



**البحري Bahri**

**(THE NATIONAL SHIPPING COMPANY  
OF SAUDI ARABIA)**

**(A Saudi Joint Stock Company)**

**INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS**

**(Unaudited)**

**FOR THE SIX MONTH PERIOD ENDED 30 JUNE  
2015 AND INDEPENDENT AUDITORS' LIMITED  
REVIEW REPORT**



**(The National Shipping Company of Saudi Arabia)  
(A Saudi Joint Stock Company)  
Interim Consolidated Financial Statements (Unaudited)  
For the six month period ended 30 June 2015  
and independent auditors' limited review report**

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

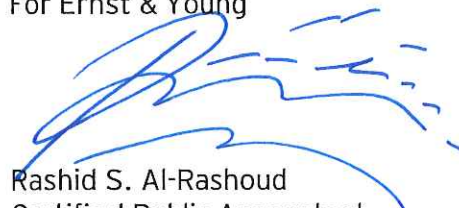
**SCOPE OF REVIEW**

We have reviewed the accompanying interim consolidated balance sheet of The National Shipping Company of Saudi Arabia - a Saudi Joint Stock Company ("the Company") and its subsidiaries ("the Group") as at 30 June 2015, and the related interim consolidated statement of income for the three month and six month periods ended 30 June 2015 and the interim consolidated statement of cash flows for the six month period then ended. These interim consolidated financial statements are the responsibility of the Group's management and have been prepared by them and submitted to us together with all the information and explanations which we required. We conducted our limited review in accordance with the Standard on Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants (SOCPA). A limited review consists principally of applying analytical procedures to financial data and information and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

**CONCLUSION**

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

For Ernst & Young



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



Riyadh: 26 Ramadan 1436H  
(13 July 2015)

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

		As at 30 June 2015 (Unaudited)	As at 31 December 2014 (Audited)	As at 30 June 2014 (Unaudited)
<b>ASSETS</b>				
<b>Current assets:</b>				
Bank balances and cash	3	333,513	168,957	178,358
Murabaha and short term deposits	3	162,277	221,111	106,096
Trade receivables, net		711,938	642,167	453,641
Lease receivable for vessels, net		24,532	21,140	18,174
Prepaid expenses and other receivables		159,722	162,041	139,981
Agents' current accounts		68,362	76,334	64,461
Inventories		242,611	327,490	251,887
Accrued bunker subsidy, net		199,743	197,407	128,657
Incomplete voyages		-	-	7,426
<b>Total current assets</b>		<b>1,902,698</b>	<b>1,816,647</b>	<b>1,348,681</b>
<b>Non-current assets:</b>				
Lease receivable for vessels , net		344,583	358,282	369,115
Investments held to maturity		10,587	10,587	40,587
Investments available for sale		13,533	13,533	14,401
Investment in an associated company	4	966,788	905,758	956,317
Deferred dry-docking cost, net		126,646	122,166	125,169
Intangible assets, net		876,482	903,501	-
Fixed assets, net		12,632,152	12,980,017	9,334,792
Ships under construction and others	5	403,393	12,039	12,601
<b>Total non-current assets</b>		<b>15,374,164</b>	<b>15,305,883</b>	<b>10,852,982</b>
<b>Total assets</b>		<b>17,276,862</b>	<b>17,122,530</b>	<b>12,201,663</b>
<b>LIABILITIES AND EQUITY</b>				
<b>Current liabilities:</b>				
Accounts payable and accruals		659,297	496,625	400,440
Murabaha and long-term financing-current portion	6	552,070	558,304	565,820
Short term Murabaha financing		3,260,313	3,459,313	328,625
Unclaimed dividends		35,755	33,882	34,977
Provision for zakat and withholding tax	8	203,352	142,898	149,571
Incomplete voyages		4,473	9,813	-
<b>Total current liabilities</b>		<b>4,715,260</b>	<b>4,700,835</b>	<b>1,479,433</b>
<b>Non-current liabilities:</b>				
Murabaha and long-term financing	6	3,878,708	4,152,888	4,430,803
Employees' end of service benefits		51,908	52,834	47,366
Other liabilities	9	30,704	30,704	30,704
<b>Total non-current liabilities</b>		<b>3,961,320</b>	<b>4,236,426</b>	<b>4,508,873</b>
<b>Total liabilities</b>		<b>8,676,580</b>	<b>8,937,261</b>	<b>5,988,306</b>
<b>Equity:</b>				
<b>Shareholders' equity</b>				
Share capital	1	3,937,500	3,937,500	3,150,000
Statutory reserve	13	2,090,221	2,016,132	1,030,617
Retained earnings		2,180,243	1,861,440	1,673,997
Unrealized losses on available for sale investments		-	-	(113)
<b>Total shareholders' equity</b>		<b>8,207,964</b>	<b>7,815,072</b>	<b>5,854,501</b>
Non-controlling interests	1	392,318	370,197	358,856
<b>Total equity</b>		<b>8,600,282</b>	<b>8,185,269</b>	<b>6,213,357</b>
<b>Total liabilities and equity</b>		<b>17,276,862</b>	<b>17,122,530</b>	<b>12,201,663</b>

