**1,861,440**	-	**7,815,072**

The accompanying notes from (1) to (29) form an integral part of these consolidated financial statements.

(In Thousands Saudi Riyals)

1. ORGANIZATION AND OPERATIONS

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

The Company and its subsidiaries listed below (the "Group") are primarily engaged in the purchase, sale and operating of vessels for the transportation of cargo and passengers, and all of the marine transport activities. The Group come out its activities through four distinct segments which are Crude oil transportation and Gas & marine services, chemicals, general cargo (liners), and dry bulk. The Group is also engaged in the ownership of lands, properties inside or outside the kingdom, ownership of shares in other existing companies or merge with them and participate with others in establishing companies with similar or complementary activities.

During the year ended December 31, 2014, the capital has been increased from SAR 3,150,000,000 to SAR 3,937,500,000 by transferring the ownership of six vessels from Vela Company (note 26). The number of shares and the capital paid as of 31 December are as follows:

2014		2013	
Number of shares*	Capital paid	Number of shares*	Capital paid
393,750,000	3,937,500,000	315,000,000	3,150,000,000

*The par value per share is SR 10.

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

Name	Activity	Location	Date of incorporation	Share holding 2014	Share holding 2013
NSCSA (America) Inc.	Company's ships agent	USA	1991	100 %	100 %
Mideast Ship Management Ltd. (JLT)	Ships technical management	Dubai	2010	100%	100%
National Chemical Carriers Ltd. Co. (NCC)	Petrochemicals transportation	Riyadh	1990	80 %	80 %
Bahri Dry Bulk LLC	Dry Bulk transportation	Riyadh	2010	60%	60%

The associated company that is not consolidated into these consolidated financial statements is as follows (note 10):

Name		Activity	Location	Date of incorporation	Share holding 2014	Share holding 2013
Petredec Ltd *	Equity method	Liquefied petroleum gas transportation	Bermuda	1980	30.30%	30.30%

* As the year-end of Petredec is different from that of the Company, the share of the Company in its net income/loss is included in the books according to the latest financial statements prepared by Petredec. The difference between the latest financial statement prepared by Petredec and the Company's consolidated financial statements is two months. The fiscal year for Petredec starts on September 1 and ends on August 31 of each Gregorian year.

1. ORGANIZATION AND OPERATIONS (continued)

Group's Fleet:

The group owns seventy two vessels operating in various sectors as follow:

- The Company "Bahri" owns thirty two huge oil tankers, of which thirty one oil tankers are operating in the spot market, while one tanker is rented to ARAMCO Trading Company. The company also owns an additional five product tankers, which are all rented to ARAMCO trading Co. In addition, the company also owns six RoCon vessels operate on commercial lines between North America and Europe, the Middle East and the Indian subcontinent.

- NCC (subsidiary) owns twenty four specialized chemical tankers distributed as follows:

  - Three vessels are leased in the form of iron under capital lease signed on January 30, 2009, with "OdfJell SE".
  - Twelve tankers that are self-operated by the Company.
  - Eight carriers leased to the International Shipping and Transportation Co, Ltd. a subsidiary of Saudi Basic Industries Corporation "SABIC".
  - One tanker operates in a pool with OdfJell SE and managed by the Company.

- BDB (subsidiary) owns five vessels specialize in transporting dry bulk cargo, all of which are leased to the Arabian Agricultural Services Co.(ARASCO).

2. SIGNIFICANT ACCOUNTING POLICIES

a. *Accounting convention*

The accompanying consolidated financial statements are prepared in accordance with the accounting standards issued by the Saudi Organization for Certified Public Accountants (SOCPA) and under the historical cost convention, except for the investments held for trading and investments available for sale. Measurement of fair value of the group follows the accruals basis of accounting in recognizing revenues and expenses.

b. *Period of financial statements*

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

c. *Basis of consolidation*

- These consolidated financial statements include assets, liabilities and the results of operations of the company and its subsidiaries listed in Note (1) above.

- The subsidiary company is that in which the Company has, direct or indirect long term investment, comprising an interest of more than 50% in the voting capital and over which it exercises practical control. The subsidiary company is consolidated from the date the company obtains control until such control ceases.

- All significant inter-group accounts and transactions as well as realized and unrealized gains (losses) on these transactions are eliminated on consolidation.

- Non-controlling interest represents portion of profit or loss and net assets not owned by the Company, and is shown as a separate component in the consolidated balance sheet and consolidated statement of income.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

d. *Use of estimates*

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

e. *Cash and cash equivalents*

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

f. *Trade accounts receivable*

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

g. *Accounting for finance leases*

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

h. *Inventories*

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

i. Deferred dry-docking costs

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

j. Investments

1- Investments in associated companies:

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

2- Investments in securities:

Investments in securities are classified into three categories as follows:

- Investments held for trading

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

- Investments held to maturity

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

- Investments available for sale

  Certain investments are classified as available for sale if the conditions of classification as held for trading or investments held to maturity are not met, The available for sale investments are stated at fair value and unrealized gains or losses are recognized under shareholders' equity, The realized gains or losses from the redemption of units are recognized in the consolidated statement of income in the period in which these units are redeemed, If there is a permanent decline in the value of these investments or objective evidence for impairment, the unrealized loss is transferred to the consolidated statement of income. If there is an intention to sell the available for sale investment within 12 months from the consolidated balance sheet date, it is reported under investment current assets, otherwise under non-current assets.

  If the fair value of the investments mentioned above is not available or the possibility of evaluating them by using alternative methods, cost is considered the most appropriate method for such securities.

(In Thousands Saudi Riyals)

2. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

k. Intangible assets

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

l. Fixed assets

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

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

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

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

Gains or losses from disposal of fixed asset is determined by comparing proceeds from disposal with the carrying value and are recognized in the consolidated statement of income.

Expenditures for maintenance and routine repairs which do not materially extend the estimated useful life of an asset are charged to the consolidated statement of income when incurred. Major renewals and improvements, if any, are capitalized and the assets replaced are retired.

m. Impairment of non-current assets

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

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

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

2. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

n. Accounts payable and accruals

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

o. Provisions

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

p. Zakat and taxes

Zakat is provided for in accordance with the regulations of the Department of Zakat and Income Tax (DZIT) in Kingdom of Saudi Arabia, and it is charged to the consolidated statement of income based on the higher of the zakat base or adjusted net income for each individual company. Provision is made for withholding tax on payments to non-resident parties and is charged to the consolidated statement of income. For subsidiaries outside the Kingdom of Saudi Arabia, income tax is provided for in accordance with the regulations applicable in the respective countries and is charged to the consolidated statement of income.

q. Employees' end of service benefits

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

r. Hedge agreements and derivative financial instruments

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

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

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

2. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

s. Statutory reserve

In accordance with article (125) of Saudi Arabian Regulations for Companies, the company is required to transfer 10% of net income to the statutory reserve. The Company may discontinue such transfers when the reserve equals to half of the paid-up capital. The reserve is not available for distribution to shareholders.

t. Revenue recognition

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

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

u. Bunker subsidy

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

v. Expenses

Direct and indirect operating costs are classified as operating expenses. All other expenses are classified as general and administrative expenses.

w. Borrowing costs

Borrowings are recognized at the proceeds received, net of transactions costs incurred, Borrowing costs that are directly attributable to the acquisition, construction or production of assets are capitalized as part of those assets. Other borrowing costs are charged to the consolidated statement of income.

x. Foreign currency transactions

Foreign currency transactions are translated into Saudi riyals at prevailing exchange rates at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Saudi riyals at the prevailing exchange rates on that date. Exchange differences are included in the consolidated statement of income.

Assets and liabilities shown in the financial statement of the consolidated subsidiaries denominated in foreign currencies are translated into Saudi riyals at exchange rates prevailing at the consolidated balance sheet date. Revenues and expenses of the consolidated subsidiaries denominated in foreign currencies are translated into Saudi riyals at average exchange rates for the year, the components of equity, other than retained earnings (or accumulated losses, if any) are translated at the date of occurrence of each component. Exchange differences, if material, are included in a separate line item within shareholders' equity.

(In Thousands Saudi Riyals)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

y. *Operating leases*

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

z. *Earnings per share and proposed dividends*

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

aa. *Segment reporting*

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

- That are engaged in revenue operating activities
- Whose results of operating which are continuously analyzed by management in order to make decisions related to resource allocation and performance appraisal
- Their financial information is available separately.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent bank balances and cash, investments in murabaha and short-term deposits, of which SR76.76 million as of December 31, 2014 (2013:SR 74,90 million) are restricted for repayment of current portion of loan installments due within 180 days from the consolidated balance sheet date.

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

	2014	2013
Bank balances and cash	168,957	106,525
Amounts restricted by banks	-	(9,428)
	168,957	97,097
Murabaha and short-term deposits	221,111	237,940
Amounts restricted by banks	(76,760)	(65,471)
	144,351	172,469
Cash and cash equivalents at year end	313,308	269,566

4. MURABAHA AND SHORT-TERM DEPOSITS

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

	2014	2013
Murabaha and short-term deposits in Saudi Riyals	40,130	75,250
Murabaha and short-term deposits in USD	180,981	162,690
	221,111	237,940

(In Thousands Saudi Riyals)

5. TRADE RECEIVABLES, NET

Trade receivables, net comprise the following at December 31:

	2014	2013
Trade receivables	650,546	590,638
Provision for doubtful debts	(8,379)	(4,062)
	642,167	586,576

Movement in provision for doubtful debts is as follows:

	2014	2013
Balance at the beginning of the year	4,062	5,786
Charge for the year (note 21)	4,360	8
Amounts written-off during the year	(43)	(1,732)
Balance at the end of the year	8,379	(4,062)

6. BAREBOAT LEASE RECEIVABLE, NET

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

Description	2014	2013
Future minimum lease receipts	292,860	354,105
Unguaranteed residual value at the end of the lease term	247,875	247,875
	540,735	601,980
Unearned income	(161,313)	(207,301)
Net bareboat lease receivable balance	379,422	394,679

The above amount is classified as the following at December 31:		
Current portion	21,140	15,256
Non-current portion	358,282	379,423
Net bareboat lease receivable balance	379,422	394,679

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

	2014	2013
Within one year	65,351	61,245
1-2 years	69,649	65,351
2-3 years	73,564	69,649
3-4 years	77,670	73,564
4-5 years	254,501	77,670
Thereafter	-	254,501
	540,735	601,980

Income related to the above arrangement for the year ended December 31, 2014 amounted to SR 45.99 million (2013: SR 47.17 million) and is included in operating revenues in the consolidated statement of income.

(In Thousands Saudi Riyals)

7. PREPAIYMENTS AND OTHER RECEIVABLES

Prepayments and other receivables comprises the following at December 31:

	2014	2013
Prepaid expenses	122,449	57,986
Advances to suppliers	5,509	9,579
Insurance claims	8,182	4,738
Employee receivables	1,978	3,169
Others	23,923	16,668
	162,041	92,140

8. INVENTORIES

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

	2014	2013
Fuel	270,306	198,164
Lubricants	51,714	32,462
Others	5,470	2,508
	327,490	233,134

9. ACCRUED BUNKER SUBSIDY, NET

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

	2014	2013
Accrued bunker subsidy	235,447	146,194
Provision for doubtful bunker subsidy	(38,040)	(22,314)
	197,407	123,880

10. INVESTMENT IN AN ASSOCIATED COMPANY

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

	2014	2013
Balance at the beginning of the year	841,985	651,982
Share in results of an associated company*	131,956	291,235
Dividends received during the year	(68,183)	(96,591)
Transferred to a subsidiary company (note1)	-	(4,641)
Balance at the end of the year	905,758	841,985

The company's share of Petredec Limited Company operations includes an unrealized losses of SR 61.71 million as of December 31, 2014 (2013: unrealized gain SR 53.57 million) arising from commodity swaps .

(In Thousands Saudi Riyals)

11. DEFERRED DRY-DOCKING COSTS, NET

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

	2014	2013
Total dry-docking costs	446,147	381,688
Accumulated amortization	(323,981)	(277,016)
	122,166	104,672

Movement in the dry-docking costs is as follows:

	2014	2013
Balance at the beginning of the year	104,672	98,675
Additions during the year	64,459	52,009
Amortization during the year	(46,965)	(46,012)
Balance at the end of the year	122,166	104,672

12. INTANGIBLE ASSETS, NET

Intangible assets, net comprise the following at December 31:

	2014	2013
Balance at the beginning of the year	-	-
Additions during the year*	918,750	-
Amortization during the year	(15,249)	-
Balance at the end of the year	903,501	-

* Additions to intangible assets represents the difference between the fair value of the acquired vessels from Vela per the most recent market value report at the date of completing the transaction, and the total value of the transaction. The market value of the vessels at the completion of the transaction amounted to SR 3.956 million, and the total value of the transaction amounts to SR 4.875 million.

(In Thousands Saudi Riyals)

13. FIXED ASSETS, NET

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

Description	Cost				Accumulated Depreciation				Net Book Value	
	Balance as at 1/1/2014	Additions / Transfers during the year	Disposals	Balance as at 31/12/2014	Balance as at 1/1/2014	Charged for the year	Disposals	Balance as at 31/12/2014	31/12/2014	31/12/2013
Land	1,854	-	-	1,854	-	-	-	-	1,854	1,854
Buildings and improvements	45,763	87	(147)	45,703	(9,442)	(2.333)	147	(11.628)	34,075	36,321
Fleet and equipment *	11,481,337	5,002,033	-	16,483,370	(3.021,417)	(532,447)	-	(3,553.864)	12,929,506	8,459,920
Containers and trailers	51,092	130	(5,488)	45,734	(50,961)	-	5,485	(45.476)	258	131
Furniture and fixtures	7,439	1,141	(933)	7,647	(5,557)	(550)	917	(5,190)	2,457	1.882
Tools and office equipment	4,232	170	(619)	3,783	(3,965)	(247)	618	(3,594)	189	267
Motor vehicles	1,561	539	(153)	1,947	(1,463)	(322)	153	(1,632)	315	98
Computer equipment	56,525	4,647	(422)	60,750	(47,049)	(4,411)	222	(51,238)	9,512	9,476
Container yard facilities	12,283	18	(12)	12,289	(10,331)	(312)	-	(10,643)	1,646	1,952
Others	738	8	(5)	741	(487)	(51)	2	(536)	205	251
Total	11.662,824	5,008,773	(7,779)	16,663,818	(3,150,672)	(540,673)	7,544	(3.683,801)	12,980,017	8,512,152

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

(In Thousands Saudi Riyals)

14. SHIPS UNDER CONSTRUCTION AND OTHERS

The movement in the account of ships under construction and others for the year ended December 31 is summarized as follows:

2014				
	The Company	National Chemical Carriers	Bahri Dry Bulk Company	Total
Beginning Balance	440,313	-	236,155	676,468
Additions	125,503	-	276,021	401,524
Disposals	-	-	-	-
Transferred to fixed assets	(553,777)	-	(512,176)	(1,065,953)
Ending Balance	12,039	-	-	12,039

2013				
	The Company	National Chemical Carriers	Bahri Dry Bulk Company	Total
Beginning Balance	697,969	322,988	151,034	1,171,991
Additions	818,744	132,008	209,609	1,160,361
Disposals	-	(184,854)	-	(184,854)
Transferred to fixed assets	(1,076,400)	(270,142)	(124,488)	(1,471,030)
Ending Balance	440,313	-	236,155	676,468

Capitalized borrowing costs during the year 2014 amounted to SR 1.6 million (2013: SR 10.14 million).

On December 24, 2012, The National Chemical Carriers (subsidiary) terminated the contract for building the last vessel as a result of Shina Co. failure to deliver it within the timeline specified in the contract signed in 2007 and its amendments signed in 2012. The contract states that NCC Company has the right to terminate the contract if the delay period exceeded the allowed period. On February 2013, all paid installments were recovered amounting to USD 41.6 million plus compensation. As a result of this settlement, an amount of SR 16.3 million was recognized as other income (Note 22).

15. ACCOUNTS PAYABLE AND ACCRUALS

Accounts payable and accruals comprise the following at December 31:

	2014	2013
Trade payables	453,738	208,769
Value of sold shares (related to previous shareholders)	21,744	22,004
Accrued expenses	17,087	77,130
Others	4,056	1,047
	496,625	308,950

(In Thousands Saudi Riyals)

16. MURABAHA AND LONG-TERM FINANCING

The Group has signed various Murabaha and short term financing agreements to finance the acquisition of Vela's vessels and its related expenses as well as to finance its working capital requirements a. The Group has also signed various Murabaha and long term financing agreements to finance the building and acquisition of new vessels in different sectors.

