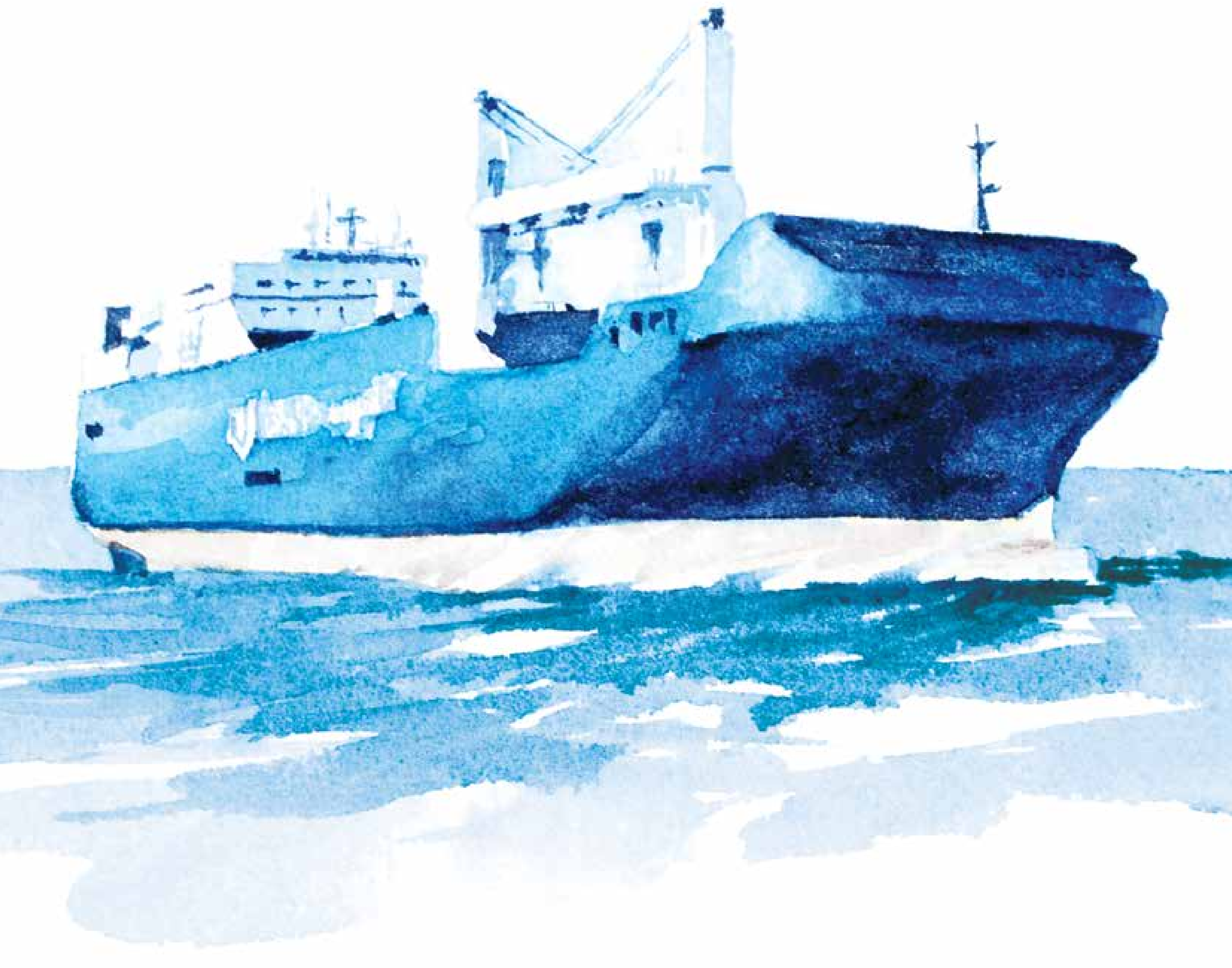
2012
Annual Report

Bahri



بسم الله الرحمن الرحيم

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

Contents

Board of Directors........7
Chairman's Message........8
Chief Executive's Message........10
Board of Directors' Report........13
Contact Details of Offices and Branches........103

Chapter I:
Information about the Company and its Subsidiaries

About the Company........15
About the Subsidiaries........18
The Strategic Direction of the Company........18
Merger of Vela Fleet and Operations with Bahri........19
Major Achievements in 2012........20
New Initiatives and Plans........21

Chapter II:
Strategic Business Units and Support Departments

Strategic Business Units........25
Oil & Gas Transport Sector........26
Liquefied Petroleum Gas (LPG)........29
Chemicals Transport Sector........30
General Cargo Transport Sector........34
Dry Bulk Transport Sector........38
Technical Ship Management........39
Planning and Business Development Department........39
Communication Department........39
Information Technology Department........40
Internal Audit and Control Department........40
Human Resource Management & Corporate Administration........41
Quality Assurance........41
Quality Policy........42
Environment and Safety........42
Social Responsibility........42
Finance Division........42
Financing and Investment........43
Risk Management........43
Insurance of Company's Assets and Operational Risks........43

Chapter III:
Financial Statements and Operational Results

Financial Results and Performance of the Company and its Subsidiaries........47
Financial Results for the Past Five Years........48
Statement of Assets and Liabilities........49
Shareholders' Equity........50
Revenues of Company's Key Business Sectors........52
Distribution of the Company's Assets and Liabilities........53
Subsidiaries' Capital in 2011 and 2012........54
Summary of the Subsidiaries Financial Results........54
Financing for the Company and its Subsidiaries........55
Regulatory Payments........56
Dividends Distribution Policy........57

Chapter IV:
Disclosure and Transparency

Shareholders' Rights and Communication........61
Disclosure........62
Corporate Governance........63
The Board of Directors........64
Board Committees........67
Executive Management........68
Conclusion........69

Chapter V:
Financial Report

Independent Auditor's Report........73
Consolidated Balance Sheet........74
Consolidated Statement of Income........76
Consolidated Statement of Cash Flows........77
Consolidated Statement of Changes in Shareholders' Equity 79
Notes to the Consolidated Financial Statements........80

Board of Directors

Abdullah Sulaiman Al-Rubaian
Chairman

Mohammed Abdulaziz AlSarhan
Vice Chairman

Saleh Abdullah AlDebasi
Board Member

Nasser Mohammed Al-Kahtani
Board Member

Esam Hamad Al-Mubarak
Board Member

Abdullah Ali Al-Ajaji
Board Member

Ghassan Abdulrahman Al-Shibl
Board Member

Farraj Mansour Abothenain
Board Member

Abdulkarim Ibrahim Al-Nafie
Board Member

Implementation of several programs and projects by benefiting from the expertise, experience and great potential, which enhanced the company's leading role locally, regionally and globally

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

On behalf of myself and my colleagues the Board Members of The National Shipping Company of Saudi Arabia (Bahri), I am pleased to present the Annual Report for the fiscal year 2012 which includes the Board of Directors' Report containing the results of the Company's programs, projects and various activities during 2012, and the consolidated financial statements for the year ended December 31, 2012 which shows the financial position of the Company. During 2012, the Company achieved a net profit of SAR 503,993,000, compared to SAR 287,768,000 last year, marking an increase of 75%.

The year 2012 was an extension of previous years in terms of ongoing economic instability and low freight rates due to excess tonnage which is greater than demand in the global market, especially in the sector of crude oil transport. Nevertheless, thanks to God and the directives of the Company's Board of Directors, and the efforts of its senior management and all its employees, the Company managed to confront these challenges and achieved substantial growth in profits compared to previous years.

The Company has also diversified its activities which has had a significant positive impact on its financial results. Moreover, the Company has continued to distribute cash dividends among shareholders on an annual basis. In order to achieve the best returns for shareholders, the total cash dividends for the fiscal year 2012 have been set at SAR 315 million, with the approval of the General Assembly.

Thanks to God, Bahri has continued to achieve many of its goals that have been planned and set by the Board of Directors in accordance with an ambitious strategy. The Company has implemented several programs and projects, benefiting from its expertise, experience and capabilities to meet its obligations efficiently. This has boosted its pioneering role locally, regionally and globally, in spite of the fierce competition and rapid changes in this field.

During the fiscal year 2012, the Company has implemented many programs and projects based on its overall strategy which is focused on growth and expansion, including the following:

- The Company has signed final and binding agreements with both Saudi Aramco and Vela International Marine (which is wholly owned by Saudi Aramco) to merge Vela's fleet and operations with Bahri, with the approval of the Boards of Directors of Bahri, Saudi Aramco and Vela. This deal is expected to be a quantum shift in Bahri's trajectory, enhancing its chances to continue to play its role in economic and human capital development in KSA, and to serve the customers of Bahri and Vela in an efficient and reliable manner. As such, Bahri will have the exclusive right to ship all VLCC sized crude oil cargoes produced in the Kingdom and sold by Saudi Aramco on a delivered basis pursuant to a long-term agreement. Bahri and Saudi Aramco have also concluded an agreement to explore more ways to expand their cooperation in the marine business sector. Operations are currently underway on a schedule to complete the necessary procedures to obtain the regulatory approvals in this regard.
- In April 2012, the Company launched its trademark "Bahri" after three decades of accumulated experience and heavy investment in constructing a transport fleet in accordance with international standards. The Company's new trademark reflects the creative and dynamic nature of Bahri. The business world has undergone fast and successive changes which necessitate continuous development on the part of the Company in order to keep up with the latest changes. Today, Bahri has achieved a powerful reach and capabilities which makes it one of the leading companies in its field, as well as providing integrated logistics solutions. It will be able — God willing — to meet the expectations of its shareholders and customers nationally, regionally and globally.
- National Chemical Carriers Ltd. Co. (NCC) received four vessels during the year 2012, having previously contracted with ShinaSB Shipyard to build ships in South Korea. It should be noted that the Company has also contracted with Daewoo Shipbuilding and Marine Engineering (DSME) in South Korea to build a massive chemical vessel (75,000 DWT) with high specifications, valued at around SAR 247 million. This tanker is expected to start operating by the end of 2013. NCC currently owns a fleet of 23 chemical tankers.

- In August 2012, NCC signed time charter agreements for three chemical tankers with International Shipping and Transportation Co. Ltd. (a subsidiary of SABIC) for a period of five years, with an option for extension for another five year period. The DWT of the first two vessels is 45,000 while the third has a DWT of 75,000. The value of these time charter agreements for the first five years is approximately SAR 480 million. The first two vessels have been delivered to the International Shipping and Transportation Co. Ltd. while the third will be delivered upon its receipt from DSME in 2013.
- During 2012, Bahri Dry Bulk Co. LLC (BDB) signed contracts with one of the world's leading shipyards to build five Kamsarmax ships to transport dry bulk cargo. These modern ships, with a DWT of 82,000 and length of 229 meters, consume less fuel. In addition, these vessels are equipped with the latest technologies, and are designed pursuant to international regulations on environmental protection. These vessels will be received by the end of 2013 and the beginning of 2014, respectively. During this interim period, BDB has charted three vessels to transport bulk cargo in order to meet the needs of ARASCO, until the new ships are received.
- In 2012, Bahri signed a Murabaha contract with the Public Investment Fund (PIF) to finance part of the cost of building two general cargo vessels, which are being built at Hyundai MIPO shipyard in South Korea. The value of the financing contract is equivalent to SAR 450 million to be repaid over 10 years from the date of receiving the vessels. It should be noted that these two vessels are part of a contract to build six general cargo vessels that was signed in 2011. The vessels will be received in 2013 and 2014.
- In March 2012, Bahri signed a contract with Qatalum for a year, with an option to renew it for another year. Pursuant to the contract, the Company shall transport large quantities of aluminum shipments from Qatar to the USA on every voyage of the Company vessels.
- In 2012, a strategic cooperation agreement was signed between Bahri and Saudi Airlines Cargo Co. to transport urgent goods and equipment. This agreement shall last for three years. This collaboration will play an important role in helping to strengthen both companies in the area of air and sea freight.
- During 2012, the Company attracted a significant number of qualified talented Saudi nationals to fill vacant positions at senior management levels.

In conclusion, on behalf of myself and my colleagues the Board Members, I would like to express my deepest gratitude to the government of KSA, the Custodian of the Two Holy Mosques, and its institutions for their continued support. I would also like to thank the Company's shareholders and customers for their trust and support, the Company's executive management and all its employees for their efforts. We look forward to more success in the coming years.

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

Abdullah Sulaiman Al-Rubaian
Chairman

These remarkable achievements represent a great boost towards Bahri's trajectory in achieving higher levels of excellence in the global logistic services sector. The Company is looking forward to achieve similar results in 2013 and the following years.

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

The strong growth of the National Shipping Company of Saudi Arabia (Bahri) in 2012 has been particularly significant as it has been achieved amidst a global economic slowdown as well as at a time of relatively low freight rates. This is further evidence of the Company's successful strategy, designed to diversify its activities and meet the market's needs.

These economic impediments still persist in many economies which are influential in world trade. Nevertheless, there are some positive indicators that the global economic situation is likely to improve.

In light of these changes, challenges, and opportunities, Bahri has managed to seize growth opportunities, after having deployed great efforts and thrived to become one of the largest and most diverse shipping companies in the world.

The Company successfully launched its new trademark in April 2012. This step goes considerably beyond a change in name; it rather represents a quantum leap that reflects Bahri's achievements in terms of its development, innovation and adoption of the latest infrastructure and technologies. In this way the Company has achieved high standards in the services it offers to its customers, especially with regard to quality and safety, in order to achieve all the goals for which the Company was founded.

With regard to deals and contracts signed during the year 2012, Bahri has contracted with Saudi Aramco and Vela International Marine Ltd. to merge Vela's fleet and operations with those of Bahri. Furthermore, another agreement has been signed with Saudi Airlines Cargo Co. for three years to transport urgent equipment and goods by air. In addition to their positive impact on the Saudi economy in general, these agreements are an example of mutual cooperation between the national companies in KSA.

In addition to the aforementioned contracts and agreements, the Company's fleet has undergone major changes and development. Most importantly, National Chemical Carriers Co. Ltd. (NCC) has received four vessels that were built in South Korea, and another vessel with a capacity of 75,000 DWT is to be received in 2013. For its part, Bahri Dry Bulk Co. LLC (BDB) has concluded contracts to build five Kamsarmax ships equipped with the latest technologies, designed pursuant to international regulations on environmental protection. Regarding the general cargo sector, the Company is expecting to receive six new ships by the end of 2013 and the beginning of 2014 in accordance with construction contracts. The aim of this step is to replace the current fleet of four ships and achieve further expansion.

These remarkable achievements represent a great boost towards Bahri's trajectory in achieving higher levels of excellence in the international logistic services sector. The Company is looking forward to achieve similar results in 2013 and the following years.

In conclusion, I would like to express my deepest gratitude to all of the Board of Directors of the Company and my colleagues in Bahri for all their hard work as a team. I would also like to express my gratitude to the Company's shareholders and customers for their continuous trust and support in every step we take. As I always say, "the journey continues."

Saleh Nasser Al-Jasser
Chief Executive Officer

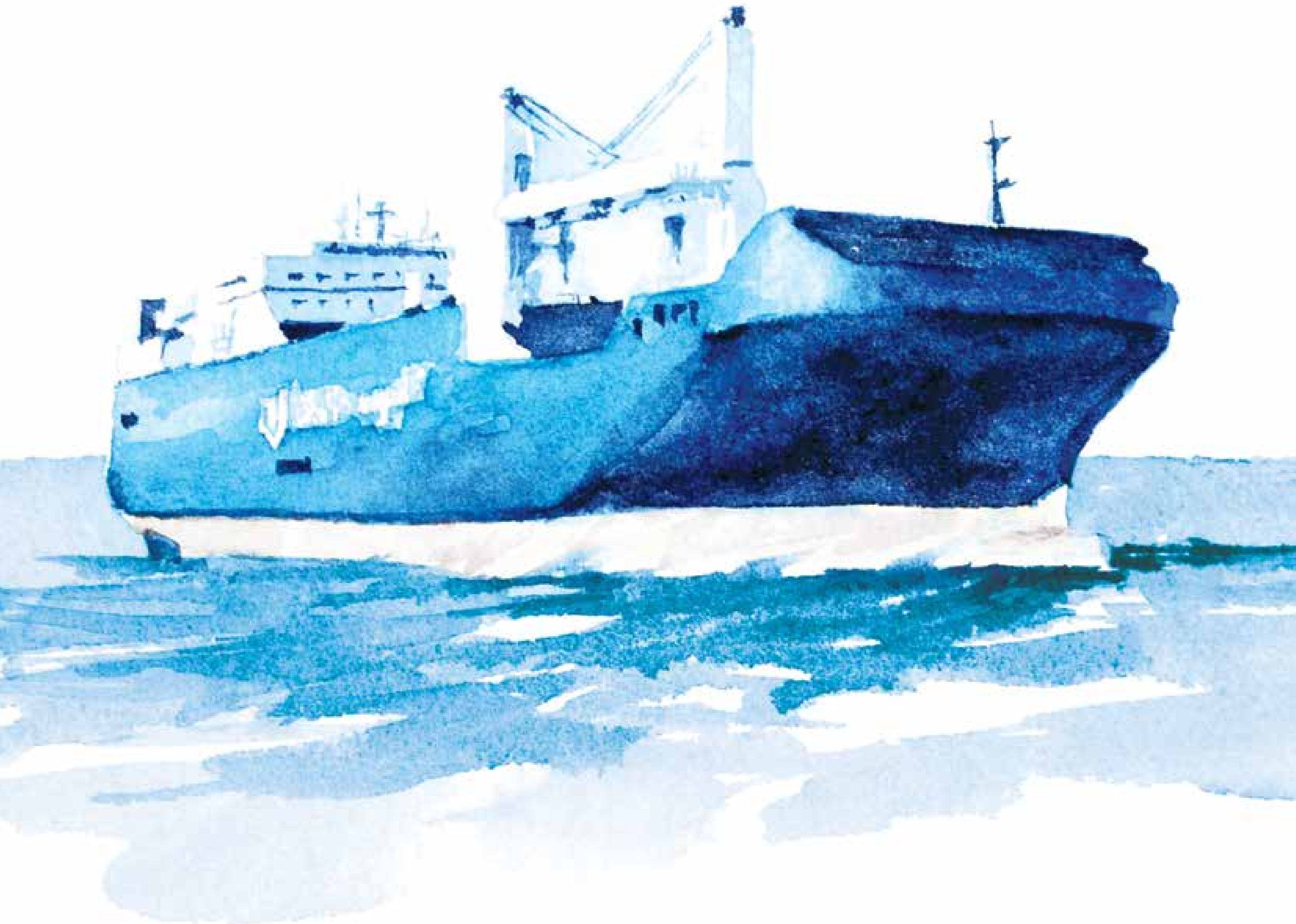
Board of Directors' Report

Chapter I

Information about the Company and its Subsidiaries

About the Company

Bahri represents the advanced shipping industry in KSA. The Company’s services cover multiple markets around the world with modern ships and tankers, sailing different seas, and through multiple outlets, subsidiaries and a network of agents, which in turn helped to connect KSA with other economies. Bahri constantly seeks to develop its services and maintain high efficiency in meeting customer demands, by developing the investment strategies of the Company and its subsidiaries and thereby ensuring the best returns for shareholders.



