

**THE NATIONAL SHIPPING COMPANY
OF SAUDI ARABIA**
(A Saudi Joint Stock Company)
**INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**
For the three month period ended March 31, 2010
and independent accountants' review report

THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA
(A Saudi Joint Stock Company)
Interim Consolidated Financial Statements
As of March 31, 2010
and independent accountants' review report

<u>Contents</u>	<u>Page</u>
Independent accountants' review report	1
Interim consolidated balance sheet	2
Interim consolidated income statement	3
Interim consolidated statement of cash flows	4
Notes to the interim consolidated financial statements	5 - 15

INDEPENDENT ACCOUNTANTS' LIMITED REVIEW REPORT

April 19, 2010

To the Shareholders of The National Shipping Company of Saudi Arabia:
(A Saudi Joint Stock Company)

We have reviewed the accompanying interim consolidated balance sheet of The National Shipping Company of Saudi Arabia (the "Company") and Subsidiaries (the "Group") as of March 31, 2010 and the related interim consolidated statements of income and cash flows for the three-month period then ended, including the related notes. These interim consolidated financial statements are the responsibility of the Group's management.

We conducted our review in accordance with the standards established by the Saudi Organization for Certified Public Accounts. A 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 auditing standards generally accepted in Saudi Arabia, the objective of which is the expression of an opinion on the financial statements taken as a whole. Accordingly, we do not express such an opinion.

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

PricewaterhouseCoopers Al Juraid

By: 

Rashid S. Al Rashoud
License Number 366

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

ASSETS	Notes	March 31	
		2010	2009
Current assets:			
Cash in hand and at banks	3	215,391	130,837
Investments in Murabaha and short-term deposits	3	680,489	1,105,131
Trade receivables and other debit balances, net		232,345	128,829
Prepaid expenses		54,546	75,598
Bareboat lease receivable, net	4	6,095	5,633
Agents' current accounts, receivables		17,212	30,072
Inventories		136,091	52,277
Investment held to maturity		---	77,525
Investments held for trading		18,367	11,791
Accrued bunker subsidy, net		36,681	49,016
Incomplete voyages		1,593	633
Total current assets		1,398,810	1,667,342
Non-current assets:			
Investment in government bonds		604	604
Bareboat lease receivable, net	4	417,343	423,607
Investments held to maturity (Sukuk)		30,224	---
Investments available for sale		31,032	24,941
Investments in affiliates and other	5	315,929	282,992
Deferred charges, net		42,846	91,963
Fixed assets, net		6,650,719	5,111,240
Goodwill	5/A	119,177	119,177
Ships under construction and other	6	1,436,201	2,565,796
Total non-current assets		9,044,075	8,620,320
Total assets		10,442,885	10,287,662
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable and other credit balances		238,193	269,829
Current portion of Murabaha financing and long-term loans	7	246,793	247,746
Dividends payables		---	472,500
Unclaimed dividends	13	28,265	23,334
Agents' current accounts, payables		995	471
Provision for zakat and tax	8	121,204	193,097
Total current liabilities		635,450	1,206,977
Non-current liabilities:			
Murabaha financing and long-term loans	7	4,458,984	4,104,476
Obligation from fluctuations in swap fair market value for loans commission rates	10	3,441	4,534
Tax obligation provision	8	---	4,000
Employees' end of service benefits provision		32,346	29,812
Total non-current liabilities		4,494,771	4,142,822
Total liabilities		5,130,221	5,349,799
Equity:			
Shareholders' equity			
Paid-up share capital	1	3,150,000	3,150,000
Share premium	9	---	524,416
Statutory reserve	9	815,205	255,929
Retained earnings		1,154,587	840,847
Hedging reserve for loans commission	10	(3,441)	(4,534)
Unrealized gain (loss) from available for sale investments		2,900	(667)
Total shareholders' equity		5,119,251	4,765,991
Minority interest		193,413	171,872
Total equity		5,312,664	4,937,863
Total liabilities and equity		10,442,885	10,287,662

The accompanying notes from (1) to (15) form an integral part of these interim consolidated financial statements

