

**THE NATIONAL SHIPPING COMPANY  
OF SAUDI ARABIA**  
(A Saudi Joint Stock Company)  
**INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS**  
As of September 30, 2008  
Together with a **Limited review report**

**THE NATIONAL SHIPPING COMPANY OF SAUDI ARABIA**  
(A Saudi Joint Stock Company)  
**Interim Consolidated Financial Statements**  
As of September 30, 2008  
**Together with a Limited review report**

<b><u>Contents</u></b>	<b><u>Page</u></b>
A limited review report	3
Interim consolidated balance sheet	4
Interim consolidated statement of income	5
Interim consolidated statement of cash flows	6
Notes to the interim consolidated financial statements	7-15

**P.O. Box 8282  
Riyadh 11482  
Saudi Arabia  
Tel : 966 (1) 4654240  
Fax : 966 (1) 4651663**

**P.O. Box 8736  
Riyadh 11492  
Saudi Arabia  
Tel : 966 (1) 4802121  
Fax: 966 (1) 4801119**

### **A LIMITED REVIEW REPORT**

To the shareholders  
The National Shipping Company of Saudi Arabia  
(A Saudi Joint Stock Company)  
Riyadh, Saudi Arabia

We have reviewed the accompanying interim consolidated balance sheet of The National Shipping Company of Saudi Arabia (a Saudi Joint Stock Company) as of September 30, 2008 and the related interim consolidated statements of income for the three-month and nine-month periods ended September 30, 2008 and the interim consolidated statements of cash flows for the nine-month period then ended including the related notes. These interim consolidated financial statements are the responsibility of the Company's management and were presented to us with all the information and explanations which we requested.

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

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

**Al Juraid & Company**  
Member firm of  
PricewaterhouseCoopers

**Dr. M. Al Amri & Co.**  
Independent member of  
Baker Tilly International

Rashid S. Al Rashoud  
(License No. 366)

Gihad M. Al-Amri  
(License No. 362)

October 19, 2008  
Shawwal 19, 1429

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

<b>ASSETS</b>	<b>Notes</b>	<b>September 30</b>	
		<b>2008</b>	<b>2007</b>
<b>Current assets:</b>			
Cash in hand and at banks		181,766	204,581
Investments in Murabaha and short-term deposits		783,731	888,505
Trade receivables and other debit balances, net		239,880	131,324
Prepaid expenses		63,594	61,560
Agents' current accounts, receivables		24,583	21,060
Inventories		88,482	66,903
Investment in "available for sale securities"		75,000	132,872
Accrued bunker subsidy, net		49,444	22,803
<b>Total current assets</b>		<b>1,506,480</b>	<b>1,529,608</b>
<b>Non-current assets:</b>			
Investment in government development bonds		604	604
Investment in "available for sale securities"		63,006	---
Investments in affiliates	4	238,948	215,283
Deferred charges, net		132,046	121,993
Fixed assets, net		4,800,937	4,528,322
Goodwill		119,177	119,177
Ships under construction and others	5	2,473,716	1,070,845
<b>Total non-current assets</b>		<b>7,828,434</b>	<b>6,056,224</b>
<b>Total assets</b>		<b>9,334,914</b>	<b>7,585,832</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities:</b>			
Accounts payable and other credit balances		298,658	302,939
Current portion of Murabaha financing and long-term loans	6	426,245	682,140
Unclaimed dividends		23,588	19,436
Agents' current accounts, payables		2,241	9,097
Provision for zakat and tax	7	157,993	143,899
Incomplete voyages		32,221	11,712
<b>Total current liabilities</b>		<b>940,946</b>	<b>1,169,223</b>
<b>Non-current liabilities:</b>			
Murabaha financing and long-term loans	6	3,213,165	1,664,181
Obligation from fluctuations in swaps fair market value for loan commission rates	8	932	---
Tax obligation provision	7	6,000	10,000
End of service benefits provision		29,960	26,091
<b>Total non-current liabilities</b>		<b>3,250,057</b>	<b>1,700,272</b>
<b>Total liabilities</b>		<b>4,191,003</b>	<b>2,869,495</b>
<b>Equity:</b>			
<b>Shareholders' equity</b>			
Paid-up capital	1	3,150,000	3,150,000
Share premium		524,416	524,416
Statutory reserve		231,213	157,373
Retained earnings		1,090,910	741,255
Hedging reserve for loans commission	8	(932)	---
Unrealized losses from investments in "available for sale securities"		(12,229)	(13,826)
<b>Total shareholders' equity</b>		<b>4,983,378</b>	<b>4,559,218</b>
Minority interest		160,533	157,119
<b>Total equity</b>		<b>5,143,911</b>	<b>4,716,337</b>
<b>Total liabilities and equity</b>		<b>9,334,914</b>	<b>7,585,832</b>

