

**THE NATIONAL SHIPPING COMPANY
OF SAUDI ARABIA**
(A Saudi Joint Stock Company)
**INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**
For the six month period ended June 30, 2010
and independent accountants' review report

THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA
(A Saudi Joint Stock Company)
Interim Consolidated Financial Statements
As of June 30, 2010
and independent accountants' review report

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INDEPENDENT ACCOUNTANTS' LIMITED REVIEW REPORT

July 18, 2010


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

We have reviewed the accompanying interim consolidated balance sheet of The National Shipping Company of Saudi Arabia (the "Company") and Subsidiaries (the "Group") as of June 30, 2010 and the related interim consolidated statements of income for the three-month and six-month periods ended June 30, 2010, and the interim consolidated statement of cash flows for the six-month period then ended, including the related notes. These interim consolidated financial statements are the responsibility of the Group's management.

We conducted our review in accordance with the standards established by the Saudi Organization for Certified Public Accounts. A review consists principally of applying analytical procedures to financial data and information and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in Saudi Arabia, the objective of which is the expression of an opinion on the financial statements taken as a whole. Accordingly, we do not express such an opinion.

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

PricewaterhouseCoopers

By: 
Khalid A. Mahdhar
License Number 368

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

ASSETS	Notes	June 30	
		2010	2009
Current assets:			
Cash in hand and at banks	3	198,332	142,057
Investments in Murabaha and short-term deposits	3	538,029	502,155
Trade receivables and other debit balances, net		236,041	137,074
Prepaid expenses		55,236	87,585
Bareboat lease receivable, net	4	6,267	9,666
Agents' current accounts, receivables		26,584	14,489
Inventories		127,319	101,767
Investment held to maturity		-	77,905
Investments held for trading		16,847	14,553
Accrued bunker subsidy, net		43,287	41,563
Incomplete voyages		339	5,975
Total current assets		1,248,281	1,134,789
Non-current assets:			
Investment in government bonds		604	604
Bareboat lease receivable, net	4	415,694	417,891
Investments held to maturity (Sukuk)		30,000	---
Investments available for sale		28,772	27,245
Investments in affiliates and other	5	323,638	311,250
Deferred charges, net		35,011	81,315
Fixed assets, net		6,567,616	5,986,021
Goodwill	5/A	119,177	119,177
Ships under construction and other	6	1,444,296	1,978,430
Total non-current assets		8,964,808	8,921,933
Total assets		10,213,089	10,056,722
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable and other credit balances		236,832	271,215
Current portion of Murabaha financing and long-term loans	7	246,793	226,645
Unclaimed dividends	14	32,269	31,300
Agents' current accounts, payables		554	471
Provision for zakat and tax	8	127,461	168,642
Total current liabilities		643,909	698,273
Non-current liabilities:			
Murabaha financing and long-term loans	7	4,401,865	4,266,416
Obligation from fluctuations in swap fair market value for loans commission rates	10	2,906	3,583
Tax obligation provision	8	-	2,000
Employees' end of service benefits provision		32,585	30,131
Total non-current liabilities		4,437,356	4,302,130
Total liabilities		5,081,265	5,000,403
Equity:			
Shareholders' equity			
Paid-up share capital	1	3,150,000	3,150,000
Share premium	9	-	524,416
Statutory reserve	9	828,422	266,694
Retained earnings		958,542	937,732
Hedging reserve for loans commission	10	(2,906)	(3,583)
Unrealized gain from available for sale investments		640	2,017
Total shareholders' equity		4,934,698	4,877,276
Minority interest		197,126	179,043
Total equity		5,131,824	5,056,319
Total liabilities and equity		10,213,089	10,056,722

The accompanying notes from (1) to (17) form an integral part of these interim consolidated financial statements