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

	<u>Notes</u>	Three-month period ended	
		March 31	
		<u>2010</u>	<u>2009</u>
Operating revenues	11	512,313	469,299
Operating expenses	11	(374,804)	(350,791)
Gross operating income	11	137,509	118,508
General and administrative expenses		(23,577)	(24,923)
Operating income		113,932	93,585
Company's share in profit of affiliates, net	5	16,587	48,520
Financing charges		(13,536)	(23,913)
Other income, net	12	3,662	35,439
Profit before bunker subsidy, zakat, tax and minority interest		120,645	153,631
Bunker subsidy		21,038	16,832
Profit before zakat, tax and minority interest		141,683	170,463
Zakat provision	8	(7,507)	(9,799)
Tax provision	8	(532)	(818)
Profit before minority interest		133,644	159,846
Minority interest in consolidated subsidiaries' net profit		(3,295)	(8,797)
Net profit for the period		130,349	151,049
Earnings per share from operating income (SR)	2-s, 13	0.36	0.30
Earnings per share from net profit (SR)	2-s, 13	0.41	0.48

The accompanying notes from (1) to (15) form an integral part of these interim consolidated financial statements

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

	<u>Note</u>	Three-month period ended	
		March 31	
		2010	2009
Cash flows from operating activities:			
Net profit for the period		130,349	151,049
Adjustments to reconcile net profit to net cash provided by operating activities:			
Depreciation		81,226	67,176
Amortization of deferred charges		8,833	24,988
Company's share in dividends from investment held for trading		---	(173)
Unrealized (gain) loss on investments held for trading		(2,050)	794
Company's share in profit of affiliates, net		(16,587)	(48,520)
Gains from sale of fixed assets		(40)	(30,012)
Minority interest in consolidated subsidiaries' net profit		3,295	8,797
Provision for zakat and tax		8,039	10,617
Employees' end of service benefits provision		902	948
Changes in operating assets and liabilities:			
Trade receivables and other debit balances, net		(46,164)	52,577
Prepaid expenses		12,637	(10,475)
Bareboat lease receivable		1,461	485
Agents' current accounts, receivables		(2,586)	(12,257)
Inventories		(19,290)	14,639
Accrued bunker subsidy, net		(5,429)	955
Accounts payable and other credit balances		23,739	(33,950)
Agents' current accounts, payables		426	(2,964)
Zakat and tax paid		(5,621)	(606)
Incomplete voyages		5,020	(8,017)
Net cash provided by operating activities		178,160	186,051
Cash flows from investing activities:			
Investments in Murabaha and short-term deposits		(75,148)	(19,870)
Investments in available for sale and held to maturity		(224)	---
Dividends from affiliates		---	5,284
Additions of fixed assets		(1,181)	(6,130)
Proceeds from sale of fixed assets		42	59,377
Ships under construction and other		(4,503)	(460,659)
Deferred charges		(200)	(1,920)
Net cash used in investing activities		(81,214)	(423,918)
Cash flows from financing activities:			
Short-term Murabaha finance		---	(71,250)
Murabaha financing and long-term loans		---	544,545
Repayments against Murabaha financing and long-term loans		(57,196)	(127,626)
Loan to joint venture		(3,750)	---
Dividends paid		(924)	(96)
Net cash (used in) provided by financing activities		(61,870)	345,573
Net change in cash and cash equivalents during the period		35,076	107,706
Cash and cash equivalents at beginning of the period		761,618	1,059,161
Cash and cash equivalents at end of the period	3	796,694	1,166,867
Non-cash items:			
Bareboat lease receivable against sale of fixed assets		---	429,725
Unrealized loss (gain) from available for sale investments		(1,293)	3,844

The accompanying notes from (1) to (15) form an integral part of these interim consolidated financial statements

The National Shipping Company of Saudi Arabia
(A Saudi Joint Stock Company)
Notes To The Interim Consolidated Financial Statements
For the three month period ended March 31, 2010 (Unaudited)
(In Thousands Saudi Riyals)

1. ORGANIZATION AND OPERATIONS

The National Shipping Company of Saudi Arabia, a Saudi joint stock company (the "Company"), was established by Royal Decree No. M/5 dated 12/02/1398H, corresponding to 21/01/1978, and registered under Commercial Registration No. 1010026026 dated 01/12/1399H, corresponding to 22/10/1979, 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 sea shipping industry. The Company has operations through three distinct segments which are very large crude carriers (VLCCs), chemical transportation, and goods transportation (liners).

