



**(THE NATIONAL SHIPPING COMPANY
OF SAUDI ARABIA)**
(A Saudi Joint Stock Company)

**INTERIM CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE NINE MONTH PERIOD ENDED
SEPTEMBER 30, 2012
AND INDEPENDENT ACCOUNTANTS'
LIMITED REVIEW REPORT**



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

Interim Consolidated Financial Statements
For the nine month period ended September 30, 2012
and independent accountants' limited review report

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LIMITED REVIEW REPORT

**To: The Shareholders of the
National Shipping Company of Saudi Arabia
Riyadh, Saudi Arabia**

Scope of Review

We have reviewed the accompanying interim consolidated balance sheet of **The National Shipping Company of Saudi Arabia** (A Saudi Joint Stock Company) and its subsidiaries as of September 30, 2012 and the interim consolidated statements of income for the three and nine month periods then ended and cash flows for the nine months ended September 30, 2012 including the related notes from 1 to 15. These interim consolidated financial statements are the responsibility of the Company's management and have been prepared by them and presented to us together with all the information and explanations which we required.

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

Result of Review:

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

For Dr. Mohamed Al-Amri & Co.



Gihad Al-Amri
Certified Public Accountant
Registration No. 362



Dhul Hijjah 1, 1433 H
October 17, 2012 G



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

		September 30	
ASSETS	Notes	2012	2011
Current assets:			
Cash in hand and at banks	3	172,383	101,032
Investments in Murabaha and short-term deposits	3	71,233	362,376
Trade receivables and other debit balances, net		355,999	222,022
Prepaid expenses		51,113	48,307
Bareboat lease receivable, net	4	9,437	7,310
Agents' current accounts		36,410	27,722
Inventories		205,210	155,264
Investments held for trading		25,031	18,264
Accrued bunker subsidy, net		122,467	96,413
Incomplete voyages		10,106	17,690
Total current assets		1,059,389	1,056,400
Non-current assets:			
Investment in government bonds		587	604
Bareboat lease receivable, net	4	397,279	406,716
Investments held to maturity (Sukuk)		30,222	30,200
Investments available for sale		27,679	27,835
Investments in affiliates and other	5	666,735	500,739
Deferred dry-docking cost, net		99,500	67,069
Fixed assets, net		7,430,329	7,124,887
Ships under construction and other	6	1,115,328	1,159,579
Total non-current assets		9,767,659	9,317,629
Total assets		10,827,048	10,374,029
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable and other credit balances		284,437	251,206
Current portion of Murabaha financing and long-term finance	7	444,174	464,858
Murabaha financing and short-term finance		190,000	-
Unclaimed dividends	8	31,339	31,244
Provision for zakat and tax	9	116,589	126,307
Total current liabilities		1,066,539	873,615
Non-current liabilities:			
Murabaha financing and long-term finance	7	4,078,467	4,237,955
Obligation from fluctuations in swap fair market value for finance commission rates	2,s	-	89
Employees' end of service benefits provision		39,047	28,009
Total non-current liabilities		4,117,514	4,266,053
Total liabilities		5,184,053	5,139,668
Equity:			
Shareholders' equity			
Paid-up share capital	1	3,150,000	3,150,000
Statutory reserve	2,t	915,174	861,104
Retained earnings		1,266,808	937,678
Hedging reserve for finance commission	2,s	-	(89)
Unrealized gain from available for sale investments		1,935	1,100
Total shareholders' equity		5,333,917	4,949,793
Non-controlling interests	1	309,078	284,568
Total equity		5,642,995	5,234,361
Total liabilities and equity		10,827,048	10,374,029

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 Income
(Unaudited)
 (In Thousands Saudi Riyals)

