

**THE NATIONAL SHIPPING COMPANY
OF SAUDI ARABIA**
(A Saudi Joint Stock Company)
Consolidated Financial Statements
For the year ended December 31, 2008
**Together with the
Auditors' report**

THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA
(A Saudi Joint Stock Company)
Consolidated Financial Statements
For the year ended December 31, 2008
Together with the Auditors' report

<u>Contents</u>	<u>Page</u>
Auditors' report	1
Consolidated balance sheet	2
Consolidated statement of income	3
Consolidated statement of changes in shareholders equity	4
Consolidated statement of cash flows	5
Notes to the consolidated financial statements	6-21

INDEPENDENT AUDITORS' REPORT

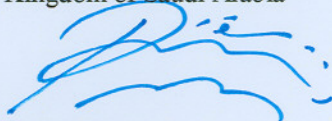
**To: THE SHAREHOLDERS OF
THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA
(A Saudi Joint Stock Company)
Riyadh, Saudi Arabia**

We have audited the accompanying consolidated balance sheet of The National Shipping Company of Saudi Arabia "A Saudi Joint Stock Company" (the Company) as of December 31, 2008, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended, and the accompanying notes which form an integral part of these consolidated financial statements. These consolidated financial statements are the responsibility of the Company's management and have been prepared in accordance with the provisions of the Regulations for Companies and presented to us together with all the necessary information and explanations which we required. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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 standards 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 consolidated financial position of the Company as of December 31, 2008 and the consolidated results of its operations, the changes in shareholders' equity and its cash flows for the year then ended in conformity with accounting generally accepted accounting standards in Saudi Arabia appropriate to the nature of the Company; and comply, with the relevant provisions of the Regulations for Companies and the Company's Articles of Association with respect to the preparation and presentation of these consolidated financial statements.

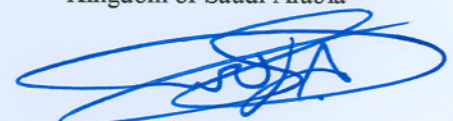
PricewaterhouseCoopers Al-Juraid
P. O. Box 8282
Riyadh 11482
Kingdom of Saudi Arabia



Rashid S. Al-Rashoud
License No. 366



Dr. M. Al-Amri & Co.
P. O. Box 8736
Riyadh 11492
Kingdom of Saudi Arabia



Gihad M. Al-Amri
License No. 362



Safar 27, 1430 H
February 22, 2009 G

The National Shipping Company of Saudi Arabia
(A Saudi Joint Stock Company)
CONSOLIDATED BALANCE SHEET
As of December 31, 2008
(In Thousands Saudi Riyals)

ASSETS	Notes	2008	2007
Current assets:			
Cash in hand and at banks	3	225,545	190,481
Investments in Murabaha and short-term deposits	4	882,847	686,392
Trade receivables and other debit balances, net	5	181,406	191,766
Prepaid expenses		65,123	48,846
Agents' current accounts, receivables		17,815	14,167
Inventories		66,916	88,629
Investments held to maturity	6	77,149	---
Investments held for trading	6	12,413	---
Investments in available for sale	6	---	138,509
Accrued bunker subsidy, net	7	49,971	41,852
Total current assets		1,579,185	1,400,642
Non-current assets:			
Investment in government development bonds		604	604
Investments available for sale		29,160	---
Investments in affiliates and other	8	239,756	233,595
Deferred charges, net	9	115,031	146,246
Fixed assets, net	10	5,658,910	4,634,435
Goodwill	8/A	119,177	119,177
Ships under construction and others	11	2,077,603	1,262,087
Total non-current assets		8,240,241	6,396,144
Total assets		9,819,426	7,796,786
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable and other credit balances	12	303,779	319,610
Current portion of Murabaha financing and long-term loans	13	225,362	204,849
Short-term loan		71,250	---
Unclaimed dividends	21	23,430	18,437
Agents' current accounts, payables		3,435	2,759
Provision for zakat and tax	14	183,086	142,951
Incomplete voyages		7,384	28,405
Total current liabilities		817,726	717,011
Non-current liabilities:			
Murabaha financing and long-term loans	13	3,709,941	2,229,291
Obligation from fluctuations in swaps fair market value for loan commission rates		5,024	---
Tax obligation provision	14	4,000	10,000
End of service benefits provision		28,864	27,002
Total non-current liabilities		3,747,829	2,266,293
Total liabilities		4,565,555	2,983,304
Equity:			
Shareholders' equity			
Paid-up capital		3,150,000	3,150,000
Share premium		524,416	524,416
Statutory reserve	15	240,824	165,827
Retained earnings		1,177,403	817,432
Hedging reserve for loans commission	16	(5,024)	---
Unrealized gain from investments in –financial instruments	6	3,177	2,118
Total shareholders' equity		5,090,796	4,659,793
Minority interest		163,075	153,689
Total equity		5,253,871	4,813,482
Total liabilities and equity		9,819,426	7,796,786

