

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

CONSOLIDATED FINANCIAL STATEMENTS
As at December 31, 2004
**together with the
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 (the Company) as at December 31, 2004 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended and the accompanying notes from 1 to 27 which form an integral part of these 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 generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other procedures as we considered necessary to obtain a reasonable degree of assurance to enable us to express an opinion on the financial statements.

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, 2004 and the results of its operations, changes in shareholders' equity and its cash flows for the year then ended in accordance with generally 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.

**Deloitte & Touche
Bakr Abulhair & Co.**

KPMG Al Fozan & Bannaga

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Corresponding to 27 March 2005

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

CONSOLIDATED BALANCE SHEET

December 31, 2004
(in thousands Saudi Riyals)

<u>ASSETS</u>	<u>Note</u>	<u>2004</u>	<u>2003</u>
Current assets:			
Cash in hand and at banks	(3)	115,367	123,751
Government bonds and short term deposits	(4)	448,128	288,771
Trade receivable and other debit balances, net	(6)	140,508	90,589
Prepayments		35,375	32,520
Agents' current accounts		20,850	12,607
Inventories		13,635	20,614
Accrued bunker subsidy, net	(7)	16,358	17,267
Total current assets		<u>790,221</u>	<u>586,119</u>
Non-current assets:			
Investment in government bonds		60,745	52,178
Investment in affiliate	(8)	11,102	14,049
Deferred charges, net	(9)	40,396	48,988
Fixed assets, net	(10)	3,276,956	3,503,240
Ships under construction	(11)	300,388	53,495
Total non-current assets		<u>3,689,587</u>	<u>3,671,950</u>
Total assets		<u>4,479,808</u>	<u>4,258,069</u>
 <u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>			
Current liabilities:			
Accounts payable and other credit balances	(12)	161,176	153,296
Current portion of long term loans	(13)	237,106	246,605
Unclaimed and proposed dividends	(14)	208,794	10,631
Agents' current accounts		13,303	7,182
Provision for Zakat and tax	(16)	150,960	139,808
Incomplete voyages		15,303	7,359
Total current liabilities		<u>786,642</u>	<u>564,881</u>
Non-current liabilities:			
Long term loans	(13)	1,367,770	1,597,858
Mark to market adjustment on interest rate hedge	(15)	24,501	56,753
Tax obligation	(16)	22,000	24,000
End of service benefits		16,945	14,760
Total non-current liabilities		<u>1,431,216</u>	<u>1,693,371</u>
Total liabilities		<u>2,217,858</u>	<u>2,258,252</u>
Shareholders' equity:			
Paid-up capital	(17)	1,998,189	1,997,659
Statutory reserve	(18)	35,635	--
Hedging reserve	(15)	(24,501)	(56,753)
Retained earnings/(accumulated losses)		120,712	(71,493)
Total shareholders' equity		<u>2,130,035</u>	<u>1,869,413</u>
Minority interest		131,915	130,404
Total shareholders' equity		<u>2,261,950</u>	<u>1,999,817</u>
Total liabilities and shareholders' equity		<u>4,479,808</u>	<u>4,258,069</u>

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

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

CONSOLIDATED STATEMENT OF INCOME

For the year ended December 31, 2004

(in thousands Saudi Riyals)

	<u>Note</u>	<u>2004</u>	<u>2003</u>
Operating revenue	(19)	1,646,221	1,446,375
Operating expenses	(19)	(1,080,813)	(1,129,058)
Gross operating income		565,408	317,317
General and administrative expenses	(20)	(66,914)	(55,780)
Operating income		498,494	261,537
Equity share of affiliate's net income	(8)	3,053	3,065
Other income (expenses)	(21)	11,866	18,136
Finance charges	(13)	(75,199)	(83,111)
Income before bunker subsidy		438,214	199,627
Bunker subsidy		14,122	21,641
Income before discontinued operations		452,336	221,268
Discontinued operations	(22)	--	(21,230)
Income before Zakat and tax		452,336	200,038
Provision for Zakat	(16)	(14,869)	(9,099)
Provision for tax	(16)	(5,116)	(31,358)
Income before minority interest		432,351	159,581
Minority interest		(4,511)	(3,918)
Net income for the year		427,840	155,663
Earning per share	(23)	SR 10.7	SR 3.89

The accompanying notes (1) through (27) form an integral part of these 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, 2004

