Bahri البحري

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

INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

FOR THE THREE MONTH PERIOD AND YEAR ENDED 31 DECEMBER 2014
AND AUDITOR'S LIMITED REVIEW REPORT

(The National Shipping Company of Saudi Arabia)
(A Saudi Joint Stock Company)
Interim Consolidated Financial Statements (Unaudited)
For the three month period and year ended 31 December 2014
and Auditors' limited review report

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

SCOPE

We have reviewed the accompanying interim consolidated statement of financial position of The National Shipping Company of Saudi Arabia - a Saudi Joint Stock Company ("the Company") and its subsidiaries ("the Group") as at 31 December 2014, and the related interim consolidated statement of income for the three month period and the year ended 31 December 2014, and the interim consolidated statement of cash flows for the year then ended. These interim consolidated financial statements are the responsibility of the Group's management and have been prepared by them and submitted to us together with all the information and explanations which we required. We conducted our limited review in accordance with the Standard on Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants (SOCPA). A limited review consists principally of applying analytical procedures to financial data and information and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

CONCLUSION

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

For Ernst & Young

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

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

Riyadh: 29 Rabie' Awwal 1436H
(20 January 2015)

Bahri البحري

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

	Note	2014 (Unaudited)	2013 (Audited)
ASSETS			
Current assets			
Bank balances and cash	3	**191,951**	106,525
Murabaha and short term deposits	3	**222,498**	237,940
Trade receivables, net		**645,518**	612,803
Lease receivable for vessels, net		**21,140**	15,256
Prepaid expenses and other receivables		**147,224**	75,436
Agents' current accounts		**72,981**	27,523
Inventories		**315,026**	223,023
Accrued bunker subsidy, net		**197,408**	123,880
Incomplete voyages		**-**	4,456
Total current assets		**1,813,746**	1,426,842
Non-current assets			
Lease receivable for vessels , net		**358,282**	379,423
Investments held to maturity		**10,587**	40,587
Investments available for sale		**13,533**	14,399
Investments in associated company	4	**905,759**	841,985
Deferred dry-docking costs, net		**122,166**	104,672
Intangible assets, net	2	**903,501**	-
Fixed assets, net		**12,979,312**	8,512,152
Ships under construction and others	5	**10,035**	676,468
Total non-current assets		**15,303,175**	10,569,686
Total assets		**17,116,921**	11,996,528
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accruals Loans		**488,296**	282,765
Murabaha financing and long-term financial-current portion	6	**558,304**	564,292
Short term Murabaha loans	13	**3,459,313**	337,000
Accrued dividends	7	**33,881**	32,088
Provision for zakat and tax	8	**146,466**	138,907
Incomplete voyages		**9,813**	-
Total current liabilities		**4,696,073**	1,355,052
Non-current liabilities:			
Murabaha financing and long-term loans	6	**4,152,888**	4,376,589
Employees' end of service benefits		**52,838**	46,760
Other liabilities	9	**30,704**	30,704
Total non-current liabilities		**4,236,430**	4,454,053
Total liabilities		**8,932,503**	5,809,105
Equity			
Shareholders' equity			
Share capital	1	**3,937,500**	3,150,000
Statutory reserve		**2,016,136**	998,060
Retained earnings		**1,861,477**	1,697,784
Unrealized loss from investments available for sale		**-**	(115)
Total shareholders' equity	1	**7,815,113**	5,845,729
Non-controlling interests	1	**369,305**	341,694
Total equity		**8,184,418**	6,187,423
Total liabilities and equity		**17,116,921**	11,996,528

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

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

	Note	For the three month period ended 31 December		For the year ended 31 December	
		2014 (Unaudited)	2013 (Unaudited)	**2014 (Unaudited)**	2013 (Audited)
Operating revenues		**1,260,871**	782,577	**3,623,660**	2,846,698
Bunker cost		**(390,596)**	(251,623)	**(1,206,759)**	(943,406)
Other operating expenses		**(704,530)**	(412,327)	**(1,934,588)**	(1,466,196)
Gross operating income before bunker subsidy		**165,745**	118,627	**482,313**	437,096
Bunker subsidy		**73,332**	51,228	**217,936**	171,108
Gross operating income		**239,077**	169,855	**700,249**	608,204
General and administrative expenses		**(39,487)**	(34,179)	**(122,215)**	(107,765)
Operating income		**199,590**	135,676	**578,034**	500,439
Share in results of associated company	4	**(19,500)**	152,048	**131,956**	291,235
Finance charges	6	**(41,260)**	(15,427)	**(106,474)**	(60,402)
Other (expenses) income, net	10	**719**	21,142	**(1,053)**	107,711
Income before zakat, tax and non-controlling interests		**139,549**	293,439	**602,463**	838,983
Zakat and tax	8	**(10,797)**	(5,005)	**(40,970)**	(49,858)
Income before non-controlling interests		**128,752**	288,434	**561,493**	789,125
Non-controlling interests in consolidated subsidiaries' net income		**(5,292)**	(8,178)	**(27,611)**	(36,863)
Net income for the period/year		**123,460**	280,256	**533,882**	752,262
Earnings Per Share (in SR):					
Attributable to operating income	7	**0.59**	0.43	**1.71**	1.59
Attributable to net income for the period/year	7	**0.36**	0.89	**1.58**	2.39

