

**THE NATIONAL SHIPPING COMPANY
OF SAUDI ARABIA**

(A Saudi Joint Stock Company)

**INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

For the three-month period and year ended December 31, 2011
and independent accountants' limited review report

THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA
(A Saudi Joint Stock Company)
Interim Consolidated Financial Statements
As of December 31, 2011
and independent accountants' limited review report

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INDEPENDENT ACCOUNTANTS' LIMITED REVIEW REPORT

January 18, 2012

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

Scope of review

We have reviewed the accompanying interim consolidated balance sheet of The National Shipping Company of Saudi Arabia (the "Company") and its Subsidiaries (the "Group") as of December 31, 2011 and the related interim consolidated statements of income for the three-month period and the year then ended and the statement of cash flows for the year ended December 31, 2011, including the related notes which form an integral part of these interim consolidated financial statements. These interim consolidated financial statements are the responsibility of the Group's management.

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

Conclusion

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

PricewaterhouseCoopers

By: 

Khalid A. Mahdhar
License Number 368



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

ASSETS	Notes	December 31	
		2011 (Unaudited)	2010 (Audited)
Current assets:			
Cash in hand and at banks	3	126,283	108,713
Investments in Murabaha and short-term deposits	3	274,469	1,014,559
Trade receivables and other debit balances, net		289,374	175,243
Prepaid expenses		40,639	40,099
Bareboat lease receivable, net	4	7,538	6,615
Agents' current accounts		15,221	15,147
Inventories		145,049	133,366
Investments held for trading		20,312	18,827
Accrued bunker subsidy, net		87,779	65,895
Incomplete voyages		13,356	---
Total current assets		1,020,020	1,578,464
Non-current assets:			
Investment in government bonds		587	604
Bareboat lease receivable, net	4	404,822	412,359
Investments held to maturity (Sukuk)		30,000	30,000
Investments available for sale		26,903	29,577
Investments in affiliates and other	5	561,432	455,796
Deferred dry-docking cost, net		66,660	40,383
Fixed assets, net	7	7,250,907	6,407,630
Ships under construction and other	6	1,237,119	1,011,466
Total non-current assets		9,578,430	8,387,815
Total assets		10,598,450	9,966,279
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable and other credit balances		256,569	254,357
Current portion of Murabaha financing and long-term finance	7	423,102	324,648
Short-term finance		64,000	---
Unclaimed dividends	8	30,720	26,896
Provision for zakat and tax	9	112,423	129,429
Incomplete voyages		---	700
Total current liabilities		886,814	736,030
Non-current liabilities:			
Murabaha financing and long-term finance	7	4,327,911	3,818,540
Obligation from fluctuations in swap fair market value for finance commission rates	10	---	1,734
Employees' end of service benefits provision		28,058	31,592
Total non-current liabilities		4,355,969	3,851,866
Total liabilities		5,242,783	4,587,896
Equity:			
Shareholders' equity			
Paid-up share capital	1	3,150,000	3,150,000
Statutory reserve	11	872,463	843,658
Retained earnings		1,039,909	1,095,663
Hedging reserve for finance commission	10	---	(1,734)
Unrealized gain from available for sale investments		534	2,104
Total shareholders' equity		5,062,906	5,089,691
Minority interest	1	292,761	288,692
Total equity		5,355,667	5,378,383
Total liabilities and equity		10,598,450	9,966,279

