# Bahri Annual Report 2013

Bahri

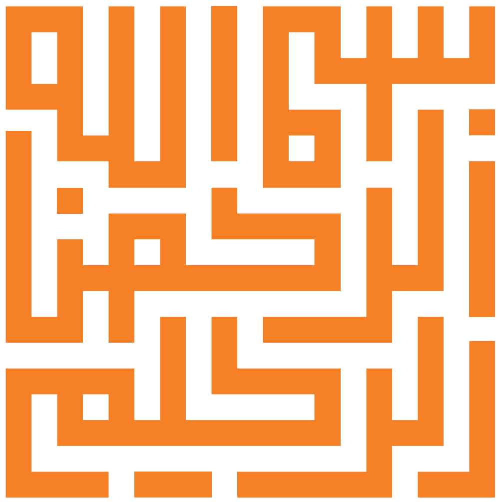
GENERAL CARGO TRANSPORTATION SECTOR
YEAR OF ESTABLISHMENT: 1979
NUMBER OF VESSELS: 6
AVERAGE AGE: LESS THAN ONE YEAR
AVERAGE CAPACITY OF A VESSEL:
26,000 DWT

CHEMICAL TRANSPORTATION SECTOR
YEAR OF ESTABLISHMENT: 1985
NUMBER OF VESSELS: 24
AVERAGE AGE: SIX YEARS
AVERAGE CAPACITY OF A TANKER:
46,000 DWT

CRUDE OIL TRANSPORTATION SECTOR
YEAR OF ESTABLISHMENT: 1996
NUMBER OF VESSELS: 17
AVERAGE AGE: TEN YEARS
AVERAGE CAPACITY OF A TANKER:
310,000 DWT

DRY-BULK TRANSPORTATION SECTOR
YEAR OF ESTABLISHMENT: 2010
NUMBER OF VESSELS: 5
AVERAGE AGE: LESS THAN ONE YEAR
AVERAGE CAPACITY OF A VESSEL:
82,000 DWT

www.bahri.sa



In the name of God, the Most Gracious, the Most Merciful

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# Board of Directors
# 2011 – 2013

**Abdullah Sulaiman Al-Rubaian**
Chairman

**Mohammed Abdulaziz AlSarhan**
Vice Chairman

**Esam Hamad Al-Mubarak**
Board Member

**Saleh Abdullah AlDebasi**
Board Member

**Nasser Mohammed Al-Kahtani**
Board Member

**Abdullah Ali Al-Ajaji**
Board Member

**Farraj Mansour Abothenain**
Board Member

**Abdulkarim Ibrahim Al-Nafie**
Board Member

**Ghassan Abdulrahman Al-Shibl**
Board Member

# Board of Directors
# 2014 – 2016

**Abdulrahman Mohammed AlMofadhi**
Chairman

**Mohammed Abdulaziz AlSarhan**
Vice Chairman

**Esam Hamad Al-Mubarak**
Board Member

**Saleh Abdullah AlDebasi**
Board Member

**Farraj Mansour Abothenain**
Board Member

**Abdullah Ali Al-Ajaji**
Board Member

**Abdulaziz Abdulrahman Al-Modaimigh**
Board Member

# Bahri will be the exclusive provider for transporting Saudi Aramco crude oil

Dear Shareholders,

May the peace, mercy and blessings of Allah be upon you.

The Board of Directors of Bahri, the National Shipping Company of Saudi Arabia are pleased to present the annual report on the Company's business activities for the year ended 31 December, 2013.

2013 was the final year in the term of the former Board of Directors who began their first term in January 2011. I would therefore like to highlight the key achievements, strategic resolutions and expansions which have taken place over the past three years period. Key highlights are as follows:

1. Signing conclusive and binding agreements with Saudi Arabian Oil Company (Saudi Aramco), under which the fleet and operations of Vela International Marine Limited, a wholly owned subsidiary of Saudi Aramco, were merged with Bahri's fleet and operations. The agreement stipulated that the ownership of Vela's fleet containing 14 very large crude oil carriers (VLCCs), one very large crude carrier used as a floating storage carrier and five product tankers, will be fully transferred to Bahri who will be the exclusive provider of VLCC crude oil shipping services to Saudi Aramco for the delivery of crude oil sold by Saudi Aramco on a delivered basis. The agreement included interim arrangements to protect freight rates throughout 2013 until the merger is finalized. Such interim arrangements are beneficial to the Company as they protect them against the decline in freight rates of crude oil.

2. Signing a memorandum of understanding (MoU) with Saudi Aramco and Singapore's Sembcorp Marine Ltd. to develop a feasibility study to build a maritime yard in the Kingdom of Saudi Arabia (KSA).

3. Acquisition of the share of Norwegian Odfjell SE in NCC Odfjell Chemical Tankers (NOCT) by National Chemical Carriers Ltd. Co. (NCC) and the amicable dissolution of the partnership in the pool containing 18 chemical carriers. Under this acquisition, NCC became the sole owner of NOCT, previously owned by both companies and will fully manage its commercial operations.

4. Establishing a new business unit under the name "Gas and Offshore Services Sector" in order to penetrate offshore service business activities, a promising sector in the Middle East.

5. The commencement of new business activity in dry bulk cargo transportation through Bahri Dry Bulk Company LLC (BDB), a subsidiary which is owned 60% by Bahri and 40% by Arabian Agricultural Services Company (ARASCO). BDB time chartered five bulk carriers and re-chartered them to ARASCO, generating a rewarding profit. Moreover, BDB signed contracts with one of the world's leading shipyards to build five Kamsarmax ships for dry bulk transportation to replace the chartered ships during 2013 and 2014. The first ship, named "Bahri ARASCO" was delivered, and the remaining ships will be delivered during the first half of 2014.

6. BDB signed a Murabaha agreement with Bank AlBilad to finance a portion of the cost of building five dry bulk ships. The finance amount was SAR 420 million.

7. Bahri was awarded the contract with the Ministry of Defense (MOD) to ship military equipment for three years for a total amount of SAR 230 million. Throughout the previous contract period, the Company provided distinguished services to the Ministry of Defense; thus, the said contract was extended, for a period of five years until 2019 for a total of SAR 383 million. Under the new contract, Bahri will continue to act as the official provider of a full range of sea, air and land freight to the Divisions of the Armed Forces at the Ministry of Defense.

8. Bahri paid significant attention to information technology in line with its strategic plan by adopting and implementing a group of the latest technological solutions in accordance with the best international standards and procedures approved in this domain.

9. Bahri launched its new corporate brand focusing on its trade name "Bahri" in order to reflect the company's new global identity.

10. Bahri realigned the salaries and bonuses of its staff based on key performance indicators (KPIs), motivating its employees to exert their efforts through the provision of internal and external training courses, and granting more incentives and compensations based on performance.

11. NCC signed a five year time charter agreement with a subsidiary of Saudi Basic Industries Corporation (SABIC) totaling SAR 480 million for three chemical tankers with the option of further extending the agreement for five years.

12. Bahri received seven chemical tankers built by NCC including Fajr, one of the largest and most highly sophisticated chemical tankers with a dead weight tonnage DWT of 75,000.

13. Bahri signed contracts to build six general cargo vessels with Hyundai Mipo Dockyard to be delivered during 2013 and 2014. Four carriers were delivered, and the remaining vessels will be delivered during the first half of 2014.

14. Four old general cargo vessels were sold for scrap, and replaced with new ships, making a net gain of SAR 75.5 million from the sale of these vessels.

15. Bahri signed a Murabaha agreement with Public Investment Fund (PIF), under which a portion of the cost of building two general cargo vessels, whose building contracts were signed in 2011 were financed. The financing amount totaled approximately SAR 450 million and is to be paid through 10 years on delivery of the vessels.

16. Bahri participated in many specialized international exhibitions in the area of marine transportation, showcasing its services, and highlighting it's corporate social responsibility activities through media coverage.

17. During the last three years, Bahri received many awards from well-known global entities with regards to its performance and global footprint.

Finally, on behalf of myself and my colleagues on the Board of Directors, I would like to extend, my thanks and gratitude to the Government of Saudi Arabia, the Custodian of the Two Holy Mosques, the Crown Prince and the Second Deputy. I would like to thank the former members of the Board of Directors, our Shareholders and our clients for their continued support and efforts as well as the Executive Management and employees for their commitment to achieve the objectives of the Company's shareholders and clients.

Wishing you all success and may Allah help you.

May the peace, mercy and blessings of Allah be upon you.

**Abdulrahman Mohammed AlMofadhi**
Chairman

# A solid foundation of the Company's infrastructure was established reflecting the promising future of Bahri and enhancing its position as a leading global marine transportation company

Dear Shareholders,

May the peace, mercy and blessings of Allah be upon you.

On behalf of myself, the Executive Management and all the Company's employees, I am pleased to extend thanks and gratitude to the honorable Board of Directors and the Company's customers for their endless support, which has resulted in a positive financial performance. In 2013, net profit amounted to SAR 752,262,000. This is the Company's highest profit since its inception in 1978, despite the prolonged impacts of the global financial crisis during the last year which affected the freight rates of most of the Company's operating activities. The overall success of the Company reflects Bahri's commitment to continuous development and implementation of strategic plans consisting of diversification, growth, operating efficiency and raising planned investment in human resources.

A solid foundation of the Company's infrastructure was established during the last period, reflecting the promising future of Bahri and enhancing its position as a leading global marine transportation company.

In 2013, Bahri established a new division for investment in offshore services, activated the role of the dry bulk transportation sector, boosted operational performance in various divisions, intensified marketing activity, updated technologies to align with the latest developments in the shipping industry and enhanced workplace safety. Bahri implemented a new corporate social responsibility (CSR) strategy which focused on Humanitarian and Community programs, developed specialized training programs to further enhance the skills and competencies of employees and build new strategic objectives for the forthcoming five year plan.

Finally, I would like to extend my appreciation to my colleagues in the Executive Management and to all employees throughout each division for their sincere efforts and contribution to the development and success of the Company.

"The Journey Continues"

**Saleh Nasser Al-Jasser**
Chief Executive Officer

# Chapter 1
## Board of Directors' Report
## Information about the Company and its Subsidiaries

## Introduction

Bahri is the Kingdom's leading shipping company, exerting distinguished efforts in various sectors of the shipping industry. Through multiple offices, subsidiaries and network of agents, the Company's full range of services covers several markets worldwide with a diversified fleet of ships and VLCCs sailing around the world, which helped to link the KSA economy with other economies. Bahri constantly seeks to maintain its high efficiency in meeting customers' demands, by developing the investment strategies of the Company and its subsidiaries, and thereby ensuring the best returns to its shareholders.

# Chapter 1
# Board of Directors' Report
# Information about the Company and its Subsidiaries

Bahri

## About the Company

# By consistently focusing on our values and responsible business fundamentals, we shall be a leading service provider

Established as a Saudi joint stock company pursuant to Royal Decree No. M/5 dated January 22, 1978, The National Shipping Company of Saudi Arabia (Bahri) is listed on Saudi Stock Exchange (Tadawul) and is head-quartered in Riyadh.

Bahri is a leading worldwide marine transportation provider, in which Public Investment Fund (PIF) holds 28.2%, while the remaining shares are owned by individuals and institutional investors.

Bahri began its operations in the general cargo shipping industry as its prime business activity. Later, it expanded activity through incorporating a subsidiary in the United States of America in 1991 which serves as an agent to facilitate the general cargo operations in North America.

In 1985, the Company began shipping petrochemicals after acquiring two chemical tankers, one owned by the company and time chartered to SABIC and the other owned through a joint venture (JV) incorporated with United Arab Shipping Company (UASC) under the name, Arabian Chemical Carriers Ltd. (ACC), also time chartered to SABIC. In 1990, the Company expanded its chemical transportation activity by incorporating National Chemical Carriers Ltd. Co. (NCC), a JV owned 80% by Bahri and 20% by SABIC, to purchase, charter and operate chemical tankers.

In 1992, the Company entered into the crude oil transportation sector and built five VLCCs, which started trading during 1996 and 1997. In 2001, the Company acquired four new VLCCs, continuing the expansion in this business sector and by the end of 2013 the total VLCC fleet reached 17.

Due to the expansion of its activities and fleet, Bahri incorporated Mideast Ship Management Ltd. in 1996 to provide ship management services for the vessels and tankers owned by Bahri and its subsidiaries. It currently manages 52 ships, a number which is expected to reach 72 ships by the end of 2014, to include the additional fleet that will join as a result of the merger with Vela and the delivery of ships under construction.

In 2005, the Company invested in the business of Liquefied Petroleum Gas (LPG) transport by acquiring 30.3% of the shares of Petredec Ltd.

In line with the Company's strategy to diversify its business activities and increase its investments, in 2010 the company added a new activity of dry bulk cargo transportation by incorporating Bahri Dry Bulk Co. LLC (BDB), a JV which is owned 60% by Bahri and 40% by ARASCO. BDB started its operations in 2012.

Bahri has received many awards and certificates that reflect its progress and confidence. The Company is committed towards transparency in all aspects of its operations, especially with respect to the disclosure of its operational results. The Company implements safety standards in all its operations, as well as to protect the environment. The Company is also committed to adopt corporate social responsibility (CSR), achieving constant growth, and fulfilling its mission and objectives through the implementation of successive strategic plans and the optimum exploitation of available resources.

### Company Vision

Connecting economies, sharing prosperity and driving excellence in global logistics services.

### Company Mission

By consistently focusing on our values and responsible business fundamentals, we shall be a leading service provider applying best practices to run a world-class fleet, whilst building mutually beneficial relationships with all stakeholders.

### Values

Driven, Relentless, Transparent, Considered.

### Commitment

All of the Company's employees are committed to supporting and serving all its customers, and to fulfilling the Company's mission to shareholders and society.

### Efficiency

The Company's efficiency lies in its work ethics, commitment to customers and operational credibility.

# Subsidiaries

The below table illustrates the companies which are wholly owned by Bahri or in which Bahri owns a stake:

| Name of the Company | Core Activity | Place of Incorporation | Geographical Scope of Activity | Incorporation Date | Ownership % (2013) |
|---|---|---|---|---|---|
| NSCSA (America) Inc. | The Company's Agent | USA | Global | 1991 | 100% |
| Mideast Ship Management Ltd. | Technical Ship Management | UAE | Global | 1996 | 100% |
| National Chemical Carriers Ltd. Co. (NCC) * | Petrochemicals Transportation | KSA | Global | 1990 | 80% |
| Bahri Dry Bulk Co. (BDB) | Drybulk Cargo Transportation | KSA | Global | 2010 | 60% |
| Petredec Ltd. | LPG Transport and Trading | Bermuda | Global | 1980 | 30.3% |
| Arabian United Float Glass Co. | Float Glass Manufacturing and Trading | KSA | Local | 2006 | 4.69% |

* Owns a subsidiary in the UAE under the name of (National Chemicals Carriers JLT) in 2013 that manages spot operation of NCC fleet commercially

# Company Strategy

Bahri has been working on strengthening its competitiveness in global markets by expanding its business activities, increasing its fleet and consolidating its financial and operational position. This is achieved through diversification and management of its investments in an effective manner in accordance with its strategic plan.