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

(The National Shipping Company of Saudi Arabia)
(A Saudi Joint Stock Company)
Interim Consolidated Statement of Cash Flows
For the year ended 31 December 2014
(In Thousands Saudi Riyals)

	Note	2014 (Unaudited)	2013 (Audited)
Cash flows from operating activities:			
Net income for the year		**533,882**	752,262
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation		**540,673**	423,523
Amortization of deferred dry-docking costs		**46,965**	46,012
Unrealized gains from investments available for sale		**-**	(2,562)
Share in results of associated company		**(131,956)**	(291,235)
Gains from sale of fixed assets		**(3,096)**	(75,496)
Non-controlling interests in consolidated subsidiaries' net income		**27,611**	36,863
Zakat and tax, net		**40,970**	49,858
Employees' end of service benefits, net		**6,078**	6,547
		1,061,127	945,772
Changes in operating assets and liabilities:			
Trade receivables, net		**(32,715)**	(355,397)
Lease receivable for vessels, net		**15,257**	10,143
Prepaid expenses and other receivables		**(71,788)**	66,264
Agents' current accounts		**(45,458)**	291
Inventories		**(92,003)**	(90,955)
Accrued bunker subsidy, net		**(73,528)**	8,673
Incomplete voyages		**14,269**	16,919
Trade Investment		**-**	26,384
Accounts payable and accruals		**205,531**	52,452
Zakat and tax paid		**(33,411)**	(29,729)
Other liabilities		**-**	(6,046)
		947,281	644,771
Net cash from operating activities			
Cash flows from investing activities:			
Murabaha and short-term deposits		**(1,862)**	2,942
Investments available for sale		**981**	43,550
Investments held to maturity		**30,000**	-
Dividends received from associated companies		**68,182**	96,591
Intangible assets		**(566,543)**	-
Additions to fixed assets		**(2,524,880)**	(4,216)
Proceeds from sale of fixed assets		**3,330**	118,768
Ships under construction and others, net		**(401,524)**	(975,507)
Deferred dry-docking costs		**(64,459)**	(52,009)
Net cash used in investing activities		**(3,456,775)**	(769,881)
Cash flows from financing activities:			
Proceeds from short-term Murabaha financing		**3,122,313**	177,000
Proceeds from Murabaha financing and long-term loans		**334,595**	807,835
Repayment of Murabaha financing and long-term loans		**(564,284)**	(586,772)
Dividends paid		**(313,207)**	(313,853)
Board of directors rewards		**(1,800)**	-
Non-controlling interests		**-**	(10,000)
Net cash from financing activities		**2,577,617**	74,210
Net change in cash and cash equivalents during the year		**68,123**	(50,900)
Cash and cash equivalents at the beginning of the year		**269,566**	320,466
Cash and cash equivalents at the end of the year	**3**	**337,689**	269,566
Significant non-cash transactions:			
Ships under construction and others transferred to fixed assets		**1,067,957**	1,471,030
Vessels value of shares consideration		**1,752,189**	-
Unrealized losses from available for sale investments			(115)
Associated company transferred to subsidiary company			4,641

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

(In Thousands Saudi Riyals)

1. ORGANIZATION AND OPERATIONS

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

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

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

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

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

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

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

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

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

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

1. ORGANIZATION AND OPERATIONS (continued)

The Group Fleet:

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

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

NCC (subsidiary) owns Twenty-four specialized tankers distributed as following:

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

a. Accounting convention

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

The significant accounting policies adopted are consistent with those described in the annual consolidated financial statements for the year ended December 31, 2013.

b. Period of financial statements

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

c. *Basis of consolidation*

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

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

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

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

d. *Use of estimates*

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

e. *Cash and cash equivalents*

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

f. *Trade accounts receivable*

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

g. *Accounting for finance leases*

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

h. Inventories

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

i. Deferred dry-docking costs

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

j. Investments

1- Investments in associated companies:

