

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

CONSOLIDATED FINANCIAL STATEMENTS
As at December 31, 2003
**together with the
Auditors' report**

ABCD

Al Fozan & Bannaga
Certified Public Accountants

OSAMA A. ELKHEREIJI OFFICE
Certified Public Accountants &
Management Consultants
Member of POLARIS International

AUDITORS' REPORT

The Shareholders
The National Shipping Company of Saudi Arabia
Riyadh, Kingdom of Saudi Arabia

We have audited the consolidated balance sheet of **The National Shipping Company of Saudi Arabia** (the Company) as at December 31, 2003 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended and the accompanying notes 1 through 28 which form an integral part of these consolidated financial statements. These consolidated financial statements have been prepared by the Company in accordance with the provisions of Article 123 of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our audit was conducted in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other procedures as we considered necessary to obtain a reasonable degree of assurance to enable us to express an opinion on the consolidated financial statements.

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

- 1) Present fairly the consolidated financial position of **The National Shipping Company of Saudi Arabia** as at December 31, 2003 and the results of its operations, changes in shareholders' equity and its cash flows for the year then ended in accordance with generally accepted accounting standards appropriate to the circumstances of the Company.
- 2) Comply with the requirements of the Regulations for Companies and the Company's Articles of Association with respect to the preparation and presentation of the financial statements.

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Corresponding to 11 April 2004

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

CONSOLIDATED BALANCE SHEET

December 31, 2003
(Saudi Riyals "000")

<u>ASSETS</u>	<u>Note</u>	<u>2003</u>	<u>2002</u> (Restated)
Current assets:			
Cash in hand and at banks	(3)	123,751	85,537
Government bonds and short term deposits	(2c, 4)	288,771	140,532
Trade receivable and other debit balances, net	(6)	90,589	103,176
Prepayments		32,520	35,247
Agents' current accounts		12,607	6,820
Inventories	(2d)	20,614	10,554
Accrued bunker subsidy, net	(2 e,7)	17,267	9,859
Incomplete voyages	(2f)	--	2,589
Total current assets		<u>586,119</u>	<u>394,314</u>
Non-current assets:			
Investment in government bonds	(2c)	52,178	114,343
Investment in affiliate	(2c, 8)	14,049	15,984
Fixed assets, net	(2g, 10)	3,503,240	3,691,716
Leased fixed assets, net	(2h, 15)	--	114,781
Ships under construction	(11)	53,495	--
Deferred charges, net	(2i, 9)	48,988	66,616
Total non-current assets		<u>3,671,950</u>	<u>4,003,440</u>
Total assets		<u>4,258,069</u>	<u>4,397,754</u>
 <u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>			
Current liabilities:			
Accounts payable and other credit balances	(12)	153,296	208,506
Current portion of long term loans	(13)	246,605	183,069
Current portion of capital lease obligations	(2h, 15)	--	21,823
Unclaimed dividends		10,631	12,297
Agents' current accounts		7,182	11,315
Provision for Zakat and tax	(2j, 16)	139,808	109,803
Incomplete voyages	(2f)	7,359	--
Total current liabilities		<u>564,881</u>	<u>546,813</u>
Non-current liabilities:			
Long term loans	(13)	1,597,858	1,847,597
Mark to market adjustment on interest rate hedge	(14)	56,753	--
Capital lease obligations	(2h, 15)	--	61,512
Tax obligation	(2j, 16)	24,000	26,000
Employees' end of service benefits	(2l)	14,760	13,957
Total non-current liabilities		<u>1,693,371</u>	<u>1,949,066</u>
Total liabilities		<u>2,258,252</u>	<u>2,495,879</u>
Minority interest		<u>130,404</u>	<u>131,486</u>
Shareholders' equity:			
Paid-up capital	(17)	1,997,659	1,997,545
Hedging reserve	(14)	(56,753)	--
Accumulated losses		(71,493)	(227,156)
Total shareholders' equity		<u>1,869,413</u>	<u>1,770,389</u>
Total liabilities and shareholders' equity		<u>4,258,069</u>	<u>4,397,754</u>

The accompanying notes (1) through (28) form an integral part of these financial statements.

