

THE NATIONAL SHIPPING COMPANY
OF SAUDI ARABIA
(Saudi Joint Stock Company)
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2002
with
AUDITORS' REPORT



AUDITORS' REPORT

The Shareholders
The National Shipping Company of Saudi Arabia
Riyadh, Kingdom of Saudi Arabia

We have audited the consolidated balance sheet of The National Shipping Company of Saudi Arabia as at December 31, 2002, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended and the accompanying notes (1) through (27) which form an integral part of these consolidated financial statements. These consolidated financial statements have been prepared by the Company in accordance with the provisions of Article (123) of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our audit was conducted in accordance with accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary to obtain a reasonable degree of assurance to enable us to express an opinion on the financial statements. The financial statements of the Company for the year ended December 31, 2001 were audited by other auditors whose report dated Muharram 16, 1423, corresponding to March 30, 2002, expressed an unqualified opinion with emphasis and draw attention to the Company's tax status.

In our opinion, the consolidated financial statements, taken as a whole:

- 1) Present fairly the consolidated financial position of The National Shipping Company of Saudi Arabia as at December 31, 2002 and the results of its operations, changes in shareholders' equity and its cash flows for the year then ended in conformity with accepted accounting standards appropriate to the circumstances of the Company.
- 2) Comply with the requirements of the Regulations for Companies and the Company's Articles of Association with respect to the preparation and presentation of the financial statements.

We draw attention to the Company's tax position referred to in Note (15), which reflects dispute between the Company and the Department of Zakat and Income Tax (DZIT) concerning the imposition of income tax on certain payments to non-residing parties for the period 1982 through 1995.

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Jeddah on 14 Muharram 1424H
Corresponding to 17 March 2003

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

CONSOLIDATED BALANCE SHEET
as at December 31, 2002
(Saudi Riyals)

<u>ASSETS</u>	<u>Note</u>	<u>2002</u>	<u>2001</u>
Current assets:			
Cash on hand and at banks	3	76,274,641	72,391,827
Government bonds and short-term deposits	2c, 4	140,531,775	174,237,990
Accounts receivable – trade and other debit balances, net	6	103,176,385	144,758,669
Prepaid expenses		35,247,246	22,741,405
Agents' current accounts		16,081,543	24,025,408
Inventories	2d	10,553,894	1,837,940
Accrued bunker subsidy, net	2e	9,858,670	42,439,375
Incomplete voyages	2f	<u>2,588,646</u>	<u>3,773,069</u>
Total current assets		<u>394,312,800</u>	<u>486,205,683</u>
Non-current assets:			
Investment in Government Development Bonds	2c	114,343,133	49,982,791
Investment in affiliates	2c, 7	15,984,234	13,560,846
Fixed assets, net	2g, 8	3,691,716,129	3,390,263,522
Leased fixed assets, net	2h, 9	114,781,272	129,409,274
Deferred charges, net	2i, 10	–	941,936
Ships under construction	11	<u>–</u>	<u>575,814,654</u>
Total non-current assets		<u>4,003,440,977</u>	<u>4,212,073,027</u>
Total assets		<u>4,397,753,777</u>	<u>4,699,278,710</u>
		=====	=====
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>			
Current liabilities:			
Accounts payable and other credit balances	12	208,505,728	297,827,548
Current portions of long term loans	13	183,069,223	264,686,220
Current portions of capital lease obligations	2h, 14	21,823,393	26,170,007
Unpaid dividends		12,297,384	14,079,121
Agents' current accounts		11,314,861	13,314,084
Provisions for Zakat and tax	2j, 15	<u>66,389,624</u>	<u>621,925,338</u>
Total current liabilities		<u>503,400,213</u>	<u>679,002,318</u>
Non-current liabilities:			
Long-term loans	13	1,847,597,192	2,035,825,351
Capital lease obligations	2h, 14	61,512,117	84,432,827
Employees' termination benefits	2k	<u>13,956,830</u>	<u>13,676,573</u>
Total non-current liabilities		<u>1,923,066,132</u>	<u>2,133,934,751</u>
Total liabilities		<u>2,426,466,352</u>	<u>2,812,937,069</u>
Minority interests		<u>138,601,891</u>	<u>135,385,533</u>
<u>SHAREHOLDERS' EQUITY</u>			
Paid-up capital	16	1,997,545,143	1,997,494,000
Accumulated losses		<u>(164,859,609)</u>	<u>(246,537,892)</u>
Total shareholders' equity		<u>1,832,685,534</u>	<u>1,750,956,108</u>
Total liabilities and shareholders' equity		<u>4,397,753,777</u>	<u>4,699,278,710</u>
		=====	=====