	<u>Notes</u>	For the three-month period ended September 30		For the nine-month period ended September 30	
		<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Operating revenues		553,942	479,145	1,879,625	1,423,485
Bunker costs		(209,433)	(220,939)	(669,351)	(557,682)
Other operating expenses		(301,185)	(241,771)	(891,492)	(729,933)
Gross operating income before bunker subsidy		43,324	16,435	318,782	135,870
Bunker subsidy		62,298	45,209	161,175	120,665
Gross operating income		105,622	61,644	479,957	256,535
General and administrative expenses	10	(28,877)	(25,205)	(106,804)	(79,951)
Operating income		76,745	36,439	373,153	176,584
Company's share in profit of affiliates	5	8,640	3,551	131,213	56,305
Finance charges	7	(15,370)	(12,220)	(44,275)	(38,693)
Other income/ (expenses), net	11	418	12,794	17,319	16,047
Profit before zakat, tax and non-controlling interests		70,433	40,564	477,410	210,243
Zakat provision	9	(5,211)	(7,461)	(30,981)	(16,723)
Tax provision, net	9	(1,182)	(2,665)	(3,272)	(3,183)
Profit before non-controlling interests		64,040	30,438	443,157	190,337
Non-controlling interests in consolidated subsidiaries' net profit		(3,828)	(7,035)	(15,764)	(15,876)
Net profit for the period		60,212	23,403	427,393	174,461
Earnings per share from operating income (SR)	8	0.24	0.12	1.18	0.56
Earnings per share from net profit (SR)	8	0.19	0.07	1.36	0.55

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
(Unaudited)
 (In Thousands Saudi Riyals)

	<u>Note</u>	For the nine-month period ended September 30	
		2012	2011
Cash flows from operating activities:			
Net profit for the period		427,393	174,461
Adjustments to reconcile net profit to net cash provided by operating activities:			
Depreciation		290,665	257,748
Amortization of dry-docking costs		27,972	21,159
Unrealized (gain)/loss on investments held for trading		(4,719)	563
Company's share in profit of affiliates		(131,213)	(56,305)
Gains from sale of fixed assets		(12,462)	(67)
Non-controlling interests in consolidated subsidiaries' net profit		15,764	15,876
Provision for zakat		30,981	16,723
Provision for tax, net		3,272	3,183
Adjustment to zakat and withholding tax provision		--	2,123
Employees' end of service benefits provision, net		10,989	(3,583)
Changes in operating assets and liabilities:			
Trade receivables and other debit balances, net		(67,503)	(46,779)
Prepaid expenses		(10,656)	(8,208)
Bareboat lease receivable		5,644	4,948
Agents' current accounts		(15,132)	(12,575)
Inventories		(60,161)	(21,898)
Accrued bunker subsidy, net		(34,688)	(30,518)
Accounts payable and other credit balances		(4,469)	(3,151)
Zakat and tax paid		(22,240)	(25,151)
Incomplete voyages		1,998	(18,390)
Net cash provided by operating activities		451,435	270,159
Cash flows from investing activities:			
Investments in Murabaha and short-term deposits		(15,725)	(10,252)
Investment held to maturity		(222)	(200)
Investment available for sale		625	738
Investment in affiliates		(10,000)	
Dividends from affiliates		35,910	11,362
Additions to fixed assets		(3,184)	(51,750)
Additional discount on delivered ships		2,650	-
Proceeds from sale of fixed assets		27,971	2,619
Ships under construction and other, net		(361,313)	(1,073,920)
Deferred dry-docking costs		(60,269)	(47,845)
Net cash used in investing activities		(383,557)	(1,169,248)
Cash flows from financing activities:			
Murabaha financing and short-term loans		126,000	-
Murabaha financing and long-term loans		492,390	616,820
Repayments of Murabaha financing and long-term loans		(720,762)	(57,195)
Dividends paid		(156,881)	(310,652)
Change in non-controlling interests		--	(20,000)
Net cash (used in)/provided by financing activities		(259,253)	228,973
Net change in cash and cash equivalents during the period		(191,375)	(670,116)
Cash and cash equivalents at the beginning of the period		384,820	1,085,349
Cash and cash equivalents at the end of the period	3	193,445	415,233
Non-cash items:			
Transfer from ships under construction and other to fixed assets		483,115	925,807
Unrealized (gain)/loss from available for sale investments		(1,401)	1,004

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 nine month period ended September 30, 2012 (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 the 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 comprising 315 million shares with nominal value of SR 10 each as of September 30, 2012 and 2011.

The Company owns seventeen Very Large Crude Carriers (VLCC's), two are chartered to Hanjin Company (a Korean company) and fifteen are carriers operating in the spot market. In addition, the Company owns four Roll-On Roll-Off (RoRo) vessels operating on the liner trade between North America, Europe, the Middle East and the Indian Subcontinent.