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

CONSOLIDATED STATEMENT OF INCOME

For the year ended December 31, 2003

(Saudi Riyals “000”)

	<u>Note</u>	<u>2003</u>	<u>2002</u>
Operating revenue	(2f, 19)	1,446,375	1,209,862
Operating expenses	(2k, 19)	(1,129,058)	(1,029,937)
Gross operating income		317,317	179,925
General and administrative expenses	(2k, 20)	(55,780)	(51,273)
Operating income		261,537	128,652
Income from investment in affiliate	(2c,8)	3,065	5,423
Other income	(2f, 21)	20,868	13,151
Other expenses	(22)	(2,732)	(1,406)
Finance charges	(13)	(83,111)	(83,679)
Income before bunker subsidy		199,627	62,141
Bunker subsidy	(2e, 7)	21,641	34,908
Income before discontinued operations		221,268	97,049
Discontinued operations	(23)	(21,230)	--
Income before Zakat and taxes		200,038	97,049
Provision for Zakat	(2j, 16)	(9,099)	(7,155)
Provision for tax	(2j, 16)	(31,358)	--
Income before minority interest		159,581	89,894
Minority interest		(3,918)	(8,216)
Net income for the year		155,663	81,678
Earning per share	(24)	SR 3.89	SR 2.04

The accompanying notes (1) through (28) form an integral part of these financial statements.

THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA
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CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2003

(Saudi Riyals "000")

	<u>Note</u>	<u>2003</u>	<u>2002</u> (Restated)
Cash flows from operating activities:			
Net income for the year		155,663	81,678
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation on fixed assets		220,091	210,866
Depreciation on leased fixed assets		--	14,628
Income from investment in affiliate		(3,065)	(5,423)
Amortisation of deferred charges		45,871	47,096
(Gain)/loss on sale of fixed assets		(5,882)	488
Minority interest		(1,082)	3,216
Provision for Zakat and tax		40,457	7,155
Changes in operating assets and liabilities:			
Trade receivable and other debit balances, net		12,587	41,582
Prepayments		2,727	(12,506)
Agents' current accounts-debit balances		(5,787)	17,206
Inventories		(10,060)	(8,716)
Accrued bunker subsidy, net		(7,409)	32,581
Incomplete voyages		9,947	1,185
Accounts payable and other credit balances		(55,210)	(89,322)
Zakat and tax paid		(12,452)	(3,691)
Agents' current accounts-credit balances		(4,132)	(1,997)
Employees' end of service benefits		803	280
Net cash provided by operating activities		383,067	336,306
Cash flows from investing activities:			
Net movement in government bonds and			
Short term deposits		(60,419)	6,791
Purchase of fixed assets		(4,371)	(386,504)
Sale of fixed assets		93,420	447,511
Ships under construction		(53,495)	--
Dividends received from affiliate		5,000	3,000
Deferred charges		(28,242)	(57,670)
Investments in government bonds		62,165	(64,360)
Net cash provided by/(used in) investing activities		14,058	(51,232)
Cash flows from financing activities:			
Net movement in long term loans		(186,204)	(269,845)
Net movement in capital lease obligations		(83,335)	(27,268)
Increase in paid-up capital		114	51
Dividends paid		(1,666)	(1,782)
Net cash used in financing activities		(271,091)	(298,844)
Net increase/(decrease) in cash and cash equivalents		126,034	(13,770)
Cash and cash equivalents at beginning of the year		209,716	223,486
Cash and cash equivalents at end of the year	(20, 5)	335,750	209,716

The accompanying notes (1) through (28) form an integral part of these financial statements.

THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA
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CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended December 31, 2003

(Saudi Riyals "000")

	<u>Note</u>	<u>Paid-up capital</u>	<u>Hedging reserve</u>	<u>Accumulated losses</u>	<u>Total</u>
Balance at January 1, 2002		1,997,494	--	(246,538)	1,750,956
Prior years adjustments	(26)	---	--	(62,296)	(62,296)
Restated balance at January 1, 2002		1,997,494	--	(308,834)	1,688,660
Increase in paid-up capital	(17)	51	--	--	51
Net income for the year		---	--	81,678	81,678
Balance at December 31, 2002		1,997,545	--	(227,156)	1,770,389
Increase in paid-up capital	(17)	114	--	--	114
Accounting for hedging reserve	(14)	--	(56,753)	--	(56,753)
Net income for the year		--	--	155,663	155,663
Balance at December 31, 2003		1,997,659	(56,753)	(71,493)	1,869,413

The accompanying notes (1) through (28) form an integral part of these financial statements.

THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003
(Saudi Riyals "000")

1. ORGANISATION AND ACTIVITIES

The National Shipping Company of Saudi Arabia ('the Company'), a Saudi joint stock company, was established by Royal Decree No. M/5 dated 12/02/1398H, corresponding to 21/01/1978G, and registered under Commercial Registration No. 1010026026 dated 01/12/1399H, corresponding to 22/10/1979G, issued in Riyadh.

The Company is primarily engaged in purchasing, chartering and operating vessels for the transportation of cargo and passengers and other activities related to shipping industry has operations in three distinct segments, very large crude carriers (VLCCs), chemical carriers and liners.

The Company owns four roll-in roll-out (RoRo) vessels operating on liner trade between North America, Europe, Middle East and India. The Company owns nine very large crude carriers (VLCCs), four of these VLCCs are chartered to Vela International Marine Limited which is a subsidiary of Saudi Aramco. The Company also owns a chemical carrier that is currently on charter with the International Shipping and Transport Company Limited (ISTC), a subsidiary of Saudi Basic Industries Corporation (SABIC).

The Company and SABIC jointly formed the National Chemical Carriers Limited Company (NCC) in 1990, in which the two companies have 80% and 20% shareholding respectively. NCC has three fully owned subsidiaries, namely East Coast Maritime Limited, South Coast Maritime Limited and North Coast Maritime Limited. The Company and the United Arab Shipping Company equally own the capital of Arabian Chemical Carriers (ACC). The Company established a fully owned subsidiary during 1991-NSCSA (America), Incorporated based in Baltimore, United States of America. NSCSA (America) acts as general agent for the Company's vessels. The Company has entered into a joint venture with V. Ships (previously Acomarit) to form the Mideast Ship Management Company Limited (MSML), based in Dubai, United Arab Emirates. The Company holds 80% of the shares in MSML.

Consolidated financial statements include the activities of the Company and the following subsidiaries, in which the Company owns more than 50% of equity:

<u>Subsidiary</u>	<u>Company's Ownership</u>	<u>Minority Interest</u>
National Chemical Carriers Limited Company	80%	20%
NSCSA (America), Incorporated	100%	--
Mideast Ship Management Company Limited	80%	20%

THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia. The significant accounting policies adopted are as follow:

a) *Accounting convention*

The consolidated financial statements are prepared under the historical cost convention using the accrual basis of accounting and the going concern concept.

b) *Basis of consolidation*

The consolidated financial statements include the financial statements of the Company and the subsidiaries in which it has 50% or more equity interest and/or has controlling interest. Intercompany transactions and balances are eliminated for the purpose of preparing the consolidated financial statements. Equity interest of the minority shareholders in the subsidiaries being consolidated has also been accounted for.

c) *Investments*

Investment in affiliates in which the Company owns equity interest ranging between 20% and 50% is accounted for using the equity method.

