



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

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX-MONTH PERIOD ENDED JUNE 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 six month period ended June 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

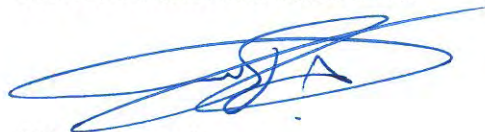
We have reviewed the accompanying interim consolidated balance sheet of **The National Shipping Company of Saudi Arabia** (A Saudi Joint Stock Company) and its subsidiaries as of June 30, 2012 and the interim consolidated statements of income for the three and six month periods then ended and cash flows for the six months ended June 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



Shaban 25, 1433 H
July 15, 2012 G



(The National Shipping Company of Saudi Arabia)

(A Saudi Joint Stock Company)

Interim Consolidated Balance Sheet

(Unaudited)

(In Thousands Saudi Riyals)

		June 30	
	Notes	2012	2011
ASSETS			
Current assets:			
Cash in hand and at banks	3	244,323	103,256
Investments in Murabaha and short-term deposits	3	113,043	295,500
Trade receivables and other debit balances, net		322,568	213,217
Prepaid expenses		48,908	51,493
Bareboat lease receivable, net	4	8,731	7,083
Agents' current accounts		26,373	22,073
Inventories		180,514	149,082
Investments held for trading		23,885	19,021
Accrued bunker subsidy, net		106,245	94,659
Incomplete voyages		2,567	25,334
Total current assets		1,077,157	980,718
Non-current assets:			
Investment in government bonds		587	604
Bareboat lease receivable, net	4	399,880	408,611
Investments held to maturity (Sukuk)		30,000	30,000
Investments available for sale		27,106	28,819
Investments in affiliates and other	5	655,490	497,188
Deferred dry-docking cost, net		90,328	48,853
Fixed assets, net		7,227,091	6,825,624
Ships under construction and other	6	1,334,518	1,271,203
Total non-current assets		9,765,000	9,110,902
Total assets		10,842,157	10,091,620
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable and other credit balances		271,416	265,722
Current portion of Murabaha financing and long-term finance	7	444,174	398,709
Short term loan		180,000	-
Unclaimed dividends	8	32,149	32,045
Provision for zakat and tax	9	130,680	139,993
Total current liabilities		1,058,419	836,469
Non-current liabilities:			
Murabaha financing and long-term finance	7	4,175,180	4,023,008
Obligation from fluctuations in swap fair market value for finance commission rates	2,s	-	753
Employees' end of service benefits provision		30,795	27,148
Total non-current liabilities		4,205,975	4,050,909
Total liabilities		5,264,394	4,887,378
Equity:			
Shareholders' equity			
Paid-up share capital	1	3,150,000	3,150,000
Statutory reserve	2,t	909,153	858,764
Retained earnings		1,212,617	916,615
Hedging reserve for finance commission	2,s	-	(753)
Unrealized gain from available for sale investments		743	2,083
Total shareholders' equity		5,272,513	4,926,709
Non-controlling interests	1	305,250	277,533
Total equity		5,577,763	5,204,242
Total liabilities and equity		10,842,157	10,091,620

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)

	Notes	For the three-months period ended June 30		For the six-months period ended June 30	
		2012	2011	2012	2011
Operating revenues		693,638	518,410	1,325,683	944,340
Bunker costs		(242,211)	(181,540)	(459,918)	(336,743)
Other operating expenses		(308,961)	(253,555)	(590,307)	(488,162)
Gross operating income before bunker subsidy		142,466	83,315	275,458	119,435
Bunker subsidy		51,461	46,081	98,877	75,456
Gross operating income		193,927	129,396	374,335	194,891
General and administrative expenses	10	(48,605)	(27,349)	(77,927)	(54,746)
Operating income		145,322	102,047	296,408	140,145
Company's share in profit of affiliates	5	89,311	11,122	122,573	52,754
Finance charges	7	(14,884)	(13,611)	(28,905)	(26,473)
Other income/ (expenses), net	11	10,289	534	16,901	3,253
Profit before zakat, tax and non-controlling interests		230,038	100,092	406,977	169,679
Zakat provision	9	(17,323)	(3,803)	(25,770)	(9,262)
Tax provision, net	9	(831)	(360)	(2,090)	(518)
Profit before non-controlling interests		211,884	95,929	379,117	159,899
Non-controlling interests in consolidated subsidiaries' net profit		(4,791)	(4,564)	(11,936)	(8,841)
Net profit for the period		207,093	91,365	367,181	151,058
Earnings per share from operating income (SR)	8	0.46	0.32	0.94	0.44
Earnings per share from net profit (SR)	8	0.66	0.29	1.17	0.48