The accompanying notes from (1) to (26) form an integral part of these consolidated financial statements

The National Shipping Company of Saudi Arabia
(A Saudi Joint Stock Company)
Consolidated Statement of Income
For the year ended December 31, 2008
(In Thousands Saudi Riyals)

	<u>Notes</u>	<u>2008</u>	<u>2007</u>
Operating revenues	17	2,594,530	1,703,294
Operating expenses	17/18	(1,633,882)	(1,251,958)
Gross operating income		960,648	451,336
General and administrative expenses	19	(105,718)	(87,301)
Operating income		854,930	364,035
Company's share in (loss) profit of affiliates, net	8	(3,840)	81,210
Other (expense) income, net	20	(4,292)	71,648
Financing charges	13	(105,833)	(128,110)
Profit before bunker subsidy, zakat, tax, and minority interest		740,965	388,783
Bunker subsidy		72,859	56,640
Profit before zakat, tax, and minority interest		813,824	445,423
Zakat provision	14	(40,211)	(12,224)
Tax provision	14	(14,260)	(6,195)
Profit before minority interest		759,353	427,004
Minority interest in consolidated subsidiaries' net profit		(9,385)	(4,428)
Net profit for the year		749,968	422,576
Earnings per share from operating income (SR)	21	2.71	1.28
Earnings per share from net profit for the year (SR)	21	2.38	1.48

The accompanying notes from (1) to (26) form an integral part of these consolidated financial statements

The National Shipping Company of Saudi Arabia
(A Saudi Joint Stock Company)
Consolidated Statement of Changes in Shareholders Equity
For the year ended December 31, 2008
(In Thousands Saudi Riyals)

	Paid-up Capital	Share premium	Statutory reserve	Retained earnings	Hedging reserve	Unrealised gains (losses) from investments in securities	Total
Balance at December 31, 2006	2,250,000	---	123,569	662,114	---	(31,064)	3,004,619
Increase in paid-up capital	900,000	---	---	---	---	---	900,000
Share premium	---	524,416	---	---	---	---	524,416
Net profit for the year	---	---	---	422,576	---	---	422,576
Statutory reserve	---	---	42,258	(42,258)	---	---	---
Dividends	---	---	---	(225,000)	---	---	(225,000)
Unrealised gains from investments available-for-sale	---	---	---	---	---	33,182	33,182
Balance at December 31, 2007	3,150,000	524,516	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)
Unrealised gains from investments in financial instruments	---	---	---	---	---	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

The accompanying notes from (1) to (26) 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, 2008

(In Thousands of Saudi Riyals)

	<u>Note</u>	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:			
Net profit for the year		749,968	422,576
Adjustments to reconcile net profit to net cash provided by operating activities:			
Depreciation		266,208	220,773
Amortization of deferred charges	9	66,443	49,112
Impairment of investments in financial instruments		42,667	----
Company's share in (loss) profit of affiliates, net	8	3,840	(81,210)
Gains from sale of fixed assets	20	(70)	(34,221)
Minority interest in consolidated subsidiaries' net profit		9,385	4,428
Provision for zakat and tax	14	54,471	18,419
End of service benefits provision		1,862	4,390
Changes in operating assets and liabilities:			
Trade receivables and other debit balances, net		10,360	(54,673)
Prepaid expenses		(16,277)	(10,852)
Agents' current accounts, receivables		(3,648)	(7,586)
Inventories		21,713	(46,419)
Accrued bunker subsidy, net		(8,119)	(19,079)
Accounts payable and other credit balances		(15,831)	55,503
Agents' current account, payables		676	2,137
Zakat and tax paid		(20,336)	(22,593)
Incomplete voyages		(21,021)	16,572
Net cash provided by operating activities		<u>1,142,291</u>	<u>517,277</u>
Cash flows from investing activities:			
Investments in Murabaha and short-term deposits		(23,655)	68,020
Investments available-for-sale		(21,821)	(40,700)
Investments in affiliates and other		(10,000)	14,752
Dividends from affiliates		---	14,966
Additions of fixed assets		(28,374)	(51,115)
Proceeds from sale of fixed assets		371	43,437
Ships under construction and others		(2,078,126)	(1,053,224)
Deferred charges		(35,228)	(90,319)
Net cash used in investing activities		<u>(2,196,833)</u>	<u>(1,094,183)</u>
Cash flows from financing activities:			
Murabaha financing and long-term loans		1,572,413	62,290
Increase in paid-up capital		---	900,000
Share premium		---	524,416
Dividends paid		(310,007)	(221,640)
Net cash provided by financing activities		<u>1,262,406</u>	<u>1,265,066</u>
Net change in cash and cash equivalents during the year		207,864	688,160
Cash and cash equivalents at beginning of the year		851,297	163,137
Cash and cash equivalents at end of the year	3	<u>1,059,161</u>	<u>851,297</u>
Non-cash items:			
Ships under construction transferred to fixed assets		<u>1,262,610</u>	<u>1,162,565</u>
Unrealized gains from investments in securities		(1,059)	(33,182)