The National Chemical Carriers Ltd. Co. ("Subsidiary") owns 20 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 (note 4), 10 are operating in a pool with NCC-Odfjell Chemical Tankers JLT, six are chartered to International Shipping and Transportation Company Limited (ISTC), a subsidiary of Saudi Basic Industries Corporation (SABIC), and one is chartered out to Saudi International Petrochemical Company (SIPCHEM).

The Subsidiary signed a joint venture agreement with "Odfjell SE" on 22/06/1430H, corresponding to June 15, 2009 to establish an equally owned company in Dubai (United Arab Emirates), by the name of NCC-Odfjell Chemical Tankers JLT (hereinafter referred to as "Joint Venture"), to commercially operate the two companies' combined fleets of coated chemical tankers in a pool for transportation of chemicals, vegetable oils and refined petroleum products on a world-wide basis with focus on the growing production and export market of the Arabian Gulf Region. The new company commenced operations in 2010.

On August 28, 2010, the Company entered into an agreement with 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 contribution had been made by the shareholders as of March 31, 2011. The new subsidiary commenced its commercial operations in the second quarter of 2012.

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 has established and/or invested in the following subsidiaries and affiliates:



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Name	Activity	Location	Date of incorporation	Ownership % 2012	Ownership % 2011
<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 %
National Chemical Carriers Ltd. Co. (NCC)	Petrochemicals transportation	Riyadh	1990	80 %	80 %
Al-Bahri Company for Bulk Transportation	Bulk transportation	Riyadh	2010	60%	60%
Mideast Ship Management Ltd. (JLT) *	Ship management	Dubai	2010	100 %	100 %
<u>Affiliates:</u>					
Petredec Ltd.	Liquefied petroleum gas transportation	Bermuda	1980	30.3 %	30.3 %
NCC-Odfjell Chemical Tankers JLT * *	Petrochemical transportation	Dubai	2009	40%	40%
Arabian United Float Glass Co.	Glass manufacturing & trading	Riyadh	2006	10%	10%

* For organizational and restructuring purposes, the Company established a new subsidiary, Mideast Ship Management Ltd. (JLT), in the Free Zone of Dubai, UAE, on October 31, 2010 with a share capital of AED 300,000. The purpose of this restructuring was to transfer the operations of Mideast Ship Management Ltd. (Bermuda) to the new company. The two subsidiaries signed an agreement to transfer the operations between them as of June 7, 2011. The legal procedures for transferring the assets and liabilities from Mideast Ship Management Ltd. (Bermuda) to Mideast Ship Management Ltd. (JLT) were finalized during the second half of 2011 and the license of Mideast Ship Management Ltd. (Bermuda) was canceled on December 12, 2011.

The above transaction did not have any effect on the consolidated financial statements.

** A company owned 50% by National Chemical Carriers Limited and accordingly the indirect ownership for the Company is 40%.

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, which are at fair value. The Company applies the accruals basis of accounting in recognizing revenues and expenses.

The significant accounting policies implemented by the Company in the preparation of the interim consolidated financial statements are in conformity with those implemented for the annual consolidated financial statements for the year ended December 31, 2011.



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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 the 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's revenues, gains, expenses and losses are recognized during that period. All adjustments which management feels are necessary and significant to reflect the fair financial position and the 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. Non-controlling interests relating to third parties (other partners in the subsidiaries) are 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 the 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 events and actions, actual results ultimately may differ from those estimates.

e) *Accounting for finance leases*

The present value of lease payments for assets sold under finance leases together with the unguaranteed residual value at the 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 incidental 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.



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g) Investments

1- Investments in affiliates and others:

Investments 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 an 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's fiscal year and the Company's fiscal year, the Company's share in Petredec Ltd's 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.

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 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 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's intentions. 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's intentions. These investments are stated at fair value. Unrealized gains or losses are recorded in the interim consolidated statement of income.

- 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 statement of income in the period in which these units are redeemed. If there is a permanent decline in the value of these investments or objective evidence for impairment, the unrealized loss is transferred to the interim consolidated statement of income. 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.

If the fair value mentioned above is not readily determinable, then cost is considered the best substitute for such financial instruments.



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(In Thousands Saudi Riyals)

h) Inventories

Inventories representing fuel and lubricants on board of the vessels are shown as inventories at the balance sheet date, and the cost is determined using the 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 statement of income. Spare parts and other consumables on board for each vessel are charged to operating expenses on purchase.

i) Deferred expenses

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 statement of income in the period that ends at the beginning of the new dry-docking operation.