(in thousands Saudi Riyals)

	<u>Note</u>	<u>Paid-up capital</u>	<u>Statutory reserve</u>	<u>Hedging reserve</u>	<u>Retained earnings/ (accumulated losses)</u>	<u>Total</u>
Balance at January 1, 2003		1,997,545	--	--	(227,156)	1,770,389
Increase in paid-up capital		114	--	--	--	114
Accounting for hedging reserve	(15)	--	--	(56,753)	--	(56,753)
Net income for the year		--	--	--	155,663	115,663
Balance at December 31, 2003		1,997,659	--	(56,753)	(71,493)	1,869,413
Increase in paid-up capital	(17)	530	--	--	--	530
Net income for the year		--	--	--	427,840	427,840
Statutory reserve	(18)	--	35,635	--	(35,635)	--
Accounting for hedging reserve	(15)	--	--	25,383	--	25,383
Revaluation for cash flow hedge	(15)	--	--	6,869	--	6,869
Proposed Dividend	(14)	--	--	--	(200,000)	(200,000)
Balance at December 31, 2004		1,998,189	35,635	(24,501)	120,712	2,130,035

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

THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA
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CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2004

(in thousands Saudi Riyals)

	<u>Note</u>	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:			
Net income for the year		427,840	155,663
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation of fixed assets		194,773	220,091
Equity share of affiliate's net income		(3,053)	(3,065)
Amortisation of deferred charges		38,832	45,871
Minority interest		4,511	3,918
Loss (gain) on sale of fixed assets		888	(5,882)
End of service benefits		2,185	803
Provision for Zakat and tax		19,985	40,457
Changes in operating assets and liabilities:			
Trade receivable and other debit balances		(49,919)	12,587
Prepayments		(2,855)	2,727
Agents' current accounts-debit balances		(8,243)	(5,787)
Inventories		6,979	(10,060)
Accrued bunker subsidy		909	(7,409)
Incomplete voyages		7,944	9,947
Accounts payable and other credit balances		7,880	(55,210)
Zakat and tax paid		(10,833)	(12,452)
Agents' current accounts-credit balances		6,121	(4,132)
Net cash provided by operating activities		643,944	388,067
Cash flows from investing activities:			
Government bonds and short term deposits		13,264	1,746
Purchase of fixed assets		(1,851)	(4,371)
Procedes from sale of fixed assets		32,474	93,420
Ships under construction		(246,893)	(53,495)
Dividends received from affiliate		6,000	5,000
Deferred charges		(30,240)	(28,242)
Net cash (used in) provided by investing activities		(227,246)	14,058
Cash flows from financing activities:			
Net movement in long term loans		(239,587)	(186,204)
Net movement in capital lease obligations		--	(83,335)
Increase in paid-up capital		530	114
Dividends paid		(1,837)	(1,666)
Minority interest		(3,000)	(5,000)
Net cash used in financing activities		(243,894)	(276,091)
Net increase in cash and cash equivalents		172,804	126,034
Cash and cash equivalents at beginning of the year		335,750	209,716
Cash and cash equivalents at end of the year	(5)	508,554	335,750

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

THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004
(in thousands Saudi Riyals)

1. ORGANISATION AND ACTIVITIES

The National Shipping Company of Saudi Arabia ('the Company'), a Saudi joint stock company, was established by Royal Decree No. M/5 dated 12/02/1398H, corresponding to 21/01/1978G, and registered under Commercial Registration No. 1010026026 dated 01/12/1399H, corresponding to 22/10/1979G, 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 shipping industry has operations in three distinct segments, very large crude carriers (VLCCs), chemical carriers and liners.

The Company owns four roll-in roll-out (RoRo) vessels operating on liner trade between North America, Europe, Middle East and India. The Company owns nine very large crude carriers (VLCCs), four of these VLCCs are chartered to Vela International Marine Limited which is a subsidiary of Saudi Aramco. The Company also owns a chemical carrier that is currently on charter with the International Shipping and Transport Company Limited (ISTC), a subsidiary of Saudi Basic Industries Corporation (SABIC).