The accompanying notes (1) through (27) form an integral part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF INCOME
For the year ended December 31, 2002
(Saudi Riyals)

	<u>Note</u>	<u>2002</u>	<u>2001</u>
Operating revenues	2f, 18	1,209,658,758	1,286,597,752
Operating expenses	18	<u>(1,029,734,053)</u>	<u>(1,003,048,961)</u>
Gross operating income		179,924,705	283,548,791
General and administrative expenses	19	<u>(51,273,185)</u>	<u>(57,840,892)</u>
Operating income		128,651,520	225,707,899
Income from investment in affiliates		5,423,388	6,324,307
Other income	2f, 20	13,150,980	44,696,847
Other expenses	21	(1,405,316)	(11,763,838)
Financial charges	13	<u>(83,679,383)</u>	<u>(91,281,715)</u>
Income before bunker subsidy		62,141,189	173,683,500
Bunker subsidy	2e	<u>34,908,225</u>	<u>32,425,497</u>
Income before non-recurring expenses		97,049,414	206,108,997
Non-recurring expenses		<u>—</u>	<u>(26,738,378)</u>
Income before discontinued operations		97,049,414	179,370,619
Discontinued operations	23	<u>—</u>	<u>(291,698,748)</u>
Income (loss) before Zakat and taxes		97,049,414	(112,328,129)
Provision for Zakat and taxes	25, 12	<u>(7,154,773)</u>	<u>(11,991,018)</u>
Income (loss) before minority interests		89,894,641	(124,319,147)
Minority interests		<u>(8,216,358)</u>	<u>(13,290,924)</u>
Net profit (loss) for the year		81,678,283	(137,610,071)
		=====	=====
Earning (loss) per share		2.04	(3.44)
		=====	=====

The accompanying notes (1) through (27) form an integral part of these consolidated financial statements.

THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA
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CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended December 31, 2002
(Saudi Riyals)

	<u>Note</u>	<u>2002</u>	<u>2001</u>
Cash flows from operating activities:			
Net income (loss) for the year before Zakat and taxes		81,678,283	(137,610,071)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation of fixed assets		210,866,251	225,036,108
Depreciation of leased assets		14,628,002	13,507,402
Amortization of deferred charges		47,095,545	37,839,137
Income from investment in affiliates		(5,423,388)	(6,324,307)
Loss (gain) on sale of fixed assets		488,280	(23,120,520)
Minority interest		3,216,358	13,290,924
Provision for Zakat and tax		7,154,773	11,991,018
Non-recurring expenses		—	246,085,900
Changes in operating assets and liabilities:			
Accounts receivable-trade and other receivables		41,582,284	19,320,856
Prepaid expenses		(12,505,841)	3,273,493
Agents current account - receivable		7,943,865	7,144,113
Inventories		(8,715,954)	304,900
Accrued bunker subsidy		32,580,705	7,108,887
Incomplete voyages		1,184,423	(21,416,238)
Accounts payable and other payables		(89,321,820)	86,536,709
Zakat and tax paid		(3,690,487)	(3,452,100)
Agents current accounts - payable		(1,999,223)	36,065
Employees' end of service benefits		280,257	706,569
Net cash provided by operating activities		<u>327,042,313</u>	<u>480,258,849</u>
Cash flows from investing activities:			
Net investment in Government Bonds and short-term deposits		6,790,857	(10,685,035)
Purchase of fixed assets		(386,503,730)	(326,653,685)
Sale of fixed assets		447,511,250	36,780,604
Ships under construction		—	(573,814,654)
Dividends received from affiliates		3,000,000	2,499,995
Deferred charges		(57,669,818)	(52,771,364)
Investments in Government Development Bonds		(64,369,342)	876,198
Net cash (used in) investing activities		<u>(51,231,783)</u>	<u>(923,767,941)</u>
Cash flows from financing activities:			
Net investment in long-term loans		(269,845,156)	453,170,304
Net investment in capital lease obligations		(27,267,324)	(22,742,315)
Increase in paid-up capital		51,143	71,620
Dividends paid		(1,781,737)	(1,140,268)
Net cash (used in) provided by financing activities		<u>(298,843,074)</u>	<u>429,359,341</u>
Net (decrease) in cash and cash equivalents		(23,032,544)	(14,149,751)
Cash and cash equivalents at beginning of the year		<u>223,486,131</u>	<u>237,635,882</u>
Cash and cash equivalents at end of the year	5, 2n	200,453,587	223,486,131
		=====	=====

The accompanying notes (1) through (27) form an integral part of these consolidated financial statements.

THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA
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CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended December 31, 2002
(Saudi Riyals)

	<u>Note</u>	<u>Paid-up Capital</u>	<u>Accumulated Losses</u>	<u>Total</u>
Balance at January 1, 2001		1,997,422,380	(94,996,546)	1,902,425,834
Prior years adjustments	24	—	(13,931,275)	(13,931,275)
Restated balance at January 1, 2001		1,997,422,380	(108,927,821)	(1,888,494,559)
Increase in paid-up capital		71,620	—	71,620
Net loss for the year		—	(137,610,071)	(137,610,071)
Balance at December 31, 2001		1,997,494,000	246,537,892	1,750,956,108
Increase in paid-up capital		51,143	—	51,143
Net income for the year		—	81,678,283	81,678,283
Balance at December 31, 2002		1,997,545,143	(164,859,609)	1,832,685,534
		=====	=====	=====

The accompanying notes (1) through (27) form an integral part of these consolidated financial statements.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2002
(Saudi Riyals)

1. ORGANIZATION AND ACTIVITY

The National Shipping Company of Saudi Arabia (NSCSA) (a Saudi Joint Stock Company) was established on 01/12/1399H, corresponding to 22/10/1979G, 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, passengers and all other activities related to shipping industry.

The National Shipping Company of Saudi Arabia (the Company) owns four roll-on/toll-off (RoRo) vessels operating on liner trades between North America, Europe, Middle East and India.

During 2002, the Company received three Very Large Crude Carriers (VLCC's) and one VLCC in 2001 that were built by Samsung Company. The VLCC's project has, therefore, been completed and the Company now owns nine VLCC's. Five out of the nine VLCC's are chartered to Vela International Marine Ltd. (a subsidiary of Saudi Aramco). The Company also owns a chemical carrier which is currently on charter to the International Shipping and Transport Company Ltd. (ISTC) a subsidiary of Saudi Basic Industries Corporation (SABIC).

The Company and Saudi Basic Industries Corporation (SABIC) jointly formed in 1999 the National Chemical Carriers Ltd. Co. (NCC), in which the two companies own 80% and 20%, respectively, of its capital. Moreover, the Company and the United Arab Shipping Company equally own the shares of the capital of Arabian Chemical Carriers (ACC). The Company has also established two fully owned subsidiaries during 1991 and 1993. These are NSCSA (America) which is based in Baltimore, U.S.A. and NSCSA (Asia) which is based in Singapore. NSCSA (America) acts as general agents for the Company's vessels. As part of discontinued operation, the Company decided to close NSCSA (Asia) and it is currently in liquidation process. In addition, the Company entered into a joint venture with Acomarit, U.K., and together they formed the Mideast Ship Management Company Limited, that is based in Dubai, United Arab Emirates. The Company currently owns 80% of this company.

The accompanying consolidated financial statements include the activities of the Company and the following subsidiaries, of which the Company owns more than 50% of equity:

<u>Ownership</u> <u>Company Name</u>	<u>Minority</u> <u>Interest</u>	<u>Interest</u>
National Chemical Carriers Ltd. Co.	80%	20%
NSCSA (America)	100%	-
Mideast Ship Management Company Ltd.	80%	20%

THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2002
(Saudi Riyals)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements are prepared in accordance with accepted accounting standards in the Kingdom of Saudi Arabia. The significant accounting policies adopted are as follows:

a) Accounting convention

The consolidated financial statements are prepared under the historical cost convention using the accrual basis of accounting and the going concern concept.

b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries in which the Company owns 50% or more equity interest and/or has controlling interest over it. Inter-company transactions and balances are eliminated for the purposes of preparing the consolidated financial statements. Non-controlling equity interest (minority interest / the other partners in the consolidated subsidiaries) has also been accounted for.

c) Investments

The investments in affiliates in which the Company owns shares in capital, ranging between 20% and 50% are accounted for by equity method.