Brief Historical Overview of Bahri

The National Shipping Company of Saudi Arabia (Bahri) was established as a Saudi joint stock company by virtue of Royal Decree No. M/5 on January 22, 1978. The Company's headquarters is located in Riyadh, Saudi Arabia.

Bahri is a leading company in global maritime transport. The Public Investment Fund (PIF) today holds 28.2% of the Company's shares, whilst the remaining shares are owned by individuals and institutional investors.

Bahri entered the world of maritime transport with chartered general cargo vessels. Soon after, between 1981 and 1983 the Company acquired six multi-purpose ships. The ships were used to transport general cargo, and represented the first fleet owned by the Company, which later expanded its activity by establishing NSCSA (America) Inc. in 1991. The America office serves as a general agent of Bahri and is responsible for transporting containerized, break-bulk and RoRo shipments from and to North America through the Company's general cargo vessels. It is also responsible for managing several other tasks related to shipping services in North America.

In 1985, the Company began transporting petrochemicals after acquiring two chemical tankers. The Company also established a joint venture with United Arab Shipping Company (UASC) under the name Arabian Chemical Carriers (ACC). ACC in turn acquired one of the two tankers and chartered it out to SABIC. The second tanker was also chartered to SABIC. In 1990, the Company expanded its chemical transport activity by establishing National Chemical Carriers (NCC), a joint venture with SABIC, which was dedicated to acquiring, chartering and operating chemical tankers.

In 1992, the Company decided to further diversify its activities by entering the crude oil transport sector and built five VLCCs, which went into operation during 1996 and 1997. In 2001, the Company acquired four new VLCCs, expanding the fleet to nine carriers. Since then, the VLCC fleet has steadily increased and today the Company owns 17 VLCCs.

Due to the expansion of its fleet and its activities, in 1996 Bahri established Mideast Ship Management Ltd., a joint venture with Acomarit, a ship management company based in Scotland. This company provides ship management services for the vessels and tankers owned by Bahri and its subsidiaries. In 2005, Bahri took over Acomarit's shares in the joint venture and became its sole owner. Mideast Ship Management Ltd. began providing ship management services for nine vessels and gradually expanded its operations in line with the expansion strategy of Bahri. It now manages 41 ships including chemical tankers, VLCCs, and RoRos. The fleet size is expected to increase to approximately 76 vessels by the end of 2014 which includes the Vela fleet.

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

In line with the Company's strategy to diversify its business and increase its investments, in 2010 it announced its involvement in the new activity of the transportation of dry bulk cargo by establishing a joint venture under the name Bahri Dry Bulk Co. LLC (BDB), which is 60% owned by Bahri and 40% by ARASCO. BDB began operations in 2012; it specializes in dry bulk transportation.

In 2012, Bahri was named the Best Managed Company in the Middle East in the transport and shipping sector by Euromoney. The Company is committed to full transparency in all aspects of its operations, especially with respect to the disclosure of the results of its operations. The Company adopts safety standards in all its operations, not to mention environmental protection standards. The Company is also committed to shouldering its social responsibilities, achieving constant growth, and fulfilling its mission and objectives through the implementation of successive strategic plans and the optimum exploitation of available resources.

The Company's Vision

Connecting Economies, Sharing Prosperity and Driving Excellence in Global Logistics Services.

The Company's Mission

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

Values

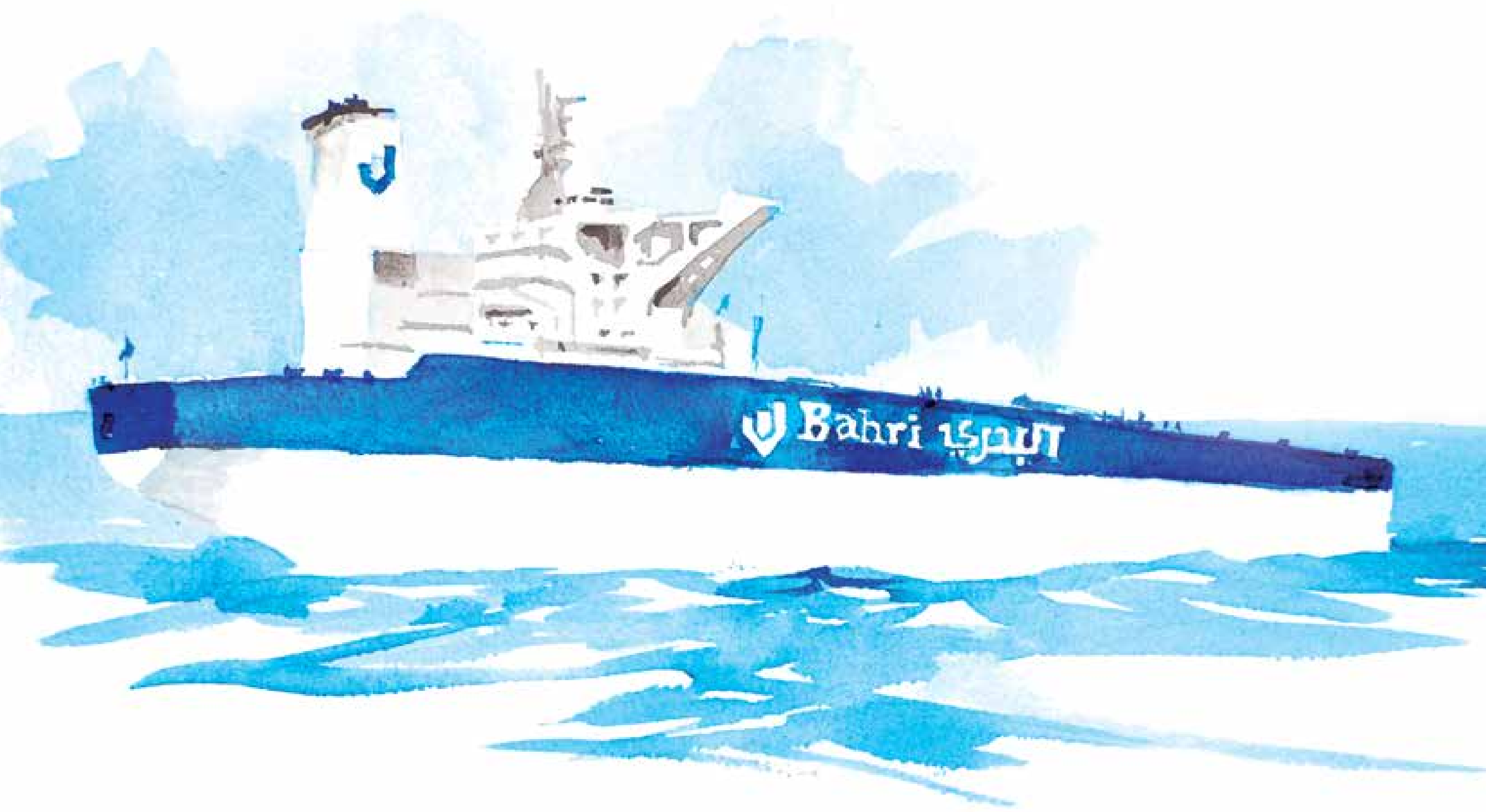
Driven, Relentless, Transparent, Considered.

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 ethic, commitment to customers and operational credibility.



List of Subsidiaries

The Company owns or holds shares in a group of companies in KSA and abroad, as shown in the following table:

Company Name	Main Activity	Place of Incorporation	Headquarters	Geographic Scope of Activity	Incorporation Date	Ownership %
NSCSA (America)	The Company's Agent	USA	USA	Global	1991	100%
Mideast Ship Management Ltd	Technical Ship Management	UAE	UAE	Global	1996	100%
National Chemical Carriers Ltd. Co. (NCC)	Petrochemicals Transportation	KSA	KSA	Global	1990	80%
Bahri Dry Bulk Co. (BDB)	Dry Bulk Cargo Transportation	KSA	KSA	Global	2010	60%
Petredec Ltd.	LPG Transportation and Trading	Bermuda	Singapore	Global	1980	30.3%
Arabian United Float Glass Co.	Float Glass Manufacturing and Trading	KSA	KSA	Local	2006	10.9%

The Company's Strategic Direction

During 2012, the Company has worked on enhancing its competitiveness in the global market by expanding its business, increasing its fleet and consolidating its financial and operational activities through diversifying its investments and management in an effective manner in accordance with its five-year strategic plan (2009-2013), which was approved by the Board of Directors at the end of 2008. Based on this strategy, the Company has worked on expanding its activities in the sectors of general cargo and dry bulk cargo transportation. It is also completing an expansion plan for the petrochemicals transportation sector.

The five-year strategic plan includes the following:

- Receiving the remaining crude oil vessels, the number of which reached 17 VLCCs in 2009.
- Optimal operation of crude oil vessels on the spot market.
- Exploring markets in order to operate NCC's fleet in an optimal manner.
- Expanding general cargo operations.
- Improving operational management across all sectors and units of the Bahri group.
- Exploring investment opportunities for potential expansion.

Merger of Vela's Fleet and Operation with Bahri

On June 27, 2012, Bahri and Saudi Aramco signed a non-binding memorandum of understanding to merge the fleet and operations of Vela (100% owned by Saudi Aramco) with Bahri, within the framework of a deal that would enhance Bahri's activities and position.

The Boards of Directors of Bahri, Saudi Aramco and Vela approved the merger on October 17, 2012 and the final binding agreements were signed on November 4, 2012, which required a number of regulatory approvals to enter into force.

Pursuant to the agreements, Bahri will own Vela's entire fleet, which includes 14 VLCCs, one floating storage VLCC and five product tankers. Moreover, all of Vela's vessels and employees will be merged with Bahri in accordance with the Company's new structure following the merger.

Pursuant to the terms of the long-term shipping contract (minimum duration of 10 years), Bahri will become the exclusive provider of VLCC crude oil shipping services to Saudi Aramco for crude oil sold by Saudi Aramco on a delivered basis. Under this contract, Bahri will meet all Saudi Aramco's future needs. To do so, the Company shall optimally operate its fleet, which will include 31 VLCCs after the merger, in addition to chartered VLCCs if needed.

Saudi Aramco will continue to manage all crude oil marketing and sales directly with its customers, and Bahri will provide reliable transportation services to Saudi Aramco on competitive terms. Both companies plan to explore ways to expand their cooperation in the maritime sector.

Pursuant to the agreements, Bahri will be protected in the event freight rates drop below the agreed minimum threshold. 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 the minimum rate. Bahri and Vela have agreed to make interim arrangements to operate the VLCCs that are currently owned by Bahri in accordance with Saudi Aramco's program to transport crude oil through VLCCs. These interim arrangements will be enforced as of January 1, 2013, until the long-term contracts are effectuated in accordance with the merger terms.

Pursuant to the agreements of the merger, Bahri will pay Vela a total consideration of approximately SAR 4,875,000,000 (equivalent to US$ 1.3 billion) in the form of a cash payment of SAR 3,122,812,500 (equivalent to US$ 832.75 million) and the issue of 78,750,000 new shares in Bahri at an agreed price of SAR 22.25 per share. Following the merger, Bahri's total issued shares will number 393,750,000. The new shares, which will be issued to a fully-owned subsidiary of Saudi Aramco, will constitute 20% of Bahri's capital and will be fairly represented on Bahri's Board of Directors. Bahri also intends to finance cash payments through Sharia-compliant debt financing.

The merger represents a qualitative leap for Bahri, which will substantially enhance its financial and commercial position, expand its business, and consolidate its leading role in the field of maritime transport. The merger will also achieve the aspirations of Bahri and Saudi Aramco to meet KSA's growing needs, develop and boost the local maritime sector, localize industries and establish local supportive industrial and service sectors.

The merger will be subject to several conditions, such as the approval of a Bahri extraordinary general meeting, achieving an increase in capital, and obtaining the approval of the Saudi Arabian Capital Market Authority and the Supreme Council for Petroleum and Mineral Affairs.

Major Achievements in 2012

- The Boards of Directors of Bahri, Saudi Aramco and Vela approved the merger of Vela's fleet and operations with Bahri. The final agreement was signed on November 4, 2012.
- Bahri signed a contract with Qatalum for one year period, with an option to renew it for another year, pursuant to which the Company shall transport significant quantities of aluminum from Qatar to the USA on every voyage made by the Company's vessels. This contract also allows the Company to transport other aluminum shipments from Qatar to Turkey and Italy.
- The National Shipping Company of Saudi Arabia revealed its new identity of "Bahri". The project was awarded to an international consultant, specialized in branding identities and trademarks, which also determined the Company's future strategy in this regard.
- In July 2012, Bahri signed a Murabaha contract with the Public Investment Fund (PIF) to finance part of the cost of building two general cargo vessels. The financing contract is valued at SAR 450 million to be repaid over 10 years from the date of receiving the ships in equal quarterly installments. It should be noted that the vessels will be received in 2013.
- The Company has sold its land located at Takasusi Street in Riyadh from which it made a net profit of SAR 10,684,412.
- Bahri approved the decision of RWE Supply and Trading GmbH, which had chartered a VLCC from Bahri for three years ending on April 24, 2013, to terminate the charter agreement on April 12, 2012 and return the tanker. It was agreed that the charterer would pay Bahri a financial compensation of about USD 6,186,250 (equivalent to SAR 23,198,437) in return for its decision to terminate the contract before its expiry. This amount was paid full on April 2, 2012.
- The State of Maryland, USA has granted the 16th Annual Maryland International Business Leadership Award for 2012 to NSCSA America Inc., a wholly owned subsidiary of Bahri. The Company was selected by the award review committee at the headquarters of the World Trade Institute as one of six leading companies from among 60 nominees in the State of Maryland. It should be noted there are 150,000 companies in this state.
- In 2012, Bahri was named the Best Managed Company in the Middle East in the transport and shipping sectors by Euromoney.
- National Chemical Carriers Ltd. Co (a subsidiary company owned 80% by Bahri and 20% by SABIC) has signed a renewable charter agreement for five years, renewable for another five years, with the International Shipping and Transportation Co. Ltd. (affiliated with SABIC) for three chemical tankers.
- NCC received four chemical tankers each with a DWT of 45,000 in May, August, September, and December 2012 from ShinaSB Shipyard, which are operated by NCC-Odfjell JV Co. based in Dubai.
- NCC canceled a contract with ShinaSB Shipyard to build one chemical tanker (NCC Bader) due to a delay in the delivery of the tanker based on the rights granted to it pursuant to the contract. The contract also reserved NCC's right for a refund of all paid installments amounting to USD 41.6 million (equivalent to SAR 156 million), guaranteed by the Export-Import Bank of Korea (KEXIM) in addition to compensation of approximately USD 7 million (equivalent to SAR 26.25 million).
- Bahri Dry Bulk Co. LLC (BDB) (a subsidiary company 60% owned by Bahri and 40% by ARASCO) signed contracts to build five Kamsarmax ships with one of the world's leading shipyards to transport dry bulk cargo. The first ship will be received by the end of 2013, and the rest shall be received during 2014.
- BDB started operating to meet the demands of its customers to transport grains and other bulk cargo to KSA. This operation was carried out by chartering three ships from the global market with contracts ranging from 17 to 21 months. The company intends to charter a total of five ships and continue its operations until it receives its new ships, which are still under construction.

New Initiatives and Plans

The Company constantly seeks to improve the quality of services provided, through the modernization of its fleet, the continuous training of its employees, and enhancing its regulations and procedures. In the years 2013 and 2014, the Company expects to implement the following initiatives and plans:

- To complete the merger of Vela's operations and fleet with Bahri.
- To cooperate with Saudi Aramco regarding chemicals and other fields through the aforementioned deal.
- To support the oil and gas and chemicals sectors and the growing manufacturing industry in KSA, and to provide greater security in the field of maritime transport in KSA.
- To receive four general cargo vessels, one chemical tanker and one dry bulk carrier in 2013, and two general cargo and four dry bulk carries in 2014.
- To continue the enhancement of the IT systems used in the Company.
- To apply the ISO 9001:2008 standards in all the Company's administrative systems.

Chapter II

Strategic Business Units and Support Departments

Strategic Business Units

The strategic business units of the Company are divided according to their main activities, which are Oil & Gas Transportation, Chemicals Transportation, General Cargo Transportation, Dry Bulk Transportation and Ship Management. These divisions are operated by the company, its subsidiaries and regional offices. Oil & Gas and General Cargo divisions are managed by the Company. Bahri agent in North America, (NSCSA America Inc.) operates as an agent of the company in North America concerning general cargo transport, whereas the transportation of chemicals is managed by National Chemical Carriers (NCC). Ship management services are performed by Mideast Ship Management Ltd. Dry bulk Cargo transportation is managed by Bahri Dry Bulk. Support departments also provide necessary services to the strategic business units, as well as control and supervision in order to achieve the Company's objectives.

Chapter two
Strategic Business Units and Support Departments

The following is a breakdown of Bahri's Business Units and its Support Departments:

Oil and Gas Transport Sector

The oil and gas division contributes significantly to the Company's profits. It is the largest division, and performs the transportation of crude oil through a fleet of 17 VLCCs owned by the Company, 15 of which are operated in the spot market and the other two on time charter. Each vessel has the capacity to carry approximately 2.2 million barrels, with a dead weight of about 300,000 tons. By owning this fleet, the Company is now ranked among the top eight VLCC owners in the world.

During the first six months of 2012, VLCC markets benefited from higher freight rates due to the increase in demand for oil. This increased demand also resulted in long distance oil transportation, especially from West Africa and South America to East Asia, and therefore increased KSA's oil exports. However, in the second half of 2012 the freight rates slipped due to the introduction of new tankers which increased the tonnage in the market.

Given the instability of oil markets around the world, which affects time charter contracts, the Company has concentrated its business in the spot market and refrained from committing to too long or short time charter periods until the freight rates improve.

There are indications that the demand for oil will increase, which in turn will affect the increasing demand for VLCCs. The Company expects higher demand for its vessels in light of the interim arrangements to operate the VLCCs currently owned by Bahri as part of Saudi Aramco's oil transport program. These arrangements shall take effect starting January 1, 2013 and will continue until the long-term shipping contract comes into force in accordance with the terms of the merger agreements. The demand for the Company's VLCCs is also expected to increase due to the limited quantity of new ships in the market and the phase-out of old ships owned by competitors. Sources indicate that the Indian, Chinese, and US markets in particular are the largest and the most important in terms of demand for VLCCs.

There are other important factors not to be overlooked, such as bunker fuel prices, freight rates, new laws and legislations governing the oil shipping business, and natural and other unpredictable factors.