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

	Notes	For the three months ended June 30		For the six months ended June 30	
		2010	2009	2010	2009
Operating revenues	11	557,260	361,279	1,069,573	830,578
Operating expenses	11-12	(408,449)	(259,484)	(783,253)	(610,275)
Gross operating income	11	148,811	101,795	286,320	220,303
General and administrative expenses		(24,382)	(21,574)	(47,959)	(46,497)
Operating income		124,429	80,221	238,361	173,806
Company's share in profit of affiliates, net	5	7,709	28,258	24,296	76,778
Financing charges		(12,395)	(20,910)	(25,932)	(44,823)
Other income, net	13	272	18,608	3,934	54,047
Profit before bunker subsidy, zakat, tax and minority interest		120,015	106,177	240,659	259,808
Bunker subsidy		24,546	17,362	45,584	34,194
Profit before zakat, tax and minority interest		144,561	123,539	286,243	294,002
Zakat provision	8	(8,248)	(8,457)	(15,755)	(18,256)
Tax provision	8	(428)	(261)	(960)	(1,079)
Profit before minority interest		135,885	114,821	269,528	274,667
Minority interest in consolidated subsidiaries' net profit		(3,712)	(7,171)	(7,007)	(15,968)
Net profit for the period		132,173	107,650	262,521	258,699
Earnings per share from operating income (SR)	2-t/14	0.40	0.25	0.76	0.55
Earnings per share from net profit (SR)	2-t/14	0.42	0.34	0.83	0.82

The accompanying notes from (1) to (17) form an integral part of these interim consolidated financial statements

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

	<u>Note</u>	For the six months ended June 30	
		<u>2010</u>	<u>2009</u>
Unrealized gain on investments held for trading			
Cash flows from operating activities:			
Net profit for the period		262,521	258,699
Adjustments to reconcile net profit to net cash provided by operating activities:			
Depreciation		162,766	136,470
Amortization of deferred charges		16,929	40,349
Unrealized gain on investments held for trading		(530)	(1,968)
Company's share in dividends from investment held for trading		-	(173)
Company's share in profit of affiliates, net		(24,296)	(76,778)
Gains from sale of fixed assets		(40)	(30,048)
Minority interest in consolidated subsidiaries' net profit		7,007	15,968
Provision for zakat and tax		16,715	19,335
Employees' end of service benefits provision		1,141	1,267
Changes in operating assets and liabilities:			
Trade receivables and other debit balances, net		(49,860)	44,332
Prepaid expenses		11,947	(22,462)
Bareboat lease receivable		2,938	2,168
Agents' current accounts, receivables		(11,958)	3,326
Inventories		(10,518)	(34,851)
Accrued bunker subsidy, net		(12,035)	8,408
Accounts payable and other credit balances		22,378	(32,564)
Agents' current accounts, payables		(15)	(2,964)
Zakat and tax paid		(8,040)	(35,779)
Incomplete voyages		6,274	(13,359)
Net cash provided by operating activities		<u>393,324</u>	<u>279,376</u>
Cash flows from investing activities:			
Investments in Murabaha and short-term deposits		(12,702)	14,679
Dividends from affiliates		-	5,284
Additions of fixed assets		-	(950,309)
Rebate received on ships delivered		383	-
Proceeds from sale of fixed assets		41	59,517
Ships under construction and other		(12,598)	126,707
Deferred charges		(461)	(6,633)
Net cash used in investing activities		<u>(25,337)</u>	<u>(750,755)</u>
Cash flows from financing activities:			
Short-term Murabaha finance		-	(71,250)
Murabaha financing and long-term loans		-	1,324,318
Repayments against Murabaha financing and long-term loans		(114,315)	(766,560)
Loan to joint venture		(3,750)	---
Dividends paid		(311,920)	(464,630)
Net cash (used in) provided by financing activities		<u>(429,985)</u>	<u>21,878</u>
Net change in cash and cash equivalents during the period		<u>(61,998)</u>	<u>(449,501)</u>
Cash and cash equivalents at beginning of the period		761,618	1,059,161
Cash and cash equivalents at end of the period	3	<u>699,620</u>	<u>609,660</u>
Non-cash items:			
Bareboat lease receivable against sale of fixed assets		-	429,725
Unrealized loss (gain) from available for sale investments		966	(808)

The accompanying notes from (1) to (17) form an integral part of these interim consolidated financial statements

The National Shipping Company of Saudi Arabia
(A Saudi Joint Stock Company)
Notes To The Interim Consolidated Financial Statements
For the six month period ended June 30, 2010 (Unaudited)
(In Thousands Saudi Riyals)

1. ORGANIZATION AND OPERATIONS

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

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

The authorized and paid-up capital of the Company is SR 3,150 million from 315 million shares for the nominal value of SR 10 each as of June 30, 2010 and 2009.