The authorized and paid-up capital of the Company is SR 3,150 million from 315 million shares for the nominal value of SR 10 each as of March 31, 2010 and 2009.

The Company owns seventeen Very Large Crude Carriers (VLCCs), one of which is chartered to Vela International Marine Limited, a subsidiary of Saudi Aramco, two to Euronav Company, three to Hanjin Company (A Korean Company) and eleven are operating in spot market. The Company owns four Roll-On Roll-Off (RoRo) vessels operating on liner trade between North America, Europe, the Middle East and Indian Subcontinent.

The National Chemical Carriers Ltd. Co. ("Subsidiary") owns thirteen 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 (see Note 4), three were directly chartered to "Odfjell" Company for the first six months of 2009 and are operating in a pool with Odfjell tanker thereafter, six are chartered to the International Shipping and Transportation Company Limited (ISTC), a subsidiary of Saudi Basic Industries Corporation (SABIC), and one tanker is chartered out to Saudi International Petrochemical Company (SIPCHEM).

The Subsidiary signed a 50 percent joint venture agreement with "Odfjell SE" on June 15, 2009 to establish a company in Dubai, (United Arab Emirates), by the name of NCC-Odfjell Chemical Tankers JLT (hereinafter referred as "Joint Venture"), to commercially operate the two companies' combined fleet of coated chemical tankers in a pool for trading in the chemicals, vegetable oils and clean petroleum products markets on a world-wide basis with emphasis on the growing production and export of the Arabian Gulf Region. The new company commenced operations in 2010.

The accompanying interim 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 established and/or invested in the following subsidiaries and affiliates:

The National Shipping Company of Saudi Arabia
(A Saudi Joint Stock Company)
Notes To The Interim Consolidated Financial Statements
For the three month period ended March 31, 2010 (Unaudited)
(In Thousands Saudi Riyals)

Name	Activity	Location	Date of incorporation	Ownership %2010	Ownership %2009
<u>Consolidated Subsidiaries:</u>					
National Shipping Company of Saudi Arabia (America) Inc.	Company's ships agent	USA	1991	100 %	100 %
Mideast Ship Management Ltd.	Ship management	Dubai	1996	100 %	100 %
National Chemical Carriers Ltd. Co. (NCC)	Petrochemicals transportation	Riyadh	1990	80 %	80 %
<u>Non-consolidated affiliates:</u>					
Petreded Ltd.	Liquefied petroleum gas transportation	Bermuda	1980	30.3 %	30.3 %
Arabian United Float Glass Co.	Glass Manufacturing & Trading	Riyadh	2006	10%	10%

2. **SIGNIFICANT ACCOUNTING POLICIES**

a) ***Accounting convention***

The accompanying interim consolidated financial statements are prepared in accordance with the 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 at fair value. The Company applies the accrual basis of accounting in recognizing revenues and expenses.

The significant accounting policies implemented by the Company in preparation of interim consolidated financial statements are in conformity with that implemented for annual consolidated financial statements for the year ended December 31, 2009.

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 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 revenues, gains, expenses and losses are recognized during that period. All adjustments which management feels are necessary and significant to reflect fair financial position and results of the Company's operations have been made. The results of operations for the interim period may not give an accurate indication of the results for the actual annual operations.

c) ***Basis of Consolidation***

For the purpose of consolidating accounts, inter-company transactions and balances are eliminated in the consolidation process. Minority interest relating to third parties (other partners in the subsidiaries) is also accounted for in the subsidiaries' net assets and 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 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 event and actions, actual results ultimately may differ from those estimates.

The National Shipping Company of Saudi Arabia
(A Saudi Joint Stock Company)
Notes To The Interim Consolidated Financial Statements
For the three month period ended March 31, 2010 (Unaudited)
(In Thousands Saudi Riyals)

e) Cash and cash equivalents

For the purpose of preparing the interim consolidated statement of cash flows, cash and cash equivalents represent cash in hand, bank balances, 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.

f) Investments

1- Investments in affiliates and others:

Investment in affiliates in which the Company has significant influence, but no control, over the investee's financial and operation policies, or in which the Company owns equity interest ranging between 20% and 50% are accounted for using the equity method. Due to the timing difference between Petredec Ltd. fiscal year and the Company's fiscal year, the Company's share in Petredec Ltd. profits or losses are recognized in the Company's books according to the latest financial statements prepared by Petredec Ltd. The gap period between the latest financial statements prepared by Petredec Ltd. and the date of the Company's interim consolidated financial statements is two months.