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%
Computer equipment	From 15 to 25%
Container yard facilities	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 costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the 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 does not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the consolidated statement of income. Impairment losses recognized on intangible assets are not reversible.



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l) Employees' end of service benefits provision

Employees' end of service benefits provision is provided for on the basis of the accumulated services period in accordance with the By-Laws of the Company and in conformity with 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 has 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, and direct and indirect operating expenses associated with incomplete voyages, are deferred until completion of the voyage. Incomplete voyages are shown at the 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 statement of income 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 statement of income.

q) Foreign currency transactions

Foreign currency transactions are translated into Saudi riyals at prevailing exchange rates on the transaction date. Monetary assets and liabilities in foreign currencies at the balance sheet date are translated into Saudi riyals at the prevailing exchange rates on that date. Gains and losses resulting from fluctuation of exchange rates, which were not significant for 2012 and 2011, are recognized in the interim consolidated statement of income.

Assets and liabilities of the consolidated subsidiaries denominated in foreign currencies are converted into Saudi riyals 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 riyals at average exchange rates during the period. The components of shareholders' equity excluding retained earnings (deficit) are converted applying the exchange rates 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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(In Thousands Saudi Riyals)

r) Zakat and income taxes

Provision for zakat is computed in accordance with the regulations of the Department of Zakat and Income Tax (DZIT) and charged to the interim consolidated statement of income based on the higher of the 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 statement of income. 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 the interim consolidated statement of income.

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; the hedging reserve is adjusted based on the periodical valuation of commission rate swaps.

t) Statutory reserve

In accordance with Saudi Arabian Regulations for Companies, the Company is required to transfer 10% of 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.

u) Earnings per share and proposed dividends

Earnings per share from operating income, other operations and net profit for the period is calculated based on the weighted average number of shares outstanding during the period. Dividends proposed for payment after the period end are treated as part of retained earnings and not as liabilities unless the General Assembly approves it before the period end. Once approved by the General Assembly, the amount is recognized as a liability in the same period until paid.

v) Trade accounts receivable

Trade accounts receivable 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 statement of income and reported under "General and administrative expenses". When an 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 statement of income.



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w) Segment reporting

Business segment

A business segment is a 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 September 30, 2012 represent cash in hand and at banks, and Murabaha and short-term deposits, out of which SR 0.03 million (2011: SR 0.03 million) are subject to bank restrictions for letters of guarantee issued for the Jeddah Islamic Port.

It also includes SR 50.14 million as of September 30, 2012 (2011: SR 48.1 million) restricted for repayment of loan installments falling due within 180 days from the balance sheet date.

For the purpose of preparing the statement of cash flows, cash and cash equivalents as of September 30 comprises the following:

	<u>2012</u>	<u>2011</u>
Cash in hand and at banks	172,383	101,032
Amounts restricted by banks	(23,138)	(33,349)
	<u>149,245</u>	<u>67,683</u>
Investment in Murabaha and short-term deposits	71,233	362,376
Amounts restricted by banks	(27,033)	(14,826)
	<u>44,200</u>	<u>347,550</u>
Cash and cash equivalents balance at the end of the period	<u>193,445</u>	<u>415,233</u>

4. BAREBOAT LEASE RECEIVABLE, NET

On January 30, 2009, National Chemical Carriers Ltd. Co. signed an agreement with Odfjell to charter three vessels under a bareboat arrangement for a period of ten years with a 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 rewards and risks and also gives Odfjell a purchase option under the arrangement. The net bareboat lease receivable balance as of September 30 is summarized as follows:

Description	<u>2012</u>	<u>2011</u>
Future minimum lease payments	425,391	480,977
Un-guaranteed residual value at the end of the lease term	247,875	247,875
Total	673,266	728,852
Unearned income	(266,550)	(314,826)
Net bareboat lease receivable balance	<u>406,716</u>	<u>414,026</u>



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The above amount is classified at September 30 as follows:

Description		
Current	9,437	7,130
Non-current	397,279	406,716
Net bareboat lease receivable balance	406,716	414,026

Income related to the above arrangement for the period ended September 30, 2012 amounted to SR 35.97 million (2011: SR 36.5 million) and is included in operating revenues in the accompanying interim consolidated statement of income.

