

**THE NATIONAL SHIPPING COMPANY  
OF SAUDI ARABIA**  
(A Saudi Joint Stock Company)  
**Consolidated Financial Statements**  
For the year ended December 31, 2007  
**Together with the  
Auditors' report**

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

Deloitte & Touche  
Bakr Abulhair & Co.  
P.O. Box 213  
Riyadh 11411  
Kingdom of Saudi Arabia

**AL JURAID & COMPANY**  
MEMBER FIRM OF  
**PRICEWATERHOUSECOOPERS** 

P.O. Box 8282  
Riyadh 11482  
Kingdom of Saudi Arabia

## AUDITORS' REPORT


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

We have audited the accompanying consolidated balance sheet of The National Shipping Company of Saudi Arabia (a Saudi joint stock company) (the "Company") as of December 31, 2007, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended, and the accompanying notes which form an integral part of these consolidated financial statements. Management is responsible for the preparation of these consolidated financial statements, which were prepared in accordance with the Regulations for Companies and presented to us with all the necessary information and explanations. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

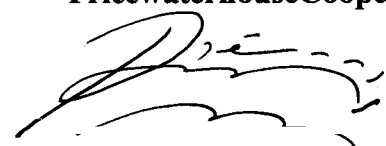
We conducted our audit in accordance with generally accepted auditing standards in Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting standards used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2007 and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting standards in Saudi Arabia appropriate to the nature of the Company; and comply, with the relevant provisions of the Regulations for Companies and the Company's By-Laws as these relate to the preparation and presentation of these consolidated financial statements.

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

  
Ehsan A. Makhdom  
License No. 358

**AL JURAID & COMPANY**  
Member Firm of  
**PricewaterhouseCoopers**

  
Rashid S. Al Rashoud  
License No. 366

12 Safar 1429H  
(19 February 2008)



**The National Shipping Company of Saudi Arabia**  
(A Saudi Joint Stock Company)  
**CONSOLIDATED BALANCE SHEET**  
As of December 31, 2007  
(In Thousands Saudi Riyals)

<b>ASSETS</b>	<b>Notes</b>	<b>2007</b>	<b>2006</b>
<b>Current assets:</b>			
Cash in hand and at banks	3	190,481	140,456
Investments in Murabaha , short-term deposits, and government development bonds	4	686,392	106,277
Trade receivables and other debit balances, net	5	191,766	137,093
Prepaid expenses		48,846	37,994
Agents' current accounts, receivables		14,167	6,581
Inventories		88,629	42,210
Investment in available for sale securities and others	6	138,509	64,627
Accrued bunker subsidy, net	7	41,852	22,773
<b>Total current assets</b>		<b>1,400,642</b>	<b>558,011</b>
<b>Non-current assets:</b>			
Investment in government development bonds		604	10,604
Investments in affiliates and others	8	233,595	182,103
Deferred charges, net	9	146,246	105,039
Fixed assets, net	10	4,634,435	3,650,744
Goodwill	8/a	119,177	119,177
Ships under construction and others	11	1,262,087	1,371,428
<b>Total non-current assets</b>		<b>6,396,144</b>	<b>5,439,095</b>
<b>Total assets</b>		<b>7,796,786</b>	<b>5,997,106</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities:</b>			
Accounts payable and other credit balances	12	321,601	264,107
Current portion of long-term loans	13	202,858	665,976
Short-term loans		---	369,796
Unclaimed dividends	21	18,437	15,077
Agents' current accounts, payables		2,759	622
Provision for zakat and tax	14	142,951	145,125
Incomplete voyages		28,405	11,833
<b>Total current liabilities</b>		<b>717,011</b>	<b>1,472,536</b>
<b>Non-current liabilities:</b>			
Long-term loans	13	2,229,291	1,336,078
Tax obligation provision	14	10,000	12,000
End of service benefits		27,002	22,612
<b>Total non-current liabilities</b>		<b>2,266,293</b>	<b>1,370,690</b>
<b>Total liabilities</b>		<b>2,983,304</b>	<b>2,843,226</b>
<b>Equity:</b>			
<b>Shareholders' equity</b>			
Paid-up capital	15	3,150,000	2,250,000
Share premium	15	524,416	---
Statutory reserve	16	165,827	123,569
Retained earnings		817,432	662,114
Unrealized gains (losses) from investments in available for sale securities		2,118	(31,064)
<b>Total shareholders' equity</b>		<b>4,659,793</b>	<b>3,004,619</b>
Minority interest		153,689	149,261
<b>Total equity</b>		<b>4,813,482</b>	<b>3,153,880</b>
<b>Total liabilities and equity</b>		<b>7,796,786</b>	<b>5,997,106</b>

The accompanying notes from (1) to (26) form an integral part of these consolidated financial statements

**The National Shipping Company of Saudi Arabia**  
(A Saudi Joint Stock Company)  
**Consolidated Statement of Income**  
For the year ended December 31, 2007  
(In Thousands Saudi Riyals)