Investments in Saudi Government Development Bonds which held to maturity are stated at adjusted cost by amortization of premium or discount. In case of a permanent diminution in value of such investments, unrealized losses are charged to the statement of income.

d) Inventories

Inventories represent supplies of vessels. Cost of spare parts and other supplies on Board are charged to operating expenses upon purchase. Fuel and lubricants on vessel board are shown as inventory balance at the date of balance sheet.

e) Bunker subsidy

Bunkering subsidy is computed on quantities purchased and is charged to the statement of income. Provisions are made against unexpected collections of accrued subsidy.

f) Revenue recognition

The Company adopts the completed voyage policy for liner services to determine the revenues and expenses of these voyages for the period. A voyage is considered to be a "complete voyage" when a vessel sails from the last discharging port of each voyage. Related freight revenues and the direct and indirect operating expenses associated with the incomplete voyages are deferred till its completion. Incomplete voyages are shown in the balance sheet under "Incomplete Voyages".

Leasing and other associated activities revenue is recorded when services are performed and in conformity with contracts period, voyage durations and agreed upon services. Other income is recorded when recognized.

THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Fixed assets

Fixed assets are recorded at cost and depreciation is provided by using the straight-line method as follows:

1. RoRo vessels are depreciated over a period of twenty years, while VLCCs are depreciated over a period of twenty-five years. Moreover, used vessels are depreciated based on their estimated remaining useful life, after taking into consideration 10% of the vessels' cost as a residual value.
2. Remaining fixed assets items are depreciated in accordance with the adopted depreciation percentage rates.
3. Long-life operational fixed assets are reviewed for impairment to determine impairment of its values whenever events or changes in circumstances indicate that their recoverable value may be less than their net book value. If the sum of the expected future undiscounted cash flows from these assets is less than the net book value of the assets, a loss is recognized for the difference between the recoverable value and net book value of the assets.

h) Capital contracts obligations

The Company capitalizes the values of long-term contract lease obligations under which risks and benefits of the related assets are transferred to the Company. Such assets are depreciated based on the depreciation percentage rates of similar assets owned by the Company.

i) Deferred charges

Deferred dry-docking expenses are amortized over a period of two years or five years effective on the date of the end of dry-docking process. In case of another dry-docking process during the specified amortization period, deferred dry-docking expenses for the concerned vessels are amortized in the statement of income for the year.

j) Zakat and income tax

Provision for Zakat is computed in accordance with Saudi Zakat standard and charged to the statement of income. Regarding the subsidiaries outside the Kingdom, provisions for tax are computed in accordance with adopted fiscal regulations in their respective countries.

k) Employees' termination benefits

Employees' termination benefits are provided for on the basis of the accumulated services in accordance with the by-laws of the Company and in conformity with the Saudi Labor Law and the regulations applied in subsidiaries outside the Kingdom.

THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Borrowing cost

Borrowing cost, related with financing of construction of fixed assets, is capitalized till such assets are ready for use and operation.

m) Foreign currencies transactions

Transactions denominated in foreign currencies are translated in Saudi Riyals at exchange rates prevailing at the dates of such transactions. Assets and liabilities denominated in foreign currencies are translated into Saudi Riyals at exchange rates prevailing on that date. Exchange gains or losses are credited or charged to income currently.

n) Cash and cash equivalents

For the purpose of statement of cash flows, cash and cash equivalents represent cash on hand and current accounts with banks and demand deposits and bonds having maturity during three months from the date of balance sheet.

3. CASH ON HAND AND AT BANKS

Cash on hand and at banks include a margin deposit of SR 2,337,889 against letters of guarantee issued to the Company.