The accompanying notes from (1) to (13) form an integral part of these interim consolidated financial statements

**The National Shipping Company of Saudi Arabia**  
(A Saudi Joint Stock Company)  
**Interim Consolidated Income Statement**  
(Unaudited)  
(In Thousands Saudi Riyals)

	<u>Notes</u>	<u>For the three months ended</u> <u>September 30</u>		<u>For the nine months ended</u> <u>September 30</u>	
		<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Operating revenues	9	726,739	431,019	1,938,706	1,284,767
Operating expenses	9	(409,137)	(325,549)	(1,160,191)	(900,048)
<b>Gross operating income</b>	9	<b>317,602</b>	<b>105,470</b>	<b>778,515</b>	<b>384,719</b>
General and administrative expenses		(24,615)	(21,268)	(72,614)	(58,269)
<b>Operating income</b>		<b>292,987</b>	<b>84,202</b>	<b>705,901</b>	<b>326,450</b>
Company's share in profit of affiliates, net	4	5,653	17,232	352	43,461
Other (Expense) income, net	10	(5,963)	35,589	8,192	57,564
Finance charges		(23,035)	(33,291)	(79,895)	(96,703)
<b>Profit before bunker subsidy, zakat, tax and minority interest</b>		<b>269,642</b>	<b>103,732</b>	<b>634,550</b>	<b>330,772</b>
Bunker subsidy		26,648	14,335	55,682	30,162
<b>Profit before zakat, tax and minority interest</b>		<b>296,290</b>	<b>118,067</b>	<b>690,232</b>	<b>360,934</b>
Zakat provision	7	(9,445)	(3,571)	(23,628)	(10,256)
Tax provision	7	(2,459)	(1,621)	(5,896)	(4,885)
<b>Profit before Minority Interest</b>		<b>284,386</b>	<b>112,875</b>	<b>660,708</b>	<b>345,793</b>
Minority Interest in consolidated subsidiaries' net profit		(2,184)	(304)	(6,844)	(7,858)
<b>Net profit for the period</b>		<b>282,202</b>	<b>112,571</b>	<b>653,864</b>	<b>337,935</b>
<b>Earnings per share from operating income (SR)</b>	2-s	<b>0.93</b>	<b>0.27</b>	<b>2.24</b>	<b>1.19</b>
<b>Earnings per share from net profit for the period (SR)</b>	2-s	<b>0.90</b>	<b>0.36</b>	<b>2.08</b>	<b>1.23</b>

The accompanying notes from (1) to (13) form an integral part of these interim consolidated financial statements

**The National Shipping Company of Saudi Arabia**  
(A Saudi Joint Stock Company)  
**Interim Consolidated Statement of Cash Flows**  
(Unaudited)  
(In Thousands of Saudi Riyals)