The Company and SABIC jointly formed the National Chemical Carriers Limited Company (NCC) in 1990, in which the two companies have 80% and 20% shareholding respectively. NCC has three fully owned subsidiaries, namely East Coast Maritime Limited, South Coast Maritime Limited and North Coast Maritime Limited. The Company and the United Arab Shipping Company equally own the capital of Arabian Chemical Carriers (ACC). The Company established a fully owned subsidiary during 1991-NSCSA (America), Incorporated based in Baltimore, United States of America. NSCSA (America) acts as general agent for the Company's vessels. The Company has entered into a joint venture with Acomarit to form the Mideast Ship Management Company Limited (MSML), based in Dubai, United Arab Emirates. The Company holds 80% of the shares in MSML.

Consolidated financial statements include the activities of the Company and the following subsidiaries, in which the Company owns more than 50% of equity:

<u>Subsidiary</u>	<u>Company's Ownership</u>	<u>Minority Interest</u>
National Chemical Carriers Limited Company	80%	20%
NSCSA (America) Incorporated	100%	--
Mideast Ship Management Company Limited	80%	20%

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

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

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 the subsidiaries in which it has 50% or more equity interest and/or has controlling interest. Intercompany transactions and balances are eliminated for the purpose of preparing the consolidated financial statements. Also, equity interest of the minority shareholders in the subsidiaries being consolidated has been accounted for.

c) *Use of estimates*

Financial statements prepared by management requires the use of estimates and assumptions which has an effect on the financial position and results of operation, actual results ultimately may differ from those estimates.

d) *Investments*

Investment in affiliates in which the Company owns equity interest ranging between 20% and 50% is accounted for using the equity method.

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

e) *Inventories*

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

f) *Bunker subsidy*

Bunker subsidy is computed on bunker quantities purchased and recorded in the statement of income. Appropriate provisions are made against any amounts that might not be collected.

g) *Revenue recognition*

The Company has adopted the completed voyage policy to determine the revenue and expenses for the period for liner services. A voyage is considered to be a "completed voyage" when the vessel has sailed from the last discharging port of a voyage. Freight revenue, direct and indirect operating expenses associated with the incomplete voyages are deferred until completion of voyage. Incomplete voyages are shown in the balance sheet as "incomplete voyages".

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g) *Revenue recognition (cont'd)*

Revenue from chartering and other associated activities is recorded when services are rendered and is recorded in conformity with contract period, voyage duration and agreed upon services. Other income is recorded when earned.

h) *Fixed assets*

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

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

i) *Deferred charges*

Deferred dry-docking charges are amortised over a period of either two or five years from the date of completion of dry-docking. Where a vessel undergoes another dry-docking during the amortisation period of the previous dry-docking, any unamortised balance of deferred charges related to the previous dry-docking of the vessel is charged to the statement of income for the year in which the additional dry-docking takes place.

j) *Zakat and income tax*

Provision for Zakat is computed in accordance with Saudi Zakat standard and charged to statement of income. Provision is made for tax on payments made to non-resident parties and is charged to statement of income. For subsidiaries outside the Kingdom of Saudi Arabia, provision for tax is computed in accordance with fiscal regulations as applicable in respective countries.

k) *Expenses*

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

l) *End of service benefits*

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

m) *Borrowing costs*

Borrowing costs incurred to finance the construction of fixed assets are capitalised. The capitalisation ceases when such assets are ready for operational use.

n) *Foreign currency transactions*

Transactions in foreign currencies are recorded at the exchange rates prevailing on the dates of the respective transactions. At balance sheet date, assets and liabilities denominated in foreign currencies are translated to Saudi Riyals at the exchange rates prevailing on that date. Gains and losses resulting from changes in exchange rates are recognised as income or expense.

o) *Cash and cash equivalents*

For the purpose of reporting cash flows, cash and cash equivalents represent cash in hand, current accounts and demand deposits with banks and government bonds maturing within three months of the balance sheet date.

p) *Proposed dividends*

Dividends proposed after year end are treated as a part of retained earnings and not as liabilities unless the approval for distribution was before the end of the year.

3. CASH IN HAND AND AT BANKS

Cash in hand and at banks includes SR 1.9 million subject to bank restrictions to issue letter of guarantees for Department of Zakat and Income Tax (DZIT).

Cash in hand and at banks at December 31, 2004 also includes SR 24 million restricted for payment of due loans during the next 180 days from financial statements date.