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

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

	<u>Notes</u>	For the three months ended December 31		For the year ended December 31	
		2011 (Unaudited)	2010 (Unaudited)	2011 (Unaudited)	2010 (Audited)
Operating revenues	12	568,395	465,778	1,991,880	2,049,830
Operating expenses	12	(535,290)	(405,814)	(1,822,905)	(1,601,945)
Gross operating income	12	33,105	59,964	168,975	447,885
General and administrative expenses		(29,947)	(32,448)	(109,898)	(103,801)
Operating income		3,158	27,516	59,077	344,084
Company's share in affiliate's net income	5	79,079	7,828	135,384	36,932
Company's share in net income of a joint venture		4,339	3,856	4,339	3,856
Financing charges		(12,989)	(11,031)	(51,682)	(50,179)
Other income, net	13	5,216	3,758	21,263	25,625
Profit before bunker subsidy, zakat, tax and minority interest		78,803	31,927	168,381	360,318
Bunker subsidy		55,800	36,362	176,465	109,498
Profit before zakat, tax and minority interest		134,603	68,289	344,846	469,816
Zakat provision	9	(12,252)	(8,960)	(28,975)	(35,104)
Tax provision, net	9	(568)	132	(3,751)	(1,261)
Profit before minority interest		121,783	59,461	312,120	433,451
Minority interest in consolidated subsidiaries' net profit	1	(8,193)	(4,102)	(24,069)	(18,573)
Net profit for the period/year		113,590	55,359	288,051	414,878
Earnings per share from operating income (SR)	2-t/8	0.01	0.09	0.19	1.09
Earnings per share from net profit (SR)	2-t/8	0.36	0.18	0.91	1.32

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

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

	<u>Note</u>	For the year ended December 31	
		2011 (Unaudited)	2010 (Audited)
Cash flows from operating activities:			
Net profit for the year		288,051	414,878
Adjustments to reconcile net profit to net cash provided by operating activities:			
Depreciation		351,929	327,151
Amortization of dry-docking costs		28,264	33,545
Unrealized gain on investments held for trading		(1,485)	(2,510)
Company's share in affiliate's net income		(135,384)	(36,932)
Company's share in net income of a joint venture		(4,339)	(3,856)
Gain from sale of fixed assets		(76)	(152)
Net recovery against cancelled ships construction contracts		-	(15,122)
Minority interest in consolidated subsidiaries' net profit		24,069	18,573
Provision for Zakat		28,975	35,104
Provision for tax, net		3,751	1,261
Adjustment to zakat and withholding tax provision		2,123	-
Employees' end of service benefits provision, net		(3,534)	148
Changes in operating assets and liabilities:			
Trade receivables and other debit balances, net		(114,131)	28,718
Prepaid expenses		(540)	3,895
Bareboat lease receivable		6,614	5,925
Agents' current accounts		(74)	(521)
Inventories		(11,683)	(16,565)
Accrued bunker subsidy, net		(21,884)	(34,643)
Accounts payable and other credit balances		2,212	40,937
Zakat and tax paid		(51,855)	(26,986)
Tax refund related to a subsidiary		-	1,411
Incomplete voyages		(14,056)	7,313
Net cash provided by operating activities		376,947	781,572
Cash flows from investing activities:			
Investments in Murabaha and short-term deposits		4,590	(13,884)
Investment in government bonds		17	-
Investment available for sale		1,104	659
Dividends from affiliates		34,087	3,511
Additions to fixed assets		(78,943)	(4,555)
Proceeds from cancelled ships construction contracts		-	701,654
Proceeds from sale of fixed assets		2,397	692
Ships under construction and other, net		(1,344,237)	(266,300)
Deferred dry-docking costs		(54,541)	(22,540)
Net cash (used in) provided by investing activities		(1,435,526)	399,237
Cash flows from financing activities:			
Short-term finance		64,000	-
Murabaha financing and long-term loans		934,565	140,000
Repayments against Murabaha financing and long-term loans		(326,740)	(759,785)
Dividends paid		(311,176)	(317,293)
Change in minority interest	8	(20,000)	80,000
Net cash provided by (used in) financing activities		340,649	(857,078)
Net change in cash and cash equivalents during the year		(717,930)	323,731
Cash and cash equivalents at beginning of the year		1,085,349	761,618
Cash and cash equivalents at end of the year	3	367,419	1,085,349
Non-cash items:			
Transfer from ships under construction and other to fixed assets	6	1,118,584	-
Unrealized loss (gain) from available for sale investments		1,570	(497)

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

The National Shipping Company of Saudi Arabia
(A Saudi Joint Stock Company)
Notes To The Interim Consolidated Financial Statements
For the year ended December 31, 2011 (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 General Cargo (liner).

The authorized and paid-up capital of the Company is SR 3,150 million from 315 million shares for the nominal value of SR 10 each as of December 31, 2011 and 2010.