Number of voyages performed by the VLCCs during 2012 in comparison with 2011

Type of Operation	2012		2011	
	Number of Voyages	Number of VLCCs	Number of Voyages	Number of VLCCs
VLCCs operating in the spot market	86	15	79	13
VLCCs operating on time charter agreements	14	2	28	4
Total	**100**	**17**	**107**	**17**

Major Routes of the VLCCs Around the World

Shipping line trajectory	2012	2011
Arabian Gulf / Far East	23%	45%
Arabian Gulf / U.S.A.	41%	30%
South America / West Africa - East Asia	36%	25%

Crude Oil Transportation in 2012

During 2012, 174 million barrels of oil were transported by VLCCs operating in the spot market and 34 million barrels was transported by VLCCs operating on time charter agreements.

The number of crude oil barrels transported by VLCCs owned by the Company totaled 208 million, the details of which are shown below:

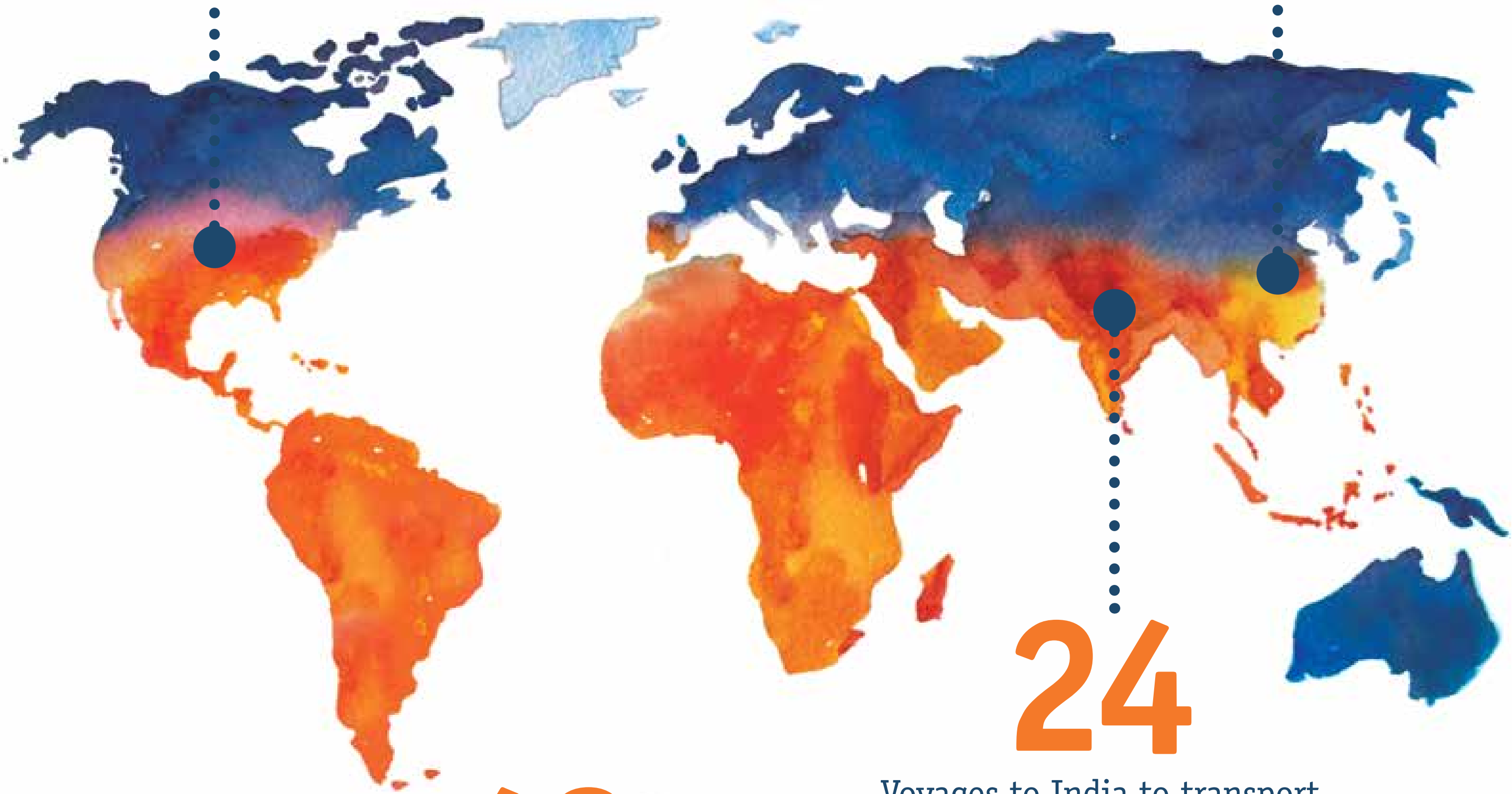
Crude Oil Transportation Voyages in 2012

30

Voyages to the United States to transport 62 Million barrels

6

Voyages to China to transport 11 Million barrels



24

Voyages to India to transport 48 Million barrels

40

Voyages to the rest of the world to transport 87 Million barrels

Total

100

voyages to transport 208 Million barrels of Crude Oil

Technology Installed on the VLCCs fleet includes:

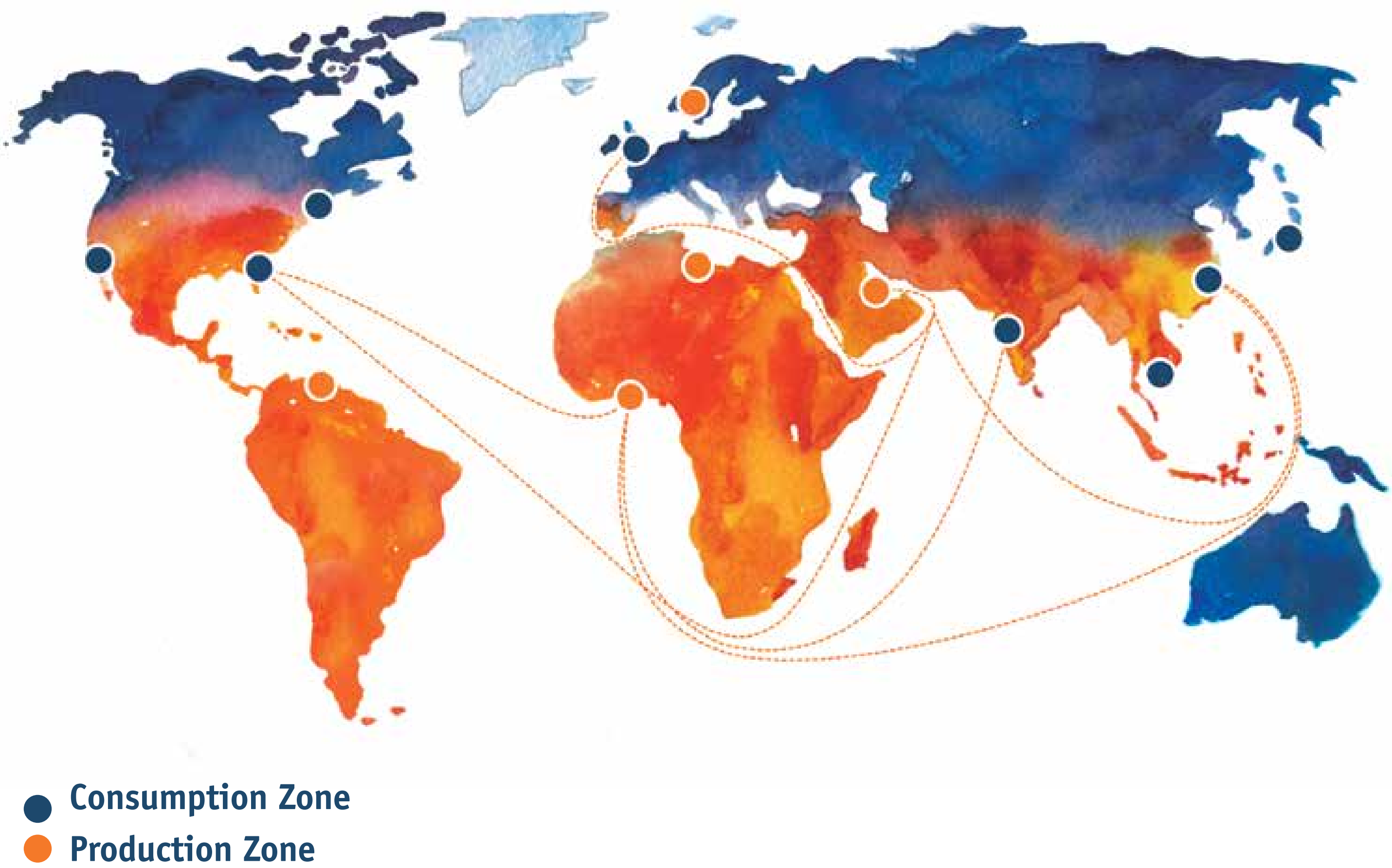
- Energy-saving technology to reduce energy wastage and attain the main objective of maximizing returns.
- Electronic control system in the main operational engine.
- Silicon coating technology was used for parts of the ship submerged under seawater, which reduces friction and thus saves fuel consumption.

During 2012, the number of VLCCs operating in the global market reached 612. It should be noted that 82 VLCCs are under construction, and 13 VLCCs were phased-out from the market.

The Company ensures that its customers are highly satisfied with its oil and gas division through a credible, transparent, and diligent service evaluation. The Company seeks to be well-renowned in the global market, as well as to care for the environment, its employees, and all parties related to the oil and gas transportation sector.

The Company is always keen to develop its business in the oil and gas transportation sector, through the application of ISO 9001:2008 standards, and employing the best techniques in the oil and gas shipping industry.

Major VLCC Routes Around the World



VLCC Fleet

No.	VLCC Name	Year Built	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**		

Liquefied Petroleum Gas (LPG) Transportation

Entering the LPG transportation market can be considered one of the Company's best investments. This investment was made by acquiring 30.3% of the capital of Petredec Ltd. Co. in 2005. Petredec Ltd. Co. is one of the leading companies in LPG transportation in the Asian and European markets, as well as in the Caribbean sea and the Middle East, as it operates a fleet of 63 vessels of different sizes. The Company's share in Petredec contributed considerably to its profits which reached SAR 143.87 million in 2012 compared to SAR 135.38 million in 2011, an increase of 6.27%. The Company has made significant profits from this investment over the past years.

Chemical Transportation Sector

The chemical transportation sector has strengthened the Company's financial position through the transport of petrochemicals by specially designed tankers operated by the National Chemical Carriers Ltd. Co. (NCC) which presently constitute a fleet of 23 chemical tankers, in addition to one tanker under construction, with a capacity of 75,000 DWT. The fleet is operated as follows:

- Eleven tankers operate in a commercial pool shared between the companies (NCC–Odfjell Chemical Tankers JLT).
- Eight vessels are chartered to International Shipping and Transportation Co. Ltd., a subsidiary of Saudi Basic Industries Corporation (SABIC).
- Three tankers are chartered as bareboat charters pursuant to a capital lease contract with a Norwegian company named Odfjell.
- One tanker is chartered to Saudi International Petrochemical Co. (Sipchem).

The Company received four new petrochemical carriers in May, August, September, and December 2012 and extended its charter contract with Sipchem. The Company promoted its position in the global market, especially in the Arabian Gulf area, through the NCC–Odfjell Commercial Shipping Pool. The demand for chemicals increased in various countries around the world, which led to an increase in the demand for chemical transport. It should be noted that Asia, particularly China, played a key role in this increase in demand. This demand is expected to increase further during the coming years.

Despite the uncertainty surrounding the global economy, the demand for petrochemicals is expected to grow in Asian and Middle Eastern markets. The Company therefore aims to raise its market share by increasing its focus on these regions, as data indicates that the Chinese and Indian markets in particular are the largest in terms of demand for petrochemicals. A 10% increase in demand for petrochemicals in China and a 9% increase in India are projected in the coming years.

Other factors may also have an influence on the petrochemical transport trade, especially bunker fuel prices, freight rates, petrochemical prices, new laws and legislation governing shipping operations, supply and demand of petrochemical tankers, and natural and other unpredictable factors.

National Chemical Carriers Ltd. Co. (NCC) is keen to employ the latest software and hardware on its tankers, and to use the latest ship management technology to ensure high levels of protection for transported cargo, tankers, the environment, its clients, and its employees. The Company also constantly seeks to improve its business in the petrochemical transport sector by applying global safety standards and employing the best techniques in the maritime petrochemical transport industry.

Voyages

During 2012, tankers operating within the NCC–Odfjell pool, including the four tankers recently received by the Company, made 70 voyages. Tankers chartered to SABIC and Sipchem made an additional 57 voyages. In total, the NCC fleet made 127 voyages during 2012, in comparison with 100 voyages in 2011.

Type of Operation	Number of Voyages in 2012	Number of Voyages in 2011
Tankers operating within the NCC – Odfjell pool	70	45
Tankers operating under chartering contracts with SABIC and Sipchem	57	55
Total	**127**	**100**

Cargo Volume

The cargo volume transported by the tankers operating within the NCC–Odfjell Commercial Shipping pool and discharged at multiple destinations around the world was approximately 2.52 million metric tons. Another 2.08 million metric tons were transported by the tankers operating under time charter contracts with SABIC and Sipchem. The total volume transported by the tankers of the chemical transport sector during 2012 was therefore 4.6 million metric tons, in comparison with 3.7 million metric tons in 2011.

Type of Operation	Volume Transported in 2012 (million metric tons)	Volume Transported in 2011 (million metric tons)
Tankers operating within the NCC – Odfjell pool	2.52	1.7
Tankers operating under time charter contracts with SABIC and Sipchem	2.08	2
Total	**4.6**	**3.7**

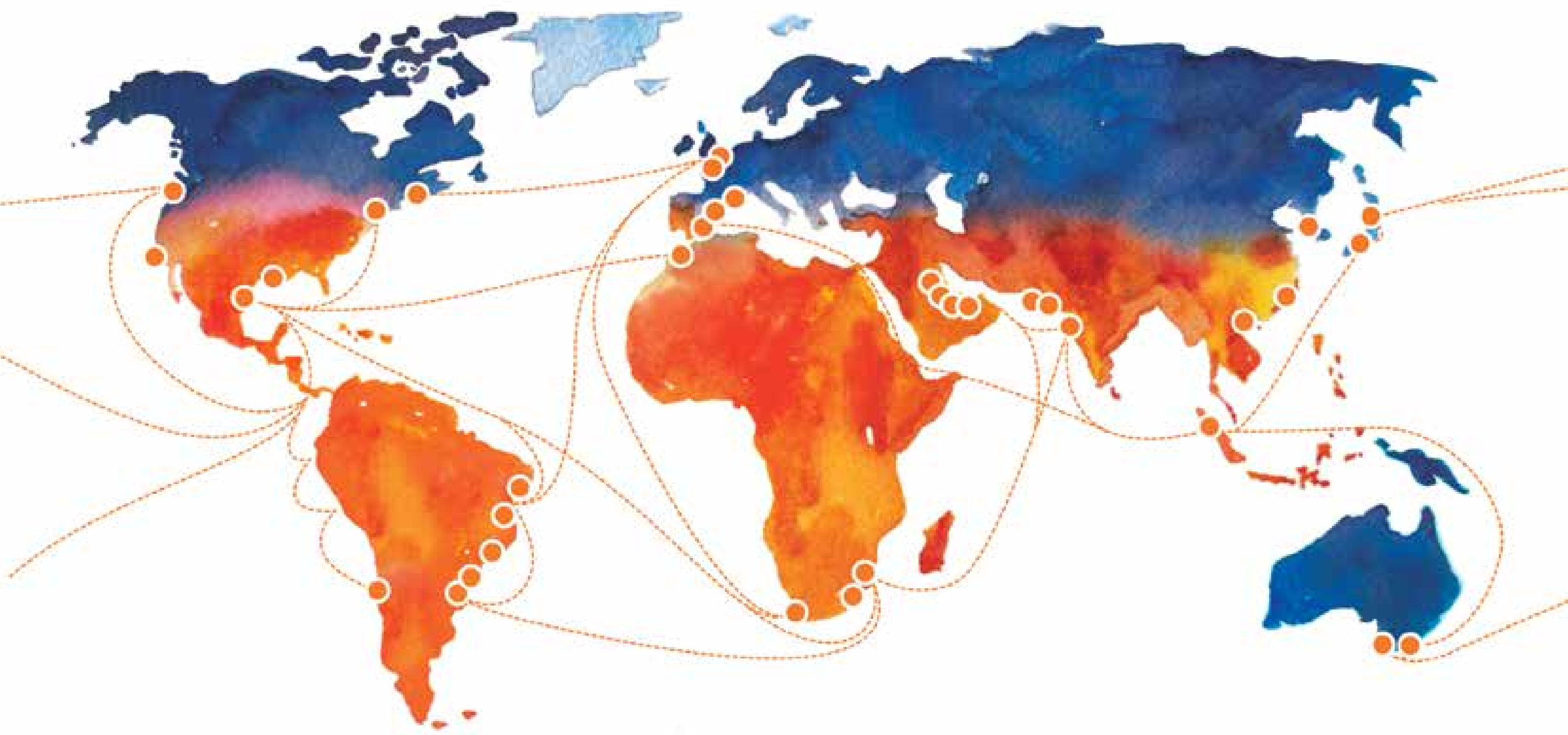
Chapter two
Strategic Business Units and Support Departments

Major shipping routes of the petrochemical transport fleet

The company's fleet operates in most of the world's regions, most importantly in:

- Middle East – Far East
- Middle East – Europe
- Middle East – South Africa
- Far East – Europe
- Far East – USA
- USA – Far East
- USA – South America
- USA – Middle East
- Europe – South America
- South America – Far East

Major Ports for Petrochemical Tankers Around the World



Growth of Chemical Fleet

Description	Number of Tankers	Fleet Size (DWT)
Fleet at the beginning of the year 2012	19	844,500
Tankers received during 2012	4	180,000
Fleet at the end of year 2012	23	1,024,500
Tanker under construction to be received in 2013	1	75,000
Total	**24**	**1,099,500**

Chemical tanker fleet currently operating and under construction as on December 31, 2012

No.	Ship Name	Built Year	Length (m)	Breadth (m)	Weight (DWT)	Number 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	45,000	22	15
15	NCC Huda	2011	183	32.2	45,000	22	15
16	NCC Amal	2011	183	32.2	45,000	22	15
17	NCC Safa	2011	183	32.2	45,000	22	15
18	NCC Danah	2011	183	32.2	45,000	22	15
19	NCC Nesmah	2011	183	32.2	45,000	22	15
20	NCC Shams	2012	183	32.2	45,000	22	15
21	NCC Najm	2012	183	32.2	45,000	22	15
22	NCC Reem	2012	183	32.2	45,000	22	15
23	NCC Samaa	2012	183	32.2	45,000	22	15
24	NCC Fajer	Expected in 2013	228	36.8	75,000	30	14
Total Capacity (DWT)					**1,099,500**		