	<u>Notes</u>	<u>2007</u>	<u>2006</u>
Operating revenues	17	<b>1,703,294</b>	1,651,281
Operating expenses	17/18	<b>(1,251,958)</b>	<b>(1,161,006)</b>
<b>Gross operating income</b>		<b>451,336</b>	490,275
General and administrative expenses	19	<b>(87,301)</b>	<b>(81,344)</b>
<b>Operating income</b>		<b>364,035</b>	408,931
Company's share in profits of affiliates	8	<b>81,210</b>	90,815
Other income, net	20	<b>71,648</b>	30,050
Financing expenses	13	<b>(128,110)</b>	<b>(106,812)</b>
<b>Profit before bunker subsidy, Zakat, tax, and minority interest</b>		<b>388,783</b>	422,984
Bunker subsidy		<b>56,640</b>	48,158
<b>Profit before Zakat, tax, and minority interest</b>		<b>445,423</b>	471,142
Zakat provision	14	<b>(12,224)</b>	<b>(12,878)</b>
Tax provision	14	<b>(6,195)</b>	<b>(6,427)</b>
<b>Profit before minority interest</b>		<b>427,004</b>	451,837
Minority interest in subsidiaries' net profit		<b>(4,428)</b>	<b>(10,341)</b>
<b>Net profit for the year</b>		<b>422,576</b>	441,496
<b>Earnings per share (SR)</b>	21	<b>1.48</b>	1.96

The accompanying notes from (1) to (26) form an integral part of these consolidated financial statements

**The National Shipping Company of Saudi Arabia**  
(A Saudi Joint Stock Company)  
**Consolidated Statement of Changes in Shareholders Equity**  
For the year ended December 31, 2007  
(In Thousands Saudi Riyals)

	<b>Paid-up capital</b>	<b>Share premium</b>	<b>Statutory reserve</b>	<b>Retained earnings</b>	<b>Hedging reserve</b>	<b>Unrealised gains (losses) from investments in available for sale securities</b>	<b>Total</b>
<b>Balance at December 31, 2005</b>	<b>1,999,290</b>	---	<b>79,419</b>	<b>514,768</b>	<b>(842)</b>	<b>8,182</b>	<b>2,600,817</b>
Increase in paid-up capital	710	---	---	---	---	---	710
Increase in paid up capital from retained earnings	250,000	---	---	(250,000)	---	---	---
Net profit for the year	---	---	---	441,496	---	---	441,496
Statutory reserve	---	---	44,150	(44,150)	---	---	---
Hedging reserve	---	---	---	---	2,305	---	2,305
Revaluation for interest rate hedge	---	---	---	---	(1,463)	---	(1,463)
Unrealised losses from investments in available for sale securities	---	---	---	---	---	(39,246)	(39,246)
<b>Balance at December 31, 2006</b>	<b>2,250,000</b>	---	<b>123,569</b>	<b>662,114</b>	---	<b>(31,064)</b>	<b>3,004,619</b>
Increase in paid-up capital	900,000	---	---	---	---	---	900,000
Share premium	---	524,416	---	---	---	---	524,416
Net profit for the year	---	---	---	422,576	---	---	422,576
Statutory reserve	---	---	42,258	(42,258)	---	---	---
Paid dividends	---	---	---	(225,000)	---	---	(225,000)
Unrealised gains from investments in available for sale securities	---	---	---	---	---	33,182	33,182
<b>Balance at December 31, 2007</b>	<b>3,150,000</b>	<b>524,416</b>	<b>165,827</b>	<b>817,432</b>	---	<b>2,118</b>	<b>4,659,793</b>

The accompanying notes from (1) to (26) form an integral part of these consolidated financial statements

**The National Shipping Company of Saudi Arabia**

(A Saudi Joint Stock Company)

**Consolidated Statement of Cash Flows**

For the year ended December 31, 2007

(In Thousands of Saudi Riyals)

	<u>Note</u>	<u>2007</u>	<u>2006</u>
<b>Cash flows from operating activities:</b>			
Net profit for the year		422,576	441,496
<b>Adjustments to reconcile net profit to net cash provided by operating activities:</b>			
Depreciation		220,773	200,704
Amortization of deferred charges	9	49,112	39,647
Company's share in profits of affiliates	8	(81,210)	(90,815)
Gains from sale of fixed assets	20	(34,221)	(31,299)
Minority interest in subsidiaries' net profit		4,428	10,341
Provision for Zakat and tax	14	18,419	19,305
End of service benefits		4,390	1,713
<b>Changes in operating assets and liabilities:</b>			
Trade receivables and other debit balances, net		(54,673)	6,679
Prepaid expenses		(10,852)	(6,520)
Agents' current accounts, receivables		(7,586)	11,038
Inventories		(46,419)	(9,624)
Accrued bunker subsidy, net		(19,079)	(7,239)
Accounts payable and other credit balances		57,494	79,949
Incomplete voyages		16,572	(12,640)
Agents' current account, payables		2,137	(6,379)
Zakat and tax paid		(22,593)	(32,478)
<b>Net cash provided by operating activities</b>		<b>519,268</b>	<b>613,878</b>
<b>Cash flows from investing activities:</b>			
Investments in Murabaha, short term deposits and government development bonds		68,020	25,715
Investment in available for sale securities		(40,700)	10,942
Investments in affiliates and others		18,526	(10,800)
Dividends received from affiliates		11,192	26,070
Purchases of fixed assets		(376,585)	(314,931)
Proceeds from sale of fixed assets		43,437	57,128
Ships under construction and others		(727,754)	(1,135,579)
Deferred charges		(90,319)	(101,487)
<b>Net cash used in investing activities</b>		<b>(1,094,183)</b>	<b>(1,442,942)</b>
<b>Cash flows from financing activities:</b>			
Net movement in loans		60,299	707,041
Increase in paid-up capital	15	900,000	710
Share premium		524,416	---
Dividends paid		(221,640)	(3,902)
Minority interest in dividends		---	(3,000)
<b>Net cash provided by financing activities</b>		<b>1,263,075</b>	<b>700,849</b>
Net change in cash and cash equivalents		688,160	(128,215)
<b>Cash and cash equivalents at beginning of the year</b>		<b>163,137</b>	<b>291,352</b>
<b>Cash and cash equivalents at end of the year</b>	3	<b>851,297</b>	<b>163,137</b>
<b>Non-cash items:</b>			
Increase in share capital	15	---	250,000
Ships under construction transferred to fixed assets		837,095	215,604
Unrealized (gains) losses from investments in available for sale securities and others		(33,182)	39,246
Investments in affiliates transferred to investments in available for sale securities and others		---	(7,008)