The accompanying notes from (1) to (26) 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, 2008
(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, 2008 and 2007.

The Company owns thirteen Very Large Crude Carriers (VLCCs), three of which are chartered to Vela International Marine Limited, a subsidiary of Saudi Aramco, two are chartered to Euronav Company, one is chartered to Hanjin Company (A Korean Company) and seven are operated in spot market which include two new VLCCs, namely “Jana” and “Habari” received on September 3, 2008 and October 14, 2008 respectively. 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 Company Ltd “Subsidiary” owns sixteen chemical tankers, out of which six are operated under a pooling agreement with Odfjell Sachems Company (The pool Manager) and three directly chartered to Odfjell Sachems Company, six are chartered to Saudi Company for Basic Industries “SABIC”, and one tanker is chartered out to SEPCHEM Company.

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:

<u>Name</u>	<u>Activity</u>	<u>Location</u>	<u>Date of incorporation</u>	<u>Ownership %2008</u>	<u>Ownership %2007</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. (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%

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

2. SIGNIFICANT ACCOUNTING POLICIES

a) *Accounting convention*

The 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 investments in affiliated companies, held for trading and available-for-sale. The Company applies the accrual basis of accounting in recognizing revenues and expenses and on the assumption of the going concern concept.

b) *Period of financial statements*

According to the Company's Articles of Association, the fiscal year of the Company starts on the 1st of January and ends on December 31st of each Gregorian year.

c) *Consolidated financial statements*

For the purpose of consolidating accounts, the intercompany transactions and balances were eliminated in the consolidated financial statements. Minority interest of the third party (other partners of the Company in the subsidiaries) have also been 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) *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, 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 without any restrictions.

f) *Investments*

1- Investments in affiliates and others:

Investment in affiliates in which the Company has significant influence over the investee's financial and operation policies, or 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 development bonds:

Investments in Saudi Government Development 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 statement of income.

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 to three categories as follows:

● Investments held to maturity

Certain investments are classified as held to maturity based on the Company management's intention. These investments are stated at adjusted cost by premium or discount, if any. At the date of reclassifying the financial instruments are classified from available for sale to financial instruments held to maturity, then, the unrealized gains and losses are recorded as a separate component within shareholders' equity and amortized over the remaining years of the life of the financial instruments as an adjustment of yield in a manner consistent with the amortization of premiums of discounts.

● Investments held for trading

Certain investments in financial instruments are classified as held for trading based on the Company management's intention. These investments are stated at fair value. Unrealized gains or losses are recorded in the income statement. At the date of reclassifying the financial instruments from available for sale to financial instruments held for trading, unrealized gains and losses related to these financial instruments are recorded in consolidated statement of income.

● Investments available for sale

Certain investments in financial instruments are classified as available for sale when the conditions of classification as financial instruments held to maturity or for trading are not met. The available for sale securities 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 charged to the consolidated income statement in the period in which these units were redeemed. If there is a permanent decline in the value of these investments or an objective evidence for impairment, the unrealized loss will be transferred to the consolidated income statement. If the investment available for sale within 12 months from the ending date of the financial statement, it will be reported under current assets otherwise to report under non-current Assets.

g) Inventories

Inventories represent vessels supplies, costs of spare parts and other operating supplies on board of the vessels are charged to operating expenses upon purchase. 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 on the consolidated statement of income.