	Note	For the nine month period ended September 30	
		2008	2007
<b>Cash flows from operating activities:</b>			
Net profit for the period		653,864	337,935
<b>Adjustments to reconcile net profit to net cash provided by operating activities:</b>			
Depreciation		192,031	159,710
Amortization of deferred charges		49,429	35,699
Company's share in profit of affiliates, net		(352)	(43,461)
Gains from sale of fixed assets		(68)	(34,664)
Minority interest in consolidated subsidiaries' net profit		6,844	7,858
Provision for zakat and tax		29,524	15,141
End of service benefits provision		2,958	3,479
<b>Changes in operating assets and liabilities:</b>			
Trade receivables and other debit balances, net		(48,114)	5,769
Prepaid expenses		(14,748)	(23,566)
Agents' current accounts, receivables		(10,416)	(14,479)
Inventories		147	(24,693)
Accrued bunker subsidy, net		(7,592)	(30)
Accounts payable and other credit balances		(22,943)	38,832
Agents' current account, payables		(518)	8,475
Zakat and tax paid		(18,482)	(18,367)
Incomplete voyages		3,816	(121)
<b>Net cash provided by operating activities</b>		<b>815,380</b>	<b>453,517</b>
<b>Cash flows from investing activities:</b>			
Investments in Murabaha and short-term deposits		(20,496)	38,941
Investment in available for sale securities		(13,844)	(51,007)
Investments in affiliates and others		(5,001)	10,281
Purchases of fixed assets		(358,821)	(628,582)
Proceeds from sale of fixed assets		356	41,628
Ships under construction and others		(1,211,629)	(115,087)
Deferred charges		(35,229)	(52,653)
<b>Net cash used in investing activities</b>		<b>(1,644,664)</b>	<b>(756,479)</b>
<b>Cash flows from financing activities:</b>			
Murabaha financing and long-term loans		1,207,261	(25,529)
Increase in paid-up capital		---	900,000
Share premium		---	524,426
Dividends paid		(309,849)	(220,641)
<b>Net cash provided by financing activities</b>		<b>897,412</b>	<b>1,178,256</b>
<b>Net change in cash and cash equivalents during the period</b>		<b>68,128</b>	<b>875,294</b>
Cash and cash equivalents at beginning of the period		851,297	163,137
<b>Cash and cash equivalents at end of the period</b>	3	<b>919,425</b>	<b>1,038,431</b>
<b>Non Cash Items :</b>			
Ships under construction transferred to fixed assets		---	415,670
Unrealized losses (gains) from investments in "available for sale securities"		14,347	(17,238)
The accompanying notes from (1) to (13) form an integral part of these interim consolidated financial statements			

**The National Shipping Company of Saudi Arabia**  
(A Saudi Joint Stock Company)  
**Notes To The Interim Consolidated Financial Statements**  
For the nine month period ended September 30, 2008 (Unaudited)  
(In Thousands Saudi Riyals)

---

**1. ORGANIZATION AND OPERATIONS**

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

The Company is primarily engaged in purchasing, chartering and operating vessels for the transportation of cargo and passengers and other activities related to sea shipping industry. The Company has operations through three distinct segments which are Very large Crude Carriers (VLCCs), chemical transportation, and general cargo transportation (liner).

The authorized capital of the Company is SR. 3,150 million from 315 million shares for the nominal value of SR 10 each as of September 30, 2008 and 2007.

The Company owns twelve 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 is chartered to Hanjin Company (A Korean Company) and six 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 sixteen chemical tankers, out of which six are operated under a pooling agreement with Odfjell Sachems Company (The pool Manager) and three 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 interim consolidated financial statements include the activities of the Company and its subsidiaries, in which the Company owns more than 50% of owners’ equity and/or has control over those subsidiaries. The Company established and/or invested in the following subsidiaries and affiliates:

Name	Activity	Location	Date of incorporation	Ownership % 2008	Ownership % 2007
<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>					
Petredec Ltd.	Liquefied petroleum gas transportation	Bermuda	1980	<b>30.3 %</b>	30.3 %
Arabian United Float Glass Co.	Glass Manufacturing & Trading	Riyadh	2006	<b>10%</b>	10%

**The National Shipping Company of Saudi Arabia**  
(A Saudi Joint Stock Company)  
**Notes to the Interim Consolidated Financial Statements**  
For the nine month period ended September 30, 2008 (Unaudited)  
(In Thousands Saudi Riyals)

---

**2. SIGNIFICANT ACCOUNTING POLICIES**

**a) *Accounting convention***

The accompanying interim 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.

The significant accounting policies implemented by the company in preparation of interim consolidated financial statements is matching with that implemented for annual consolidated financial statements for the year ended December 31, 2007.

**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. The interim consolidated financial statements are prepared on integration basis of financial periods, where each interim consolidated financial period is considered as complementary to the fiscal year as a whole. Accordingly, each period revenues, gains, expenses and losses are recognized during that period. All adjustments which management feels they are necessary and significant to reflect fair financial position and results of the Company's operations have been prepared. The results of operations for the interim period may not give an accurate indication of the results for the actual annual operations.

