

**THE NATIONAL SHIPPING COMPANY
OF SAUDI ARABIA**
(A Saudi Joint Stock Company)
Consolidated Financial Statements
For the year ended December 31, 2009
**Together with the
Auditors' report**

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(A Saudi Joint Stock Company)
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INDEPENDENT AUDITORS' REPORT

February 21, 2010

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

We have audited the accompanying consolidated balance sheet of The National Shipping Company of Saudi Arabia, a Saudi Joint Stock Company, (the "Company") and subsidiaries (the "Group") as of December 31, 2009 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended, and the accompanying notes which form an integral part of the consolidated financial statements. These consolidated financial statements, which were prepared by the Company to comply with applicable articles of the Regulations for Companies and presented to us with all information and explanations which we required, are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

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

- Present fairly, in all material respects, the financial position of the Group as of December 31, 2009 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in Saudi Arabia appropriate to the circumstances of the Group; and
- Comply, in all material respects, with the requirements of the Regulations for Companies and the Company's Articles of Association with respect to the preparation and presentation of consolidated financial statements.

PricewaterhouseCoopers Al Juraid



By: _____
Rashid S. Al Rashoud
License Number 366

The National Shipping Company of Saudi Arabia

(A Saudi Joint Stock Company)

Consolidated Balance Sheet

As of December 31, 2009

(In Thousands Saudi Riyals)

ASSETS	Notes	2009	2008
Current assets:			
Cash in hand and at banks	3	78,545	225,545
Investments in Murabaha and short-term deposits	3/4	707,112	882,847
Trade receivables and other debit balances, net	5	182,431	181,406
Prepaid expenses		67,183	65,123
Bareboat lease receivable, net	6	5,925	---
Agents' current accounts, receivables		14,626	17,815
Inventories		116,801	66,916
Investment held to maturity		---	77,149
Investments held for trading		16,317	12,413
Accrued bunker subsidy, net	7	31,252	49,971
Incomplete voyages		6,613	---
Total current assets		1,226,805	1,579,185
Non-current assets:			
Investment in government bonds		604	604
Bareboat lease receivable, net	6	418,974	---
Investments held to maturity (Sukuk)		30,000	---
Investments available for sale		29,739	29,160
Investments in affiliates and other	8	299,342	239,756
Deferred charges, net	9	51,479	115,031
Fixed assets, net	10	6,730,766	5,631,376
Goodwill	8/A	119,177	119,177
Ships under construction and other	11	1,431,698	2,105,137
Total non-current assets		9,111,779	8,240,241
Total assets		10,338,584	9,819,426
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable and other credit balances	12	214,454	303,779
Current portion of Murabaha financing and long-term loans	13	246,793	225,362
Short-term Murabaha finance		---	71,250
Unclaimed dividends	22	29,189	23,430
Agents' current accounts, payables		569	3,435
Provision for zakat and tax	14	118,786	183,086
Incomplete voyages		---	7,384
Total current liabilities		609,791	817,726
Non-current liabilities:			
Murabaha financing and long-term loans	13	4,516,180	3,709,941
Obligation from fluctuations in swap fair market value for loans commission rates		3,530	5,024
Tax obligation provision	14	---	4,000
Employees' end of service benefits provision		31,444	28,864
Total non-current liabilities		4,551,154	3,747,829
Total liabilities		5,160,945	4,565,555
Equity:			
Shareholders' equity			
Paid-up share capital		3,150,000	3,150,000
Share premium	15	---	524,416
Statutory reserve	15	802,170	240,824
Retained earnings		1,037,273	1,177,403
Hedging reserve for loans commission	16	(3,530)	(5,024)
Unrealized gain from available for sale investments		1,607	3,177
Total shareholders' equity		4,987,520	5,090,796
Minority interest		190,119	163,075
Total equity		5,177,639	5,253,871
Total liabilities and equity		10,338,584	9,819,426

The accompanying notes from (1) to (27) form an integral part of these consolidated financial statements