Notes To The Consolidated Financial Statements

For the year ended December 31, 2008

(In Thousands Saudi Riyals)

h) Intangible assets, net:

1- Deferred charges:

Deferred dry-docking charges are amortized over a period of two to five years from the date of completion of dry-docking depending on the type of vessel. Where a vessel undergoes another dry-docking operation during the specified amortization period, any unamortized balance of deferred charges related to the previous dry-docking of the vessel will be amortized in the consolidated statements of income 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 purchasing 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 deterioration in its value, if any.

i) Fixed assets, net

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

1. RoRo vessels are depreciated over a period of twenty years, while VLCCs are depreciated over a period of twenty-five years. Used vessels are depreciated based on their estimated remaining useful life, after taking into consideration 10% of the vessels' cost as residual value.
2. Other fixed assets items are depreciated using depreciation rates appropriate to these assets estimated useful lives which is as follows:

Buildings & improvements	5-33.3%	Motor Vehicles	20-25%
Containers & trailers	8.33-20%	Computers equipments	15-25%
Furniture & fixture	10%	Container yard	10-25%
Instruments & office equipments	2.5-25%	Others	7-15%

j) Impairment of non-current assets

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

If the recoverable amount of an assets or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the assets or cash-generating unit is reduced to its recoverable amount. Impairment loss is recognized as an expense in the consolidated statement of income 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 so that the increased carrying amount does 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 consolidated statement of Income.

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

k) *End of service benefits provision*

Employees' end of service benefits are 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 in these subsidiaries.

l) *Revenue recognition*

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

Revenues from chartering and other associated activities are recorded when services are rendered and are recorded in conformity with contract periods, voyages durations, and agreed upon services. Other income is recorded when earned.

m) *Bunker subsidy*

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

n) *Expenses*

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

o) *Borrowing costs*

Borrowing costs incurred to finance the construction of vessels are capitalized until these vessels are ready for use and operation.

p) *Foreign currency transactions*

Foreign currency transactions are translated into Saudi riyal at prevailing exchange rates on transaction date. Monetary assets and liabilities in foreign currencies at balance sheet date are translated into Saudi riyal at the prevailing exchange rates on that date. Gains and losses resulting from fluctuation of exchange rates 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 have been converted into Saudi riyal at average exchange rates during the period. Also the elements of shareholders' equity, excluding retained earnings (deficit), that are converted applying the exchange rate prevailing at the time of incurring the elements transaction. Exchange differences arising from such conversion, if material, are included in a separate line item under shareholders' equity.

(A Saudi Joint Stock Company)
Notes To The Consolidated Financial Statements
For the year ended December 31, 2008
(In Thousands Saudi Riyals)

q) Zakat and income tax

Provision for Zakat is computed in accordance with Saudi zakat standard and charged to consolidated statement of income based on the zakat base for each individual company. provision is made for withholding tax on payments made to non-resident parties and is charged to the consolidated statement of income, when the company bears the tax on behalf of non-resident. For subsidiaries outside the Kingdom of Saudi Arabia, provisions for tax is computed in accordance with the regulations applicable in the respective countries.

r) Hedging reserve for loans commission

The Company uses commission rate swaps and commission rate caps to hedge its long-term loans against fluctuations in market commission rates. Changes in the fair market value of the commission rate swaps are recorded in the hedging reserve which is included in shareholders' equity; also, the hedging reserve is adjusted based on the periodical valuation of commission rate swaps.

s) Earning per share and proposed dividends

Earning per share from operating income, other operations and net profit is calculated based on the weighted average number of shares outstanding during the year. Dividends proposed after year end are treated as a part of retained earnings and not as liabilities unless the General Assembly's approval was before the end of the year.

t) Trade accounts receivables

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

3. CASH AND CASH EQUIVELENTS

Cash and cash equivalents as of December 31, 2008 represents cash in hand and at banks, Murabaha and short-term deposits, out of which SR 5.84 million (2007: SR 5.71 million) that are subject to bank restrictions for letter of guarantees issued for the Department of Zakat and Income Tax (DZIT) and other parties, and SR 42.36 million (2007: SR 18.84 million) restricted for repayment of current portion of loans maturing within 180 days from the balance sheet date.

It also includes restricted bank balances in Mideast Ship management co. amounted to SR 0.48 Million (2007: SR 0.48 Million), and in National Shipping company of Saudi Arabia (America) amounted to SR 0.54 Million (2007: SR 0.54 Million).