The Company owns seventeen Very Large Crude Carriers (VLCCs), one of which is chartered to RWE Supply & Trading GmbH (A German Company), two to Hanjin Company (A Korean Company) and fourteen 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 nineteen 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 as stated in note 4, nine are operating in a pool with NCC-Odfjell Chemical Tankers JLT, six are chartered to the International Shipping and Transportation Company Limited (ISTC), a subsidiary of Saudi Basic Industries Corporation (SABIC), and one tanker is chartered out to Saudi International Petrochemical Company (SIPCHEM).

The Subsidiary signed a 50 percent joint venture agreement with “Odfjell SE” on 22/06/1430H, corresponding to June 15, 2009 to establish a company in Dubai, (United Arab Emirates), by the name of NCC-Odfjell Chemical Tankers JLT (hereinafter referred as “Joint Venture”), to commercially operate the two companies’ combined fleet of coated chemical tankers in a pool for transporting petrochemicals, vegetable oils and clean petroleum products markets on a world-wide basis with emphasis on the growing production and export of the Arabian Gulf Region. The new company commenced operations in 2010.

On August 28, 2010, the Company entered into an agreement with the Arabian Agricultural Services Company (ARASCO) to establish a new subsidiary “Al-Bahri Company for Bulk Transportation” for dry bulk transportation with a capital of SR 200 million of which 60% is owned by the Company and 40% by ARASCO. The full capital contributions were made by the shareholders as of March 31, 2011. The new subsidiary is expected to commence its commercial operations in the second half of 2012.

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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:

Name	Activity	Location	Date of incorporation	Ownership % 2011	Ownership % 2010
<u>Consolidated Subsidiaries:</u>					
National Shipping Company of Saudi Arabia (America) Inc.	Company's ships agent	USA	1991	100 %	100 %
Mideast Ship Management Ltd. (Bermuda) *	Ship management	Dubai	1996	100 %	100 %
National Chemical Carriers Ltd. Co. (NCC)	Petrochemicals transportation	Riyadh	1990	80 %	80 %
Al-Bahri Company for Bulk Transportation	Bulk transportation	Riyadh	2010	60%	-
Mideast Ship Management Ltd. (JLT) *	Ship management	Dubai	2010	100%	-
<u>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%

* For organizational and restructuring purposes, the Company established a new wholly owned subsidiary, Mideast Ship Management Ltd. (JLT), which was registered in Dubai Multi Commodities Centre (DMCC) Free Zone in the United Arab Emirates on October 31, 2010 with a share capital of Emirati Dirhams 300,000. The purpose of this new arrangement is to transfer the operations of Mideast Ship Management Ltd (Bermuda) to the new company. The above two subsidiaries signed a business transfer agreement on June 7, 2011 by which all the assets and liabilities of Mideast Ship Management Ltd (Bermuda) are to be transferred to Mideast Ship Management Ltd. (JLT) at the book value as of March 31, 2011. The legal formalities to transfer the title deed of the transferred assets were completed during the second half of 2011 and Mideast Ship Management Ltd (Bermuda) license was cancelled on December 12, 2011.

The above transaction and arrangement does not have any effect on the interim consolidated financial statements of the Company

2. SIGNIFICANT ACCOUNTING POLICIES

a) *Accounting convention*

The accompanying interim consolidated financial statements are prepared in accordance with the accounting standards issued by the Saudi Organization for Certified Public Accountants (SOCPA) and under the historical cost convention, except for the investment in financial instruments and derivative financial instruments at fair value. The Company applies the accrual basis of accounting in recognizing revenues and expenses.

The significant accounting policies implemented by the Company in preparation of interim consolidated financial statements are in conformity with that implemented for annual consolidated financial statements for the year ended December 31, 2010.