Investments in Saudi government development bonds are held to maturity and are stated at cost adjusted by the amount of amortised premium or discount. In case of a permanent diminution in value of such investments, unrealized losses are charged to the statement of income.

d) *Inventories*

Inventories represent supplies on vessels. Fuel and lubricants on board the vessels are shown as inventories at the balance sheet date. Costs of spare parts and other supplies on board the vessels are charged to operating expenses upon purchase.

e) *Bunker subsidy*

Bunker subsidy is computed on bunker quantities purchased and is recorded in the statement of income. Appropriate provisions are made against any amounts that might not be collected.

f) *Revenue recognition*

The Company has adopted the completed voyage policy to determine the revenue and expenses for the period for liner services. A voyage is considered to be a "completed voyage" when the vessel has sailed from the last discharging port of a voyage. Freight revenue and direct and indirect operating expenses associated with the incomplete voyages are deferred until completion of voyage. Incomplete voyages are shown in the balance sheet as "incomplete voyages".

Revenue from chartering and other associated activities is recorded when services are rendered and is recorded in conformity with contract period, voyage duration and agreed upon services. Other income is recorded when earned.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g) *Fixed assets*

Fixed assets are recorded at actual cost and depreciation is provided using the straight-line method as follows:

1. 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 life, after taking into consideration 10% of the vessels' cost as residual value.
2. Remaining fixed assets items are depreciated in accordance with the adopted depreciation rates.
3. Fixed assets with long operational life are reviewed for impairment whenever events or changes in circumstances indicate that their recoverable amount may be less than the net book value. If the sum of the expected future discounted cash flows from these assets is less than the carrying amount of the assets, a loss is recognized for the difference between the recoverable amount and net book value of the assets.

h) *Capital lease obligations*

The Company capitalizes the value of assets on long term lease where risks and benefits related to the assets have been transferred to the Company. Such assets are depreciated based on the depreciation rates for similar assets owned by the Company.

i) *Deferred charges*

Deferred dry-docking charges are amortised over a period of either two or five years from the date of completion of dry-docking. Where a vessel undergoes another dry-docking during the amortisation period of the previous dry-docking, any unamortised balance of deferred charges related to the previous dry-docking of the vessel is charged to the statement of income for the year in which the additional dry-docking takes place.

j) *Zakat and income tax*

Provision for Zakat is computed in accordance with Saudi Zakat standard and charged to statement of income. Provision is made for tax on payments made to non-resident parties and is charged to statement of income. For subsidiaries outside the Kingdom of Saudi Arabia, provision for tax is computed in accordance with fiscal regulations as applicable in respective countries.

k) *Expenses*

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

THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

l) *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 and in conformity with the Saudi Labor Law and regulations as applicable on subsidiaries outside the Kingdom of Saudi Arabia.

m) *Borrowing costs*

Borrowing costs incurred to finance the construction of fixed assets are capitalized. The capitalization ceases when such assets are ready for operational use.

n) *Foreign currency transactions*

Transactions in foreign currencies are recorded at the exchange rates prevailing on the dates of the respective transactions. At balance sheet date, assets and liabilities denominated in foreign currencies are translated to Saudi Riyals at the exchange rates prevailing on that date. Gains and losses resulting from changes in exchange rates are recognized as income or expense.

o) *Cash and cash equivalents*

For the purpose of reporting cash flows, cash and cash equivalents represent cash in hand, current accounts and demand deposits with banks and government bonds maturing within three months of the balance sheet date.

3. CASH IN HAND AND AT BANKS

Cash in hand and at banks include sums amounting to SR 4.5 million subject to bank restrictions.