Investments in other companies which are not listed in market and the Company own equity interest of less than 20% is accounted for using the cost method.

2- Investments in government bonds:

Investments in government bonds are held to maturity and are stated at adjusted cost by premium or discount. In case of a permanent decline in value, unrealized losses are charged to the interim consolidated income statement.

3- 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 intention. These investments are stated at adjusted cost by 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 intention. These investments are stated at fair value. Unrealized gains or losses are recorded in the interim consolidated income statement.

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

The National Shipping Company of Saudi Arabia
(A Saudi Joint Stock Company)
Notes To The Interim Consolidated Financial Statements
For the three month period ended March 31, 2010 (Unaudited)
(In Thousands Saudi Riyals)

g) Inventories

Inventories representing fuel and lubricants on board of the vessels are shown as inventories at the balance sheet date, and its cost is determined using First in First out (FIFO) method which is considered more appropriate to the Company's operations. The differences between the weighted average method and FIFO method are not significant to the interim consolidated income statement.

h) Intangible assets, net:

1- Deferred charges:

Deferred dry-docking charges 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 charges related to the previous dry-docking of the vessel is amortized in the interim consolidated income statement in the period that ends at the beginning of the new dry-docking operation.

2- Goodwill:

Goodwill paid on the purchase of investments, representing the excess of the purchase price over the value of purchased net assets, is re-evaluated at the end of each fiscal year and shown in the financial statements at cost after adjustment for any impairment in its value, if any.

i) Fixed assets, net

Fixed assets are recorded at actual cost and are depreciated 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 lives, after taking into consideration 10% of the vessels' cost as residual value. RoRos' equipment are depreciated over a period of fifteen years.
2. Other fixed assets items are depreciated using depreciation rates appropriate to those assets' estimated useful lives which are as follows:

Buildings and improvements	From 5 to 33.3%	Motor vehicles	From 20 to 25%
Containers and trailers	From 8.33 to 20%	Computers equipment	From 15 to 25%
Furniture and fixtures	10%	Container yard	From 10 to 25%
Tools and office equipment	From 2.5 to 25%	Others	From 7 to 15%

j) Impairment of non-current assets

At each balance sheet date, the carrying amounts of non-current assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss.

If any such indication exists, the recoverable amount, which is the higher of an asset's fair value less cost to sell and value in use, is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs.

The National Shipping Company of Saudi Arabia
(A Saudi Joint Stock Company)
Notes To The Interim Consolidated Financial Statements
For the three month period ended March 31, 2010 (Unaudited)
(In Thousands Saudi Riyals)

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment loss is recognized as an expense in the interim consolidated income statement immediately.

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 should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the interim consolidated income statement. Impairment losses recognized on intangible assets are not reversible.

k) *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 By-Laws of the Company and in conformity with the 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.

l) *Revenue recognition*

The Company adopted the completed voyage policy to determine the revenues and expenses for the period of the voyages. A voyage is considered to be a "Completed Voyage" when a vessel has sailed from the last discharging port of a voyage. Freight revenues, direct and indirect operating expenses associated with incomplete voyages are deferred until completion of voyage. Incomplete voyages are shown at net amount in the interim consolidated balance sheet under "Incomplete Voyages".

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.

m) *Bunker subsidy*

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

n) *Expenses*

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

o) *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 interim consolidated income statement.

The National Shipping Company of Saudi Arabia
(A Saudi Joint Stock Company)
Notes To The Interim Consolidated Financial Statements
For the three month period ended March 31, 2010 (Unaudited)
(In Thousands Saudi Riyals)

p) Foreign currency transactions

Foreign currency transactions are translated into Saudi riyal at prevailing exchange rates on transaction date. Monetary assets and liabilities in foreign currencies at balance sheet date are translated into Saudi riyal at the prevailing exchange rates on that date. Gains and losses resulting from fluctuation of exchange rates, which were not significant for 2010 and 2009, are recognized in the interim consolidated income statement.