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



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

	Note	For the three-month period ended 30 June		For the six-month period ended 30 June	
		2015	2014	2015	2014
Operating revenues		<b>1,810,690</b>	762,495	<b>3,453,147</b>	1,533,501
Bunker cost		<b>(275,902)</b>	(256,961)	<b>(607,817)</b>	(494,144)
Other operating expenses		<b>(1,141,067)</b>	(411,191)	<b>(2,043,445)</b>	(801,173)
<b>Gross operating income before bunker subsidy</b>		<b>393,721</b>	94,343	<b>801,885</b>	238,184
Bunker subsidy		<b>46,706</b>	42,568	<b>93,755</b>	86,123
<b>Gross operating income</b>		<b>440,427</b>	136,911	<b>895,640</b>	324,307
General and administrative expenses		<b>(28,503)</b>	(17,608)	<b>(55,772)</b>	(38,275)
<b>Operating income</b>		<b>411,924</b>	119,303	<b>839,868</b>	286,032
Share in results of an associated company	4	<b>9,258</b>	50,725	<b>61,030</b>	114,332
Finance charges	6	<b>(25,392)</b>	(19,018)	<b>(64,993)</b>	(35,978)
Other income, net	10	<b>1,104</b>	(2,145)	<b>1,947</b>	(1,301)
<b>Income before zakat, withholding tax and non-controlling interests</b>		<b>396,894</b>	148,865	<b>837,852</b>	363,085
Zakat and withholding tax	8	<b>(40,896)</b>	(9,717)	<b>(74,841)</b>	(20,351)
<b>Income before non-controlling interests</b>		<b>355,998</b>	139,148	<b>763,011</b>	342,734
Non-controlling interests in consolidated subsidiaries' net income		<b>(13,520)</b>	(8,722)	<b>(22,121)</b>	(17,163)
<b>Net income for the period</b>		<b>342,478</b>	130,426	<b>740,890</b>	325,571
<b>Earnings Per Share (in SR):</b>					
Attributable to operating income	7	<b>1.05</b>	0.38	<b>2.13</b>	0.91
Attributable to net income for the period	7	<b>0.87</b>	0.41	<b>1.88</b>	1.03