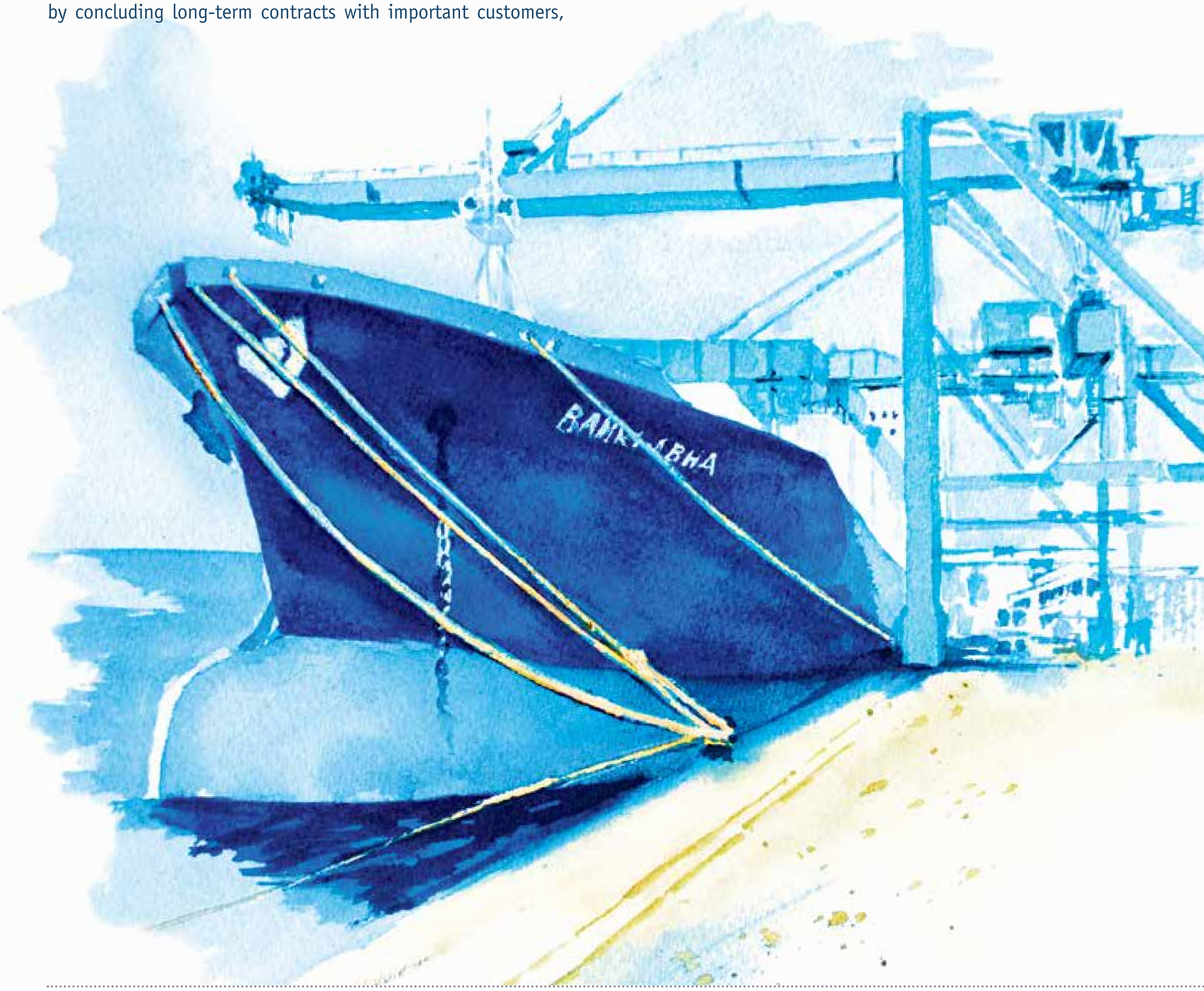
* Carriers NCC Makkah, NCC Riyadh, and NCC Jubail are chartered to Odfjell as bareboat charters for a period of ten years, under a charter party agreement which includes the right to purchase the tankers after the third year at specific prices.
** The construction contract for NCC Bader was canceled due to the delay by ShinaSB Shipyard in delivering the tanker.

Chapter two
Strategic Business Units and Support Departments

General Cargo Transport Sector

The general cargo transport was the Company's first activity; which the Company started using RoRo ships, which are best suited to transport general, break-bulk and project cargo. The Company currently operates a regular liner service from the US East Cost and Canada to ports in Jeddah, Dammam, Dubai, Mumbai and Livorno, in order to provide the best logistics services for large projects. The current four RoRo ships will be replaced by a fleet of six modern RoRo ships from the first quarter of 2013 to the middle of 2014. The new vessels have the latest technical specifications and are multi-purpose, designed to transport different types of cargoes and equipped with self-erecting cranes with a total capacity of 240 tons, designed for loading and unloading project equipment and material. These ships also have better cargo accommodation and can smoothly transport and deliver important and ultra-sensitive loads safely and easily. The Company's business has expanded by concluding long-term contracts with important customers, such as the contract with Saudi Ministry of Defense, and the Qatalum contract.

The transportation of heavy cargo needs business specialization and a permanent presence in the market, with appropriate vessels and a specialized team which is well-trained in this field. After receiving its new ships, the Company seeks to intensify its efforts in the general cargo transport sector in order to expand its client base, enter new markets, and widen its stake in the transport of equipment for development projects in KSA, the Gulf countries, and other countries located within the geographical zone of the general cargo liner service routes.



General Cargo Ships Construction Project

The Company signed a contracted with Korean Hyundai Mipo Shipyard in 2011 to build six RoCon vessels to transport general cargo and project equipment. The value of these contracts is SAR 1,542,275,000. Four ships are expected to be delivered in 2013 and two more in the first half of 2014. The new ships will replace the old ones built in 1983 that currently operate from the USA and Canada through the Mediterranean Sea, the Red Sea and the Arabian Gulf to the Indian subcontinent. Bahri Abha is expected to be the first ship to leave the Korean shipyard in February 2013, and will immediately start its voyage from India.

Each of the new vessels is equipped with two heavy lift cranes with a capacity of 240 tons, and has highly equipped storage areas for different types of cargo. These ships are designed to support the general cargo transport sector, and provide it with competitive features in terms of cargo size and operating rates.

Freight Forwarding Services

Bahri provides freight forwarding services to transport cargo from all over the world by land, air, and sea. This has allowed the Company to provide its customers with an integrated logistics services, transporting water desalination equipment, locomotives, railway wagons, and military equipment for Saline Water Conversion Corporation, Saudi Railways Organization, the National Guard, and the Saudi Arabian Ministry of Defense. The total volume of cargo transported during 2012 is equivalent to 3,315,467 tons in addition to 2,104 TEU twenty feet containers.

Major Routes of General Cargo Transport Sector

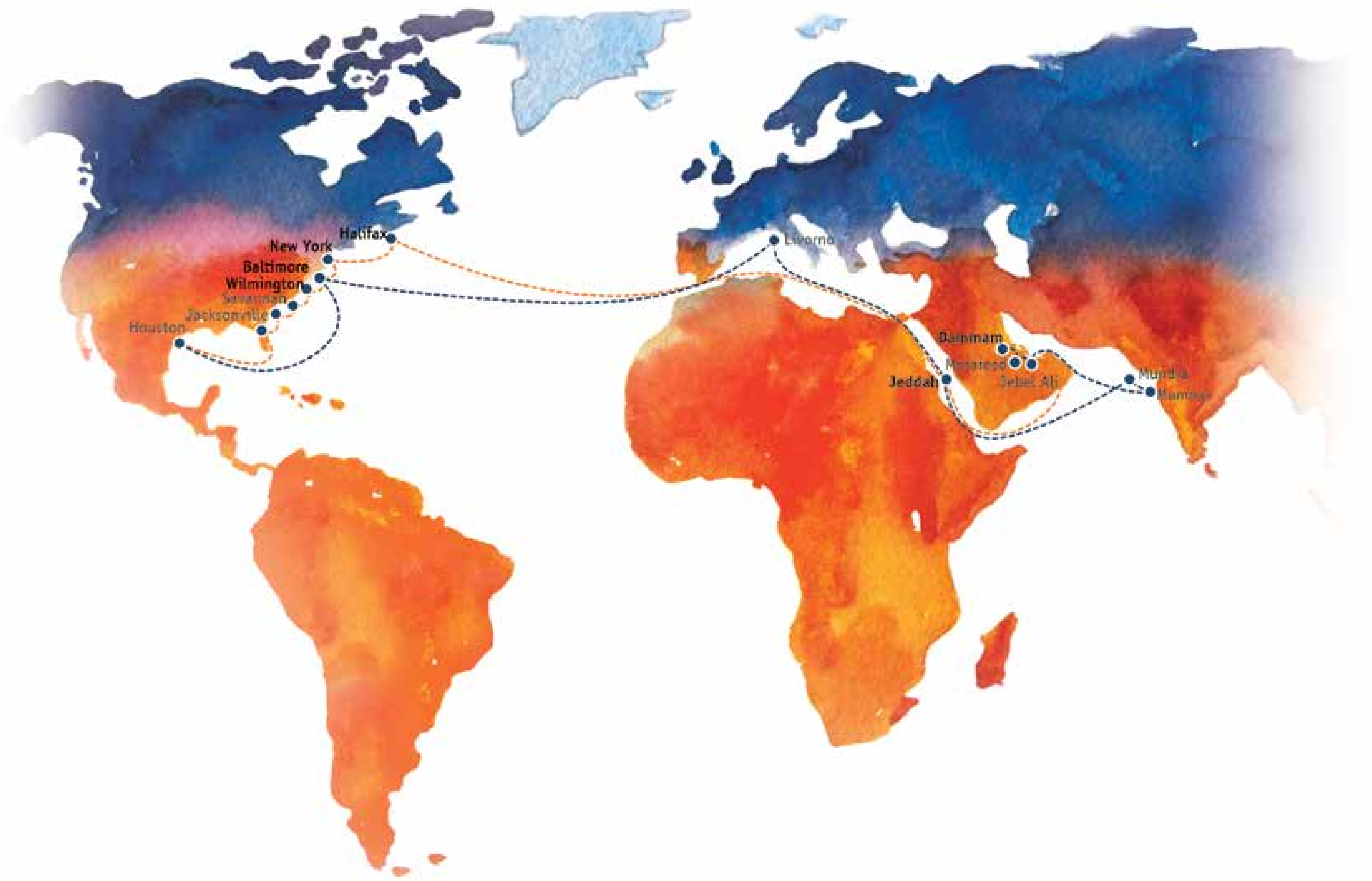
The general cargo transport sector provides a regular service between the US East Coast and Canada, and the Indian subcontinent, through Livorno Port on the Mediterranean coast in Italy, the Jeddah Islamic Port on the Red Sea, King Abdul Aziz Port in Dammam, Jebel Ali Port in Dubai, and Me Saied Port in Qatar.

Specifications of the General Cargo Transport Fleet Currently in Operation and Under Construction as on December 31, 2012

No.	Ship Name	Year built	Weight (DWT)	Draught (m)	Breadth (m)	Length (m)	Capacity (TEU Containers)	Horsepower	Speed (knots)
1	Saudi Hofuf*	1983	42,600	11.12	32.29	248.72	2,310	27,600	18
2	Saudi Diriyah*	1983	42,600	11.12	32.29	248.72	2,310	27,600	18
3	Saudi Abha*	1983	42,600	11.12	32.29	248.72	2,310	27,600	18
4	Saudi Tabuk*	1983	42,600	11.12	32.29	248.72	2,310	27,600	18
5	Bahri Abha	Expected 2013	26,000	9.5	32.30	225	2,500	8,901	17
6	Bahri Hofuf	Expected 2013	26,000	9.5	32.30	225	2,500	8,901	17
7	Bahri Tabuk	Expected 2013	26,000	9.5	32.30	225	2,500	8,901	17
8	Bahri Jazan	Expected 2013	26,000	9.5	32.30	225	2,500	8,901	17
9	Bahri Jeddah	Expected 2014	26,000	9.5	32.30	225	2,500	8,901	17
10	Bahri Yanbu	Expected 2014	26,000	9.5	32.30	225	2,500	8,901	17

* Expected to exit service during 2013 with the delivery of new ships.

Main Shipping Routes for General Cargo Transportation Vessels between North America and the Indian subcontinent



East Bound

West Bound

Details of Containers Owned and Leased as of December 31, 2012

	Type	2012	2011
1	20 ft. standard container	3,283	3,118
2	20 ft. open top container	157	328
3	40 ft. standard container	559	552
4	40 ft. high cube container	1,323	1,325
5	40 ft. open top container	76	146
6	20 ft. flat bed	49	55
7	40 ft. flat bed	129	134
8	20 ft. trailer (chassis)	42	43
9	40 ft. trailer (chassis)	105	66
10	20 ft. mafi /30 ton	4	4
11	20 ft. mafi /60 ton	69	69
12	20 ft. mafi /80 ton	8	8
13	20 ft. mafi /100 ton	212	212
14	62 ft. mafi /80 ton	14	15

Container Service Yard

The Company operates a large terminal in the Jeddah Islamic Port for storage and maintenance of the Company's containers. This speeds up the loading and unloading process, as well as the clearance of customer shipments.

Dry Bulk Transport Sector

Bahri Dry Bulk Co. LLC (BDB) was established in 2010 with paid-up capital of SAR 200 million. Its initial investment is estimated at around SAR 656 million.

This business sector began its operations in 2012 through BDB (a subsidiary 60% owned by Bahri and 40% by ARASCO.) BDB started operating to meet the demands of its customers in terms of the transportation of grains and other bulk cargo from multiple countries around the world to KSA. This operation was carried out by chartering three ships from the global market, with contracts ranging from 17 to 21 months. The Company intends to charter a total of five ships and continue its operations until it receives its new ships which are still under construction. The Company also seeks to enhance and strengthen its relations with its current and potential customers by developing its dry bulk transportation service and marketing strategies, in order to achieve further growth and prosperity.

Bulk Carriers New Building Project

In April 2012, BDB signed contracts to build five Kamsarmax ships for dry bulk transportation with one of the world's leading dry docks. The first ship is expected to be received by the end of 2013, while the rest of the ships are expected to be received during 2014.

Specifications of the Bulk Cargo Transport Fleet Currently under Construction as on December 31, 2012

	Ship	Year Built	Size (DWT)	Draught (m)	Breadth (m)	Length (m)	Horsepower	Speed (knots)
1	Hull No. 10730	Expected in 2013	81,800	14.45	32.26	224.5	9,840	14.5
2	Hull No. 10731	Expected in 2014	81,800	14.45	32.26	224.5	9,840	14.5
3	Hull No. 10732	Expected in 2014	81,800	14.45	32.26	224.5	9,840	14.5
4	Hull No. 10733	Expected in 2014	81,800	14.45	32.26	224.5	9,840	14.5
5	Hull No. 10734	Expected in 2014	81,800	14.45	32.26	224.5	9,840	14.5

Technical Ship Management

The technical management of the Company's vessels is provided by Mideast Ship Management Limited, a wholly owned subsidiary of Bahri based in Dubai, UAE. This company provides specialized technical services for various ships and tankers, hires sailors and ensures proper maintenance. Mideast Ship Management also provides various services related to vessel purchases and sales, technical and maritime consultancy services and vessel insurance services. It also follows up with demand, applies all specialized, technical and operational standards and seeks to develop operational efficiency.

Mideast Ship Management employs a qualified and highly skilled team including ship management specialists, specialized technical engineers, sales representatives, recruitment and training professionals, accountants, and quality and safety control specialists. It recruits its staff according to high competence specifications, and seeks to upgrade the professional experience of its personnel and provide them with the necessary trainings on the various implemented plans and devices. Mideast Ship Management currently manages 41 ships and tankers owned by Bahri.

Mideast Ship Management is committed to the highest quality standards, safety laws, and preservation of the environment issued by the International Maritime Organization (IMO), which is a specialized agency of the United Nations. It is also committed to the laws of the countries visited by its ships, noting that these laws are getting increasingly stringent. It also operates according to the requirements of international maritime organizations and to the standards of international oil companies and chemical companies that produce and export petrochemicals, as well as other customers who are extremely satisfied with its outstanding performance.

Mideast Ship Management submits reports on a regular basis concerning ship performance and condition, fuel consumption, periodic tests results, and its recommendations in these regards. It also submits periodic financial reports concerning operational expenses, as well as budgets in addition to several other reports.

Supporting Departments: Planning and Business Development

The most important responsibility carried out by the Planning and Business Development Department is the preparation and execution of the Company's strategic plan, in light of the goals and policies reflecting the Company's message and its relations with all relevant parties.

The strategic plan includes the operational plan and the investment plan. To execute the strategic operational plans, the Planning and Business Development Department implements action plans and evaluates Key Performance Indicators for all departments of the Company. This department is also responsible for communicating with similar companies, advisors and shipyards in relation with consultancy expertise. This department prepares several technical reports related to the maritime industry, varying from financial, operational and market reports and reports on competitors' performance.

The Planning and Business Development Department implements strategic investment plans, prepares the Company's expansion projects, and conducts full studies of the projects and time required for implementation. This department seeks to develop the Company's strategic partnerships and establish joint ventures. It also controls and follows up with operations and achievements on a regular basis, in order to maintain the business implementation schedule in compliance with the Company's plans and to update the senior management about new activities. The department is responsible for periodic planning and market studies, and is required to keep up with demands of the maritime industry, in terms of human resources, regulations, technical demands, etc.

The Planning and Business Development Department is currently following up on the construction of general cargo and dry bulk ships and is seeking new opportunities with similar companies. It is currently focusing on monitoring the ships under construction, and the implementation of strategic plans and construction contracts. The department also seeks new opportunities, evaluates business departments, and provides the necessary support in order to increase the Company's productivity and ensure maximum profitability.

Communications

The Communications Department is considered to be the link with the media, government departments and offices and other institutions. This department has executed many projects and activities such as corporate branding, registrations of new trademarks, media relations programs, promoting the services of the Company and various activities related to the Company's social responsibilities.

The Department is managed by a team of professional staff trained in public relations and connecting the Company with local, regional and international media.

Memberships:

- Organization of the Islamic Shipowners Association (OISA)

- National Committee for Joint Stock Companies
- US-Saudi Arabian Business Council (USSABC)

Contributions and participation

- The Company sponsored a seminar on the current status and future prospects of maritime transport, which was held by the Eastern Province's Chamber of Commerce and Industry.
- Participated in the International Exhibition for General Cargo and Heavy Equipment (BHP 2012) held in Mumbai, India.
- Participated in the annual conference for Saudi Joint Stock Companies organized by Morgan Stanley in London which encourages foreign companies to invest in Saudi companies.
- Participated as a media sponsor in Seatrade Middle East Maritime Exhibition and Conference which is a major maritime event held in Dubai.
- Participated in a conference organized by HSBC in January 2012 in Riyadh.
- Participated in a seminar by Merrill Lynch in February 2012 in Riyadh.
- Participated in a conference arranged by HSBC in May 2012 in Turkey.