The accompanying notes from (1) to (26) form an integral part of these consolidated financial statements

**The National Shipping Company of Saudi Arabia**  
(A Saudi Joint Stock Company)  
**Notes To The Consolidated Financial Statements**  
For the year ended December 31, 2007  
(In Thousands Saudi Riyals)

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**1. ORGANIZATION AND OPERATIONS**

The National Shipping Company of Saudi Arabia, a Saudi joint stock company (“the Company”), was established by Royal Decree No. M/5 dated 12/02/1398H, corresponding to 21/01/1978, and registered under Commercial Registration No. 1010026026 dated 01/12/1399H, corresponding to 22/10/1979, issued in Riyadh.

The Company is primarily engaged in purchasing, chartering and operating vessels for the transportation of cargo and passengers and other activities related to sea shipping industry. The Company has operations through three distinct segments which are very large crude carriers (VLCCs), chemical transportation, and goods transportation (liners).

The Company owns eleven Very Large Crude Carriers (VLCCs), three of which are chartered to Vela International Marine Limited, a subsidiary of Saudi Aramco, two are chartered to Euronav Company, one chartered to Hanjin Company (A Korean Company) and five are operated in spot market. The Company owns four Roll-On Roll-Off (RoRo) vessels operating on liner trade between North America, Europe, the Middle East and Indian Subcontinent.

The National Chemical Carriers Company Ltd “Subsidiary” owns fourteen chemical tankers, out of which six are operated under a pooling agreement with Odfjell Sachems Company (The pool Manager) and one directly chartered to Odfjell Sachems Company, six are chartered to Saudi Company for Basic Industries “SABIC”, and one tanker is chartered out to SEPCHEM Company.

The accompanying consolidated financial statements include the activities of the Company and its subsidiaries, in which the Company owns more than 50% of owners’ equity and/or has control over those subsidiaries. The Company established and/or invested in the following subsidiaries and affiliates:

<u>Name</u>	<u>Activity</u>	<u>Location</u>	<u>Date of incorporation</u>	<u>Ownership % 2007</u>	<u>Ownership % 2006</u>
<b><u>Consolidated Subsidiaries:</u></b>					
National Shipping Company of Saudi Arabia (America) Inc.	Company’s ships agent	USA	1991	<b>100 %</b>	100 %
Mideast Ship Management Ltd.	Ship management	Dubai	1996	<b>100 %</b>	100 %
National Chemical Carriers Ltd. (NCC)	Petrochemicals transportation	Riyadh	1990	<b>80 %</b>	80 %
<b><u>Non-consolidated Affiliates:</u></b>					
Arabian Chemical Carriers Company Ltd. (Note 6)	Petrochemicals transportation	Riyadh	1986	---	50 %
Petredec Company Ltd.	Liquefied petroleum gas transportation	Bermuda	1980	<b>30.3 %</b>	30.3 %

**The National Shipping Company of Saudi Arabia**  
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**2. SIGNIFICANT ACCOUNTING POLICIES**

**a) *Accounting convention***

The consolidated financial statements are prepared in accordance with the standards issued by the Saudi Organization for Certified Public Accountants (SOCPA) and under the historical cost convention, except for the investments in affiliated companies and the available for sale investments. The Company applies the accrual basis of accounting in recognizing revenues and expenses and on the assumption of the going concern concept.

**b) *Period of financial statements***

According to the By-Laws of the Company, the fiscal year of the Company starts on the 1<sup>st</sup> of January and ends on December 31<sup>st</sup> of each Gregorian year.

**c) *Consolidated financial statements***

The consolidated financial statements include the consolidated financial statements of the parent company and its subsidiaries in which it owns more than 50% of equity and/or has controlling interest. Intercompany transactions and balances were eliminated for the purpose of preparing the consolidated financial statements. Also the minority interest accounts have been accounted for in the consolidated financial statements.

**d) *Use of estimates***

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

**e) *Cash and cash equivalents***

For the purpose of preparing the consolidated statement of cash flows, cash and cash equivalents represent cash in hand, bank balances, short-term deposits, and investments that can be liquidated to cash and maturing within three months or less from the date of acquisition.