4. GOVERNMENT BONDS AND SHORT TERM DEPOSITS

Saudi Government Development bonds and short term deposits at December 31 comprise the following:

	<u>2002</u>	<u>2001</u>
Government Development Bonds	40,000,000	10,002,989
Deposits in US Dollar	44,111,317	23,290,642
Deposits in Euro	—	18,770,062
Deposits in Hong Kong Dollar	—	15,112,663
Deposits in Saudi Riyals	<u>56,420,458</u>	<u>107,061,634</u>
	140,531,775	174,237,990
	=====	=====

THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2002
(Saudi Riyals)

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at December 31 comprise the following:

	<u>2002</u>	<u>2001</u>
Cash on hand and at banks	73,936,752	72,391,827
Government bonds and short-term deposits	<u>126,516,835</u>	<u>151,094,304</u>
	200,453,587	223,486,131
	=====	=====

6. ACCOUNTS RECEIVABLE - TRADE AND OTHER DEBIT BALANCES

Accounts receivable - trade and other receivable at December 31 comprise the following:

	<u>2002</u>	<u>2001</u>
Receivable - trade	89,037,894	115,140,284
Insurance claims	3,582,935	8,487,949
Other receivable	<u>23,301,141</u>	<u>25,359,930</u>
	115,921,970	157,476,112
Provision for doubtful accounts	<u>(12,745,585)</u>	<u>(4,229,494)</u>
	103,176,385	144,758,669
	=====	=====

7. INVESTMENTS IN AFFILIATES

Investment balance in affiliates represents the Company's share (50%) of the capital of the Arabian Chemical Carriers Company Limited a Saudi limited liability company, investment balance at December 31, comprises the following:

	<u>2002</u>	<u>2001</u>
Investments balance at beginning of the year	13,560,846	9,826,534
Company's share in the affiliate profit	5,423,388	6,324,307
Dividends received	<u>(3,000,000)</u>	<u>(2,499,995)</u>
	15,984,234	13,560,846
	=====	=====

THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA
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8. FIXED ASSETS

Movement in fixed assets during the year 2002 is summarized as follows:

Particular	Cost				Accumulated Depreciation				Net Book Value		Depreciation Rates %
	Balance at 1-1-2002	Additions	Disposals	Balance at 31-12-2002	Balance at 1-1-2002	Current year Depreciation	Disposals	Balance at 31-12-2002	31-12-2002	31-12-2001	
Land	1,854,000	—	—	1,854,000	—	—	—	—	1,854,000	1,854,000	—
Buildings and building improvements	3,984,629	264,452	(58,165)	4,190,916	1,159,077	193,208	(4,848)	1,347,437	2,843,479	2,825,552	5 – 33.3
Fleet and equipment*	5,528,128,635	957,845,691	623,535,727	5,862,438,599	2,161,236,698	204,161,338	(177,502,645)	2,187,895,391	3,174,543,208	3,316,891,937	4 – 15
Containers and trailers	99,884,724	78,625	(72,943,172)	27,020,177	03,647,060	2,424,733	(71,709,132)	24,357,661	2,662,516	6,242,664	20 – 33.8
Furniture and fixtures	5,466,544	64,870	(562,024)	4,969,400	4,424,623	304,709	(311,878)	4,417,454	551,946	1,041,921	10
Tools and office equipment	4,892,431	114,516	(552,955)	4,453,992	4,139,812	296,480	(467,140)	3,969,152	484,840	752,619	2.5 – 25
Motor vehicles	1,594,111	506,151	(347,692)	1,752,570	1,474,036	115,455	(347,184)	1,242,307	510,263	110,075	20 – 25
Computers	34,522,645	1,088,866	(1,405,983)	24,206,528	30,151,965	2,170,709	1,053,993	21,268,681	2,937,847	4,371,680	15 – 25
Containers yard	9,792,546	48,294	—	9,840,840	3,942,553	1,157,424	—	4,799,977	5,040,863	6,149,993	10 – 25
Others	253,445	306,919	—	560,364	240,360	42,195	(9,358)	273,197	287,167	13,085	7 – 15
Total	5,690,274,710	960,218,384	(699,405,708)	5,951,287,386	2,300,111,984	210,816,251	(251,406,178)	2,259,571,157	3,691,716,129	3,390,263,526	

* Balance of ships under construction amounting to SR 573,814,654 at December 31, 2001 transferred to fixed assets as the ships were received during the year 2002. The financed carriers are mortgaged in favor of the lending banks as stated in Note 13 of these financial statements.