Information Technology Department

Information Technology is one of the key tools for accomplishing the goals set for the Company and achieving excellence in the marine industry by providing a set of integrated advanced services. Therefore, like all leading companies around the world, Bahri has invested in the latest technology to facilitate and manage its business operations and to provide multiple electronic services through a safe and stable working environment for the Company's customers, investors, and all parties concerned with its activities. These services are available on the Company's official website, the Company's social networking pages and through mobile applications, to communicate with shareholders and customers and meet their demands and aspirations.

As part of Bahri's Strategy for Information Technology, the second stage of the (Manara 2) project was implemented in 2012, which included many IT initiatives to expand the use of the ERP system and cover various business units of the Company. Further, during this stage, users increased their focus on the actual use of newly installed systems to ensure optimal use, while providing maximum security for these systems and their hardware.

Security procedures have been assessed in order to ensure a secure work environment and the continuity of regulations. Reports showed a few gaps, and recommended some improvements in infrastructure to provide safe and high quality services. In addition, all the Company's networks have been merged into one single network to increase protection, benefit from common services, and reduce the cost of maintenance and development. The Company's internal information portal has also been recently developed with visual and audio internal communication programs to enhance cooperation, teamwork, information-sharing and increased efficiency.

The third phase of the strategic plan projects (Manara 3) was adopted and approved for implementation in 2013, which includes replacing the current system employed in the general cargo transport sector in order to improve work efficiency and productivity and to increase the level of information sharing between the sector's divisions. For this purpose, the new ERP system will be applied in the general cargo transport sector.

In addition, the Business Intelligence (BI) System project will be implemented to support the application of smart reports to help concerned senior management and heads of sectors and departments to follow up performance indicators, easily and safely obtain a set of analytical reports on several levels, and make quick and more accurate decisions.

Internal Audit and Control

The Company has a separate internal audit and control department performing their responsibilities under the supervision of the Audit Committee formed by the Company's Board of Directors. This department includes professional and highly qualified auditors, along with outstanding technical shipping staff who have expertise in the technical review of the operation and maintenance of operating vessels and new ships under construction, according to the highest international standards. The Audit Department is continuously working on developing the capabilities and skills of its employees by applying modern and specialized technologies in implementing auditing programs and standards, through training and keeping up with the latest auditing developments and concepts.

The Audit Department reviews the work of the Company's business units, offices and branches, according to the regulations, standards, policies, procedures, controls and financial and technical risks, records, accounting policies, internal regulations and procedures, contracts and government regulations, etc.

In order to implement this, annual plans are put in place, taking into account the risks and the recent International Auditing and Assurance Standards. Furthermore, to keep up with the expansion and diversification of the Company's activities and fleets, the Audit Department has restructured their auditing work to correspond to the developments in the Company's expansion strategies and business, through conducting comprehensive studies of the risks and establishing a greater scope to review the electronic, financial administrative and technical systems, which resulted in greater efficiency in the audit outputs and reports.

The Audit Department has conducted a trial examination of the accounts and documents of branches, regional offices and subsidiaries, according to their 2012 audit plan and the necessary reports have been submitted to the Company's Audit Committee.

Human Resource Management & Corporate Administration Department

The HRM&CA is one of the main pillars that enable the company to fulfill its mission and achieve its goals. The HRM&CA Department is committed to putting in place the necessary strategies to support and develop human resources. These strategies are periodically reviewed based on the needs of the Company and in the light of changing current and future priorities.

HRM&CA Department always seeks to attract and appoint qualified personnel with high educational qualifications and major technical expertise. The recruitment process is subject to defined criteria and processes for measuring the educational and technical abilities and previous experience of the applicants according to the demands of the job function. The number of employees of the Company and its affiliates working in KSA and abroad reached 349. This is in addition to onboard ship crew, who numbered 979 at the end of 2012.

The HRM&CA Department is also responsible for developing personnel expertise through specialized and advanced programs, and comprehensive training courses offering employees a high degree of knowledge and the skills necessary to carry out the Company's business, which reflects in the results of the Company as a whole. In addition, the HRM&CA seeks to consolidate the employees' sense of belongingness to the Company through incentive programs and by providing a suitable working environment.

Saudization Policies:

Bahri contributes to the KSA's national goals by employing and attracting mostly Saudi nationals to the Company. It gives priority to Saudi nationals to fill vacancies in the management level of the company. It should be noted that Bahri is ranked in the "Excellent Category" according to the "Nitaqat Program" of the Ministry of Labor in KSA. The Saudization rate in the Company reached 60%, an increase of 2.40% on last year. The number of employees working in the KSA was 177 at the end of 2012.

The HRM&CA Department has achieved a lot in 2012, as new facilities have been added within IT for the HRM&CA Department, including a housing program to support housing financing, in addition to the Takaful program. A new system of performance management (S.A.L.A.M program) was also implemented with the objective of establishing a high performance culture within the Company by rewarding motivated and talented employees and encouraging all staff to follow refinements. The program also adopts a new grading structure for employees and a program to support the education of employees' children.

Quality Assurance

One of the Company's top priorities is to fully satisfy its customers, which is done by establishing certified procedures to ensure the required customer care services are in place, such as providing open communication channels. The application of the ISO 9001:2008 standards forms a large part of these efforts to meet the needs of the Company's current or potential customers. The Company and its affiliates professionally apply the quality management system in all their activities, which are implemented in accordance with the requirements of the International Organization for Standardization (ISO). This system is audited periodically by independent external consultants to ensure that quality services are provided to their clients and ISO 9001:2008 Certificate is issued if the company is fulfilling all the requirements. It should be noted that the Company has received the said certificate and it was reissued in 2012. The Quality Management Section of the company does not only focus on meeting the requirements of the ISO certificate, but also on applying the best procedures and modern practices of the quality management system and upgrading them and embedding them in all employees in order to meet the requirements of the Company's customers.

In 2012 the S.A.L.A.M program was implemented which is designed to improve the performance of the employees at all levels. It provides indicators to the executive management to ensure that business is progressing in accordance with the prepared plan. The Company monitors the quality control system in order to make sure that its operations are being implemented according to the objectives and the required level of quality. The quality management system of the company is assessed through the following procedures:

- Internal assessment is performed by the Quality Management and Performance Section through a group of employees, qualified in this area and holding international certificates.
- External assessment is by independent consultants, who are quality control experts.
- Gather customer opinions through field research studies to develop services.
- Periodic meetings of the executive management to discuss quality issues, performance and the ways to support the quality team.

Quality Policy

In accordance with the applicable ISO 9001:2008 standards, the Company seeks to achieve the highest degree of customer satisfaction and build long-term business relationships with its customers through:

- Providing integrated services to customers and meeting their needs and expectations.
- Complying with government regulations and legal requirements related to the business activities and services provided by the Company.
- Using effective mechanisms to measure performance and push the Company towards excellence and leadership in logistics.
- Working on satisfying the Company's internal customers and on the dissemination of a culture of quality as a basic function of leadership at all levels.
- Providing adequate support to attract qualified and professional resources, in addition to training and developing the existing staff.
- Continuing to improve the quality, environment, safety and performance development.

Environment and Safety

The Company follows strict controls with regard to the environment and public safety in line with the standards dictated by the relevant global environmental agencies and organizations in order to maintain the safety of the marine environment and the climate. The marine transport industry covers vast areas of the world and as such it carries the increased possibility of impacting the marine environment and climate change. The Company continuously takes precautions to maintain the health and safety of its staff including those working on board its fleet. The Company takes into consideration all the necessary requirements to maintain the environment when considering the technical specifications of its fleet. It seeks to minimize any negative impact on the environment as a result of pollution from the vessels' engines and equipment. The Company conducts periodic tests of its vessels and equipment through specialized international consulting firms to ensure compliance with globally recognized technical and safety standards and measures.

Social Responsibility

It is the responsibility of the business community to encourage the growth and development of society through cooperation and collaboration in dealing with social issues and Bahri is committed to its social responsibility. Since its inception the Company's contributions went beyond the economic aspect to take a holistic attitude towards the community, shareholders and investors. The Company believes that social responsibility extends beyond that to include surrounding charity institutions, establishments and society as a whole.

The Company seeks to be effective in all its locations. During 2012, the Company participated in the following social responsibilities:

- Care program (language and communication unit) of the Disabled Children's Association.
- Supporting the work of the Charitable Society for the Care of Orphans (Insan).
- Participating in the National Festival for Heritage and Culture (Jandariyah 27).
- Participating in the 82nd National Day of the Kingdom of Saudi Arabia.

Finance Division

The work of the Finance Division is to supervise the implementation of the Company's financial policy and to participate in implementing investment programs. Its work also includes financial control and monitoring and preparing all kinds of financial reports, whether internal or external, which contribute and help the executive management to take appropriate decisions at the right time. This department is responsible for preparing the annual budget pursuant to the directions of senior management and the objectives of all the business units and departments, and to update the same on a quarterly basis. This department also prepares the periodic (quarterly / annually) financial statements and disclosure of the Company's business. It also ensures that the Company meets all the requirements of the Capital Market Authority. In addition, the department is also responsible for controlling the accounts; making sure expenses and revenues are recorded in an appropriate and accurate manner in accordance with the accepted accounting standards; preparing the zakat and tax returns as required by the Department of Zakat and Income Tax, and responding to any queries raised by the external auditing firms, the General Auditing Bureau and the Internal Audit Department.

Financing and Investment

The Treasury Department handles the cash management, investment of surplus funds in Murabaha deposits and sukuk, as well as a limited part in local investment funds and shares. This department also participates in the study of the Company's projects in terms of the financing and the provision of the necessary funding to meet any financial requirements.

It is responsible for the cash management on a daily basis. In the case of surplus cash, the same is invested in instruments with minimal risk such as Murabaha for short periods, depending on the Company's financial needs and obligations. If there is a shortage of cash, the necessary funding is provided through liquidizing short-term investments and providing funding from the working capital.

In addition to investing the surplus cash in short-term Murabaha contracts, the Treasury Department invests part of the surplus cash in sukuk. It also invests part of the surplus cash in the investment funds for local shares and in local markets in accordance with a portfolio managed by a competent authority. The Company focuses on safe investments with low risks, thus investing in local stocks does not exceed 10% of the available surplus cash to the Company at the time.

Financing for building ships requires major capital investments. Therefore, the capital structure is created from self-financing in addition to external financing. In ship building the Company's self-financing is 30% on average of the ship's value, whilst the remaining 70% is provided from external funding sources.

The Company signed a Murabaha contract with the Public Investment Fund on July 3, 2012 to finance part of the cost of building the two general cargo vessels that are currently under construction in the Hyundai MIPO Shipyard in South Korea. The financing contract is valued at SAR 450,000,000 (four hundred and fifty million Saudi Riyals) which will be repaid over the ten years from the date of receiving the ships in equal installments on a quarterly basis. At the end of 2012 the funding of the assets of the Company and its subsidiaries in the consolidated financial statements amounted to SAR 4.26 billion.

The Company has adopted investment and financing policies that comply with Sharia laws so that 97% of the Company's loans for financing are in compliance with Sharia law. In 2014 this rate is expected to become 100%. The Company has also adopted a policy to hedge the risks of fluctuations in financing costs, as it continuously reviews a suitable limit to reduce unexpected surges in financing costs.

Risk Management

Risk management is part of project planning, which identifies key risks and puts in place appropriate solutions to avoid them. Since the maritime industry is exposed to many risks, whether in terms of financing, information or operation in domestic or foreign markets, the Company has focused greatly on this sector. This is so that it can identify expected and unexpected risks and evaluate the same objectively, as well as to manage such risks in a proper manner. Thus, all the Company's management and personnel are responsible for implementing appropriate internal controls and risk management in order to achieve the Company's goals, preserve its resources, and protect it from unexpected or negative elements.

Insurance of the Company's Assets and Operational Risks

Insurance is one of the means adopted by the Company to manage risk through the continuous study and assessment of operational risks and reducing costs without compromising benefits. The Company continually seeks to unify efforts between strategic business units in order to achieve the best insurance coverage, in addition to improving the current condition of the various types of insurance coverage, and to avoid duplication or redundancy in some areas of the insurance policies held by the Company.

As the company's fleet continues to grow, the company faces new challenges, which lie in ensuring that the best insurance deals are joined with the best coverage benefits. Thus, this Department seeks to carefully and continuously examine the services provided by insurance companies, based on their market position and the strength of their financial position and their ability to commit to their obligations as well as their technical abilities. It also uses consultants who are specialists in these areas.

- **Protection and indemnity clubs:** The size of the Company's fleet and its position allows it to be an active member in the biggest global protection clubs. These clubs cover risks arising from ship accidents and damaged cargo, in addition to covering the Company's different requirements. The Company is a board member in two P&I Clubs, which is very beneficial for exchanging experience and consolidating knowledge of the operational risks.
- **Maritime insurance:** This includes insurance of the fleet, equipment and crew working on board, as well as the civil liability arising from such work and the marine risks. Some countries require insurance coverage that complies with their own requirements in order to use their ports.
- **Non-maritime insurance:** This covers the Company's offices and equipment, including buildings, cars, and workers as needed, in addition to medical insurance/ Takaful insurance for the Company's employees.

Chapter III

Financial Statements and Operational Results

The following are the Company's financial statements and final accounts, statements of assets and liabilities and revenues of the Company, in addition to the subsidiaries' financial accounts summary for 2012, as well as the Company's regular payments and profit distribution policy.

Financial Results and Performance of the Company and its Subsidiaries

Overall the year 2012 was not the best for the maritime transport industry in general, and for the crude oil transport sector in particular, due to an increase in the tonnage capacity in the market. However, it should be noted that the financial results for the oil sector during the first half of the year were better than the second half of the year. Other sectors have shown a remarkable improvement and contributed to the Company's financial results, for example the general cargo transport sector and Bahri Dry Bulk (which began operations this year). In addition, the increase of the Company's share of the profits of Petredec also enhanced the Company's financial results. The Company also introduced a policy of reducing the speed of ships and tankers, which led to lower fuel consumption and therefore a reduction in operating costs. Moreover, the introduction of four new chemical tankers to the fleet of the National Chemical Carriers had a positive impact in this regard. All these factors led to an increase in the net profit in 2012 to reach SAR 504 million compared to SAR 287.8 million in 2011, which is a 75% increase. Earnings per share for 2012 amounted to SAR 1.60 per share compared to SAR 0.91 per share in 2011. Operating revenues for 2012 reached SAR 453.8 million compared to SAR 229.5 million in 2011, which is a 97.7% increase.

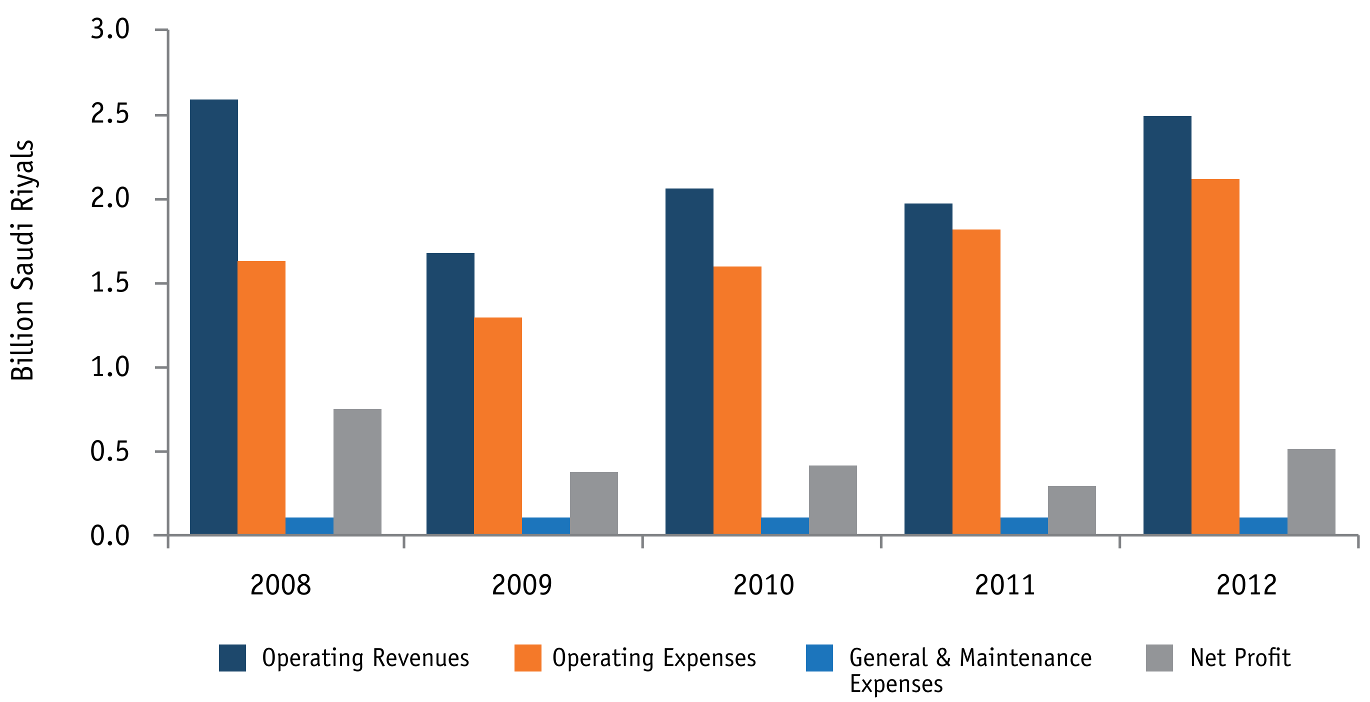
Chapter III
Financial Information and Operation Results

Financial Result Tables and Charts

Financial results for past 5 years (in thousands of Saudi Riyals)

Item/Year	2012	2011	2010	2009	2008
Operating Revenues	**2,464,628**	**1,991,084**	**2,049,830**	**1,672,016**	**2,594,530**
Bunker Costs	(875,097)	(801,163)	(625,692)	(395,986)	(539,592)
Other Operating Expenses	(1,215,600)	(1,027,214)	(976,253)	(903,559)	(1,094,290)
Total Operating Revenues	373,931	162,707	447,885	372,471	960,648
Bunker Subsidy	200,572	176,465	109,498	83,212	72,859
Total Operating Revenues after Bunker Subsidy	**574,503**	**339,172**	**557,383**	**455,683**	**1,033,507**
General and Administrative Expenses	(120,717)	(109,660)	(103,801)	(95,020)	(105,718)
Other Revenues / (Expenses)	108,023	108,375	16,234	70,271	(113,965)
Zakat and Tax Provisions	(36,299)	(25,497)	(36,365)	(34,590)	(54,471)
Equity Minority interest in consolidated subsidiaries net profit	(21,517)	(24,622)	(18,573)	(27,044)	(9,385)
Net profit for the year	**503,993**	**287,768**	**414,878**	**369,300**	**749,968**
Earnings per share from the net profit in SAR	**1.60**	**0.91**	**1.32**	**1.17**	**2.38**