**c) *Basis of Consolidation***

For the purpose of consolidating accounts, inter-company transactions and balances are eliminated in the consolidation process. Minorities' interests relating to third parties (other partners in the subsidiaries) have also been accounted for in the subsidiaries' net assets and income.

**d) *Use of estimates***

The preparation of interim consolidated financial statements in accordance with generally accepted accounting principles requires the use of estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of 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 which is available to the company without any restrictions.

**The National Shipping Company of Saudi Arabia**  
(A Saudi Joint Stock Company)  
**Notes to the Interim Consolidated Financial Statements**  
For the nine month period ended September 30, 2008 (Unaudited)  
(In Thousands Saudi Riyals)

---

**f) Investments**

1- Investments in affiliates and others:

Investment in affiliates in which the Company has control over their financial and operational policies or 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 interim consolidated 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% accounted for using the cost method.

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 interim 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 interim consolidated income statement. If investment is available for sale within 12 months from the ending date of Financial Statement, it will be reported under Current Assets otherwise to report under Non-current Assets.

**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 interim consolidated statement of income.

**h) Intangible assets:**

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 interim 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.

**The National Shipping Company of Saudi Arabia**  
(A Saudi Joint Stock Company)  
**Notes to the Interim Consolidated Financial Statements**  
For the nine month period ended September 30, 2008 (Unaudited)  
(In Thousands Saudi Riyals)

---

**i) Fixed assets**

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 which is as follows:-

Buildings & improvements	5-33.3%	Motor Vehicles	20-25%
Containers & trailers	8.33-20%	Computers equipments	15-25%
Furniture & fixture	10%	Container yard	10-25%
Instruments & office equipments	2.5-25%	Others	7-15%

**j) Impairment of Non-current assets**

At each balance sheet date, the carrying amounts of non-current 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 interim 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 the increased carrying amount should 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 interim consolidated statement of Income.

**k) End of service benefits provision**

Employees' end of service benefits provision is 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 interim consolidated balance sheet under "Incomplete Voyages".

Revenues from chartering and other associated activities are recorded when services are rendered and are recorded in conformity with contract periods, voyages durations, and agreed upon services. Other income is recorded when earned.

**The National Shipping Company of Saudi Arabia**  
(A Saudi Joint Stock Company)  
**Notes to the Interim Consolidated Financial Statements**  
For the nine months period ended September 30, 2008 (Unaudited)  
(In Thousands Saudi Riyals)

---

**m) *Bunker subsidy***

Bunker subsidy is computed on bunker quantities purchased and recorded in the interim 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.

**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 interim consolidated income statement.

Assets and liabilities of the consolidated subsidiaries denominated in foreign currencies are converted into Saudi riyal at exchange rates prevailing at the interim consolidated balance sheet date. Revenues and expenses of the consolidated subsidiaries denominated in foreign currencies have been converted into Saudi riyal at average exchange rates during the period. Also the elements of shareholders equity (excluding retained earnings (deficit) are converted applying the exchange rate prevailing at the time of incurring the elements' transaction). 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 interim 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 interim consolidated statement of income. For subsidiaries outside the Kingdom of Saudi Arabia, provisions for tax are computed in accordance with the regulations applicable in the respective countries.

**r) *Hedging reserve for loans commission***

The Company uses commission rate swaps and caps agreements to hedge its long-term loans against fluctuations in market commission rates. Changes in the fair market value of the commission rate swaps 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 from operating income, other operations and net profit for the period is calculated based on the weighted average number of shares outstanding during the period. Dividends proposed, after the period 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 period.

**t) *Trade receivables***

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

**The National Shipping Company of Saudi Arabia**  
(A Saudi Joint Stock Company)  
**Notes to the Interim Consolidated Financial Statements**  
For the nine month period ended September 30, 2008 (Unaudited)  
(In Thousands Saudi Riyals)

---

**3. CASH AND CASH EQUIVELENTS**

Cash and cash equivalents as of September 30, 2008 represent cash in hand and at banks, Murabaha and short-term deposits, out of which SR 5.79 million (2007: SR 5.64 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 40 million (2007: SR 49 million) restricted for repayment of current portion of loans maturing within 180 days from the balance sheet date.