4. GOVERNMENT BONDS AND SHORT TERM DEPOSITS

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

	<u>2004</u>	<u>2003</u>
Saudi Government Development Bonds	40,000	58,900
Deposits in US Dollars	312,542	173,280
Deposits in Saudi Riyals	95,586	56,591
	<u>448,128</u>	<u>288,771</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004
(in thousands Saudi Riyals)

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at December 31 comprise the following:

	<u>2004</u>	<u>2003</u>
Cash in hand and at banks	113,421	119,231
Government bonds and short term deposits	395,133	216,519
	<u>508,554</u>	<u>335,750</u>

6. TRADE RECEIVABLE AND OTHER DEBIT BALANCES, NET

Trade receivable and other debit balances at December 31 comprise the following:

	<u>2004</u>	<u>2003</u>
Trade receivable	126,332	78,645
Insurance claims	3,837	3,740
Other receivable	23,387	24,244
	<u>153,556</u>	<u>106,629</u>
Provision for doubtful receivable	(13,048)	(16,040)
	<u>140,508</u>	<u>90,589</u>

7. ACCRUED BUNKER SUBSIDY, NET

Accrued bunker subsidy at December 31 comprise the following:

	<u>2004</u>	<u>2003</u>
Accrued bunker subsidy	44,682	31,111
Provision for doubtful amounts	(28,324)	(13,844)
	<u>16,358</u>	<u>17,267</u>

8. INVESTMENT IN AFFILIATE

Investment in affiliate represents the Company's share (50%) of the net equity of the Arabian Chemical Carriers, a Saudi limited liability company. Investment balance at December 31 comprises the following:

	<u>2004</u>	<u>2003</u>
Balance at beginning of year	14,049	15,984
Company's share in affiliate's profit	3,053	3,065
Dividends received during the year	(6,000)	(5,000)
Balance at end of the year	<u>11,102</u>	<u>14,049</u>

9. DEFERRED CHARGES

Deferred charges at December 31 comprise the following:

	<u>2004</u>	<u>2003</u>
Dry-docking charges	65,280	147,424
Accumulated amortization	(26,448)	(98,436)
Deferred Tax Benefits	1,564	--
	<u>40,396</u>	<u>48,988</u>

Dry-docking charges of SR 110,820 which has been fully amortized during the year, has been written-off.

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10. FIXED ASSETS

Movement in fixed assets during the year 2004 is summarised as follows:

<u>Particulars</u>	Cost			Accumulated Depreciation			Net Book Value		Depreciation Rate %		
	<u>Balance at 1.1.2004</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at 31.12.2004</u>	<u>Balance at 1.1.2004</u>	<u>Charged for the year</u>	<u>Disposals</u>	<u>Balance at 31.12.2004</u>		<u>31.12.2004</u>	<u>31.12.2003</u>
Land	1,854	--	--	1,854	--	--	--	--	1,854	1,854	--
Buildings and improvements	4,272	330	--	4,602	(1,553)	(316)	--	(1,869)	2,733	2,719	5-33.3%
Fleet and equipment*	5,731,804	--	(160,986)	5,570,818	(2,282,854)	(185,976)	133,077	(2,335,753)	3,235,065	3,448,950	4-15%
Containers and trailers	81,538	--	(10,803)	70,735	(38,796)	(5,184)	4,681	(39,299)	31,436	42,742	20-33.8%
Furniture and fixtures	4,570	189	(298)	4,461	(4,215)	(121)	298	(4,038)	423	355	10%
Tools and office equipment	4,084	275	(696)	3,663	(3,720)	(290)	709	(3,301)	362	364	2.5-25%
Motor vehicles	1,332	492	(93)	1,731	(958)	(187)	93	(1,052)	679	374	20-25%
Computers	33,639	562	(29)	34,172	(32,249)	(1,478)	29	(33,698)	474	1,390	15-25%
Container yard	9,847	--	--	9,847	(5,937)	(1,143)	--	(7,080)	2,767	3,910	10-25%
Others	918	3	526	1,447	(336)	(78)	130	(284)	1,163	582	7-15%
Total	5,873,858	1,851	(172,379)	5,703,330	(2,370,618)	(194,773)	139,017	(2,426,374)	3,276,956	3,503,240	

* Fleet and equipment includes very large crude carriers and petrochemical carriers mortgaged in favour of lending banks as mentioned in note 13 to these financial statements.