The following table shows the details of the Murabaha and long-term as of 31 December:

2014				
Financing	**The Company**	**Subsidiaries**	**Total**	**%**
Murabaha financing	1,338,306	2,026,135	3,364,441	71%
Commercial loans	32	-	32	0%
Public Investment Fund "Murabaha"	1,074,375	-	1,074,375	23%
Commercial loans from Public Investment Fund	-	272,344	272,344	6%
Total Murabaha and long term financing	2,412,713	2,298,479	4,711,192	100%
Murabaha and long-term financing -current portion	(328,950)	(229,354)	(558,304)	-
Non-current portion of long-term financing	2,083,763	2,069,125	4,152,888	-

2013				
Financing	The Company	Subsidiaries	Total	%
Murabaha financing	1,825,756	1,958,186	3,783,942	76%
Commercial loans	32	-	32	0%
Public Investment Fund "Murabaha"	825,000	-	825,000	17%
Commercial loans from Public Investment Fund	23,250	308,657	331,907	7%
Total Murabaha and long term financing	2,674,038	2,266,843	4,940,881	100%
Murabaha and long-term financing -current portion	(343,592)	(220,700)	(564,292)	-
Non-current portion of long-term financing	2,330,446	2,046,143	4,376,589	-

- The finance cost is calculated as per the financing agreements at market prevailing rates.
- Some of the group's vessels that are financed by banks and pledged to the lending banks.

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

	2014	2013
Within one year	558,304	564,292
From 1 year to 5 years	2,457,255	2,460,315
More than 5 years	1,695,633	1,916,274
	4,711,192	4,940,881

(In Thousands Saudi Riyals)

17. EARNINGS PER SHARE AND DIVIDENDS

Earnings per share is calculated based on the weighted average number of shares outstanding during the two years ended December 31, 2014 and 2013 amounting 338.41 million shares and 315 million shares respectively (note 26).

The General Assembly approved in its meeting held on 31 March 2014, a distribution of cash dividends of 10% of the share capital amounting to SR 315 million, representing SR 1 per share for the year 2013. The balance of unclaimed dividends as 31 December 2014 amounted to SR 33.88 million (2013: SR 32.09 million).

The board of directors recommended in its meeting held on 19 Safar 1436H (corresponding to 11 December 2014) to distribute cash dividends of SR 393.75 million to the shareholders, representing 10% of the company's share capital of SR 1 per share for the year 2014. This is subjects to the shareholders approvals during the next meeting of the company's General Assembly.

18. ZAKAT AND WITHHOLDING TAX

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

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

Provision for Zakat and Withholding Tax

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

	2014	2013
Provision for zakat and withholding tax at the beginning of the year	138,907	118,778
Provision for zakat for the year	33,440	43,593
Provision for withholding tax for the year	3,996	6,265
Payments during the year	(33,445)	(29,729)
Provision for zakat and withholding tax at year end	142,898	138,907

The Company's Zakat and Tax status

The Company has filed its zakat returns up to 2012. The zakat assessments have been agreed with the Department of Zakat and Income Tax ("DZIT") for all the years up to 2000. The "DZIT" has raised the zakat assessment for the years 2001 to 2007 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 2013, and it will fill the Zakat return for 2013 during 2015. The Company did not receive the final assessments for the years from 2008 until 2012.The Company considers that adequate provision is maintained as at December 31, 2014 for any potential zakat and withholding tax.

(In Thousands Saudi Riyals)

18. ZAKAT AND WITHHOLDING TAX(continued)

Zakat and Tax status for NCC

NCC has submitted the zakat returns for all fiscal years up to 2013 and the withholding tax returns up to November 2014 and paid the zakat and withholding taxes due accordingly. This subsidiary company has received zakat and withholding tax assessments for the years 1991 to 2004. This subsidiary company has filed an appeal against some items included in these assessment and treatment. In April 2010, the subsidiary company reached an agreement with the DZIT for a final settlement of the above assessments in the amount of Saudi Riyals 54 million, the subsidiary company paid Saudi Riyals 26 million of this amount during 2011 and the remaining balance is to be paid in installments over five years starting July 2012 . The subsidiary company has received the zakat and withholding tax assessments for the years 2005 to 2008. The subsidiary company has filed an appeal against some items included in these assessments and their treatments, which is still pending. The subsidiary company's management considers that the provision for zakat and withholding tax is adequate as of 31 December 2014.

Zakat and Tax status for Bahri Dry Bulk LLC

Bahri Dry Bulk has submitted its zakat returns for the years up to 2012, and has not received any Zakat assessment from the DZIT yet. The company will submit its zakat and withholding tax returns for the years up to 2013 during 2015. The Company believes that it maintains an adequate provision for zakat and withholding tax as at December 31, 2014.

19. OTHER LIABILITIES

This item represents the total amounts received from one of the ships building companies as at December 31, 2014 and 2013 against charging this company with the repair costs of the tanks related to the new six vessels built for National Chemical Carrier Company (subsidiary). Therefore, it was agreed to charge the ships building company a total amount of SR 36.75 million i.e. SR 6.12 million for each ship. During the year ended December 31, 2013, repair of tanks for one of these vessels was made during its maintenance period, which resulted in saving of SR 5.2 million. This amount was recognized as other income (note 22). As the National Chemical Carrier Company do not have a maintenance plan for the remaining vessels for the next 12 months, the item was classified as non-current liabilities.

20. RELATED PARTY TRANSACTIONS

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

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

	2014	2013
Operating Revenues	**1,485,744**	1,143,369
Refunded compensations of cost and expenses	**15,857**	15,911

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

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

	2014	2013
ARAMCO (shareholder)	**194,831**	275,269
International Shipping and Transportation Company (affiliate)	**16,204**	33,278

(In Thousands Saudi Riyals)

21. GENERAL AND ADMINISTRATIVE EXPENSES

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

	2014	2013
Employees' salaries and benefits	65,856	57,913
Professional, legal, and consultation fees	10,415	7,528
Depreciation	6,006	3,588
Provision for Doubtful Debts (Note 5)	4,360	8
Others	12,238	10,086
	98,875	79,123

22. OTHER (EXPENSES) INCOME, NET

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

	2014	2013
Gains from sale of fixed assets	3,096	75,496
Net gain from investments	(2,386)	18,452
Increase recoveries from insurance claims	2,290	6,649
Cancellation of building ships under construction settlement (Note 14)	-	16,316
Vessel repair settlement (note 19)	-	5,242
Decline other than temporary in investment available for sale	-	(17,667)
Others	(4,053)	3,223
	(1,053)	107,711

23. CAPITAL CONTINGENT LIABILITIES

The Group has capital commitments relating to building of Rocon Ships as at 31 December 2014 amounting to Nil (2013: 67 million). The capital commitments of subsidiary companies to build chemical tankers and ships specialized in dry bulk transportation at December 31, 2014 amounted SR nil (2013: SR 27 million). The Group has outstanding letters of guarantee of SR 275.59 million as at December 31, 2014 (2013: SR 236.90 million) issued during the normal course of business.

The Group is involved in litigation matters during the ordinary course of business, which are being defended. Where the ultimate results of these matters cannot be determined with certainty, the management does not expect that they will have a material adverse effect on the Group's consolidated results of operations or its financial position.

(In Thousands Saudi Riyals)

24. SEGMENTAL INFORMATION

A) The following schedule illustrates the distribution of the Group's activities according to the operating segments for the year ended December 31, 2014:

	2014				
	Oil Transportation*	Petrochemical Transportation	General Cargo Transportation	Dry Bulk Transportation	Total
Operating revenues	2,152,259	802,922	550,392	120,839	3,626,412
Bunker cost	(916,902)	(190,239)	(99,608)	-	(1,206,749)
Other operating expenses:					
Vessel related expenses	(471,139)	(202,947)	(58,209)	(46,378)	(778,673)
Cargo related expenses	-	-	(237,485)	-	(237,485)
Voyage related expenses	(122,432)	(106,775)	(83,882)	-	(313,089)
Depreciation and amortization	(355,677)	(163,954)	(50,821)	(20,705)	(591,157)
Others	(12,003)	(13,861)	(17,105)	-	(42,969)
Total other operating expenses	(961,251)	(487,537)	(447,502)	(67,083)	(1,963,373)
Total operating expenses	(1,878,153)	(677,776)	(547,110)	(67,083)	(3,170,122)
Gross operating income before bunker subsidy	274,106	125,146	3,282	53,756	456,290
Bunker subsidy	174,434	23,816	19,686	-	217,936
Gross operating income	448,540	148,962	22,968	53,756	674,226

* Operating revenues include an amount of SR 1.2 billion (2013: SR .85 billion) representing the total revenues of the Group from one customer (ARAMCO- shareholder) during the year ended December 31, 2014. This amount represents more than 10 % of the Group's operating revenues (Note 20).

- The Group's vessels are operating in several parts of the world.

	2013				
	Oil Transportation	Petrochemical Transportation	General Cargo Transportation	Dry Bulk Transportation	Total
Operating revenues	1,506,756	663,874	562,162	113,906	2,846,698
Bunker cost	(701,566)	(109,529)	(132,311)	-	(943,406)
Other operating expenses:					
Vessel related expenses	(267,302)	(186,216)	(46,164)	(73,014)	(572,696)
Cargo related expenses	-	-	(222,649)	-	(222,649)
Voyage related expenses	(81,051)	(62,634)	(60,594)	-	(204,279)
Depreciation and amortization	(281,285)	(157,037)	(20,871)	(373)	(459,566)
Others	(11,761)	(7,006)	(16,881)	-	(35,648)
Total other operating expenses	(641,399)	(412,893)	(367,159)	(73,387)	(1,494,838)
Total operating expenses	(1,342,965)	(522,422)	(499,470)	(73,387)	(2,438,244)
Gross operating income before bunker subsidy	163,791	141,452	62,692	40,519	408,454
Bunker subsidy	143,943	6,497	20,668	-	171,108
Gross operating income	307,734	147,949	83,360	40,519	579,562

(In Thousands Saudi Riyals)

24. SEGMENTAL INFORMATION (continued)

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

2014

	Oil Transportation	Petrochemical Transportation	General Cargo Transportation	Dry Bulk Transportation	Shared Assets and Liabilities*	Total
Assets	10,180,032	3,393,587	1,784,598	696,520	1,067,793	17,122,530
Liabilities	4,768,574	2,065,533	1,210,729	434,818	457,607	8,937,261

2013

	Oil Transportation	Petrochemical Transportation	General Cargo Transportation	Dry Bulk Transportation	Shared Assets and Liabilities*	Total
Assets	5,273,014	3,516,252	1,730,364	412,784	1,090,299	12,022,713
Liabilities	1,652,778	2,263,322	1,224,998	184,070	510,122	5,835,290

* Shared assets and liabilities represent amounts that cannot be allocated to a specific segment such as cash on hand, deposits, investments held to maturity, unclaimed dividends, and etc....

25. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

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

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

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

25. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Credit risk
Credit risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. The Group seeks to manage its credit risk with respect to banks by only dealing with reputable banks and with respect to customers by setting credit limits for individual customers, monitoring outstanding receivables and ensuring close follow-ups. At 31 December 2014, trade accounts receivable include balances totaling SR 273 million (2013: SR 353 million) due from Government and quasi-Government institutions.

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

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

Price risk
Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio.

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

26. THE SIGNED AGREEMENTS WITH ARAMCO AND VELA

A. Overview of the agreements

On November 4, 2012 the Company signed an agreement with Saudi Aramco whereby the ownership of all Vela International Marine Ltd.'s fleet. (Vela) will be transferred to the Company after obtaining required regulatory approvals. The Vela's fleet consists of twenty oil tankers as follows:

- Fourteen VLCCs.
- One VLCC for floating storage
- Five refined petroleum product tankers.

Pursuant to the merger agreement, Bahri will pay to Vela a total consideration of approximately SR 4.88 billion (equivalent to US$1.3 billion). The consideration will comprise a cash payment amounting to SR 3.12 billion (equivalent to US$ 832.75 million) in addition to 78.75 million new Bahri shares to be issued to Vela at an agreed price of SR 22.25 per share. The Company's post merger issued number of shares will be 393.75 million shares and the new shares issued to Saudi Aramco Developing Company (which is wholly owned by Saudi Aramco) will equal 20% of Bahri's share capital and it will have a fair representation in Bahri's Board.

According to the terms of a long-term shipping contract with a minimum period of 10 years, the Company will be the exclusive carrier to Saudi Aramco for the transportation of crude oil sold by Saudi Aramco on the FOB basis. According to this contract and to meet Saudi Aramco's demand which is estimated to be 50 VLCCs, the Company plans to best optimize the utilization of its post-merger fleet which will total 32 VLCCs in addition to charter VLCC's when necessary.

The long-term shipping contract includes an agreed upon terms to protect the Company when freight rates falls below the minimum agreed limit. On the other hand, if freight rates increased above specific limit agreed on (compensation limit) the Company will compensate Saudi Aramco for the amounts previously paid to the company upon the decline of freight rates below the minimum limit.

Bahri and Vela have also agreed on temporary arrangements for the operation of the VLCCs owned currently by Bahri within Saudi Aramco's program to transport oil via VLCC's. The temporary arrangement started on January 1, 2013 until the long-term shipping contract became effective on the 21st of July, 2014 according to the terms of the merger agreement.

B. Launch of transfer of ownership

The company received the first VLCC from Vela fleet on the 21st July 2014, i.e. this date is the date of the commencement of the long-term shipping contract with Saudi Aramco. The company has received all twenty oil tankers from Vela during the second half of 2014.

C. Capital increase

The share capital of the company has been increased by the value of six oil tankers received from Vela and its ownership has been legally transferred to the company on 8 September, 2014. On 15 September 2014, the underlying legal formalities are completed to effect the capital increase at 20% for Saudi Aramco Developing Company (including the amendment of the company's commercial registration) have been completed. The capital has been increased from SR 3.150 billion to SR 3.938 billion through the issuance of 78.75 million shares to Saudi Aramco Developing Company and have been placed in its investment portfolio. The number of shares before the capital increase was 315 million shares and increased to 393.75 million shares. The par value of 10 per share relating to capital increase amounting to SR 787.50 million has been included within the capital increase, the share premium (of SR 12.25 per share) amounting to SR 964.69 million has been included within the statutory reserve.

(In Thousands Saudi Riyals)

26. THE SIGNED AGREEMENTS WITH ARAMCO AND VELA - continued

D. Statutory Reserve

The breakdown of the statutory reserve as of 31 December is as follow:

	2014	2013
Transferred from Net Income	1,051,444	998,060
Premiums of New Issued Shares	964,688	-
	2,016,132	998,060

E. Murabaha financing and cash consideration

On June, 22 2014, the Company signed Murabah agreement with various banks for an amount of SR 3,182,812,500 to finance the cash consideration for the merger of Vela fleet and operations, as well as the merger's related expenses. This bridge financing is for 12 months, and the Company is now arranging for Sharia compliant financing agreements for the repayment of this bridge financing.

27. DERIVITIVES FINANCIAL INSTURMENTS

The Group has derivative financial instruments including commission rate swaps agreements. The nominal amount of these financial instruments is SR 1.53 billion as of December 31, 2014 (2013: SR nil). The unrealized losses from the revaluation of such agreements for the year amounted to SR 16.4 million (2013: Nil), and these losses are included in the Financial charges. These agreements are revaluated in a regular basis to recorded any unrealized gains or losses, if any.

28. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The board of directors has approved the consolidated financial statements for the year ended 31 December 2014 on its meeting held on 4 Jamadu Alawal 1436H (corresponding to 23 February 2015).

29. RECLASSIFICATION

Certain amounts previously reported in the 2013 consolidated financial statements have been reclassified to conform to the current year presentation.

THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA (BAHRI) AUDITED CONSOLIDATED FINANCIAL STATEMENTS (AND AUDIT REPORT THEREON) FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

Bahri البحري

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

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013 AND AUDITORS' REPORT

Bahri البحري

THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA
(A Saudi Joint Stock Company)
Consolidated Financial Statements
For the year ended December 31, 2013
Together with the Auditors' report

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Building a better working world

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

Scope of Audit

We have audited the accompanying consolidated balance sheet of The National Shipping Company of Saudi Arabia – a Saudi Joint Stock Company ("the Company"), and its subsidiaries ("the Group") as at 31 December 2013 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended. These consolidated financial statements are the responsibility of the Group's management and have been prepared by them in accordance with the provisions of Article 123 of the Saudi Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the consolidated financial statements.

Unqualified Opinion

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

i) present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2013 and the consolidated results of its operations and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.

ii) comply with the requirements of the Regulations for Companies and the Company's by-laws in so far as they affect the preparation and presentation of the consolidated financial statements.

for Ernst & Young

Rashid S. Al Rashoud
Certified Public Accountant
Registration No. 366

إرنست ويونغ
ترخيص
مهني رقم ٤٥
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٥
PROFESSIONAL LICENCE No. 45
ERNST & YOUNG

Riyadh: 23 Rabie' Thani 1435H
(23 February 2014)

Bahri البحري

The National Shipping Company of Saudi Arabia
(A Saudi Joint Stock Company)
Consolidated Balance Sheet
As at December 31, 2013
(In Thousands Saudi Riyals)

ASSETS	Notes	2013	2012
Current assets:			
Bank balances and cash	3	106,525	105,651
Murabaha and short-term deposits	3,4	237,940	292,656
Trade receivables, net	5	608,623	252,765
Bareboat lease receivable, net	6	15,256	10,143
Prepaid expenses and other receivables	7	79,616	141,700
Agents' current accounts		27,523	27,814
Inventories	8	223,023	132,068
Accrued bunker subsidy, net	9	123,880	132,553
Incomplete voyages		4,456	21,375
Investments held for trading		-	26,384
Total current assets		1,426,842	1,143,109
Non-current assets:			
Bareboat lease receivable, net	6	379,423	394,679
Investments held to maturity		40,587	40,587
Investments available for sale		14,399	57,834
Investments in associated companies	10	841,985	651,982
Deferred dry-docking costs, net	11	104,672	98,675
Fixed assets, net	12	8,512,152	7,503,701
Ships under construction and other	13	676,468	1,171,991
Total non-current assets		10,569,686	9,919,449
Total assets		11,996,528	11,062,558
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable and accruals	14	282,765	230,313
Murabaha financing and long-term loans -current portion	15	564,292	466,085
Short term Murabaha financing	15	337,000	160,000
Unclaimed dividends	16	32,088	30,941
Provision for zakat and tax	17	138,907	118,778
Total current liabilities		1,355,052	1,006,117
Non-current liabilities:			
Murabaha financing and long-term loans	15	4,376,589	4,253,733
Employees' end of service benefits		46,760	40,213
Other liabilities	18	30,704	36,750
Total non-current liabilities		4,454,053	4,330,696
Total liabilities		5,809,105	5,336,813
Equity:			
Shareholders' equity:			
Share capital	1	3,150,000	3,150,000
Statutory reserve		998,060	922,834
Retained earnings	16	1,697,784	1,335,748
Unrealized (losses) gains on available for sale investments		(115)	2,332
Total shareholders' equity		5,845,729	5,410,914
Non-controlling interests		341,694	314,831
Total equity		6,187,423	5,725,745
Total liabilities and equity		11,996,528	11,062,558

The accompanying notes from (1) to (27) form an integral part of these consolidated financial statements

Bahri البحري

The National Shipping Company of Saudi Arabia
(A Saudi Joint Stock Company)
Consolidated Statement of Income
For the year ended December 31, 2013
(In Thousands Saudi Riyals)

	Notes	2013	2012
Operating revenues	23	**2,846,698**	2,464,628
Bunker costs	23	**(943,406)**	(875,097)
Other operating expenses	23	**(1,477,957)**	(1,253,254)
Gross operating income before bunker subsidy		**425,335**	336,277
Bunker subsidy		**171,108**	200,572
Gross operating income		**596,443**	536,849
General and administrative expenses	20	**(94,150)**	(83,063)
Operating income		**502,293**	453,786
Share in results of associated companies	10	**291,235**	147,660
Finance charges	15	**(60,402)**	(59,772)
Other income, net	21	**105,857**	20,135
Income before zakat, tax and non-controlling interests		**838,983**	561,809
Zakat and tax, net	17	**(49,858)**	(36,299)
Income before non-controlling interests		**789,125**	525,510
Non-controlling interests in net income of consolidated subsidiaries		(36,863)	(21,517)
Net income for the year		**752,262**	503,993
Earnings Per Share (in SR):			
Attributable to operating income	16	**1.59**	1.44
Attributable to net income for the year	16	**2.39**	1.60

The accompanying notes from (1) to (27) form an integral part of these consolidated financial statements

The National Shipping Company of Saudi Arabia
(A Saudi Joint Stock Company)
Consolidated Statement of Cash Flows
For the year ended December 31, 2013
(In Thousands of Saudi Riyals)

	Notes	2013	2012
Cash flows from operating activities:			
Net income for the year		**752,262**	503,993
Adjustments to reconcile net income for the year to net cash flows from operating activities:			
Depreciation	12	**423,523**	392,179
Amortization of deferred dry-docking costs	11	**46,012**	38,058
Unrealized gains on investments held for trading		**-**	(6,072)
Unrealized gains on available for sale investments		**(2,562)**	-
Share in results of associated companies	10	**(291,235)**	(147,660)
Gains from sale of fixed assets	21	**(75,496)**	(12,507)
Non-controlling interests in net income of consolidated subsidiaries		**36,863**	21,517
Zakat and tax, net	17	**49,858**	36,299
Employees' end of service benefits, net		**6,547**	12,155
		945,772	837,962
Changes in operating assets and liabilities:			
Trade receivables, net		**(355,858)**	(1,820)
Bareboat lease receivable, net		**10,143**	7,538
Prepaid expenses and other receivables		**62,084**	(64,693)
Agents' current accounts		**291**	(5,536)
Inventories		**(90,955)**	12,981
Accrued bunker subsidy, net		**8,673**	(44,773)
Incomplete voyages		**16,919**	(9,270)
Investments held for trading		**26,384**	-
Accounts payable and accruals		**52,452**	(60,448)
Zakat and tax paid	17	**(29,729)**	(22,097)
Other liabilities	18	**(6,046)**	36,750
Net cash from operating activities		**640,130**	686,594
Cash flows from investing activities:			
Murabaha and short-term deposits		**2,942**	(43,395)
Investments held to maturity		**-**	(10,000)
Available for sale investments		**43,550**	(7,933)
Associated company transferred to subsidiary company	10	**4,641**	-
Dividends received from associated company	10	**96,591**	35,910
Additions of fixed assets	12	**(21,277)**	(23,912)
Additional discount on received vessels		**17,061**	-
Proceeds from sale of fixed assets		**118,768**	44,583
Ships under construction and others, net	13	**(975,507)**	(584,197)
Deferred dry-docking costs	11	**(52,009)**	(69,530)
Net cash used in investing activities		**(765,240)**	(658,474)
Cash flows from financing activities:			
Proceeds from short-term Murabaha financing		**177,000**	96,000
Proceeds from Murabaha financing and long-term loans		**807,835**	657,583
Repayment of Murabaha financing and long-term loans		**(586,772)**	(688,778)
Dividends paid		**(313,853)**	(157,279)
Non-controlling interests		**(10,000)**	-
Net cash from (used in) financing activities		**74,210**	(92,474)
Decrease in cash and cash equivalents during the year		**(50,900)**	(64,354)
Cash and cash equivalents at the beginning of the year		**320,466**	384,820
Cash and cash equivalents at the end of the year	3	**269,566**	320,466
Significant non-cash transactions:			
Ships under construction and others transferred to fixed assets	12, 13	**1,471,030**	649,336
Unrealized (losses) gains on available for sale investments		**(115)**	1,798

The accompanying notes from (1) to (27) form an integral part of these consolidated financial statements

Bahri البحري

The National Shipping Company of Saudi Arabia
(A Saudi Joint Stock Company)
Consolidated Statement of Changes in Shareholders' Equity
For the year ended December 31, 2013
(In Thousands Saudi Riyals)

	Share capital	Statutory reserve	Retained earnings	Unrealized (losses) gains on available for sale investments	Total
Balance as at December 31, 2011	3,150,000	872,435	1,039,654	534	5,062,623
Net income for the year	-	-	503,993	-	503,993
Transfer to statutory reserve	-	50,399	(50,399)	-	-
Dividends	-	-	(157,500)	-	(157,500)
Unrealized gains on available for sale investments, net	-	-	-	1,798	1,798
Balance as at December 31, 2012	3,150,000	922,834	1,335,748	2,332	5,410,914
Net income for the year	-	-	752,262	-	752,262
Transfer to statutory reserve	-	75,226	(75,226)	-	-
Dividends (note 16)	-	-	(315,000)	-	(315,000)
Unrealized losses on available for sale investments, net	-	-	-	(2,447)	(2,447)
Balance as at December 31, 2013	**3,150,000**	**998,060**	**1,697,784**	**(115)**	**5,845,729**

The accompanying notes from (1) to (27) form an integral part of these consolidated financial statements

(In Thousands Saudi Riyals)

1. ORGANIZATION AND OPERATIONS

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

The Company and its subsidiaries mentioned below ("the Group") are primarily engaged in the purchase, lease, operation of vessels for transportation of cargo and passengers, and carry out all marine transport related activities. The Group performs its operations through four distinct segments which are transportation of crude oil and gas, chemicals, general cargo, and dry bulk. The Group is also engaged in the ownership of land and properties inside or outside the kingdom, ownership of shares in other existing companies or merge with them and participate with others in establishing companies with similar activities or complementary activities.

The capital of the Company is SR 3,150 million, comprising 315 million shares with nominal value of SR 10 each as of December 31, 2013 and 2012.

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

Name	Activity	Location	Date of incorporation	Ownership % 2013	Ownership % 2012
NSCSA (America) Inc.	Company's ships agent	USA	1991	**100 %**	100 %
Mideast Ship Management Ltd. (JLT)	Technical management of ships	Dubai	2010	**100%**	100%
National Chemical Carriers Ltd. Co. (NCC) and its subsidiary*	Petrochemicals transportation	Riyadh	1990	**80 %**	80 %
Bahri Dry Bulk LLC	Bulk transportation	Riyadh	2010	**60%**	60%

The associated companies that are not consolidated within these consolidated financial statements are as follows (note 10):

Name	Accounting method	Activity	Location	Date of incorporation	Ownership% 2013	Ownership% 2012
National Chemical Carriers JLT *	Equity method	Petrochemical transportation	Dubai	2009	**-**	40%
Petredec Ltd, **	Equity method	Liquefied petroleum gas transportation	Bermuda	1980	**30.30%**	30.30%

* NCC has signed a joint venture agreement with "Odfjell SE" on Jumada Thani 22, 1430H, (corresponding to June 15, 2009) to establish an equally owned company in Dubai (United Arab Emirates), in the name of NCC-Odfjell Chemical Tankers JLT (referred hereinafter to as "NCC-Odfjell"), to commercially operate the two companies' combined fleets of coated chemical tankers in a pool for transportation of chemicals, vegetable oils and refined petroleum products on a world-wide basis with its focus on the growing production and export market of the Arabian Gulf Region. On 1 June 2013, NCC acquired all "Odfjell JLT" shares which represents 50% of "NCC- Odfjell" and becomes the sole owner of this company, which registered under the name of National Chemical Carriers JLT.

1. ORGANIZATION AND OPERATIONS - continued

** As the year-end for Petredec is different from the Company's year-end, the share of the Company in its net income or loss is included in the Company's accounting records according to the latest financial statements prepared by Petredec. The time difference between the latest financial statement prepared by Petredec and the Company's consolidated financial statements is two months. The fiscal year for Petredec starts on September 1 and ends on August 31 of each Gregorian year.

The Company owns seventeen huge oil tankers, two of them are leased to the Hengin Company (Korean), and fifteen carriers operating in the spot market. The Company also owns four RoRo (RoCon) ships operating on commercial lines between North America and Europe, the Middle East and the Indian subcontinent.

NCC owns twenty four specialized chemical tankers, three of them were leased under a bareboat finance lease arrangement to Odfjell SE, a Norwegian company, and eight other carriers are chartered to International Shipping and Transportation Company Limited (ISTC), a subsidiary of Saudi Basic Industries Corporation (SABIC), and one tranker is working in a pool along with a tanker owned by Odfjell. This pool is managed by NCC JLT.

On August 28, 2010, the company established Bahri Dry Bulk LLC with the Arabian Agricultural Services Co. (ARASCO) to transport dry bulk cargo with a capital of SR 200 million. The company owns 60% of the company while ARASCO owns the remaining 40%. This company has started its commercial operations in the second quarter of 2012.

2. SIGNIFICANT ACCOUNTING POLICIES

a) *Accounting convention*

The accompanying consolidated financial statements are prepared in accordance with the accounting standards issued by the Saudi Organization for Certified Public Accountants (SOCPA) and under the historical cost convention, except for the measurement at fair value of investments held for trading and available for sale. The Company follows the accruals basis of accounting in preparing its consolidated financial statements.

b) *Period of financial statements*

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

c) *Basis of consolidation*

- These consolidated financial statements include assets, liabilities and results of operations of the Company and its subsidiaries listed in Note 1 above.

- The subsidiary company is that in which the Company has, direct or indirect long term investment, comprising an interest of more than 50% in the voting capital and over which it exercises practical control. The subsidiary company is consolidated from the date the company obtains control until such control ceases.

- All significant inter-group accounts and transactions as well as realized gains (losses) on these transactions are eliminated on consolidation.

- Non-controlling interest represents portion of profit or loss and net assets not hold by the Company, and is included as a separate item in the consolidated statement of balance sheet and consolidated statement of income.

2. SIGNIFICANT ACCOUNTING POLICIES - continued

d) Use of estimates

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

e) Cash and cash equivalents

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

f) Trade accounts receivable

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

g) Accounting for finance leases

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

h) Inventories

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

i) Deferred dry-docking costs

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

2. SIGNIFICANT ACCOUNTING POLICIES - continued

j) Investments

1- Investments in associated companies:

Investments in associated companies in which the Group has significant influence, but no control, over the investee's financial and operational policies, generally hold an equity interest ranging between 20% and 50%, are accounted for using the equity method whereby the original cost of the investment is adjusted by the post-acquisition retained earnings and reserves of those companies, based on their latest financial statements. When the Group acquires an interest in an associated companies for an amount in excess of the fair value of the acquiree's net assets, the difference is treated as goodwill and recorded as part of the investment account. Goodwill is shown net of impairment, if any.

2- Investments in securities:

Investments in securities are classified into three categories as follows:

- Investments held for trading

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

- Investments held to maturity

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

- Investments available for sale

Certain investments are classified as available for sale if the conditions of classification as held for trading or investments held to maturity are not met, The available for sale investments are stated at fair value and unrealized gains or losses are recognized under shareholders' equity, The realized gains or losses from the redemption of units are recognized in the consolidated statement of income in the period in which these units are redeemed, If there is a permanent decline in the value of these investments or objective evidence for impairment, the unrealized loss is transferred to the consolidated statement of income. If there is an intention to sell the available for sale investment within 12 months from the consolidated balance sheet date, it is reported under current assets, otherwise under non-current assets.

- If the fair value of these investments is not available, cost is considered the most appropriate method for such securities.

(In Thousands Saudi Riyals)

2. **SIGNIFICANT ACCOUNTING POLICIES - continued**

k) Fixed assets

Fixed assets are recorded at actual cost and are depreciated using the straight-line method to allocate the costs of the related assets over the estimated useful lives using the following depreciation rates:

The assets	Depreciation rate
Buildings and improvements	5 to 33.3%
Fleet and equipment *	4 to 15%
Containers and trailers	8.33 to 20%
Furniture and fixtures	10%
Tools and office equipment	2.5 to 25%
Motor vehicles	20 to 25%
Computer equipment	15 to 25%
Container yard facilities	10 to 25%
Others	7 to 15%

* RoRo (RoCon) ships and VLCCs are depreciated over a period of twenty five years. Used vessels are depreciated based on their estimated remaining useful lives. Residual value is calculated at 10% of the vessels' cost. The equipment of RoRo (RoCon) are depreciated over a period of fifteen years.