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

2- Investments in securities:

Investments in securities are classified into three categories as follows:

- Investments held for trading

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

- Investments held to maturity

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

- Investments available for sale

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

(In Thousands Saudi Riyals)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2- Investments in securities (continued)

- Investments available for sale (continued)

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

k. Intangible assets

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

l. Fixed assets

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

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

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

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

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

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

m. Impairment of non-current assets

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

m. Impairment of non-current asset (continued)

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

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

n. Accounts payable and accruals

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

o. Provisions

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

p. Zakat and income taxes

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

q. Employees' end of service benefits

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

r. Hedge agreements and derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure of its commission rate risks arising from financing activities. The use of financial derivatives is governed by the Group's policies, which provide principles on the use of financial derivatives consistent with the Group's risk management strategy. The Group does not use derivative financial instruments for speculative purposes. Derivative financial instruments are initially measured at fair value on the contract date and are re-measured at fair value at subsequent reporting dates. Changes in the fair value of derivative financial instruments that are designated as effective hedges of future cash flows are recognized directly in equity, if material, and the ineffective portion is recognized in the interim consolidated statement of income.

s. Statutory reserve

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

t. Revenue recognition

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

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

u. Bunker subsidy

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

v. Expenses

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

w. Borrowing costs

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

x. Foreign currency transactions

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

y. Operating leases

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

z. Earnings per share and proposed dividends

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

aa. Segment reporting

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

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

(In Thousands Saudi Riyals)

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent Bank balances and cash, and investments in Murabaha and short-term deposits, out of which SR 76.76 million as of 31 December 2014 (2013:SR 74.90 million) are restricted for repayment of current portion of Loan installments falling due within 180 days from the interim consolidated balance sheet date.

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

	31 December 2014 (Unaudited)	31 December 2013 (Audited)
Bank balances and cash	**191,951**	106,525
Amounts restricted by banks	**-**	(9,428)
	191,951	97,097
Investment in Murabaha and short-term deposits	**222,498**	237,940
Amounts restricted by banks	**(76,760)**	(65,471)
	145,738	172,469
Cash and cash equivalents balance at the end of the period	**337,689**	269,566

4. INVESTMENTS IN ASSOCIATED COMPANY

Summary of the movement in investments in associated company (Petredec Limited Company) is as follows:

	31 December 2014 (Unaudited)	31 December 2013 (Audited)
Balance at the beginning of the year	**841,985**	651,982
Group's share in associated company's results*	**131,956**	291,235
Dividends received during the year	**(68,182)**	(96,591)
Transferred to a subsidiary company	**-**	(4,641)
Balance at the end of the period	**905,759**	841,985

* The Group's shares in the results of the associated company include unrealized loss of SR 61.71 million (2013: unrealized gain of SR 53.57 million) from commodity swaps.

(In Thousands Saudi Riyals)

5. SHIPS UNDER CONSTRUCTION AND OTHERS

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

31 December 2014 (Unaudited)				
	The Company	**National Chemical Carriers**	**Bahri Dry Bulk Company**	**Total**
Balance at the beginning of the year	**440,313**	**-**	**236,155**	**676,468**
Additions	**125,503**		**276,021**	**401,524**
Disposals	**-**	**-**	**-**	**-**
Transferred to fixed assets	**(555,781)**	**-**	**(512,176)**	**(1,067,957)**
Balance at the end of the year	**10,035**	**-**	**-**	**10,035**

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

(In Thousands Saudi Riyals)

6. MURABAHA FINANCING AND LONG-TERM LOANS

The Group has signed various Murabaha financing agreements and long term loans which are primary for financing the building of new VLCCs and petrochemicals carries, the following table shows the details:

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

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

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

7. EARNINGS PER SHARE AND DIVIDENDS

Earnings per share is calculated based on the weighted average number of shares outstanding during the two years ended 31 December 2014 and 2013 amounting 338.41 million shares and 315 million shares respectively (note 13).

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

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

8. ZAKAT AND INCOME TAX

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

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

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

9. OTHER LIABILITIES

This item represents the total amounts received from one of the ships building companies as at 31 December 2014 and 2013 against charging this company with the repair costs of the tanks related to the new six vessels built for National Chemical Carrier Company (subsidiary). Therefore, it was agreed to charge the ships building company a total amount of SR 36.75 million, SR 6.12 million for each ship. During the period ended 31 March 2013, repair of tanks for one of these vessels was made during its maintenance period, which resulted in saving of SR 5.2 million. This amount was recognized as other income (note10). As National Chemical Carrier Company do not have a maintenance plan for the remaining vessels for the next 12 months. This item was classified as non-current liabilities.