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



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

	Note	For the six-month period ended 30 June	
		2015	2014
<b>Cash flows from operating activities:</b>			
Net income for the period		740,890	325,571
<b>Adjustments to reconcile net income for the period to net cash flows from operating activities:</b>			
Depreciation		351,602	238,922
Amortization of deferred dry-docking costs		27,017	22,482
Amortization of intangible assets		27,019	-
Share in results of an associated company	4	(61,030)	(114,332)
Gain on sale of fixed assets		(2,279)	(820)
Non-controlling interests in consolidated subsidiaries' net income		22,121	17,163
Zakat and withholding tax	8	74,841	20,351
Employees' end of service benefits, net		(926)	606
		<b>1,179,255</b>	<b>509,943</b>
<b>Changes in operating assets and liabilities:</b>			
Trade receivables, net		(69,771)	73,935
Lease receivable for vessels, net		10,307	7,390
Prepaid expenses and other receivables		2,319	(47,841)
Agents' current accounts		7,972	(11,341)
Inventories		84,879	(18,753)
Accrued bunker subsidy, net		(2,336)	(4,777)
Incomplete voyages		(5,340)	(2,970)
Accounts payable and accruals		162,672	150,490
Zakat and withholding tax paid	8	(14,387)	(9,687)
<b>Net cash flows from operating activities</b>		<b>1,355,570</b>	<b>646,389</b>
<b>Cash flows from investing activities:</b>			
Murabaha and short-term deposits		(23,418)	(14,198)
Additions to fixed assets		(3,915)	(9,021)
Proceeds from sale of fixed assets		2,457	820
Ships under construction and others, net		(391,354)	(388,674)
Deferred dry-docking costs		(31,497)	(42,979)
<b>Net cash used in investing activities</b>		<b>(447,727)</b>	<b>(454,052)</b>
<b>Cash flows from financing activities:</b>			
Repayment of short-term Murabaha financing		(199,000)	(8,375)
Proceeds from Murabaha and long-term financing		-	252,334
Repayment of Murabaha and long-term financing		(280,414)	(196,593)
Dividends paid		(344,127)	(312,111)
Board of directors rewards		(2,000)	(1,800)
<b>Net cash used in financing activities</b>		<b>(825,541)</b>	<b>(266,545)</b>
<b>Net change in cash and cash equivalents during the period</b>		<b>82,302</b>	<b>(74,208)</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>313,308</b>	<b>269,566</b>
<b>Cash and cash equivalents at the end of the period</b>	3	<b>395,610</b>	<b>195,358</b>
<b>Major non-cash transactions:</b>			
Ships under construction and others transferred to fixed assets		-	1,052,541

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



**(The National Shipping Company of Saudi Arabia)**  
**(A Saudi Joint Stock Company)**  
**Notes To The Interim Consolidated Financial Statements (Unaudited)**  
**30 June 2015**  
**(In Thousands Saudi Riyals)**

**1. ORGANIZATION AND OPERATIONS**

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

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

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

30 June 2015		30 June 2014	
Number of shares*	Capital paid	Number of shares*	Capital paid
393,750,000	3,937,500,000	315,000,000	3,150,000,000

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

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

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

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

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

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



(The National Shipping Company of Saudi Arabia)  
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**Notes To The Interim Consolidated Financial Statements (Unaudited) -continued**  
**30 June 2015**  
**(In Thousands Saudi Riyals)**

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**1. ORGANIZATION AND OPERATIONS (continued)**

**The Group Fleet:**

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

**Oil Transportation Sector:** Thirty two huge oil tankers, out of which thirty one oil tankers operating in the spot market, while one tanker is leased to ARAMCO Trading Company. The company also owns five product tankers all of which are leased to ARAMCO Trading Company.

**General Cargo Transportation Sector:** Six RoCon vessels operate on commercial lines between North America and Europe, the Middle East and the Indian subcontinent.

**Chemical Transportation Sector:** This sector is fully operated by the National Chemical Carriers Company (subsidiary), and it owns twenty-four specialized tankers distributed as following:

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

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

**2. SIGNIFICANT ACCOUNTING POLICIES**

**a. *Accounting convention***

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

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

**b. *Period of financial statements***

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

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





(The National Shipping Company of Saudi Arabia)  
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**Notes To The Interim Consolidated Financial Statements (Unaudited) -continued**  
**30 June 2015**  
**(In Thousands Saudi Riyals)**

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

**c. *Basis of consolidation***

- These interim consolidated financial statements include assets, liabilities and the Company's results of operations and its subsidiaries listed in Note (1) above.
- The subsidiary company is that in which the Company has, direct or indirect long term investment, comprising an interest of more than 50% in the voting capital and over which it exercises practical control. The subsidiary company is consolidated from the date the company obtains control until such control ceases.
- All significant inter-group accounts and transactions as well as realized gains (losses) on these transactions are eliminated on consolidation.
- Non-controlling interest represents share of profit or loss and net assets not owned by the Company, and is included as a separate item in the interim consolidated statement of financial position and interim consolidated statement of income.