**f) *Investments***

**1- Investments in affiliates and others:**

Investment in affiliates in which the Company owns equity interest ranging between 20% and 50% are accounted for using the equity method. Due to the timing difference between Petredec Ltd. fiscal year and the Company's fiscal year, the Company's share in Petredec Ltd. 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 financial statements is two months.

Investments in other companies which are not listed in market and the Company own equity interest of less than 20% is accounted for using the cost method.

**The National Shipping Company of Saudi Arabia**  
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2- Investments in government development bonds:

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

3- Investments in available for sale securities:

Investments in available for sale securities represent investment in mutual funds units and investment portfolios managed by local banks, which were classified as available for sale investments. Unrealized gains or losses are recognized under shareholders' equity, whereas the realized gains or losses from the redemptions of units are charged to the consolidated income statement in the period in which these units were redeemed. If there is permanent decline in the value of these investments or objective evidence for impairment, the unrealized loss will be transferred to the consolidated statement of income.

**g) Inventories**

Inventories represent vessels supplies, costs of spare parts and other operating 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, and its cost is determined using First in First out (FIFO) method which is considered more appropriate to the Company's operations. The differences between the weighted average method and FIFO method are not significant on the consolidated statement of income.

**h) Intangible assets, net:**

1- Deferred charges:

Deferred dry-docking charges 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 charges related to the previous dry-docking of the vessel will be amortized in the consolidated statements of income in the period that ends at the beginning of the new dry-docking operation.

2- Goodwill:

Goodwill paid on the purchase of investments, representing the excess of the purchasing price over the value of purchased net assets, is re-evaluated at the end of each fiscal year and shown in the financial statements at cost after adjustment for any deterioration in its value, if any.

**i) Fixed assets, net**

Fixed assets are recorded at actual cost and are depreciated 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. Other fixed assets items are depreciated using depreciation rates appropriate to these assets estimated useful lives.

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***j) Impairment of assets***

At each balance sheet date, the carrying amounts of tangible and intangible assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs.

If the recoverable amount of an assets or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the assets or cash-generating unit is reduced to its recoverable amount. Impairment loss is recognized as an expense in the consolidated statement of income immediately.

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 so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the consolidated statement of Income.

***k) End of service benefits***

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

***l) Revenue recognition***

The Company adopted the completed voyage policy to determine the revenues and expenses for the period of the voyages. A voyage is considered to be a "Completed Voyage" when a vessel has sailed from the last discharging port of a voyage. Freight revenues, direct and indirect operating expenses associated with incomplete voyages are deferred until completion of voyage. Incomplete voyages are shown at net amount in the 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.

***m) Bunker subsidy***

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

***n) Expenses***

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

***o) Borrowing costs***

Borrowing costs incurred to finance the construction of vessels are capitalized until these vessels are ready for use and operation.

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**p) Foreign currency transactions**

Foreign currency transactions are translated into Saudi Riyals at prevailing exchange rates on transaction date. Monetary assets and liabilities in foreign currencies at 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 are recognized in the consolidated income statement.

Assets and liabilities of the consolidated subsidiaries denominated in foreign currencies have been converted into Saudi Riyals at exchange rates prevailing at the consolidated balance sheet date. Revenues and expenses of the consolidated subsidiaries denominated in foreign currencies have been converted into Saudi Riyals at average exchange rates during the period. Exchange differences arising from such conversion, if material, are included in a separate line item under shareholders' equity.

**q) Zakat and income tax**

Provision for Zakat is computed in accordance with Saudi Zakat standard and charged to consolidated statement of income based on the Zakat base for each individual company. Provision is made for withholding tax on payments made to non-resident parties and is charged to the consolidated statement of income. For subsidiaries outside the Kingdom of Saudi Arabia, provisions for tax is computed in accordance with the regulations applicable in the respective countries.

**r) Hedging reserve**

The Company uses commission rate swaps and commission rate caps to hedge its long-term loans against fluctuations in market commission rates. Changes in the fair market value of the commission rate swaps 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.

**s) Earning per share and proposed dividends**

Earning per share is calculated based on the weighted average number of shares outstanding during the year. Dividends proposed after year end are treated as a part of retained earnings and not as liabilities unless the General Assembly's approval was before the end of the year.

**t) Trade accounts receivables**

Trade accounts receivables are stated at net value after deducting provision for doubtful debts.

**3. CASH AND CASH EQUIVELENTS**

Cash and cash equivalents as of December 31, 2007 represents cash in hand and at banks, Murabaha and short-term deposits, out of which SR 5.70 million (2006: SR 6.91 million) that are subject to bank restrictions for letter of guarantees issued for the Department of Zakat and Income Tax (DZIT) and other parties.

It also includes SR 18.8 million (2006: SR 27 million) restricted for repayment of current portion of loans maturing within 180 days from the balance sheet date.