Financial results for past 5 years

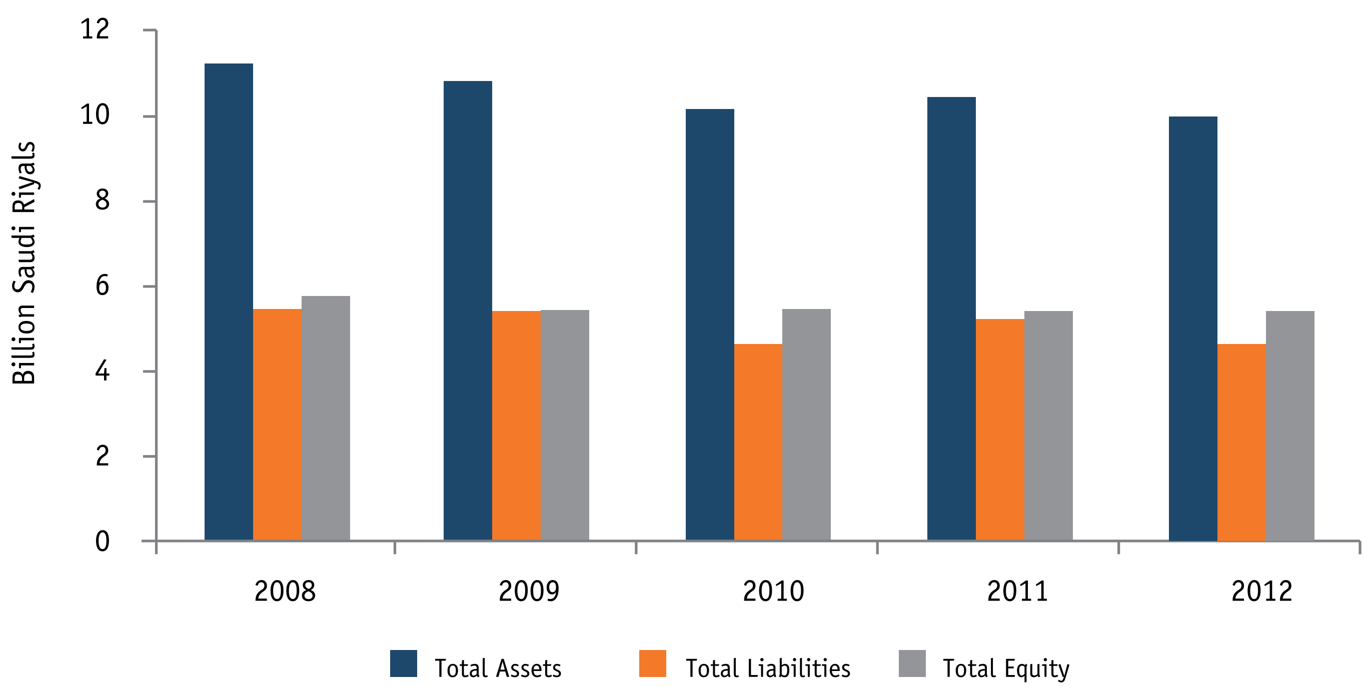


Statement of Assets and Liabilities

Statement of Assets and Liabilities as of December 31st (in Thousands of Saudi Riyals)

Item	2012	2011	2010	2009	2008
Total current assets	1,117,187	1,042,280	1,578,464	1,225,146	1,579,185
Net fixed assets	7,518,396	7,252,854	6,407,630	6,730,766	5,658,910
Other non-current assets	2,428,026	2,328,077	1,980,185	2,380,922	2,581,331
Total assets	**11,063,609**	**10,623,211**	**9,966,279**	**10,338,584**	**9,819,426**
Total current liabilities	1,007,168	944,248	736,030	608,041	817,726
Murabaha financing for long-term loans	4,253,733	4,294,968	3,818,540	4,516,180	3,709,941
Other non-current liabilities	76,963	28,058	33,326	34,974	37,888
Total liabilities	**5,337,864**	**5,267,274**	**4,587,896**	**5,160,945**	**4,565,555**
Paid-up share capital	3,150,000	3,150,000	3,150,000	3,150,000	3,150,000
Reserves and retained earnings	2,260,914	1,912,623	1,939,691	1,837,520	1,940,796
Non-Controlling minority interest	314,831	293,314	288,692	190,119	163,075
Total equity	**5,725,745**	**5,355,937**	**5,378,383**	**5,177,639**	**5,253,871**
Total liabilities and equity	**11,063,609**	**10,623,211**	**9,966,279**	**10,338,584**	**9,819,426**

Assets and Liabilities as of December 31st



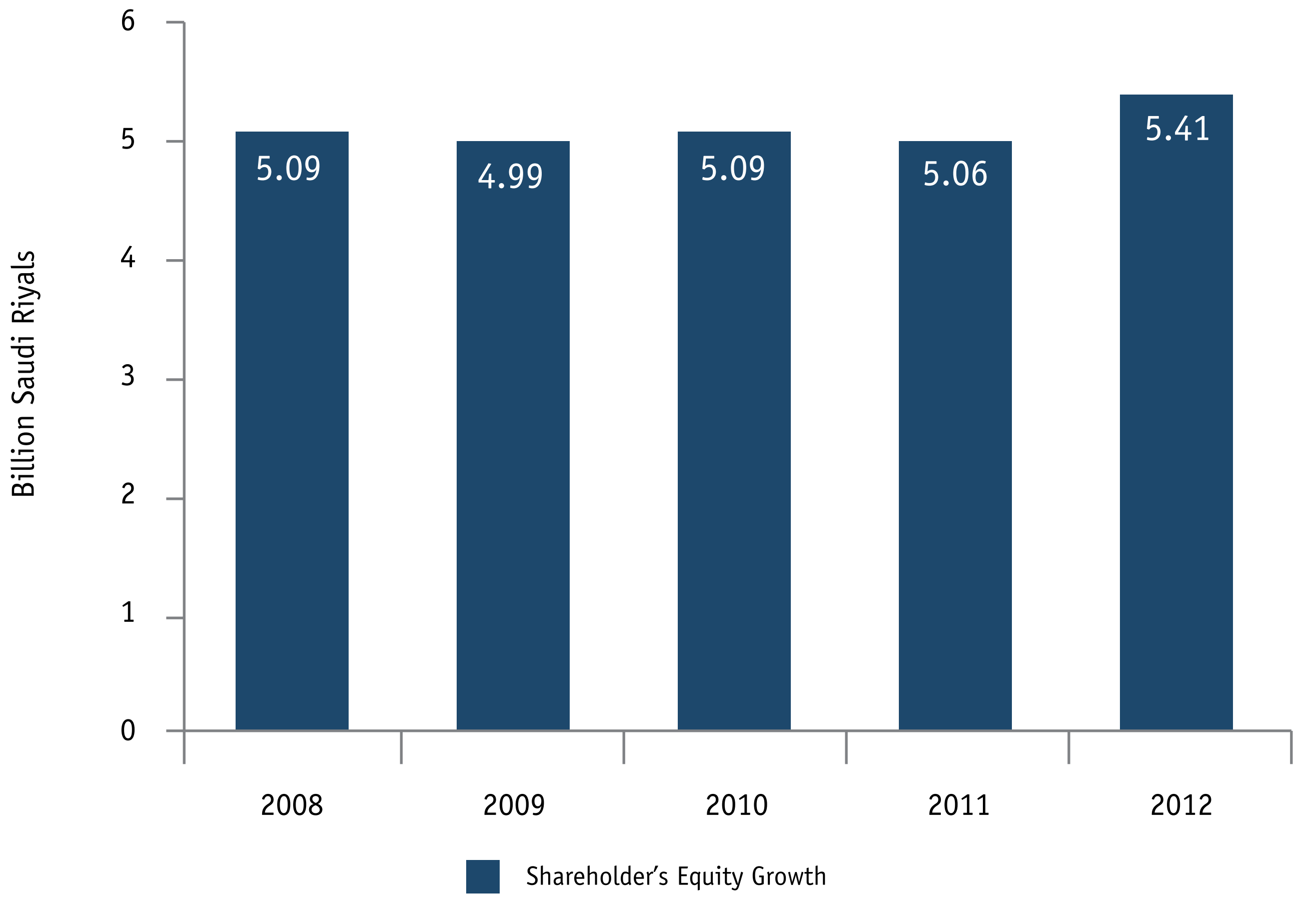
Shareholders' Equity Growth

The following table illustrates the changes in shareholders' equity over the last five years:

Shareholders' Equity as of December 31st (in thousands of Saudi Riyals)

Year	Shareholders' Equity	Variance Increase / (Decrease)	Variance Percentage
2012	5,410,914	348,290	7%
2011	5,062,624	(27,067)	(0.5%)
2010	5,089,691	102,171	2%
2009	4,987,520	(103,276)	(2%)
2008	5,090,796	431,003	9%

Shareholders' Equity Growth

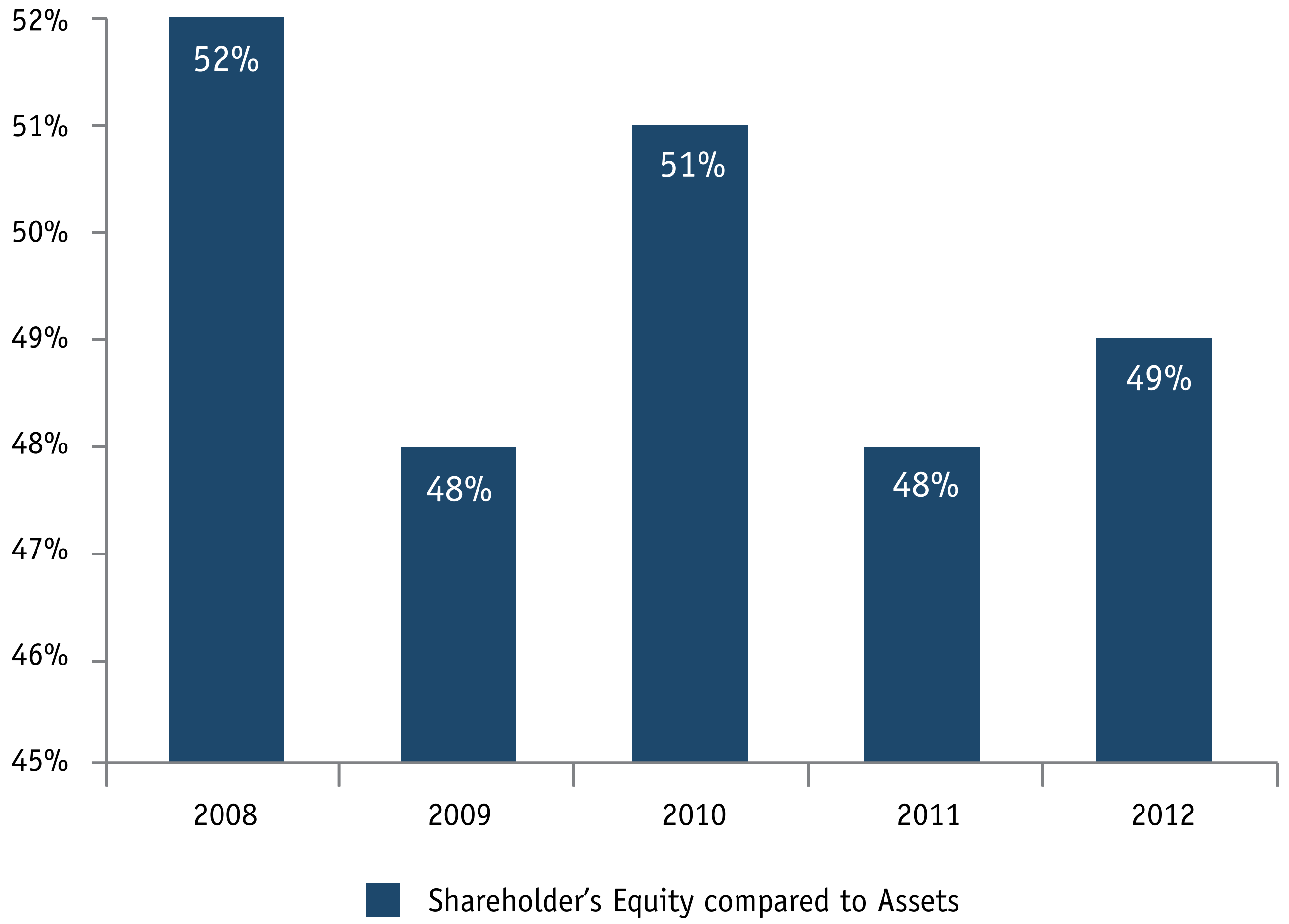


Shareholders' Equity to Assets

Shareholders' Equity to Assets as of December 31st (in thousands of Saudi Riyals)

Year	Shareholders' Equity	Total Assets	Percentage
2012	5,410,914	11,063,609	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%
2008	5,090,796	9,819,426	52%

Shareholders' Equity compared to Assets



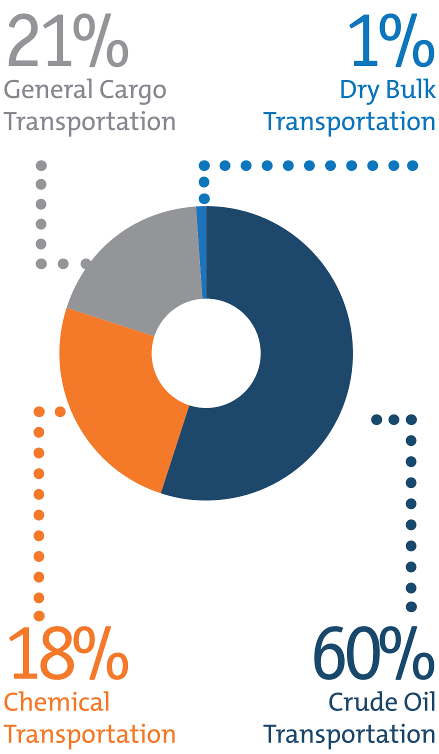
The Company operates through four strategic business units that generate profit and cash flow, which are the oil and gas transport sector, the chemical transport sector, the general cargo transport sector, and the dry bulk transport sector. Both, the chemical transport and dry bulk transport sectors operate through joint venture companies which are The National Chemical Carriers Ltd. Co. and Bahri Dry Bulk Co. due to strategic partnerships in these sectors.

Company Key Sectors' Revenues for the fiscal year 2012 (in Thousands of Saudi Riyals)

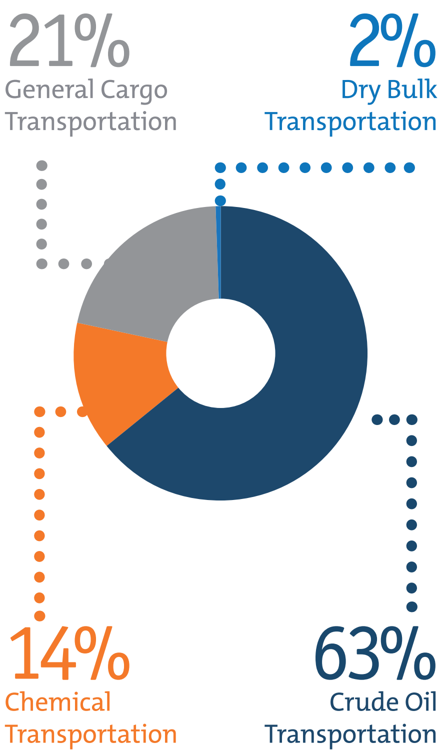
Business Sector	Operating Revenues	Bunker Costs	Other Operating Expenses	Total Operating Expenses	Bunker Subsidy	Total Operating Income	(%) Business Sector Contribution to the total
Crude Oil transportation Sector*	1,474,477	(724,631)	(592,517)	(1,317,148)	157,468	314,797	55%
Chemical transportation Sector	440,873	-	(297,956)	(297,956)	2,164	145,081	25%
General cargo transportation Sector	510,106	(150,466)	(294,209)	(444,675)	40,940	106,371	19%
Dry bulk Cargo transportation Sector**	39,172	-	(30,918)	(30,918)	-	8,254	1%
Total	**2,464,628**	**(875,097)**	**(1,215,600)**	**(2,090,697)**	**200,572**	**574,503**	**100%**

* Some of the carriers in this sector are chartered on time charter contracts. Therefore, the charterers are responsible for the bunker costs. Other carriers operate within pools which distribute the net financial results after deducting expenses from shareholders
** The vessels in this sector are chartered to ARASCO. Therefore, the charterer is responsible for the bunker cost.

