

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

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

<u>Contents</u>	<u>Page</u>
Independent accountants' limited review report	2
Interim consolidated balance sheet	3
Interim consolidated income statement	4
Interim consolidated statement of cash flows	5
Notes to the interim consolidated financial statements	6 - 18

INDEPENDENT ACCOUNTANTS' LIMITED REVIEW REPORT

January 16, 2011

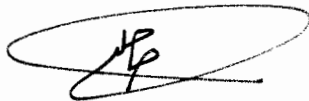
To the Shareholders of The National Shipping Company of Saudi Arabia:
(A Saudi Joint Stock Company)

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

We conducted our limited review in accordance with the standard of review of interim financial reporting issued by the Saudi Organization for Certified Public Accountants. 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 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 limited 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



By: _____
Khalid A. Mahdhar
License Number 368



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

ASSETS	Notes	December 31	
		2010 (Unaudited)	2009 (Audited)
Current assets:			
Cash in hand and at banks	3	109,133	78,545
Investments in Murabaha and short-term deposits	3	1,013,405	707,112
Trade receivables and other debit balances, net		167,234	182,431
Prepaid expenses		38,084	67,183
Bareboat lease receivable, net	4	6,615	5,925
Agents' current accounts, receivables		16,400	14,626
Inventories		133,366	116,801
Investments held for trading		18,827	16,317
Accrued bunker subsidy, net		64,564	31,252
Incomplete voyages		7,339	6,613
Total current assets		1,574,967	1,226,805
Non-current assets:			
Investment in government bonds		604	604
Bareboat lease receivable, net	4	412,359	418,974
Investments held to maturity (Sukuk)		30,000	30,000
Investments available for sale		29,577	29,739
Investments in affiliates and other	5,16	451,940	418,519
Deferred charges, net		40,474	51,479
Fixed assets, net		6,410,303	6,730,766
Ships under construction and other	6	1,009,001	1,431,698
Total non-current assets		8,384,258	9,111,779
Total assets		9,959,225	10,338,584
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable and other credit balances		247,941	214,454
Current portion of Murabaha financing and long-term loans	7	324,648	246,793
Unclaimed dividends	8	27,351	29,189
Agents' current accounts, payables		3,696	569
Provision for zakat and tax	9	129,392	118,786
Total current liabilities		733,028	609,791
Non-current liabilities:			
Murabaha financing and long-term loans	7	3,818,540	4,516,180
Obligation from fluctuations in swap fair market value for loans commission rates	10	1,734	3,530
Employees' end of service benefits provision		31,630	31,444
Total non-current liabilities		3,851,904	4,551,154
Total liabilities		4,584,932	5,160,945
Equity:			
Shareholders' equity			
Paid-up share capital	1	3,150,000	3,150,000
Statutory reserve	11	843,273	802,170
Retained earnings		1,092,198	1,037,273
Hedging reserve for loans commission rates	10	(1,734)	(3,530)
Unrealized gain from available for sale investments		2,104	1,607
Total shareholders' equity		5,085,841	4,987,520
Minority interest	1	288,452	190,119
Total equity		5,374,293	5,177,639
Total liabilities and equity		9,959,225	10,338,584

The accompanying notes from (1) to (16) 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
(In Thousands Saudi Riyals)

	<u>Notes</u>	For the three month ended December 31		For the year ended December 31	
		2010 (Unaudited)	2009 (Unaudited)	2010 (Unaudited)	2009 (Audited)
Operating revenues	12	468,910	441,783	2,052,962	1,672,016
Operating expenses	12,13	(407,608)	(362,466)	(1,603,739)	(1,299,545)
Gross operating income	12	61,302	79,317	449,223	372,471
General and administrative expenses		(30,850)	(27,067)	(102,203)	(95,020)
Operating income		30,452	52,250	347,020	277,451
Company's share in profit of affiliates, net	5	7,828	1,067	36,932	84,942
Financing charges		(13,013)	(12,758)	(52,161)	(77,669)
Other income, net	14	3,253	1,772	25,120	62,998
Profit before bunker subsidy, zakat, tax and minority interest		28,520	42,331	356,911	347,722
Bunker subsidy		35,032	23,214	108,168	83,212
Profit before zakat, tax and minority interest		63,552	65,545	465,079	430,934
Zakat provision	9	(8,480)	(7,413)	(34,624)	(32,627)
Tax provision	9	299	(121)	(1,094)	(1,963)
Profit before minority interest		55,371	58,011	429,361	396,344
Minority interest in consolidated subsidiaries' net profit	1	(3,862)	(3,443)	(18,333)	(27,044)
Net profit for the period / year		51,509	54,568	411,028	369,300
Earnings per share from operating income (SR)	2-t/8	0.10	0.16	1.10	0.88
Earnings per share from net profit (SR)	2-t/8	0.16	0.17	1.30	1.17