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9. LEASED FIXED ASSETS, NET

Balance of leased fixed assets at December 31 comprise the following:

	<u>2002</u>	<u>2001</u>
Leased containers	160,639,981	162,134,569
Accumulated depreciation	<u>(45,858,709)</u>	<u>(32,725,295)</u>
	114,781,272	129,409,274
	=====	=====

10. DEFERRED CHARGES

Balance of deferred charges at December 31 comprise the following:

	<u>2002</u>	<u>2001</u>
Total costs of dry-docking	119,181,530	100,965,500
Total amortization	<u>(52,565,321)</u>	<u>(44,923,564)</u>
	66,616,209	56,041,939
	=====	=====

11. SHIPS UNDER CONSTRUCTION

Balance of ships under construction, as shown in the comparative year figures, represents those amounts paid by the Company for contracts of purchasing three carries and other costs, including the finance charges and the instalments paid for ships construction dock as at December 31, 2001. Carries were received during the year 2002.

12. ACCOUNTS PAYABLE AND OTHER CREDIT BALANCES

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

	<u>2002</u>	<u>2001</u>
Accrued operating expenses	142,207,624	212,928,659
Accrued financial charges	10,372,360	18,858,073
Accounts payable - trade	12,770,096	13,688,091
Accrued insurance expense	10,128,334	13,767,104
Other credit balances	<u>33,027,314</u>	<u>38,585,621</u>
	208,505,728	297,827,548
	=====	=====

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13. LONG-TERM LOANS

The Company and the National Chemical Carriers Company Limited (subsidiary) obtained long term loans from local and international banks to finance the purchasing and building of carriers. The balance of these loans as at December 31 comprise the following:

	<u>2002</u>	<u>2001</u>
Loans to the National Shipping Co. of Saudi Arabia	1,737,541,415	1,887,675,736
Loans to the subsidiary	<u>293,125,000</u>	<u>412,835,835</u>
	2,030,666,415	2,300,511,571
Current portion of long-term loans	<u>(183,069,223)</u>	<u>(264,686,220)</u>
	<u>1,847,597,192</u>	<u>2,035,825,351</u>
	=====	=====

The National Shipping Co. of Saudi Arabia's loans contain a loan amounting to SR 375,000,000 provided by the Public Investments Fund (PIF). The full amount of the loan was received during the year 2002. PIF is a shareholder and represented in the Company's Board of Directors.

These loans are payable in installments after the date of receiving the ships and the carriers. The financing costs are calculated on the basis of the market rates as per the financing agreements.

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

14. CAPITAL LEASE OBLIGATIONS

Long-term capital lease obligations balance represents the value of financing the purchase of 14,900 containers from UNIFAS Financing Company Limited - Bermuda - through a capital lease contract. The lease obligations are payable over a period of seven years, provided that ownership of these containers is to be transferred to the Company after the settlement of the full obligation. The capital lease obligations as at December 31 comprise of the following:

	<u>2002</u>	<u>2001</u>
Capital lease obligations	83,335,510	110,602,834
Current portion of capital lease obligation	<u>(21,823,393)</u>	<u>(26,170,007)</u>
	<u>61,512,117</u>	<u>84,432,827</u>
	=====	=====

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15. ZAKAT AND INCOME TAX STATUS

a) Zakat and income tax status:

The Company submitted the preliminary Zakat returns for all financial years up to 2001 and the related Zakat due was paid accordingly. The Company received Zakat assessments from the Department of Zakat and Income Tax (DZIT) for the years 1989 through 2000 and appealed against certain items in the Zakat base. No decision has been taken on that appeal up to date. The Company and its subsidiary, the National Chemical Carriers (NCC), are in dispute with the DZIT regarding the principle of levying income tax on certain payments made to foreign non-resident companies for the period 1982 through 1995. The Company has filed an appeal against the DZIT and the Preliminary Hearing Committee's decision before the Higher Appeals Committee on behalf of the non-resident companies. The Company has made a provision for Zakat, but not for taxes.

The Higher Appeals Committee issued its decision No. 130 for the year 1420H requesting the Company to settle to the DZIT the levied taxes on non-resident parties and related penalties which amounted to SR 10,443,247 for the period 1982 through 1988.

The Higher Appeals Committee also issued its decision No. 319 for the year 1421H supporting the levying of income tax and related penalties for the period 1989 through 1995 which amounted to SR 23,387,881.

Further, the Final Appeal Committee has issued its Resolution No. 350 for the year 1422H accepting the National Chemical Carriers Company appeal against the First Appeal Committee Resolution No. 21 for the year 1421H is accepted regarding the assessment made by DZIT for the years 1991 to 1993 claiming withholding tax and delay penalties amounting to SR 9,540,878. The case has been returned to the First Appeal Committee for review of the objection items from the substance point of view.