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)

	Note	For the six-months period ended June 30	
		2012	2011
Cash flows from operating activities:			
Net profit for the period		367,181	151,058
Adjustments to reconcile net profit to net cash provided by operating activities:			
Depreciation		191,839	167,994
Amortization of dry-docking costs		18,144	14,842
Unrealized gain on investments held for trading		(3,573)	(194)
Company's share in profit of affiliates		(119,969)	(52,754)
Gains from sale of fixed assets		(12,181)	(61)
Non-controlling interests in consolidated subsidiaries' net profit		11,936	8,841
Provision for zakat		25,770	9,262
Provision for tax, net		2,090	518
Adjustment to zakat and withholding tax provision		-	2,123
Employees' end of service benefits provision, net		2,737	(4,444)
Changes in operating assets and liabilities:			
Trade receivables and other debit balances, net		(34,072)	(37,974)
Prepaid expenses		(8,451)	(11,394)
Bareboat lease receivable		3,749	3,280
Agents' current accounts		(5,095)	(6,926)
Inventories		(35,465)	(15,716)
Accrued bunker subsidy, net		(18,465)	(28,764)
Accounts payable and other credit balances		(17,490)	11,365
Zakat and tax paid		(1,756)	(1,339)
Incomplete voyages		9,537	(26,034)
Net cash provided by operating activities		376,466	183,683
Cash flows from investing activities:			
Investments in Murabaha and short-term deposits		(44,821)	19,796
Investment available for sale		6	737
Investment in affiliates		(10,000)	-
Dividends from affiliates		35,910	11,362
Additions to fixed assets		(5,763)	(375,380)
Additional discount on delivered ships		2,650	-
Proceeds from sale of fixed assets		27,581	2,435
Ships under construction and other, net		(275,751)	(472,719)
Deferred dry-docking costs		(41,269)	(23,312)
Net cash used in investing activities		(311,457)	(837,081)
Cash flows from financing activities:			
Short-term Murabaha financing		116,000	-
Murabaha financing and long-term loans		146,260	335,724
Repayments of Murabaha financing and long-term loans		(277,919)	(57,195)
Dividends paid		(156,070)	(309,851)
Change in non-controlling interests		-	(20,000)
Net cash used in financing activities		(171,729)	(51,322)
Net change in cash and cash equivalents during the period		(106,720)	(704,720)
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	278,100	380,629
Non-cash items:			
Transfer from ships under construction and other to fixed assets		178,363	212,982
Unrealized (gain) loss from available for sale investments		(209)	21

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



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Notes To The Interim Consolidated Financial Statements

For the six months period ended June 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 June 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
Consolidated Subsidiaries:					
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 %
Affiliates:					
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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(In Thousands Saudi Riyals)

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 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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For the six months period ended June 30, 2012 (Unaudited)

(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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Notes To The Interim Consolidated Financial Statements
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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; also, 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 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.