The accompanying notes from (1) to (16) 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
(In Thousands Saudi Riyals)

	Note	For the year ended December 31	
		2010 (Unaudited)	2009 (Audited)
Cash flows from operating activities:			
Net profit for the year		411,028	369,300
Adjustments to reconcile net profit to net cash provided by operating activities:			
Depreciation		327,603	296,070
Amortization of deferred charges		33,545	64,694
Unrealized gain on investments held for trading		(2,510)	(3,707)
Gain from investment - held to maturity		-	(3,008)
Company's share in dividends from investment held for trading		-	(197)
Company's share in profit of affiliates, net		(36,932)	(84,942)
Gains from sale of fixed assets		(91)	(30,489)
Net recovery against cancelled contracts		(15,389)	-
Minority interest in consolidated subsidiaries' net profit		18,333	27,044
Provision for zakat and tax		35,718	34,590
Reversal of excess zakat and withholding tax provision		-	(12,050)
Employees' end of service benefits provision		186	2,580
Changes in operating assets and liabilities:			
Trade receivables and other debit balances, net		15,197	(1,025)
Prepaid expenses		29,099	(2,060)
Bareboat lease receivable		5,925	4,826
Agents' current accounts, receivables		(1,774)	3,189
Inventories		(16,565)	(49,885)
Accrued bunker subsidy, net		(33,312)	18,719
Accounts payable and other credit balances		33,487	(89,325)
Agents' current accounts, payables		3,127	(2,866)
Zakat and tax paid		(25,112)	(90,840)
Incomplete voyages		(726)	(13,997)
Net cash provided by operating activities		780,837	436,621
Cash flows from investing activities:			
Investments in Murabaha and short-term deposits		(12,730)	25,192
Investment held to maturity		-	(30,000)
Investment available for sale		659	78,008
Investments in affiliates and other		-	(153)
Dividends from affiliates		3,511	25,509
Additions of fixed assets		(10,102)	(23,366)
Rebate received on ships delivered		2,714	-
Proceeds from sale of fixed assets		339	88,083
Ships under construction and other, net		438,086	(1,185,974)
Deferred charges		(22,540)	(1,142)
Net cash provided by (used in) investing activities		399,937	(1,023,843)
Cash flows from financing activities:			
Short-term Murabaha finance		-	(71,250)
Murabaha financing and long-term loans		140,000	1,637,295
Repayments against Murabaha financing and long-term loans		(759,785)	(809,625)
Dividends paid		(316,838)	(466,741)
Change in minority interest		80,000	-
Net cash (used in) provided by financing activities		(856,623)	289,679
Net change in cash and cash equivalents during the year		324,151	(297,543)
Cash and cash equivalents at beginning of the year		761,618	1,059,161
Cash and cash equivalents at end of the year	3	1,085,769	761,618
Non-cash items:			
Ships under construction transferred to fixed assets		-	1,859,413
Bareboat lease receivable against sale of fixed assets		-	429,725
Unrealized (gain) loss from available for sale investments		(497)	1,570

The accompanying notes from (1) to (16) 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 year ended December 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 December 31, 2010 and 2009.

The Company owns seventeen Very Large Crude Carriers (VLCCs), one of which is chartered to RWE Supply & Trading GmbH (A German Company), 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 are operating in a pool with NCC-Odfjell Chemical Tankers JLT, 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 22/06/1430H, corresponding to 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.

On August 28, 2010, the Company entered into an agreement with the Arabian Agricultural Services Company (ARASCO) to establish a new subsidiary “Al-Bahri Company for Bulk Transportation” for dry bulk transportation with a capital of SR 200 million of which 60% is owned by the Company and 40% by ARASCO. The full capital contributions have been made by the shareholders as of December 31, 2010. The new subsidiary is expected to commence its commercial operations in the year 2011.