**The National Shipping Company of Saudi Arabia**  
(A Saudi Joint Stock Company)  
**Notes To The Consolidated Financial Statements**  
For the year ended December 31, 2007  
(In Thousands Saudi Riyals)

For the purpose of preparing the cash flow statement, cash and cash equivalents at December 31 comprises the following:

	<b>2007</b>	2006
Cash in hand and at banks	<b>169,418</b>	112,848
Investment in Murabaha, short-term deposits, and government development bonds	<b>681,879</b>	50,289
	<b>851,297</b>	163,137

**4. INVESTMENTS IN MURABAHA, SHORT TERM DEPOSITS AND GOVERNMENT DEVELOPMENT BONDS**

Investments in Murabaha, Short-term deposits and government development bonds at December 31 comprise the following:

	<b>2007</b>	2006
Short term deposits in USD	<b>58,340</b>	18,711
Short term deposits in EURO	<b>1,026</b>	---
Investments in Murabaha and Short-term deposits in Saudi Riyals	<b>627,026</b>	37,514
Government development bonds	---	50,052
	<b>686,392</b>	106,277

**5. TRADE RECEIVABLE AND OTHER DEBIT BALANCES, NET**

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

	<b>2007</b>	2006
Trade receivable	<b>142,635</b>	112,444
Insurance claims	<b>19,709</b>	16,905
Other receivable	<b>39,617</b>	25,468
	<b>201,961</b>	154,817
Provision for doubtful debts	<b>(10,195)</b>	<b>(17,724)</b>
	<b>191,766</b>	137,093

**6. INVESTMENT IN AVIALABLE FOR SALE SECURITIES AND OTHERS**

The comparison figure of the year 2006 includes the Company's investment in Arabian Chemical Carriers Company Ltd, (ACC) which was reclassified to available for sale investments during 2006 and was sold in 2007. The gain from the sale of this investment amounted to SR 15.54 million incorporated in Other Income, net. (See note 20).

**7. ACCRUED BUNKER SUBSIDY, NET**

Accrued bunker subsidy, net at December 31 comprises the following:

	<b>2007</b>	2006
Accrued bunker subsidy	<b>53,376</b>	43,889
Provision for doubtful bunker subsidy	<b>(11,524)</b>	<b>(21,116)</b>
	<b>41,852</b>	22,773

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**8. INVESTMENTS IN AFFILIATES AND OTHERS**

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

	<b>2007</b>	2006
Investments balance at the beginning of the year	<b>182,103</b>	113,566
Company's share in affiliates' profit	<b>66,458</b>	90,815
Investment in the Arabian United Glass Company	---	10,800
Dividends received during the year	<b>(14,966)</b>	<b>(26,070)</b>
Transfer of the Company investment in ACC to investments in available for sale securities (Note 6)	---	<b>(7,008)</b>
	<b>233,595</b>	<b>182,103</b>

**A- Petredec Company Ltd.:**

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

Difference between the net investment value and the value of the net assets acquired was considered as goodwill (Note No. 2-h-2)

Petredec financial year starts on September 1<sup>st</sup> and ends on August 31<sup>st</sup> of each Gregorian year. The Company's share in Petredec net profits achieved SR 81.21 million up to October 31, 2007 (December 31, 2006: SR 93.02 million), which was included in the consolidated statement of income.

**B- Arabian Chemical Carriers Company Ltd. (ACC):**

The comparison figure of the year 2006 consists Company share in the net loss of ACC amounted to SR (2.07) million included in the consolidated income statement.

**C- The Arabian United Glass Company**

The Company signed a contract for establishing the Arabian United Glass Company as a founding member. An investment of SR 20 million shall be made for the ownership of 2,000,000 shares representing 10% of the share capital. An amount of SR 11.2 million has been paid until December 31, 2007 representing 56% of the participation value.

**9. DEFERRED CHARGES, NET**

Deferred charges, net at December 31 comprise the following:

	<b>2007</b>	2006
Total dry-docking cost	<b>195,308</b>	143,555
Accumulated amortization expenses	<b>(49,112)</b>	<b>(38,516)</b>
Deferred tax benefits	<b>50</b>	---
	<b>146,246</b>	<b>105,039</b>

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**10. FIXED ASSETS, NET**

Movement in fixed assets during the year 2007 was as follows:

<u>Particulars</u>	<u>Cost</u>			<u>Accumulated Depreciation</u>				<u>Net Book Value</u>		<u>Depreciation Rate %</u>	
	<u>Balance at 1.1.2007</u>	<u>Additions during the year</u>	<u>Disposals</u>	<u>Balance at 31.12.2007</u>	<u>Balance at 1.1.2007</u>	<u>Charged for the year</u>	<u>Disposals</u>	<u>Balance at 31.12.2007</u>	<u>31.12.2007</u>		<u>31.12.2006</u>
Land	13,593	---	---	13,593	--	--	--	--	13,593	13,593	--
Buildings and improvements	4,955	26,059	---	31,014	(2,554)	(238)	--	(2,792)	28,222	2,401	5 - 33.3%
Fleet and equipment*	6,033,331	1,185,117	(68,920)	7,149,528	(2,426,469)	(212,698)	62,029	(2,577,138)	4,572,390	3,606,862	4 - 15%
Containers and trailers	65,493	---	(8,465)	57,028	(45,498)	(4,482)	6,259	(43,721)	13,307	19,995	8.33 - 20%
Furniture and fixtures	4,680	293	---	4,973	(4,176)	(186)	---	(4,362)	611	504	10%
Tools and office equipment	4,019	160	---	4,179	(3,461)	(160)	---	(3,621)	558	558	2.5 - 25%
Motor vehicles	1,763	164	(530)	1,397	(922)	(265)	411	(776)	621	841	20 - 25%
Computers	37,683	1,871	---	39,554	(34,024)	(2,037)	---	(36,061)	3,493	3,659	15 - 25%
Container yard	10,211	---	---	10,211	(8,948)	(700)	--	(9,648)	563	1,263	10 - 25%
Others	1,464	16	---	1,480	(396)	(7)	--	(403)	1,077	1,068	7 - 15%
<b>Total</b>	<b>6,177,192</b>	<b>1,213,680</b>	<b>(77,915)</b>	<b>7,312,957</b>	<b>(2,526,448)</b>	<b>(220,773)</b>	<b>68,699</b>	<b>(2,678,522)</b>	<b>4,634,435</b>	<b>3,650,744</b>	