For the purpose of preparing the cash flow statement, cash and cash equivalents at December 31 comprises the following:

	2008	2007
Cash in hand and at banks	225,545	190,481
Amounts restricted by banks	(17,905)	(21,063)
	207,640	169,418
Investment in Murabaha and short-term deposits	882,847	686,392
Amounts restricted by banks	(31,326)	(4,513)
	851,521	681,879
	1,059,161	851,297

(A Saudi Joint Stock Company)
Notes To The Consolidated Financial Statements
For the year ended December 31, 2008
(In Thousands Saudi Riyals)

4. INVESTMENTS IN MURABAHA AND SHORT- TERM DEPOSITS

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

	2008	2007
Investments in Murabaha and short-term deposits in Saudi riyals	437,020	627,026
Investments in Murabaha and short-term deposits in USD	441,740	58,340
Investments in Murabaha and short-term deposits in EURO	4,087	1,026
	882,847	686,392

5. TRADE RECEIVABLE AND OTHER DEBIT BALANCES, NET

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

	2008	2007
Trade receivable	98,622	142,635
Insurance claims	25,978	19,709
Other debit balances	78,708	39,617
	203,308	201,961
Provision for doubtful debts	(21,902)	(10,195)
	181,406	191,766

6. INVESTMENTS IN FINANCIAL INSTRUMENTS

During the year 2008, the Investments in financial instruments were reclassified based on the Company's accounting policies and the management's intention to:

Investments held to maturity.
Investments held for trading.
Investments available for sale.

During the year 2007, the investments in financial instruments were classified as available for sale as the management's intention was not clearly specified at that time.

7. ACCRUED BUNKER SUBSIDY, NET

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

	2008	2007
Accrued bunker subsidy	69,853	53,376
Provision for doubtful bunker subsidy	(19,882)	(11,524)
	49,971	41,852

8. INVESTMENTS IN AFFILIATES AND OTHER

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

	2008	2007
Investments balance at the beginning of the year	233,596	182,103
Company's share in affiliates' (loss) profit	(3,840)	81,210
Adjustment of dividend recieved	---	(14,752)
Investment in the Arabian United Float Glass Company	10,000	---
Dividends received during the year	---	(14,966)
	239,756	233,595

Notes To The Consolidated Financial Statements

For the year ended December 31, 2008

(In Thousands Saudi Riyals)

A- Petredec Company Ltd.:

Petredec Company 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 has signed an agreement on February 22, 2005 to acquire 30.3% share of the capital of Petredec Company Ltd. for total amount of SR 187.5 million (equivalent to US\$ 50 million).

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

Petredec financial year starts on September 01 and ends on August 31 of each Gregorian year. The Company's share in Petredec net loss achieved SR (3.84) million up to October 31, 2008 (October 31, 2007: SR 81.21 million net profits), which was included in the consolidated statement of income.

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 fully paid for the ownership of 2,000,000 shares representing 10% of the share capital. Also, an amount of SR 1.2 million was paid until December 31, 2008 representing the Company's share in establishing and developing costs.

9. DEFERRED CHARGES, NET

Deferred charges, net at December 31 comprise the following:

	<u>2008</u>	<u>2007</u>
Total dry-docking cost	<u>181,404</u>	<u>195,308</u>
Accumulated amortization expenses	<u>(66,443)</u>	<u>(49,112)</u>
Deferred tax benefits	<u>70</u>	<u>50</u>
	<u><u>115,031</u></u>	<u><u>146,246</u></u>

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

10. FIXED ASSETS, NET

Movement in fixed assets during the year 2008 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 01.01.2008</u>	<u>Additions during the year</u>	<u>Disposals</u>	<u>Balance at 31.12.2008</u>	<u>Balance at 01.01.2008</u>	<u>Charged for the year</u>	<u>Disposals</u>	<u>Balance at 31.12.2008</u>	<u>31.12.2008</u>		<u>31.12.2007</u>
Land	13,593	---	---	13,593	--	--	--	--	13,593	13,593	--
Buildings and improvements	31,014	1,398	---	32,412	(2,792)	(254)	--	(3,046)	29,366	28,222	5 - 33.3%
Fleet and equipment*	7,149,528	1,286,778	---	8,436,306	(2,577,138)	(260,115)	---	(2,837,253)	5,599,053	4,572,390	4 - 15%
Containers and trailers	57,028	---	(470)	56,558	(43,721)	(3,685)	363	(47,043)	9,515	13,307	8.33 - 20%
Furniture and fixtures	4,973	196	---	5,169	(4,362)	(92)	---	(4,454)	715	611	10%
Tools and office equipment	4,179	109	(98)	4,190	(3,621)	(158)	98	(3,681)	509	558	2.5 - 25%
Motor vehicles	1,397	---	(49)	1,348	(776)	(245)	48	(973)	375	621	20 - 25%
Computers	39,554	1,757	(167)	41,144	(36,061)	(1,127)	194	(36,994)	4,150	3,493	15 - 25%
Container yard	10,211	523	---	10,734	(9,648)	(525)	--	(10,173)	561	563	10 - 25%
Others	1,480	3	---	1,483	(403)	(7)	--	(410)	1,073	1,077	7 - 15%
Total	7,312,957	1,290,764	(784)	8,602,937	(2,678,522)	(266,208)	703	(2,944,027)	5,658,910	4,634,435	