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

Gains or losses from disposal of fixed assets are determined by comparing proceeds with the carrying value and are recorded in the consolidated statement of income.

Maintenance and normal repairs which do not materially extend the estimated useful life of an asset are charged to the consolidated statement of income as and when incurred. Major renewals and improvements, if any, are capitalized and the assets so replaced are retired.

l) Impairment of non-current assets

The Group periodically reviews the carrying amounts of its non-current assets to determine whether there is any indication that those assets have suffered any impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

If the recoverable amount of the asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash generating unit is reduced to its recoverable amount. Impairment loss is recognized immediately as expenses in the consolidated statement of income.

Where impairment subsequently reverses, the carrying amount of the asset or the cash generating unit is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognized for the asset or cash generating unit in prior years. A reversal of impairment is recognized immediately as revenue in the consolidated statement of income.

2. SIGNIFICANT ACCOUNTING POLICIES - continued

m) *Accounts payable and accruals*

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

n) Provisions

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

o) *Zakat and tax*

Zakat is provided for in accordance with the regulations of the Department of Zakat and Income Tax (DZIT) and is charged to the consolidated statement of income based on the higher of the zakat base or adjusted net income for each individual company. Provision is made for withholding tax on payments to non-resident parties and is charged to the consolidated statement of income. For subsidiaries outside the Kingdom of Saudi Arabia, income tax is provided for in accordance with the regulations applicable in the respective countries and is charged to the consolidated statement of income.

p) *Employees' end of service benefits*

Employees' end of service benefits is provided for on the basis of accumulated services period in accordance with the policy of the Group and in conformity with Saudi Labor Law. End of service benefits in respect of subsidiaries outside the Kingdom of Saudi Arabia are provided for based on the applicable regulations applied to these subsidiaries.

q) *Statuary reserve*

In accordance with article (125) of Saudi Arabian Regulations for Companies, the Company is required to transfer 10% of net income to the statuary reserve. The Company may discontinue such transfers when the reserve equals 50% of the paid-up capital. The reserve is not available for distribution to shareholders.

r) *Revenue recognition*

Revenue is recognized as follows:

- ***Transport of Crude Oil, Petrochemicals, and Dry Bulk:*** Revenues from transport of oil, gas, petrochemicals, and dry bulk are recognized when earned over the agreed-upon period of the contract, voyage and services.

- ***General Cargo Transportation:*** the Group follows the complete voyage policy in determining the revenues and expenses of the period for vessels transporting general cargo. A voyage is considered to be a "Complete Voyage" when a vessel has sailed from the last discharging port of a voyage. Shipping revenues, direct and indirect operating expenses of incomplete voyage are deferred until it is completed. Incomplete voyages are shown at the net amount in the consolidated statement of financial position as "Incomplete Voyages".

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

- Other income is recorded when earned.

2. **SIGNIFICANT ACCOUNTING POLICIES - continued**

s) ***Bunker subsidy***

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

t) ***Expenses***

Direct and indirect operating costs are classified as operating expenses and all other expenses are classified as general and administrative expenses.

u) ***Borrowing costs***

Borrowings are recognized at the proceeds received, net of transactions costs incurred, borrowing costs that are directly attributable to the construction or production of assets are capitalized as part of those assets. Other borrowing costs are charged to the consolidated statement of income.

v) ***Foreign currency transactions***

Foreign currency transactions are translated into Saudi Riyals at prevailing exchange rates of the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the consolidated balance sheet date are translated into Saudi Riyals at the prevailing exchange rates of that date. Exchange differences are recognized in the consolidated statement of income.

Assets and liabilities shown in the consolidated subsidiaries denominated in foreign currencies are translated into Saudi Riyals at exchange rates prevailing at the consolidated balance sheet date. Revenues and expenses of the consolidated subsidiaries denominated in foreign currencies are translated into Saudi riyals at average exchange rates for the period, The components of equity, other than retained earnings (or accumulated loses, if any) are translated at the date of occurrence of each component. Exchange differences, if material, are included in a separate line item within shareholders' equity.

w) ***Operating leases***

Rentals relating to operating leases are recorded at consolidated statement of income using the straight-line method over the period of operating lease.

x) ***Earnings per share and proposed dividends***

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

(In Thousands Saudi Riyals)

2. SIGNIFICANT ACCOUNTING POLICIES - continued

y) Segment reporting

Operating segment

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

(i) That are engaged in revenue operating activities;

(ii) Whose results of operations are continuously analyzed by management in order to make decisions related to resource allocation and performance assessment; and

(iii) Whose financial information is available separately.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise bank balances and cash, and investments in Murabaha and short-term deposits, out of which SR 74.90 million as of December 31, 2013 (2012:SR 77.84 million) are restricted for repayment of loan installments falling due within 180 days from the consolidated balance sheet date

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

	2013	2012
Bank balances and cash	106,525	105,651
Amounts restricted by banks	(9,428)	(10,657)
	97,097	94,994
Murabaha and short-term deposits	237,940	292,656
Amounts restricted by banks	(65,471)	(67,184)
	172,469	225,472
Cash and cash equivalents at the end of the year	269,566	320,466

4. MURABAHA AND SHORT-TERM DEPOSITS

Murabaha and short- term deposits balance as of December 31 comprise the following:

	2013	2012
Murabaha and short-term deposits in Saudi Riyals	75,250	86,930
Murabaha and short-term deposits in USD	162,690	203,684
Murabaha and short-term deposits in AED	-	2,042
	237,940	292,656

5. TRADE RECEIVABLES, NET

Trade receivables, net at December 31 comprise the following:

	2013	2012
Trade receivables	616,864	265,942
Provision for doubtful debts	(8,241)	(13,177)
	608,623	252,765

Movement in provision for doubtful debts is as follows:

	2013	2012
Balance at the beginning of the year	13,177	12,586
Charge for the year	55	7,600
Amounts written-off during the year	(4,991)	(7,009)
Balance at the end of the year	8,241	13,177

(In Thousands Saudi Riyals)

6. BAREBOAT LEASE RECEIVABLE, NET

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

Description	2013	2012
Future minimum lease collections	354,105	411,418
Unguaranteed residual value at the end of the lease term	247,875	247,875
	601,980	659,293
Unearned income	(207,301)	(254,471)
Net bareboat lease receivable balance	394,679	404,822

The above amount is classified at December 31 as follows:

Description	2013	2012
Current portion	15,256	10,143
Non-current portion	379,423	394,679
Net bareboat lease receivable balance	394,679	404,822

The future minimum lease collectionsand unguaranteed residual value at the end of lease term to be received during the next five years and thereafter are as follows:

	2013	2012
Due within one year	61,245	57,313
Due within 1-2 years	65,351	61,245
Due within 2-3 years	69,649	65,351
Due within 3-4 years	73,564	69,649
Due within 4-5 years	77,670	73,564
Thereafter	254,501	332,171
	601,980	659,293

Income related to the above arrangement for the year ended December 31, 2013 amounted to SR 47.11 million (2012: SR 48.05 million) and is included in operating revenues in the consolidated statement of income.

7. PREPAID EXPENSES AND OTHER RECEIVABLES

	2013	2012
Prepaid expenses	57,949	58,997
Advances to suppliers	9,579	7,453
Insurance claims	4,303	15,469
Employee receivables	3,132	5,267
Due from related parties (note 19)	-	50,066
Others	4,653	4,448
	79,616	141,700

(In Thousands Saudi Riyals)

8. INVENTORIES

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

	2013	2012
Fuel	**198,164**	108,103
Lubricants	**22,351**	23,965
Others	**2,508**	-
	223,023	132,068

9. ACCRUED BUNKER SUBSIDY, NET

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

	2013	2012
Accrued bunker subsidy	**146,194**	171,087
Provision for doubtful bunker subsidy	**(22,314)**	(38,534)
	123,880	132,553

10. INVESTMENTS IN ASSOCIATED COMPANIES

The movement of investments in associated companies for the year ended December 31 is as follows:

	2013	2012
Balance at the beginning of the year	**651,982**	540,232
Share in results of associates *	**291,235**	147,660
Dividends received during the year	**(96,591)**	(35,910)
Transferred to a subsidiary company (note1)	**(4,641)**	-
Balance at the end of the year	**841,985**	651,982

* Share in results of associates represents the Company's share in net results of Petredec Limited Company of SR 291.2 million (2012: SR 143.87 million), which includes the Petredec's share in unrealized gains of nil (2012: unrealized losses of SR 22.5 million) from goods exchange contracts.

11. DEFERRED DRY-DOCKING COSTS, NET

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

	2013	2012
Total dry-docking costs	**381,688**	329,679
Accumulated amortization	**(277,016)**	(231,004)
	104,672	98,675

Movement in the dry-docking costs is as follows:

	2013	2012
Balance at the beginning of the year	**98,675**	67,203
Additions during the year	**52,009**	69,530
Amortization during the year	**(46,012)**	(38,058)
Balance at the end of the year	**104,672**	98,675

(In Thousands Saudi Riyals)

12. FIXED ASSETS, NET

Movement in fixed assets during the year 2013 is summarized as follows:

Description	Cost				Accumulated Depreciation				Net Book Value	
	Balance as at 1/1/2013	Additions / Transferes during the year	Disposals	Balance as at 31/12/2013	Balance as at 1/1/2013	Chargers for the year	Disposals	Balance as at 31/12/2013	31/12/2013	31 12 2012
Lands	1,854	-	-	1,854	-	-	-	-	1,854	1,854
Buildings and improvements	43,919	1,844	-	45,763	(7,324)	(2,118)	-	(9,442)	36,321	36,595
Fleet and equipment *	10,946,858	1,469,451	(934,972)	11,481,337	(3,496,266)	(416,891)	891,740	(3,021,417)	8,459,920	7,450,592
Containers and trailers	52,376	-	(1,284)	51,092	(52,301)	-	1,340	(50,961)	131	75
Furniture and fixtures	6,756	697	(14)	7,439	(5,134)	(437)	14	(5,557)	1,882	1,622
Tools and office equipment	4,067	165	-	4,232	(3,854)	(111)	-	(3,965)	267	213
Motor vehicles	1,686	-	(125)	1,561	(1,425)	(153)	115	(1,463)	98	261
Computer equipment	54,027	2,840	(342)	56,525	(43,818)	(3,565)	334	(47,049)	9,476	10,209
Container yard facilities	12,910	3	(630)	12,283	(10,650)	(233)	552	(10,331)	1,952	2,260
Others	492	246	-	738	(472)	(15)	-	(487)	251	20
Total	11,124,945	1,475,246	(937,367)	11,662,824	(3,621,244)	(423,523)	894,095	(3,150,672)	8,512,152	7,503,701

* Fleet and equipment balance above includes VLCCs and petrochemical carriers financed by banks and mortgaged in favor of the lending banks as mentioned in Note (15).

(In Thousands Saudi Riyals)

13. SHIPS UNDER CONSTRUCTION AND OTHERS

The movement in the account of ships under construction and others for the year ended December 31 is as follows:

2013	The Company	National Chemical Carriers	Bahri Dry Bulk LLC	Total
Beginning balance	**697,969**	**322,988**	**151,034**	**1,171,991**
Additions	**818,744**	**132,008**	**209,609**	**1,160,361**
Disposals	**-**	**(184,854)**	**-**	**(184,854)**
Transferred to fixed assets	**(1,076,400)**	**(270,142)**	**(124,488)**	**(1,471,030)**
Ending balance	**440, 313**	**-**	**236,155**	**676,468**

2012	The Company	National Chemical Carriers	Bahri Dry Bulk LLC	Total
Beginning balance	316,836	919,832	462	1,237,130
Additions	382,980	102,045	150,922	635,947
Disposals	-	(51,750)	-	(51,750)
Transferred to fixed assets	(1,847)	(647,139)	(350)	(649,336)
Ending balance	697,969	322,988	151,034	1,171,991

Total capitalized borrowing costs during the year 2013 are amounted to SR 10.14 million (2012: SR 13.39 million).

On December 24, 2012, NCC terminated the contract for building the last vessel as a result of SLS's failure to deliver it according to the time schedule specified in the contract signed in 2007 and its amendments signed in 2012. The contract states that NCC has the right to terminate the contract if the delay period exceeded the allowed period. On February 2013, all paid installments were recovered amounting to USD 41.6 million plus compensation. As a result of this settlement, an amount of SR 16.32 million was recognized as other income (note 21).

On 9 January 9, 2014, the Company received a new vessel, specialized in conveying general cargo, has been constructed by Hyundai Mipo in South Korea. This vessel is the fifth one among other six vessels have been agreed to construct it with this shipyard in the year 2011 with a total value of SR 1.543 million , the financial impact of this vessel will be presented effective from the first quarter of the year 2014. Accordingly, the Company still has one outstanding vessel under construction with Hyundai Mipo company, which will be received during the first half of the year 2014.

On November 29, 2013, Bahri Dry Bulk LLC (subsidiary company) received the first specialized vessel to convey bulk cargo among five vessels have been agreed to construct it in 2012 with one of the global shipyards prominent in the field of vessel construction in Japan. On January 2014 the subsidiary company received another vessel. Accordingly, the subsidiary company still has three outstanding vessels under construction, which will be received consecutively during the first half of the year 2014.

14. ACCOUNTS PAYABLE AND ACCRUALS

Accounts payable and accruals at December 31 comprise the following:

	2013	2012
Trade payables	**242,126**	176,287
Value of shares sold belonging to previous shareholders	**22,004**	22,134
Accrued expenses	**17,588**	28,910
Others	**1,047**	2,982
	282,765	230,313

(In Thousands Saudi Riyals)

15. MURABAHA FINANCING AND LONG TERM LOANS

The Group has signed short term Murabaha financing agreements which are primary for financing the working capital of the Group.

The Group has signed various Murabaha financing and long term loans agreements which are primary for financing the building of new VLCCs and petrochemicals carriers and new office in Dubai.

The following table shows the details of the Murabaha financing and long-term loans as at 31 December:

	2013			
Financing:	**The Company**	**Subsidiaries**	**Total**	**%**
Murabaha financing	**1,825,756**	**1,958,186**	**3,783,942**	**76%**
Commercial loans	**32**	**-**	**32**	**0%**
Public Investment Fund "Murabaha financing"	**825,000**	**-**	**825,000**	**17%**
Public Investment Fund finance "commercial loans"	**23,250**	**308,657**	**331,907**	**7%**
Total Murabaha financing and long-term loans	**2,674,038**	**2,266,843**	**4,940,881**	**100%**
Current portion of Murabaha and long-term financing	**(343,592)**	**(220,700)**	**(564,292)**	**-**
Non-current Murabaha financing and long-term loans	**2,330,446**	**2,046,143**	**4,376,589**	**-**

	2012			
Financing:	The Company	Subsidiaries	Total	%
Murabaha financing	1,107,017	2,052,051	3,159,068	67%
Commercial loans	32	344,968	345,000	7%
Public Investment Fund "Murabaha financing"	1,155,000	-	1,155,000	25%
Public Investment Fund finance "commercial loans"	60,750	-	60,750	1%
Total Murabaha financing and long term loans	2,322,799	2,397,019	4,719,818	100%
Current portion of Murabaha financing and long-term loans	(264,858)	(201,227)	(466,085)	-
Non-current portion Murabaha financing and long-term loans	2,057,941	2,195,792	4,253,733	-

- The finance cost is calculated as per the financing agreements at market prevailing rates.
- The Company's fleet and equipment balance includes VLCCs and petrochemical carriers that are financed by banks and pledged as a collateral to the lenders (note 12).

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

	2013	2012
During a year	**564,292**	466,085
From 1 year to 5 years	**2,460,315**	3,145,118
More than 5 years	**1,916,274**	1,108,615
	4,940,881	4,719,818

(In Thousands Saudi Riyals)

16. EARNINGS PER SHARE AND DIVIDENDS

Earnings per share is calculated based on the number of shares outstanding during the years ended December 31, 2013 and 2012 totaling 315 million shares. The earnings per share from non-operating income for the year ended December 31, 2013 amounted to SR 0.80 (2012: SR 0.16).

The General Assembly approved in its meeting held on March 30, 2013 the payment of dividends of 10% of the share capital amounting to SR 315 million, representing SR 1 per share for the year 2012. The balance of unclaimed dividends as at December 31, 2013 amounted to SR 32.09 million (2012: SR 30.94 million).