**d. *Use of estimates***

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

**e. *Cash and cash equivalents***

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

**f. *Trade accounts receivable***

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

**g. *Accounting for finance leases***

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



(The National Shipping Company of Saudi Arabia)  
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**Notes To The Interim Consolidated Financial Statements (Unaudited) -continued**  
**30 June 2015**  
**(In Thousands Saudi Riyals)**

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

***h. Inventories***

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

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

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

***j. Investments***

**1- Investments in associated companies:**

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

**2- Investments in securities:**

Investments in securities are classified into three categories as follows:

- Investments held for trading

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

- Investments held to maturity

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

- Investments available for sale

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

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

***k. Intangible assets***

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

***l. Fixed assets, net***

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

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

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

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

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

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

***m. Impairment of non-current assets***

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

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

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



(The National Shipping Company of Saudi Arabia)  
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**Notes To The Interim Consolidated Financial Statements (Unaudited) -continued**  
**30 June 2015**  
**(In Thousands Saudi Riyals)**

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

***n. Accounts payable and accruals***

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

***o. Provisions***

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

***p. Zakat and income taxes***

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

***q. Employees' end of service benefits***

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

***r. Hedge agreements and derivative financial instruments***

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

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

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



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

*s. Statutory reserve*

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

*t. Revenue recognition*

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

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

*u. Bunker subsidy*

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

*v. Expenses*

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

*w. Borrowing costs*

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

*x. Foreign currency transactions*

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

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



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

*x. Foreign currency transactions (continued)*

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

*y. Operating leases*

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

*z. Earnings per share and proposed dividends*

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

*aa. Segment reporting*

Operating segment

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

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



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**3. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents represent Bank balances and cash, and investments in Murabaha and short-term deposits, out of which SR 100.18 million as of 30 June 2015 (2014:SR 89.10 million) are restricted for repayment of current portion of Loan installments falling due within 180 days from the interim consolidated balance sheet date.

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

	<b>30 June 2015 (Unaudited)</b>	31 December 2014 (Audited)	30 June 2014 (Unaudited)
Bank balances and cash	<b>333,513</b>	168,957	178,358
Amounts restricted by banks	<b>(11,803)</b>	-	-
	<b>321,710</b>	168,957	178,358
Investment in Murabaha and short-term deposits	<b>162,277</b>	221,111	106,096
Amounts restricted by banks	<b>(88,377)</b>	(76,760)	(89,096)
	<b>73,900</b>	144,351	17,000
Cash and cash equivalents balance at the end of the period	<b>395,610</b>	313,308	195,358

**4. INVESTMENT IN AN ASSOCIATED COMPANY**

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

	<b>30 June 2015 (Unaudited)</b>	31 December 2014 (Audited)	30 June 2014 (Unaudited)
Balance, beginning of the period	<b>905,758</b>	841,985	841,985
Group's share in results of an associated company	<b>61,030</b>	*131,956	114,332
Dividends received during the period	-	(68,183)	-
Balance, end of the period	<b>966,788</b>	905,758	956,317

\* The company's share of Petredec Limited Company operations for the year 2014 includes unrealized losses of SR 61.71 million arising from commodity swaps.



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**5. SHIPS UNDER CONSTRUCTION AND OTHERS**

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

30 June 2015 (Unaudited)				
	The Company	National Chemical Carriers	Bahri Dry Bulk Company	Total
Beginning Balance	12,039	-	-	12,039
Additions	369,966	21,388	-	391,354
Ending Balance	382,005	21,388	-	403,393

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

30 June 2014 (Unaudited)				
	The Company	National Chemical Carriers	Bahri Dry Bulk Company	Total
Beginning Balance	440,313	-	236,155	676,468
Additions	111,728	-	276,946	388,674
Transferred to fixed assets	(539,440)	-	(513,101)	(1,052,541)
Ending Balance	12,601	-	-	12,601

The National Chemical Carriers Company (subsidiary) signed a Memorandum of Understanding on 30 April 2015 with a Norwegian company to purchase two used Chemical tankers (IMO 2), which were built in South Korea by Hyundai Mipo shipyard in 2009 at the price of SR 106.87 million (USD 28.5 million) each. The company paid SR 21.38 million (USD 5.7 million) as advance payment. One of these tankers were received on 3 July 2015.

The company has signed on 21 May 2015, and 30 June 2015 contracts for building ten VLCCs with the Korean company Hyundai Samho Heavy Industries, which will be received during 2017 and 2018. The company paid advance payment of SR 358.99 million (USD 95.73 million).