The Company has received Zakat and tax assessments for the years 1996 through 2000 and lodged its objection with the First Preliminary Objection Committee. The Company is currently pursuing these matters and following up with the concerned parties to resolve the disputes with the DZIT as administrative committee formed to study the obstacles that the company facing including the dispute with DZIT regarding tax.

b) Zakat and taxes provision:

The following is the movement of Zakat and tax provision during the two years ended December 31:

	<u>2002</u>	<u>2001</u>
Balance at beginning of the year	62,925,338	54,386,420
Amounts paid during the year	(3,690,487)	(3,452,100)
Accrued during the year	7,154,773	11,991,018
Balance at end of the year	66,389,624	62,925,338
	=====	=====

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16. PAID-UP CAPITAL

The capital of the Company is SR 2,000,000,000 divided into 20 million shares of SR 100 each. Five million shares have been fully paid and 50% of the remaining subscribed shares 15 million shares amounting to SR 50 per share effective from 4 January 1992 was paid SR 35 in cash and SR 15 out of 1991 dividends.

In its special meeting held on 29/1/1419H (corresponding to 25/5/1998), the General Assembly decided to split the Company's capital into 40 million shares with a par value of SR 50 per share.

According to Article 110 of the Companies' Regulations, the Company has the right to sell these shares whose owners did not fully settle the due installment.

The following statement shows the change which occurred in the paid-up capital for the year ended December 31:

	2002		2001	
	<u>No. of Shares</u>	<u>Value Paid</u>	<u>No. of Shares</u>	<u>Value Paid</u>
Fully paid shares	39,747,778	1,987,388,900	39,742,378	1,987,118,900
Partially paid shares	<u>252,222</u>	<u>10,156,243</u>	<u>257,622</u>	<u>10,375,100</u>
	40,000,000	1,997,545,143	40,000,000	1,997,494,000
	=====	=====	=====	=====

17. STATUTORY RESERVE

In accordance with the Saudi Arabian Regulations for Companies, the Company is required to transfer 10% of the net income to a statutory reserve until such reserve equals fifty percent of the paid-up capital. Due to accumulated losses, 10% of the net income has not been transferred to the statutory reserve, but instead the net income has been used to decrease the accumulated losses.

18. SEGMENT INFORMATION

The following schedule illustrates the distribution of the Company's activities according to the operational segments:

	2002		2001	
	<u>Operating Revenues</u>	<u>Operating Expenses</u>	<u>Gross Operating Profit (Loss)</u>	<u>Gross Operating Profit</u>
Liner	298,990,510	(311,726,298)	(12,735,788)	11,169,796
Very Large Crude Carriers (VLCC's)	393,570,009	(270,607,077)	122,962,932	168,669,957
Uqba Inb Nafi	23,797,447	(11,012,973)	12,784,474	13,157,924
National Chemical Carriers Co. Ltd.	<u>493,300,792</u>	<u>(436,387,705)</u>	<u>56,913,087</u>	<u>90,551,114</u>
	1,209,658,758	(1,029,734,053)	179,924,705	283,548,791
	=====	=====	=====	=====

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19. ADMINISTRATIVE EXPENSES

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

	<u>2002</u>	<u>2001</u>
Employees costs	41,048,370	44,174,788
Other general and administrative expenses	5,979,801	9,800,499
Depreciation	2,681,414	2,837,980
Board of Directors' expenses	<u>1,563,600</u>	<u>1,027,625</u>
	51,273,185	57,840,892
	=====	=====

20. OTHER INCOME

Other income for the year ended December 31 comprise the following:

	<u>2002</u>	<u>2001</u>
Bank commission	6,202,904	7,949,642
Short term deposits	3,048,548	6,325,765
Government bonds	3,429,513	3,448,740
Gains on sale of fixed assets	—	23,120,520
Miscellaneous	<u>470,015</u>	<u>3,852,180</u>
	13,150,980	44,696,847
	=====	=====

Other income shown in the comparative year includes income from sale of two ships (Saudi Riyadh) and (Saudi Makkah) amounting to SR 21,334,575.