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 year ended December 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 %
Al-Bahri Company for Bulk Transportation	Bulk transportation	Riyadh	2010	60%	-
<u>Non-consolidated affiliates:</u>					
Petreddec 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 accounting standards issued by the Saudi Organization for Certified Public Accountants (SOCPA) and under the historical cost convention, except for the investment in financial instruments and derivative financial instruments 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.

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

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.

e) Accounting for finance lease

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

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

f) 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.

g) 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. The Company's investment in an associate includes goodwill identified on acquisition, being the excess of the purchase price over the value of purchased net assets, net of any accumulated amortization and impairment losses, if any. Due to the timing difference between Petredec Ltd. fiscal year and the Company's fiscal year, the Company's share in Petredec Ltd. net 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.

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

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.

h) 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.

i) 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.

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

j) 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%	Other	From 7 to 15%

k) Impairment of non-current assets

Non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-current assets other than intangible assets that suffered impairment are reviewed for possible reversal of impairment at each reporting date. 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 assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the income statement. Impairment losses recognized on intangible assets are not reversible.

l) Employees' end of service benefits provision

Employees' end of service benefits provision is provided for on the basis of accumulated services period in accordance with the 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.

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

m) 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.

n) 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.

o) Expenses

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

p) Borrowing costs

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

q) 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.

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

r) 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.

s) Hedging reserve for loans commission

The Company uses commission rate swaps and caps agreements to hedge its long-term loans against fluctuations in market commission rates. Changes in the fair market value of the commission rate swaps that qualifies for hedge accounting 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.

t) 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 period. Dividends proposed after period 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.

u) Trade accounts receivables

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

v) 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 December 31, 2010 represent cash in hand and at banks, Murabaha and short-term deposits, out of which SR 0.03 million (2009: SR 0.43 million) are subject to bank restrictions for letters of guarantee issued for the DZIT and other parties.

It also includes SR 36.77 million as of December 31, 2010 (2009: SR 22.55 million) restricted for repayment of current portion of Murabaha financing and long-term loans maturing within 180 days from the balance sheet date.

The cash and cash equivalent balance of the subsidiaries as of December 31, 2010, does not include any restricted cash balances (2009: Mideast Ship Management Ltd amounting to SR 0.51 million and National Shipping Company of Saudi Arabia (America) Inc. amounting to SR 0.54 million).

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

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

	2010 <u>(Unaudited)</u>	2009 <u>(Audited)</u>
Cash in hand and at banks	109,133	78,545
Amounts restricted by banks	<u>(18,226)</u>	<u>(14,183)</u>
	90,907	64,362
Investment in Murabaha and short-term deposits	1,013,405	707,112
Amounts restricted by banks	<u>(18,543)</u>	<u>(9,856)</u>
	994,862	697,256
Cash and cash equivalents balance at the end of the year	<u>1,085,769</u>	<u>761,618</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 December 31 is summarized as follows:

Description	2010 <u>(Unaudited)</u>	2009 <u>(Audited)</u>
Future minimum lease payments	522,439	577,873
Un-guaranteed residual value at the end of lease term	247,875	247,875
Unearned income	<u>(351,340)</u>	<u>(400,849)</u>
Net bareboat lease receivable balance	<u>418,974</u>	<u>424,899</u>

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

Current	6,615	5,925
Non-current	<u>412,359</u>	<u>418,974</u>
Net bareboat lease receivable balance	<u>418,974</u>	<u>424,899</u>

Income related to the above arrangement for the year ended December 31, 2010 amounted to SR 49.5 million (2009: SR 45.9 million) and is included in the operating revenues.

5. INVESTMENTS IN AFFILIATES AND OTHER

Summary of the movement in investments in affiliates for the year ended December 31 is as follows:

	2010 <u>(Unaudited)</u>	2009 <u>(Audited)</u>
Investments in affiliates and other balance at the beginning of the year	418,519	358,933
Company's share in affiliates' net profit	36,932	84,942
Investment in a Joint Venture (Note 1)	-	153
Dividends received during the year	<u>(3,511)</u>	<u>(25,509)</u>
Investments in affiliates and other balance at the end of the year	<u>451,940</u>	<u>418,519</u>

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

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 USD 50 million).