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

The National Shipping Company of Saudi Arabia
(A Saudi Joint Stock Company)

Notes To The Consolidated Financial Statements

For the year ended December 31, 2008

(In Thousands Saudi Riyals)

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 total cost of SR 2.7 billion (USD 719.8 million). And of six VLCCs the Company received two new VLCCs, “Jana” and “Habari” on September 3, 2008 and October 14, 2008 respectively and were deployed in the spot market and remaining four VLCCs will be delivered during 2009.

Also, The National Chemical Carriers Company Ltd, “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). All carriers are expected to be delivered during 2009 through 2012.

Also, The National Chemical Carriers Company Ltd. received two new chemical tanker in the first half of 2008 were deployed for chemical transportation, these tankers were part of above contract.

The balance of ships under construction represents all payments made in connection with ship construction contracts of new VLCCs, amounts incurred for the construction of the Company’s new building and payments made by NCC (a subsidiary) under signed contracts for constructing new chemical tankers, in addition to the company’s new building under construction.

The following table presents payments made for ships under construction and others as of December 31:

	2008	2007
The Company	1,008,269	922,079
The NCC (subsidiary)	1,069,334	340,008
	2,077,603	1,262,087

The balance of ships under construction and others includes SR 1.66 million as of December 31, 2008 which represents amounts incurred for the construction of the Company’s new building (2007 : SR 1.64 Million).

The capital commitments towards shipyards for the construction of VLCCs amount to SR 0.81 billion as of December 31, 2008 (2007: SR 1.80 billion), and for the construction of petrochemical carriers SR 1.98 billion (2007: SR 2.99 billion), and for purchase a new office in Dubai for Mideast Ship Management Ltd.. SR 23.35 million (2007: SR 25.34 million). The capitalized portion of financial charges related to loans granted for the construction of carriers and new office apartments during the year 2008 amounted to SR 58 million (2007: SR 27 million).

12. ACCOUNTS PAYABLE AND OTHER CREDIT BALANCES

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

	2008	2007
Trade payables	37,153	22,079
Accrued operating expenses	173,031	220,967
Accrued insurance expenses	23,270	16,013
Accrued finance charges	25,295	11,533
Other credit balances	45,030	49,018
	303,779	319,610

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

13. MURABAHA FINANCING AND LONG TERM LOANS

The Company and Subsidiaries obtained long-term loans from local and international banks to finance the purchasing and building of carriers & others. The balance of these loans as at December 31 comprises the following:

	2008	2007
Loans to the Company	<u>1,864,714</u>	<u>1,234,328</u>
Loans to the subsidiaries	<u>2,070,589</u>	<u>1,199,812</u>
	3,935,303	2,434,140
Current portion of long-term loans	<u>(225,362)</u>	<u>(204,849)</u>
	<u>3,709,941</u>	<u>2,229,291</u>

The Company's loans include the Murabaha financing of VLCCs (Wafrah and Layla) amounting to SR 570 million (USD 151.92 million) as of December 31, 2008, out of the total financing that amounting to SR 633 million (USD 168.8 million). Also included Murabaha financing for 6 New VLCCs of SR 789.5 million (USD 210.5 million). Out of 6 VLCCs, 2 VLCCs (Jana & Habari) have been received in 2008.

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

The loan agreements contain covenants related to liquidity, indebtedness and other conditions. Moreover, the financed carriers and vessels are mortgaged in favor of the lending banks.

The Company's loans include the loans granted to the subsidiary (NCC) during the year 2007 for financing building of new petrochemical carriers as follows:

- ❖ Islamic Murabaha agreement with Riyadh Bank for SR 787.5 million (USD 210 million) for refinancing of all loans.
- ❖ Financing agreement with Public Investment Fund of SR 435.8 million (USD 116.2 million) for financing four carriers under construction out of which two carriers were received during 2007.
- ❖ Islamic Murabaha financing agreement with Samba Financial Group of SR 1.5 billion (USD 392 million) for financing ten new carriers under construction.
- ❖ Islamic Murabaha financing agreement with Riyadh Bank of SR 937.5 million (USD 250 million) for financing six new carriers under construction.