Assets and liabilities of the consolidated subsidiaries denominated in foreign currencies are converted into Saudi riyal at exchange rates prevailing at the interim consolidated balance sheet date. Revenues and expenses of the consolidated subsidiaries denominated in foreign currencies are converted into Saudi riyal at average exchange rates during the period. Also the components of shareholders' equity excluding retained earnings (deficit) are converted applying the exchange rate 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.

q) Zakat and income taxes matter

Provision for zakat is computed in accordance with the regulations of Department of Zakat and Income Tax (DZIT) and charged to interim consolidated income statement 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 interim consolidated income statement. 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 interim consolidated income statement.

r) 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 are recorded in the hedging reserve which is included in shareholders' equity; also, the hedging reserve is adjusted based on the periodical valuation of commission rate swaps.

s) Earning per share and proposed dividends

Earning 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 after 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 period.

t) Trade accounts receivables

Trade accounts receivables are stated at net value after deducting provision for doubtful debts.

The National Shipping Company of Saudi Arabia
(A Saudi Joint Stock Company)
Notes To The Interim Consolidated Financial Statements
For the three month period ended March 31, 2010 (Unaudited)
(In Thousands Saudi Riyals)

u) Segment reporting

Business segment

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

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

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of March 31, 2010 represent cash in hand and at banks, Murabaha and short-term deposits, out of which SR 0.43 million (2009: SR 5.48 million) are subject to bank restrictions for letters of guarantee issued for the DZIT and other parties.

It also includes SR 42.72 million as of March 31, 2010 (2009: SR 63.6 million) restricted for repayment of current portion of Murabaha financing and long-term loans maturing within 180 days from the balance sheet date.

It also includes SR 56.04 million as of March 31, 2010 (2009: NIL) restricted for investment in financial certificate for six months commencing from February 1, 2010.

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

	2010	2009
Cash in hand and at banks	215,391	130,837
Amounts restricted by banks	(34,396)	(41,518)
	<u>180,995</u>	<u>89,319</u>
Investment in Murabaha and short-term deposits	680,489	1,105,131
Amounts restricted by banks	(64,790)	(27,583)
	<u>615,699</u>	<u>1,077,548</u>
	<u>796,694</u>	<u>1,166,867</u>

4. BAREBOAT LEASE RECEIVABLE, NET

On January 30, 2009, the National Chemical Carriers Ltd. Co. signed agreements with Odfjell to charter three vessels under bareboat arrangement for a period of ten years with 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 March 31, is summarized as follows:

Description	2010	2009
Future minimum lease payments	564,204	619,639
Un-guaranteed residual value at the end of lease term	247,875	247,875
Unearned income	(388,641)	(438,274)
Net bareboat lease receivable balance	<u>423,438</u>	<u>429,240</u>

The National Shipping Company of Saudi Arabia
(A Saudi Joint Stock Company)
Notes To The Interim Consolidated Financial Statements
For the three month period ended March 31, 2010 (Unaudited)
(In Thousands Saudi Riyals)

The above amount is classified at March 31, as under:

Description	2010	2009
Current	6,095	5,633
Non-current	417,343	423,607
Net bareboat lease receivable balance	<u>423,438</u>	<u>429,240</u>

Income related to the above arrangement for the period ended March 31, 2010 amounted to SR 12.2 million (2009: SR 8.2 million) and is included in the operating revenue in the accompanying interim consolidated income statement.

5. INVESTMENTS IN AFFILIATES AND OTHER

Summary of the movement in investments in affiliates for the period ended March 31 is as follows:

	2010	2009
Investments balance at the beginning of the period	299,342	239,756
Company's share in affiliates' profit	16,587	48,520
Dividends received during the period	---	(5,284)
	<u>315,929</u>	<u>282,992</u>

A - Petredec Ltd.

Petredec Ltd. was incorporated on February 20, 1980 under the laws of Bermuda. It is specialized 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 30.3% share of the capital of Petredec Ltd. for total amount of SR 187.5 million (equivalent to US\$ 50 million).

The difference between the net investment value and the value of the net assets acquired was considered as goodwill (Note No. 2-i-2).

Petredec financial year starts on September 01 and ends on August 31 of each Gregorian year. The Company's share in Petredec net profit amounted to SR 16.6 million up to January 31, 2010 (January 31, 2009: SR 48.5 million net profit), which was included in the interim consolidated income statement.