The Company owns seventeen Very Large Crude Carriers (VLCCs), one of which is chartered to Vela International Marine Limited, a subsidiary of Saudi Aramco upto 24 June, 2010, two to Euronav Company, three to Hanjin Company (A Korean Company) and eleven are operating in spot market. The Company owns four Roll-On Roll-Off (RoRo) vessels operating on liner trade between North America, Europe, the Middle East and Indian Subcontinent.

The National Chemical Carriers Ltd. Co. (“Subsidiary”) owns thirteen chemical tankers, out of which three were leased to Odfjell SE (“Odfjell”), a Norwegian company, on January 30, 2009 under a bareboat capital lease arrangement (see Note 4), three are operating in a pool with NCC-Odfjell Chemical Tankers JLT, six are chartered to the International Shipping and Transportation Company Limited (ISTC), a subsidiary of Saudi Basic Industries Corporation (SABIC), and one tanker is chartered out to Saudi International Petrochemical Company (SIPCHEM).

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

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

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Name	Activity	Location	Date of incorporation	Ownership % 2010	Ownership % 2009
<u>Consolidated Subsidiaries:</u>					
National Shipping Company of Saudi Arabia (America) Inc.	Company's ships agent	USA	1991	100 %	100 %
Mideast Ship Management Ltd.	Ship management	Dubai	1996	100 %	100 %
National Chemical Carriers Ltd. Co. (NCC)	Petrochemicals transportation	Riyadh	1990	80 %	80 %
<u>Non-consolidated affiliates:</u>					
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 interim consolidated financial statements are prepared in accordance with the standards issued by the Saudi Organization for Certified Public Accountants (SOCPA) and under the historical cost convention, except for the investment in financial instruments and derivative financial instruments at fair value. The Company applies the accrual basis of accounting in recognizing revenues and expenses.

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

b) Period of financial statements

According to the by-laws of the Company, the fiscal year of the Company starts on the 1st of January and ends on December 31st of each Gregorian year. The interim consolidated financial statements are prepared on integration basis of financial periods, where each interim consolidated financial period is considered as complementary to the fiscal year as a whole. Accordingly, each period revenues, gains, expenses and losses are recognized during that period. All adjustments which management feels are necessary and significant to reflect fair financial position and results of the Company's operations have been made. The results of operations for the interim period may not give an accurate indication of the results for the actual annual operations.

c) Basis of consolidation

For the purpose of consolidating accounts, inter-company transactions and balances are eliminated in the consolidation process. Minority interest relating to third parties (other partners in the subsidiaries) is also accounted for in the subsidiaries' net assets and income.

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d) Use of estimates

The preparation of interim consolidated financial statements in accordance with generally accepted accounting principles requires the use of estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reported period. Although these estimates are based on management's best knowledge of current event and actions, actual results ultimately may differ from those estimates.

e) Accounting for finance lease

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

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

f) Cash and cash equivalents

For the purpose of preparing the interim consolidated statement of cash flows, cash and cash equivalents represent cash in hand, bank balances, Murabaha and short-term deposits, and investments that can be liquidated to cash and maturing within three months or less from the date of acquisition which is available to the Company and its subsidiaries without any restrictions.

g) Investments

1- Investments in affiliates and others:

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

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

2- Investments in government bonds:

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

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3- Investments in financial instruments:

Investments in financial instruments represent investments in mutual funds units and investment portfolios managed by local banks, which were classified into three categories as follows:

- Investments held to maturity

Certain investments in financial instruments are classified as held to maturity based on the Company's management intention. These investments are stated at adjusted cost by premium or discount, if any.

- Investments held for trading

Certain investments in financial instruments are classified as held for trading based on the Company's management intention. These investments are stated at fair value. Unrealized gains or losses are recorded in the interim consolidated income statement.

- Investments available for sale

Certain investments are classified as available for sale when the conditions of classification as investments held to maturity or for trading are not met. The available for sale investments are stated at fair value. Unrealized gains or losses are recognized under shareholders' equity, whereas the realized gains or losses from the redemptions of units are recognized in the interim consolidated income statement in the period in which these units are redeemed. If there is a permanent decline in the value of these investments or an objective evidence for impairment, the unrealized loss is transferred to the interim consolidated income statement. If the investment available for sale is within 12 months from the ending date of the financial statements, it is reported under current assets otherwise under non-current assets.

h) Inventories

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

i) Intangible assets, net:

1- Deferred charges:

Deferred dry-docking charges are amortized over a period of two to five years from the date of completion of dry-docking depending on the type of vessel. Where a vessel undergoes another dry-docking operation during the specified amortization period, any unamortized balance of deferred charges related to the previous dry-docking of the vessel is amortized in the interim consolidated income statement in the period that ends at the beginning of the new dry-docking operation.