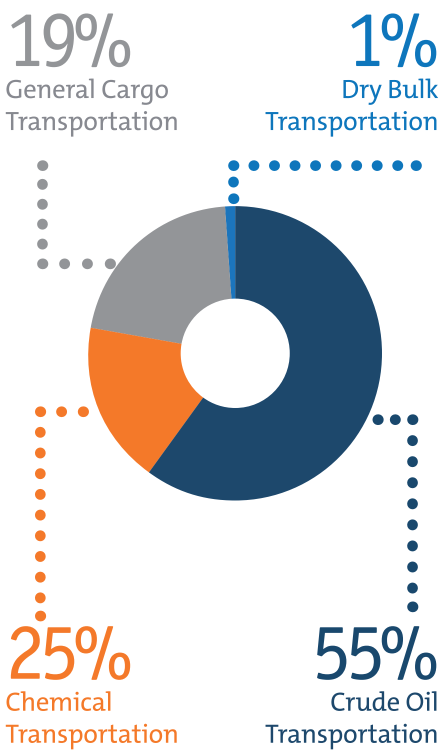
Operating Revenues



Total Operating Expenses

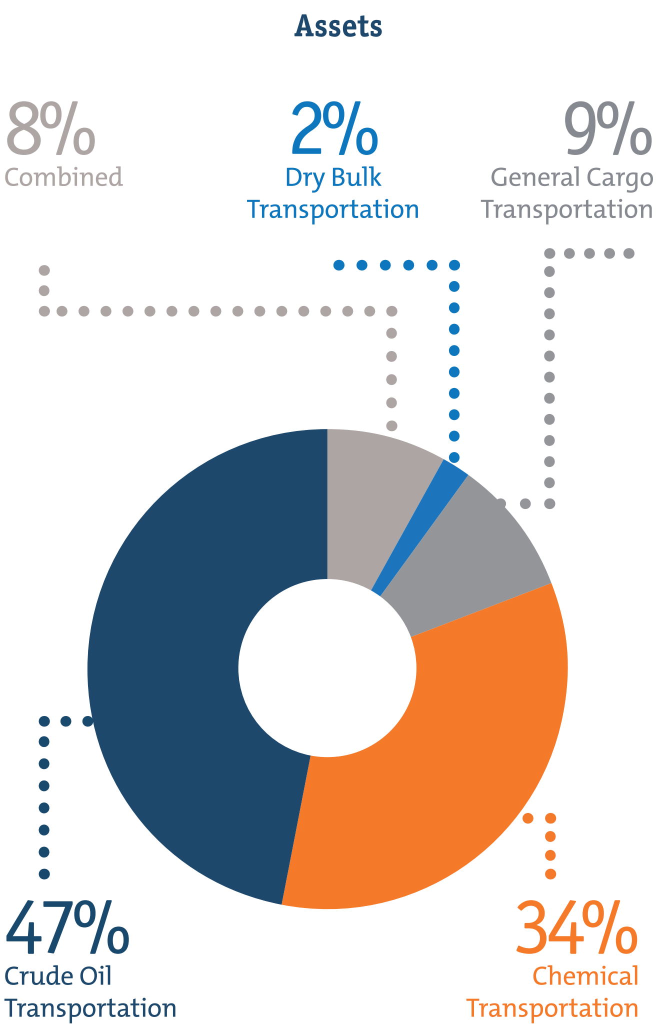


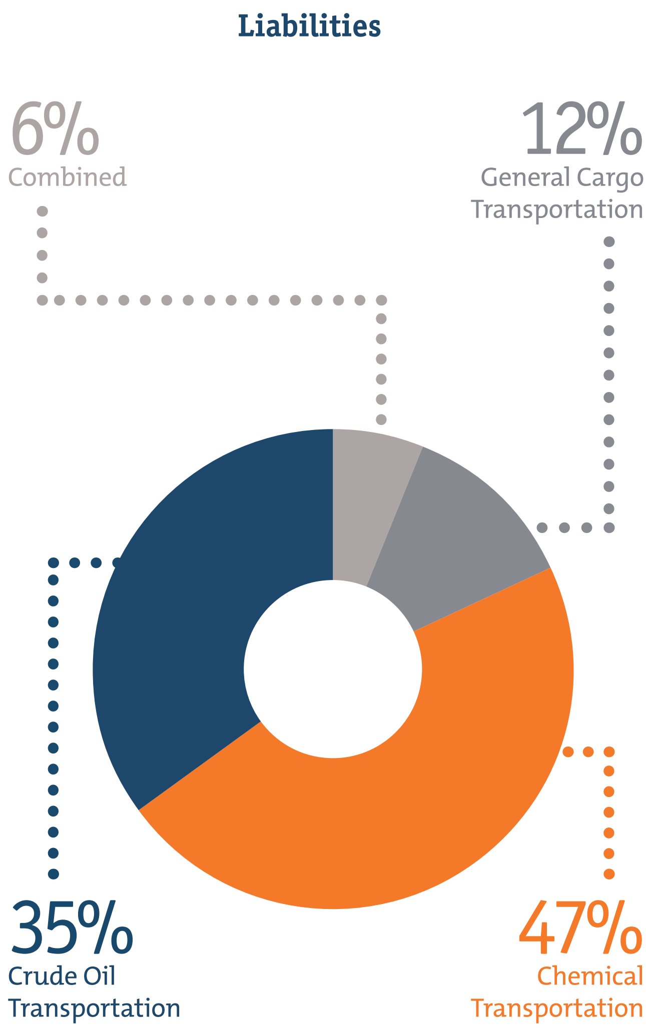
Operating Income



Distribution of Assets and Liabilities by sector as on December 31st, 2012 (in thousands of Saudi Riyals)

	Oil & Gas and LPG transportation	Chemical transportation	General Cargo transportation	Dry Bulk Cargo transportation	Combined sectors	Total
Assets	5,240,417	3,705,071	972,714	208,969	936,438	11,063,609
Percentage (%)	47%	34%	9%	2%	8%	100%
Liabilities	1,879,601	2,528,093	613,112	7,556	309,502	5,337,864
Percentage (%)	35%	47%	12%	0.14%	6%	100%





Subsidiaries Capitals for 2011 and 2012

Company Name	Company Type	Date of Incorporation	Capital 2012	Capital 2011	% of Ownership in 2012	% of Ownership in 2011	Details of the Shares	Debt Instruments
NSCSA (America) Inc.	LLC	1991	3,750,000	3,750,000	100%	100%	1000	None
Mideast Ship Management Ltd.	LLC	1996	306,540	306,540	100%	100%	1	None
National Chemical Carriers Ltd.	LLC	1990	610,000,000	610,000,000	80%	80%	61,000,000	None
Bahri Dry Bulk	LLC	2010	200,000,000	200,000,000	60%	60%	200,000	None

Summary of Financial Results of Subsidiaries for the financial year 2012 (in thousands of Saudi Riyals)

Company Name	Operating revenues	Operating expenses	General and administrative expenses	Other revenues (Expenses)	Net profit (loss)	Share in the company's net profit
NSCSA (America) Inc.*	23,156	(5,797)	(16,217)	33	796	0.16%
Mideast Ship Management Ltd.**	41,248	-	(37,653)	(1,040)	2,068	0.41%
National Chemical Carriers Ltd. Co	440,873	(297,956)	(9,521)	(19,163)	98,082	19.46%
Bahri Dry Bulk Co. LLC	39,172	(30,918)	(1,925)	421	4,751	0.94%

* relies entirely on the parent company for income
** relies entirely on the parent company and its subsidiaries for income

Financing during the year 2012* (in thousands of Saudi Riyals)

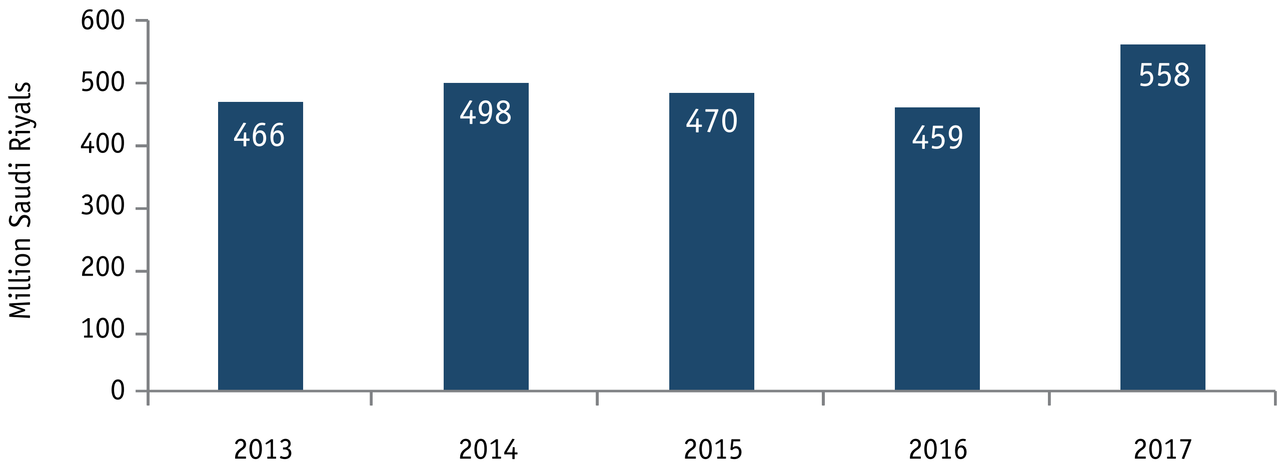
Name of the Company	Total Loan	Loan balance at beginning of the Year	Average period of loans (in years)	Additions during the Year	Installments paid during the Year	Balance Loan at the End of the Year
The National Shipping Co. of Saudi Arabia (Bahri)	4,440,535	2,313,959	10	545,650	(376,810)	2,482,799
The National Chemical Carriers Ltd. Co. (NCC)	2,811,156	2,483,676	8.7	39,193	(141,236)	2,381,633
Mideast Ship Management Ltd.	25,342	17,378	7	None	(1,991)	15,386
Total	**7,277,033**	**4,815,013**	**-**	**584,843**	**(520,037)**	**4,879,818**

* In addition to the financing from the Public Investment Fund, the Company and its subsidiaries also receive financing from several banks, such as: 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 and long-term loans as on December 31st, 2012 (in thousands of Saudi Riyals)

Name of the Company	2013	2014	2015	2016	2017	Total
The National Shipping Co. of Saudi Arabia (Bahri)	264,858	343,585	328,943	317,663	416,593	1,671,642
The National Chemical Carriers Ltd. Co (NCC)	199,236	141,236	141,236	141,236	141,236	764,180
Mideast Ship Management Ltd.	1,991	13,395	-	-	-	15,386
Total	**466,085**	**498,216**	**470,179**	**458,899**	**557,830**	**2,451,208**

Murabaha Financing and Long Term Loans



Regulatory payments:

Zakat and taxes

The Company and its subsidiaries regularly prepare zakat and tax returns. Zakat and tax payments are settled according to the returns in a timely manner within the stated regulatory deadlines. The Company will also repay all withholding tax returns imposed on payments to non-resident foreign parties on a periodic basis according to the law.

The Company provided tax and zakat return reports for all years until 2011, as well as withholding tax returns until November 2012, and paid all zakat dues and withholding returns according to these reports. The Company also received additional zakat and withholding tax assessments for the years 2001 until 2007, which amounted to SAR 22 million. However, the Company made an objection to the Department of Zakat and Income Tax (DZIT) regarding the treatment of the items of these assessments and the Company has not received final Zakat assessments from DZIT for the years 2008 until 2011. Since the implementation of the new tax regulation, the Company has paid all the withholding tax deductions on payments to non-resident foreign parties in a timely manner. The Company also believes that it has made sufficient provisions as on December 31, 2012 for any Zakat or tax claims from DZIT for these periods.

The National Chemical Carrier Co. Ltd. has provided all Zakat returns for all years until 2011 and also submitted withholding tax returns until November 2012 and paid all Zakat and tax due amounts, according to the said assessments. The Company has also received additional assessments of Zakat and tax cuts for 1991 to 2004, amounting to SAR 59 million. However, the Company objected to the treatment of some of the items of the said assessments. In April 2010, the Company had a final settlement with the DZIT for those years, which amounted to SAR 53 million. The Company paid SAR 26 million in 2011, while the remaining amounts are to be paid in installments over five years starting in July 2012. The Company believes that it has made sufficient provisions as at December 31, 2012 for any zakat or tax claims from DZIT for these periods.

The zakat returns of the Company and the National Chemical Carrier Co. Ltd. are prepared on the basis of the wealth upon which Zakat is due for each company.

Bahri Dry Bulk was registered with the Zakat and Income Tax Department after having met all requirements and obtained a designated Zakat number. The affiliated company is currently preparing Zakat returns to be submitted to the DZIT. The affiliated company believes that it has made sufficient provisions for any zakat claims requested by the DZIT as at December 31, 2012 and that there are no tax obligations at that date.

Statement of Accrued Regulatory Payments as of December 31st, 2012

Description	The National Shipping Co. of Saudi Arabia (Bahri)	The National Chemical Carriers Co. Ltd. (NCC)	Bahri Dry Bulk (BDB)
Provision of Zakat Company Wise	15,645,166	14,444,881	6,471,959
Tax Provision for December 2012	112,976	194,665	-
Social Insurance Provision for December 2012	714,771	39,419	-

Dividends Distribution Policy

The Company distributes its dividends according to operating results, liquidity and working capital requirements, as well as capital investments. Therefore, the board has decided in its meeting held on December 20th, 2012 to recommend to the General Assembly the distribution of cash dividends amounting to SAR 315 million to shareholders for the year 2012, at the rate of SAR 1 per share, which represents 10% of the capital, provided that eligibility for dividends is for those shareholders owning shares at the closing of the stock market on the General Assembly meeting date.

Article "36" of the Company's Memorandum and Articles of Association states that: "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 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.

The following table shows the net profits achieved and the cash dividends and their percentage of net profit which on average amounted to 68% and the average rate of dividends distribution to capital which amounted to 10% during the past five years (2008-2012).

Fiscal Year	Net Profits (SAR'000)	Cash Dividends (SAR'000)	Distribution of Bonus Shares	Cash Dividends to Net Profit Ratio (%)	Distributions to Capital Ratio (%)
2012	503,993	315,000*	-	62%	10%
2011	287,768	157,500	-	55%	5%
2010	414,878	315,000	-	76%	10%
2009	369,300	315,000	-	85%	10%
2008	749,968	472,500	-	63%	15%
Total	**2,325,907**	**1,575,000**	**-**	**Annual average 68 %**	**Annual Average 10%**

* Subject to the approval by the Ordinary General Assembley

Chapter IV
Disclosure and Transparency

The Company adopts a policy of disclosure and transparency as stipulated in the corporate governance rules and regulations and requirements for openness and disclosure while preparing this report in order to ensure that the correct information is delivered to the beneficiaries such as shareholders, lenders, government agencies and others. This chapter describes some of the 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.

Shareholders' Rights and Communications

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 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. Shareholders preserve their rights to vote and choose their representatives in the Board of Directors. Many shareholders participate in the discussions relating to the Company's activities and future plans by attending the General Assembly meetings. As soon as the General Assembly approves the payment of dividend this is immediately declared and is paid to the shareholders who are registered in the records of the Securities Depository Center. This must take place at the end of the trading day on the day of the General Assembly meeting. Payments will be 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 some investment companies. The Company has also met with prospective investors or current shareholders through meetings organized by some parties interested in investing. It has also received a number of investment officials. Please note 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, advertisements, and information about current and previous shareholders.

The Company also 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 it does not influence the activities.

• Variance from the Accounting Standards issued by the Saudi Organization for Certified Public Accountants (SOCPA)

There are no differences from the accounting standards issued by the Saudi Organization for Certified Public Accountants (SOCPA).

• A description of any interest in a class of voting shares held by people (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 the stock category that has the right to vote.

• A description of the categories and numbers of any transferrable debt instruments and any contractual securities or any 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 groups and transferrable debt instruments, nor any contractual securities, subscription rights, or any similar rights issued or granted by the Company during the fiscal year.

• A description of any transferrable or subscription rights by 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 transferrable or subscription rights through transferrable debt instruments or any contractual securities or any subscription rights memos or similar rights issued or granted by the Company.

• A description of any recovery, purchase, or cancellation by the Company of any recoverable 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 transactions between the Company and any relevant 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 states that Mr. Abdullah Sulaiman Al-Rubaian is the Chairman of Bahri as well as the Chairman of Arasco. This has been disclosed during Ordinary General Assembly no. 36 held on April 22, 2012, and was approved.

• 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 have 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:

None of the The Company has not received any notification from the shareholders of the Company to waive 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 end of service 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 confirms the following:

- The accounting records have been prepared properly.
- The internal audit system has been prepared on a sound basis and implemented effectively.
- There is no doubt about the Company's ability to continue its activities.

• 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 period.

The Board of Directors did not make any recommendation replace the External Auditors before the end of the agreed period.

• Penalties, sanctions, or reserve restrictions imposed on the Company by regulatory, supervisory, monitoring, or judicial authorities:

No penalties, sanctions, or reserve restrictions were imposed on the Company by regulatory, supervisory, monitoring, or judicial authorities.

• Results of the annual audit and internal control procedures of the Company

The Internal Audit and Control Department performs the audits on a regular basis, and implements 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. The said auditing processes did not show any substantial weakness in the internal control system of the Company. Moreover, within 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, 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 is keen to comply with corporate governance regulations by constantly reviewing its policies and procedures, and enforcing policies and procedures that will promote the concept of transparency and disclosure.

The Company also implements all obligatory provisions stated in the corporate governance by-laws issued by the Capital Markets Authority and its Articles of Association, and all its related documents with exception of the following:

Article No.	Article / Paragraph	Non-compliance reasons
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 biggest seas and transport cargo between many ports of the world.
Article 6 paragraph (b)	Cumulative voting method should be applied when voting to select board members in the General Assembly	The Company implements regulations issued by the Ministry of Commerce and Industry based on the Companies Law regarding the voting system in General Assemblies. The Company will consider cumulative voting when voting for board members in 2013.

Chapter IV
Disclosure and Transparency

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 ten meetings during 2012.

Details of attendance of the Chairman and Board Members in Board meetings during 2012

Name	Title	Meeting Number										Total
		1	2	3	4	5	6	7	8	9	10	
Abdullah Sulaiman Al-Rubaian	Chairman	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	10
Mohammed Abdulaziz AlSarhan	Vice Chairman	✗	✗	✓	✓	✓	✓	✓	✓	✓	✓	8
Esam Hamad Al-Mubarak	Board Member	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	10
Nasser Mohammed Al-Kahtani	Board Member	✗	✓	✓	✓	✓	✓	✓	✓	✓	✓	9
Saleh Abdullah AlDebasi	Board Member	✗	✓	✓	✓	✓	✓	✓	✓	✓	✓	9
Abdulkarim Ibrahim Al-Nafie	Board Member	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	10
Farraj Mansour Abothenain	Board Member	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	10
Abdullah Ali Al-Ajaji	Board Member	✓	✓	✓	✓	✓	✗	✓	✓	✓	✓	9
Ghassan Abdulrahman Al-Shibl	Board Member	✓	✗	✓	✓	✓	✗	✓	✓	✓	✓	8

Classification of Board of Directors 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

Details of Board of Director’s Membership in other Joint Stock Companies in 2012

Name	Membership in other joint-stock companies
Abdullah Sulaiman Al-Rubaian	Arabian Shield Cooperative Insurance Co. Arabian Agriculture Services Company (ARASCO) Al-Falak National company Etidama Centre for the Development of Animal and Plant Production Barclays Saudi Arabia
Mohammed Abdulaziz AlSarhan	Saudi Public Transport Co. (SAPTCO) Al Safi Danone Ltd. Al Faisaliah Group General Authority for Civil Aviation Board of trustees of the Al-Yamamah University
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 Ceramic Pipes Company
Farraj Mansour Abothenain	Astra Industrial Group “Astra” National Petrochemical Company (Petrochem) Al Wusta Development Co. Bawan Co.
Abdullah Ali Al-Ajaji	Qassim Cement Co.
Ghassan Abdulrahman Al-Shibl	Malath Cooperative Insurance & Reinsurance Company

Details of Board of Directors' Compensations and Bonuses in 2012

Name	Directors fees	Committee Remuneration	Bonus after Profit Dist.	Total
Abdullah Sulaiman Al-Rubaian	46,073	200,000	200,000	446,073
Mohammed Abdulaziz AlSarhan	49,073	100,000	200,000	349,073
Esam Hamad Al-Mubarak	49,500	200,000	200,000	449,500
Nasser Mohammed Al-Kahtani	67,073	200,000	200,000	467,073
Saleh Abdullah AlDebasi	52,500	200,000	200,000	452,500
Abdulkarim Ibrahim Al-Nafie	55,073	200,000	200,000	455,073
Farraj Mansour Abothenain	52,860	100,000	200,000	352,860
Abdullah Ali Al-Ajaji	61,500	200,000	200,000	461,500
Ghassan Abdulrahman Al-Shibl	43,500	100,000	200,000	343,500
Total	**477,152**	**1,500,000**	**1,800,000**	**3,777,152**

The board of directors declares that apart from the shares owned by them 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 the year 2012

Name of the Board Members	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	200,000	1,000,000	800,000	500%
Mohammed Abdulaziz AlSarhan	Vice Chairman	516,903	496,903	(20,000)	3.88%
Esam Hamad Al-Mubarak	Board Member	50,000	80,000	30,000	60%
Nasser Mohammed Al-Kahtani	Board Member	-	-	-	-
Saleh Abdullah AlDebasi	Board Member	2,500	2,500	-	-
Abdulkarim Ibrahim Al-Nafie	Board Member	13,000	13,000	-	-
Farraj Mansour Abothenain	Board Member	25,000	25,000	-	-
Abdullah Ali Al-Ajaji	Board Member	-	-	-	-
Ghassan Abdulrahman Al-Shibl	Board Member	5,000	35,000	30,000	600%

Board Committees

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

1- Executive 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 the return on investments, and deliberating issues referred to it by the Board of Directors.