4. GOVERNMENT BONDS AND SHORT TERM DEPOSITS

Government bonds and short term deposits at December 31 comprise the following:

	<u>2003</u>	<u>2002</u>
Saudi government development bonds	58,900	40,000
Deposits in US Dollars	173,280	44,111
Deposits in Saudi Riyals	56,591	56,421
	<u>288,771</u>	<u>140,532</u>

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at December 31 comprise the following:

	<u>2003</u>	<u>2002</u>
Cash in hand and at banks	119,231	83,199
Government bonds and short term deposits	216,519	126,517
	<u>335,750</u>	<u>209,716</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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6. TRADE RECEIVABLE AND OTHER DEBIT BALANCES, NET

Trade receivable and other debit balances at December 31 comprise the following:

	<u>2003</u>	<u>2002</u>
Trade receivable	78,645	89,038
Insurance claims	3,740	3,583
Other receivable	24,244	23,301
	<u>106,629</u>	<u>115,922</u>
Provision for doubtful receivable	(16,040)	(12,746)
	<u>90,589</u>	<u>103,176</u>

7. ACCRUED BUNKER SUBSIDY, NET

Accrued bunker subsidy at December 31 comprise the following:

	<u>2003</u>	<u>2002</u>
Accrued bunker subsidy	31,111	15,524
Provision for doubtful amounts	(13,844)	(5,665)
	<u>17,267</u>	<u>9,859</u>

8. INVESTMENT IN AFFILIATE

Investment in affiliate represents the Company's share (50%) of the net equity of the Arabian Chemical Carriers, a Saudi limited liability company. Investment balance at December 31 comprises the following:

	<u>2003</u>	<u>2002</u>
Balance at beginning of year	15,984	13,561
Company's share in affiliate's profit	3,065	5,423
Dividends received during the year	(5,000)	(3,000)
Balance at end of the year	<u>14,049</u>	<u>15,984</u>

9. DEFERRED CHARGES

Deferred charges at December 31 comprise the following:

	<u>2003</u>	<u>2002</u>
Dry-docking charges	147,424	119,181
Accumulated amortisation	(98,436)	(52,565)
	<u>48,988</u>	<u>66,616</u>

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10. FIXED ASSETS

Movement in fixed assets during the year 2003 is summarised as follows:

<u>Particulars</u>	<u>Cost</u>			<u>Accumulated Depreciation</u>			<u>Net Book Value</u>		<u>Depreciation Rate %</u>		
	<u>Balance at 1-1-2003</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at 31-12-2003</u>	<u>Balance at 1-1-2003</u>	<u>Current year Depreciation</u>	<u>Disposals</u>	<u>Balance at 31-12-2003</u>		<u>31-12-2003</u>	<u>31-12-2002</u>
Land	1,854	--	--	1,854	--	--	--	--	1,854	1,854	--
Buildings and building improvements	4,191	81	--	4,272	(1,347)	(206)	--	(1,553)	2,719	2,843	5 – 33.3
Fleet and equipment*	5,862,438	2,761	(133,395)	5,731,804	(2,187,895)	(203,957)	108,998	(2,282,854)	3,448,950	3,674,543	4 – 15
Containers and trailers **	270,020	160,640	(106,122)	81,538	(24,358)	(58,227)	43,789	(38,796)	42,742	2,663	20 – 33.8
Furniture and fixtures	4,969	102	(501)	4,570	(4,418)	(277)	480	(4,215)	355	552	10
Tools and office equipment	4,454	153	(523)	4,084	(3,969)	(254)	503	(3,720)	364	485	2.5 – 25
Motor vehicles	1,753	--	(421)	1,332	(1,242)	(137)	421	(958)	374	510	20 – 25
Computers	34,207	243	(811)	33,639	(31,269)	(1,659)	679	(32,249)	1,390	2,938	15 – 25
Container yard	9,841	6	--	9,847	(4,800)	(1,153)	16	(5,937)	3,910	5,041	10 – 25
Others	560	1,025	(667)	918	(273)	(79)	16	(336)	582	287	7 – 15
Total	5,951,287	165,011	(242,440)	5,873,858	(2,259,571)	(265,949)	154,902	(2,370,618)	3,503,240	3,691,716	

* Fleet and equipment includes very large crude carriers and petrochemical carriers mortgaged in favour of lending banks as mentioned in note 13 to these financial statements.