The difference between the net investment value and the value of the net assets acquired of SR 119.18 million was considered as goodwill and is included as part of the carrying value of the investment.

Petredec financial year starts on September 1 and ends on August 31 of each Gregorian year. The Company's share in Petredec net profit amounted to SR 36.93 million up to October 31, 2010 (October 31, 2009: SR 84.94 million), 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 December 31, 2010 representing the Company's share in establishing and developing costs. The company is engaged to manufacture float glass and commenced operations in April 2009.

6. SHIPS UNDER CONSTRUCTION AND OTHER

At December 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 Company's new VLCCs, "Kahla", "Dorra", "Ghazal" & "Sahba" construction was completed on March 12, 2009, May 6, 2009, July 3, 2009 and September 25, 2009, respectively, which were deployed on the spot market on April 24, 2009, June 4, 2009, August 2, 2009 and October 6, 2009, respectively, and were transferred from ships under construction to fixed assets during 2009.

NCC signed a contract with SLS Shipbuilding Co. Ltd. ("SLS") of 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). These tankers are scheduled to be delivered during 2011 through 2012.

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

Also, NCC in May 2010 decided to cancel two new contracts signed with SLS in 2006 for building two tankers due to delay by SLS to deliver the tankers on the dates agreed in the contracts. Also, in September 2010 it was mutually agreed with SLS to cancel another five new ship building contracts, since SLS was not able to build the ships and deliver them within the period specified in the agreement. As of September 30, 2010, NCC collected all installments paid to SLS on all the cancelled contracts totaling to SR 641.3 million and, also recovered all other incidental costs, as mutually agreed between the parties, which resulted in net recovery made by NCC of approximately SR 15.4 million. Such net recovery was credited to other income during the three-month period ended September 30, 2010.

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

NCC signed contracts with SLC on December 21, 2010 to purchase two chemical tankers for total price of SR 322.5 million (USD 86 million) with expected delivery during 2011.

The Company received all VLCCs under construction and there are no capital commitments to shipyards related to the Company's VLCCs as of December 31, 2010 (2009: Nil). The Subsidiary's capital commitments for constructing chemical tankers amounted to SR 1.59 billion as of December 31, 2010 (2009: SR 1.68 billion).

7. MURABAHA FINANCING AND LONG-TERM LOANS

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

	2010 (Unaudited)	2009 (Audited)
Financing to the Company	2,313,763	2,482,388
Financing to the subsidiaries	1,829,425	2,280,585
Total Murabaha financing and long-term loans	4,143,188	4,762,973
Current portion of Murabaha financing and long-term loans	(324,648)	(246,793)
Non-current portion of Murabaha financing and long-term loans	3,818,540	4,516,180

Break down of Murabaha financing and long-term loans at December 31 is listed below:

2010 (Unaudited)						
Financing:	Parent Co.	%	Subsidiaries	%	Total	%
Murabaha Finance	907,016	39%	1,411,831	77%	2,318,847	56%
Commercial Loans	220,997	10%	---	---	220,997	5%
Public Investment Fund "Murabaha Finance"	1,050,000	45%	---	---	1,050,000	26%
Conventional Loans from Public Investment Fund	135,750	6%	417,594	23%	553,344	13%
TOTAL	2,313,763	100%	1,829,425	100%	4,143,188	100%

2009 (Audited)						
Financing:	Parent Co.	%	Subsidiaries	%	Total	%
Murabaha Finance	1,001,241	40%	1,844,835	81%	2,846,076	60%
Commercial Loans	257,897	10%	---	---	257,897	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	2,482,388	100%	2,280,585	100%	4,762,973	100%

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

8. EARNINGS PER SHARE AND DIVIDENDS

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

The General Assembly on April 03, 2010 approved dividends at the rate of 10% of the share capital equal to SR 315 million at SR 1.0 per share for 2009 and the distribution was completed on April 11, 2010. The balance of unclaimed dividends as of December 31, 2010 amounted to SR 27.35 million (2009: SR 29.19 million).

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

The earning per share from non-operating income is as follows:

<u>For the three-months ended December 31</u>		<u>For the year ended December 31</u>	
<u>2010 (Unaudited)</u>	<u>2009 (Unaudited)</u>	<u>2010 (Unaudited)</u>	<u>2009 (Audited)</u>
SR 0.06	SR 0.01	SR 0.20	SR 0.29

9. 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 2009 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 December 31, 2010 for any potential zakat and tax claims by DZIT for the concerned years.