On 15 Safar 1435H (corresponding to 18 December 2013), the Board of Directors proposed to distribute cash dividends of 10% of the share capital amounting to SR 315 million, representing SR 1 per share for the year 2013. This is subject to the approval of the shareholders at the Annual General Assembly Meeting

17. ZAKAT AND WITHHOLDING TAX

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

The Company and its subsidiaries file their zakat returns separately.

Provision for Zakat and Tax

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

	2013	2012
Zakat and tax provision at the beginning of the year	**118,778**	104,576
Zakat provision for the year	**43,593**	32,945
Withholding tax provision for the year	**6,265**	3,354
Amounts paid during the year	**(29,729)**	(22,097)
Zakat and tax provision at the end of the year	**138,907**	118,778

The Company's Zakat and Tax status

The Company has submitted zakat returns for all years up to 2012, and it has submitted the withholding tax returns up to October 2013. The Department of Zakat and Income Tax ("DZIT") agreed on zakat assessment for all years up to 2000. The Company received an additional zakat and withholding tax assessment for the years 2001 to 2007 amounting to SR 22 million. The Company appealed against these additional assessments and its calculation method to the DZIT. The Company has not received the final zakat assessment for the years from 2008 to 2012.The Company believes that adequate provision is maintained at December 31, 2013 for any potential zakat and withholding tax by the DZIT for the concerned years.

Zakat and Tax status for NCC

The subsidiary company has submitted the zakat returns for all fiscal years up to 2012 and the withholding tax returns up to November 2013 and paid the zakat and withholding taxes due according to these returns. The subsidiary company received additional zakat and withholding tax assessments for the years 1991 to 2004 amounting to SR 54 million. The subsidiary company filed appeals against some items in these assessments and their treatments. In April 2010, the subsidiary company reached an agreement with the DZIT for a final settlement of the above assessments in the amount of Saudi Riyals 54 million, the subsidiary company paid Saudi Riyals 26 million of this amount due during 2011 and the remaining balance is to be paid in installments over five years starting July 2012 . The subsidiary company has received the zakat returns and tax returns for the years 2005 to 2008. The subsidiary company filed appeals against some items in these assessments and their treatments, the appeal is still pending with the DZIT .The subsidiary company believes that the provision for zakat and withholding tax is sufficient as of 31 December 2013.

(In Thousands Saudi Riyals)

17. ZAKAT AND WITHHOLDING TAX – continued

Zakat and Tax status for Bahri Dry Bulk LLC

During 2013, the subsidiary company paid the accrued zakat for the year 2012, and it will submit the zakat and withholding tax returns for the years up to 2013 during 2014. The subsidiary company believes that it maintains an adequate provision for zakat and withholding tax as at December 31, 2013.

18. OTHER LIABILITIES

This item represents the total of amounts received from one of the ships building companies as at December 31, 2013 and 2012 against charging this company with the repair costs of the tanks related to the new six vessels built for National Chemical Carrier Company (subsidiary company). Therefore, it was agreed to charge the ships building company a total amount of US$ 9.8 million (SR 36.750 million), US$ 1.7 million (SR 6.1 million) for each ship. During the year ended December 31, 2013, repair of tanks for one of these vessels was made during its maintenance period, which resulted in saving of SR 5.2 million (2012: nil) and it was recognized as other income (note 21). As the subsidiary company does not have a maintenance plan for the remaining vessels for the next 12 months, this item was classified as non-current liabilities.

19. RELATED PARTY TRANSACTIONS

In its ordinary course of business, the Group deals with related companies on an arms' length basis.

The following are the details of such transactions during the year:

	2013	2012
Revenues	**294,985**	182,922
Pool management fees	**7,650**	6,632
Insurance expenses incurred	**18,380**	20,090

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

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

	2013	2012
ISTC (an affiliate)	**33,278**	12,148

20. GENERAL AND ADMINISTRATIVE EXPENSES

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

	2013	2012
Employees' salaries and benefits	**73,643**	66,526
Depreciation	**3,622**	3,319
Boards of Directors expenses	**2,586**	4,673
Others	**14,299**	8,545
	94,150	83,063

(In Thousands Saudi Riyals)

21. OTHER INCOME, NET

Other income net for the year ended December 31 comprise the following:

	2013	2012
Gains on sale of fixed assets	**75,496**	12,507
Net income from investments	**18,452**	7,337
Settlement for cancellation of a ship under construction (note 13)	**16,316**	-
Increase recoveries from insurance claims	**6,649**	1,485
Settlement for repair of ships (note 18)	**5,242**	-
Impairment in the value of available for sale investment	**(17,667)**	-
Others	**1,369**	(1,194)
	105,857	20,135

22. CAPITAL CONTINGENT LIABILITIES

The Group has capital commitments related to shipyards construction amounting to SR 0.067 billion to build RoRo (RoCon) ships as at 31 December 2013 (2012: SR 0.87 billion). The capital commitments of NCC, a subsidiary company, to build petrochemical ships is nil as at 31 December 2013 (2012: SR 0.98 billion). The capital commitments of the subsidiary company to build bulk transportation ships amounted to SR 0.027 billion as at 31 December 2013 (2012: SR 0.45 billion).

The Group has outstanding letters of guarantee of SR 236.90 million at December 31, 2013 (2012: SR 238.85 million) issued during the normal course of business.

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

(In Thousands Saudi Riyals)

23. SEGMENTAL INFORMATION

A) The table below illustrates the distribution of the Company's and subsidiaries' activities by operating segments as of December 31:

	2013				
	Oil Transportation	**Petrochemical Transportation***	**General Cargo Transportation**	**Dry Bulk Transportation**	**Total**
Operating revenues	**1,506,756**	**663,874**	**562,162**	**113,906**	**2,846,698**
Bunker cost	**(701,566)**	**(109,529)**	**(132,311)**	**-**	**(943,406)**
Other operating expenses:					
Vessel related expenses	**(267,302)**	**(188,136)**	**(46,164)**	**(73,014)**	**(574,616)**
Cargo related expenses	**-**	**-**	**(222,649)**	**-**	**(222,649)**
Voyage related expenses	**(81,051)**	**(62,634)**	**(60,594)**	**-**	**(204.279)**
Depreciation and amortization	**(281,285)**	**(157,037)**	**(20,871)**	**(373)**	**(459,566)**
Others	**(11,761)**	**(5,086)**	**-**	**-**	**(16,847)**
Total other operating expenses	**(641,399**	**(412,893)**	**(350,278)**	**(73,387)**	**(1,477,957)**
Total operating expenses	**(1,342,965)**	**(522,422)**	**(482,589)**	**(73,387)**	**(2,421,363)**
Gross operating income before bunker subsidy	**163,791**	**141,452**	**79,573**	**40,519**	**425,335**
Bunker subsidy	**143,943**	**6,497**	**20,668**	**-**	**171,108**
Gross operating income	**307,734**	**147,949**	**100,241**	**40,519**	**596,443**

- The Group vessels are operating in several parts of the world.

	2012				
	Oil Transportation	Petrochemical Transportation*	General Cargo Transportation	Dry Bulk Transportation	Total
Operating revenues	1,474,477	440,873	510,106	39,172	2,464,628
Bunker cost	(724,631)	-	(150,466)	-	(875,097)
Other operating expenses:					
Vessel related expenses	(246,611)	(162,260)	(50,111)	(30,918)	(489,900)
Cargo related expenses	-	-	(184,870)	-	(184,870)
Voyage related expenses	(87,960)	-	(54,127)	-	(142,087)
Depreciation and amortization	(278,472)	(132,390)	(12,273)	-	(423,135)
Others	(9,956)	3,306	-	-	(13,262)
Total other operating expenses	(622,999)	(297,956)	(301,381)	(30,918)	(1,253,254)
Total operating expenses	(1,347,630)	(297,956)	(451,847)	(30,918)	(2,128,351)
Gross operating income before bunker subsidy	126,847	142,917	58,259	8,254	336,277
Bunker subsidy	157,468	2,164	40,940	-	200,572
Gross operating income	284,315	145,081	99,199	8,254	536,849

* The financial information of NCC and its subsidiary is consolidated effective June 1, 2013. Accordingly, revenue, bunker cost and other operating costs are shown on gross basis.

(In Thousands Saudi Riyals)

23. SEGMENT INFORMATION - continued

B) The table below illustrates the distribution of the Company's and subsidiaries' assets and liabilities by operating segments as of December 31:

2013

	Oil Transportation	Petrochemicals Transportation	General Cargo Transportation	Dry Bulk Transportation	Shared Assets and Liabilities *	Total
Assets	**5,273,014**	**3,490,069**	**1,730,364**	**412,784**	**1,090,297**	**11,996,528**
Liabilities	**1,652,778**	**2,237,139**	**1,224,998**	**184,070**	**510,120**	**5,809,105**

2012

	Crude Oil Transportation	Petrochemicals Transportation	General Cargo Transportation	Dry Bulk Transportation	Shared Assets and Liabilities *	Total
Assets	5,240,417	3,705,071	972,714	208,969	935,387	11,062,558
Liabilities	1,879,601	2,528,093	613,112	7,556	308,451	5,336,813

* Shared assets and liabilities represent amounts which cannot be allocated to a specific segment such as cash, deposits, investments held to maturity, unclaimed dividends, etc.

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

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

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

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

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT - continued

Credit risk

Credit risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. The Group seeks to manage its credit risk with respect to banks by only dealing with reputable banks and with respect to customers by setting credit limits for individual customers, monitoring outstanding receivables and ensuring close follow-ups. At 31 December 2013, trade accounts receivable include balances totaling SR 353 million (2012: SR 65 million) due from Government and quasi-Government institutions.

Liquidity risk

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

Currency risk

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

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio.

Fair value

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

25. AGREEMENTS WITH ARAMCO AND VELA

On November 4, 2012 the Company signed an agreement with Saudi Aramco whereby the total ownership of Vela International Marine Ltd's fleet. (Vela) will be transferred to the Company after obtaining required regulatory approvals. The Vela's fleet consists of fourteen VLCCs, one VLCC for floating storage and five refined petroleum product tankers.

Pursuant to the merger agreement, Bahri will pay Vela a total consideration of approximately SR 4.88 billion (equivalent to US$1.3 billion), consisting of a cash consideration amounting to SR 3.12 billion (equivalent to US$ 832.75 million) in addition to 78.75 million new Bahri shares to be issued to Vela at an agreed price of SR 22.25 per share. The Company's post-merger issued number of shares will be 393.75 million shares and the new shares issued to Vela which are wholly owned by Saudi Aramco will equal 20 % of Bahri's share capital. Aramco will have a fair representation in Bahri's Board. The Company plans to fund the cash consideration through Sharia compliant financing agreements.

According to the terms of a long-term shipping contract for a minimum period of 10 years, the Company will be the exclusive carrier to Saudi Aramco for the transportation of crude oil sold by Saudi Aramco on the FOB basis. According to this contract and to meet Saudi Aramco's future demand which is estimated to be 50 VLCCs the Company plans to best optimize the utilization of its post-merger fleet which will total 31 VLCCs in addition to charter VLCCs when necessary.

The long-term shipping contract includes an agreed upon terms to protect the Company when freight rates falls below the minimum agreed limit. On the other hand, if freight rates increased above specific limit agreed upon (compensation limit), the Company will compensate Saudi Aramco against the amounts paid to the Company upon the fall of freight prices below the minimum limit.

Bahri and Vela have also agreed on temporary arrangements for the operation of the VLCCs owned currently by Bahri within Saudi Aramco's program to transport oil via VLCCs. The temporary arrangement started on Safar 19, 1434H (corresponding to January 1, 2013) until the long-term shipping contract becomes effective according to the terms of the merger agreement.

The merger agreement is subject to various terms including the approval of the Extraordinary General Assembly of the Company on the merger and capital increase and obtaining other regulatory approvals such as the Capital Market Authority and the Supreme Council for Petroleum and Mineral Affairs which is in process. The approval of the Competition Protection Council in Saudi Arabia has already been obtained.

26. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The board of directors has approved the consolidated financial statements for the year ended 31 December 2013 on 23 Rabie' Thani 1435H (corresponding to 23 February 2014).

27. RECLASSIFICATIONS

Certain amounts previously reported in the 2012 consolidated financial statements have been reclassified to conform to the current year presentation.

THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA (BAHRI) CONSOLIDATED AUDITED FINANCIAL STATEMENTS (AND AUDIT REPORT THEREON) FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

Bahri البحري

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

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
AND INDEPENDENT AUDITOR'S REPORT**

Bahri البحري

THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA
(A Saudi Joint Stock Company)
Consolidated Financial Statements
For the year ended December 31, 2012
Together with the Auditor's report

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Accountants & Consultants

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INDEPENDENT AUDITOR'S REPORT

To: THE SHAREHOLDERS OF
Bahri (The National Shipping Company of Saudi Arabia)

Riyadh, Saudi Arabia

Scope of Audit:

We have audited the accompanying consolidated balance sheet of **Bahri (The National Shipping Company of Saudi Arabia)** (A Saudi Joint Stock Company) ("the Company") as of December 31, 2012 and the related consolidated statements of income, cash flows and changes in owners' equity for the year then ended, including the related notes from 1 to 25. The accompanying consolidated financial statements are the responsibility of the Company's management and have been prepared by them in accordance with the provisions of the Regulations for Companies and presented to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion:

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

- present fairly, in all material respects, the consolidated financial position of **Bahri (The National Shipping Company of Saudi Arabia)** as of December 31, 2012 and the consolidated results of its operations, cash flows and changes in owners' equity for the year then ended in conformity with generally accepted accounting principles in the Kingdom of Saudi Arabia; and
- comply with the requirements of the Regulations for Companies and the Company's Articles of Association with respect to the preparation and presentation of consolidated financial statements.

For Dr. Mohamed Al-Amri & Co.

Riyadh
Dr. Mohamed Al-Amri & Co.