2- Goodwill:

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

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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

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.

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

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

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.

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m) Revenue recognition

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

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

n) Bunker subsidy

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

o) Expenses

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

p) Borrowing costs

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

q) Foreign currency transactions

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

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

Exchange differences arising from such conversion, if material, are included in a separate line item under shareholders' equity.

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r) Zakat and income taxes matter

Provision for zakat is computed in accordance with the regulations of Department of Zakat and Income Tax (DZIT) and charged to interim consolidated income statement based on the higher of zakat base or adjusted net income for each individual company. Provision is made for withholding tax on payments made to non-resident parties and is charged to the interim consolidated income statement. For subsidiaries outside the Kingdom of Saudi Arabia, provisions for tax are computed in accordance with the regulations applicable in the respective countries and are charged to interim consolidated income statement.

s) Hedging reserve for loans commission

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

t) Earning per share and proposed dividends

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

u) Trade accounts receivables

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

v) Segment reporting

Business segment

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

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

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2010 represent cash in hand and at banks, Murabaha and short-term deposits, out of which SR 0.03 million (2009: SR 5.49 million) are subject to bank restrictions for letters of guarantee issued for the DZIT and other parties.

It also includes SR 36.71 million as of June 30, 2010 (2009: SR 29.1 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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For the purpose of preparing the statement of cash flows, cash and cash equivalents as of June 30 comprises the following:

	2010	2009
Cash in hand and at banks	198,332	142,057
Amounts restricted by banks	(18,303)	(19,998)
	<u>180,029</u>	<u>122,059</u>
Investment in Murabaha and short-term deposits	538,029	502,155
Amounts restricted by banks	(18,438)	(14,554)
	<u>519,591</u>	<u>487,601</u>
	<u>699,620</u>	<u>609,660</u>

4. BAREBOAT LEASE RECEIVABLE, NET

On January 30, 2009, the National Chemical Carriers Ltd. Co. signed agreements with Odfjell to charter three vessels under bareboat arrangement for a period of ten years with purchase option after three years. These ships were delivered to Odfjell on February 1, 2009. The arrangement qualifies as a capital lease as it transfers to Odfjell substantially all the benefits and risks and also gives Odfjell a purchase option under the arrangement. The net bareboat lease receivable balance as of June 30 is summarized as follows:

Description	2010	2009
Future minimum lease payments	550,384	605,817
Un-guaranteed residual value at the end of lease term	247,875	247,875
Unearned income	(376,298)	(426,135)
Net bareboat lease receivable balance	<u>421,961</u>	<u>427,557</u>

The above amount is classified at June 30, as under:

Description	2010	2009
Current	6,267	9,666
Non-current	415,694	417,891
Net bareboat lease receivable balance	<u>421,961</u>	<u>427,557</u>

Income related to the above arrangement for the period ended June 30, 2010 amounted to SR 24.6 million (2009: SR 20.6 million) and is included in the operating revenue.

5. INVESTMENTS IN AFFILIATES AND OTHER

Summary of the movement in investments in affiliates for the period ended June 30 is as follows:

	2010	2009
Investments balance at the beginning of the period	299,342	239,756
Company's share in affiliates' profit	24,296	76,778
Dividends received during the period	-	(5,284)
	<u>323,638</u>	<u>311,250</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 24.3 million up to April 30, 2010 (April 30, 2009: SR 76.8 million net profit), which was included in the interim consolidated income statement.

B - The Arabian United Float Glass Company

The Company signed a contract for establishing the Arabian United Float Glass Company as a founding member. It was established by a ministerial decision No. (1299) dated 11/05/1427H (corresponding to 08/06/2006). An investment of SR 20 million was made for the ownership of fully paid 2 million shares representing 10% of the share capital. Also, an amount of SR 1.2 million was paid through June 30, 2010 representing the Company's share in establishing and developing costs. The company is engaged to manufacture float glass and commenced operations in April 2009.

6. SHIPS UNDER CONSTRUCTION AND OTHER

At June 30, 2010, the balance of ships and other assets under construction principally represents costs incurred towards construction of the Company's new building and costs incurred by NCC (a subsidiary) under signed contracts for constructing new chemical tankers.