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b) *Period of financial statements*

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

c) *Basis of consolidation*

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

d) *Use of estimates*

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

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, investment in Murabaha and short-term deposits, and investments that can be liquidated to cash and maturing within three months or less from the date of acquisition which is available to the Company and its subsidiaries without any restrictions.

g) *Investments*

1- Investments in affiliates and others:

Investment in affiliates in which the Company has significant influence, but no control, over the investee's financial and operation policies, or in which the Company owns equity interest ranging between 20% and 50% are accounted for using the equity method. The Company's investment in an associate includes goodwill identified on acquisition, being the excess of the purchase price over the value of purchased net assets, net of any accumulated amortization and impairment losses, if any. Due to the timing difference between Petredec Ltd. fiscal year and the Company's fiscal year, the Company's share in Petredec Ltd. net profits or losses are recognized in the Company's books according to the latest financial statements prepared by Petredec Ltd. The gap period between the latest financial statements prepared by Petredec Ltd. and the date of the Company's interim consolidated financial statements is two months.

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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 cost adjusted by premium or discount. In case of a permanent decline in value, unrealized losses are charged to the interim consolidated income statement.

3- Investments in financial instruments:

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

- Investments held to maturity

Certain investments in financial instruments are classified as held to maturity based on the Company's management intention. These investments are stated at cost adjusted 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. Spare parts and other consumables on board for each vessel are charged to operating expenses on purchase.

i) Deferred dry-docking costs

Deferred dry-docking costs 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 costs 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.

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j) Fixed assets, net

Fixed assets are recorded at actual cost and are depreciated using the straight-line method to allocate the costs of the related assets over the estimated useful lives using the following depreciation rates:

Buildings and improvements	From 5 to 33.3%
Fleet and equipment *	From 4 to 15%
Containers and trailers	From 8.33 to 20%
Furniture and fixtures	10%
Tools and office equipment	From 2.5 to 25%
Motor vehicles	From 20 to 25%
Computers equipment	From 15 to 25%
Container yard	From 10 to 25%
Others	From 7 to 15%

* 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.

k) Impairment of non-current assets

Non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-current assets other than intangible assets that suffered impairment are reviewed for possible reversal of impairment at each reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the income statement. Impairment losses recognized on intangible assets are not reversible.

l) Employees' end of service benefits provision

Employees' end of service benefits provision is provided for on the basis of accumulated services period in accordance with the By-Laws of the Company and in conformity with the Saudi Labor Law. End of service benefits in respect of subsidiaries outside the Kingdom of Saudi Arabia are provided for based on the applicable regulations applied to these subsidiaries.

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.

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n) *Bunker subsidy*

Bunker subsidy is computed on bunker quantities purchased and recorded in the interim consolidated income statement on purchase. 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 2011 and 2010, 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.

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.

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t) Earning per share and proposed dividends

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

u) Trade accounts receivables

Trade accounts receivables are stated at net value after deducting provision for doubtful debts. A provision against doubtful debts is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Such provisions are charged to the interim consolidated income statement and reported under "General and administrative expenses". When account receivable is uncollectible, it is written-off against the provision for doubtful debts. Any subsequent recoveries of amounts previously written-off are credited against "General and administrative expenses" in the interim consolidated income statement.

v) Segment reporting

Business segment

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

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

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2011 represent cash in hand and at banks, Murabaha and short-term deposits, out of which SR 0.03 million (2010: SR 0.03 million) is subject to bank restrictions for letters of guarantee issued for the Jeddah Islamic Port.

It also includes SR 33.33 million as of December 31, 2011 (2010: SR 36.77 million) restricted for repayment of current portion of Murabaha financing and long-term loans maturing within 180 days from the balance sheet date.

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

	<u>2011</u>	<u>2010</u>
Cash in hand and at banks	126,283	108,713
Amounts restricted by banks	(15,449)	(18,226)
	<u>110,834</u>	<u>90,487</u>
Investment in Murabaha and short-term deposits	274,469	1,014,559
Amounts restricted by banks	(17,884)	(19,697)
	<u>256,585</u>	<u>994,862</u>
Cash and cash equivalents balance at the end of the year	<u>367,419</u>	<u>1,085,349</u>

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4. BAREBOAT LEASE RECEIVABLE, NET

On January 30, 2009, the National Chemical Carriers Ltd. Co. signed agreements with Odfjell to charter three vessels under bareboat arrangement for a period of ten years with purchase option after three years. These ships were delivered to Odfjell on February 1, 2009. The arrangement qualifies as a capital lease as it transfers to Odfjell substantially all the benefits and risks and also gives Odfjell a purchase option under the arrangement. The net bareboat lease receivable balance as of December 31 is summarized as follows:

<u>Description</u>	<u>2011</u>	<u>2010</u>
Future minimum lease payments	467,005	522,439
Un-guaranteed residual value at the end of lease term	247,875	247,875
Total	714,880	770,314
Unearned income	(302,520)	(351,340)
Net bareboat lease receivable balance	<u>412,360</u>	<u>418,974</u>

The above amount is classified at December 31 as under:

<u>Description</u>	<u>2011</u>	<u>2010</u>
Current	7,538	6,615
Non-current	404,822	412,359
Net bareboat lease receivable balance	<u>412,360</u>	<u>418,974</u>

Income related to the above arrangement for the year ended December 31, 2011 amounted to SR 48.82 million (2010: SR 49.51 million) and is included in the operating revenues in the accompanying interim consolidated income statement.

5. INVESTMENTS IN AFFILIATES AND OTHER

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

	<u>2011</u>	<u>2010</u>
Balance, beginning of the year	455,796	418,519
Company's share in affiliate's net income	135,384	36,932
Company's share in net income of a joint venture	4,339	3,856
Dividends received during the year	(34,087)	(3,511)
Balance, end of the year	<u>561,432</u>	<u>455,796</u>

A - Petredec Ltd.

Petredec Ltd. was incorporated on February 20, 1980 under the laws of Bermuda. It is specialized in Liquefied Petroleum Gas (LPG) trading and shipping. The registered office of the company is located in Bermuda and the company also has offices in Monaco, Singapore and Bahamas. The Company signed an agreement on February 22, 2005 to acquire 30.3% share of the capital of Petredec Ltd. for total amount of SR 187.5 million (equivalent to USD 50 million).

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

Petredec financial year starts on September 1 and ends on August 31 of each Gregorian year. The Company's share in Petredec net profit amounted to SR 135.38 million up to October 31, 2011 (October 31, 2010: SR 36.93 million), which include SR 46.69 million representing unrealized gain on open commodity swap contracts (October 31, 2010: unrealized loss of SR 2.09 million).

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B - The Arabian United Float Glass Company

The Company signed a contract for establishing the Arabian United Float Glass Company as a founding member. It was established by a ministerial decision No. (1299) dated 11/05/1427H (corresponding to 08/06/2006). An investment of SR 20 million was made for the ownership of fully paid 2 million shares representing 10% of the share capital. Also, an amount of SR 1.2 million was paid through December 31, 2011 representing the Company's share in establishing and developing costs. The company is engaged to manufacture float glass and commenced operations in April 2009.

C - NCC-Odfjell Chemical Tankers JLT (hereinafter referred as "Joint Venture")

NCC signed a 50 percent joint venture agreement with Odfjell on 22/6/1430H (corresponding to June 15, 2009) to establish a company in Dubai, United Arab Emirates, by the name of NCC-Odfjell Chemical Tankers JLT 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 Joint Venture commenced operations in 2010.

NCC share in the net income of the Joint Venture amounted to SR 4.34 million (2010: SR 3.86 million) which was included in the interim consolidated income statement.

6. SHIPS UNDER CONSTRUCTION AND OTHER

At December 31, 2011, the balance of ships and other assets under construction principally represents costs incurred by the Company and NCC (a subsidiary) under signed contracts for constructing new RoRo vessels and chemical tankers.

The Company

On March 6, 2011, the Company signed four RoRo vessel contracts with Hyundai MIPO of South Korea for total cost of SR 1.03 billion (USD 274.2 million). Further, on September 12, 2011, the Company exercised its option to buy additional two RoRo vessels under the above agreement with the same agreed specifications and price for a total cost of SR 0.51 billion (USD 137.1 million). This brought the total number of RoRo vessels under construction to six vessels with a total cost of SR 1.54 billion (USD 411.3 million).

The Company paid an amount of SR 308.48 million (USD 82.26 million) during 2011 which represents the first installment on these contracts. The Company expects to receive four of these six vessels in December 2013. The remaining two vessels will be received in 2014.