** Additions to cost of containers and trailers include SR 160.6 million representing containers transferred from leased fixed assets on settlement of lease obligation. Additions to accumulated depreciation include SR 46 million related to containers transferred from leased fixed assets. Net book value of containers as at December 31, 2003 include SR 6.5 million representing containers held for disposal.

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11. SHIPS UNDER CONSTRUCTION

Balance of ships under construction represents amounts paid by the subsidiary (NCC) under contracts to build new petrochemical carriers.

12. ACCOUNTS PAYABLE AND OTHER CREDIT BALANCES

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

	<u>2003</u>	<u>2002</u>
Accrued operating expenses	81,921	142,208
Accrued finance charges	9,166	10,373
Trade payable	6,645	12,770
Accrued insurance expenses	15,749	10,128
Other payable	39,815	33,027
	<u>153,296</u>	<u>208,506</u>

13. LONG TERM LOANS

The Company and the NCC obtained long term loans from local and international banks to finance the purchasing and building of carriers and vessels. The balance of these loans as at December 31 comprise the following:

	<u>2003</u>	<u>2002</u>
Loans to the Company	1,621,234	1,737,541
Loans to the NCC	223,229	293,125
	<u>1,844,463</u>	<u>2,030,666</u>
Current portion of long term loans	(246,605)	(183,069)
	<u>1,597,858</u>	<u>1,847,597</u>

The loans to the Company include a loan amounting to SR 375 million provided by the Public Investment Fund (PIF). Full amount of the loan was received during the year 2002. PIF is a shareholder and is represented on the Company's Board of Directors.

These loans are payable in installments after the date of receiving the carriers and vessels. The cost of financing is calculated as per the respective financing agreements.

The loan agreements contain covenants related to liquidity, indebtedness and other conditions. Moreover, the financed carriers and vessels having net book value of SR 3.1 billion are mortgaged in favour of the lending banks.

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14. HEDGING RESERVE

The Company uses interest rate swaps and interest rate caps to hedge part of its long term loans against fluctuations in market interest rates. At year-end, the Company has adopted the accounting treatment prescribed by International Accounting Standard (IAS) 39 and accordingly reflected the changes in the market value of these hedge instruments in the hedging reserve. The Company has not accounted for the hedging reserve from the beginning of the year as the decision to adopt the above accounting treatment was taken close to the year-end and accordingly, the information for fair value of these swaps at the beginning of the year is not available.

The hedging loss reflected in the hedging reserve does not represent a permanent change in the shareholder' equity and will reduce to zero over the period of the hedge agreement. The hedging reserve is adjusted based on the periodical valuation of these swaps.

15. CAPITAL LEASE OBLIGATIONS

Capital lease obligations represent the value of financing the purchase of 14,900 containers from UNITAS Financing Company Limited – Bermuda – through a capital lease contract. Such lease obligations are fully paid during the year 2003.

16. ZAKAT AND INCOME TAX STATUS

a) **Zakat and income tax status**

The Company has submitted the preliminary Zakat returns for all financial years up to 2002 and the related Zakat due was paid accordingly. Due to difference in point of view with the Department of Zakat and Income Tax (DZIT), the Company and its subsidiary, NCC entered into a dispute regarding the principle of levying income tax on certain payments made to foreign non-resident companies for the period 1982 through 1995. However, after exhausting all means to avoid the claims related with income tax imposed and after receiving the letter of the Council of Ministers in the third quarter for the year 2003, which obliged the Company to pay such claims, the Company made a provision to meet these tax claims for the years 1982 through 1995 with a sum of SR 33.8 million and charged to prior years. And the Company agreed with DZIT to settle this amount over a period of 7 years. Also, the Company made a provision for DZIT claims on amounts paid to foreign non-resident parties for the years 1996 through 2000 amounting to SR 18.8 million. Furthermore, the Company made a provision for taxes against payments to foreign non-resident parties for the years 2001 through 2003 amounting to SR 8 million charged to statement of income.