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

	<b>2008</b>	<b>2007</b>
Cash in hand and at banks	141,537	155,620
Investment in Murabaha and short-term deposits	777,888	882,811
<b>Total</b>	<b>919,425</b>	<b>1,038,431</b>

**4. INVESTMENTS IN AFFILIATES**

**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 01 and ends on August 31 of each Gregorian year. The Company's share in Petredec net profits achieved SR 2.12 million up to July 31, 2008 (July 31, 2007: SR 36.95 million), which was included in the interim consolidated statement of income.

**b. The Arabian United Float Glass Company**

The Company signed a contract for establishing the Arabian United Float Glass Company as a founder member. It was established by a ministerial decision No. (1299) dated 11/05/1427H. 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 15 million has been paid until September 30, 2008 representing 75% of the participation value. Also, an amount of SR 1.2 million was paid representing the Company's share in establishing and developing costs.

**5. SHIPS UNDER CONSTRUCTION AND OTHERS**

The balance of Ships under construction represents all payments made in connection with ship construction contracts of new VLCCs, amounts incurred for the construction of the Company's new building and payments made by NCC (a subsidiary) under signed contracts for constructing new chemical tankers.

The Company's capital commitments to shipyards for constructing new VLCCs amounted to SR1.17 billion as of September 30, 2008 (2007: SR 1.89 billion) and SR 2.14 billion as of September 30 2008 (2007: SR 3.24 billion) for constructing chemical tankers.

**The National Shipping Company of Saudi Arabia**  
(A Saudi Joint Stock Company)  
**Notes to the Interim Consolidated Financial Statements**  
For the nine month period ended September 30, 2008 (Unaudited)  
(In Thousands Saudi Riyals)

**6. MURABAHA FINANCING AND LOANS**

**Break down of Murabaha and loans are listed below:**

<b>2008</b>						
	Parent Company	%	Subsidiaries	%	Total	%
Murabaha Finance	1,114,462	67%	1,551,084	78%	2,665,546	73%
Commercial Loans	308,614	19%	---	---	308,614	9%
Public Investment Fund	229,500	14%	435,750	22%	665,250	18%
TOTAL	1,652,576	100%	1,986,834	100%	3,639,410	100%

  

<b>2007</b>						
	Parent Company	%	Subsidiaries	%	Total	%
Murabaha Finance	622,450	43%	910,660	100%	1,533,110	66%
Commercial Loans	546,211	38%	---	---	546,211	23%
Public Investment Fund	267,000	19%	---	---	267,000	11%
TOTAL	1,435,661	100%	910,660	100%	2,346,321	100%

**7. ZAKAT AND INCOME TAX**

**The Company's zakat and tax status**

The Company submitted the zakat returns for all fiscal years up to 2007 and paid the zakat due according to these returns. The Company finalized its zakat status with the DZIT up to 1988, and its tax status up to 1995. The Company has not yet received the zakat assessment from the DZIT for the years 2001 to 2007.

The Company pays withholding tax amounts imposed on payments to non-resident parties to the DZIT on time as per tax regulations. The Company has not yet received the tax assessment from the DZIT for the years 2001 to 2004. Sufficient provisions were created to meet tax claims that might arise for the years of which assessments not received.

The Company filed appeals against decisions no. (11, 12, 14) of 1427H for the years from 1989 to 2000 relating to additional zakat claims of SR 61.1 million against the Company. Sufficient provisions were created to meet these zakat claims, and submitted a bank guarantee for the total claims for the appeals to be accepted. The appeals are still pending as of the date of these interim consolidated financial statements.

The Company also filed appeals against decisions no. (13, 15) of 1427H for the years from 1996 to 2000 relating to an additional tax claims of SR11.9 million. Sufficient provisions were created to meet these tax claims, and submitted a bank guarantee for the total claims for the appeals to be accepted. The appeals are still pending as of the date of these interim consolidated financial statements.

**The subsidiary (NCC) zakat and tax status**

The National Chemical Carriers (NCC) submitted the zakat returns for all fiscal years up to 2007 and paid the zakat due according to these returns. The Company has received the zakat assessments including income tax assessments for the years 1991 to 2004 which include additional claims amounting to SR 84.6 million out of which NCC paid SR 28.4 millions. NCC filed appeals against some items in these assessments and their treatments. The appeals are still pending with the DZIT.