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**6. MURABAHA AND LONG-TERM FINANCING**

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

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

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

<b>30 June 2015 (Unaudited)</b>				
<b>Financing</b>	<b>The Company</b>	<b>Subsidiaries</b>	<b>Total</b>	<b>%</b>
<b>Murabaha financing</b>	<b>1,270,102</b>	<b>1,929,614</b>	<b>3,199,716</b>	<b>72%</b>
<b>Commercial loans</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0%</b>
<b>Public Investment Fund "Murabaha financing"</b>	<b>976,875</b>	<b>-</b>	<b>976,875</b>	<b>22%</b>
<b>Public Investment Fund finance "commercial loans"</b>	<b>-</b>	<b>254,187</b>	<b>254,187</b>	<b>6%</b>
<b>Total Murabaha and long term financing</b>	<b>2,246,977</b>	<b>2,183,801</b>	<b>4,430,778</b>	<b>100%</b>
<b>Current portion of Murabaha and long-term financing</b>	<b>(322,716)</b>	<b>(229,354)</b>	<b>(552,070)</b>	<b>-</b>
<b>Non-current portion of long-term financing</b>	<b>1,924,261</b>	<b>1,954,447</b>	<b>3,878,708</b>	<b>-</b>

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

<b>30 June 2014 (Unaudited)</b>				
<b>Financing</b>	<b>The Company</b>	<b>Subsidiaries</b>	<b>Total</b>	<b>%</b>
<b>Murabaha financing</b>	<b>1,406,510</b>	<b>2,127,706</b>	<b>3,534,216</b>	<b>71%</b>
<b>Commercial loans</b>	<b>32</b>	<b>-</b>	<b>32</b>	<b>0%</b>
<b>Public Investment Fund "Murabaha financing"</b>	<b>1,171,875</b>	<b>-</b>	<b>1,171,875</b>	<b>23%</b>
<b>Public Investment Fund finance "commercial loans"</b>	<b>-</b>	<b>290,500</b>	<b>290,500</b>	<b>6%</b>
<b>Total Murabaha and long term financing</b>	<b>2,578,417</b>	<b>2,418,206</b>	<b>4,996,623</b>	<b>100%</b>
<b>Current portion of Murabaha and long-term financing</b>	<b>(331,416)</b>	<b>(234,404)</b>	<b>(565,820)</b>	<b>-</b>
<b>Non-current portion of long-term financing</b>	<b>2,247,001</b>	<b>2,183,802</b>	<b>4,430,803</b>	<b>-</b>



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**6. MURABAHA AND LONG-TERM FINANCING (continued)**

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

**7. EARNINGS PER SHARE AND DIVIDENDS**

Earnings per share is calculated based on the number of shares outstanding during the period ended 30 June 2015 and 2014 totaling 393.75 million shares and 315 million shares respectively.

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

**8. ZAKAT AND WITHHOLDING TAX**

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

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

The Company has filed its zakat returns up to 2013. The zakat assessments have been agreed with the Department of Zakat and Income Tax ("DZIT") for all the years up to 2000. The "DZIT" has raised the zakat assessment for the years 2001 to 2007 claiming additional zakat liabilities of SR 22 million. The Company filed an appeal against certain items included in these assessments and its treatment. The DZIT has accepted this appeal in from and discussed the appeal with the second preliminary Appeal Committee. The Company did not receive the final assessments for the years from 2008 until 2013.

**9. OTHER LIABILITIES**

This item represents the total amounts received from one of the ships building companies as at 30 June 2015 and 2014 against charging this company with the repair costs of the tanks related to the new six vessels built for National Chemical Carrier Company (subsidiary). Therefore, it was agreed to charge the ships building company an amount of SR 6.12 million for each ship. As the National Chemical Carrier Company doesn't have a maintenance plan for the remaining vessels for the next 12 months. This item was classified as non-current liabilities.

**10. OTHER INCOME, NET**

Other income, net for the periods ended 30 June comprise the following:

	<b>2015</b>	2014
	<b>(Unaudited)</b>	(Unaudited)
Gains from sale of fixed assets	<b>2,279</b>	820
Net gain from investments	<b>253</b>	672
Others	<b>(585)</b>	(2,793)
	<b>1,947</b>	(1,301)

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**11. CAPITAL CONTINGENT LIABILITIES**

The Group has no capital commitments as at 30 June 2015.

The Group has outstanding letters of guarantee of SR 292.59 million as at 30 June 2015 (2014: SR 275.12 million) issued during the normal course of business.