The National Chemical Carriers Ltd Co., "Subsidiary", signed contract with SLS Shipbuilding Co. Ltd ("SLS"), South Korea to build 10 petrochemical carriers and another contract during the year 2007 to build six additional petrochemical carriers with a total cost of SR 3.01 billion (USD 802 million) of which SR 1.32 billion has been paid as of June 30, 2010. These tankers are scheduled to be delivered during 2011 through 2012.

The National Chemical Carriers Ltd Co. in May 2010 decided to cancel two new contracts signed with "SLS" in 2006 for building two tankers due to delay by "SLS" to deliver the tankers on the dates agreed in the contracts. NCC has already collected in July 2010 the installments paid to SLS of SR 285 million and all the other incidental costs already advanced under the contracts.

The Company received all VLCCs under construction and there are no capital commitments to shipyards related to the Company's VLCCs as of June 30, 2010 (2009: SR 0.18 billion). The Subsidiary's capital commitments for constructing chemical tankers amounted to SR 1.60 billion as of June 30, 2010 (2009: SR 1.87 billion).

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7. MURABAHA FINANCING AND LONG-TERM LOANS

The Company and its subsidiaries have entered into various Murabaha financing and long-term loans agreements totaling to approximately SR 6.13 billion principally to finance building of new VLCCs, petrochemical carriers and new office in Dubai. The balance of these financing as at June 30 comprises the following:

	2010	2009
Financing to the Company	2,398,075	2,296,474
Financing to the subsidiaries	2,250,583	2,196,587
Total Murabaha financing and long-term loans	4,648,658	4,493,061
Current portion of Murabaha financing and long-term loans	(246,793)	(226,645)
Non-current portion of Murabaha financing and long-term loans	4,401,865	4,266,416

Break down of Murabaha financing and long-term loans at June 30 is listed below:

2010						
Financing:	<u>Parent Co.</u>	<u>%</u>	<u>Subsidiaries</u>	<u>%</u>	<u>Total</u>	<u>%</u>
Murabaha Finance	954,160	40%	1,814,833	81%	2,768,993	60%
Commercial Loans	239,415	10%	---	---	239,415	5%
Public Investment Fund "Murabaha Finance"	1,050,000	44%	---	---	1,050,000	22%
Conventional Loans from Public Investment Fund	154,500	6%	435,750	19%	590,250	13%
TOTAL	2,398,075	100%	2,250,583	100%	4,648,658	100%

2009						
Financing:	<u>Parent Co.</u>	<u>%</u>	<u>Subsidiaries</u>	<u>%</u>	<u>Total</u>	<u>%</u>
Murabaha Finance	1,048,353	46%	1,760,837	80%	2,809,190	63%
Commercial Loans	276,346	12%	---	---	276,346	6%
Public Investment Fund "Murabaha Finance"	779,775	34%	---	---	779,775	17%
Conventional Loans from Public Investment Fund	192,000	8%	435,750	20%	627,750	14%
TOTAL	2,296,474	100%	2,196,587	100%	4,493,061	100%

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

8. ZAKAT AND INCOME TAX

The Company's zakat and tax status

The Company finalized its zakat and tax status with the DZIT up to 2000. The Company submitted the zakat returns for all fiscal years from 2001 up to 2008 and paid the zakat due according to these returns. The Company has not received zakat assessments from the DZIT for these years. The Company also has not received the final tax assessments for the years 2001 up to the end of July 2004, the date of enforcement of the new tax law. Since the enforcement of the new tax law, the Company pays regularly the withholding tax on payments to non-resident parties. The Company believes that adequate provision is maintained at June 30, 2010 for any potential zakat and tax claims by DZIT for the concerned years.

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Zakat and Tax status for the subsidiary (NCC)

NCC submitted the zakat returns for all fiscal years up to 2008 and paid the zakat due according to these returns. NCC received additional zakat and withholding tax assessments for the years 1991 to 2004 amounting to SR 59 million. NCC had filed appeals against some items in these assessments and their treatments. In April 2010, NCC reached an agreement for a final settlement of the above assessments in the amount of SR 53 million for the above-mentioned assessment years against which NCC maintains adequate provision at June 30, 2010.

Zakat returns are prepared separately for the Company and NCC.