The National Shipping Company of Saudi Arabia
(A Saudi Joint Stock Company)
Consolidated Income Statement
For the year ended December 31, 2009
(In Thousands Saudi Riyals)

	<u>Notes</u>	<u>2009</u>	<u>2008</u>
Operating revenues	17	1,672,016	2,594,530
Operating expenses	17/18/19	(1,299,545)	(1,633,882)
Gross operating income		372,471	960,648
General and administrative expenses	20	(95,020)	(105,718)
Operating income		277,451	854,930
Company's share in profit (loss) of affiliates, net	8	84,942	(3,840)
Financing charges	13	(77,669)	(105,833)
Other income (expense), net	21	62,998	(4,292)
Profit before bunker subsidy, zakat, tax, and minority interest		347,722	740,965
Bunker subsidy		83,212	72,859
Profit before zakat, tax, and minority interest		430,934	813,824
Zakat provision	14	(32,627)	(40,211)
Tax provision	14	(1,963)	(14,260)
Profit before minority interest		396,344	759,353
Minority interest in consolidated subsidiaries' net profit		(27,044)	(9,385)
Net profit for the year		369,300	749,968
Earnings per share from operating income (SR)	22	0.88	2.71
Earnings per share from net profit (SR)	22	1.17	2.38

The accompanying notes from (1) to (27) form an integral part of these consolidated financial statements

The National Shipping Company of Saudi Arabia

(A Saudi Joint Stock Company)

Consolidated Statement of Cash Flows

For the year ended December 31, 2009

(In Thousands of Saudi Riyals)

	<u>Notes</u>	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:			
Net profit for the year		369,300	749,968
Adjustments to reconcile net profit to net cash provided by operating activities:			
Depreciation	10	296,070	266,208
Amortization of deferred charges	9	64,694	66,443
Gain from investment - held to maturity		(3,008)	---
Company's share in dividends from investment held for trading		(197)	---
Impairment of investments in financial instruments		---	42,667
Unreleased gain on investments held for trading		(3,707)	---
Company's share in (profit) loss of affiliates, net	8	(84,942)	3,840
Gains from sale of fixed assets	21	(30,489)	(70)
Minority interest in consolidated subsidiaries' net profit		27,044	9,385
Provision for zakat and tax	14	34,590	54,471
Reversal of excess zakat and withholding tax provision	14	(12,050)	---
Employees' end of service benefits provision		2,580	1,862
Changes in operating assets and liabilities:			
Trade receivables and other debit balances, net		(1,025)	10,360
Prepaid expenses		(2,060)	(16,277)
Bareboat lease receivable		4,826	---
Agents' current accounts, receivables		3,189	(3,648)
Inventories		(49,885)	21,713
Accrued bunker subsidy, net		18,719	(8,119)
Accounts payable and other credit balances		(89,325)	(15,831)
Agents' current account, payables		(2,866)	676
Zakat and tax paid	14	(90,840)	(20,336)
Incomplete voyages		(13,997)	(21,021)
Net cash provided by operating activities		436,621	1,142,291
Cash flows from investing activities:			
Investments in Murabaha and short-term deposits		25,192	(23,655)
Investments in available for sale and held to maturity		48,008	(21,821)
Investments in affiliates and other		(153)	(10,000)
Dividends from affiliates	8	25,509	---
Additions of fixed assets	10	(23,366)	(28,374)
Proceeds from sale of fixed assets		88,083	371
Ships under construction and others	11	(1,185,974)	(2,078,126)
Deferred charges	9	(1,142)	(35,228)
Net cash used in investing activities		(1,023,843)	(2,196,833)
Cash flows from financing activities:			
Short-term Murabaha finance		(71,250)	71,250
Murabaha financing and long-term loans		1,637,295	1,720,746
Repayments against Murabaha financing and long-term loans		(809,625)	(219,583)
Dividends paid		(466,741)	(310,007)
Net cash provided by financing activities		289,679	1,262,406
Net change in cash and cash equivalents during the year		(297,543)	207,864
Cash and cash equivalents at beginning of the year		1,059,161	851,297
Cash and cash equivalents at end of the year	3	761,618	1,059,161
Non-cash items:			
Ships under construction transferred to fixed assets	10,11	1,859,413	1,235,076
Bareboat lease receivable against sale of fixed assets		429,725	---
Unrealized loss (gain) from available for sale investments		1,570	(1,059)