**The Company's current strategic plan includes the following:**

- Receive the remaining ships under construction
- Finalize the merger of Vela's fleet and operations with Bahri
- Explore investment opportunities within the scope of the Company's activities and in promising markets
- Improve operational performance across all business sectors and units within the Bahri Group
- Prepare a new strategic plan for the next five years

# Merger of Vela's Fleet and Operations with Bahri

On November 4, 2012, Bahri signed the final binding agreements with Saudi Aramco and Vela, a wholly owned subsidiary of Saudi Aramco, to merge the fleet and operations of Vela with Bahri. In pursuant to the agreements Bahri will pay to Vela approximately SAR 4.9 billion to include SAR 3.12 billion in cash and the issuance of 78.75 million in new shares of Bahri. The merger is approved by the Board of Directors of Bahri, Saudi Aramco, and Vela.

This merger is considered as a transformational step in the history of Saudi Arabia's shipping industry and enables Bahri to become a strong company in the global maritime industry. This merger will result in a large combined fleet of 72 vessels and VLCCs in several domains so that Bahri becomes the world's fourth largest company in terms of VLCC tonnage. Moreover, this merger will provide significant competitiveness in the global markets, and will contribute to an increased operational efficiency and lower overhead cost. This merger includes the transfer of Vela's fleet containing 14 double-hull VLCCs, one floating storage carrier and five product tankers. All of Vela's vessels crew and a number of official employees, and part of its working systems will be integrated with Bahri corporate structure.

Pursuant to this agreement, Bahri will become the exclusive provider of VLCC crude oil shipping services to Saudi Aramco for the delivery of crude oil sold by Saudi Aramco on a delivered basis in accordance with a long-term shipping contract protecting Bahri in the event freight rates drop below the agreed minimum rate. In the event freight rates increase beyond the agreed threshold (compensation limit), Bahri will compensate Saudi Aramco for the amounts it has paid when the freight rates drop below minimum rate. Having concluded the merger, Bahri shall meet Saudi Aramco's projected future needs estimated at nearly 50 VLCCs through the optimal operation of its fleet including 31 VLCCs and the charter of additional VLCCs as required. Further, Bahri and Vela have agreed to discuss interim arrangements to operate the VLCCs owned by Bahri within Saudi Aramco's schedule to transport crude oil. These arrangements came to effect as of Safar 19, 1434, corresponding to January 1, 2013 until the long-term shipping contract becomes effective pursuant to the terms of the transaction agreements.

Pursuant to the provisions of the merger agreements, Saudi Aramco will own 78,750,000 new shares in Bahri, representing 20% of Bahri's total shares, and will be fairly represented in Bahri's Board of Directors. Saudi Aramco will continue to directly manage all crude oil marketing and customer sales, while Bahri will provide reliable transportation services. Both parties will explore more viable opportunities to expand cooperation between them in the area of marine activities. The conclusion of the merger will reduce the impact of Bahri's exposure to the fluctuations in crude oil freight rates and will enhance returns for its shareholders. The merger creates a new national champion in the global shipping industry, creating jobs and facilitating new business opportunities, certifying Bahri's position as fourth largest company in the world in terms of VLCC fleet, equipping them with the assets to meet the demands of Saudi Aramco and other clients. The merger of employees, resources and fleets under one umbrella will boost the Company's capability to face the increasing demands of global clients around the world both now and in future. It also provides enormous growth opportunity contributing to greater returns for Bahri's shareholders.

Bahri seeks to obtain some regulatory approvals before the submission of the merger transaction in its final form to its shareholders for final approval. All approval procedures are expected to be completed by 2014 upon which the first VLCC will be delivered and the preliminary stage of integrating commercial and technical teams will be finalized. Throughout 2013, both companies sought to resolve all issues concerning the merger, paving the way for the seamless transfer of employees, VLCCs and the operation of the shipping contracts.

# Major Achievements in 2013

- Introduction of a new business unit "Gas & Offshore Business Unit" in order to explore the offshore support services industry, which is a promising business in the Middle East.
- Bahri and Saudi Aramco have signed a Memorandum of Understanding (MOU) with Sembcorp Marine Ltd., one of the leading international companies in marine and engineering services based in Singapore, to conduct a feasibility study for building a marine shipyard in the Kingdom of Saudi Arabia.
- NCC has amicably agreed with Norwegian Odfjell to dissolve their 18-ship pool. Pursuant to this agreement, NCC became the sole owner of NOCT, which was registered under the name "National Chemical Carriers JLT" following the dissolution in order that NCC independently runs its commercial operations.
- Due to the outstanding services offered by the Company to the Ministry of Defense (MOD), His Excellency the Minister of Defense approved the renewal of the contract concluded with Bahri, prior to its expiry, for additional five years ending 2019 in consideration of a total of SAR 383 million. According to this contract, Bahri will continue to serve as the exclusive carrier of the Divisions of the Armed Forces at the Ministry of Defense and provide different types of shipping services abroad through sea, land and air during the term of this contract.

# Chapter 2
## Strategic Business Units and Support Departments

## Strategic Sectors

The Company organizes its business activities internally through a number of strategic sectors including Oil Transportation, Gas & Offshore, Chemical Transportation, General Cargo Transportation, Dry Bulk Cargo Transportation and Ship Management.

Operations related to Chemical Transportation are managed by NCC, Dry Bulk Cargo Transportation operations are handled by Bahri Dry Bulk, while Ship Management services are managed by Mideast Ship Management Ltd. Business units provide necessary support to achieve the Company's objectives, in collaboration with Head Office and Support Departments.


NCC
NCC FAJR


MOKING

## Oil Transportation Sector

# China surpassed the United States as the largest importer of crude oil in the world

The Oil Transportation Sector is the Company's largest sector which performs the transportation of crude oil through a fleet of 17 VLCCs that are operated in the spot market and through time charter agreements.

According to analysts, the global demand of crude oil transportation across the Atlantic declined by 4-5% during the first half of 2013. The demand of VLCCs decreased 5-7% while demand for Suezmax vessels, with a capacity of 1 million barrels decreased 30%. This decline was experienced as a result of an increase in the daily production of nearly two million barrels by Shale oil in the United States. Due to the sharp decline in the demand for shipping from West Africa to the United States, which traditionally constitutes the major demand driver for Suezmax tankers, these tankers were forced to compete on the same trade routes used by VLCCs in order to ensure continuity of operations. It is expected that upon the delivery and operation of 31 new VLCCs, and the addition of 16 new VLCCs to the fleet of Suezmax tankers which currently operate a fleet of 25 – 30 tankers, there will be a surplus of VLCCs in the shipping market. However, the growth rates of oil consumption in China and India is encouraging and this year, China surpassed the United States as the largest importer of crude oil in the world. Furthermore, China and India announced their plans to increase their strategic reserves of crude oil.

## Number of voyages performed by VLCCs during 2013 compared to 2012

| Type of Operation | 2013 | | 2012 | |
|---|---|---|---|---|
| | Number of Voyages | Number of VLCCs | Number of Voyages | Number of VLCCs |
| VLCCs operating in the spot market | 77 | 15 | 86 | 15 |
| VLCCs operating under time charter agreements | 11 | 2 | 14 | 2 |
| **Total** | **88** | **17** | **100** | **17** |

## Break-down of VLCCs Voyages by route during 2013 compared to 2012

| Route | Total Voyages | 2013 | 2012 |
|---|---|---|---|
| Arabian Gulf – USA | 41 | 47% | 41% |
| Arabian Gulf – Far East | 7 | 8% | 23% |
| The Caribbean / West Africa- Asia | 40 | 45% | 36% |

## Oil Transportation Voyages During 2013

In 2013, a total of 171.5 million oil barrels were transported by VLCCs operating in the spot market and time charter agreements.

| Country | Number of Voyages during 2013 | Volume shipped in million barrels |
|---|---|---|
| USA | 41 | 86.4 |
| India | 29 | 51.9 |
| China | 11 | 20.7 |
| Rest of the World | 7 | 12.5 |
| **Total** | **88** | **171.5** |

# VLCC Fleet

| S.N. | VLCC Name | Year of Building | Type | Length (M) | Breadth (M) | Weight (DWT) | Number of Tanks | Speed (knots) |
|---|---|---|---|---|---|---|---|---|
| 1 | Ramlah | 1996 | Double Hull | 340 | 56 | 300,361 | 17 | 15 |
| 2 | Ghawar | 1996 | Double Hull | 340 | 56 | 300,361 | 17 | 15 |
| 3 | Watban | 1996 | Double Hull | 340 | 56 | 300,361 | 17 | 15 |
| 4 | Hawtah | 1996 | Double Hull | 340 | 56 | 300,361 | 17 | 15 |
| 5 | Safaniyah | 1997 | Double Hull | 340 | 56 | 300,361 | 17 | 15 |
| 6 | Harad | 2001 | Double Hull | 333 | 58 | 302,700 | 17 | 17.1 |
| 7 | Marjan | 2002 | Double Hull | 333 | 58 | 302,700 | 17 | 17.1 |
| 8 | Safwa | 2002 | Double Hull | 333 | 58 | 302,700 | 17 | 17.1 |
| 9 | Abqaiq | 2007 | Double Hull | 333 | 58 | 302,700 | 17 | 17.1 |
| 10 | Wafrah | 2007 | Double Hull | 333 | 60 | 318,000 | 17 | 16.7 |
| 11 | Layla | 2007 | Double Hull | 333 | 60 | 318,000 | 17 | 16.7 |
| 12 | Jana | 2008 | Double Hull | 333 | 60 | 318,000 | 17 | 16.7 |
| 13 | Habari | 2008 | Double Hull | 333 | 60 | 318,000 | 17 | 16.7 |
| 14 | Kahla | 2009 | Double Hull | 333 | 60 | 318,000 | 17 | 16.7 |
| 15 | Dorra | 2009 | Double Hull | 333 | 60 | 318,000 | 17 | 16.7 |
| 16 | Ghazal | 2009 | Double Hull | 333 | 60 | 318,000 | 17 | 16.7 |
| 17 | Sahba | 2009 | Double Hull | 333 | 60 | 318,000 | 17 | 16.7 |
| | | **Total Capacity (DWT)** | | | | **5,256,605** | | |

# Gas and Offshore Business Unit

A new business unit, "Gas and Offshore Business Unit" was established in July 2013. This will focus on exploring the available investment opportunities in the offshore sector, in line with the overall strategic plan for expansion and business diversification. Investment opportunities will be developed after careful analysis considering economic feasibility in order to support the Company's strategic objective of minimizing risk and enhancing profitability.

In addition, the Gas and Offshore Sector will oversee the Company's investments in the Liquefied Petroleum Gas (LPG) industry, represented through Bahri's 30.3% stake in Petredec Ltd. Co., which operates a fleet of 63 vessels of different sizes. The Company's share in the profits of Petredec grew by 102% to SAR 291 million during 2013, compared to SAR 144 million during 2012.

## Chemical Transportation Sector

# Refined oil derivatives sector witnessed a boom amid higher demand in Asia, Latin America, Middle East and Africa

### An overview about Chemical Transportation Sector

The business activities of the Chemical Transportation Sector are linked to and significantly depend on world economic growth. In this context, China, which is deemed the major driver of the world economy, posted growth of around 7% in Gross Domestic Product (GDP) in 2013. In mid-year, risk related to the reduction of Quantitative Easing in the United States was reported, and the negotiations on European debt levels led to a relative stagnation on markets and hedging against the risk of short-term industrial investment, amid positive sentiment on the long-term economic outlook by some markets.

The Shipbuilding sector has witnessed fluctuations in prices during 2013 with some recovery being reported upon announcing the building of a number of (plated steel tank) chemical tankers and oil derivative carriers. The Chemical Transportation Sector is expected to take advantage of the increasing chemical exports from the Middle East and North America (due to lower prices of gas that is deemed a raw material in the manufacturing of chemicals) to achieve balance between the supply and demand in the short-term. Moreover, averages indicate that this Sector would benefit from the closing of non-economic refineries in Europe, which increases the shipped quantities.

The Chemical Transportation Sector attracted private equity, driven by the gradual improvement of price rates and the increased demand for shipbuilding in shipyards of Korea, China and Japan, as a result of the improved economic performance in 2013, compared to 2012.

Refined oil derivatives sector witnessed a boom amid higher demand in Asia, Latin America, Middle East and Africa and an increasing refining capacity especially in the Middle East and Asia.

### Major Achievements in 2013

National Chemical Carriers (NCC) finalized the acquisition of the share of Norwegian Odfjell SE in NCC Odfjell Chemical Tankers (NOCT), and started its operations under the official name (National Chemicals Carriers JLT) which became a wholly owned subsidiary of NCC as of 1 June, 2013.

NCC has received the tanker NCC Fajr with a DWT of 75,000 which has been built by South Korea's Daewoo Shipbuilding & Marine Engineering Ltd. (DSME).

### New Initiatives and Plans:

NCC has launched a new initiative to design and implement an integrated management system across the company to enhance its performance and focus on constant development. The company aims that its offices in Riyadh and Dubai be ISO 9001 certified in 2014.

The boom witnessed by the oil and gas industry has spread across North America, providing the growth prospects for new refineries and thermal cracking plants as well as increasing the demand for exports. The increase in refinement capacity marks a significant breakthrough, aligning it with oil production volumes in the Middle East and Asia.

In some cases, for example the refineries in Europe that closed down due to weak economic performance, there is a higher demand for long distance shipping, motivating many shipping companies to order large chemical tankers to be built.

A large portion of recovery for chemical carriers and oil derivatives tankers depends on the consideration of the owners to expand the fleet and place new orders.

## Voyages Performed by NCC carriers in 2013 Compared to 2012

| Type of Tanker Operations | Voyages in 2013 | Voyages in 2012 |
|---|---|---|
| Tankers operating in spot market | 92 | 70 |
| Tankers operating under time charter agreements | 64 | 57 |
| **Total** | **156** | **127** |

## Volume of Cargo Transported by NCC Tankers during 2013 Compared to 2012

| Type of Tanker Operations | Volume of Cargo transported during 2013 (Million Metric Tons) | Volume of Cargo transported during 2012 (Million Metric Tons) |
|---|---|---|
| Tankers operating in spot market | 3.10 | 2.52 |
| Tankers operating under time charter agreements | 2.58 | 2.08 |
| **Total** | **5.68** | **4.6** |

## Main routes of NCC Fleet Worldwide in 2013

1. Middle East – Far East
2. Middle East – Europe
3. Far East – Europe
4. Far East – USA
5. USA – Far East
6. USA – South America
7. Europe – Far East
8. Europe – South America
9. South America – Far East

**NCC Fleet Growth in 2013**

Upon the delivery of NCC Fajr with DWT of 75,000 on 18 December, 2013, the fleet increased to 24 tankers including 9 tankers chartered with time charter agreements, 3 tankers chartered as bareboat charters, and 12 tankers that operate in the spot market. The total DWT of these tankers amounts to 1,105,500 tons.