5. INVESTMENTS IN AFFILIATES AND OTHER

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

	2012	2011
Balance, beginning of the period	561,432	455,796
Company's share in affiliates' profit	131,213	56,305
Additional investment in Arabian United Float Glass Company	10,000	-
Dividends received during the period	(35,910)	(11,362)
Balance, end of the period	666,735	500,739

A - Petredec Ltd.

Petredec Ltd. was incorporated on February 20, 1980 under the laws of Bermuda. It specializes in Liquefied Petroleum Gas (LPG) trading and shipping. The registered office of this 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 a 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's financial year starts on September 1 and ends on August 31 of each Gregorian year. The Company's share in Petredec's net profit amounted to SR 131.21 million up to July 31, 2012 (July 31, 2011: SR 56.3 million), which is included in the interim consolidated statement of income.

B - Arabian United Float Glass Company

The Company signed a contract for establishing Arabian United Float Glass Company as a founding member. It was established by Ministerial Decision No. (1299) dated 11/05/1427H (corresponding to June 8, 2006). An investment of SR 20 million was made for the ownership of 2 million fully paid shares, representing 10% of the share capital. In addition, the Company had paid an amount of SR 1.2 million as of September 30, 2012 representing its share in establishment and development costs. This company is engaged in manufacturing of float glass and commenced its operations in April 2009.

Moreover, the Company subscribed SR 10,000,000 in a rights issue, representing 1,000,000 additional shares. Accordingly, the total investment became SR 30,000,000 and remained at 10% of the share capital.



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C - NCC-Odfjell Chemical Tankers JLT (hereinafter referred to as “NCC-Odfjell”)

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 fleets of coated chemical tankers in a pool for transportation of chemicals, vegetable oils and refined petroleum products on a world-wide basis with focus on the growing production and export market of the Arabian Gulf Region. The Joint Venture commenced operations in 2010.

6. SHIPS UNDER CONSTRUCTION AND OTHER

As at September 30, 2012, the balance of ships and other assets under construction principally represents costs incurred by the Company and its subsidiary, NCC, towards their contracts to construct new RoRo vessels and chemical tankers.

The Company

On March 6, 2011, the Company signed four contracts with Hyundai MIPO of South Korea to construct four RoRo vessels for a total amount of SR 1.03 billion (USD 274.2 million). Moreover, on September 12, 2011, the Company exercised its right for the construction of two additional general cargo ships as per the above mentioned contracts with the same specifications and costs for an additional amount of SR 0.51 billion (USD 137.1 million). Accordingly, the Company has six general cargo ships under construction for a total cost of SR 1.54 billion (USD 411.3 million).

The Company had paid an amount of SR 514.10 million (USD 137.1 million) as at the end of the third quarter of 2012 representing the first and second installment on those contracts. It is expected that four of the above mentioned ships will be delivered during 2013 and the remaining two during 2014.

NCC (“a Subsidiary”)

- NCC signed a contract with SLS Shipbuilding Co. Ltd. (“SLS”) of South Korea in 2007 to build six petrochemical carriers for a total cost of SR 1.2 billion (USD 312 million). These tankers were scheduled to be delivered during the period 2010 through 2012. One vessel was received in September 2011 and another three vessels were received during 2012 and were put into operation in the pool arrangement with NCC Odfjell Company.
- 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 a total price of approximately SR 245 million (USD 65.3 million) with expected delivery during 2013.

Bahri Dry Bulk Company LLC (“a Subsidiary”)

Bahri Dry Bulk Company LLC (a subsidiary) signed a contract in April 2012 with Oshima Shipbuilding Company Limited, based in Japan, to build five vessels specialized in bulk transportation, for a total cost of SR 600.42 million (US\$: 160.11 million). Two vessels will be delivered during the fourth quarter of 2013 and the remaining vessels will be delivered during the first half of the year 2014.



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Capital commitments

The Company's capital commitments for constructing ship-yards relating to the construction of RoRo vessels amounted to SR 1.03 billion as of September 30, 2012 (2011: SR 1.34 billion). The Subsidiary's capital commitments for constructing chemical tankers amounted to SR 0.15 billion as of September 30, 2012 (2011: SR 2.15 billion).