Gihad Al-Amri
Certified Public Accountant
Registration No. 362

February 23, 2013 G
Rabi Thani 13, 1434 H

Bahri البحري

The National Shipping Company of Saudi Arabia
(A Saudi Joint Stock Company)
Consolidated Balance Sheet
As of December 31, 2012
(In Thousands Saudi Riyals)

		December 31,	
ASSETS	**Notes**	**2012**	**2011**
Current assets:			
Cash in hand and at banks	3	**99,605**	144,798
Investments in Murabaha and short-term deposits	3,4	**292,656**	274,469
Trade receivables and other debit balances, net	5	**350,810**	288,496
Prepaid expenses		**19,340**	40,457
Bareboat lease receivable, net	6	**10,143**	7,538
Agents' current accounts		**33,860**	21,278
Inventories	7	**132,068**	145,049
Investments held for trading		**26,384**	20,312
Accrued bunker subsidy, net	8	**130,946**	87,779
Incomplete voyages		**21,375**	12,104
Total current assets		**1,117,187**	1,042,280
Non-current assets:			
Investment in financial assets		**40,587**	30,587
Bareboat lease receivable, net	6	**394,679**	404,822
Investments available for sale		**26,634**	26,903
Investments in affiliates	9	**683,182**	561,432
Deferred dry-docking costs, net	10	**98,675**	67,203
Fixed assets, net	11	**7,518,396**	7,252,854
Ships under construction and other	12	**1,184,269**	1,237,130
Total non-current assets		**9,946,422**	9,580,931
Total assets		**11,063,609**	10,623,211
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable and other credit balances	13	**231,364**	288,907
Current portion of Murabaha financing and long-term finance	14	**466,085**	456,045
Short term finance		**160,000**	64,000
Unclaimed dividends	15	**30,941**	30,720
Provision for zakat and tax	16	**118,778**	104,576
Total current liabilities		**1,007,168**	944,248
Non-current liabilities:			
Murabaha financing and long-term finance	14	**4,253,733**	4,294,968
Employees' end of service benefits provision		**40,213**	28,058
Other liabilities		**36,750**	-
Total non-current liabilities		**4,330,696**	4,323,026
Total liabilities		**5,337,864**	5,267,274
Equity:			
Shareholders' equity			
Paid-up share capital		**3,150,000**	3,150,000
Statutory reserve	2t	**922,834**	872,435
Retained earnings		**1,020,748**	882,154
Proposed dividends	15	**315,000**	157,500
Unrealized gain from available for sale investments		**2,332**	534
Total shareholders' equity		**5,410,914**	5,062,623
Non-controlling interests		**314,831**	293,314
Total equity		**5,725,745**	5,355,937
Total liabilities and equity		**11,063,609**	10,623,211

The accompanying notes from (1) to (25) form an integral part of these consolidated financial statements

Bahri البحري

The National Shipping Company of Saudi Arabia
(A Saudi Joint Stock Company)
Consolidated Statement of Income
For the year ended December 31, 2012
(In Thousands Saudi Riyals)

	Notes	2012	2011
Operating revenues	17	**2,464,628**	1,991,084
Bunker costs	17	**(875,097)**	(801,163)
Other operating expenses	17	**(1,215,600)**	(1,027,214)
Gross operating income before bunker subsidy		**373,931**	162,707
Bunker subsidy		**200,572**	176,465
Gross operating income		**574,503**	339,172
General and administrative expenses	19	**(120,717)**	(109,660)
Operating income		**453,786**	229,512
Company's share in profit of affiliates	9	**147,660**	139,723
Finance charges	14	**(59,772)**	(51,901)
Other income / (expenses), net	20	**20,135**	20,553
Profit before zakat, tax and non-controlling interests		**561,809**	337,887
Zakat provision	16	**(32,945)**	(21,594)
Tax provision, net	16	**(3,354)**	(3,903)
Profit before non-controlling interests		**525,510**	312,390
Non-controlling interests in consolidated subsidiaries' net profit		**(21,517)**	(24,622)
Net profit for the year		**503,993**	287,768
Earnings per share from operating income (SR)	15	**1.44**	0.73
Earnings per share from net profit (SR)	15	**1.60**	0.91

The accompanying notes from (1) to (25) form an integral part of these consolidated financial statements

Bahri البحري

The National Shipping Company of Saudi Arabia
(A Saudi Joint Stock Company)
Consolidated Statement of Cash Flows
For the year ended December 31, 2012
(In Thousands of Saudi Riyals)

	Note	2012	2011
Cash flows from operating activities:			
Net profit for the year		503,993	287,768
Adjustments to reconcile net profit to net cash provided by operating activities:			
Depreciation	11	392,179	352,308
Amortization of deferred dry-docking costs	10	38,058	28,264
Unrealized gain on investments held for trading		(6,072)	(1,485)
Company's share in profit of affiliates	9	(147,660)	(139,723)
Gains from sale of fixed assets	20	(12,507)	(99)
Non-controlling interests in consolidated subsidiaries' net profit		21,517	24,622
Provision for zakat	16	32,945	21,594
Provision for tax, net	16	3,354	3,903
Employees' end of service benefits provision, net		12,155	(3,534)
Changes in operating assets and liabilities:			
Trade receivables and other debit balances, net		(62,314)	(113,253)
Prepaid expenses		21,117	(358)
Bareboat lease receivable		7,538	6,614
Agents' current accounts		(12,582)	(6,131)
Inventories		12,981	(11,683)
Accrued bunker subsidy, net		(43,167)	(21,884)
Accounts payable and other credit balances		(57,543)	34,550
Zakat and tax paid	16	(22,858)	(51,272)
Tax refund related to a subsidiary	16	761	922
Incomplete voyages		(9,270)	(12,804)
Net cash provided by operating activities		672,625	398,319
Cash flows from investing activities:			
Investments in Murabaha and short-term deposits		(43,395)	3,476
Investment in government bonds		-	17
Investments held to maturity		(10,000)	-
Investments available for sale		2,067	1,104
Investments in affiliates	9	(10,000)	-
Dividends from affiliates	9	35,910	34,087
Additions to fixed assets	11	(23,912)	(390,957)
Proceeds from sale of fixed assets		28,034	296
Ships under construction and other, net	12	(596,475)	(1,025,775)
Deferred dry-docking costs	10	(69,530)	(61,745)
Net cash used in investing activities		(687,301)	(1,439,497)
Cash flows from financing activities:			
Financing from short-term Murabaha		96,000	64,000
Murabaha financing and long-term loans		657,583	934,565
Repayments of Murabaha financing and long-term loans		(688,778)	(326,740)
Other liabilities		36,750	-
Dividends paid		(157,279)	(311,176)
Change in non-controlling interests		-	(20,000)
Net cash (used in) / provided by financing activities		(55,724)	340,649
Net change in cash and cash equivalents during the year		(70,400)	(700,529)
Cash and cash equivalents at the beginning of the year		384,820	1,085,349
Cash and cash equivalents at the end of the year		314,420	384,820
Non-cash items:			
Transfer from ships under construction and other to fixed assets	11, 12	649,336	800,111
Deferred charges transferred to fixed assets	10	-	6,661
Unrealized (gain) / loss from available for sale investments		(1,798)	1,570

The accompanying notes from (1) to (25) form an integral part of these consolidated financial statements

Bahri البحري

The National Shipping Company of Saudi Arabia
(A Saudi Joint Stock Company)
Consolidated Statement of Changes in Shareholders' Equity
For the year ended December 31, 2012
(In Thousands Saudi Riyals)

	Paid-up share capital	Statutory reserve	Retained earnings	Proposed dividends	Hedging reserve	Unrealized gain from available for sale investments	Total
Balance at December 31, 2010	3,150,000	843,658	1,095,663	—	(1,734)	2,104	5,089,691
Net profit for the year	—	—	287,768	—	—	—	287,768
Statutory reserve	—	28,777	(28,777)	—	—	—	—
Hedging reserve for finance commission	—	—	—	—	1,734	—	1,734
Dividends for 2010	—	—	(315,000)	—	—	—	(315,000)
Proposed dividends for 2011	—	—	(157,500)	157,500	—	—	—
Unrealized loss from available for sale investments	—	—	—	—	—	(1,570)	(1,570)
Balance at December 31, 2011	3,150,000	872,435	882,154	157,500	—	534	5,062,623
Net profit for the year	—	—	503,993	—	—	—	503,993
Statutory reserve	—	50,399	(50,399)	—	—	—	—
Dividends for 2011	—	—	—	(157,500)	—	—	(157,500)
Proposed dividends for 2012	—	—	(315,000)	315,000	—	—	—
Unrealized gain from available for sale investments	—	—	—	—	—	1,798	1,798
Balance at December 31, 2012	3,150,000	922,834	1,020,748	315,000	—	2,332	5,410,914

The accompanying notes from (1) to (25) form an integral part of these consolidated financial statements

1. ORGANIZATION AND OPERATIONS

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

The Company is primarily engaged in purchasing, chartering and operating vessels for the transportation of cargo and other activities related to the sea shipping industry. The Company has operations through four distinct segments which are very large crude carriers (VLCCs), chemical transportation, general cargo (liner), and dry bulk transportation.

The authorized and paid-up capital of the Company is SR 3,150 million, comprising 315 million shares with nominal value of SR 10 each as of December 31, 2012 and 2011.

The Company owns seventeen Very Large Crude Carriers (VLCCs), two of which are chartered to Hanjin Company (a Korean company) and fifteen are operating in the spot market. In addition, the Company owned four Roll-On Roll-Off (RoRo) vessels operating on the liner trade between North America, Europe, the Middle East and the Indian Subcontinent.

National Chemical Carriers Ltd. Co. (a Subsidiary owned 80% by the Company and 20% by SABIC) owns twenty three chemical tankers, out of which three were leased to Odfjell SE ("Odfjell"), a Norwegian company, on January 30, 2009 under a bareboat capital lease arrangement (Note 6), eleven are operating in a pool with NCC-Odfjell Chemical Tankers JLT, eight are chartered to International Shipping and Transportation Company Limited (ISTC), a subsidiary of Saudi Basic Industries Corporation (SABIC), and one is chartered out to Saudi International Petrochemical Company (SIPCHEM).

The Subsidiary signed a 50 percent joint venture agreement with "Odfjell SE" on Jumada Thani 22, 1430H, corresponding to June 15, 2009G to establish an equally owned company in Dubai (United Arab Emirates), by the name of NCC-Odfjell Chemical Tankers JLT (hereinafter referred to as "Joint Venture"), to commercially operate the two companies' combined fleets of coated chemical tankers in a pool for transportation of petrochemicals, vegetable oils and refined petroleum products on a world-wide basis with its focus on the growing production and export markets of the Arabian Gulf Region. The new company commenced operations in 2010.

On August 28, 2010, the Company entered into an agreement with Arabian Agricultural Services Company (ARASCO) to establish a new subsidiary "Bahri Dry Bulk Company LLC" for dry bulk transportation with a capital of SR 200 million, of which 60% is owned by the Company and 40% by ARASCO. The full capital contributions had been made by the shareholders as of March 31, 2011. The new subsidiary commenced its commercial operations in the second quarter of 2012.

The accompanying consolidated financial statements include the activities of the Company and its subsidiaries, in which the Company owns more than 50% of owners' equity and/or has control over those subsidiaries. The Company has established and/or invested in the following subsidiaries and affiliates:

(In Thousands Saudi Riyals)

Name	Activity	Location	Date of incorporation	Effective Ownership % 2012	Effective Ownership % 2011
Consolidated Subsidiaries:					
NSCSA (America) Inc.	Company's ships agent	USA	1991	100 %	100 %
Mideast Ship Management Ltd. (Bermuda) *	Ship management	Dubai	1996	-	100 %
National Chemical Carriers Ltd. Co. (NCC)	Petrochemicals transportation	Riyadh	1990	80 %	80 %
Bahri Dry Bulk LLC	Bulk transportation	Riyadh	2010	60%	60%
Mideast Ship Management Ltd. (JLT) *	Ship management	Dubai	2010	100%	100%

Name	Accounting Method	Activity	Location	Date of incorporation	Effective Ownership % 2012	Effective Ownership % 2011
Affiliates:						
Petredec Ltd.	Equity	Liquefied petroleum gas transportation	Bermuda	1980	30.3 %	30.3 %
NCC-Odfjell Chemical Tankers * *	Equity	Pertochemicals transportation	Dubai	2009	40%	40%
Arabian United Float Glass Co.	Cost	Glass manufacturing & trading	Riyadh	2006	10%	10%

* For organizational and restructuring purposes, the Company established a new wholly-owned subsidiary, Mideast Ship Management Ltd. (JLT), in the Free Zone of Dubai in the United Arab Emirates on October 31, 2010 with a share capital of Emirati Dirhams 300,000. The purpose of this restructuring was to transfer the operations of Mideast Ship Management Ltd (Bermuda) to the new company. The two subsidiaries signed a business transfer agreement to transfer the operations between them as of June 7, 2011. The legal procedures for transferring the assets and liabilities from Mideast Ship Management Ltd. (Bermuda) to Mideast Ship Management Ltd. (JLT) were finalized during the second quarter of 2011 and the license of Mideast Ship Management Ltd. (Bermuda) was canceled on December 12, 2011.

The above transaction and arrangement did not have any effect on the consolidated financial statements of the Company.

** A company owned 50% by National Chemical Carriers Limited and accordingly the indirect ownership for the Company is 40%.

2. SIGNIFICANT ACCOUNTING POLICIES

a) *Accounting convention*

The accompanying consolidated financial statements are prepared in accordance with the accounting standards issued by the Saudi Organization for Certified Public Accountants (SOCPA) and under the historical cost convention, except for the investment in financial instruments and derivative financial instruments, which are at fair value. The Company applies the accruals basis of accounting in recognizing revenues and expenses.

b) Period of financial statements

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

c) Basis of consolidation

For the purpose of consolidating accounts, inter-company transactions and balances are eliminated in the consolidation process. Non-controlling interests relating to third parties (other partners in the subsidiaries) are also accounted for in the subsidiaries' net assets and income.

d) Use of estimates

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

e) Accounting for finance leases

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

The Company accounts for the assets acquired under a lease arrangement as a finance lease when the lease transfers to the lessee (the "Company") substantially all the benefits and risks incidental to the ownership of the leased assets.

f) Cash and cash equivalents

For the purpose of preparing the consolidated statement of cash flows, cash and cash equivalents represent cash in hand, bank balances, investment 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.

g) Investments

1- Investments in affiliates and others:

Investments in affiliates in which the Company has significant influence, but no control, over the investee's financial and operational policies, usually owns an equity interest ranging between 20% and 50%, are accounted for using the equity method. When the Company acquire an interest in an associate for an amount in excess of the fair value of purchased net assets, the difference is recorded as goodwill as part of the investment account. Goodwill is stated net after deducting impairment losses, if any.

2- Investments in financial instruments:

Investments in financial instruments represent investments in mutual funds units and investment portfolios managed by local banks, which were classified into three categories as follows:

- Investments held to maturity

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

- Investments held for trading

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

- Investments available for sale

Certain investments are classified as available for sale when the conditions of classification as investments held to maturity or for trading are not met. The available for sale investments are stated at fair value. Unrealized gains or losses are recognized under shareholders' equity, whereas the realized gains or losses from the redemptions of units are recognized in the consolidated statement of income in the period in which these units are redeemed. If there is a permanent decline in the value of these investments or objective evidence for impairment, the unrealized loss is transferred to the consolidated statement of income. If the Company intends to sell the investment available for sale within 12 months from the date of the consolidated financial statements, it is reported under current assets, otherwise under non-current assets.

If the fair value of the above mentioned investment is not available, cost is considered the most appropriate alternative.

h) Inventories

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

i) Deferred dry-docking costs

Deferred dry-docking costs are amortized over a period of two to five years from the date of completion of dry-docking, depending on the type of vessel. Where a vessel undergoes another dry-docking operation during the specified amortization period, any unamortized balance of deferred costs related to the previous dry-docking of the vessel is amortized in the consolidated statement of income in the period that ends at the beginning of the new dry-docking operation.

(In Thousands Saudi Riyals)

j) ***Fixed assets, net***

Fixed assets are recorded at actual cost and are depreciated using the straight-line method to allocate the costs of the related assets over the estimated useful lives using the following depreciation rates:

Buildings and improvements	From 5 to 33.3%
Fleet and equipment *	From 4 to 15%
Containers and trailers	From 8.33 to 20%
Furniture and fixtures	10%
Tools and office equipment	From 2.5 to 25%
Motor vehicles	From 20 to 25%
Computer equipment	From 15 to 25%
Container yard	From 10 to 25%
Others	From 7 to 15%

* RoRo vessels are depreciated over a period of twenty years, while VLCCs are depreciated over a period of twenty-five years. Used vessels are depreciated based on their estimated remaining useful lives. Residual value is calculated at 10% of the vessels' cost. RoRos' equipment are depreciated over a period of fifteen years.

Gains or losses from disposal of fixed assets are determined by comparing proceeds with the book value and are recorded in the consolidated statement of income.

Maintenance and normal repairs which do not materially extend the estimated useful life of an asset are charged to the consolidated statement of income as and when incurred. Major renewals and improvements, if any, are capitalized and the assets so replaced are retired.

k) ***Impairment of non-current assets***

The book value of non-current assets is reviewed for any indication of loss as a result of impairment. If such indication exists, the impairment test is performed. If impairment exists, the recoverable amount, which is the asset's fair value less cost to sell or the gross future discounted cash flows, whichever is higher, is estimated to identify the loss amount. If the recoverable amount cannot be determined for an asset by itself, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

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

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

l) Employees' end of service benefits provision

Employees' end of service benefits provision is provided for on the basis of accumulated services period in accordance with the policy of the Company and in conformity with Saudi Labor Law. End of service benefits in respect of subsidiaries outside the Kingdom of Saudi Arabia are provided for based on the applicable regulations applied to these subsidiaries.

m) Revenue recognition

The Company has adopted the completed voyage policy to determine the revenues and expenses for the year for complete and incomplete voyages.

- **General Cargo Transportation:** the Company follows the complete voyage policy in determining the revenues and expenses of the year for vessels transporting general cargo (RoRo). A voyage is considered to be a "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".
- **Crude Oil Transportation:** the Company follows the complete voyage policy in determining the revenues and expenses 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 unloading the current voyage load at the final destination port.