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 June 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 79.24 million as of June 30, 2012 (2011: SR 18.1 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 June 30 comprises the following:

	2012	2011
Cash in hand and at banks	244,323	103,256
Amounts restricted by banks	(11,270)	-
	<u>233,053</u>	<u>103,256</u>
Investment in Murabaha and short-term deposits	113,043	295,500
Amounts restricted by banks	(67,996)	(18,127)
	<u>45,047</u>	<u>277,373</u>
Cash and cash equivalents balance at the end of the period	<u>278,100</u>	<u>380,629</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 June 30 is summarized as follows:

Description	2012	2011
Future minimum lease payments	439,363	494,950
Un-guaranteed residual value at the end of the lease term	247,875	247,875
Total	687,238	742,825
Unearned income	(278,627)	(327,131)
Net bareboat lease receivable balance	<u>408,611</u>	<u>415,694</u>



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The above amount is classified at June 30 as follows:

Description		
Current	8,731	7,083
Non-current	399,880	408,611
Net bareboat lease receivable balance	<u>408,611</u>	<u>415,694</u>

Income related to the above arrangement for the period ended June 30, 2012 amounted to SR 23.9 million (2011: SR 24.2 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 June 30 is as follows:

	2012	2011
Balance, beginning of the period	561,431	455,796
Company's share in affiliates' profit	119,969	52,754
Additional investment in Arabian United Float Glass Company	10,000	-
Dividends received during the period	(35,910)	(11,362)
Balance, end of the period	<u>655,490</u>	<u>497,188</u>

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 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 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 119.97 million up to April 30, 2012 (April 30, 2011: SR 52.75 million), which is included in the interim consolidated statement of income.

B - The 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 August 6, 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 June 30, 2012 representing its share in establishment and development costs. The 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 June 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 paid an amount of SR 411.30 million (USD 109.68 million) as at the end of the second 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 vessel was received in May 2012 and both 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 1.13 billion as of June 30, 2012 (2011: SR 0.82 billion). The Subsidiary's capital commitments for constructing chemical tankers amounted to SR 0.16 billion as of June 30, 2012 (2011: SR 0.78 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 June 30 comprises the following:

	2012	2011
Finance to the Company	2,189,913	2,229,450
Finance to the Subsidiaries	2,429,441	2,192,267
Total Murabaha and long-term finance	4,619,354	4,421,717
Current portion of Murabaha and long-term finance	(444,174)	(398,709)
Non-current portion of long-term finance	4,175,180	4,023,008

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

2012						
Financing:	Parent Co.	%	Subsidiaries	%	Total	%
Murabaha Finance	1,022,302	47%	2,066,315	85%	3,088,617	67%
Commercial Finance	79,500	3%	-	-	79,500	2%
Public Investment Fund "Murabaha Finance"	1,050,000	48%	-	-	1,050,000	22%
Public Investment Fund finance "conventional"	38,111	2%	363,126	15%	401,237	9%
TOTAL	2,189,913	100%	2,429,441	100%	4,619,354	100%

2011						
Financing:	Parent Co.	%	Subsidiaries	%	Total	%
Murabaha Finance	859,903	39%	1,792,829	82%	2,652,732	60%
Commercial Finance	202,547	9%	---	---	202,547	4%
Public Investment Fund "Murabaha Finance"	1,050,000	47%	---	---	1,050,000	24%
Public Investment Fund finance "conventional"	117,000	5%	399,438	18%	516,438	12%
TOTAL	2,229,450	100%	2,192,267	100%	4,421,717	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.



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8. EARNINGS PER SHARE AND DIVIDENDS

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

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 June 30, 2012 amounted to SR 32.15 million (2011: SR 32.05 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 six months ended</u>	
<u>June 30,</u>		<u>June 30,</u>	
<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
0.20	(0.03)	0.23	0.04

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 finalized its zakat and tax status with the DZIT up to 2000. The Company has 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 has also not received the final tax assessments for the years 2001 up to the end of July 2004, the effective date of the new tax law. Since the enforcement of the new tax law, the Company regularly pays the withholding tax on payments to non-resident parties. The Company believes that adequate provision is maintained at June 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 2010 along with all withholding tax returns up to February 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. NCC believes it maintains an adequate provision for zakat and withholding tax at June 30, 2012.

Zakat returns are prepared separately for the Company and NCC.