The accompanying notes from (1) to (27) form an integral part of these consolidated 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, 2009
(In Thousands Saudi Riyals)

	Paid-up capital	Share premium	Statutory reserve	Retained earnings	Hedging reserve	Unrealized gains (losses) from available for sale investments	Total
Balance at December 31, 2007	3,150,000	524,416	165,827	817,432	---	2,118	4,659,793
Net profit for the year	---	---	---	749,968	---	---	749,968
Statutory reserve	---	---	74,997	(74,997)	---	---	---
Hedging reserve for loans commission	---	---	---	---	(5,024)	---	(5,024)
Dividends	---	---	---	(315,000)	---	---	(315,000)
Unrealized gains from available for sale investments	---	---	---	---	---	1,059	1,059
Balance at December 31, 2008	3,150,000	524,416	240,824	1,177,403	(5,024)	3,177	5,090,796
Net profit for the year	---	---	---	369,300	---	---	369,300
Statutory reserve	---	---	36,930	(36,930)	---	---	---
Transfer of share premium to statutory reserve (Note 15)	---	(524,416)	524,416	---	---	---	---
Hedging reserve for loans commission	---	---	---	---	1,494	---	1,494
Dividends	---	---	---	(472,500)	---	---	(472,500)
Unrealized loss from available for sale investments	---	---	---	---	---	(1,570)	(1,570)
Balance at December 31, 2009	3,150,000	---	802,170	1,037,273	(3,530)	1,607	4,987,520

The accompanying notes from (1) to (27) form an integral part of these consolidated financial statements

The National Shipping Company of Saudi Arabia
(A Saudi Joint Stock Company)
Notes To The Consolidated Financial Statements
For the year ended December 31, 2009
(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 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, 2009 and 2008.

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 6), three were directly chartered to “Odfjell” Company for the first six months of 2009 and are operating in a pool with Odfjell tanker for the second half of 2009, 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 will commence operations in the beginning of 2010 with 15 vessels with total capacity of approximately 660,000 tons, which is expected to grow to 31 vessels with 1.4 million tons over the next three years. As of December 31, 2009, the Subsidiary contributed SR 153 thousand representing 50% of its ownership interest in the equity of the Joint Venture and also advanced a loan of SR 514 thousand repayable by July 15, 2010. Such loan carries no commission charges. The first financial period of the Joint Venture is from the date of its establishment (December 22, 2009) to December 31, 2010.

Also in January 2009, the Subsidiary sold three of its old tankers (see Note 21).

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

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<u>Name</u>	<u>Activity</u>	<u>Location</u>	<u>Date of incorporation</u>	<u>Ownership %2009</u>	<u>Ownership %2008</u>
<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>					
Petredec 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 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.

b) Period of financial statements

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

c) Basis of Consolidation

For the purpose of consolidating accounts, inter-company transactions and balances are eliminated in the consolidation process. 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 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.

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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 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. 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 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 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 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 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 consolidated income

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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 consolidated income statement.

i) 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 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.

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%	Others	From 7 to 15%

k) 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.

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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 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 consolidated 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.

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 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 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 consolidated income statement.

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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 2009 and 2008, are recognized in the 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 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.

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 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 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 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 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 year.

u) Trade accounts receivables

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

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2009 represent cash in hand and at banks, Murabaha and short-term deposits, out of which SR 0.43 million (2008: SR 5.84 million) are subject to bank restrictions for letters of guarantee issued for the DZIT and other parties.

It also includes SR 22.55 million as of December 31, 2009 (2008: SR 42.36 million) restricted for repayment of current portion of Murabaha financing and long-term loans maturing within 180 days from the balance sheet date.