The Subsidiary ("NCC")

NCC signed a contract in 2006 with SLS Shipbuilding Co. Ltd. ("SLS") of South Korea to build 10 petrochemical carriers and another contract during the year 2007 to build six additional petrochemical carriers with a total cost of SR 3.01 billion (USD 802 million). These carriers were scheduled to be delivered during 2011 through 2012.

NCC in May 2010 decided to cancel the construction of two petrochemical carriers from the contract signed with SLS in 2006 due to delay by SLS to deliver the carriers on the dates agreed in the contract. Also, in September 2010 it was mutually agreed with SLS to cancel another five new petrochemical carriers building contracts, since SLS was not able to build the carriers and deliver them within the period specified in the agreements. As of September 30, 2010, NCC collected SR 701.6 million which include all installments paid to SLS on all the cancelled contracts totaling to SR 641.3 million (USD 171 million), all other incidental costs amounting to SR 45.2 million, as mutually agreed between the parties, and net recovery amounting to SR 15.1 million which was included in the other income in the year ended December 31, 2010.

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SLS completed the construction of four of the nine remaining petrochemical carriers, after the cancellation of the contracts as stated above, and it was added to the Joint Venture's fleet in June 2011, August 2011, September 2011 and October 2011.

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

NCC also signed contracts with SLS on December 21, 2010 to purchase two chemical carriers for a total price of SR 322.5 million (USD 86 million). These two carriers were received and were added to the Joint Venture's Fleet on March 16, 2011 and April 15, 2011, respectively.

Capital commitments

The Company's capital commitments for constructing RoRo vessels amounted to SR 1.23 billion as of December 31, 2011 (2010: Nil). The Subsidiary's capital commitments for constructing chemical tankers amounted to SR 0.34 billion as of December 31, 2011 (2010: SR 1.05 billion).

7. MURABAHA FINANCING AND LONG-TERM FINANCE

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

	2011	2010
Finance to the Company	2,249,959	2,313,763
Finance to the subsidiaries	2,501,054	1,829,425
Total Murabaha and long-term finance	4,751,013	4,143,188
Current portion of Murabaha and long-term finance	(423,102)	(324,648)
Non-current portion of long-term finance	4,327,911	3,818,540

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

2011						
Financing:	Parent Co.	%	Subsidiaries	%	Total	%
Murabaha Finance	980,124	44%	2,119,773	85%	3,099,897	65%
Commercial Finances	121,585	5%	-	-	121,585	3%
Public Investment Fund "Murabaha Finance"	1,050,000	47%	-	-	1,050,000	22%
Public Investment Fund finance "conventional"	98,250	4%	381,281	15%	479,531	10%
TOTAL	2,249,959	100%	2,501,054	100%	4,751,013	100%
2010						
Financing:	Parent Co.	%	Subsidiaries	%	Total	%
Murabaha Finance	907,016	39%	1,411,831	77%	2,318,847	56%
Commercial Finances	220,997	10%	---	---	220,997	5%
Public Investment Fund "Murabaha Finance"	1,050,000	45%	---	---	1,050,000	26%
Public Investment Fund finance "conventional"	135,750	6%	417,594	23%	553,344	13%
TOTAL	2,313,763	100%	1,829,425	100%	4,143,188	100%

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

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The Company's fleet and equipment includes VLCCs and petrochemical carriers that are financed by banks and mortgaged in favor of lending banks.

8. EARNINGS PER SHARE AND DIVIDENDS

Earnings per share was calculated based on the number of shares outstanding during the periods/years ended December 31, 2011 and 2010 totaling to 315 million shares.

The General Assembly on March 29, 2011 approved dividends at the rate of 10% of the share capital equal to SR 315 million at SR 1.0 per share for 2010 and the distribution was completed on April 13, 2011. The balance of unclaimed dividends as of December 31, 2011 amounted to SR 30.72 million (2010: SR 26.9 million).

NCC's shareholders approved dividends of SR 100 million for 2010 which was distributed during the second quarter of 2011. The Company's share of these dividends amounted SR 80 million and the minority shareholders' share amounted to SR 20 million.