B - The Arabian United Float Glass Company

The Company signed a contract for establishing the Arabian United Float Glass Company as a founding member. It was established by a ministerial decision No. (1299) dated 11/05/1427H (corresponding to 08/06/2006). An investment of SR 20 million was made for the ownership of fully paid 2 million shares representing 10% of the share capital. Also, an amount of SR 1.2 million was paid through March 31, 2010 representing the Company's share in establishing and developing costs.

6. SHIPS UNDER CONSTRUCTION AND OTHER

At March 31, 2010, the balance of ships and other assets under construction principally represents costs incurred towards construction of the Company's new building and costs incurred by NCC (a subsidiary) under signed contracts for constructing new chemical tankers.

The National Chemical Carriers Ltd Co., "Subsidiary", signed contract with SLS Shipbuilding Co. Ltd, South Korea to build 10 petrochemical carriers and another contract during the year 2007 to build six additional petrochemical carriers with a total cost of SR 3.01 billion (USD 802 million) of which SR 1.32 billion has been paid as of March 31, 2010. These tankers are scheduled to be delivered during 2010 through 2012.

The National Shipping Company of Saudi Arabia
(A Saudi Joint Stock Company)
Notes To The Interim Consolidated Financial Statements
For the three month period ended March 31, 2010 (Unaudited)
(In Thousands Saudi Riyals)

The Company received all VLCCs under construction and there are no capital commitments to shipyards related to the Company's VLCCs as of March 31, 2010 (2009: SR 0.50 billion). The Subsidiary's capital commitments for constructing chemical tankers amounted to SR 1.68 billion as of March 31, 2010 (2009: SR 1.83 billion).

7. *MURABAHA FINANCING AND LONG-TERM LOANS

The Company and its subsidiaries have entered into various Murabaha financing and long-term loans agreements totaling to approximately SR 6.13 billion principally to finance building of new VLCCs, petrochemical carriers and new office in Dubai. The balance of these financing as at March 31 comprises the following:

	2010	2009
Financing to the Company	2,454,198	2,154,638
Financing to the subsidiaries	2,251,579	2,197,584
Total Murabaha financing and long-term loans	4,705,777	4,352,222
Current portion of Murabaha financing and long-term loans	(246,793)	(247,746)
Non-current portion of Murabaha financing and long-term loans	4,458,984	4,104,476

Break down of Murabaha financing and long-term loans are listed below at March 31:

2010						
Financing:	Parent Co.	%	Subsidiaries	%	Total	%
Murabaha Finance	977,684	40%	1,815,829	81%	2,793,513	60%
Commercial Loans	253,264	10%	---	---	253,264	5%
Public Investment Fund "Murabaha Finance"	1,050,000	43%	---	---	1,050,000	22%
Conventional Loans from Public Investment Fund	173,250	7%	435,750	19%	609,000	13%
TOTAL	2,454,198	100%	2,251,579	100%	4,705,777	100%

2009						
Financing:	Parent Co.	%	Subsidiaries	%	Total	%
Murabaha Finance	1,653,725	77%	1,761,834	80%	3,415,559	78%
Commercial Loans	290,163	13%	---	---	290,163	7%
Conventional Loans from Public Investment Fund	210,750	10%	435,750	20%	646,500	15%
TOTAL	2,154,638	100%	2,197,584	100%	4,352,222	100%

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

8. ZAKAT AND INCOME TAX

The Company's zakat and tax status

The Company finalized its zakat and tax status with the DZIT up to 2000. The Company submitted the zakat returns for all fiscal years from 2001 up to 2008 and paid the zakat due according to these returns. The Company has not received zakat assessments from the DZIT for these years. The Company also has not received the final tax assessments for the years 2001 up to the end of July 2004, the date of enforcement of the new tax law. Since the enforcement of the new tax law, the Company pays regularly the withholding tax on payments to non-resident parties. The Company believes that adequate provision is maintained at March 31, 2010 for any potential zakat and tax claims by DZIT for the concerned years.

The National Shipping Company of Saudi Arabia
(A Saudi Joint Stock Company)
Notes To The Interim Consolidated Financial Statements
For the three month period ended March 31, 2010 (Unaudited)
(In Thousands Saudi Riyals)

Zakat and Tax status for the subsidiary (NCC)

NCC submitted the zakat returns for all fiscal years up to 2008 and paid the zakat 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 filed appeals against some items in these assessments and their treatments. The appeals are still pending with DZIT as of the date of these interim consolidated financial statements. NCC is of the opinion that adequate provision for zakat and withholding tax is maintained as of March 31, 2010.