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11. SHIPS UNDER CONSTRUCTION

The Company signed a contract during October 2004 with Hyundai Samho Heavy Industries Co., Ltd to construct two crude oil carriers 318,000DWT. The two carriers will be received during August and September 2007. The total cost of construction is approximately US\$ 105.5 million for each carrier. The total amount of the contract will be paid in installments during the construction period, 20% to 30% will be funded by the Company while 70% to 80 % will be financed externally. The Company paid the first installment during October 2004, the second installment will be paid during 2005 and the remaining installments will be paid according to the stages of construction.

Balance of ships under construction also includes amounts paid by a subsidiary (NCC) under contracts to build new petrochemical carriers. The subsidiary signed contracts with Hyundai (Korean Co.) to build 10 petrochemical carriers with total amount of SR 1,359 million equivalent to US\$ 362.3 million.

The following table presents payments made for ships under construction as of December 31, 2004:

	<u>2004</u>	<u>2003</u>
The Company	157,224	--
The subsidiary (NCC)	143,164	53,495
	<u>300,388</u>	<u>53,495</u>

12. ACCOUNTS PAYABLE AND OTHER CREDIT BALANCES

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

	<u>2004</u>	<u>2003</u>
Accrued operating expenses	83,976	81,921
Accrued finance charges	9,822	9,166
Trade payable	9,069	6,645
Accrued insurance expenses	12,218	15,749
Other payable	46,091	39,815
	<u>161,176</u>	<u>153,296</u>

13. LONG TERM LOANS

The Company and the NCC 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>2004</u>	<u>2003</u>
Loans to the Company	1,434,876	1,621,234
Loans to a subsidiary (NCC)	170,000	223,229
	<u>1,604,876</u>	<u>1,844,463</u>
Current portion of long term loans	(237,106)	(246,605)
	<u>1,367,770</u>	<u>1,597,858</u>

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The loans to the Company include a loan of SR 375 million provided by the Public Investment Fund (PIF). Full amount of the loan was received during the year 2002. PIF is a shareholder and is represented on the Company's Board of Directors.

These loans are payable in installments after the date of receiving the carriers and vessels. The cost of financing is calculated as per the respective financing agreements.

The loan agreements contain covenants related to liquidity, indebtedness and other conditions. Moreover, the financed carriers and vessels are mortgaged in favour of the lending banks.

14. UNCLAIMED AND PROPOSED DIVIDENDS

Unclaimed and proposed dividends at December 31 comprise the following:

	<u>2004</u>	<u>2003</u>
Unclaimed dividends from previous years	8,794	10,631
Proposed dividends	<u>200,000</u>	<u>--</u>
	<u>208,794</u>	<u>10,631</u>

The board of directors proposed on 17/10/2004 to distribute cash dividends amounting to SR 200 million for SR 5 for each share

15. HEDGING RESERVE

The Company uses commission rate swaps and commission rate caps to hedge its long term loans against fluctuations in market commission rates. On December 31, 2003, the Company adopted the accounting treatment prescribed by International Accounting Standard (IAS) 39 and accordingly reflected the changes in the market value of these hedging instruments in the hedging reserve as part of shareholders' equity.

The hedging loss reflected in the hedging reserve does not represent a permanent change in the shareholder' equity and will reduce to zero over the period of the hedging agreement. The hedging reserve is adjusted based on the periodical valuation of these swaps.

Following is a summary of hedging reserve movement:

	<u>2004</u>	<u>2003</u>
Balance at 1 January	(56,753)	--
Difference in net cash flow from commission rate swaps/libor	25,383	(56,753)
Difference on revaluation of cash flow hedge	<u>6,869</u>	<u>--</u>
Balance at 31 December	<u>(24,501)</u>	<u>(56,753)</u>

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16. ZAKAT AND INCOME TAX

a) **Zakat and income tax status**

The Company has submitted the Zakat returns for all fiscal years up to 2003 and the related Zakat due was paid accordingly. The department of Zakat and Income Tax (DZIT) has finalized the Company's Zakat position for the years from 1982 to 1988. In respect of the years 1989 to 2000 the company has received the DZIT's assessments showing claims of additional Zakat amounting to SR 68.2 million due to calculation of Zakat differences. A provision of SR 54.4 million was formed against such claims. The Company has filed appeal against the assessment which still has not been heard by the Preliminary Appeal Committee. Further, the company has received claims amounting to SR 33.8 million from DZIT for taxes due on payments made to non-resident foreign parties for the years 1982 to 1995. As the ruling on the Company's appeal for such claims was in favor of DZIT, the necessary provisions were formed thereof. An agreement was reached with DZIT to settle the tax claims over a period of seven years. Also the Company has received the assessment for the years 1996 to 2000 in which the DZIT claimed additional amounts of SR 18.8 million. The Company has appealed against such claims and the appeal has still not been heard by the Preliminary Appeal Committee. The Company made a provision for such claims. In addition, the Company made a provision for tax on the payments made to non-resident foreign parties, for the years 2001 to 2003 for SR 8 million.