At the end of November 2013, the number of tankers operating globally amounted to 3,384 with a total DWT of 38.4 million. Chemical tankers with DWT of more than 10,000 including specialized tankers totaled 1,510 with a total DWT of 32.6 million.

Orders for building chemical tankers amounted to 107 tankers with a total DWT of 1.7 million at the end of November 2013, while orders for building specialized chemical tanker amounted to 62 tankers with a total DWT of 1.5 million.

# Main Ports for Chemical Tankers Worldwide

# Expansion in Chemical Tanker Fleet

| Item | Fleet Size in DWT | No. of Tankers |
|---|---|---|
| Fleet as of January 1, 2013 | 1,030,500 | 23 |
| Tanker delivered during 2013 | 75,000 | 1 |
| Fleet as of December 31, 2013 | 1,105,500 | 24 |

# NCC Fleet of Chemical Tankers as at December 31, 2013

| Serial | Tanker | Year of Building | Length (M) | Width (M) | Weight (DWT) | No. of Tanks | Speed (Knots) |
|---|---|---|---|---|---|---|---|
| 1 | NCC Makkah * | 1995 | 183.10 | 32.2 | 37,500 | 52 | 16 |
| 2 | NCC Riyadh * | 1995 | 183.10 | 32.2 | 37,500 | 52 | 16 |
| 3 | NCC Jubail * | 1996 | 183.10 | 32.2 | 37,500 | 52 | 16 |
| 4 | NCC Najd | 2005 | 183.02 | 32.2 | 46,200 | 22 | 15 |
| 5 | NCC Hijaz | 2005 | 183.02 | 32.2 | 46,200 | 22 | 15 |
| 6 | NCC Tihama | 2006 | 183.02 | 32.2 | 46,200 | 22 | 15 |
| 7 | NCC Abha | 2006 | 183.02 | 32.2 | 46,200 | 22 | 15 |
| 8 | NCC Tabuk | 2006 | 183.02 | 32.2 | 46,200 | 22 | 15 |
| 9 | NCC Qassim | 2006 | 183.02 | 32.2 | 46,200 | 22 | 15 |
| 10 | NCC Rabegh | 2007 | 183.02 | 32.2 | 46,200 | 22 | 15 |
| 11 | NCC Sudair | 2007 | 183.02 | 32.2 | 46,200 | 22 | 15 |
| 12 | NCC Dammam | 2008 | 183.02 | 32.2 | 46,200 | 22 | 15 |
| 13 | NCC Hail | 2008 | 183.02 | 32.2 | 46,200 | 22 | 15 |
| 14 | NCC Noor | 2011 | 183 | 32.2 | 45,600 | 22 | 15 |
| 15 | NCC Huda | 2011 | 183 | 32.2 | 45,600 | 22 | 15 |
| 16 | NCC Amal | 2011 | 183 | 32.2 | 45,600 | 22 | 15 |
| 17 | NCC Safa | 2011 | 183 | 32.2 | 45,600 | 22 | 15 |
| 18 | NCC Danah | 2011 | 183 | 32.2 | 45,600 | 22 | 15 |
| 19 | NCC Nesmah | 2011 | 183 | 32.2 | 45,600 | 22 | 15 |
| 20 | NCC Shams | 2012 | 183 | 32.2 | 45,600 | 22 | 15 |
| 21 | NCC Najm | 2012 | 183 | 32.2 | 45,600 | 22 | 15 |
| 22 | NCC Reem | 2012 | 183 | 32.2 | 45,600 | 22 | 15 |
| 23 | NCC Samaa | 2012 | 183 | 32.2 | 45,600 | 22 | 15 |
| 24 | NCC Fajr | 2013 | 228 | 36.8 | 75,000 | 30 | 14 |
| | | **Total Weight (DWT)** | | | **1,105,500** | | |

* Tankers NCC Makkah, NCC Riyadh, and NCC Jubail are chartered to Odfjell as bareboat charters for a period of ten years under bareboat agreement which includes the right to purchase the tankers after the third year in consideration of specific prices.

# General Cargo Transportation Sector

In 2013, the Company successfully completed the renewal of its fleet operating in general cargo transportation, as the four old vessels serving for the last thirty years were sold, and four new general cargo vessels with DWT of 26,000 each were delivered in 2013. The new vessels were named Bahri Abha, Bahri Hofuf, Bahri Tabuk and Bahri Jazan. Another two general cargo vessels will be delivered in 2014. These vessels were built by South Korea's Hyundai Mipo as the Company seeked to improve the services provided through fleet development of multipurpose vessels with high standards of technology. These vessels can transport various types of cargo and are equipped to load and unload specialized project cargo and equipment. The vessels are equipped with heavy-lift cranes with a total capacity of 240 tons, increasing cargo lifting capabilities and providing highly effective fuel saving characteristics.

### Expansion of General Cargo and Roll-on/ Roll-off Transport Operations

After the delivery of the new vessels in 2013, the Company sought to enhance the operational activities of this sector by implementing its marketing plans to explore new markets to expand client base and acquire shares in the highly-profitable general cargo shipping market.

- Unscheduled voyages were organized from ports in Jeddah / Dubai / Sohar / Muscat to ports in North Africa to serve inter-trading.
- The Company was awarded shipping contracts from construction companies and suppliers in KSA, which involved shipping cargo of energy enterprises, equipment of way paving, air conditioners, industrial equipment and generators, equipment for construction of large projects and steam boilers for power companies from the United States to the Saudi Arabian ports.

### Current Navigation Routes

General Cargo transportation is deemed to be one of the Company's strongest navigational activities as it contributes to maintaining a well-established footprint for the Company in several markets where significant sectors depend on it. These include the transportation of huge government development projects, tending to the demands of the divisions of the Armed Forces as well as importing and exporting cargo for Kingdom of Saudi Arabia. Cargo is transported through regular voyages from ports on the Eastern Coast of the United States of America and Canada to the Indian sub-continent through Italy's Livorno port on the Mediterranean Sea, Jeddah Islamic Port on the Red Sea, King Abdulaziz Port in Dammam and Jebel Ali Port in Dubai.

The Company operates to other ports on the basis of a complete voyage under shipping agreements to achieve the Company's strategic objectives.

### Freight Forwarding Services using Third Party Vessels

The General Cargo Transportation sector provides freight forwarding services for transporting cargo to all worldwide ports through air, sea and land using third party vessels and other transportation means, allowing this sector to provide integrated logistic services to its clients. Transportation of water desalination equipment, locomotives, rail wagons, military equipment, and the government subsidies provided by Saudi Arabian Government are some of the key projects undertaken by this sector.

### Container Terminal Services

The Company runs a terminal for container storage and maintenance at Jeddah Islamic Port, which is considered as one of the most significant ports in the Middle East. The terminal focuses on providing exceptional customer service, fast and efficient handling of containers to and from the port and the reduction of stevedoring costs related to imports and exports. In 2013, the terminal was restructured and the provision of storage services to containers was expanded in conjunction with container storage contracts for other shipping providers being awarded. The terminal was equipped with modern automatic handling equipment to increase its operational capacity.

A feasibility study commenced on the provision of integrated services, including internal transportation, supervision of documents and customs clearance to recognize the way in which customs clearance services are advantageous to the terminal.

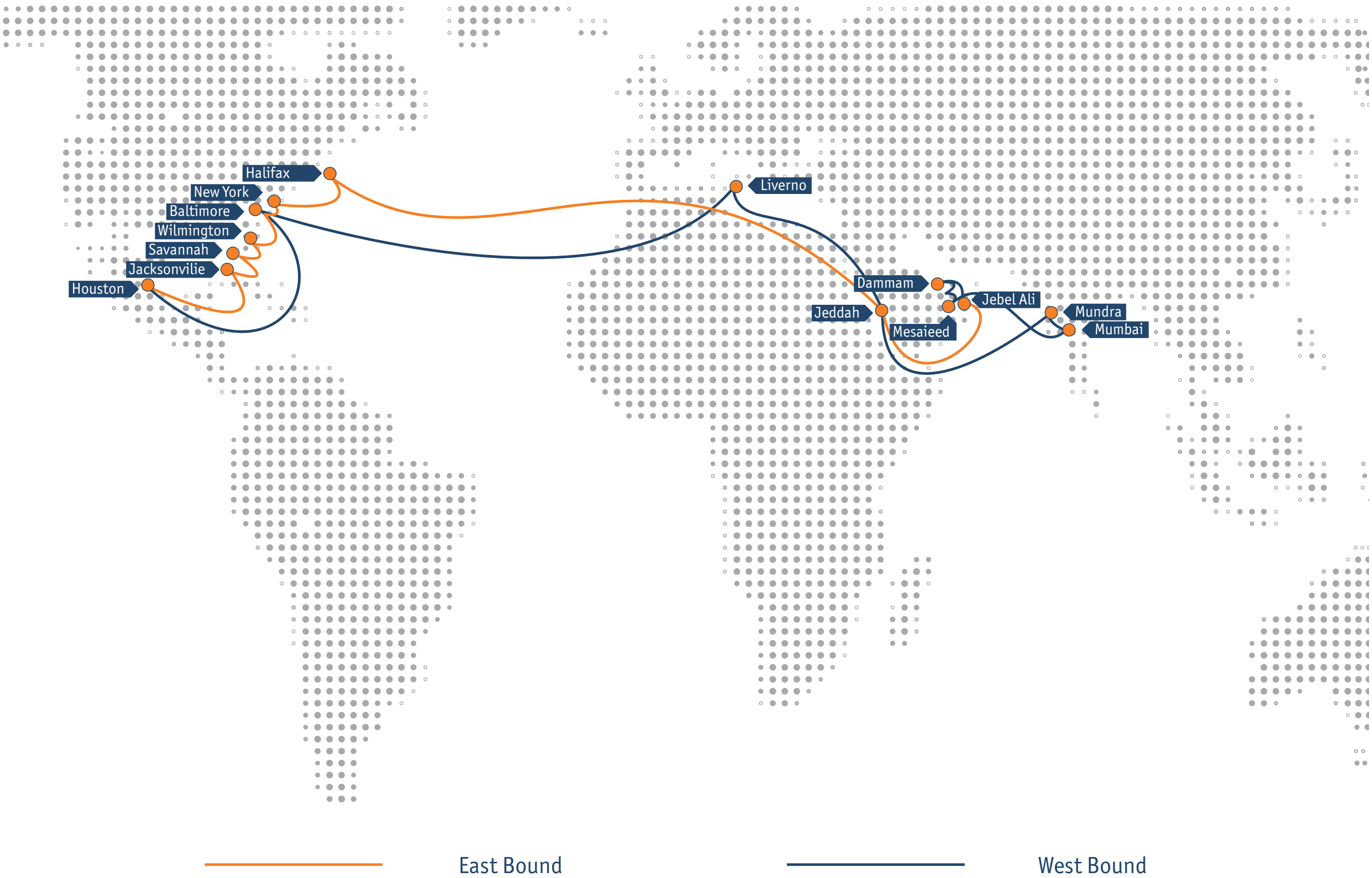
- The Company, through the General Cargo Transportation Sector seeks to acquire shares in the following freight contracts involving transportation of equipment of mega industrial projects for the coming period. The 3-year contract for the Ministry of Defense (MOD) to transport military equipment was awarded to the Company in consideration of SAR 230 million. Throughout the previous contract period, the Company provided distinguished services to the Ministry of Defense; thus, the said contract was extended, for a period of five years until 2019 for a total of SAR 383 million. Under the new contract, Bahri will continue to act as the official provider of a full range of sea, air and land freight to the Divisions of the Armed Forces at the Ministry of Defense.
- Four retired general cargo vessels were sold for scrap, and replaced with new ships, making a net gain of SAR 75.5 million from the sale of the vessels.

The General Cargo Transportation Sector seeks to expand the client base, through attracting new clients on the local, regional and global levels.

## Specifications of the Current General Cargo Transportation Fleet and Vessels under Construction as at December 31, 2013

| S. N. | Ship | Building Year and Delivery Date | Weight (DWT) | Draught (M) | Width (M) | Length (M) | Capacity (TEU container) | Horsepower | Speed (Knots) |
|---|---|---|---|---|---|---|---|---|---|
| 1 | Bahri Abha | Delivered on February 5, 2013 | 26,000 | 9.5 | 32.30 | 225 | 2,500 | 8,901 | 17 |
| 2 | Bahri Hofuf | Delivered on April 30, 2013 | 26,000 | 9.5 | 32.30 | 225 | 2,500 | 8,901 | 17 |
| 3 | Bahri Tabuk | Delivered on July 23, 2013 | 26,000 | 9.5 | 32.30 | 225 | 2,500 | 8,901 | 17 |
| 4 | Bahri Jazan | Delivered on October 29, 2013 | 26,000 | 9.5 | 32.30 | 225 | 2,500 | 8,901 | 17 |
| 5 | Bahri Jeddah | Delivered on January 9, 2014 | 26,000 | 9.5 | 32.30 | 225 | 2,500 | 8,901 | 17 |
| 6 | Bahri Yanbu | Expected delivery in second quarter of 2014 | 26,000 | 9.5 | 32.30 | 225 | 2,500 | 8,901 | 17 |

## Main Routes of General Cargo Transportation Carriers Between North America and Indian Subcontinent



# List of Containers owned and Chartered as at December 31, 2013

| S. N. | Type | 2013 | 2012 |
|---|---|---|---|
| 1 | 20 ft. standard container | 2,955 | 3,283 |
| 2 | 20 ft. open-top container | 79 | 157 |
| 3 | 40 ft. standard container | 582 | 559 |
| 4 | 40 ft. high cube container | 1,304 | 1,323 |
| 5 | 40 ft. open-top container | 87 | 76 |
| 6 | 20 ft. flat bed | 6 | 49 |
| 7 | 40 ft. flat bed | 143 | 129 |
| 8 | 20 ft. trailer (chassis) | 12 | 42 |
| 9 | 40 ft. trailer (chassis) | 38 | 105 |
| 10 | 20 ft. mafi – 30 tons | 4 | 4 |
| 11 | 20 ft. mafi – 60 tons | 69 | 69 |
| 12 | 20 ft. mafi – 80 tons | 8 | 8 |
| 13 | 20 ft. mafi – 100 tons | 361 | 212 |
| 14 | 62 ft. mafi – 80 tons | 29 | 14 |

# Dry Bulk Cargo Transportation Sector

Dry Bulk Cargo Transportation Sector operates through Bahri Dry Bulk Company LLC (BDB), a joint venture which is owned 60% by Bahri and 40% by Arabian Agricultural Services Company (ARASCO). The company is competent in the transportation of grains, cereals and other dry bulk cargo.