21. OTHER EXPENSES

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

	<u>2002</u>	<u>2001</u>
Difference in foreign exchange currency rate	20,037	4,163,405
Losses on sale of fixed assets	488,280	—
Stopped ships expenses	42,360	4,409,042
Bank interests and government bonds	787,152	685,536
Unrealized losses	—	2,503,436
Miscellaneous	<u>67,487</u>	<u>2,437</u>
	1,405,316	11,763,838
	=====	=====

22. NON-RECURRING CHARGES

Non-recurring charges shown in the comparative year represent unrealized loss arising from re-evaluation of two ships (Saudi Taif) and (Saudi Shaqra) which were sold in the year 2002.

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23. DISCONTINUED CONTAINERSHIP OPERATIONS

In January 26, 2002, the General Assembly approved the Board of Directors' plan set in November 29, 2001 related to discontinue of the operations of its containership business. The resolution is consistent with the Company's long-term strategy to focus its activities on VLCC's field and petrochemical transportation. Further, the containership's rate of return has not been equal to the Company's other operating vessels during the year. Consequently, the Company sold 3 vessels for SR 143,499,997 each. The last vessel was delivered to the buyer in June 2002.

The results of the discontinued business treated at the end of 2001 as discontinued activity in accordance with the aforementioned resolution of the General Assembly. The results and the estimated losses up to the dates decided for delivery of the sold vessels were charged to the statement of income for the year 2001.

24. CONSOLIDATION OF SUBSIDIARIES

The consolidated financial statements include the Company's accounts and its subsidiaries after eliminating all inter-related balances. Following is a summary of the financial position and result of operations for these subsidiaries for the year ended December 31:

	2002			
	<u>Total Assets</u>	<u>Total Liabilities</u>	<u>Gross Operating Income</u>	<u>Net Income (Loss)</u>
NSCSA (America)	7,411,549	(18,745,320)	14,573,723	136,110
Mid-east Ship Management Company Limited*	16,466,899	(3,273,031)	26,961,218	13,832,876
National Chemical Carriers Co. Ltd.	1,007,486,340	(314,521,883)	53,677,741	41,081,790
	2001			
	<u>Total Assets</u>	<u>Total Liabilities</u>	<u>Gross Operating Income</u>	<u>Net Income (Loss)</u>
NSCSA (America)	4,382,679	(15,852,834)	13,867,635	(1,540,367)
Mid-east Ship Management Company Limited*	16,856,684	(6,245,692)	22,893,795	10,950,926
National Chemical Carriers Co. Ltd.	1,116,289,850	(439,416,183)	87,645,806	66,454,622
NSCSA (Asia)	21,549,485	(6,234,866)	10,991,367	4,255,132

* As per the partners' agreement, the National Shipping Company of Saudi Arabia has the whole rights in the business results and ownership equity of Mid-east Ship Management Company Limited, except the par value of the minority interests.

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25. PRIOR YEAR'S ADJUSTMENTS

Prior year's adjustments represent deferred re-financing expenses in the sum of SR 13,931,275 pertaining to re-financed loans for the year 1997 by other parties with more appropriate rates and terms. These expenses, recorded in the past as prepaid expenses, are to be amortized over the period of the loan. The financial statements of the comparative year were restated.

26. COMMITMENTS AND CONTINGENCIES

The Company issued letters of guarantee in the sum of SR 35,335,223 and two of them in the sum of SR 11,376,792 and SR 23,378,881 in favour of the Department of Zakat and Income Tax against the taxes due and related penalties that were decided upon by the Appeals Committee as referred to in Note 15. These guarantees were issued against cash mortgage of SR 2,337,889 and mortgage of short-term deposits with a sum of SR 9,490,903 and mortgage of Government Development Bonds of SR 8,900,000.

The National Chemical Carriers Company Limited (subsidiary) provides guarantees to its subsidiaries against commitments to certain international banks related to loans and bank facilities awarded to these subsidiaries, the balance of which amounted to SR 117,916,665 as at December 31, 2002 (2001: SR 149,583,330).

The Company also has some outstanding litigations which are being reviewed in the normal course of business. Although the final outcome of these litigations has not yet been determined, management does not expect that these cases will have a material negative effect on the Company's result of operations or its financial position.

27. COMPARATIVE FIGURES

Certain figures of 2001 financial statements have been reclassified to conform with year 2002 presentation.