Zakat returns are prepared separately for the Company and NCC.

9. 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 50% of the paid-up capital. This reserve is not currently available for distribution to shareholders.

The Board of Directors of the Company in its meeting held on January 18, 2010, approved to transfer the share premium reserve to the statutory reserve in accordance with Article (98) of the Saudi Arabian Regulations for Companies.

10. HEDGING RESERVE FOR LOANS COMMISSION

The Company uses the commission rates swaps and caps to avoid fluctuations in commission rates on the long-term loans. The change in the market value of the commission rate swaps are recorded in the hedging reserve which is included in the shareholders' equity.

11. SEGMENT INFORMATION

A) The following schedule illustrates the distribution of the Company's and subsidiaries' activities according to the operational segments for the period ended March 31:

	2010		
	<u>Operating revenues</u>	<u>Operating expenses</u>	<u>Gross operating income</u>
Crude Oil Transportation	380,395	(256,545)	123,850
Petrochemical Transportation	64,563	(38,877)	25,686
General Cargo Transportation (Liner)	67,355	(79,382)	(12,027)
	<u>512,313</u>	<u>(374,804)</u>	<u>137,509</u>
	2009		
	<u>Operating revenues</u>	<u>Operating expenses</u>	<u>Gross operating income</u>
Crude Oil Transportation	259,728	(161,436)	98,292
Petrochemical Transportation	98,589	(70,381)	28,208
General Cargo Transportation (Liner)	110,982	(118,974)	(7,992)
	<u>469,299</u>	<u>(350,791)</u>	<u>118,508</u>

The National Shipping Company of Saudi Arabia
(A Saudi Joint Stock Company)
Notes To The Interim Consolidated Financial Statements
For the three month period ended March 31, 2010 (Unaudited)
(In Thousands Saudi Riyals)

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

	2010				
	Crude Oil Transportation	Petrochemical Transportation	General Cargo Transportation (Liner)	Shared Assets and Liabilities *	Total
Assets	5,780,639	3,292,186	220,122	1,149,938	10,442,885
Liabilities	2,584,156	2,324,619	62,434	159,012	5,130,221
	2009				
	Crude Oil Transportation	Petrochemical Transportation	General Cargo Transportation (Liner)	Shared Assets and Liabilities *	Total
Assets	5,321,348	3,161,175	270,967	1,534,172	10,287,662
Liabilities	2,255,847	2,301,753	83,071	709,128	5,349,799

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

12. OTHER INCOME, NET

Other income, net includes SR 2.27 million representing income from investments in financial instruments and SR 1.24 million representing income from investments in Murabaha deposits for the period ended March 31, 2010 (2009: includes SR 30 million gain on sale of NCC three tankers (NCC Arar, NCC Asir & NCC Baha) and SR 5.81 million representing income from investments in Murabaha deposits).

13. EARNINGS PER SHARE AND DIVIDENDS

Earnings per share was calculated based on the number of shares outstanding during the period ended March 31, 2010 and 2009 totaling to 315 million shares.

The General Assembly approved the dividends on April 03, 2010 at rate of 10% of capital equal to SR 1.0 per share for 2009 and the distribution was completed on April 11, 2010. The balance of unclaimed dividends as of March 31, 2010 amounted to SR 28.27 million (2009: SR 23.33 million).

The earning per share from non-operating income is SR 0.05 for the three months period ended March 31, 2010 (2009: SR 0.18).

14. COMMITMENTS AND CONTINGENCIES

The Company has issued letters of guarantee of SR 6.58 million which include guarantee of SR 4 million in favor of the DZIT related to zakat, withholding taxes and penalties imposed by the Appeals Committee as explained in Note 8. These guarantees were issued against restricted cash, Murabaha and short-term deposits of SR 0.43 million (See Note 3).

The Company has also 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. Also see Note 8 for zakat contingencies.

In addition, refer to Note 6 in relation to future capital commitments to build chemical carriers and office building.

15. RECLASSIFICATION

Certain amounts previously reported in 2009 interim consolidated financial statements have been reclassified to conform to current period presentation.