\* Fleet and equipment above includes VLCCs and petrochemical carriers financed by bank loans and mortgaged in favor of lending banks as mentioned in (Note 13 ) to these financial statements.

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**11. SHIPS UNDER CONSTRUCTION AND OTHERS**

The Company signed a contract in October 2004 with Hyundai Samho Heavy Industries Company Ltd. to construct two VLCCs of 318,000 DWT each. The two VLCCs (Wafrah and Layla) were delivered during February and September 2007, respectively.

Also the Company signed during March 2006 another two contracts with Hyundai Samho Heavy Industries Company Ltd. to construct six VLCCs with total cost of SR 2.699 billion (USD 719.8 million). These VLCCs are expected to be delivered during 2008 and 2009.

Ships under construction also include amounts paid by subsidiary (NCC) for contracts to build new petrochemical carriers. The subsidiary signed contracts with Korean Hyundai Company to build four petrochemical carriers with total amount of SR 622.5 million (USD 166 million). Two of the these carriers were delivered during 2007 and joined the fleet in service. The other two are expected to be delivered during the first quarter of 2008.

Also NCC signed contract with SLS Ship Building Co. to build 10 petrochemical carriers and another contract during the year 2007 to build six additional petrochemical carriers with a total cost of SR 3.008 billion (USD 802 million), All carriers are expected to be delivered during 2009, 2010, and 2011.

The following table presents payments made for ships under construction and others as of December 31:

	<b>2007</b>	2006
The Company	<b>922,079</b>	1,307,191
The subsidiary (NCC)	<b>340,008</b>	64,237
	<b>1,262,087</b>	1,371,428

The capital commitments towards shipyards for the construction of VLCCs amount to SR 1.8 billion as of December 31, 2007 (2006: SR 2.2 billion), and for the construction of petrochemical carriers SR 2.99 billion (2006: SR 2.4 billions). The capitalized portion of financial charges related to loans granted for the construction of VLCCs and petrochemical carriers during the year 2007 amounted to SR 27 million (2006: SR 25 million).

The balance of ships under construction and others includes SR 1.64 million as of December 31, 2007 which represents amounts incurred for the construction of the Company's new building.

**12. ACCOUNTS PAYABLE AND OTHER CREDIT BALANCES**

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

	<b>2007</b>	2006
Accrued operating expenses	<b>222,958</b>	129,012
Accrued finance charges	<b>11,533</b>	19,047
Trade payables	<b>22,079</b>	30,464
Accrued insurance expenses	<b>16,013</b>	16,527
Other credit balances	<b>49,018</b>	69,057
	<b>321,601</b>	264,107

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**13. LONG TERM LOANS**

The Company and NCC (the 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 comprises the following:

	<b>2007</b>	2006
Loans to the Company	<b>1,234,328</b>	1,335,265
Loans to the subsidiary (NCC)	<b>1,197,821</b>	666,789
	<b>2,432,149</b>	2,002,054
Current portion of long term loans	<b>(202,858)</b>	<b>(665,976)</b>
	<b>2,229,291</b>	1,336,078

The Company's loans include the Murabaha financing of VLCCs (Wafrah and Layla) amounting to SR 612 million (USD 163.1 million) as of December 31, 2007, out of the total financing that amounting to SR 633 million (USD 168.8 million). Also include Murabaha financing for the VLCC (JANA) of SR 42.5 million (USD 11.3 million).

These loans will be paid 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 favor of the lending banks.

The Company's loans include the loans granted to the subsidiary (NCC) during the year 2007 for financing building of new carriers as follows:

- ❖ Islamic Murabaha agreement with Riyadh bank for SR 787.5 million (USD 210 million) for refinancing of all loans.
- ❖ Financing agreement with Public Investment Fund of SR 435.8 million (USD 116.2 million) for financing four carriers under construction out of which two carriers were received as of December 31, 2007.
- ❖ Islamic Murabaha financing agreement with Samba Financial Group of SR 1.5 billion (USD 392 million) for financing ten new carriers under construction.
- ❖ Islamic Murabaha financing agreement with Riyadh Bank of SR 937.5 million (USD 250 million) for financing six new carriers under construction.

The loans balance includes a Murabaha financing agreement amounting to SR 23.3 million granted by Mideast Ship Management Company Ltd. for acquiring new office in Dubai.