### Project for Building Dry Bulk Transportation Vessels

In April 2012, BDB signed contracts with one of the leading shipyards in the world to build 5 Kamsarmax bulk carrier vessels to ship dry bulk cargo. MV Bahri ARASCO was delivered on November 29, 2013, while Bahri Grain and Bahri Bulk were delivered on January 15 and 27, 2014 respectively. The remaining two vessels will be delivered during the first half of 2014.

# Specifications of Dry Bulk Cargo Carriers Delivered and Under Construction as at December 31, 2013

| S. N. | Ship | Building Year and Delivery Date | Weight (DWT) | Draught (M) | Width (M) | Length (M) | Horsepower | Speed (Knots) |
|---|---|---|---|---|---|---|---|---|
| 1 | Bahri Arasco | Delivered on November 29, 2013 | 81,800 | 14.45 | 32.26 | 224.5 | 9.840 | 14.5 |
| 2 | Bahri Grain | Delivered on January 15, 2014 | 81,800 | 14.45 | 32.26 | 224.5 | 9.840 | 14.5 |
| 3 | Bahri Bulk | Delivered on January 27, 2014 | 81,800 | 14.45 | 32.26 | 224.5 | 9.840 | 14.5 |
| 4 | Bahri Wafi | Expected Delivery in first quarter of 2014 | 81,800 | 14.45 | 32.26 | 224.5 | 9.840 | 14.5 |
| 5 | Bahri Trader | Expected Delivery in first quarter of 2014 | 81,800 | 14.45 | 32.26 | 224.5 | 9.840 | 14.5 |

# Technical Ship Management

Mideast Ship Management Ltd. is a wholly owned subsidiary of Bahri based in Dubai and manages the Company's fleet, in addition to the fleet of its subsidiaries on a technical basis. Mideast submits technical reports on vessel performance, operational status and results of periodic checks along with its recommendations to Bahri.

Key highlights

- Mideast Ship Management Ltd. is a member of the Vessels Human Resources Club which encompasses 60 major ship owners or ship management providers' worldwide comparing salaries and wages of ship crews.
- Qualified technical and administrative employees increased this year by 10% in line with the increasing number of ships managed by Mideast Ship Management Ltd.
- Percentage of employee turnover decreased from 8% in 2012 to 2% in 2013.
- Job positions and titles were reassessed and job descriptions were developed in Mideast Ship Management Ltd.
- Mideast Ship Management participated in an annual study prepared by Moore Stephens to measure and compare operating costs of ships with other peers.

# Support Departments

## Planning and Business Development Division

The Planning and Business Development Division is responsible for the strategic planning of the company including regular review of the Company's plans and follow-up of their implementation. It assumes the responsibilities of planning and coordination among various business sectors and other strategic support services divisions/departments and for following up their performance in line with the objectives set forth in the Company's strategic plan.

## Responsibilities of Planning and Business Development Division

- Maintain interaction and coordination with all sectors to provide assistance and appropriate guidance with the aim to facilitate the implementation of the Company's strategic plan.
- Provide technical support to General Cargo Transportation Sector in planning the new building of ships and the sale of old general cargo vessels (Saudi Abha, Saudi Diriyah, Saudi Hofuf and Saudi Tabuk).
- Monitor business plans and key performance indicators of all sectors of the Company and report quarterly results to the Management.
- Define and assess the proposals for the appropriate business activities in line with the Company's interest and strategic plans.
- Help develop strategic partnership in the joint ventures, mergers and acquisitions, and investment.
- Provide reports on business activity in the financial sector, operating costs, performance of peers and predictability of market trends.
- Establish relations and communications with consultants and ship builders, as well as the government entities.
- Provide support and assistance to the Communications and Human Resources Departments to develop and apply the approved initiatives.
- Develop new strategic plan for future.

## Communications Department

The Communications Department coordinates with all Bahri sectors and departments ensuring the consistent application of the corporate identity and the communication of the true nature of the Company. It supervises the operation of all initiatives reflecting corporate reputation and enhances internal communication systems to support Management.

The department has strong relationships with media, positively contributing to the Company and serving the customers and shareholders by showing progress and improvements.

### Memberships

- Organization of the Islamic Shipowners Association (OISA)
- National Committee for Joint Stock Companies
- US-Saudi Arabian Business Council (USSABC)

### Participations and Awards

- Bahri received "Seatrade 2013 Global Performance Award" for its exceptional performance and significant contribution to the Marine Transport Sector during the 25th Seatrade Awards Ceremony Dinner held in London during May 2013
- Bahri was ranked second for the "Best General Cargo Transportation Agent" by India's (Gujarat State) in 2013
- Bahri was recognized by Forbes Middle East as "One of the Top Companies in the Arab Region" in 2013
- Bahri was awarded with "Best Tanker Operator Award" during Seatrade Middle East and Indian Subcontinent Awards Ceremony dinner held in November 2013 in Dubai
- Bahri received the award for "Best Managed Company in the Middle East under Transportation and Shipping Sector" by Euromoney in 2013 for the second consecutive year
- Bahri participated in an exhibition and a Career Day in Dhahran. The exhibition aimed to attract university graduates, especially graduates from King Fahd University of Petroleum and Minerals.

# Information Technology Department

Bahri has given considerable attention to information technology in line with its strategic plan to drive operational growth across various sectors. Bahri adopted a set of modern and sophisticated technological solutions in accordance with internationally certified best standards and procedures to achieve such growth. Information technology is one of the key instruments for accomplishing success and improving the level of efficiency when providing excellence and integrated high quality solutions in the marine industry. Bahri has continued to invest in many technological solutions to develop its infrastructures and to use the most updated business applications in order to promote its position as one of the leading companies in the shipping industry.

As part of the Company's IT strategy, the first stage of Manara 3 project to replace the system currently used by General Cargo Transportation Sector was completed in 2013. This stage included the review and re-engineering of all procedures in order to begin detailed designing of requirements to be fulfilled in the new system. In addition, work in the second stage of the project commenced, which includes actual application of the system, conduct a complete testing and provision of relevant training to the concerned employees and Company agents all over the world. Additionally, the system for the container terminal was reviewed and developed in order to raise efficiency and competitiveness.

Some of the systems applications in place were upgraded to newer editions allowing users to benefit from new features and to enhance their performance.

To reach a high level of efficiency across all business applications, teams were formed to review and assess current systems and to introduce enhancements increasing functionality breadth, especially when dealing with financial reports and developing detailed reports for monitoring the overall performance of various sectors of the Company.

The system used for monitoring shareholder's rights and the payment of dividends was also upgraded. The deployment and use of the integrated operational and commercial system for the Chemical Transportation sector was completed, in addition to the upgrading and modernization of the infrastructure of this sector linking it to the unified maritime network in order to take advantage of all common services.

In order to ensure security of the data in accordance with the applicable systems and requirements in this regard, all internal procedures and policies have been updated to be in line with international standards and best practices. Moreover, an awareness campaign on data security targeting all employees of the Company was conducted, along with a comprehensive review on several levels, by internal and external bodies, as part of the continuous assessment program for increasing protection and security awareness.

The latest audio and video communication systems were deployed in offices throughout the Company linking them through a single secured network, increasing communication efficiency and raising productivity and information sharing among staff at the lowest cost. This is in addition to the upgrading of the network and communication lines, installation of a number of servers to enhance the infrastructure of the Company's systems, application of uniform standards for information technology across all the business units of the Company and benefiting from the sharing of relevant technical resources to reduce costs and increase efficiency.

The Company's official website and its pages on social networks or through Smart phone applications are regularly developed and updated. In addition, Bahri has provided electronic Hijri and Gregorian calendar applications, free for all through Apple based or Android based electronic global stores.

# Internal Audit and Control

The Internal Audit and Control Department consists of professional and highly qualified auditors, including excellent technical staff who have expertise in the operation and maintenance of vessels. The Department is working continuously to develop the capabilities and skills of its employees by applying modern technologies in the implementation of audit programs, trainings and keeping-up with the latest auditing developments and risk analysis.

The Internal Audit and Control Department verifies that the Company's business units and offices comply with established rules, standards, policies, procedures, control system, laws, regulations, etc. The Audit Department prepares its audit plans and programs related to the audit of risk management based on the international auditing standards. The Internal Audit and Control Department verifies the application of internal control systems at the company and its subsidiaries, which aims to protect the company's assets as well as its accounting records against any unauthorized access or misuse, and ensures the application of the accounting policies and the internal regulations and procedures of the Company in order to produce correct financial reports.

The Internal Audit and Control Department seeks to achieve integration among the Company's headquarters and its subsidiaries and regional offices, as it performs review and audit processes in accordance with the audit plan. The Department has conducted a review and trial examination of the accounts and documents of various offices, subsidiaries and branches, and has achieved its goals by completing those tasks according to the audit plan. Accordingly, it made the appropriate recommendations and proposals to the Audit Committee that undertakes the direct responsibility for the functions of this Department.

The Internal Audit and Control Department is an independent function, which goes in line with the corporate governance regulations that are compatible with the latest international standards. The Department's staff has expertise in the areas of the Company's core businesses with respect to the marine technical and operational aspects, in addition to their extensive experience in the Company's activities and risk inherent in its business.

The audit activities cover all sectors of the Company in accordance with a plan prepared in advance by the head of the Internal Audit and Control Department. This plan is discussed and approved by the Audit Committee functioning under the Board of Directors of the Company.

The audit plan defines the tasks of the audit team through covering all activities of these sectors, whether financial, administrative, or technical activities, relating to the Company's core businesses. This includes the scope of risk measurement as an essential part, as risk assessment is carried-out within this scope. The audit plan also verifies that the company's business units, offices and subsidiaries implement policies, procedures, standards and effective monitoring systems and comply with international and local laws with regards to all the activities.

# Human Resources Department

Human Resources Department provides advisory and support services to all departments in a unified frame that is consistent with the HR policies and procedures approved by the Company. These services include all changes in the requirements of human resources.

## Training and Development Programs

Career development and training programs aim to assist employees in the achievement of organizational objectives. The HR Department plans to further develop training courses in 2014 to help boost employee competencies. A framework for training and development was introduced to accurately define and enhance the current and future needs of the employees. The framework consists of the following:

- Training on basic skills focusing on the enhancement of communication, teamwork and building confidence.
- Development of an English learning program
- The development of "Tatweer" (Development) program. An employee training plan based on the career development requirements aimed to enhance personal and technical competencies.
- The development of "Maher" (Professional) program. A training scheme aimed to develop and attract the talents of fresh graduates.
- The development of "Marhaba" (Welcome) program. An introductory program providing a comprehensive overview of the shipping industry to include: The history and development of the shipping industry over time and future industry speculation.
- The introduction of the Company's organizational structure and core competency sectors.
- Visitation to shipping ports to develop an understanding of the Company's operational activities.
- Training on departmental technical competencies. Executive training programs based on the Company's vision and strategy.

## Employees

The number of employees of the Company within the KSA as of 31 December, 2013 was 186, while the number of employees working abroad including the ship crew totaled 1,159.

## Saudization Policies

As part of its drive for Saudization, Bahri continues to open the gateway to aspiring Saudi Nationals for promising career opportunities in the shipping industry.

Bahri exceeded Saudization policy requirements in 2013 with a 63% Saudi National workforce, an increase of 2% compared to last year, placing the Company in the "Excellent Category" of the Nitaqat Program approved by the Ministry of Labor.

## Human Resources highlights 2013

- Developed HR strategy
- Developed a framework for Tatweer "Development" program
- Introduced new employee qualification program
- Launched basic skills training program
- Participated in Marhaba "Welcome" program
- Maintained Saudization rate, which is ranked under "Excellent Category" of the "Nitaqat Program" recently approved by the Ministry of Labor
- Developed and added new services to the automated system of Human Resources and Administration
- Signing an agreement with Human Resources Development Fund
- Participation in Career Day at King Fahd University of Petroleum and Minerals

## Projects for completion in 2014

- Implementation of "Tatweer" (Development) program.
- Implementation of "Maher" (Professional) program
- Implementation of the English learning program
- Training on departmental technical competencies. Provision of Executive training programs based on the Company's vision and strategy.
- Participation in Career Days organized outside KSA to attract talents from King Abdullah Foreign Scholarship Program
- Review of HR policies and procedures
- Review of staff performance appraisal system

# Quality

1. **Quality Management System Strategy 2013**
   - Application of Integrated Quality Management System (IMS)
   - Unification of work procedures
   - Development and application of a frame to verify risk management (ISO31000)
   - Acquiring of the certificate of Occupational Health and Safety (OHSAS 18001)
   - Implementation of work continuity measure (ISO22301)

2. **Major Achievements in 2013**
   - Automation of 25% of quality records in Enterprise Resource Planning (ERP)
   - Re-engineering quality policy
   - Development of SMART key performance indicators for the current processes
   - Development of new process documents for some departments

3. **New Initiatives and Plans**
   - Determination of benchmarking processes for the Integrated Quality Management System
   - Documentation and activation of internal processes for each department
   - Coordination of periodic quality meetings with departmental quality representatives and process owners

   In accordance with the international standards applied under ISO9001:2008, Bahri aims to achieve the highest levels of client satisfaction and to establish long-term relationships through:

   - Investment in talents and skill development
   - Providing consistently high levels of customer service
   - Achieving full potential through performance culture
   - Creating a work environment based on challenge, creativity, and productivity
   - Effective and clear communications
   - Consistent improvement in quality, environment, safety and business performance
   - Compliance to governing rules and regulations, the rules and laws governing the business activities and services

   According to the foregoing, our employees participate in enhancing the quality culture within the Company, and they are requested to understand and apply each clause set forth in the quality policy in a responsible manner.

# Environment and Safety

Bahri acknowledges the importance of environmental and safety requirements that are consistent with international standards stipulated by the global environmental agencies and organizations. The shipping industry thrives throughout vast areas of the worlds, the ramifications of which impact the safety of the marine environment as well as contribute to climate change. As a result, Bahri takes measures to minimize the negative impact its vessels has on the environment through the implementation of the latest technologies aimed at reducing the pollution emitted from vessel engines and equipment. Bahri contracts specialized international consulting firms to conduct periodic tests on its vessels ensuring they meet environmental standards. In addition, Bahri takes measures to protect the health and safety of its employees both at sea and on land.