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10. GENERAL AND ADMINISTRATIVE EXPENSES

	2012	2011
General and administrative expenses	57,547	54,746
Consulting fees "strategic projects"	20,380	-
	<u>77,927</u>	<u>54,746</u>

11. OTHER (EXPENSES) INCOME, NET

Other income for the period ended June 30, 2012 includes SR 0.10 million representing income from investments in financial instruments and SR 3.98 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 1.5 million from the sale of old containers (2011: SR 1.48 million income from investments in financial instruments and SR 0.42 from investments in Murabaha).

12. COMMITMENTS AND CONTINGENCIES

The Company had outstanding letters of guarantee as at June 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.

The Company will pay Vela International Marine Limited ("Vela") under a proposed deal for which they have signed a non-binding Memorandum of Understanding, total compensation of approximately SR 4,875,000,000 (equivalent to US\$ 1.3 billion) of which cash payments will be SR 3,122,812,500 (equivalent to US\$ 832.75 million), in addition to providing 78,750,000 new shares of Bahri shares, to be issued at an agreed price amounting to SR 22.25 per share. Vela's share in Bahri ownership will be 20% of the total shares after completion of the issuance. Bahri intends to finance cash payments through different credit sources.

13. SEGMENT INFORMATION

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

	2012				
	Crude Oil Transportation	Petrochemical Transportation	General Cargo Transportation (Liner)	Bulk Transportation	Total
Operating revenues	864,994	220,823	229,496	10,370	1,325,683
Bunker costs	(377,967)	-	(81,951)	-	(459,918)
Other operating expenses	(299,741)	(135,769)	(146,032)	(8,765)	(590,307)
Total operating expenses	(677,708)	(135,769)	(227,983)	(8,765)	(1,050,225)
Gross operating income before bunker subsidy	187,286	85,054	1,513	1,605	275,458
Bunker subsidy	73,812	-	25,065	-	98,877
Gross operating income	261,098	85,054	26,578	1,605	374,335



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	2011				Total
	Crude Oil Transportation	Petrochemical Transportation	General Cargo Transportation (Liner)	Bulk Transportation	
Operating revenues	616,051	147,203	181,086	----	944,340
Bunker costs	(282,684)	----	(54,059)	----	(336,743)
Other operating expenses	(280,671)	(86,268)	(121,223)	----	(488,162)
Total operating expenses	(563,355)	(86,268)	(175,282)	----	(824,905)
Gross operating income before bunker subsidy	52,696	60,935	5,804	----	119,435
Bunker subsidy	56,825	----	18,631	----	75,456
Gross operating income	109,521	60,935	24,435	----	194,891

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

	2012					Total
	Crude Oil Transportation	Petrochemical Transportation	General Cargo Transportation (Liner)	Bulk Transportation	Shared Assets and Liabilities*	
Assets	5,387,805	3,642,156	692,855	203,092	916,249	10,842,157
Liabilities	2,356,811	2,501,945	47,544	7,818	350,276	5,264,394

	2011					Total
	Crude Oil Transportation	Petrochemical Transportation	General Cargo Transportation (Liner)	Bulk Transportation	Shared Assets and Liabilities*	
Assets	5,551,708	3,277,758	424,680	200,000	637,474	10,091,620
Liabilities	2,371,873	2,289,573	48,019	----	177,913	4,887,378

* 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

A) The Company and Saudi Aramco signed on 7 Sha'aban 1433H (27 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.

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.

Through the contemplated transaction, Bahri will be the exclusive provider of VLCC crude oil shipping services to Saudi Aramco under a long-term agreement and will take responsibility for maintaining reliable crude transportation at all times.

Under the terms of the proposed transaction, 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.



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- B) The Company also signed a Murabaha contract with the Public Investment Fund on 3 Sha'ban 1433 (H), corresponding to July 3, 2012 (G) to partially finance the cost of building 2 General Cargo vessels which are currently under construction at Meebo Hyundai Docks in South Korea. The finance contract value is SR 450,000,000, to be repayed over 10 years from the date of receiving the ships, in equal quarterly installments

15. RECLASSIFICATION

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