Total financial charges on loans amounted to SR 155 million (2006: SR 132 million), out of which SR 44.96 million related to the subsidiary (NCC) loans (2006: SR 30.1 million). Finance charges related to financing of VLCCs and chemical carriers loans, a sum of SR 27 million (2006: SR 25 million) was capitalized, see (Note 11).

**14. ZAKAT AND INCOME TAX**

The Company submitted the Zakat returns for all fiscal years up to 2006 and the related Zakat due were paid according to the returns and obtained the final assessments until 1988.

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**The Company's Zakat status**

**Years 1989 to 2000:** The Company has received the DZIT's amended assessments claiming additional Zakat amounting to SR 61.1 million due to differences in the Zakat computation. A provision of SR 43.6 million was made against such claims and the Company objected to these claims. The Preliminary Appeals Committee issued decisions No. (11, 12, 14) of 1427H for the period from 1989 to 2000 against the Company, but the Company has filed appeals against these decisions and submitted a bank guarantee for the total claims. The appeals are still pending before the Appeals Committee as of the date of these financial statements.

**Withholding tax on payments made to non-resident foreign parties**

**Years 1982 to 1995:** The Company received the DZIT claims in respect of these parties claiming SR 33.8 million. As the ruling on the Company's appeal for such claims was in favor of the DZIT, the necessary provisions were made for the claim. An agreement was reached with the DZIT to settle the tax claims over a period of seven years starting from 2003.

**Years 1996 to 2000** the Company received the DZIT's amended assessment in which the DZIT claimed an additional amount of SR 11.9 million. The Company objected to these assessments; however the company provided provision of SR 18.8 million against these claims. The Preliminary Appeals Committee issued decisions No. (13, 15) of 1427 H for the period from 1996 to 2000 against the Company and the Company has filed appeals against these decisions. The appeals are still pending as of the date of these financial statements.

**Years 2001 to 2004** the Company made a provision of SR 9.5 million for the tax on the payments made to non-resident foreign parties for the years from 2001 through 2004.

The Company has not received any Zakat or tax assessment from DZIT for the years 2001 to 2006 up to the date of these consolidated financial statements.

**Zakat status for the subsidiary (NCC)**

NCC submitted the Zakat returns for all fiscal years up to 2005 and the related Zakat and Tax due were paid according to the returns and received the assessments form DZIT for the years 1991 to 1996 that include an additional claims amounting to SR 11.6 million, NCC has filed appeals against these assessments which are still pending for review with DZIT.

On the other hand, NCC, up to the date of these financial statements, has not yet received any Zakat or tax assessment from the DZIT for the years 1997 up to 2006. An estimated provision of SR 44.7 million was provided to meet expected claims for this period according to NCC's estimations.

**Provision for Zakat and tax**

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

	<b>2007</b>	<b>2006</b>
Balance at beginning of the year	<b>157,125</b>	170,298
Amounts paid during the year	<b>(22,593)</b>	<b>(32,478)</b>
Provision made during the year	<b>18,419</b>	19,305
<b>Total Zakat and tax provision</b>	<b>152,951</b>	157,125
Tax obligation – non current	<b>(10,000)</b>	<b>(12,000)</b>
<b>Provision for Zakat and tax</b>	<b>142,951</b>	145,125

Zakat is calculated for the Company and its subsidiary according to the Zakat base for each company separately.

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**15. PAID-UP CAPITAL**

In accordance with the Extraordinary General Assembly meeting held on November 25, 2006, the authorized capital of the Company has increased from SR 2.25 billion (225 million shares) to SR 3.15 billion (315 million shares). After obtaining the required approval from the concerned official parties, the Company issued right issue shares to the registered shareholders at the end of the day of the Extraordinary General Assembly meeting. Accordingly 90 million shares were issued with nominal value of SR 10 and at a premium of SR 6 per share. The underwriting was made in April 2007 and it was fully covered.

The following statement shows the paid-up capital as of December 31:

	2007		2006	
	No. of Shares	Value Paid	No. of Shares	Value Paid
Paid in full	225,000,000	2,250,000	200,000,000	2,000,000
Increase in share capital	90,000,000	900,000	25,000,000	250,000
	<u>315,000,000</u>	<u>3,150,000</u>	<u>225,000,000</u>	<u>2,250,000</u>

**16. 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 available for distribution to shareholders.

**17. 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:

	2007		
	Operating revenue	Operating expenses	Gross operating profit
Very Large Crude Carriers	740,527	(479,871)	260,656
Liner Service	488,397	(379,525)	108,872
Petrochemical carriers	474,370	(392,562)	81,808
	<u>1,703,294</u>	<u>(1,251,958)</u>	<u>451,336</u>
	2006		
	Operating revenue	Operating expenses	Gross operating profit
Very Large Crude Carriers	708,977	(372,169)	336,808
Liner Service	493,251	(411,063)	82,188
Petrochemical carriers	449,053	(377,774)	71,279
	<u>1,651,281</u>	<u>(1,161,006)</u>	<u>490,275</u>

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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 :

	<b>2007</b>				<b>Total</b>
	<b>Very Large Crude Carriers</b>	<b>Liner Service</b>	<b>Petrochemical Carriers</b>	<b>Shared Assets and Liabilities *</b>	
Assets	4,204,666	301,816	2,060,345	1,229,959	7,796,786
Liabilities	1,359,585	139,283	1,291,641	192,795	2,983,304

	<b>2006</b>				<b>Total</b>
	<b>Very Large Crude Carriers</b>	<b>Liner Service</b>	<b>Petrochemical Carriers</b>	<b>Shared Assets and Liabilities *</b>	
Assets	3,796,234	213,608	1,510,730	476,534	5,997,106
Liabilities	1,808,696	78,988	744,742	210,800	2,843,226

\* Shared assets and liabilities represent amounts which can not be determined for a specific segment such as cash, deposits, governmental bonds, unclaimed dividends and payments, etc.