7. MURABAHA FINANCING AND LONG-TERM LOANS

The Company and its subsidiaries have entered into various Murabaha financing and long-term loan agreements principally to finance the building of new VLCCs, petrochemical carriers and a new office in Dubai. The balance of this financing as at September 30 comprises the following:

	2012	2011
Finance to the Company	2,136,706	2,283,521
Finance to the Subsidiaries	2,385,935	2,419,292
Total Murabaha and long-term finance	4,522,641	4,702,813
Current portion of Murabaha and long-term finance	(444,174)	(464,858)
Non-current portion of long-term finance	4,078,467	4,237,955

The following table shows the details of the Murabaha and long-term loans as at September 30:

2012						
Financing:	Parent Co.	%	Subsidiaries	%	Total	%
Murabaha Finance	1,044,095	49%	2,022,810	85%	3,066,905	68%
Commercial Finance	79,500	3%	--	--	79,500	2%
Public Investment Fund "Murabaha Finance"	975,000	46%	--	--	975,000	21%
Public Investment Fund finance "conventional"	38,111	2%	363,125	15%	401,236	9%
TOTAL	2,136,706	100%	2,385,935	100%	4,522,641	100%

2011						
Financing:	Parent Co.	%	Subsidiaries	%	Total	%
Murabaha Finance	918,607	40%	2,019,855	83%	2,938,462	62%
Commercial Finance	197,914	9%	---	---	197,914	4%
Public Investment Fund "Murabaha Finance"	1,050,000	46%	---	---	1,050,000	23%
Public Investment Fund finance "conventional"	117,000	5%	399,437	17%	516,437	11%
TOTAL	2,283,521	100%	2,419,292	100%	4,702,813	100%

- The cost of financing is calculated as per the financing agreements at market prevailing rates.
- The Company's fleet and equipment balance includes VLCCs and petrochemical carriers that are financed by banks and mortgaged in favor of the lending banks.

8. EARNINGS PER SHARE AND DIVIDENDS

Earnings per share was calculated based on the number of shares outstanding during the periods ended September 30, 2012 and 2011 totaling 315 million shares.



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The General Assembly approved in its meeting held on April 22, 2012 the payment of cash dividends amounting to SR 157.5 million, representing SR 0.5 per share for the year 2011. The dividends were paid on May 9, 2012. The balance of unclaimed dividends as of September 30, 2012 amounted to SR 31.34 million (2011: SR 31.24 million).

The total earnings (loss) per share from the other operations of the Company are as follows:

<u>For the three months ended</u>		<u>For the nine months ended</u>	
<u>September 30,</u>		<u>September 30,</u>	
<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
(0.05)	(0.05)	0.18	(0.01)

9. ZAKAT AND INCOME TAX

The main components of the Company's zakat base according to the Zakat and Income Tax Regulations comprises of shareholders' equity, provisions as of the beginning of the year, long term loans and adjusted net income, subtracted from which are the net book values of fixed assets, investments and some other items.

The Company's zakat and tax status

The Company has submitted zakat returns for all years up to 2011. The Company has submitted all withholding tax returns up to August 2012 and paid all zakat and withholding tax relating to the submitted returns. The Company received an additional zakat and withholding tax assessment for the years 2007 to 2011 amounting to SR 22 million. The Company objected to these additional assessments and its calculation method to the Department for Zakat and Income Tax ("DZIT"). The Company has not received a final assessment for the years from 2008 until 2011. Since the application of the new tax law, the Company has paid withholding taxes deducted from payments to non-resident parties on due time. The Company believes that adequate provision is maintained at September 30, 2012 for any potential zakat and tax claims by DZIT for the concerned years.

Zakat and Tax status for the subsidiary (NCC)

NCC has submitted the zakat returns for all fiscal years up to 2011 along with all withholding tax returns up to August 2012 and paid the zakat and withholding tax 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 appealed against some of the items shown on the assessments and the way they were treated by DZIT. In April 2010, NCC reached an agreement for a final settlement relating to the mentioned assessments for the amount of SR 53 million. Accordingly, it paid SR 26 million during 2011 and requested to pay the remaining amount on installments over 5 years. NCC believes it maintains an adequate provision for zakat and withholding tax at September 30, 2012.

Zakat returns are prepared separately for the Company and NCC.