(In Thousands Saudi Riyals)

10. OTHER (EXPENSES) INCOME, NET

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

	2014 (Unaudited)	2013 (Audited)
Gains from sale of fixed assets	**3,096**	75,496
Net gain (loss) from investments	**(2,386)**	18,452
Settlement as a result of cancellation of ship under construction (note 5)	**-**	16,316
Increase recoveries from insurance claims	**-**	6,649
Vessel repair settlement (note 9)	**-**	5,242
Decline other than temporary in investment available for sale	**-**	(17,667)
Others	**(1,763)**	3,223
	(1,053)	107,711

11. CAPITAL CONTINGENT LIABILITIES

The Group has capital commitments relating to building of Rocon ships as at 31 December 2014 amounting to SR nil (2013: SR 67 million). The Capital commitments of subsidiary companies to build chemical tankers and ships specialized in dry bulk transportation as at 31 December 2014 amounted to SR nil (2013: SR 27 million).

The Group has outstanding letters of guarantee of SR 275.59 million as at 31 December 2014 (2013: SR 236.90 million) issued during the normal course of business.

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

12. SEGMENTAL INFORMATION

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

	31 December 2014 (Unaudited)				
	Oil Transportation	**Petrochemical Transportation ***	**General Cargo Transportation**	**Dry Bulk Transportation**	**Total**
Operating revenues	**2,152,257**	**800,169**	**550,395**	**120,839**	**3,623,660**
Bunker costs	**(916,902)**	**(190,239)**	**(99,618)**	**-**	**(1,206,759)**
Other operating expenses	**(949,246)**	**(487,882)**	**(430,376)**	**(67,084)**	**(1,934,588)**
Total operating expenses	**(1,866,148)**	**(678,121)**	**(529,994)**	**(67,084)**	**(3,141,347)**
Gross operating income before bunker subsidy	**286,109**	**122,048**	**20,401**	**53,755**	**482,313**
Bunker subsidy	**174,434**	**23,816**	**19,686**	**-**	**217,936**
Gross operating income	**460,543**	**145,864**	**40,087**	**53,755**	**700,249**

(In Thousands Saudi Riyals)

12. SEGMENTAL INFORMATION (continued)

	31 December 2013 (Audited)				
	Oil Transportation	Petrochemical Transportation *	General Cargo Transportation	Dry Bulk Transportation	Total
Operating revenues	1,506,756	663,874	562,162	113,906	2,846,698
Bunker costs	(701,566)	(109,529)	(132,311)	-	(943,406)
Other operating expenses	(629,638)	(412,893)	(350,278)	(73,387)	(1,466,196)
Total operating expenses	(1,331,204)	(522,422)	(482,589)	(73,387)	(2,409,602)
Gross operating income before bunker subsidy	175,552	141,452	79,573	40,519	437,096
Bunker subsidy	143,943	6,497	20,668	-	171,108
Gross operating income	319,495	147,949	100,241	40,519	608,204

* The financial information of National Chemical Carriers Ltd. Co. (NCC) and its subsidiary have been consolidated starting 1 June, 2013, which resulted in stating the gross amounts of revenues, bunker costs and other operating expenses.

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

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

	31 December 2014 (Unaudited)					
	Oil Transportation	**Petrochemical Transportation**	**General Cargo Transportation**	**Dry Bulk Transportation**	**Shared Assets and Liabilities***	**Total**
Assets	**11,121,561**	**3,365,963**	**1,783,103**	**696,444**	**149,850**	**17,116,921**
Liabilities	**4,792,061**	**2,035,251**	**1,211,268**	**438,304**	**455,619**	**8,932,503**

	31 December 2013 (Audited)					
	Oil Transportation	Petrochemical Transportation	General Cargo Transportation	Dry Bulk Transportation	Shared Assets and Liabilities*	Total
Assets	5,273,014	3,490,069	1,730,364	412,784	1,090,297	11,996,528
Liabilities	1,652,778	2,237,139	1,224,998	184,070	510,120	5,809,105

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

13. THE SIGNED AGREEMENTS WITH ARAMCO AND VELA

A. Overview of the agreements

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

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

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

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

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

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

B. Launch of transfer of ownership

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

C. Capital increase

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

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

D. Murabaha financing and cash consideration

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

14. RECLASSIFICATION

Certain comparative figures of the period and year ended 31 December 2013 have been reclassified to conform to the presentation in the current period and year.