The loans balance includes a Murabaha financing agreement amounting to SR 23.3 million granted by Mideast Ship Management Company Ltd. for acquiring new office in Dubai.

Total financing charges on loans amounted to SR 163.64 million for the year 2008 (2007: SR 155 million), out of which SR 90.41 million related to the subsidiary (NCC) loans (2007: SR 44.96 million) and SR 1.4 million related to the subsidiary Mideast Ship Management Ltd. loans (2007: Nil). Financing charges related to financing of VLCCs, petrochemical carriers and new office apartment loans for a sum of SR 58 million (2007: SR 27 million) was capitalized, see (Note 11).

14. ZAKAT AND INCOME TAX

The Company's zakat and tax status

The Company submitted the zakat returns for all fiscal years up to 2007 and paid the zakat due according to these returns. The Company finalized its zakat status with the DZIT up to 1988, and its tax status up to 1995. The Company has not yet received the zakat assessment from the DZIT for the years 2001 to 2007.

(A Saudi Joint Stock Company)
Notes To The Consolidated Financial Statements
For the year ended December 31, 2008
(In Thousands Saudi Riyals)

The Company pays withholding tax amounts imposed on payments to non-resident parties to the DZIT on time as per tax regulations. The Company has not yet received the tax assessment from the DZIT for the years 2001 to 2004. Sufficient provisions were made to meet tax claims that might arise for the years of which assessments not received.

The Company filed appeals against decisions no. (11, 12, 14) of 1427H for the years from 1989 to 2000 relating to additional zakat claims of SR 61.1 million against the Company. Sufficient provisions were made to meet these zakat claims, and submitted a bank guarantee for the total claims for the appeals to be accepted. The appeals are still pending as of the date of these consolidated financial statements.

The Company also filed appeals against decisions no. (13, 15) of 1427H for the years from 1996 to 2000 relating to an additional tax claims of SR11.9 million. Sufficient provisions were made to meet these tax claims, and submitted a bank guarantee for the total claims for the appeals to be accepted. The appeals are still pending as of the date of these consolidated financial statements.

Zakat and Tax status for the subsidiary (NCC)

The National Chemical Carriers (NCC) submitted the zakat returns for all fiscal years up to 2007 and paid the zakat due according to these returns. The Company has received the zakat assessments including income tax assessments for the years 1991 to 2004 which include additional claims amounting to SR 84.6 million out of which NCC paid SR 28.4 millions. NCC filed appeals against these assessments. The appeals are still pending with the DZIT. The NCC is of the opinion that adequate provision for zakat and tax has been made up to December 31, 2008.

Zakat assessments are prepared separately for the Company and its subsidiary.

Provision for zakat and tax

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

	2008	2007
Balance at beginning of the year	152,951	157,125
Amounts paid during the year	(20,336)	(22,593)
Provision made during the year	54,471	18,419
Total zakat and tax provision	187,086	152,951
Tax obligation – non current	(4,000)	(10,000)
Provision for zakat and tax	183,086	142,951

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 available for distribution to shareholders.

16. HEDGING RESERVE FOR LOAN COMMISSIONS

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. The net cash flow difference between the hedged rate and the prevailing market rate as of December 31, 2008 amounted to SR 5 million.

Notes To The Consolidated Financial Statements

For the year ended December 31, 2008

(In Thousands Saudi Riyals)

17. SEGMENT INFORMATION

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

	2008		
	Operating revenue	Operating expenses	Gross operating profit
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
	2007		
	Operating revenue	Operating expenses	Gross operating profit
Crude Oil Transportation	740,527	(479,871)	260,656
Petrochemical Transportation	474,370	(392,562)	81,808
General Cargo Transportation (Liner)	488,397	(379,525)	108,872
	1,703,294	(1,251,958)	451,336

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

	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
	2007				
	Crude Oil Transportation	Petrochemical Transportation	General Cargo Transportation (Liner)	Shared Assets and Liabilities *	Total
Assets	4,204,666	2,060,345	301,816	1,229,959	7,796,786
Liabilities	1,359,585	1,291,641	139,283	192,795	2,983,304

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

18. OPERATING EXPENSES

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

	2008	2007
Bunker consumption	539,592	327,217
Vessel related expenses	414,437	346,581
Cargo related expenses	172,407	153,641
Voyage related expenses	170,061	155,918
Depreciation and amortization	324,562	261,128
Others	12,823	7,473
	1,633,882	1,251,958