10. GENERAL AND ADMINISTRATIVE EXPENSES

	<u>2012</u>	<u>2011</u>
General and administrative expenses	86,424	79,951
Consulting fees "strategic projects"	20,380	--
	<u>106,804</u>	<u>79,951</u>



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11. OTHER (EXPENSES) INCOME, NET

Other income for the period ended September 30, 2012 includes SR 0.12 million representing income from investments in financial instruments and SR 5.3 million representing income from investments in Murabaha deposits. In addition, it includes SR 10.68 million net profit from the sale of a plot of land owned by the company and SR 1.78 million from the sale of old containers (2011: SR 0.14 million income from investments in financial instruments and SR 2.62 from investments in Murabaha deposits and SR 7.5 million represents additional insurance claim recoveries related to one of NCC's vessel).

12. COMMITMENTS AND CONTINGENCIES

The Company had outstanding letters of guarantee as at September 30, 2012 amounting to SR 126.88 million issued in the ordinary course of business.

The Company also has certain outstanding legal proceedings that have arisen in the ordinary 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 results of operations or its financial position.

In addition, Note (6) explains the details of future capital commitments relating to RoRo vessels.

13. SEGMENT INFORMATION

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

	2012				
	Crude Oil Transportation	Petrochemical Transportation	General Cargo Transportation (Liner)	Bulk Transportation	Total
Operating revenues	1,170,21	324,759	362,337	22,316	1,879,625
Bunker costs	(551,865)	--	(117,486)	--	(669,351)
Other operating expenses	(440,228)	(208,762)	(224,314)	(18,188)	(891,492)
Total operating expenses	(992,093)	(208,762)	(341,800)	(18,188)	(1,560,843)
Gross operating income before bunker subsidy	178,120	115,997	20,537	4,128	318,782
Bunker subsidy	127,178	--	33,997	--	161,175
Gross operating income	305,298	115,997	54,534	4,128	479,957
	2011				
	Crude Oil Transportation	Petrochemical Transportation	General Cargo Transportation (Liner)	Bulk Transportation	Total
Operating revenues	919,201	238,814	265,470	---	1,423,485
Bunker costs	(465,010)	--	(92,672)	---	(557,682)
Other operating expenses	(412,726)	(140,746)	(176,461)	---	(729,933)
Total operating expenses	(877,736)	(140,746)	(269,133)	----	(1,287,615)
Gross operating income before bunker subsidy	41,465	98,068	(3,663)	----	135,870
Bunker subsidy	93,812	----	26,853	----	120,665
Gross operating income	135,277	98,068	23,190	----	256,535



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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 September 30:

2012						
	Crude Oil Transportation	Petrochemical Transportation	General Cargo Transportation (Liner)	Bulk Transportation	Shared Assets and Liabilities*	Total
Assets	5,392,200	3,619,498	833,927	208,847	772,576	10,827,048
Liabilities	2,014,491	2,461,735	309,608	12,491	385,728	5,184,053
2011						
	Crude Oil Transportation	Petrochemical Transportation	General Cargo Transportation (Liner)	Bulk Transportation	Shared Assets and Liabilities*	Total
Assets	5,472,134	3,518,564	414,556	200,000	768,775	10,374,029
Liabilities	2,434,645	2,496,267	80,456	----	128,300	5,139,668

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

14. SUBSEQUENT EVENTS

The Company and Saudi Aramco signed on 7th Shaban 1433H (27th June 2012) a non-binding memorandum of understanding (MOU) to pursue the merger of the fleets and operations of Bahri and Vela International Marine Ltd., a wholly owned subsidiary of Saudi Aramco. The proposed merger would create a large and more diversified national shipping company. This merger of ships, personnel and business systems from Vela and Bahri along with management responsibility for Saudi Aramco's very large crude carrier (VLCC) transportation system will be implemented within the corporate structure of Bahri.

Bahri will pay Vela a total consideration of approximately SAR 4,875,000,000 (equivalent to US\$1.3 billion). The consideration will be comprised of a cash payment of SAR 3,122,812,500 (equivalent to US\$832.75 million) in addition to 78,750,000 new Bahri shares to be issued to Vela at an agreed price of SAR22.25 per share, representing a 20 percent shareholding in Bahri after the proposed share issuance on a fully diluted basis. Bahri is currently considering raising the cash consideration through debt financing from a number of sources.

The Company will be the exclusive carrier for Saudi Aramco in the field of maritime shipping services for giant crude oil tankers under this long-term agreement, and will take responsibility for maintaining reliable crude transportation at all times.

15. RECLASSIFICATION

Certain comparative figures of the 2011 interim consolidated financial statements have been reclassified to conform to the current year/period presentation.