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It also includes restricted bank balances in Mideast Ship Management Ltd. amounting to SR 0.51 million as of December 31, 2009 (2008: SR 0.48 million), and in National Shipping Company of Saudi Arabia (America) Inc. amounting to SR 0.54 million as of December 31, 2009 (2008: SR 0.54 million).

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

	2009	2008
Cash in hand and at banks	<u>78,545</u>	<u>225,545</u>
Amounts restricted by banks	<u>(14,183)</u>	<u>(17,905)</u>
	<u>64,362</u>	<u>207,640</u>
Investment in Murabaha and short-term deposits	<u>707,112</u>	<u>882,847</u>
Amounts restricted by banks	<u>(9,856)</u>	<u>(31,326)</u>
	<u>697,256</u>	<u>851,521</u>
	<u>761,618</u>	<u>1,059,161</u>

4. INVESTMENTS IN MURABAHA AND SHORT-TERM DEPOSITS

Investments in Murabaha and short-term deposits at December 31 comprise the following:

	2009	2008
Investments in Murabaha and short-term deposits in Saudi riyals	<u>455,130</u>	<u>437,020</u>
Investments in Murabaha and short-term deposits in USD	<u>246,504</u>	<u>441,740</u>
Investments in Murabaha and short-term deposits in EURO	<u>5,478</u>	<u>4,087</u>
	<u>707,112</u>	<u>882,847</u>

5. TRADE RECEIVABLES AND OTHER DEBIT BALANCES, NET

Trade receivables and other debit balances, net at December 31 comprise the following:

	2009	2008
Trade receivables	<u>150,987</u>	<u>98,622</u>
Insurance claims	<u>27,894</u>	<u>25,978</u>
Other debit balances	<u>21,787</u>	<u>78,708</u>
	<u>200,668</u>	<u>203,308</u>
Provision for doubtful debts	<u>(18,237)</u>	<u>(21,902)</u>
	<u>182,431</u>	<u>181,406</u>

Movement in provision for doubtful debts is as follows:

	2009	2008
Balance at beginning of the year	<u>21,902</u>	<u>10,118</u>
Additions	<u>719</u>	<u>12,993</u>
Write-offs	<u>(4,384)</u>	<u>(1,209)</u>
Balance at end of the year	<u>18,237</u>	<u>21,902</u>

6. 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, 2009 is summarized as follows:

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Description	Amount
Future minimum lease payments	577,873
Un-guaranteed residual value at the end of lease term	247,875
Unearned income	(400,849)
Net bareboat lease receivable balance	<u>424,899</u>

The above amount is classified at December 31, 2009 as under:

Description	Amount
Current	5,925
Non-current	418,974
Net bareboat lease receivable balance	<u>424,899</u>

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

Year ending December 31

2010	55,434
2011	55,435
2012	55,586
2013	57,313
2014	61,245
Thereafter	<u>540,735</u>
	<u>825,748</u>

Income related to the above arrangement for the year ended December 31, 2009 amounted to SR 45.9 million (2008: Nil) and is included in the operating revenue in the accompanying consolidated income statement.

7. ACCRUED BUNKER SUBSIDY, NET

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

	2009	2008
Accrued bunker subsidy	<u>61,719</u>	<u>69,853</u>
Provision for doubtful bunker subsidy	<u>(30,467)</u>	<u>(19,882)</u>
	<u>31,252</u>	<u>49,971</u>

Net provision made during the year amounted to SR 10.6 million (2008: SR 8.4 million).

8. INVESTMENTS IN AFFILIATES AND OTHER

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

	2009	2008
Investments balance at the beginning of the year	<u>239,756</u>	<u>233,596</u>
Company's share in affiliates' profit (loss)	84,942	(3,840)
Investment in the Arabian United Float Glass Company	---	10,000
Investment in a Joint Venture (Note 1)	153	---
Dividends received during the year	<u>(25,509)</u>	<u>---</u>
	<u>299,342</u>	<u>239,756</u>

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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 84.94 million up to October 31, 2009 (October 31, 2008: SR 3.84 million net loss), which was included in the 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 founder 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 2,000,000 shares representing 10% of the share capital. Also, an amount of SR 1.2 million was paid until December 31, 2009 representing the Company's share in establishing and developing costs.