Zakat assessments are prepared separately for the Company and its subsidiary.

**The National Shipping Company of Saudi Arabia**  
(A Saudi Joint Stock Company)  
**Notes to the Interim Consolidated Financial Statements**  
For the nine month period ended September 30, 2008 (Unaudited)  
(In Thousands Saudi Riyals)

**8. HEDGING RESERVE FOR LOAN COMMISSIONS**

The Company uses the commission rates swaps and caps to avoid fluctuations in commission rates on the long-term loans. The change in the market value of the commission rate swaps are recorded in the hedging reserve which is included in the shareholders' equity. The net cash flow difference between the hedged rate and the prevailing market rate as of September 30, 2008 amounted to **SR(0.93)** million.

**9. SEGMENT INFORMATION**

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

	<b>2008</b>		
	<b>Operating revenue</b>	<b>Operating expenses</b>	<b>Gross operating income</b>
Crude Oil Transportation	1,025,062	(450,104)	574,958
Petrochemical Transportation	447,756	(369,814)	77,942
General Cargo Transportation (Liner)	465,888	(340,273)	125,615
<b>Total</b>	<b>1,938,706</b>	<b>(1,160,191)</b>	<b>778,515</b>

  

	<b>2007</b>		
	<b>Operating revenue</b>	<b>Operating expenses</b>	<b>Gross operating income</b>
Crude Oil Transportation	564,345	(340,825)	223,520
Petrochemical Transportation	361,013	(275,252)	85,761
General Cargo Transportation (Liner)	359,409	(283,971)	75,438
<b>Total</b>	<b>1,284,767</b>	<b>(900,048)</b>	<b>384,719</b>

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

	<b>2008</b>				
	<b>Crude Oil Transportation</b>	<b>Petrochemical Transportation</b>	<b>General Cargo Transportation (Liner)</b>	<b>Shared Assets and Liabilities *</b>	<b>Total</b>
<b>Assets</b>	4,834,825	2,862,131	357,901	1,280,057	9,334,914
<b>Liabilities</b>	1,755,562	2,059,514	150,425	225,502	4,191,003

  

	<b>2007</b>				
	<b>Crude Oil Transportation</b>	<b>Petrochemical Transportation</b>	<b>General Cargo Transportation (Liner)</b>	<b>Shared Assets and Liabilities *</b>	<b>Total</b>
<b>Assets</b>	4,139,400	1,776,907	273,483	1,396,042	7,585,832
<b>Liabilities</b>	1,564,606	990,615	132,284	181,990	2,869,495

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

**The National Shipping Company of Saudi Arabia**  
(A Saudi Joint Stock Company)  
**Notes to the Interim Consolidated Financial Statements**  
For the nine month period ended September 30, 2008 (Unaudited)  
(In Thousands Saudi Riyals)

---

**10. OTHER (EXPENSES) INCOME, NET**

Other (expenses) income, net includes SR16.7 million representing income on investments in Murabaha, and SR. 12.2 million considered as provision for loss on mutual fund investment on September 30, 2008 (2007: includes SR14.9 million income generated from sale of the Company's investment in Arabian Chemical Carriers Ltd., and SR 34.6 million gain generated from the sale of the Company's chemical tanker "Uqba Bin Nafia").

**11. (LOSS) EARNING PER SHARE FROM NON-OPERATING (LOSS) INCOME**

(Loss) Earning per share from non-operating (Loss) income is as follows: -

For the three months ended September 30		For the nine months ended September 30	
2008	2007	2008	2007
SR (0.03)	SR 0.09	SR (0.16)	SR 0.04

**12. COMMITMENTS AND CONTINGENCIES**

The Company issued letters of guarantee of SR 56.2 million which include two letters of 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 7). These letters of guarantees were issued against restricted cash, Murabaha, and short-term deposits of SR 5.82 million.

The Company has also certain outstanding legal cases 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 5) in relation to future capital commitments to build VLCCs and chemical tankers.

**13. SUBSEQUENT EVENTS**

The Company received two new VLCCs, "Jana" and "Habari" on September 3, 2008 and October 14, 2008, respectively. The VLCC "Jana" commenced operations effective October 2, 2008, and the process of commencing the operations of the other VLCC, "Habari" is underway.

\*\*\*\*\*