Revenues from chartering and other associated activities are recorded when services are rendered and are recorded in conformity with contract periods, voyages durations, and agreed upon services. Other income is recorded when earned.

n) Bunker subsidy

Bunker subsidy is computed on bunker quantities purchased and recorded in the consolidated statement of income on purchase. Provisions are made against any amounts that might not be collectable.

o) Expenses

Direct and indirect operating costs are classified as operating expenses and all other expenses are classified as general and administrative expenses.

p) Borrowing costs

Borrowings are recognized at the proceeds received, net of transactions costs incurred. Borrowing costs that are directly attributable to the acquisition, construction and production of qualifying assets are capitalized as part of those assets. Other borrowing costs are charged to the consolidated statement of income.

q) Foreign currency transactions

Foreign currency transactions are translated into Saudi Riyals at prevailing exchange rates on the transaction date. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Saudi Riyals at the prevailing exchange rates on that date. Gains and losses resulting from fluctuation of exchange rates, which were not significant for 2012 and 2011, are recognized in the consolidated statement of income.

Assets and liabilities of the consolidated subsidiaries denominated in foreign currencies are converted into Saudi Riyals at exchange rates prevailing at the consolidated balance sheet date. Revenues and expenses of the consolidated subsidiaries denominated in foreign currencies are converted into Saudi Riyals at average exchange rates during the year. The components of shareholders' equity, excluding retained earnings (deficit), are converted applying the exchange rates prevailing at the dates the related items originated.

Exchange differences arising from such conversion, if material, are included in a separate line item under shareholders' equity.

r) ***Zakat and taxes***

Provision for zakat is computed in accordance with the Regulations of the Department of Zakat and Income Tax (DZIT) and charged to the consolidated statement of income based on the higher of zakat base or adjusted net income for each individual company. Provision is made for withholding tax on payments made to non-resident parties and is charged to the consolidated statement of income. For subsidiaries outside the Kingdom of Saudi Arabia, provisions for tax are computed in accordance with the regulations applicable in the respective countries and are charged to the consolidated statement of income.

s) ***Hedging reserve for loans commission***

The Company uses commission rate swaps and caps agreements to hedge its long-term loans against fluctuations in market commission rates. Changes in the fair market value of the commission rate swaps that qualifies for hedge accounting, if any, are recorded in the hedging reserve which is included in shareholders' equity; the hedging reserve is adjusted based on the periodical valuation of commission rate swaps.

t) ***Statutory reserve***

In accordance with article 125 of the Saudi Arabian Regulations for Companies, the Company is required to transfer 10% of net income to the statutory reserve until such reserve equals 50% of the paid-up capital. This reserve is not available for distribution to shareholders in accordance with Article 126 of the Regulations for Companies.

u) ***Earnings per share and proposed dividends***

Earnings per share from operating income, other operations and net profit is calculated based on the weighted average number of shares outstanding during the year. Dividends proposed for payment after the year end are treated as a part of retained earnings and not as liabilities, unless the General Assembly's approval was before the end of the year. Once approved by the General Assembly, the amount is recognized as a liability in the same period until paid.

v) ***Trade accounts receivable***

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

w) ***Segment reporting***
Business segment.

A business segment is a group of assets, operations or entities:

- engaged in revenue producing activities;

(In Thousands Saudi Riyals)

- results of its operations are continuously analyzed by management in order to make decisions related to resource allocation and performance assessment; and
- financial information is separately available.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2012 represent cash in hand and at banks and Murabaha and short-term deposits, including amounts subject to bank restrictions for letters of guarantee issued for the Jeddah Islamic Port (2012: SR nil and 2011: SR 0.03 million).

It also includes SR 76.73 million as of December 31, 2012 (2011: SR 33.3 million) restricted for repayment of loan installments falling due within 180 days from the balance sheet date.

It also includes restricted cash of SR 0.57 million as of December 31, 2012 (2011: SR 0.57 million) in respect of Mideast Ship Management Ltd., and SR 0.54 million as of December 31, 2012 (2011: SR 0.54 million) in respect of The National Shipping Company of Saudi Arabia (America) Inc.

For the purpose of preparing the statement of cash flows, cash and cash equivalents as of December 31 comprises the following:

	2012	2011
Cash in hand and at banks	99,605	144,798
Amounts restricted by banks	(10,657)	(16,563)
	88,948	128,235
Investment in Murabaha and short-term deposits	292,656	274,469
Amounts restricted by banks	(67,184)	(17,884)
	225,472	256,585
Cash and cash equivalents balance at the end of the year	314,420	384,820

4. INVESTMENTS IN MURABAHA AND SHORT-TERM DEPOSITS

	2012	2011
Investments in Murabaha and short-term deposits in Saudi Riyals	86,930	200,031
Investments in Murabaha and short-term deposits in USD	203,684	34,691
Investments in Murabaha and short-term deposits in AED	2,042	39,747
	292,656	274,469

5. TRADE RECEIVABLES AND OTHER DEBIT BALANCES, NET

	2012	2011
Trade receivables	322,584	243,185
Insurance claims	15,223	35,053
Employee receivables	12,412	10,469
Other debit balances	13,768	12,375
	363,987	301,082
Provision for doubtful debts	(13,177)	(12,586)
	350,810	288,496

Movement in provision for doubtful debts is as follows:

	2012	2011
Balance at the beginning of the year	12,586	19,418
Additions	7,600	5,290
Write-offs	(7,009)	(12,122)
Balance at the end of the year	13,177	12,586

(In Thousands Saudi Riyals)

6. BAREBOAT LEASE RECEIVABLE, NET

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

Description	2012	2011
Future minimum lease payments	**411,418**	467,005
Unguaranteed residual value at the end of the lease term	**247,875**	247,875
	659,293	714,880
Unearned income	**(254,471)**	(302,520)
Net bareboat lease receivable balance	**404,822**	412,360

The above amount is classified at December 31 as follows:

Description	2012	2011
Current	**10,143**	7,538
Non-current	**394,679**	404,822
Net bareboat lease receivable balance	**404,822**	412,360

The future minimum lease payments and unguaranteed residual value at the end of lease term to be received during the next five years and thereafter is as follows:

	2012	2011
Due within 12 months	**57,313**	55,586
Due within 1-2 years	**61,245**	57,313
Due within 2-3 years	**65,351**	61,245
Due within 3-4 years	**69,649**	65,351
Due within 4-5 years	**73,564**	69,649
Thereafter	**332,171**	405,736
	659,293	714,880

Income related to the above arrangement for the year ended December 31, 2012 amounted to SR 48.05 million (2011: SR 48.82 million) and is included in operating revenues in the accompanying consolidated statement of income.

7. INVENTORIES

Inventories on board the ships at December 31 comprised the following:

	2012	2011
Fuel	**108,103**	122,835
Lubricants and others	**23,965**	22,214
	132,068	145,049

(In Thousands Saudi Riyals)

8. ACCRUED BUNKER SUBSIDY, NET

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

	2012	2011
Accrued bunker subsidy	**169,480**	130,374
Provision for doubtful bunker subsidy	**(38,534)**	(42,595)
	130,946	87,779

9. INVESTMENTS IN AFFILIATES AND OTHER

The movement in investments in affiliates and other for the year ended December 31 is as follows:

	2012	2011
Balance, beginning of the year	**561,432**	455,796
Company's share in profit of affiliates	**147,660**	139,723
Additional investment in Arabian United Float Glass Company	**10,000**	-
Dividends received during the year	**(35,910)**	(34,087)
Balance, end of the year	**683,182**	561,432

A - Petredec Ltd.

Petredec Ltd. was incorporated on February 20, 1980 under the laws of Bermuda. It specializes in Liquefied Petroleum Gas (LPG) trading and shipping. The registered office of the company is located in Bermuda and the company also has offices in Monaco, Singapore and Bahamas. The Company signed an agreement on February 22, 2005 to acquire a 30.3% share of the capital of Petredec Ltd. for a total amount of SR 187.5 million (equivalent to USD 50 million).

The difference between the net investment value and the value of the net assets acquired of SR 119.18 million was considered as goodwill and is included as part of the carrying value of the investment.

As the year-end for Petredec is different from the Company's year-end, the share of the Company in its net profit/loss is included in the books according to the latest financial statements prepared by Petredec. The difference between the latest financial statement prepared by Petredec and the Company's consolidated financial statements is two months. The fiscal year for Petredec starts on September 1 and ends on August 31 of each Gregorian year.

The Company's share in Petredec's net profit amounted to SR 143.87 million up to October 31, 2012 (October 31, 2011: SR 135.38 million), which includes the share of the company in unrealized losses of SR 19.77 million and unrealized gain of SR 46.69 million on open commodity swap contracts as at October 31, 2012 and 2011 respectively.

B - Arabian United Float Glass Company

The Company signed a contract for establishing Arabian United Float Glass Company as a founding member. It was established by Ministerial Decision No. (1299) dated Jumada Awwal 11, 1427H (corresponding to June 8, 2006). An investment of SR 20 million was made for the ownership of 2 million fully paid shares, representing 10% of the share capital. In addition, the Company had paid an amount of SR 1.2 million as of December 31, 2012 representing its share in establishment and development costs. This company is engaged in manufacturing of float glass and commenced its operations in April 2009.

(In Thousands Saudi Riyals)

The Company subscribed SR 10 million in a rights issue representing 1 million additional shares. Accordingly, the total investment became SR 30 million and remained at 10% of the share capital.

C **- NCC-Odfjell Chemical Tankers JLT (hereinafter referred as "Joint Venture")**

NCC signed a 50 percent joint venture agreement with Odfjell on Jumada Thani 22, 1430H (corresponding to June 15, 2009) 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 chemical tankers in a pool for transportation of petrochemicals, vegetable oils and refined petroleum products on a world-wide basis with its focus on the growing production and export markets of the Arabian Gulf Region. The Joint Venture commenced operations in 2010.

NCC's share in the net income of the Joint Venture amounted to SR 3.79 million (2011: SR 4.34 million) which is included in the consolidated statement of income.

10. DEFERRED DRY-DOCKING COSTS, NET

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

	2012	**2011**
Total dry-docking costs	**329,679**	260,149
Accumulated amortization expense	**(231,004)**	(192,946)
	98,675	67,203

Movement in the dry-docking costs is as follows:

	2012	**2011**
Balance, beginning of the year	**67,203**	40,383
Additional dry-docking costs	**69,530**	61,745
Transfer to fixed assets	-	(6,661)
Amortization expense	**(38,058)**	(28,264)
Balance, end of the year	**98,675**	67,203

(In Thousands Saudi Riyals)

11. FIXED ASSETS, NET

Movement in fixed assets during the year 2012 was as follows:

	Cost				Accumulated Depreciation				Net Book Value		
Particulars	Balance at 01.01.2012	Additions /transfers during the year	Disposals	Balance at 31.12.2012	Balance at 01.01.2012	Charged for the year	Disposals	Balance at 31.12.2012	31.12.2012	31.12.2011	Depreciation Rate %
Land	13,593	1,847	(15,440)	—	—	—	—	—	—	13,593	—
Buildings and improvements	43,394	525	—	43,919	(5,227)	(2,097)	—	(7,324)	36,595	38,167	5 - 33.3 %
Fleet and equipment *	10,294,891	668,516	—	10,963,407	(3,110,836)	(385,430)	—	(3,496,266)	7,467,141	7,184,055	4 - 15%
Containers and trailers	54,992	—	(2,616)	52,376	(54,858)	—	2,557	(52,301)	75	134	2-8.33%
Furniture and fixtures	6,694	63	(1)	6,756	(4,715)	(420)	1	(5,134)	1,622	1,979	10%
Tools and office equipment	4,035	32	—	4,067	(3,751)	(103)	—	(3,854)	213	284	2.5 - 25%
Motor vehicles	1,559	264	(137)	1,686	(1,317)	(218)	110	(1,425)	261	242	20 - 25%
Computer equipment	52,886	1,177	(36)	54,027	(40,264)	(3,590)	36	(43,818)	10,209	12,622	15 - 25%
Container yard	12,276	824	(190)	12,910	(10,533)	(306)	189	(10,650)	2,260	1,743	10 - 25%
Others	492	—	—	492	(457)	(15)	—	(472)	20	35	7 - 15%
Total	10,484,812	673,248	(18,420)	11,139,640	(3,231,958)	(392,179)	2,893	(3,621,244)	7,518,396	7,252,854	

* Fleet and equipment above includes VLCCs and petrochemical carriers financed by banks and mortgaged in favor of the lending banks as mentioned in Note 14.

(In Thousands Saudi Riyals)

12. SHIPS UNDER CONSTRUCTION AND OTHERS

At December 31, 2012, the balance of ships and other assets under construction represents amounts invested by the Company and its subsidiaries as follows:

The Company

On March 6, 2011, the Company signed four RoRo/Container (RoCon) vessel contracts with Hyundai MIPO of South Korea for a total cost of SR 1.03 billion (USD 274.2 million). Further, on September 12, 2011, the Company exercised its option to buy two additional RoRo vessels under the above agreement with the same agreed specifications and price for a total cost of SR 0.51 billion (USD 137.1 million). Accordingly, the Company has six general cargo ships under construction for a total cost of SR 1.54 billion (USD 411.3 million).

The Company had paid an amount of SR 668.36 million (USD 178.23 million) as at December 31, 2012 representing installments due on those contracts. It is expected that four of the above mentioned vessels will be delivered during 2013 and the remaining two during 2014.

The Subsidiary ("NCC")

NCC (a Subsidiary owned 80% by the Company) signed a contract with ShinaSB Yard Co. Ltd. ("SLS") of South Korea in 2007 to build six petrochemical carriers for a total cost of SR 1.2 billion (USD 312 million). These tankers were scheduled to be delivered during the period 2010 through 2012. One vessel was received in September 2011 and another four vessels were received during 2012 and were put into operation in the pool arrangement with NCC Odjfell Company.

On December 24, 2012, NCC terminated the contract for building the last vessel as a result of SLS's failure to deliver it according to the time schedule specified in the contract that was signed in 2007 and its amendment that was signed in 2012. The contract states that NCC has the right to terminate the contract if the delay period exceeded the allowed period. The contract also grants to NCC a refund of all installments paid amounting to USD 41.6 million which is guaranteed by the Export-Import Bank of Korea, plus compensation.

NCC also signed a contract on July 4, 2010 with Daewoo Shipbuilding and Marine Engineering Co. Ltd. of South Korea to build a specialized chemical tanker for a total price of approximately SR 245 million (USD 65.3 million) with expected delivery during 2013.

Bahri Dry Bulk Company LLC ("a subsidiary")

Bahri Dry Bulk Company LLC (a Subsidiary owned 60% by the Company) signed a contract in April 2012 with a leading international shipyard to build five vessels specialized in bulk transportation, for a total cost of SR 600.42 million (US$ 160.11 million). One vessel will be delivered during the fourth quarter of 2013 and the remaining vessels will be delivered during the first half of the year 2014.

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

	2012	2011
Balance, beginning of the year	**1,237,130**	1,011,466
Additions	**596,475**	1,025,775
Transfers to fixed assets	**(649,336)**	(800,111)
Balance, end of the year	**1,184,269**	1,237,130

Capital commitments

The Company's capital commitments for constructing RoCon vessels amounted to SR 0.87 billion as of December 31, 2012 (2011: SR 1.23 billion). The Subsidiary's capital commitments for constructing chemical tankers amounted to SR 98 million as of December 31, 2012 (2011: SR 342 million). In addition, the capital commitment in respect of another subsidiary for building dry bulk vessels amounted to SR 450.42 million as at December 31, 2012 (2011: Nil).