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

For the three months ended December 31		For the year ended December 31	
2011 (Unaudited)	2010 (Unaudited)	2011 (Unaudited)	2010 (Audited)
SR 0.35	SR 0.09	SR 0.72	SR 0.23

9. ZAKAT AND INCOME TAX

The Company's zakat and tax status

The Company finalized its zakat and tax status with the DZIT up to 2000. The Company submitted the zakat returns for all fiscal years from 2001 up to 2010 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 withholding tax assessments for the years 2001 up to the end of July 2004, the date of enforcement of the new tax law. Since the enforcement of the new tax law, the Company pays regularly the withholding tax on payments to non-resident parties. The Company believes that adequate provision is maintained at December 31, 2011 for any potential zakat and tax claims by DZIT for the concerned years.

Zakat and Tax status for the subsidiary (NCC)

NCC submitted the zakat returns for all fiscal years up to 2010 and the withholding tax returns up to November 2011 and paid the zakat and withholding taxes 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 with the DZIT for a final settlement of the above assessments in the amount of SR 53 million for the above-mentioned assessment years. NCC paid SR 26 million of this due amount during 2011 and has requested the DZIT for payment of the remaining amount on installment basis. NCC believes that it maintains adequate provision for zakat and withholding taxes as at December 31, 2011.

Zakat returns are prepared separately for the Company and NCC.

10. HEDGING RESERVE FOR LOANS COMMISSION

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

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11. STATUTORY RESERVE

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

12. SEGMENT INFORMATION

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

	2011		
	<u>Operating revenues</u>	<u>Operating expenses</u>	<u>Gross operating income</u>
Crude Oil Transportation	1,228,255	(1,221,575)	6,680
Petrochemical Transportation	362,539	(206,850)	155,689
General Cargo Transportation (Liner)	401,086	(394,480)	6,606
Bulk Transportation (See Note 1)	-	-	-
	<u>1,991,880</u>	<u>(1,822,905)</u>	<u>168,975</u>
	2010		
	<u>Operating revenues</u>	<u>Operating expenses</u>	<u>Gross operating income (loss)</u>
Crude Oil Transportation	1,445,532	(1,070,421)	375,111
Petrochemical Transportation	266,744	(153,855)	112,889
General Cargo Transportation (Liner)	337,554	(377,669)	(40,115)
Bulk Transportation (See Note 1)	-	-	-
	<u>2,049,830</u>	<u>(1,601,945)</u>	<u>447,885</u>

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

	2011					Total
	<u>Crude Oil Transportation</u>	<u>Petrochemical Transportation</u>	<u>General Cargo Transportation (Liner)</u>	<u>Bulk Transportation</u>	<u>Shared Assets and Liabilities *</u>	
Assets	5,418,782	3,644,780	523,722	199,244	811,922	10,598,450
Liabilities	2,311,457	2,568,889	226,275	5,286	130,876	5,242,783
	2010					
	<u>Crude Oil Transportation</u>	<u>Petrochemical Transportation</u>	<u>General Cargo Transportation (Liner)</u>	<u>Bulk Transportation</u>	<u>Shared Assets and Liabilities *</u>	<u>Total</u>
Assets	5,519,163	2,961,285	207,488	200,000	1,078,343	9,966,279
Liabilities	2,460,319	1,917,823	61,724	-	148,030	4,587,896

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

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13. OTHER INCOME, NET

Other income, net for the year ended December 31, 2011 includes SR 2.03 million representing income from investments in financial instruments, SR 3.02 million representing income from investments in Murabaha deposits, SR 5.7 million representing the proceed from a law suit ruled in favor of the Company, and SR 7.5 million representing additional insurance claim recoveries related to one of NCC's vessel (2010: SR 15.1 million includes net recovery received against cancelled ship building contracts (Note 6), SR 3.3 million representing income from investments in financial instruments and SR 5.8 million representing income from investments in Murabaha deposits).

14. COMMITMENTS AND CONTINGENCIES

The Company has outstanding letters of guarantee of SR 89.6 million at December 31, 2011 issued in the Company's normal course of business.

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.

15. RECLASSIFICATION

Certain amounts previously reported in 2010 interim consolidated financial statements have been reclassified to conform to current period/year presentation.