9. DEFERRED CHARGES, NET

Deferred charges, net at December 31 comprise the following:

	2009	2008
Total dry-docking cost	182,525	181,404
Accumulated amortization expenses	(131,137)	(66,443)
Dry-docking cost – net	51,388	114,961
Deferred tax benefits	91	70
	51,479	115,031

Movement in the dry-docking cost is as follows:

	2009	2008
Beginning of the year	114,961	146,196
Additional dry-docking cost	1,121	35,208
Amortization expenses	(64,694)	(66,443)
End of the year	51,388	114,961

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10. FIXED ASSETS, NET

Movement in fixed assets during the year 2009 was as follows:

<u>Particulars</u>	<u>Cost</u>			<u>Accumulated Depreciation</u>				<u>Net Book Value</u>		<u>Depreciation Rate %</u>	
	<u>Balance at 01.01.2009</u>	<u>Additions during the year</u>	<u>Disposals</u>	<u>Balance at 31.12.2009</u>	<u>Balance at 01.01.2009</u>	<u>Charged for the year</u>	<u>Disposals</u>	<u>Balance at 31.12.2009</u>	<u>31.12.2009</u>		<u>31.12.2008</u>
Land	13,593	---	---	13,593	--	--	--	--	13,593	13,593	--
Buildings and improvements	4,878	37	---	4,915	(3,046)	(236)	--	(3,282)	1,633	1,832	5 - 33.3%
Fleet and equipment *	8,436,306	1,880,582	(1,167,950)	9,148,938	(2,837,253)	(289,318)	681,397	(2,445,174)	6,703,764	5,599,053	4 - 15%
Containers and trailers	56,558	---	(1,221)	55,337	(47,043)	(3,985)	1,120	(49,908)	5,429	9,515	8.33 - 20%
Furniture and fixtures	5,169	331	(9)	5,491	(4,454)	(218)	7	(4,665)	826	715	10%
Tools and office equipment	4,190	212	(62)	4,340	(3,681)	(154)	---	(3,835)	505	509	2.5 - 25%
Motor vehicles	1,348	194	--	1,542	(973)	(244)	---	(1,217)	325	375	20 - 25%
Computers equipment	41,144	517	(762)	40,899	(36,994)	(1,714)	161	(38,547)	2,352	4,150	15 - 25%
Container yard	10,734	861	---	11,595	(10,173)	(191)	--	(10,364)	1,231	561	10 - 25%
Others	1,483	45	---	1,528	(410)	(10)	--	(420)	1,108	1,073	7 - 15%
Total	8,575,403	1,882,779	(1,170,004)	9,288,178	(2,944,027)	(296,070)	682,685	(2,557,412)	6,730,766	5,631,376	

* Fleet and equipment above includes VLCCs and petrochemical carriers financed by bank financing and mortgaged in favor of lending banks as mentioned in Note 13.

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11. SHIPS UNDER CONSTRUCTION AND OTHERS

The Company signed during October 2006 two contracts with Hyundai Samho Heavy Industries Company Ltd. to construct six VLCCs with a total cost of SR 2.7 billion (USD 719.8 million). The Company received all VLCCs of which two VLCCs were received in 2008 and remaining four VLCCs, “Kahla”, “Dorra”, “Ghazal” & “Sahba” were received in 2009 on March 12, 2009, May 06, 2009, July 3, 2009 and September 25, 2009, respectively, and deployed in the spot market on April 24, 2009, June 4, 2009, August 2, 2009 and October 6, 2009, respectively, and were transferred from the ships under construction to fixed assets during 2009.

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 incurred as of December 31, 2009. These tankers are scheduled to be delivered during 2010 through 2012.

Also, the National Chemical Carriers Ltd Co. received two new chemical tankers in the first half of 2008 which were deployed for chemical transportation. These tankers were part of above contracts.