# Corporate Social Responsibility

Bahri adopts a creative approach when aligning corporate social responsibility to principles, thoughts and well-planned strategic attitudes aimed at achieving the objectives of social service. Bahri completed corporate social responsibility which focused on contribution to humanitarian programs to service to the community rather than directly focusing on charity.

Services and contributions provided to the community in 2013 were aimed to impact the largest number of beneficiaries. The following are examples of the programs and contributions undertaken by Bahri:

- Sponsorship of the Language and Communication Unit program of the Disabled Children's Association
- Participation in the National Festival for Heritage and Culture (Jandariyah 28)
- Participation in the 83rd National Day of the Kingdom of Saudi Arabia
- Launch of Bahri Hijri and Gregorian Calendar application for smart phones

# Finance Division

The Finance Division undertakes a significant role in the Company's strategic plan. It carries out various financial activities such as the preparation of estimated annual budgets as per the directives of Management and the objectives of all business units and departments. It updates them regularly according to variables resulting from modern monitoring and financial supervision on all Company financial activity.

The Finance Division prepares various internal and external financial reports to support the Executive Management in fundamental decision making based on financial performance and projections. The Finance Department discloses the Company's operations through quarterly and annual financial reports developed in accordance with the accepted accounting standards. It adheres to standards and requirements of the Capital Market Authority and duly responds to inquiries received by the Company from General Auditing Bureau, the Government Auditors or the Internal Auditors.

# Financing and Investment Department

The Treasury Department undertakes the management of cash and the provision of finance for the Company's various projects. Cash is managed daily, and the surplus is invested in short-term Murabaha agreements depending on the Company's financial requirements and obligations. In case the Company is in need of cash, it uses working capital finance or liquidates short-term investments.

With focus on low risk secure investments in 2013, Bahri invested part of its cash surplus in Sukuk and Murabaha agreements and divested from the equity market leaving investment in only one mutual fund for an additional year.

Investment in shipbuilding requires significant capital; thus, Bahri finances 30% of any shipbuilding-related cost from its own resources and the other 70% from external sources.

On 20 November, 2013, Bahri Dry Bulk signed a Murabaha agreement with Bank AlBilad to finance part of the cost to build five dry bulk cargo transportation ships at a specialized company in Japan. The total amount financed was SAR 420 million, which will be repaid quarterly in equal installments for 10 years beginning from the date of vessel delivery. At the end of 2013, the finance provided for the assets of the Company's and its subsidiaries reported in the consolidated financial statements totaled SAR 4.71 billion.

Bahri's takes into consideration that investment and finance policies are in line and compliant to Islamic Sharia. Currently 99% of its loans are Sharia compliant and it is expected that by the end of 2014 the Company investment will be 100% Sharia compliant.

Furthermore, the Company has adopted a hedging policy against the risk of fluctuating cost in finance through regularly defining an adequate cap to mitigate an unexpected increase.

# Operating Risk Management

Bahri's concept of risk management lies in the provision of safety and secondary accident risk control within the framework of internal regulatory controls and strategic objectives. The shipping industry exposes itself to varying risk factors, including terrorist attacks, wars, piracy, ship accidents, cargo damage, sailor injuries etc.

In response to risk factors, the Company has implemented appropriate risk management systems to avoid and mitigate risk, classified equipment and safety procedures and provided training in the area of safety to ensure the safety of crew and cargo and to achieve optimal utilization of available resources.

Based on the foregoing, the Company hedged against the risk associated to its vessels, cargo and crews and employees by concluding insurance policies. The insurance providers were selected after monitoring and assessing financial adequacy, technical capacity and verification that the Company would receive the best insurance offers and benefits prior to and during the period of insurance.

The Company has memberships in protection and indemnity clubs (non-profitable associations providing insurance on 90% of the cargo shipped by member vessels). There are 13 such clubs, in which the key issues related to the shipping industry are discussed. The clubs participate in drafting regulations and international conventions through coordination with international agencies and governments such as International Maritime Organization, the European Union, the Organization for Economic Co-operation and Development (OECD), United Nations Commission on International Trade Law (UNCITRL) among others. The clubs act as a communications platform for members whereby subjects of operational and environmental risk can be discussed freely. Risk topics include oil pollution, maritime security and locations of reduced risk for travelling vessels in the case of distress.

In line with Company's plan to issue the best insurance cover with S&P "A" rating, the Company covers its fleet with insurance policies against damage to vessel hulls, machinery and machinery operation, collisions and other marine accidents insurers.

The Company expanded the insurance coverage to include demurrage and defense, an insurance policy covering Company representation with various entities such as shipyards as well as sale and purchase and repair of ships.

Pursuant to the Company's vision to provide due care to its employees, the company provides medical insurance for employees and their dependents with best benefits, and Takaful insurance is provided to all employees covering death or disability.

The Company insures its other assets such as buildings, offices, electronic equipment and affiliated vehicles.

The Company constantly seeks to minimize and avoid risk as much as possible while conducting periodic examination of the insurance quotes offered by the service providers to minimize costs without affecting the insurance benefits and the effective participation to improve the quality of services provided by Bahri.

# Chapter 3
# Financial Statements and Business Results

This chapter will outline and summarize the financial statements of Bahri during 2013, identify the assets, liabilities and revenues, summarize the financial results of its subsidiaries during 2013 and clarify the statutory payments and dividend policy of the Company.


Bahri البحري


Bahri البحري

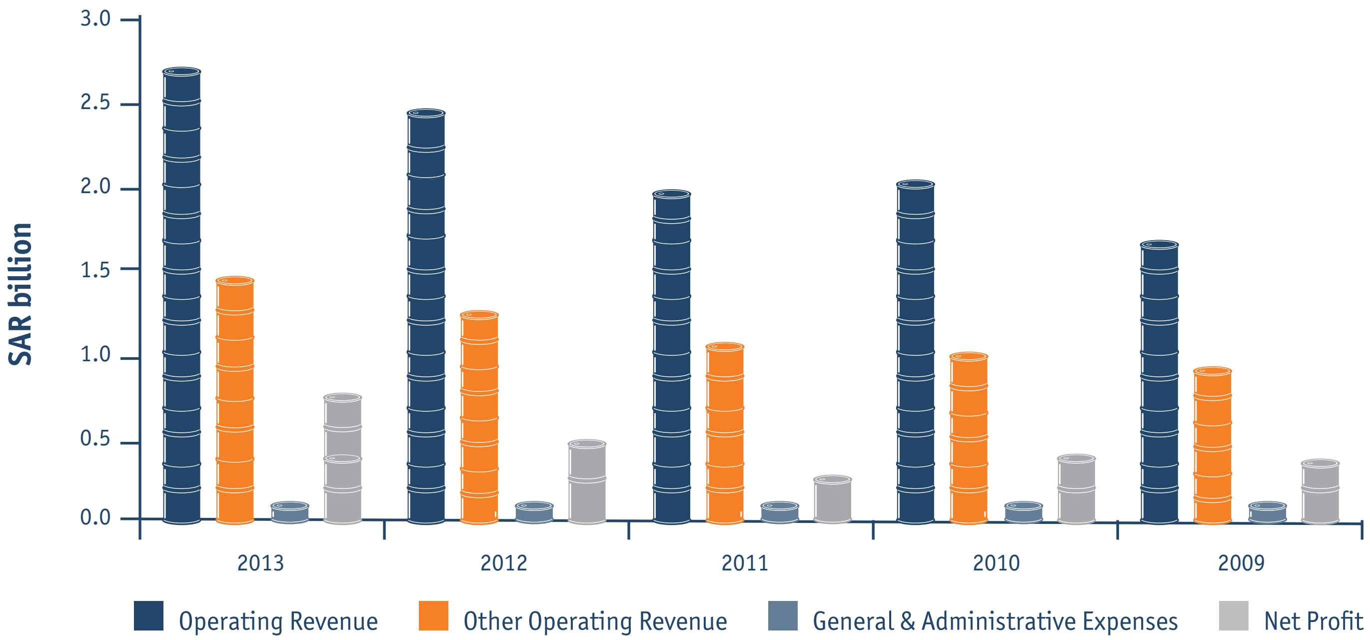

Bahri JAZAN

# Financial Results and Business Performance of Bahri and its Subsidiaries

## Financial Statements and Business Results

| Financial Results for Past Five Years (in SAR 000) | | | | | |
|---|---|---|---|---|---|
| **Item / Year** | **2013** | **2012** | **2011** | **2010** | **2009** |
| **Operating Revenues** | **2,846,698** | **2,464,628** | **1,991,084** | **2,049,830** | **1,672,016** |
| Bunker Costs | (943,406) | (875,097) | (801,163) | (625,692) | (395,986) |
| Other Operating Expenses | (1,477,957) | (1,253,254) | (1,063,269) | (1,010,377) | (935,938) |
| Total Operating Income before Bunker Subsidy | 425,335 | 336,277 | 126,652 | 413,761 | 340,092 |
| Bunker Subsidy | 171,108 | 200,572 | 176,465 | 109,498 | 83,212 |
| **Total operating Income** | **596,443** | **536,849** | **303,117** | **523,259** | **423,304** |
| General and Administrative Expenses | (94,150) | (83,063) | (73,605) | (69,677) | (62,641) |
| Other Income (Net) | 336,690 | 108,023 | 108,375 | 16,234 | 70,271 |
| Zakat and Tax (Net) | (49,858) | (36,299) | (25,497) | (36,365) | (34,590) |
| Non-controlling interest in net income of consolidated subsidiaries | (36,863) | (21,517) | (24,622) | (18,573) | (27,044) |
| **Net Income** | **752,262** | **503,993** | **287,768** | **414,878** | **369,300** |
| **Earnings per share from the net profit in (SAR)** | **2.39** | **1.60** | **0.91** | **1.32** | **1.17** |

# Financial results for past 5 years



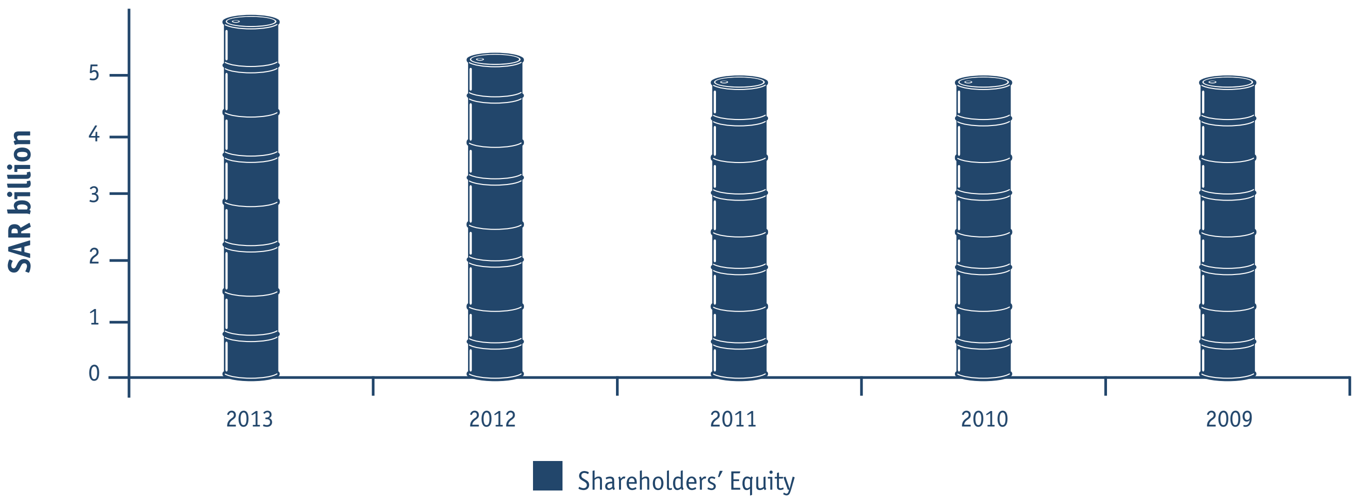
# Statement of Assets and Liabilities as at December 31, 2013 (in SAR 000)

| Item | Year | | | | |
|---|---|---|---|---|---|
| | 2013 | 2012 | 2011 | 2010 | 2009 |
| Total current assets | 1,426,842 | 1,143,109 | 1,042,280 | 1,578,464 | 1,226,805 |
| Net fixed assets | 8,512,152 | 7,503,701 | 7,252,854 | 6,407,630 | 6,730,766 |
| Other non-current assets | 2,057,534 | 2,415,748 | 2,328,077 | 1,980,185 | 2,381,013 |
| **Total assets** | **11,996,528** | **11,062,558** | **10,623,211** | **9,966,279** | **10,338,584** |
| Total current liabilities | 1,355,052 | 1,006,117 | 944,248 | 736,030 | 609,791 |
| Murabaha finance for long-term loans | 4,376,589 | 4,253,733 | 4,294,968 | 3,818,540 | 4,516,180 |
| Other non-current liabilities | 77,464 | 76,963 | 28,058 | 33,326 | 34,974 |
| **Total liabilities** | **5,809,105** | **5,336,813** | **5,267,274** | **4,587,896** | **5,160,945** |
| Paid-up share capital | 3,150,000 | 3,150,000 | 3,150,000 | 3,150,000 | 3,150,000 |
| Reserves and retained earnings | 2,695,729 | 2,260,914 | 1,912,623 | 1,939,691 | 1,837,520 |
| Non-controlling minority interest | 341,694 | 314,831 | 293,314 | 288,692 | 190,119 |
| **Total equity** | **6,187,423** | **5,725,745** | **5,355,937** | **5,378,383** | **5,177,639** |
| **Total liabilities and equity** | **11,996,528** | **11,062,558** | **10,623,211** | **9,966,279** | **10,338,584** |