Moreover, NCC made a provision for DZIT claims on amounts paid to foreign non-resident parties for the years 1990 through 2001 amounting to SR 35.6 million charged to prior years and made a provision amounting to SR 4.6 million for taxes to foreign non-resident parties for the years 2002 through 2003.

Zakat Appeal Committee held a session to discuss the appeal of the Company on the Zakat assessments for the period 1989 through 1995 on 2/5/1424H. No decision has been issued yet in this regard.

Also, Zakat and Income Tax Appeal Committee held a session on February 23, 2004 to discuss the appeal of the Company on the Zakat and tax assessments for the period 1996 through 2000. No decision has been issued yet in this regard.

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a) **Zakat and income tax status (continued)**

Further, the Final Zakat and Tax Appeal Committee has issued its Resolution No. 350 for the year 1422H accepting the NCC's appeal against the First Appeal Committee Resolution No. 21 for the year 1421H regarding the assessment made by the DZIT for the years 1991 to 1993 claiming withholding tax and delay penalties amounting to SR 9.54 million. The case has been returned to the First Appeal Committee for review of the objection items from the substance point of view. Accordingly, the first appeal committee held a session dated 19/12/1424H for reconsideration of its previous decision and issued the resolution No.19 in 1424H confirming previous resolution which oblige the NCC to settle such claims. Currently, the NCC is in the process of appealing the last resolution.

b) **Provision for Zakat and tax**

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

	<u>2003</u>	<u>2002</u>
Balance at beginning of the year	135,803	132,339
Amounts paid during the year	(12,452)	(3,691)
Provision made during the year	40,457	7,155
Balance at end of the year	163,808	135,803
Tax obligation	(24,000)	(26,000)
Provision for Zakat and tax	139,808	109,803

17. PAID-UP CAPITAL

The capital of the Company is SR 2 billion divided into 40 million shares of per value SR 50 each. According to Article 110 of the Regulations for Companies, the Company has the right to sell the shares whose owners did not fully settle the installments due.

The following statement shows the change that occurred in the paid-up capital for the year ended December 31:

	2003		2002	
	No. of Shares	Value Paid	No. of Shares	Value Paid
Shares paid in full	39,759,648	1,987,982	39,747,778	1,987,389
Shares partially paid	240,352	9,677	252,222	10,156
	40,000,000	1,997,659	40,000,000	1,997,545

18. STATUTORY RESERVE

In accordance with Saudi Arabian Regulations for Companies, the Company is required to transfer 10% of the net income to the statutory reserve until such reserve equals fifty percent of the paid-up capital. Due to accumulated losses, 10% of the net income has not been transferred to the statutory reserve, instead the net income has been used to reduce the accumulated losses. Company's share of the statutory reserve of NCC, amounting to SR 31.4 million as at December 31, 2003 (2002: SR 29.6 million) has been included in accumulated losses.

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19. SEGMENT INFORMATION

The following schedule illustrates the distribution of the Company's activities according to the operational segments for the year ended December 31:

	<u>2003</u>		<u>2002</u>	
	<u>Operating revenue</u>	<u>Operating expenses</u>	<u>Gross operating profit</u>	<u>Gross operating profit/(loss)</u>
Very large crude carriers	586,667	(333,213)	253,454	122,963
Petrochemical carriers	512,472	(471,486)	40,986	69,697
Liner service	347,236	(324,359)	22,877	(12,735)
	<u>1,446,375</u>	<u>(1,129,058)</u>	<u>317,317</u>	<u>179,925</u>