The following table presents cost incurred towards ships under construction and others as of December 31:

	<u>2009</u>	<u>2008</u>
The Company	9,020	1,008,269
Mideast Ship Management Ltd.	28,863	27,534
The National Chemical Carriers Ltd Co.	<u>1,393,815</u>	<u>1,069,334</u>
	<u><u>1,431,698</u></u>	<u><u>2,105,137</u></u>

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

	<u>2009</u>	<u>2008</u>
Balance, beginning of the year	<u>2,105,137</u>	<u>1,262,087</u>
Additions	1,185,974	2,078,126
Transfers to fixed assets	<u>(1,859,413)</u>	<u>(1,235,076)</u>
Balance, end of the year	<u><u>1,431,698</u></u>	<u><u>2,105,137</u></u>

The balance of ships under construction and others includes SR 1.66 million as of December 31, 2009 (2008: SR 1.66 million) which represents amounts incurred for the construction of the Company’s new building.

The Company received all VLCCs under construction and there are no capital commitments to shipyards related to VLCCs as of December 31, 2009 (2008: SR 0.81 billion). The National Chemical Carriers Ltd Co. capital commitments for constructing chemical tankers amounted to SR 1.68 billion as of December 31, 2009 (2008: SR 1.98 billion). Capital commitments related to a new office in Dubai for Mideast Ship Management Ltd. amounted to SR 4.48 million as of December 31, 2009 (2008: SR 4.48 million). The capitalized portion of financial charges related to financing granted for the construction of carriers and new office in Dubai during the year 2009 amounted to SR 23.13 million (2008: SR 57.8 million).

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12. ACCOUNTS PAYABLE AND OTHER CREDIT BALANCES

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

	2009	2008
Trade payables	<u>22,567</u>	<u>37,153</u>
Accrued operating expenses	<u>113,582</u>	<u>173,031</u>
Accrued insurance expenses	<u>23,874</u>	<u>23,270</u>
Accrued finance charges	<u>12,435</u>	<u>25,295</u>
Other credit balances	<u>41,996</u>	<u>45,030</u>
	<u>214,454</u>	<u>303,779</u>

13. 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 December 31 comprises the following:

	2009	2008
Financing to the Company	<u>2,482,388</u>	<u>1,864,714</u>
Financing to the subsidiaries	<u>2,280,585</u>	<u>2,070,589</u>
Total Murabaha financing and long-term loans	<u>4,762,973</u>	<u>3,935,303</u>
Current portion of Murabaha financing and long-term loans	<u>(246,793)</u>	<u>(225,362)</u>
Non-current portion of Murabaha financing and long-term loans	<u>4,516,180</u>	<u>3,709,941</u>

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

2009						
Financing:	<u>Parent Co.</u>	<u>%</u>	<u>Subsidiaries</u>	<u>%</u>	<u>Total</u>	<u>%</u>
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	<u>2,482,388</u>	<u>100%</u>	<u>2,280,585</u>	<u>100%</u>	<u>4,762,973</u>	<u>100%</u>

2008						
Financing:	<u>Parent Co.</u>	<u>%</u>	<u>Subsidiaries</u>	<u>%</u>	<u>Total</u>	<u>%</u>
Murabaha Finance	1,359,167	73%	1,634,839	79%	2,994,006	76%
Commercial Loans	294,797	16%	---	---	294,797	8%
Conventional Loans from Public Investment Fund	210,750	11%	435,750	21%	646,500	16%
TOTAL	<u>1,864,714</u>	<u>100%</u>	<u>2,070,589</u>	<u>100%</u>	<u>3,935,303</u>	<u>100%</u>

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

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The aggregate maturities of the outstanding Murabaha financing and long-term loans at December 31, 2009, are as follows:

2010	246,793
2011	427,540
2012	577,546
2013	529,586
2014	526,740
Thereafter	2,454,768
	<u>4,762,973</u>

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

The total Murabaha financing and long-term loans facilities of the Company and its subsidiaries amounted to SR 6.13 billion out of which SR 1.37 billion remained unutilized at December 31, 2009 relating to NCC.