## The table below illustrates changes in shareholders' equity over the last five years

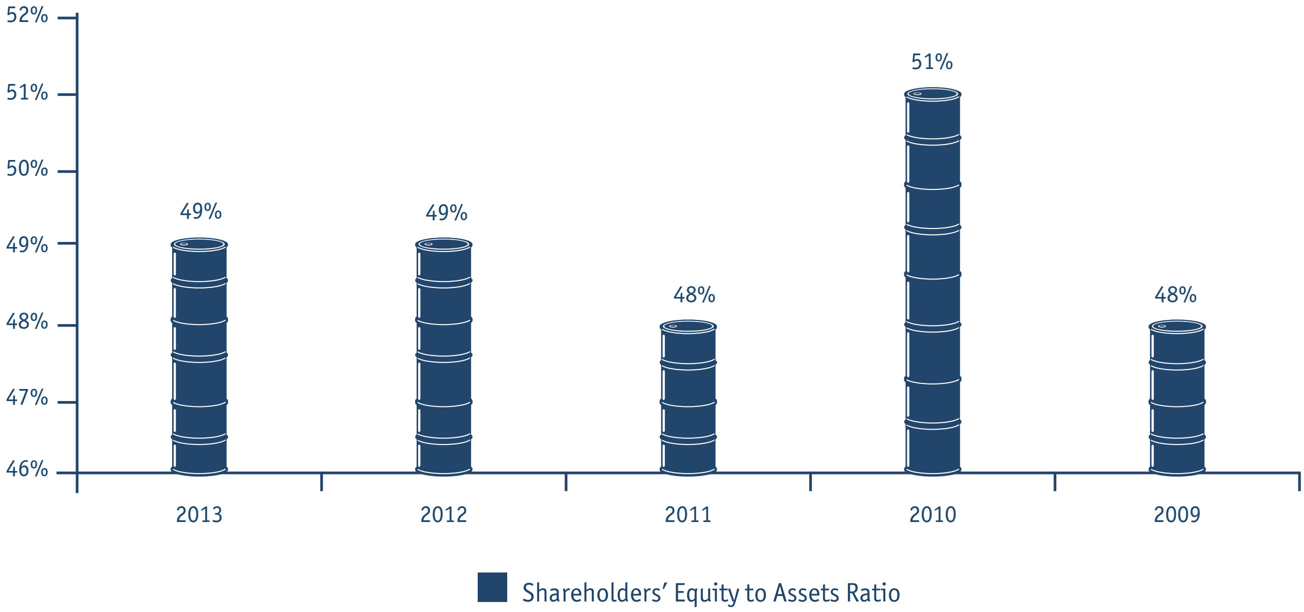
| Shareholders' Equity as at December 31, 2013 (SAR 000) | | | |
|---|---|---|---|
| **Year** | **Shareholders' equity** | **Increase / (Decrease)** | **Variance Percentage** |
| 2013 | 5,845,729 | 434,815 | 8.04% |
| 2012 | 5,410,914 | 348,290 | 6.9% |
| 2011 | 5,062,623 | (27,067) | (0.5%) |
| 2010 | 5,089,691 | 102,171 | 2% |
| 2009 | 4,987,520 | (103,276) | (2%) |

# Growth in Shareholders' Equity



| Shareholders' Equity to Assets ratio as at December 31, 2013 (SAR 000) | | | |
|---|---|---|---|
| Year | Shareholders' equity | Total Assets | Percentage |
| 2013 | 5,845,729 | 11,996,528 | 49% |
| 2012 | 5,410,914 | 11,062,558 | 49% |
| 2011 | 5,062,623 | 10,623,211 | 48% |
| 2010 | 5,089,691 | 9,966,279 | 51% |
| 2009 | 4,987,520 | 10,338,584 | 48% |

## Shareholders' Equity to Assets




The Company runs its operations through following strategic sectors generating profit and cash flows; Crude Oil Transportation Sector, Chemical Transportation Sector, General Cargo Transportation Sector, Dry Bulk Cargo Transportation Sector.

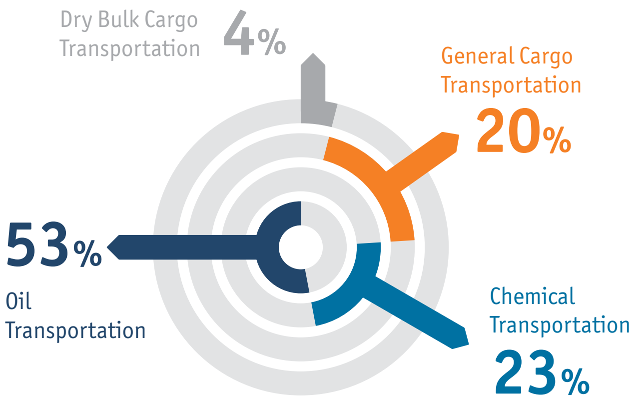
Operations of Chemical Transportation and Dry Bulk Cargo Transportation Sector are run by two independent strategic partner companies; National Chemical Carriers Ltd. Co. (NCC) and Bahri Dry Bulk Co. LLC (BDB). In addition, Bahri owns shares in some other companies, the most significant of which is Petredec Ltd.

# Revenue of the Company's Core Sectors in Fiscal Year 2013 (SAR 000)

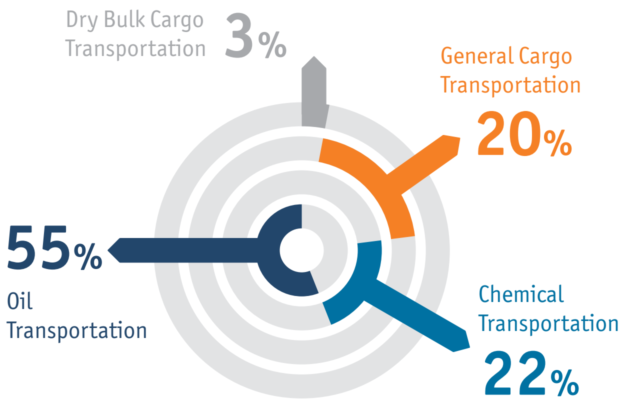
| Sector | Operating Revenue | Bunker Cost | Other Operating Expenses | Total Operating Expenses | Bunker Subsidy | Total Operating Income | Contribution of Sector's Operating Income to Total Operating Income |
|---|---|---|---|---|---|---|---|
| Oil Transportation Sector | 1,506,756 | (701,566) | (641,399) | (1,342,965) | 143,943 | 307,734 | 51% |
| Chemical Transportation Sector * | 663,874 | (109,529) | (412,893) | (522,422) | 6,497 | 147,949 | 25% |
| General Cargo Transportation Sector | 562,162 | (132,311) | (350,278) | (482,589) | 20,668 | 100,241 | 17% |
| Dry Bulk Transportation Sector ** | 113,906 | - | (73,387) | (73,287) | - | 40,519 | 7% |
| Total | **2,846,698** | **(943,406)** | **(1,477,957)** | **(2,421,363)** | **171,108** | **596,443** | **100%** |

* Some tankers in this Sector are chartered under fixed-term agreements; thus, the charterer is responsible for the bunker cost, while the other tankers operate under a pool that allocates net results after deducting expenses from shareholders.
** The vessels in this Sector are chartered, and re-chartered to ARASCO. ARASCO is responsible for the bunker fuel cost. In addition, profit was generated from the operation of the first owned specialized vessel to transport dry bulk cargo, which was delivered on 29 November, 2013.

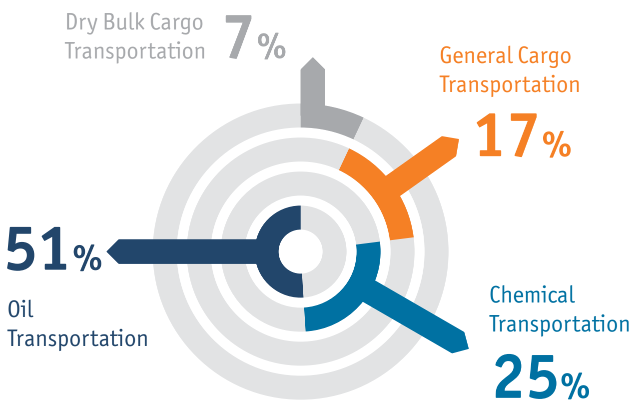
## Operating Revenue




## Total Operating Expenses



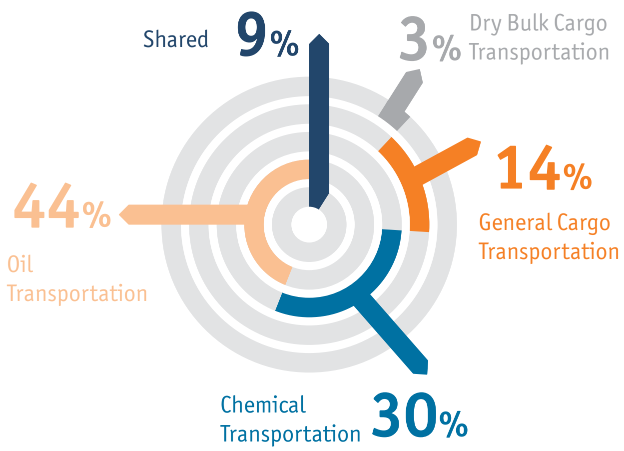

## Total Operating Income



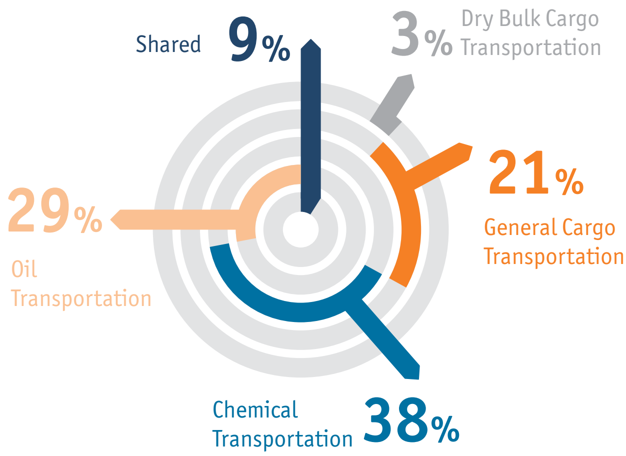
## Distribution of Assets and Liabilities as per Company's Sectors as of December 31, 2013 (SAR 000)

| | Oil Transportation | Chemical Transportation | General Cargo Transportation | Dry Bulk Cargo Transportation | Shared | Total |
|---|---|---|---|---|---|---|
| Assets | 5,273,014 | 3,490,069 | 1,730,364 | 412,784 | 1,090,297 | 11,996,528 |
| Percentage (%) | 44% | 30% | 14% | 3% | 9% | 100% |
| Liabilities | 1,652,778 | 2,237,139 | 1,224,998 | 184,070 | 510,120 | 5,809,105 |
| Percentage (%) | 29% | 38% | 21% | 3% | 9% | 100% |

### Assets




### Liabilities




## Subsidiaries Capital for 2012 and 2013

| Company | Legal Form | Incorporation date | Capital in 2013 | Capital in 2012 | Ownership in 2013 | Ownership in 2012 | Details of Shares | Debt Instruments |
|---|---|---|---|---|---|---|---|---|
| NSCSA (America) Inc. | LLC | 1991 | 3,750,000 | 3,750,000 | 100% | 100% | 1,000 | NIL |
| Mideast Ship Management Ltd. | LLC | 1996 | 306,540 | 306,540 | 100% | 100% | 1 | NIL |
| National Chemical Carriers Ltd. Co. | LLC | 1990 | 610,000,000 | 610,000,000 | 80% | 80% | 61,000,000 | NIL |
| Bahri Dry Bulk | LLC | 2010 | 200,000,000 | 200,000,000 | 60% | 60% | 200,000 | NIL |

# Summary of Financial Results of Subsidiaries in 2013 (SAR 000)

| Company | Operating Revenues | Operating Expenses | Bunker Subsidy | Total Operating Income | General and Administrative Expenses | Other Revenues (Expenses) | Net Profit (Loss) | Contribution to Bahri's Net Profit |
|---|---|---|---|---|---|---|---|---|
| NSCSA (America) Inc. | 19,949 | (4,897) | – | 15,052 | (16,881) | 598 | (1,231) | (0.16%) |
| Mideast Ship Management Ltd.** | 45,144 | (43,455) | – | 1,689 | – | (1,366) | 323 | 0.04% |
| National Chemical Carriers Ltd. Co.* | 663,874 | (522,422) | 6,497 | 147,949 | (10,955) | (10,550) | 126,444 | 16.81% |
| Bahri Dry Bulk | 113,906 | (73,387) | – | 40,519 | (2,962) | (8,623) | 28,934 | 3.85 % |

* Income generation is entirely dependent on the Parent Company ** Income generation is entirely dependent on the Parent Company and subsidiaries

# Murabaha Financing and Long-term Loans in 2013 * (SAR 000)

| Company | Principal Loans | Balance of loans at Year-start | Average Loan Term (in years) | Additions during the Year | Repayments during the Year | Balance of loans at Year-end |
|---|---|---|---|---|---|---|
| The National Shipping Co. of Saudi Arabia (Bahri) | 4,350,535 | 2,482,799 | 10 | 817,170 | (288,931) | 3,011,038 |
| National Chemical Carriers Ltd. Co. (NCC) | 2,889,920 | 2,381,633 | 8.7 | – | (295,850) | 2,085,783 |
| Bahri Dry Bulk (BDB) | 420,000 | – | 11 | 167,664 | – | 167,664 |
| Mideast Ship Management Ltd. | 25,342 | 15,386 | 7 | – | (1,991) | 13,395 |
| **Total** | **7,685,797** | **4,879,818** | **9.2** | **984,834** | **(586,772)** | **5,277,880** |

* In addition to the finance received from the Public Investment Fund, the Company and its subsidiaries also received finance from several banks; the most important are Samba Financial Group, Saudi Fransi Bank, Saudi British Bank (SABB), National Commercial Bank, Riyadh Bank, Gulf International Bank, BNP Paribas (Paris).

## Installments of Outstanding Murabaha Agreements and Long-term Loans as of December 31, 2013 (SAR 000)

| Name of the Company | 2014 | 2015 | 2016 | 2017 | 2018 | Total |
|---|---|---|---|---|---|---|
| The National Shipping Co. of Saudi Arabia (Bahri) | 343,585 | 328,943 | 317,663 | 416,593 | 450,857 | 1,857,641 |
| National Chemical Carriers Ltd. Co. (NCC) | 199,954 | 199,954 | 199,954 | 407,329 | 141,942 | 1,149,133 |
| Bahri Dry Bulk (BDB) | 7,350 | 29,400 | 29,400 | 29,400 | 29,400 | 124,950 |
| Mideast Ship Management | 13,395 | – | – | – | – | 13,395 |
| **Total** | **564,284** | **558,297** | **547,017** | **853,322** | **622,198** | **3,145,118** |

## Regulatory Payments

### Zakat and Tax

The Company has submitted all Zakat returns till 2012, as well as withholding tax returns till October 2013. Zakat assessments were approved by Department of Zakat and Income Tax (DZIT) for all years till 2000. DZIT conducted the assessment of Zakat, withholding tax from 2001 till 2007, and compelled Bahri to pay additional obligations of SAR 22 million. The Company filed an appeal with DZIT against some items in those assessments and their calculation methods, and the Department has since approved the appeals. The Company has discussed the appeals with the Second Preliminary Committee, and has not received the Zakat assessments for the remaining years from 2008 till 2012. Bahri believes that it has made an adequate provision for Zakat and withholding tax as of 31, December, 2013.