Moreover, a subsidiary (NCC) has filed its Zakat declaration up to the year 2003, and has received the Zakat assessments for the years 1991 to 1993, in which the DZIT assessed additional amounts of SR 9.54 million representing withholding tax on non-resident foreign parties. The Company had appealed against these assessments and the Preliminary Appeal Committee issued its decision upholding the DZIT viewpoint. NCC has appealed against the Preliminary Appeal Committee's decision to the Higher Appeal Committee. The appeal has not been heard yet. NCC has not received any further assessments or any tax claims for the years 1994 to 2003. The Company has made a provision for the taxes which the DZIT might assess of payments made to non-resident foreign parties for the years 1991 to 2004 for the amount of SR 41.8 million. The Company has not received any Zakat certificate since its inception in 1991.

b) **Provision for Zakat and tax**

Following is the movement in provision for Zakat and tax during the year ended December 31:

	<u>2004</u>	<u>2003</u>
Balance at beginning of the year	163,808	135,803
Amounts paid during the year	(10,833)	(12,452)
Provision made during the year	19,985	40,457
Total zakat and tax provision	172,960	163,808
Tax obligation – non current	(22,000)	(24,000)
Provision for Zakat and tax - current	150,960	139,808

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17. PAID-UP CAPITAL

The capital of the Company is SR 2 billion divided into 40 million shares of par value SR 50 each. According to Article 110 of the Regulations for Companies, the Company has the right to sell the shares whose owners did not fully settle the installments due.

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

	2004		2003	
	No. of Shares	Value Paid	No. of Shares	Value Paid
Shares paid in full	39,803,418	1,990,171	39,759,648	1,987,982
Shares partially paid	196,582	8,018	240,352	9,677
	40,000,000	1,998,189	40,000,000	1,997,659

18. STATUTORY RESERVE

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

19. SEGMENT INFORMATION

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

	2004			2003
	Operating revenue	Operating expenses	Gross operatin g profit	Gross operating profit
Very large crude carriers	776,136	(342,474)	433,662	253,454
Liner service	409,303	(323,223)	86,080	22,877
Petrochemical carriers	460,782	(415,116)	45,666	40,986
	1,646,221	(1,080,813)	565,408	317,317

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

	Very Large Crude Carriers	Liner Service	Petrochemical Carriers	Shared Assets and Liabilities	Total
Assets	2,784,822	251,714	930,446	512,826	4,479,808
Liabilities	1,534,117	142,731	251,937	289,073	2,217,858

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

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20. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the year ended December 31 comprise the following:

	<u>2004</u>	<u>2003</u>
Employees costs	48,032	44,863
Other general and administrative expenses	13,200	7,049
Depreciation	2,258	2,445
Expenses of Boards of Directors of the Company and its subsidiaries	3,424	1,423
	<u>66,914</u>	<u>55,780</u>

21. OTHER INCOME (EXPENSES)

Other income (expenses) for the year ended December 31 comprise the following:

	<u>2004</u>	<u>2003</u>
Commission on government bonds	5,833	5,787
Commission on short term deposits	6,404	2,148
Shipping commission	846	4,185
Bank commission and amortization of Government bonds' premium	(2,881)	(2,732)
Gain on sale of fixed assets	888	5,882
Bank commission	647	474
Foreign exchange gain	(268)	523
Miscellaneous	397	1,869
	<u>11,866</u>	<u>18,136</u>

22. DISCONTINUED OPERATIONS

The amount appearing in the comparative financials figures of SR 21.23 million represents the additional provisions made relating to the Company's resolution to discontinue the containers business on 29 November 2001.

23. EARNING PER SHARE

Earning per share is calculated based on the weighted average number of shares upstanding during the year. Weighted average number of shares for the year 2004 was SR 39,958,480 (2003: SR 39,952,043).