Total financing charges on Murabaha financing and long-term loans amounted to SR 100.8 million for the year 2009 (2008: SR 163.64 million), out of which SR 48.31 million related to the subsidiary (NCC) (2008: SR 90.41 million) and SR 1.33 million related to the subsidiary, Mideast Ship Management Ltd., (2008: SR 1.4 million). Financing charges related to financing of VLCCs, petrochemical carriers and new office for a sum of SR 23.13 million (2008: SR 57.8 million) were capitalized, see Note 11.

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

The Company had appealed zakat assessments issued by DZIT for the years 1989 up to 2000 and the tax assessments for the years 1996 up to 2000. Higher Appeal Committee issued decisions number (924,925,926,927,928) in the year 1430H and the Company received the final amended assessments issued by DZIT in accordance with the said decisions. The Company had previously established provision against these appeals in the amount of SR 50.5 million, whereas the final amended assessments by the DZIT amounted to only SR 38.5 million which was paid in full and resulted in excess provision of SR 12 million which was written-back to other income during 2009.

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Zakat and Tax status for the subsidiary (NCC)

NCC submitted the zakat returns for all fiscal years up to 2007 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 consolidated financial statements. NCC is of the opinion that adequate provision for zakat and withholding tax is maintained as of December 31, 2009.

Zakat returns are prepared separately for the Company and NCC.

Provision for zakat and tax

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

	2009	2008
Balance at beginning of the year	187,086	152,951
Amounts paid during the year	(90,840)	(20,336)
Reversal of excess zakat and withholding tax provision	(12,050)	---
Provisions:		
- Zakat	32,627	40,211
- Withholding tax	3,550	14,260
- Income tax (benefit)	(1,587)	-
Total zakat and tax provision	118,786	187,086
Tax obligation – non current	-	(4,000)
Provision for zakat and tax	118,786	183,086

15. 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.

16. 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.

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17. SEGMENT INFORMATION

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

	2009		
	Operating revenue	Operating expenses	Gross operating income
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)
	1,672,016	(1,299,545)	372,471

	2008		
	Operating revenue	Operating expenses	Gross operating income
Crude Oil Transportation	1,352,448	(666,829)	685,619
Petrochemical Transportation	618,937	(502,843)	116,094
General Cargo Transportation (Liner)	623,145	(464,210)	158,935
	2,594,530	(1,633,882)	960,648

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 :

	2009				
	Crude Oil Transportation	Petrochemical Transportation	General Cargo Transportation (Liner)	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

	2008				
	Crude Oil Transportation	Petrochemical Transportation	General Cargo Transportation (Liner)	Shared Assets and Liabilities *	Total
Assets	5,032,373	3,072,196	292,065	1,422,792	9,819,426
Liabilities	1,995,025	2,256,403	99,804	214,323	4,565,555

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

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18. OPERATING EXPENSES

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

	<u>2009</u>	<u>2008</u>
Bunker consumption	395,986	539,592
Vessel related expenses	310,012	414,437
Cargo related expenses	123,397	172,407
Voyage related expenses	115,388	170,061
Depreciation and amortization	344,525	324,562
Others	10,237	12,823
	<u>1,299,545</u>	<u>1,633,882</u>

19. OPERATING EXPENSES REDUCTION

- a) NCC reached an agreement on certain amendments to charter party agreements with a charterer with retrospective application. This resulted in a reduction of operating expenses. Total reduction in operating expenses was determined at SR 14.71 million for the period from January 1, 2008 to December 31, 2008 and SR 16.43 million for the period January 1, 2009 to December 31, 2009. These amounts related to 2008 and 2009 were reversed against the operating expenses for the year ended December 31, 2009.
- b) NCC provided a provision for contingent liability in 2007 and 2008 for SR 13.5 million and SR 17.0 million, respectively, related to potential Time Charter Hire Performance claims. During 2009 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 year ended December 31, 2009.