### Zakat and Tax Position of NCC

National Chemical Carriers (NCC) has submitted all Zakat returns up until 2012, as well as withholding tax returns until November 2013. NCC paid all Zakat and withholding tax amounts due according to the said returns. It has also received additional assessments of Zakat and tax for the period from 1991 to 2004 amounting to SAR 59 million. However, NCC filed an appeal against the treatment of some items of the said assessments. In April 2010, NCC reached a final settlement with DZIT for those years to pay an amount of SAR 53 million. NCC paid SAR 26 million in 2011, while the remaining amounts are to be paid in installments over five years starting from July 2012. NCC believes that it has made sufficient provisions as of 31 December, 2013 for any zakat or tax claims from DZIT.

### Zakat and Tax Position of Bahri Dry Bulk

In 2013, Bahri Dry Bulk paid the due Zakat for 2012, and it will provide its Zakat and withholding tax returns for the years till 2013 during 2014. The subsidiary believes that it has made sufficient provisions for any Zakat or tax claims requested by the DZIT as at 31 December, 2013.

## Statement of Accrued Regulator Payments as of December 31, 2013

| Details | The National Shipping Co. of Saudi Arabia (Bahri) | The National Chemical Carriers Co. Ltd. (NCC) | Bahri Dry Bulk (BDB) |
|---|---|---|---|
| Zakat Provision | 25,425,858 | 14,627,118 | 3,661,637 |
| Tax Provision | 127,276 | 235,844 | – |
| Social Insurance Provision | 165,881 | 56,299 | 2,069 |

# Dividend Distribution Policy

The Company distributes its dividends according to the operating results, liquidity and working capital requirements, as well as capital investments. Therefore, the Board of Directors has decided in its meeting held on December 18, 2013 to recommend to the General Shareholder Meeting the payout of dividends amounting to SAR 315 million to shareholders for the year 2013, at the rate of SAR 1 per share, which represents 10% of the capital, provided that the eligibility for dividend payout is for those shareholders owning shares at the closing of the stock market on the General Shareholder Meeting date.

Article "36" of the Company's Memorandum and Articles of the Association states: "Dividends shall be distributed to shareholders after deducting all general expenses, other costs and statutory reserve in accordance with the provisions of Article "34" of this Memorandum and Articles of the Association. The members of the Board of Directors are also entitled to remuneration for attending the Board meetings, in addition to a lump sum annual bonus in accordance with applicable regulatory rules."

Earnings per Share (EPS) were calculated based on the number of outstanding shares during the two years ended on December 31, 2012 and 2013, which amounts to 315 million shares so that EPS amounted to SAR 2.39 for the year ended December 31, 2013 (SAR 1.60 in 2012).

On 30, March, 2013 the General Assembly approved to pay the dividends at 10% of the capital or SAR 315 million at SAR 1 per share for 2012, and the dividends were cashed on 15 April, 2013.

The following table shows the net profit and cash dividends realized, and their percentage in net profit amounting to 64% on average, as well as the average ratio of dividend payout to capital which amounted to 9% during the past five years (2009-2013).

| Fiscal Year | Net profit (in SAR thousand) | Cash Dividends (in SAR thousand) | Dividends Payout Ratio (%) | Dividends to Capital Ratio (%) |
|---|---|---|---|---|
| 2013 | 752,262 | 315,000* | 42% | 10% |
| 2012 | 503,993 | 315,000 | 63% | 10% |
| 2011 | 287,768 | 157,500 | 55% | 5% |
| 2010 | 414,878 | 315,000 | 76% | 10% |
| 2009 | 369,300 | 315,000 | 85% | 10% |
| **Total** | **2,328,201** | **1,417,500** | **Annual Average 64%** | **Annual Average 9%** |

* Subject to the approval of Ordinary General Assembly Meeting

# Chapter 4
# Disclosure and Transparency

## Disclosure and Transparency

The Company adopts a policy of disclosure and transparency as stipulated in the corporate governance regulations and the requirements for presentation and disclosure while preparing this report in order to ensure that the correct information is delivered to its intended audience such as shareholders, financiers, regulators and others. This chapter describes some information related to accounting disclosure, the extent of compliance with corporate governance standards, details relating to the Board of Directors and its committees and information about the Executive Management and their relevant tasks.

# Chapter 4
# Disclosure and Transparency


WATBAN

## Shareholders' Rights and Communications

# The Company provides a forum for its Shareholders and other users to communicate with the Company on an ongoing basis.

The Company's shareholders have all the rights and privileges stated in the Company's Memorandum of Association, which is in line with the Companies' Law and corporate governance regulations issued by the Capital Markets Authority. The Board of Directors and the Executive Management are eager to create a healthy environment for Shareholders enabling them to exercise all their rights in a convenient and straightforward manner, through communication with the Company's management. Shareholders who meet the regulatory conditions have the right to be nominated for board membership. They are invited through local newspapers, the Company's website and the 'Tadawul' website to attend the General Assembly meetings in order for Shareholders to exercise their rights to vote and choose their representatives in the Board of Directors. A large number of Shareholders participate in the discussions relating to the Company's activities and future plans during the General Assembly meetings.

Upon approval by the General Assembly to the payment of dividend, the decision is immediately announced and procedures for payment of dividends to Shareholders who are registered in the records of the Securities Depository Center as at the end of the trading day on the day of the General Assembly meeting is held. Payments are made through local banks within a maximum period of 30 days from the date of the General Assembly's approval in this regard.

The Company participates in the investment forums organized by investment companies. The Company has as well approached prospective investors and current Shareholders through meetings organized by certain agencies that are interested in investment. It has received as well a number of officials of investment agencies. It is noteworthy that the information provided by the Company is limited to public information that has already been disclosed through the official channels of communication and is consistent with the directives of the Capital Markets Authority and the Ministry of Commerce and Industry.

Through the Company's website (www.bahri.sa), the Company provides a forum for its Shareholders and all other users to communicate with the Company on an ongoing basis. This website can be used to search for any information that may be required, and any updated information relating to the Company, which includes annual, quarterly and operational reports, as well as the Company's publications, announcements, and information about current and former Shareholders.

The Company as well provides all news about its performance and activities through official channels such as the Tadawul website in accordance with the directives of the Capital Markets Authority and the disclosure policy adopted by the Company as part of the corporate governance regulations.

# Disclosure

Bahri discloses all necessary information in a transparent manner, especially with regards to its activities and results in such a way that does not affect the activities.

- **Departure from the Accounting Standards released by the Saudi Organization for Certified Public Accountants (SOCPA):**
  - There are no departures from the accounting standards released by the Saudi Organization for Certified Public Accountants (SOCPA).
- **A description of any interest in a class of voting shares held by persons (other than the Company's Board Members, Senior Executives and their relatives) that have informed the Company of their holdings pursuant to Article 45 of the Listing Rules of the Capital Markets Authority, together with any change to such interest during the last financial year:**
  - The Company has not received any notification regarding any interest in a class of voting shares.
- **A description of the categories and numbers of any transferrable debt instruments and any contractual securities or offering memorandum on subscription rights offers or similar rights issued or granted by the Company during the fiscal year with explanations for any compensation acquired by the Company for that:**
  - The Company does not have any categories of transferrable debt instruments, nor any contractual securities, offering memorandums on subscription rights, or any similar rights issued or granted by the Company during the fiscal year.
- **A description of any transfer or subscription rights under transferrable debt instruments or any contractual securities or any subscription rights or similar rights issued or granted by the Company:**
  - The Company does not have any transfer or subscription rights under transferrable debt instruments or any contractual securities or any offering rights memos or similar rights issued or granted by the Company.
- **A description of any redemption, purchase, or cancellation by the Company of any redeemable debt instruments and the value of the remaining securities, with a distinction between the listed securities purchased by the Company and those purchased by the subsidiaries:**
  - The Company and its subsidiaries do not have any such recovery, purchase, or cancellation of any recoverable debt instruments.
- **A description of any transaction between the Company and any related party:**
  - On August 28, 2010, the Company signed an agreement with Arasco to establish Bahri Dry Bulk (a subsidiary of Bahri), which is 60% owned by Bahri and 40% owned by Arasco. The company explains that Mr. Abdullah Sulaiman Al-Rubaian Chairman of Bahri is also the Chairman of Arasco. This was disclosed and approved during Ordinary General Assembly no. 36 held on April 22, 2012.
- **Information on any business or contracts where the Company is a party and there is an interest for a Board Member or the CEO or the CFO or any person related to any of them:**
  - Excluding the above mentioned, the Company acknowledges that there is no contract where the Company is a party and where there is an interest for a board member or the CEO or the CFO or any person related to any of them.
- **A description of any arrangements or agreement under which a Board Member or a Senior Executive has waived any rights to compensation:**
  - None of the Board Members or Senior Executives has waived any rights to salary or compensation.
- **A description of any arrangements or agreement under which a shareholder of the Company has waived any rights to dividends:**
  - There is no arrangement or agreement where a Shareholder of the Company has waived any rights to dividends.
- **A description of the value of any investments or reserves created for the Company's employees:**
  - There are no specific investments or reserves set aside for the Company's employees, except those for the severance payment provisions as provided in the Labor Law in KSA and similar laws in countries where there are companies wholly owned by Bahri such as the USA and the UAE.
- **The Board of Directors confirm the following:**
  - The accounting records have been prepared in a sound manner.
  - The internal control system has been established on a sound basis and implemented effectively.
  - The Company's ability to continue its operation is not subject to doubt.
- **The External Auditors' reservations regarding the financial statements:**
  - The external auditors do not have any reservations about the Company's financial statements.
- **The Board of Directors' recommendation to replace the External Auditors before the end of the agreed term:**
  - The Board of Directors did not make any recommendation for replacing the External Auditors before the end of the agreed term.
- **Penalties, sanctions, or precautionary attachment imposed on the Company by regulatory, supervisory, or judicial authorities:**
  - A financial penalty of SAR 10,000 was imposed on the company for violating Paragraph (i) under Article Five of the Corporate Governance Regulations as it has not provided the Capital Market Authority with a copy of the minutes of the ordinary General Assembly meeting held on 30/3/2013 within 10 days of the convening date.

**Results of the annual audit and internal control procedures of the Company:**

The Internal Audit and Control Department performs the audits on a constant basis, and implements an annual audit plan based on a risk assessment system for the Company and its subsidiaries. The Audit Committee approves the audit plan after ensuring that such plan includes all necessary programs that need to be examined and assessed, and that it is in line with internal control and audit standards.

In order to verify the effectiveness of the internal audit system with regard to the protection of assets, risk assessment, and evaluation of the adequacy of performance, the Internal Audit and Control Department submits periodic reports to the Audit Committee. These auditing processes have not revealed material deficiency in the internal control system of the Company. Moreover, within the scope of its review of the Company's final accounts on a quarterly basis, the External Auditor reviews all reports of the Internal Audit and Control Department for the relevant financial period. The External Auditor shall also have the right to review the minutes of the Audit Committee meetings, in order to provide a professional opinion. The Audit Committee will discuss all the observations made, and ensure that all relevant departments take corrective actions to this effect within the necessary time schedule.

# Corporate Governance

The Company complies with corporate governance standards and it conducts constant review of its policies and procedures, and establishes policies and procedures that will promote the concept of transparency and disclosure. The Company also implements all obligatory provisions stated in the corporate governance regulations issued by the Capital Market Authority and its Articles of Association, and all its policies with exception of the following:

| Article No. | Article / Paragraph | Reasons for Non-compliance |
|---|---|---|
| Article 27 - paragraph 4 | Geographic analysis of the source's total revenues and of the total revenues of its subsidiaries abroad | Due to the nature of the Company's business, the vessels of the Company and its subsidiaries operate in the high seas and carry shipments between multiple ports world-wide |
| Article 6 - paragraph (b) | Cumulative voting method should be applied when voting to select board members in the General Assembly | The Company adopts the regulations issued by the Ministry of Commerce and Industry based on the Companies Law regarding the voting system in General Assemblies. Further, the Company' Articles of Association does not provide for the application of the cumulative voting method. The Company will consider cumulative voting when voting for choosing board members in the future |

# Board of Directors

The Board of Directors of the Company consists of nine members in its current term (2011 - 2013). The Board is vested with the responsibility to lead the Company in terms of guidance, control and strategy, while the Executive Management undertakes the role to lead the business within the policies, plans, controls and regulations approved by the Board and the General Assembly. The Board of Directors held six meetings during 2013.

**Details of attendance of the Chairman and Board Members in Board meetings during 2013**

| Name | Title | Meeting Number | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 | 6 | Total |
| Abdullah Sulaiman Al-Rubaian | Chairman | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 6 |
| Mohammed Abdulaziz AlSarhan | Vice Chairman | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 6 |
| Esam Hamad Al-Mubarak | Board Member | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 6 |
| Nasser Mohammed Al-Kahtani | Board Member | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 6 |
| Saleh Abdullah AlDebasi | Board Member | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 6 |
| Abdulkarim Ibrahim Al-Nafie | Board Member | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 6 |
| Farraj Mansour Abothenain | Board Member | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 6 |
| Abdullah Ali Al-Ajaji | Board Member | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 6 |
| Ghassan Abdulrahman Al-Shibl | Board Member | ✓ | × | ✓ | ✓ | ✓ | ✓ | 5 |

## Classification of Board of Directors for the period (2011-2013) in terms of Independence: Independent / Non-Executive

| Name | Classification |
|---|---|
| Abdullah Sulaiman Al-Rubaian | Independent |
| Mohammed Abdulaziz AlSarhan | Independent |
| Esam Hamad Al-Mubarak | Non-executive |
| Nasser Mohammed Al-Kahtani | Non-executive |
| Saleh Abdullah AlDebasi | Non-executive |
| Abdulkarim Ibrahim Al-Nafie | Independent |
| Farraj Mansour Abothenain | Independent |
| Abdullah Ali Al-Ajaji | Independent |
| Ghassan Abdulrahman Al-Shibl | Independent |

## Classification of Board of Directors for the period (2014-2016) in terms of Independence: Independent / Non-Executive

| Name | Classification |
|---|---|
| Abdulrahman Mohammed AlMofadhi | Non-executive |
| Mohammed Abdulaziz AlSarhan | Independent |
| Esam Hamad Al-Mubarak | Non-executive |
| Saleh Abdullah AlDebasi | Non-executive |
| Farraj Mansour Abothenain | Independent |
| Abdullah Ali Al-Ajaji | Independent |
| Abdulaziz Abdulrahman Al-Modaimigh | Independent |