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24. CONSOLIDATION OF SUBSIDIARIES

The consolidated financial statements include the financial statements of the Company and its subsidiaries, after eliminating all intercompany balances. Following is a summary of the financial position and results of operations of these subsidiaries for the year ended December 31:

	2004				2003			
	Total assets	Total liabilities	Gross operating income	Net income	Total assets	Total liabilities	Gross operating income	Net income
NSCSA (America), Incorporated	12,497	(16,060)	19,519	5,406	9,281	(18,250)	17,137	2,365
Mideast Ship Management Company Limited*	16,646	(6,578)	25,054	7,696	11,666	(3,285)	23,045	9,250
National Chemical Carriers Limited Company	903,583	(245,345)	37,274	22,556	940,583	(288,609)	30,304	21,734

*As per the partners' agreement, the Company has full rights in the business results and its share in the net equity of the MSML, except for par value of the minority shareholders share.

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25. COMMITMENTS AND CONTINGENCIES

The Company has issued letters of guarantee for SR 35.3 million which include two guarantees of SR 11.4 million and SR 23.4 million each in favour of the DZIT in respect of taxes and penalties imposed by the Appeals Committee as explained in note 16 to the financial statements. These guarantees were issued against mortgage of bank account with a sum of SR 2.3 million, short-term deposits with a sum of SR 11.8 million and Saudi Government Development Bonds with a sum of SR 8.9 million.

The NCC has commitments in the form of bank guarantees. These guarantees amounted to SR 9.7 million (2003: SR 9.7 million) issued in favor of DZIT with regard to tax claims (note 15). The guarantee has been issued in lieu of Governmental Bonds.

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

In addition, please refer to Note (11) in relation to future capital commitments to build large crude carriers and vessels.

26. SUBSEQUENT EVENTS

The Company has signed an agreement in January 2005 to acquire 30.3 % share of the capital of PETREDEC LTD for SR 187.5 million. PETREDEC LTD is specialized in Liquefied Petroleum Gas (LPG) trading and shipping. The registered office of the Company is situated in Bermuda and the company also has offices in London, Singapore and Bahamas. The payment of SR 112.5 million has been made in February 2005 which is against issuance of 1,111,111 shares, and the payment of remaining SR 75 million will be made in April 2005 against issuing of 740,740 shares out of the total shares of 5 million of PETREDEC LTD.

PETREDEC LTD was incorporated on 20 February 1980 under the laws of Bermuda with a capital of US\$ 5 million divided into 5 million ordinary shares of US\$1 per share. The partners' equity in the Company as of 31 August 2004 was US\$ 29 million. For the purpose of acquiring the 30.3% share in the capital of PETREDEC LTD, its shares were revalued at US\$ 27 per share.

27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments carried on the balance sheet principally include cash, time deposit, Government Development Bonds, receivables, payables and accrued expenses.

Credit risk

Credit risk is the risk that counterparties do not meet their obligations, so the other party incur a financial loss. At the balance sheet date, there were no significant concentration of credit risk. The Company maintains its cash with high credit rated local banks. Receivables are carried net of provisions for doubtful debts.

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Commission rate exposure

This related to the Company's exposure to the risk of change in commission rates in the market and the potential impact on the financial position of the Company and its cash flows. The Company is using commission rate swaps to fix the commission rates and uses commission rate caps to hedge the risk of increase in commission rate for its long term loans. The Company monitors the commission rate changes and believes that expected commission rate changes on the Company after considering its hedges is not significant.

Currency risk

This related to the risk of change in the value of financial instruments due to change in foreign currency rates. The Company's transactions are mainly in Saudi Riyals and US Dollars. The Company monitors the currency rate changes and believes that the impact of currency rate changes on the Company are not significant.

Liquidity risk

This represents risks that the Company will be unable to meet its funding requirements related to financial instruments. The liquidity risk arises if the Company cannot sell its financial assets quickly with an amount near to its fair value. Liquidity risk is managed by systematic monitoring to ensure availability of funds to meet any future liabilities as they became due.

Fair Value

Fair value is the amount used to exchange assets or settle liabilities between parties having the knowledge and desire to do so on an arms-length basis. As the financial statements of the Company are prepared based on historical cost, differences might occur between book value and estimates of fair values. The management believes that the fair value of financial assets and liabilities does not materially differ from its book value.