Attendance Details of the Chairman and Members of the Executive Committee during 2012

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

2- Audit Committee

This 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 interest of the shareholders. This committee is entitled to have access to all information, data, reports, records, and other details deemed important. In addition it studies the annual interim financial statements before their submission to the board of directors. The committee is also responsible for studying 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 safety 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. There were no substantial notes or comments made by this committee.

The General Assembly of the company has approved the rules for the selection of Audit Committee members, their duration and method. 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 the Year 2012

Name	Title	Meeting Number								Total
		1	2	3	4	5	6	7	8	
Nasser Mohammed Al-Kahtani	Chairman	✓	✓	✓	✓	✓	✓	✓	✓	8
Saleh Abdullah AlDebasi	Member	✓	✓	✓	✗	✗	✗	✓	✓	5
Abdullah Ali Al-Ajaji	Member	✓	✓	✓	✓	✓	✓	✓	✓	8
Ahmed Abdullah Al-Moghamis	Member	✗	✓	✓	✓	✓	✓	✓	✓	7

3- Nomination and Remuneration Committee

This Committee is responsible for nominating members of the Board of Directors for the next term, the annual review of the needs and skills required for Board membership, reviewing the structure of the Board of Directors and recommending changes as necessary, identifying the weakness and strength of the current board and proposing measures to address this in subsequent sessions, and 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 to select 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 2012

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

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 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 , 2012 except that stated in the Executive Management ownership table below.

Statement of Company Senior Executives in 2012

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 Suleiman 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 2012

Name	Variance Percentage	Changes During the year	Ownership at the end of the year	Ownership at the Beginning of the year
Saleh Nasser Al-Jasser	200,000	200,000	-	-
Abdulaziz Khalid Al-Rasheed	-	-	-	-
Saleh Abdulrahman-Shamekh	-	-	-	-
Mohammed Omair Al-Otaibi	-	-	-	-
Ahmed Suleiman Al-Eidan	20,000	20,000	-	-

Details of Compensations and Remunerations for the five Executive Management members during the year 2012*

Statement	Amount in Thousands Saudi Riyals
Salaries and Remunerations	4,571
Allowances	2,274
Periodic and Annual Bonuses	4,640
Incentives Plans	250
In-Kind compensations and other benefits	-
Total	**11,736**

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

Conclusion

This annual report for 2012 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, the Ministry of Transport, the Public Investment Fund, and the 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 make greater efforts and lead the Company in the right direction towards achieving its stated objectives successfully.

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 achieve the Company's stated goals.

"God Grants Success"

Chapter V
Financial Reports

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2012

AND INDEPENDENT AUDITOR'S REPORT

Dr. Mohamed Al-Amri & Co.
Accountants & Consultants

P.O. Box 8736, Riyadh, 11492
Tel.: +966 1 278 0608
Fax: +966 1 278 2883
info@alamri.com

INDEPENDENT AUDITOR'S REPORT

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

Riyadh, Saudi Arabia

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

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

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

- present fairly, in all material respects, the consolidated financial position of **Bahri (The National Shipping Company of Saudi Arabia)** as of December 31, 2012 and the consolidated results of its operations, cash flows and changes in owners' equity for the year then ended in conformity with generally accepted accounting principles in the Kingdom of Saudi Arabia; and

- comply with the requirements of the Regulations for Companies and the Company's Articles of Association with respect to the preparation and presentation of consolidated financial statements.

For Dr. Mohamed Al-Amri & Co.

Gihad Al-Amri
Certified Public Accountant
Registration No. 362

Riyadh
Dr. Mohamed Al-Amri & Co.

February 23, 2013 G
Rabi Thani 13, 1434 H

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

Consolidated Balance Sheet As of December 31, 2012
(in Thousands of Saudi Riyals)

	Notes	2012	2011
ASSETS			
Current assets:			
Cash in hand and at banks	3	99,605	144,798
Investments in Murabaha and short-term deposits	3-4	292,656	274,469
Trade receivables and other debit balances, net	5	350,810	288,496
Prepaid expenses		19,340	40,457
Bareboat lease receivable, net	6	10,143	7,538
Agents' current accounts		33,860	21,278
Inventories	7	132,068	145,049
Investments held for trading		26,384	20,312
Accrued bunker subsidy, net	8	130,946	87,779
Incomplete voyages		21,375	12,104
Total current assets		**1,117,187**	**1,042,280**
Non-current assets:			
Investment in financial assets		40,587	30,587
Bareboat lease receivable, net	6	394,679	404,822
Investments available for sale		26,634	26,903
Investments in affiliates	9	683,182	561,432
Deferred dry-docking costs, net	10	98,675	67,203
Fixed assets, net	11	7,518,396	7,252,854
Ships under construction and other	12	1,184,269	1,237,130
Total non-current assets		**9,946,422**	**9,580,931**
Total assets		**11,063,609**	**10,623,211**

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

Consolidated Balance Sheet As of December 31, 2012
(in Thousands of Saudi Riyals)

	Notes	2012	2011
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable and other credit balances	13	231,364	288,907
Current portion of Murabaha financing and long-term finance	14	466,085	456,045
Short term finance		160,000	64,000
Unclaimed dividends	15	30,941	30,720
Provision for zakat and tax	16	118,778	104,576
Total current liabilities		**1,007,168**	**944,248**
Non-current liabilities:	14	4,253,733	4,294,968
Murabaha financing and long-term finance		40,213	28,058
Employees' end of service benefits provision		36,750	-
Other liabilities		**4,330,696**	**4,323,026**
Total non-current liabilities		**5,337,864**	**5,267,274**
Total liabilities			
Equity: Shareholders' equity			
Paid-up share capital		3,150,000	3,150,000
Statutory reserve	2/t	922,834	872,435
Retained earnings		1,020,748	882,154
Proposed dividends	15	315,000	157,500
Unrealized gain from available for sale investments		2,332	534
Total shareholders' equity		**5,410,914**	**5,062,623**
Non-controlling interests		314,831	293,314
Total equity		**5,725,745**	**5,355,937**
Total liabilities and equity		**11,063,609**	**10,623,211**

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

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

Consolidated Statement of Income As of December 31, 2012
(in Thousands of Saudi Riyals)

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

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

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

Consolidated Statement of Cash Flow As of December 31, 2012
(in Thousands of Saudi Riyals)

	Notes	2012	2011
Cash flows from operating activities:			
Net profit for the year		503,993	287,768
Adjustments to reconcile net profit to net cash provided by operating activities:			
Depreciation	11	392,179	352,308
Amortization of deferred dry-docking costs	10	38,058	28,264
Unrealized gain on investments held for trading		(6,072)	(1,485)
Company’s share in profit of affiliates	9	(147,660)	(139,723)
Gains from sale of fixed assets	20	(12,507)	(99)
Non-controlling interests in consolidated subsidiaries’ net profit		21,517	24,622
Provision for zakat	16	32,945	21,594
Provision for tax, net	16	3,354	3,903
Employees' end of service benefits provision, net		12,155	(3,534)
Changes in operating assets and liabilities:			
Trade receivables and other debit balances, net		(62,314)	(113,253)
Prepaid expenses		21,117	(358)
Bareboat lease receivable		7,538	6,614
Agents’ current accounts		(12,582)	(6,131)
Inventories		12,981	(11,683)
Accrued bunker subsidy, net		(43,167)	(21,884)
Accounts payable and other credit balances		(57,543)	34,550
Zakat and tax paid	16	(22,858)	(51,272)
Tax refund related to a subsidiary	16	761	922
Incomplete voyages		(9,270)	(12,804)
Net cash provided by operating activities		**672,625**	**398,319**

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

Consolidated Statement of Cash Flow As of December 31, 2012
(in Thousands of Saudi Riyals)

	Notes	2012	2011
Cash flows from investing activities:			
Investments in Murabaha and short-term deposits		(43,395)	3,476
Investment in government bonds		-	17
Investments held to maturity		(10,000)	-
Investments available for sale		2,067	1,104
Investments in affiliates	9	(10,000)	-
Dividends from affiliates	9	35,910	34,087
Additions to fixed assets	11	(23,912)	(390,957)
Proceeds from sale of fixed assets		28,034	296
Ships under construction and other, net	12	(596,475)	(1,025,775)
Deferred dry-docking costs	10	(69,530)	(61,745)
Net cash used in investing activities		**(687,301)**	**(1,439,497)**
Cash flows from financing activities:			
Financing from short-term Murabaha		96,000	64,000
Murabaha financing and long-term loans		657,583	934,565
Repayments of Murabaha financing and long-term loans		(688,778)	(326,740)
Other liabilities		36,750	-
Dividends paid		(157,279)	(311,176)
Change in non-controlling interests		-	(20,000)
Net cash (used in) / provided by financing activities		**(55,724)**	**340,649**
Net change in cash and cash equivalents during the year		**(70,400)**	**(700,529)**
Cash and cash equivalents at the beginning of the year		384,820	1,085,349
Cash and cash equivalents at the end of the year		**314,420**	**384,820**
Non-cash items:			
Transfer from ships under construction and other to fixed assets	11-12	649,336	800,111
Deferred charges transferred to fixed assets	10	-	6,661
Unrealized (gain) / loss from available for sale investments		(1,798)	1,570

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

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

Consolidated Statement of Changes in Shareholders' Equity As of December 31, 2012
(in Thousands of Saudi Riyals)

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

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

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

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

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

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

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

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

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

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

(in Thousands of Saudi Riyals)

Name	Accounting Method	Activity	Location	Date of Incorpo-ration	Effective Ownership % 2012	Effective Ownership % 2011
Affiliates:						
Petredec Ltd.	Equity	Liquefied petroleum gas transportation	Bermuda	1980	30.30%	30.30%
NCC-Odfjell Chemical Tankers **	Equity:	Pertochemicals transportation	Dubai	2009	40%	40%
Arabian United Float Glass Co.	Cost	Glass manufacturing & trading	Riyadh	2006	10%	10%

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

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

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

2. Significant Accounting Policies

a) Accounting convention

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

b) Period of financial statements

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

c) Basis of consolidation

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

d) Use of estimates

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

e) Accounting for finance leases

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

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

f) Cash and cash equivalents

For the purpose of preparing the consolidated statement of cash flows, cash and cash equivalents represent cash in hand, bank balances, investment in Murabaha and short-term deposits, and investments that can be liquidated to cash and maturing within three months or less from the date of acquisition, which is available to the Company and its subsidiaries without any restrictions.

g) Investments

1- Investments in affiliates and others:

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

2- Investments in financial instruments:

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

- Investments held to maturity
  Certain investments in financial instruments are classified as held to maturity based on the Company's management's intentions. These investments are stated at cost adjusted for premium or discount, if any.
- Investments held for trading
  Certain investments in financial instruments are classified as held for trading based on the Company's management's intentions. These investments are stated at fair value. Unrealized gains or losses are recorded in the consolidated statement of income.
- Investments available for sale
  Certain investments are classified as available for sale when the conditions of classification as investments held to maturity or for trading are not met. The available for sale investments are stated at fair value. Unrealized gains or

(in Thousands of Saudi Riyals)

losses are recognized under shareholders' equity, whereas the realized gains or losses from the redemptions of units are recognized in the consolidated statement of income in the period in which these units are redeemed. If there is a permanent decline in the value of these investments or objective evidence for impairment, the unrealized loss is transferred to the consolidated statement of income. If the Company intends to sell the investment available for sale within 12 months from the date of the consolidated financial statements, it is reported under current assets, otherwise under non-current assets.

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

h) Inventories

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

i) Deferred dry-docking costs

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

j) Fixed assets, net

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

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

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

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

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

k) Impairment of non-current assets

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

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

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

l) Employees' end of service benefits provision

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

m) Revenue recognition

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

- General Cargo Transportation: the Company follows the complete voyage policy in determining the revenues and expenses of the year for vessels transporting general cargo (RoRo). A voyage is considered to be a "Completed Voyage" when a vessel has sailed from the last discharging port of a voyage. Incomplete voyages are shown at the net amount in the consolidated balance sheet under "Incomplete Voyages".
- Crude Oil Transportation: the Company follows the complete voyage policy in determining the revenues and expenses of the year for vessels transporting crude oil. A voyage is considered to be a "Completed Voyage" from the date the vessel unloads its previous voyage load up to the date of unloading the current voyage load at the final destination port.

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

n) Bunker subsidy

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

o) Expenses

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

p) Borrowing costs

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

q) Foreign currency transactions

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

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

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

r) Zakat and taxes

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

s) Hedging reserve for loans commission

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

t) Statutory reserve

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

u) Earnings per share and proposed dividends

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

v) Trade accounts receivable

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

w) Segment reporting

Business segment.

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

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

(in Thousands of Saudi Riyals)

3. Cash and Cash Equivalents

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

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

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

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

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

4. Investments in Murabaha and Short-Term Deposits

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

(in Thousands of Saudi Riyals)

5. Trade Receivables and Other Debit Balances, Net

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

Movement in provision for doubtful debts is as follows:

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

(in Thousands of Saudi Riyals)

6. Bareboat Lease Receivable, Net

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

Description	2012	2011
Future minimum lease payments	411,418	467,005
Unguaranteed residual value at the end of the lease term	247,875	247,875
	659,293	714,880
Unearned income	(254,471)	(302,520)
Net bareboat lease receivable balance	**404,822**	**412,360**
The above amount is classified at December 31 as follows:		
Current	10,143	7,538
Non-current	394,679	404,822
Net bareboat lease receivable balance	**404,822**	**412,360**

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

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

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

(in Thousands of Saudi Riyals)

7. Inventories

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

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

8. Bunker Subsidy, Net

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

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

9. Investments in Affiliates and Other

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

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

A - Petredec Ltd.

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

The difference between the net investment value and the value of the net assets acquired of

SR 119.18 million was considered as goodwill and is included as part of the carrying value of the investment.

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

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

(in Thousands of Saudi Riyals)

B - Arabian United Float Glass Company

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

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

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

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

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

10. Deferred Dry-Docking Costs, Net

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

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

Movement in the dry-docking costs is as follows:

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

(in Thousands of Saudi Riyals)

11. Fixed Assets, Net

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

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

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

(in Thousands of Saudi Riyals)

12. Ships Under Construction and Others

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

The Company

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

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

The Subsidiary ("NCC")

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

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

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

Bahri Dry Bulk Company LLC ("a subsidiary")

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

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

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

Capital commitments

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

(in Thousands of Saudi Riyals)

13. Accounts Payable and Other Credit Balances

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

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

14. Murabaha Financing and Long Term Finance

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

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

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

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

(in Thousands of Saudi Riyals)

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

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

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

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

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

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

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

15. Earnings per Share and Dividend

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

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

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

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

16. Zakat and Income Tax

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

The Company's zakat and tax status

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

Zakat and Tax status for NCC

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

Zakat returns are prepared separately for the Company and NCC.

Zakat and Tax status for Bahri Dry Bulk

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

(in Thousands of Saudi Riyals)

Provision for zakat and tax

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

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

17. Segment Information

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

	2012				
	Crude Oil Transportation	Petrochemical Transportation	General Cargo Transportation (Liner)	Bulk Transportation	Total
Operating revenues	**1,474,477**	**440,873**	**510,106**	**39,172**	**2,464,628**
Bunker cost	724,631	---	150,466	---	875,097
Other operating expenses:					
Vessel related expenses	216,129	165,566	42,939	30,918	455,552
Cargo related expenses	---	---	184,870	---	184,870
Voyage related expenses	87,960	---	54,127	---	142,087
Depreciation and amortization	278,472	132,390	12,273	---	423,135
Others	9,956	---	---	---	9,956
Total other operating expenses	**592,517**	**297,956**	**294,209**	**30,918**	**1,215,600**
Total operating expenses	**1,317,148**	**297,956**	**444,675**	**30,918**	**2,090,697**
Gross operating income before bunker subsidy	**157,329**	**142,917**	**65,431**	**8,254**	**373,931**
Bunker subsidy	157,468	2,164	40,940	---	200,572
Gross operating income	**314,797**	**145,081**	**106,371**	**8,254**	**574,503**

(in Thousands of Saudi Riyals)

2011	Crude Oil Transportation	Petrochemical Transportation	General Cargo Transportation (Liner)	Bulk Transportation	Total
Operating revenues	**1,227,423**	**362,539**	**401,122**	**---**	**1,991,084**
Bunker cost	661,509	---	139,654	---	801,163
Other operating expenses					
Vessel related expenses	209,329	116,698	47,039	---	373,066
Cargo related expenses	---	---	137,954	---	137,954
Voyage related expenses	74,231	---	57,798	---	132,029
Depreciation and amortization	267,760	92,818	13,581	---	374,159
Others	8,737	1,269	-	---	10,006
Total other operating expenses	**560,057**	**210,785**	**256,372**	**---**	**1,027,214**
Total operating expenses	**1,221,566**	**210,785**	**396,026**	**---**	**1,828,377**
Gross operating income before bunker subsidy	**5,857**	**151,754**	**5,096**	**---**	**162,707**
Bunker subsidy	137,449	---	39,016		176,465
Gross operating income	**143,306**	**151,754**	**44,112**	**---**	**339,172**

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

2012	Crude Oil Transportation	Petrochemical Transportation	General Cargo Transportation (Liner)	Bulk Transportation	Shared Assets and Liabilities*	Total
Assets	5,240,417	3,705,071	972,714	208,969	936,438	11,063,609
Liabilities	1,879,601	2,528,093	613,112	7,556	309,502	5,337,864

2011	Crude Oil Transportation	Petrochemicals Transportation	General Cargo Transportation (Liner)	Bulk Transportation	Shared Assets and Liabilities*	Total
Assets	5,415,286	3,647,375	542,316	199,124	819,110	10,623,211
Liabilities	2,337,777	2,568,479	213,692	5,288	142,038	5,267,274

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

(in Thousands of Saudi Riyals)

18. Related Party Matters

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

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

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

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

Due to related parties shown under receivables are as follows:

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

Due to related parties shown under payables are as follows:

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

(in Thousands of Saudi Riyals)

19. General and Administrative Expenses

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

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

20. Other Income (Expenses), Net

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

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

(in Thousands of Saudi Riyals)

21. Consolidation of Subsidiaries

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

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

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

22. Commitments and Contingencies

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

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

23. Financial Instruments and Risk Management

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

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

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

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

Credit risk

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

Commission rate exposure

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

Currency risk

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

Price risk

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

Liquidity risk

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

Fair value

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

24. Major and Post Balance Sheet Events

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

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

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

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

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

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

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

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

25. Reclassification

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

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