## Details of Membership of Board of Director's for the duration (2011-2013) in other Joint Stock Companies

| Name | Membership in other joint-stock companies |
|---|---|
| Abdullah Sulaiman Al-Rubaian | • Arabian Shield Cooperative Insurance Co.<br>• Arabian Agriculture Services Company (ARASCO)<br>• Al-Falak National company<br>• Etidama Centre for the Development of Animal and Plant Production<br>• Barclays Saudi Arabia |
| Mohammed Abdulaziz AlSarhan | • Al Faisaliah Group<br>• Al-Sharq Ready Mix Co. |
| Esam Hamad Al-Mubarak | N/A |
| Nasser Mohammed Al-Kahtani | N/A |
| Saleh Abdullah AlDebasi | N/A |
| Abdulkarim Ibrahim Al-Nafie | • Gulf Union Juices Factory<br>• Ceramic Pipes Company |
| Farraj Mansour Abothenain | • Astra Industrial Group "Astra"<br>• National Petrochemical Company (Petrochem)<br>• Bawan Co. |
| Abdullah Ali Al-Ajaji | • Qassim Cement Co. |
| Ghassan Abdulrahman Al-Shibl | • Malath Cooperative Insurance & Reinsurance Company |

# Details of Membership of Board of Director's for the duration (2013-2014) in other Joint Stock Companies

| Name | Membership in other joint-stock companies |
|---|---|
| Abdulrahman Mohammed AlMofadhi | • National Commercial Bank<br>• Saudi Real Estate Co.<br>• Saudi Stock Exchange |
| Mohammed Abdulaziz AlSarhan | • Al Faisaliah Group<br>• Al-Sharq Ready Mix Co. |
| Esam Hamad Al-Mubarak | N/A |
| Saleh Abdullah AlDebasi | N/A |
| Farraj Mansour Abothenain | • Astra Industrial Group "Astra"<br>• National Petrochemical Company (Petrochem)<br>• Bawan Co. |
| Abdullah Ali Al-Ajaji | • Qassim Cement Co. |
| Abdulaziz Abdulrahman Al-Modaimigh | • The Company for Cooperative Insurance<br>• Middle East Financial Investment Company |

# Details of Board of Directors' Compensations and Bonuses in 2013

| Name | Meetings Attendance fees | Committee Remuneration | Bonus after Profit Distribution | Total |
|---|---|---|---|---|
| Abdullah Sulaiman Al-Rubaian | 37,500 | 200,000 | 200,000 | 437,500 |
| Mohammed Abdulaziz AlSarhan | 63,439 | 200,000 | 200,000 | 463,439 |
| Esam Hamad Al-Mubarak | 47,839 | 200,000 | 200,000 | 447,839 |
| Nasser Mohammed Al-Kahtani | 59,839 | 200,000 | 200,000 | 459,839 |
| Saleh Abdullah AlDebasi | 45,000 | 200,000 | 200,000 | 445,000 |
| Abdulkarim Ibrahim Al-Nafie | 56,839 | 200,000 | 200,000 | 456,839 |
| Farraj Mansour Abothenain | 46,500 | 100,000 | 200,000 | 346,500 |
| Abdullah Ali Al-Ajaji | 56,910 | 200,000 | 200,000 | 456,910 |
| Ghassan Abdulrahman Al-Shibl | 33,011 | 100,000 | 200,000 | 333,011 |
| | **446,877** | **1,600,000** | **1,800,000** | **3,846,877** |

The Board of Directors declares that apart from the shares owned by Board Members as shown in the following table, they do not have any personal interests, option rights, rights of subscription, or affiliations by the members of the board, their spouses, or minor children to the Company or its subsidiaries, whether in the form of corporate shares, or direct or indirect connections through contracts of employment, etc.

# Details of ownership of Board Members, their spouses and minor children in the Company's shares or debt instruments during 2013

| Name of the Board Member | Title | Ownership at the beginning of the year | Ownership at the end of the year | Change during the Year | Variance Percentage |
|---|---|---|---|---|---|
| Abdullah Sulaiman Al-Rubaian | Chairman | 1,000,000 | 1,270,153 | 270,153 | 27% |
| Mohammed Abdulaziz Al Sarhan | Vice Chairman | 496,903 | 469,002 | (27,901) | (5.6)% |
| Esam Hamad Al-Mubarak | Board Member | 80,000 | 80,000 | - | - |
| Nasser Mohammed Al-Kahtani | Board Member | - | - | - | - |
| Saleh Abdullah AlDebasi | Board Member | 2,500 | 2,500 | - | - |
| Abdulkarim Ibrahim Al-Nafie | Board Member | 13,000 | 63,000 | 50,000 | 384.6% |
| Farraj Mansour Abothenain | Board Member | 25,000 | 25,000 | - | - |
| Abdullah Ali Al-Ajaji | Board Member | - | - | - | - |
| Ghassan Abdulrahman Al-Shibl | Board Member | 35,000 | 35,000 | - | - |

# Board Committees

Three committees emanate from the Board of Directors: Strategy & Investment Committee, Audit Committee and Nomination and Remuneration Committee, with powers specified by the Board of Directors.

**1. Strategy & Investment Committee**

This committee is entrusted with putting in place the basic principles of the Company's strategies. It reviews them periodically, ensuring optimum exploitation of the Company's resources, maximizing returns on investment, and deliberating issues referred thereto by the Board of Directors.

# Attendance Details of the Chairman and Members of the Strategy & Investment Committee during 2013

| Name | Title | Meeting Number | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 | 6 | Total |
| Mohammed Abdulaziz AlSarhan | Chairman | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 6 |
| Esam Hamad Al-Mubarak | Member | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 6 |
| Abdulkarim Ibrahim Al-Nafie | Member | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 6 |
| Farraj Mansour Abothenain | Member | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 6 |
| Ghassan Abdulrahman Al-Shibl | Member | ✗ | ✓ | ✓ | ✓ | ✗ | ✓ | 4 |

### 2. Audit Committee

The Audit Committee is responsible for verifying the adequacy of the internal controls in a manner that achieves the specified objectives of the Company and protects the interests of the shareholders. This Committee is entitled to have access to all information, data, reports, records, and other details it deems important. In addition, it examines the annual interim financial statements prior to their submission to the Board of Directors. The Committee is also responsible for examining the accounting policies and recommending to the Board the appointment and remuneration of the Company Auditors for the fiscal year, and verifying the independence of the internal auditors. After reviewing the existing internal controls as manifested in the systems approved by the internal audit department, the Committee confirms the soundness and effectiveness of the internal audit and control systems that are being implemented by a team of qualified auditors, specialized in risk management and quality control. The Committee do not have any material observations. The General Assembly of the Company has approved the rules for the selection of Audit Committee members, their term of membership and working methodology. The Board of Directors has set the remuneration for the members of this committee.

## Attendance Details of the Chairman and members of the Audit Committee during 2013

| Name | Title | Meeting Number | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 | 6 | Total |
| Nasser Mohammed Al-Kahtani | Chairman | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 6 |
| Saleh Abdullah AlDebasi | Member | ✕ | ✓ | ✓ | ✓ | ✓ | ✓ | 5 |
| Abdullah Ali Al-Ajaji | Member | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 6 |
| Ahmed Abdullah Al-Moghamis | Member | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 6 |

### 3. Nomination and Remuneration Committee

This Committee is responsible for making nominations for membership in the Board of Directors for the next term, the annual review of the requirements and skills required for Board membership. The Committee as well as reviews the structure of the Board of Directors and recommends changes as may be necessary, identify the weaknesses and strengths of the current Board propose measures to address them in subsequent sessions, putting in place clear policies for the compensation and remuneration of the Board of Directors and Senior Executives based on their performance. The Company's Ordinary General Assembly has approved the rules for selecting the members of the Nomination and Remuneration Committee, as well as the duration of membership, and method of work. The Board of Directors has determined the remuneration for the members of this Committee.

## Attendance Details of the Chairman and members of the Nomination and Remuneration Committee during the Year 2013

| Name | Title | Meeting Number | | | |
|---|---|---|---|---|---|
| | | 1 | 2 | 3 | Total |
| Abdullah Sulaiman Al-Rubaian | Chairman | ✓ | ✓ | ✓ | 3 |
| Nasser Mohammed Al-Kahtani | Member | ✓ | ✓ | ✓ | 3 |
| Abdulkarim Ibrahim Al-Nafie | Member | ✓ | ✓ | ✓ | 3 |
| Saleh Abdullah AlDebasi | Member | ✓ | ✓ | ✕ | 2 |
| Abdullah Ali Al-Ajaji | Member | ✓ | ✓ | ✓ | 3 |

## Executive Management

The Company's Executive Management is delegated by the Board of Directors to manage the Company's business. This role is carried out by the Chief Executive Officer (CEO) assisted by deputies and heads of the business sectors and the subsidiaries. This Executive Management is responsible for the financial, administrative, technical, operational, information technology, and risk management activities, and all activities related to the Company's business. Committees are also formed as per the requirement to provide assistance in executing certain activities and contingent tasks. Pursuant to the powers vested in them by the Board of Directors, the Executive Management is committed to act in line with the approved policies and to implement the strategic and operational plans to develop the Company's business and serve the interests of the shareholders, without reserving any investment for the benefit of the Company's employees other than their legal entitlements. It is also to be noted that the five Senior Executives including the CFO do not own any share options, subscription rights or debt instruments in the holding Company or any of its subsidiaries according to the Tadawul records as at December 31st, 2013 except that stated in the Executive Management ownership table below.

## Statement of Company Senior Executives in 2013

| Name | Title |
|---|---|
| Saleh Nasser Al-Jasser | Chief Executive Officer |
| Abdulaziz Khalid Al-Rasheed | Vice Chief Executive Officer, Planning & Business Development |
| Mohammed Omair Al-Otaibi | Vice Chief Executive Officer, Finance |
| Saleh Abdulrahman Al-Shamekh | President (Oil & Gas) |
| Ahmed Sulaiman Al-Eidan | Assistant Chief Executive Officer, Board Secretariat and Communications |

## Details of ownership of Senior Executives, their spouses and minor children in the company's shares or debt instruments issued by the company during the year 2013

| Name | Ownership at the beginning of the year | Ownership at the end of the year | Change during the Year | Change Percentage |
|---|---|---|---|---|
| Saleh Nasser Al-Jasser | 200,000 | 210,835 | 10,835 | 5.4% |
| Abdulaziz Khalid Al-Rasheed | - | - | - | - |
| Saleh Abdulrahman Al-Shamekh | - | - | - | - |
| Mohammed Omair Al-Otaibi | - | - | - | - |
| Ahmed Suleiman Al-Eidan | 20,000 | - | (20,000) | (100%) |

## Details of Compensations and Remunerations for the five Executive Management members during the year 2013*

| Item | Amount (SAR 000) |
|---|---|
| Salaries and Remunerations | 6,082 |
| Allowances | 1,075 |
| Annual Bonuses | 8,877 |
| Incentives | - |
| In-kind Compensations and other Benefits | - |
| **Total** | **16,034** |

*The CEO and CFO are included in the list of five top executives

## Conclusion

This annual report for 2013 has been prepared in accordance with the standards for transparency and disclosure, the Capital Markets Authority (CMA) requirements, the standards of the Saudi Organization for Certified Public Accountants (SOCPA), and the International Financial Reporting Standards (IFRS).

The Board of Directors would like to take this opportunity to express its deepest gratitude to the Custodian of the Two Holy Mosques, King Abdullah Bin Abdulaziz, his Royal Highness Prince Salman Bin Abdulaziz, Crown Prince and Deputy Prime Minister and Minister of Defense, 'May God protect them' and to the Saudi Government of true faith, especially the Ministry of Finance, Ministry of Commerce and Industry, Ministry of Transport, Public Investment Fund, and Capital Markets Authority.

The Board is also pleased to thank the shareholders and customers of the Company and expresses its deep gratitude for their support and confidence. This has inspired and propelled the Board to lead the Company to success.

The Board of Directors would also like to extend their thanks and appreciation to the Executive Management and all employees of the company for their sincere efforts to enhance the performance and to achieve the Company's goals.

"May God Grant us Success"

# Chapter 5
# Consolidated Financial Statements and Auditor’s Report for the year ended 31 December 2013

(The National Shipping Company of Saudi Arabia)
(A Saudi Joint Stock Company)

# Consolidated Financial Statements for the Year Ended December 31, 2013 and Auditor's Report

# Chapter 5
# Consolidated Financial Statements and Auditor's Report for the year ended 31 December 2013

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

ارنست ويونغ
ترخيص
مهني رقم ١٥
5
PROFESSIONAL LICENCE No. 45
ERNST & YOUNG

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

# Chapter 5
# Consolidated Financial Statements and Auditor's Report for the year ended 31 December 2013


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)

| | 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** |

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

| | Notes | 2013 | 2012 |
|---|---|---|---|
| **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** |
| **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

## 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** |

Continues

## 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 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

# 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

## The National Shipping Company of Saudi Arabia (A Saudi Joint Stock Company)
## Notes To The Consolidated Financial Statements December 31, 2013
## (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.

** 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 tanker 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.

### 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.

## The National Shipping Company of Saudi Arabia (A Saudi Joint Stock Company)
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**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.

**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% |

| The assets | Depreciation rate |
|---|---|
| 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.

**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.

**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.

**y) Segment reporting**

Operating segment

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

(1) That are engaged in revenue operating activities;

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

(3) Whose financial information is available separately.

# The National Shipping Company of Saudi Arabia (A Saudi Joint Stock Company)
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### 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 |
| **Total** | **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) |
| **Total** | **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** | | |
| 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 collections and 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** |

# The National Shipping Company of Saudi Arabia (A Saudi Joint Stock Company)
# Notes To The Consolidated Financial Statements December 31, 2013
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## 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** |

# The National Shipping Company of Saudi Arabia (A Saudi Joint Stock Company)
# Notes To The Consolidated Financial Statements December 31, 2013
# (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 / Tranfers 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).

# The National Shipping Company of Saudi Arabia (A Saudi Joint Stock Company)
# Notes To The Consolidated Financial Statements - December 31, 2013
# (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:**

| | The Company | National Chemical Carriers | Bahri Dry Bulk LLC | Total |
|---|---|---|---|---|
| **2013** | | | | |
| 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 |

| | The Company | National Chemical Carriers | Bahri Dry Bulk LLC | Total |
|---|---|---|---|---|
| **2012** | | | | |
| 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** |

# The National Shipping Company of Saudi Arabia (A Saudi Joint Stock Company) Notes To The Consolidated Financial Statements December 31, 2013 (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.

### 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.

(In Thousands Saudi Riyals)

## 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** |

## 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** |

# The National Shipping Company of Saudi Arabia (A Saudi Joint Stock Company)
# Notes To The Consolidated Financial Statements December 31, 2013
# (In Thousands Saudi Riyals)

## 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.

## 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.

# The National Shipping Company of Saudi Arabia (A Saudi Joint Stock Company) Notes To The Consolidated Financial Statements December 31, 2013 (In Thousands Saudi Riyals)

## 23. Segmental Information - Continued

| 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.

**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 | 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.

## The National Shipping Company of Saudi Arabia (A Saudi Joint Stock Company) Notes To The Consolidated Financial Statements December 31, 2013 (In Thousands Saudi Riyals)

### 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.

#### 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. Saudi 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.

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