**18. OPERATING EXPENSES**

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

	<b>2007</b>	<b>2006</b>
Cargo related expenses	153,641	177,496
Voyage related expenses	155,918	163,049
Bunker consumption	327,217	301,509
Vessel related expenses	346,581	281,183
Depreciation and amortization	261,128	232,149
Others	7,473	5,620
	<b>1,251,958</b>	<b>1,161,006</b>

**19. GENERAL AND ADMINISTRATIVE EXPENSES**

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

	<b>2007</b>	<b>2006</b>
Employees costs	69,851	58,259
Other general and administrative expenses	10,090	16,738
Depreciation	2,200	1,929
Boards of Directors expenses for the Company and its subsidiaries	5,160	4,418
	<b>87,301</b>	<b>81,344</b>

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**20. OTHER INCOME, NET**

Other income, net for the year ended December 31 comprises the following:

	<b>2007</b>	2006
Commission on short term deposits	<b>31,063</b>	3,919
Commission on government developments bonds	<b>502</b>	4,645
Realized (losses) from investments available for sale and others*	<b>(13,807)</b>	<b>(10,345)</b>
Bank commissions and amortization of government development bonds' premium	<b>1,111</b>	<b>(1,338)</b>
Gains on sale of fixed assets	<b>34,221</b>	31,299
Gain on sale of the investment in ACC	<b>15,539</b>	---
Bank commission	---	1,397
Foreign currency exchange differences	<b>406</b>	<b>(724)</b>
Others	<b>2,613</b>	1,197
	<b>71,648</b>	<b>30,050</b>

\* Realized (losses) from investments available for sale and others include SR 9 million represents an impairment loss in the value of the investment portfolio.

**21. EARNING PER SHARE AND DIVIDENDS**

Earnings per share was calculated based on the weighted average number of shares outstanding during the year 2007 that was 285 million shares (2006: 225 million shares).

The General Assembly in its meeting held on April 15, 2007 decided to distribute dividends to the shareholders in the amount of SR 1 for each share held representing 10% of share capital. The balance of unclaimed dividends as of December 31, 2007 amounted to SR 18.4 million (2006: SR 15 million).

**22. 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:

	<b>2007</b>			
	<b><u>Total assets</u></b>	<b><u>Total liabilities</u></b>	<b><u>Gross operating income</u></b>	<b><u>Net profit</u></b>
NSCSA (America) Inc.	<b>23,839</b>	<b>(16,261)</b>	<b>24,816</b>	<b>3,478</b>
Mideast Ship Management Limited	<b>59,945</b>	<b>(40,636)</b>	<b>26,165</b>	<b>803</b>
National Chemical Carriers Limited Company	<b>2,054,988</b>	<b>(1,286,541)</b>	<b>75,339</b>	<b>22,140</b>
	<b>2006</b>			
	<b><u>Total assets</u></b>	<b><u>Total liabilities</u></b>	<b><u>Gross operating income</u></b>	<b><u>Net profit</u></b>
NSCSA (America) Inc.	23.105	<b>(19.006)</b>	22.208	2.535
Mideast Ship Management Limited	25.927	<b>(7.421)</b>	31.228	11.301
National Chemical Carriers Limited Company	1.488.039	<b>(741.733)</b>	58.450	51.703

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**23. RELATED PARTIES TRANSACTIONS:**

**Affiliates**

During its normal course of business, the Company has transactions with ACC which is a related party as it is 50% owned by the Company (Note 6). The transactions and balances which were on arm's length basis comprise the following:

	2007	2006
Credit balance as of December 31,	---	2,916
Service fees received during the year	---	131

**24. COMMITMENTS AND CONTINGENCIES**

The Company has issued letters of guarantee of SR 56.7 million which include two guarantees of SR 12 million and SR 41.6 million, respectively, in favor of the DZIT related to taxes and penalties imposed by the Appeals Committee as explained in (Note 14). These guarantees were issued against restricted cash, Murabaha, and short term deposits of SR 5.7 million.

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

In addition, refer to (Note 11) in relation to future capital commitments to build very Large Crude Carriers and vessels.

**25. SUBSEQUENT EVENTS**

The subsidiary company (NCC) received during January one petrochemical carrier (NCC Dammam).

The Board of Directors in its meeting (4/08) held on 12/2/1429H corresponding to February 19, 2008 recommended to the General Assembly to approve dividends amounting to 315 million which represent 10% of share capital through one Saudi Riyal per share.

**26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

Financial instruments carried on the balance sheet principally include cash, deposits, 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 incurs a financial loss. At the balance sheet date, there was 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 is 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 become 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, except for the investments in affiliated companies and the available for sale investments, 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.

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