Zakat and Tax status for the subsidiary (NCC)

NCC submitted the zakat returns for all fiscal years up to 2009 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 had filed appeals against some items in these assessments and their treatments. In April 2010, NCC reached an agreement for a final settlement of the above assessments in the amount of SR 53 million for the above-mentioned assessment years against which NCC maintains adequate provision for zakat and withholding tax at December 31, 2010.

Zakat returns are prepared separately for the Company and NCC.

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. 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.

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

12. SEGMENT INFORMATION

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

	2010 (Unaudited)		
	Operating revenues	Operating expenses	Gross operating income (loss)
Crude Oil Transportation	1,445,563	(1,074,111)	371,452
Petrochemical Transportation	269,882	(154,113)	115,769
General Cargo Transportation (Liner)	337,517	(375,515)	(37,998)
Bulk Transportation (See Note 1)	-	-	-
	<u>2,052,962</u>	<u>(1,603,739)</u>	<u>449,223</u>
	2009 (Audited)		
	Operating revenues	Operating expenses	Gross operating income (loss)
Crude Oil Transportation	1,040,228	(771,456)	268,772
Petrochemical Transportation	304,706	(152,892)	151,814
General Cargo Transportation (Liner)	327,082	(375,197)	(48,115)
Bulk Transportation (See Note 1)	-	-	-
	<u>1,672,016</u>	<u>(1,299,545)</u>	<u>372,471</u>

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

	2010 (Unaudited)					
	Crude Oil Transportation	Petrochemical Transportation	General Cargo Transportation (Liner)	Bulk Transportation	Shared Assets and Liabilities *	Total
Assets	5,533,731	2,953,276	193,750	200,000	1,078,468	9,959,225
Liabilities	2,463,409	1,910,196	62,737	-	148,590	4,584,932
	2009 (Audited)					
	Crude Oil Transportation	Petrochemical Transportation	General Cargo Transportation (Liner)	Bulk Transportation	Shared Assets and Liabilities *	Total
Assets	5,747,711	3,309,741	213,641	-	1,067,491	10,338,584
Liabilities	2,597,619	2,358,664	63,126	-	141,536	5,160,945

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

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

13. OPERATING EXPENSES REDUCTION

- a) In 2009, NCC reached an agreement on certain amendments to charter party agreements with a charterer with retrospective application. This resulted in reduction of operating expenses which was determined at SR 14.7 million for the year ended December 31, 2008 and was credited against operating expenses for the year ended December 31, 2009. Such reduction for the year ended December 31, 2010 amounted to SR 16.1 million (2009: SR 16.4 million) which was also credited against operating expenses for the year ended December 31, 2010 and 2009, respectively.
- b) NCC provided a provision for contingent liability in 2007 and 2008 for SR 13.5 million and SR 17 million, respectively related to potential Time Charter Hire Performance claims. During 2009, the total claim amount for the years 2006 through 2008 was mutually agreed with the charterer for SR 2.3 million resulting in excess provision of SR 28.2 million which was credited against operating expenses during the three-month period ended September 30, 2009.

14. OTHER INCOME, NET

Other income, net includes net recovery made of SR 15.4 million against cancelled ship building contracts (Note 6), SR 3.27 million representing income from investments in financial instruments and SR 5.34 million representing income from investments in Murabaha deposits for the year ended December 31, 2010 (2009: includes SR 30.5 million gain on sale of NCC three tankers: NCC Arar, NCC Asir & NCC Baha, SR 6.91 million representing income from investments in financial instruments, SR 12 million of reversed excess zakat and tax provision and SR 10.55 million representing income from investments in Murabaha deposits).

15. COMMITMENTS AND CONTINGENCIES

The Company has issued letters of guarantee of SR 77.6 million which includes a guarantee of SR 0.03 million in favor of the DZIT. These guarantees were issued against restricted cash, Murabaha and short-term deposits of SR 0.03 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.

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

16. RECLASSIFICATION

Certain amounts previously reported in 2009 interim consolidated financial statements, including goodwill of SR 119.18 million reclassified as part of the carrying value of the investment in affiliate, have been reclassified to conform to current period presentation.