20. GENERAL AND ADMINISTRATIVE EXPENSES

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

	<u>2009</u>	<u>2008</u>
Employees' costs	73,525	82,042
Other general and administrative expenses	15,651	19,335
Depreciation	1,948	1,298
Boards of Directors expenses for the Company and its subsidiaries	3,896	3,043
	<u>95,020</u>	<u>105,718</u>

21. OTHER INCOME (EXPENSE), NET

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

	<u>2009</u>	<u>2008</u>
Income from Murabaha and short-term deposits	10,552	27,976
Income (losses) from investments, net*	6,912	(32,629)
Bank commissions and amortization of government bonds' premium	22	902
Gains on sale of fixed assets	30,489	70
Reversal of excess zakat and withholding tax provision (Note 14)	12,050	---
Foreign currency exchange differences	997	(1,850)
Others	1,976	1,239
	<u>62,998</u>	<u>(4,292)</u>

* In 2008 losses from investments available for sale include SR 43 million representing an impairment loss in the value of the investment portfolio.

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22. EARNINGS PER SHARE AND DIVIDENDS

Earnings per share was calculated based on the number of shares outstanding during the years ended December 31, 2009 and 2008 totaling to 315 million shares.

The Board of Directors, in its meeting held on 01/12/1429H (November 29, 2008), proposed to the General Assembly for the approval of dividends at rate of 15% of capital equal to SR 1.5 per share for 2008.

The General Assembly approved the dividends on March 30, 2009 and the distribution was completed on April 14, 2009. The balance of unclaimed dividends as of December 31, 2009 amounted to SR 29.19 million.

The earning per share from non-operating income is SR 0.29 for 2009 (2008: loss per share of SR 0.33).

23. CONSOLIDATION OF SUBSIDIARIES

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

	2009			
	<u>Total assets</u>	<u>Total liabilities</u>	<u>Gross operating income</u>	<u>Net (loss) profit</u>
NSCSA (America) Inc.	16,465	(7,665)	15,712	(2,402)
Mideast Ship Management Ltd.	50,626	(34,578)	37,086	4,716
National Chemical Carriers Ltd Co.	3,309,582	(2,358,988)	151,814	135,221
	2008			
	<u>Total assets</u>	<u>Total liabilities</u>	<u>Gross operating income</u>	<u>Net profit (loss)</u>
NSCSA (America) Inc.	20,811	(9,609)	29,066	3,625
Mideast Ship Management Ltd.	50,992	(39,658)	22,542	(7,976)
National Chemical Carriers Ltd Co.	3,071,264	(2,255,890)	116,094	46,927

24. 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 14. These guarantees were issued against restricted cash, Murabaha, and short-term deposits of SR 0.43 million.

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 14 for zakat contingencies.

In addition, refer to Note 11 in relation to future capital commitments to build chemical carriers and office building.

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25. RECLASSIFICATION

Certain amounts previously reported in 2008 consolidated financial statements have been reclassified to conform to current year presentation, which principally relate to capital work in progress for buildings and improvements reclassified from fixed assets to “ships under construction and others” amounting to SR 27.5 million.

26. SUBSEQUENT EVENTS

The Board of Directors of the Company in its meeting held on January 18, 2010, proposed to the General Assembly for the approval of dividends amounting to SR 315 million for the financial year ended December 31, 2009 at one Saudi riyal per share, to be distributed to shareholders who are registered in Tadawul at the end of trading on the day of General Assembly. The date of General Assembly session will be announced later.

27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

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

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

Credit risk

Credit risk is the risk that counterparties do not meet their obligations, so the other party incurs a financial loss. At the balance sheet date, there was no significant concentration of credit risk. The Company and its subsidiaries maintains its cash with high credit rated banks. Receivables are carried net of provision for doubtful debts.

Commission rate exposure

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

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Currency risk

This relates to the risk of change in the value of financial instruments due to change in foreign currency rates. The Company's and subsidiaries' transactions are mainly in Saudi riyals, UAE Dirhams and US dollars. Management monitors the currency rate changes and believes that the impact of currency rate changes is not significant.

Price risk

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

Liquidity risk

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

Fair Value

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