20. GENERAL AND ADMINISTRATIVE EXPENSES

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

	<u>2003</u>	<u>2002</u>
Employees costs	44,863	41,048
Other general and administrative expenses	7,049	5,980
Depreciation	2,445	2,681
Expenses of Boards of Directors of the Company and its subsidiaries	1,423	1,564
	<u>55,780</u>	<u>51,273</u>

21. OTHER INCOME

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

	<u>2003</u>	<u>2002</u>
Commission on government bonds	5,787	3,430
Shipping commission	4,185	5,457
Commission on short term deposits	2,148	3,048
Gain on sale of fixed assets	5,882	--
Bank commission	474	746
Foreign exchange gain	523	--
Miscellaneous	1,869	470
	<u>20,868</u>	<u>13,151</u>

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22. OTHER EXPENSES

Other expenses for the year ended December 31 comprise the following:

	<u>2003</u>	<u>2002</u>
Bank commission and amortisation of premium on government bonds	2,732	787
Miscellaneous	--	619
	<u>2,732</u>	<u>1,406</u>

23. DISCONTINUED OPERATIONS

The Company resolved to discontinue the container business on November 29, 2001 as disclosed in the financial statements for the years ended December 31, 2001 and 2002. Provisions were made to meet the related expenses and losses till the expected date of discontinuation of this business. Due to availability of certain additional information, further provision was made during 2003.

The following is the movement of provision for discontinued operations during the year ended December 31:

	<u>2003</u>	<u>2002</u>
Balance at beginning of the year	33,567	88,726
Provision made during the year	21,230	--
Adjustment during the year	(36,922)	(55,159)
Balance at end of year	<u>17,875</u>	<u>33,567</u>

24. EARNING PER SHARE

Earning per share is calculated based on the weighted average number of shares upstanding during the year. Weighted average number of shares for the year 2003 was 39,952,043 shares (2002: 39,950,391).

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25. 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 for the year ended December 31:

	2003				2002			
	<u>Total assets</u>	<u>Total liabilities</u>	<u>Gross operating income</u>	<u>Net income</u>	<u>Total assets</u>	<u>Total liabilities</u>	<u>Gross operating income</u>	<u>Net income</u>
NSCSA (America), Incorporated	9,281	(18,250)	17,137	2,365	7,412	(18,745)	14,574	136
Mideast Ship Management Company Limited*	11,666	(3,285)	23,045	9,250	16,467	(3,273)	26,961	13,833
National Chemical Carriers Limited Company	940,583	(288,609)	30,304	21,734	1,007,486	(314,522)	53,678	41,082

*As per the partners’ agreement, the Company has full rights in the business results and its share in the equity of the MSML. Rights of the minority shareholders are limited to the par value of their share in the equity of MSML.

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26. PRIOR YEAR ADJUSTMENTS

As disclosed in note 16, provision for tax has been charged to accumulated losses comprising of SR 33.8 million for tax claims against the Company for the years 1982 through 1995 and SR 28.5 million for tax claims against NCC for the years 1990 through 2001. These tax claims are related to payments made to non-resident parties in prior years.

27. COMMITMENTS AND CONTINGENCIES

The Company has issued letters of guarantee amounting to SR 35.3 million which include two guarantees of SR 11.4 million and SR 23.4 million each in favour of the DZIT in respect of taxes and penalties imposed by the Appeals Committee as explained in note 16 to the financial statements. These guarantees were issued against mortgage of bank account with a sum of SR 2.3 million, short-term deposits with a sum of SR 11.8 million and Saudi government development bonds with a sum of SR 8.9 million.

The NCC has provided guarantees to certain foreign banks in relation with loans and facilities awarded to its subsidiaries. These guarantees amounted to SR 86.3 million as at December 31, 2003 (2002: SR 117.9 million).

The Company is engaged in certain outstanding legal proceedings that have arisen in the normal 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 result of operations or its financial position.

28. COMPARATIVE FIGURES

Certain balances relating to the year 2002 have been reclassified to conform with the presentation adopted for year 2003.