9. STATUTORY RESERVE

In accordance with Saudi Arabian Regulations for Companies, the Company is required to transfer 10% of the net income to the statutory reserve until such reserve equals 50% of the paid-up capital. This reserve is not currently available for distribution to shareholders.

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

10. HEDGING RESERVE FOR LOANS COMMISSION

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

11. SEGMENT INFORMATION

A) The following schedule illustrates the distribution of the Company's and subsidiaries' activities according to the operational segments for the period ended June 30:

	2010		
	Operating revenues	Operating expenses	Gross operating income
Crude Oil Transportation	785,821	(527,749)	258,072
Petrochemical Transportation	130,013	(76,817)	53,196
General Cargo Transportation (Liner)	153,739	(178,687)	(24,948)
	<u>1,069,573</u>	<u>(783,253)</u>	<u>286,320</u>
	2009		
	Operating revenues	Operating expenses	Gross operating income
Crude Oil Transportation	481,196	(316,396)	164,800
Petrochemical Transportation	173,235	(96,632)	76,603
General Cargo Transportation (Liner)	176,147	(197,247)	(21,100)
	<u>830,578</u>	<u>(610,275)</u>	<u>220,303</u>

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B) The following schedule illustrates the distribution of the Company's and subsidiaries' assets and liabilities according to the operational segments as of June 30:

	2010				
	<u>Crude Oil Transportation</u>	<u>Petrochemical Transportation</u>	<u>General Cargo Transportation (Liner)</u>	<u>Shared Assets and Liabilities *</u>	<u>Total</u>
Assets	5,671,886	3,316,700	209,094	1,015,409	10,213,089
Liabilities	2,518,931	2,330,444	67,405	164,485	5,081,265
	2009				
	<u>Crude Oil Transportation</u>	<u>Petrochemical Transportation</u>	<u>General Cargo Transportation (Liner)</u>	<u>Shared Assets and Liabilities *</u>	<u>Total</u>
Assets	5,631,293	3,186,176	258,769	980,484	10,056,722
Liabilities	2,423,823	2,290,893	61,250	224,437	5,000,403

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

12. OPERATING EXPENSES REDUCTION

NCC reached an agreement in 2009 on certain amendments to charter agreements with a charterer with retrospective application. This resulted in a reduction of operating expenses which was determined at SR 13,234,468 for the year ended December 31, 2008 and SR 7,330,500 for the six month period ended June 30, 2009. Such total reduction was credited against operating expenses in the three-month period ended June 30, 2009.

13. OTHER INCOME, NET

Other income, net includes SR 0.98 million representing income from investments in financial instruments and SR 2.8 million representing income from investments in Murabaha deposits for the period ended June 30, 2010 (2009: includes SR 30 million gain on sale of NCC three tankers NCC Arar, NCC Asir & NCC Baha, SR 2.1 million representing income from investments in financial instruments, SR 12 million of reversed excess zakat and tax provision and SR 7.6 million representing income from investments in Murabaha deposits).

14. EARNINGS PER SHARE AND DIVIDENDS

Earnings per share was calculated based on the number of shares outstanding during the period ended June 30, 2010 and 2009 totaling to 315 million shares.

The General Assembly approved the dividends on April 03, 2010 at rate of 10% of capital equal to SR 1.0 per share for 2009 and the distribution was completed on April 11, 2010. The balance of unclaimed dividends as of June 30, 2010 amounted to SR 32.3 million (2009: SR 31.3 million).

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

<u>For the three months ended June 30</u>		<u>For the six months ended June 30</u>	
<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
SR 0.02	SR 0.09	SR 0.07	SR 0.27

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15. COMMITMENTS AND CONTINGENCIES

The Company has issued letters of guarantee of SR 6.58 million which includes a guarantee of SR 4 million in favor of the DZIT. These guarantees were issued against restricted cash, Murabaha and short-term deposits of SR 0.03 million (See Note 3).

The Company has also certain outstanding legal proceedings that have arisen in the normal course of business. Although, the outcome of these litigations has not yet been determined, management does not expect that these cases will have a material adverse effect on the Company's result of operations or its financial position.

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

16. RECLASSIFICATION

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

17. SUBSEQUENT EVENT

The National Chemical Carriers Ltd. Co., signed a contract on 4th of July, 2010 with Daewoo Shipbuilding and Marine Engineering Co. Ltd. of South Korea to build a specialized chemical tanker for total price of approximately SR 245 million with expected delivery during 2013.