The National Shipping Company of Saudi Arabia
(A Saudi Joint Stock Company)

Notes To The Consolidated Financial Statements
For the year ended December 31, 2008
(In Thousands Saudi Riyals)

19. GENERAL AND ADMINISTRATIVE EXPENSES

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

	<u>2008</u>	<u>2007</u>
Employees costs	82,042	69,458
Other general and administrative expenses	19,335	10,090
Depreciation	1,298	2,200
Boards of Directors expenses for the Company and its subsidiaries	3,043	5,553
	<u>105,718</u>	<u>87,301</u>

20. OTHER (EXPENSE) INCOME, NET

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

	<u>2008</u>	<u>2007</u>
Income from Murabaha and short-term deposits	27,976	31,063
Losses from investments available for sale, net*	(32,629)	(13,807)
Bank commissions and amortization of government development bonds' premium	902	1,111
Gains on sale of fixed assets	70	34,221
Foreign currency exchange differences	(1,850)	406
Gain on sale of the investment in Arabian Chemical Carriers	---	15,539
Commission on government developments bonds	---	502
Others	1,239	2,613
	<u>(4,292)</u>	<u>71,648</u>

* Losses from investments available for sale include SR 43 million (2007: SR 9 million), represents an impairment loss in the value of the investment portfolio.

21. EARNING PER SHARE AND DIVIDENDS

Earnings per share was calculated based on the weighted average number of shares outstanding during the year 2008 that was 315 million shares (2007: 285 million shares).

The Board of Directors, in the meeting held on 01/12/1429H (29/11/2008), 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 balance of unclaimed dividends as of December 31, 2008 amounted to SR 23.4 million (2007: SR 18.4 million).

The (loss) earning per share from non-operating (loss) income is SR (0.33) for 2008 (2007: SR 0.20).

The National Shipping Company of Saudi Arabia
(A Saudi Joint Stock Company)

Notes To The Consolidated Financial Statements

For the year ended December 31, 2008

(In Thousands Saudi Riyals)

22. CONSOLIDATION OF SUBSIDIARIES

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

	2008			
	<u>Total assets</u>	<u>Total liabilities</u>	<u>Gross operating income</u>	<u>Net profit (loss)</u>
NSCSA (America) Inc. Ltd.	20,811	(9,609)	29,066	3,625
Mideast Ship Management Ltd.	50,992	(39,658)	22,542	(7,976)
National Chemical Carriers Ltd.	3,071,264	(2,255,890)	116,094	46,927
	2007			
	<u>Total assets</u>	<u>Total liabilities</u>	<u>Gross operating income</u>	<u>Net profit</u>
NSCSA (America) Inc.	23,839	(16,261)	24,816	3,478
Mideast Ship Management Limited	59,945	(40,636)	26,165	803
National Chemical Carriers Limited Company	2,054,988	(1,286,541)	75,339	22,140

23. COMMITMENTS AND CONTINGENCIES

The Company has issued letters of guarantee of SR 52.2 million which include two guarantees of SR 8 million and SR 41.6 million, respectively, in favor of the DZIT related to 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 5.82 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.

In addition, refer to (Note 11) in relation to future capital commitments to build Very Large Crude Carriers and chemical Carriers.

24. SUBSEQUENT EVENTS

On 9/1/2009 NCC (a subsidiary) signed a sale agreement with a Norwegian company for the sale of three of its old tankers (NCC Arar, NCC Asir & NCC Baha) due to the short period remaining in their useful life for a price of SR 99.4 realizing a gain of SR 27 million. These tankers were delivered to the buying company during the second half of January 2009 and they were operating under a pooling agreement with Odfjell Sachems Company since 1990 with similar tankers in transporting chemicals.

25. RECLASSIFICATION

Certain amounts previously reported in 2007 financial statements have been reclassified to conform to current year presentation.

26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments carried on the balance sheet principally include cash, deposits, government development bonds, receivables, payables and certain accrued expenses.

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 maintains its cash with high credit rated local banks. Receivables are carried net of provisions for doubtful debts.

Commission rate exposure

This related to the Company's exposure to the risk of change in commission rates in the market and the potential impact on the financial position of the Company and its cash flows. 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.

Currency risk

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

Liquidity risk

This represents risks that the Company will be unable to meet its funding requirements related to financial instruments. The liquidity risk arises if the Company 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 financial statements of the Company are prepared based on historical cost, except for the investments in affiliated companies and 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.