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

**12. SEGMENTAL INFORMATION**

A) The following schedule illustrates the distribution of the Group's activities according to the operating segments for the period ended 30 June:

	2015 (Unaudited)				Total
	Oil Transportation	Petrochemical Transportation	General Cargo Transportation	Dry Bulk Transportation	
Operating revenues	2,688,381	394,530	313,928	56,308	3,453,147
Bunker costs	(495,476)	(68,557)	(43,784)	-	(607,817)
Other operating expenses	(1,529,309)	(231,703)	(252,994)	(29,439)	(2,043,445)
<b>Total operating expenses</b>	<b>(2,024,785)</b>	<b>(300,260)</b>	<b>(296,778)</b>	<b>(29,439)</b>	<b>(2,651,262)</b>
Gross operating income before bunker subsidy	663,596	94,270	17,150	26,869	801,885
Bunker subsidy	76,865	6,660	10,230	-	93,755
<b>Gross operating income</b>	<b>740,461</b>	<b>100,930</b>	<b>27,380</b>	<b>26,869</b>	<b>895,640</b>

	2014 (Unaudited)				Total
	Oil Transportation	Petrochemical Transportation	General Cargo Transportation	Dry Bulk Transportation	
Operating revenues	791,123	399,568	278,921	63,889	1,533,501
Bunker costs	(349,427)	(102,779)	(41,938)	-	(494,144)
Other operating expenses	(310,224)	(240,376)	(218,110)	(32,463)	(801,173)
<b>Total operating expenses</b>	<b>(659,651)</b>	<b>(343,155)</b>	<b>(260,048)</b>	<b>(32,463)</b>	<b>(1,295,317)</b>
Gross operating income before bunker subsidy	131,472	56,413	18,873	31,426	238,184
Bunker subsidy	66,428	11,924	7,771	-	86,123
<b>Gross operating income</b>	<b>197,900</b>	<b>68,337</b>	<b>26,644</b>	<b>31,426</b>	<b>324,307</b>

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



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**12. SEGMENTAL INFORMATION (continued)**

B) The following schedule illustrates the distribution of the Group's assets and liabilities according to the operating segments as of 30 June:

	2015 (Unaudited)					Total
	Oil Transportation	Petrochemical Transportation	General Cargo Transportation	Dry Bulk Transportation	Shared Assets and Liabilities*	
Assets	10,214,245	3,359,974	1,763,395	696,096	1,243,152	17,276,862
Liabilities	4,849,418	1,960,020	1,188,463	415,279	263,400	8,676,580
	2014 (Unaudited)					Total
	Oil Transportation	Petrochemical Transportation	General Cargo Transportation	Dry Bulk Transportation	Shared Assets and Liabilities*	
Assets	4,990,882	3,512,226	1,849,536	705,649	1,143,370	12,201,663
Liabilities	1,557,903	2,220,938	1,256,585	452,144	500,736	5,988,306

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

**13. THE SIGNED AGREEMENTS WITH ARAMCO AND VELA**

**A. Overview of the agreements**

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

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

Pursuant to the merger agreement, Bahri will pay to Vela a total consideration of approximately SR 4.88 billion (equivalent to US\$1.3 billion). The consideration will comprise a cash payment amounting to SR 3.12 billion (equivalent to US\$ 832.75 million) in addition to 78.75 million new Bahri shares to be issued to Vela at an agreed price of SR 22.25 per share for the value of six oil tankers received from Vela and its ownership has been legally transferred to the company on 8 September 2014, which increased the Company's issued number of shares after the merger to 393.75 million shares. The par value of SR10 per share relating to capital increase amounting to SR 787.50 million has been included with the capital increase, the share premium of (SR 12.25 per share) amounting to SR 964.69 million has been included within the statutory reserve, and the new shares issued to Saudi Aramco Developing Company (which is wholly owned by Saudi Aramco) will equal 20% of Bahri's share capital and it will have a fair representation in Bahri's Board.

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



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

**A. Overview of the agreements (continued)**

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

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

**B. Murabaha financing and cash consideration**

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

The Company is currently working to finalize the issuance of long term Sukuk in an amount that does not exceed SR 3.93 billion. The board of Capital Market Authority approved the issuance of the long term Sukuk on 1 June 2015, which is restricted to companies and investments authorities. This long term Sukuk will be fully issued during the third quarter of this year.

**14. RECLASSIFICATION**

Certain comparative figures of the 30 June 2014 interim consolidated financial statements have been reclassified to conform to the current period presentation.