(In Thousands Saudi Riyals)

13. ACCOUNTS PAYABLE AND OTHER CREDIT BALANCES

Accounts payable and other credit balances at December 31 comprise the following:

	2012	2011
Trade payables	1,543	9,155
Accrued operating expenses	177,649	226,025
Accrued insurance expenses	14,897	19,921
Accrued finance charges	14,013	11,501
Value of shares sold belonging to previous shareholders	22,134	22,305
Other credit balances	1,128	-
	231,364	288,907

14. MURABAHA FINANCING AND LONG TERM FINANCE

The Company and its subsidiaries have entered into various Murabaha financing and long-term loans agreements principally to finance the building of new VLCCs, petrochemical carriers and a new office in Dubai. The balance of this financing as at December 31 comprised the following:

	2012	2011
Finance to the Company	2,322,799	2,249,959
Finance to the subsidiaries	2,397,019	2,501,054
Total Murabaha and long-term finance	4,719,818	4,751,013
Current portion of Murabaha and long-term finance	(466,085)	(456,045)
Non-current portion of Murabaha and long-term finance	4,253,733	4,294,968

The break-down of Murabaha and long-term finances as at December 31 is as follows:

2012						
Financing:	**Parent Co.**	**%**	**Subsidiaries**	**%**	**Total**	**%**
Murabaha Finance	**1,107,017**	**48%**	**2,052,051**	**86%**	**3,159,068**	**67%**
Commercial Finance	**60,750**	**3%**	**-**	**-**	**60,750**	**1%**
Public Investment Fund "Murabaha Finance"	**1,155,000**	**49%**	**-**	**-**	**1,155,000**	**25%**
Public Investment Fund finance "conventional"	**32**	**0%**	**344,968**	**14%**	**345,000**	**7%**
TOTAL	**2,322,799**	**100%**	**2,397,019**	**100%**	**4,719,818**	**100%**

2011						
Financing:	Parent Co.	%	Subsidiaries	%	Total	%
Murabaha Finance	980,124	44%	2,119,773	85%	3,099,897	65%
Commercial Finance	121,585	5%	-	-	121,585	3%
Public Investment Fund "Murabaha Finance"	1,050,000	47%	-	-	1,050,000	22%
Public Investment Fund finance "conventional"	98,250	4%	381,281	15%	479,531	10%
TOTAL	2,249,959	100%	2,501,054	100%	4,751,013	100%

The cost of financing is calculated as per the respective finance agreements.

(In Thousands Saudi Riyals)

The aggregate maturities of the outstanding financing under the Murabaha financing and loan agreements at December 31, 2012, are as follows:

2013	**466,085**
2014	**498,216**
2015	**470,179**
2016	**458,899**
2017	**557,830**
After	**1,352,634**
Agreements under negotiation	**915,975**
	4,719,818

The Murabaha financing and long-term loans agreements contain covenants related to liquidity, indebtedness and other conditions. Moreover, the financed carriers and vessels are mortgaged in favor of the lending banks.

The total finance facilities of the Company and its subsidiaries amounted to SR 4.72 billion out of which SR 79.4 million remained unutilized at December 31, 2012 relating to NCC.

Total financing charges on Murabaha financing and long-term loans amounted to SR 85.25 million for the year 2012 (2011: SR 61.7 million), out of which SR 34.72 million related to the subsidiary (NCC) loans (2011: SR 26.68 million) and SR 1.04 million related to the subsidiary, Mideast Ship Management Ltd., finance (2011: SR 1.1 million). The amount of finance charges capitalized during 2012 was SR 25.48 million (2011: SR 9.71 million) (see Note 12).

15. EARNINGS PER SHARE AND DIVIDENDS

Earnings per share was calculated based on the number of shares outstanding during the years ended December 31, 2012 and 2011 totaling 315 million shares.

The General Assembly approved in its meeting held on April 22, 2012 the payment of cash dividends of 5% of the share capital amounting to SR 157.5 million, representing SR 0.5 per share for the year 2011. The dividends were paid on May 9, 2012. The balance of unclaimed dividends as of December 31, 2012 amounted to SR 30.94 million (2011: SR 30.72 million).

The Board of Directors also decided in its meeting held on Safar 7, 1434H, corresponding to December 20, 2012G, to submit a recommendation to the General Assembly proposing the approval of cash dividends of SR 315 million to the shareholders for the year ended December 31, 2012, representing SR 1 per share, which is 10% of the share capital.

The earnings per share from other activities for 2012 was SR 0.16 (2011: SR 0.18).

16. ZAKAT AND INCOME TAX

The main components of the zakat base of the Company under zakat and income tax regulations are principally comprised of shareholders' equity, provisions at the beginning of year, long-term borrowings and adjusted net income, less net book value of fixed assets, investments and certain other items.

(In Thousands Saudi Riyals)

The Company's zakat and tax status

The Company has submitted zakat returns for all years up to 2011. The Company has submitted all withholding tax returns up to August 2012 and paid all zakat and withholding tax relating to the submitted returns. The Company received an additional zakat and withholding tax assessment for the years 2001 to 2007 amounting to SR 22 million. The Company objected to these additional assessments and its calculation method to the Department of Zakat and Income Tax ("DZIT"). The Company has not received a final assessment for the years from 2008 until 2011. Since the application of the new tax law, the Company has been paying withholding taxes in respect of any payment to non-resident parties on due time. The Company believes that adequate provision is maintained at December 31, 2012 for any potential zakat and tax claims by the DZIT for the concerned years.

Zakat and Tax status for NCC

NCC has submitted the zakat returns for all years up to 2011 along with all withholding tax returns up to November 2012 and paid the zakat and withholding tax amounts due according to these returns. NCC received additional zakat and withholding tax assessments for the years 1991 to 2004 amounting to SR 59 million. NCC appealed against some of the items shown on the assessments and the way they were treated by the DZIT. In April 2010, NCC reached an agreement for a final settlement relating to the mentioned assessments for the amount of SR 53 million. Accordingly, it paid SR 26 million during 2011 and requested to pay the remaining amount in installments over 5 years starting July 2012. NCC believes it maintains an adequate provision for zakat and withholding tax as at December 31, 2012.

Zakat returns are prepared separately for the Company and NCC.

Zakat and Tax status for Bahri Dry Bulk

Bahri Dry Bulk was registered with the DZIT and obtained its Unique Number. The company is in the process of preparing its first Zakat return and submitting it to the DZIT. The company believes it maintains an adequate provision for zakat and tax liability as at December 31, 2012.

Provision for zakat and tax

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

	2012	2011
Balance, beginning of the year	**104,576**	129,429
Amounts paid during the year	**(22,858)**	(51,272)
Income tax refund related to a subsidiary	**761**	922
Provisions for the year:		
- Zakat	**32,945**	21,594
- Tax:		
- Withholding tax	**3,354**	3,904
- Income tax (benefit) related to a subsidiary	**-**	(1)
Balance, end of the year	**118,778**	104,576

(In Thousands Saudi Riyals)

17. **SEGMENT INFORMATION**

A) The following schedule illustrates the distribution of the Company's and subsidiaries' activities according to the operational segments as of December 31:

2012

	Crude Oil Transportation	Petrochemical Transportation	General Cargo Transportation (Liner)	Bulk Transportation	Total
Operating revenues	1,474,477	440,873	510,106	39,172	2,464,628
Bunker cost	724,631	-	150,466	-	875,097
Other operating expenses:					
Vessel related expenses	216,129	165,566	42,939	30,918	455,552
Cargo related expenses	-	-	184,870	-	184,870
Voyage related expenses	87,960	-	54,127	-	142,087
Depreciation and amortization	278,472	132,390	12,273	-	423,135
Others	9,956	-	-	-	9,956
Total other operating expenses	592,517	297,956	294,209	30,918	1,215,600
Total operating expenses	1,317,148	297,956	444,675	30,918	2,090,697
Gross operating income before bunker subsidy	157,329	142,917	65,431	8,254	373,931
Bunker subsidy	157,468	2,164	40,940	-	200,572
Gross operating income	314,797	145,081	106,371	8,254	574,503

2011

	Crude Oil Transportation	Petrochemical Transportation	General Cargo Transportation (Liner)	Bulk Transportation	Total
Operating revenues	1,227,423	362,539	401,122	-	1,991,084
Bunker cost	661,509	-	139,654	-	801,163
Other operating expenses					
Vessel related expenses	209,329	116,698	47,039	-	373,066
Cargo related expenses	-	-	137,954	-	137,954
Voyage related expenses	74,231	-	57,798	-	132,029
Depreciation and amortization	267,760	92,818	13,581	-	374,159
Others	8,737	1,269	-	-	10,006
Total other operating expenses	560,057	210,785	256,372	-	1,027,214
Total operating expenses	1,221,566	210,785	396,026	-	1,828,377
Gross operating income before bunker subsidy	5,857	151,754	5,096	-	162,707
Bunker subsidy	137,449	-	39,016	-	176,465
Gross operating income	143,306	151,754	44,112	-	339,172

B) The following schedule illustrates the distribution of the Company's and subsidiaries' assets and liabilities according to the operational segments as of December 31:

(In Thousands Saudi Riyals)

2012

	Crude Oil Transportation	Petrochemicals Transportation	General Cargo Transportation (Liner)	Bulk Transportation	Shared Assets and Liabilities *	Total
Assets	5,240,417	3,705,071	972,714	208,969	936,438	11,063,609
Liabilities	1,879,601	2,528,093	613,112	7,556	309,502	5,337,864

2011

	Crude Oil Transportation	Petrochemicals Transportation	General Cargo Transportation (Liner)	Bulk Transportation	Shared Assets and Liabilities *	Total
Assets	5,415,286	3,647,375	542,316	199,124	819,110	10,623,211
Liabilities	2,337,777	2,568,479	213,692	5,288	142,038	5,267,274

* Shared assets and liabilities represent amounts which cannot be determined for a specific segment such as cash, investments in Murabaha, deposits and government bonds, unclaimed dividends, etc.

18. RELATED PARTY MATTERS

In its ordinary course of business, the Company deals with related companies using the same terms and conditions used with third parties.

The following is an analysis of such transactions during the year:

	2012	2011
Revenues	143,750	128,750
Pool management fee	6,632	5,028
Insurance management fees incurred	20,090	18,375

Year end balances from such transactions as at December 31 are as follows:

Due from related parties shown under receivables are as follows:

	2012	2011
ISTC	16,445	15,935
NCC Odfjell Chemical Tankers JLT	50,066	35,119
	66,511	51,054

Due to related parties shown under payables are as follows:

	2012	2011
ISTC	4,297	5,200
NCC Odfjell Chemical Tankers JLT	-	-
	4,297	5,200

(In Thousands Saudi Riyals)

19. GENERAL AND ADMINISTRATIVE EXPENSES

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

	2012	2011
Employees' costs	99,738	86,845
Other general and administrative expenses	10,193	12,669
Depreciation	6,113	5,774
Boards of Directors expenses for the Company and its subsidiaries	4,673	4,372
	120,717	109,660

20. OTHER INCOME (EXPENSES), NET

Other income (expense), net for the year ended December 31 comprised the following:

	2012	2011
Income from Murabaha and short-term deposits	590	4,336
Income from investments, net	6,747	2,035
Bank commissions	(475)	(152)
Gains on sale of fixed assets	12,507	99
Foreign currency exchange differences	(1,351)	(1,469)
Excess recovery from insurance claims	-	7,535
Case won by the Company	-	6,183
Others	2,117	1,986
	20,135	20,553

21. CONSOLIDATION OF SUBSIDIARIES

The consolidated financial statements include the financial statements of the Company and its subsidiaries, after eliminating all intercompany balances. Following is a summary of the financial position and results of operations of these subsidiaries as of and for the year ended December 31:

2012				
Company Name	Total assets	Total liabilities	Gross operating income	Net profit
National Chemical Carriers Ltd. Co.	3,705,071	(2,528,093)	145,082	98,082
Mideast Ship Management Ltd.	59,455	(55,603)	41,248	2,068
NSCSA (America) Inc.	18,046	(9,768)	17,359	796
Bahri Dry Bulk Company LLC	206,143	(7,556)	8,254	4,751

2011				
Company Name	Total assets	Total liabilities	Gross operating income	Net profit / (loss)
National Chemical Carriers Ltd. Co.	3,647,375	(2,568,479)	151,754	135,435
Mideast Ship Management Ltd.	59,904	(58,120)	40,665	1,608
NSCSA (America) Inc.	10,972	(3,490)	16,864	238
Bahri Dry Bulk Company LLC	199,124	(5,288)	-	(6,164)

22. COMMITMENTS AND CONTINGENCIES

The Company had outstanding letters of guarantee of SR 238.85 million at December 31, 2012 issued in the Company's ordinary course of business.

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

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

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

Risk management is carried out by senior management. The most important types of risk are summarized below.

Credit risk

Credit risk is the risk that counterparties do not meet their obligations, so the other party incurs a financial loss. At the balance sheet date, approximately 21% of trade receivable balances are due from related parties. The Company and its subsidiaries maintains its cash with high credit rated banks. Receivables including due from related parties are carried net of provision for doubtful debts.

Commission rate exposure

This relates to the Company's and subsidiaries' exposure to the risk of fluctuations in commission rates in the market and the potential impact on the consolidated financial position of the Company and its cash flows. The Company's and subsidiaries' commission rate risk arises mainly from its short-term deposits and borrowings. The Company, where appropriate, uses commission rate swaps to fix the commission rates and uses commission rate caps to hedge the risk of increase in commission rates for its long-term finance. The Company monitors the commission rate changes and believes that expected commission rate change on the Company is not significant.

Currency risk

This relates to the risk of change in the value of financial instruments due to change in foreign currency rates. The Company's and subsidiaries' transactions are mainly in Saudi Riyals, UAE Dirhams and US Dollars. Management monitors the currency rate changes and acts accordingly.

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. To manage its price risk arising from investments in equity securities, the Company diversifies its portfolio.

Liquidity risk

This represents risks that the Company, including subsidiaries, will be unable to meet its funding requirements related to financial instruments. The liquidity risk arises if the entity cannot sell its financial assets quickly at an amount close to its fair value. Liquidity risk is managed by systematic monitoring to ensure availability of funds to meet any future liabilities as they become due.

Fair value

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

24. MAJOR AND POST BALANCE SHEET EVENTS

a) The Company and Saudi Aramco signed on Thu-Alhijjah 20, 1433H (November 4, 2012) an agreement by which the fleet of Vela International Marine Ltd. (Vela), will be transferred to the Company after obtaining required regulatory approvals. The Vela fleet consists of fourteen VLCCs, one VLCC for floating storage, and five refined petroleum product tankers.

Bahri will pay Vela a total consideration of approximately SR 4,875,000,000 (equivalent to US$1.3 billion). The consideration will comprise a cash payment amounting to SR 3,122,812,500 (equivalent to US$ 832.75 million) in addition to 78,750,000 new Bahri shares to be issued to Vela at an agreed price of SR 22.25 per share. The Company's post merger issued number of shares will be 393,750,000 shares and the new shares issued to Vela, which is fully owned by Saudi Aramco, will equal 20 percent of Bahri's enlarged capital. Vela will have a fair representation on Bahri's Board. The Company plans to fund the cash consideration through Sharia compliant financing agreements.

According to the terms of a long-term shipping contract with a minimum of 10 years, the Company will be the exclusive carrier for Saudi Aramco for the transportation of crude oil sold by Saudi Aramco on the basis of delivery to client. According to this contract and to meet Saudi Aramco's demand, which is estimated to be 50 VLCC's, the Company plans to best optimize the utilization of its post merger fleet, which will total 31 VLCC's, in addition to charter VLCC's, as required.

The long-term shipping contract includes agreed terms where Bahri enjoys protection when freight rates fall below the minimum agreed limit. On the other hand, should freight rates increase above an agreed limit (compensation limit), Bahri will compensate Saudi Aramco.

Bahri and Vela have also agreed on temporary arrangements for the operation of the VLCCs owned currently by Bahri within Saudi Aramco's program to transport oil via VLCC's. The temporary arrangement started on Safar 19, 1434H (corresponding to January 1,2013) until the long-term shipping contract is in effect according to the terms of the merger agreement.

The merger agreement is subject to various terms including the approval of the Extraordinary General Assembly of the Company approving the merger and capital increase and obtaining other regulatory approvals such as the Capital Market Authority and the Supreme Council for Petroleum and Mineral Affairs which is in process. The approval of the Competition Protection Council in Saudi Arabia has already been obtained.

b) Pursuant to its replacement program approved by the Company's Board of Directors for RoRo vessels, the Company sold on January 16, 2013 a RoRo vessel (Saudi Abha) for scrap after it came to the end of its useful life. It is estimated that the Company will make a net profit of SR 21 million after deduction of its book value and other expenses related to the transaction. The financial impact of this transaction will show in the first quarter of 2013.

c) On Rabia I 24, 1434H (corresponding to February 5, 2013) the Company received a new general cargo vessel weighing 26,000 tons from South Korea. The new vessel was named Bahri Abha and was built by Hyundai MIPO in South Korea. This is the first of six general cargo ships from a contract agreed with this shipyard in 2011 for a total cost of SR 1.54 billion. The financial impact of this vessel will appear in the first quarter of 2013.

25. RECLASSIFICATION

Certain amounts previously reported in the 2011 consolidated financial statements have been reclassified to conform to the current year presentation.

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