Annual Report 2011

Bahri

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Chairman's Message

Dear Shareholders,

On behalf of the Board of Directors of The National Shipping Company of Saudi Arabia (Bahri) and myself, I am pleased to present to you the annual report for the fiscal year 2011. It includes the Board of Directors report on the various results, the activities of the Company and its programs as well as projects that have been implemented during 2011 in addition to the consolidated financial statements for the year ended 31/12/2011 presenting the financial position of the Company and a net profit of SAR 287,768,000 achieved during the fiscal year 2011.

The year 2011 was one of the most difficult years experienced by the shipping industry due to the significant impact in the global economic growth, combined with the continued entry of record tonnage capacity from the vessels contracted during previous years. The Crude oil segment is the largest segment of the Company and the highest contributor to its profitability in recent years; it was one of the most affected sectors in the industry, rendering the average daily time-charter equivalent (TCE) rates for vessels in the spot market to lower levels. Nevertheless, with the grace of The God and the policy of the Company to diversify the sources of income, Bahri has realized lucrative profits under these circumstances.

In spite of the current situation in the region and challenges of the global economy, the Company is moving vigorously towards achieving its stated goals and aspirations for the future.

During the year 2011, many programs and projects were implemented, including:

- Concluded a contract for building (6) General Cargo (ROCON) vessels equipped with cranes, capable of loading and discharging (360) intermodal shipping containers (TEUs); in addition, loading goods and other break bulk project equipment that are placed inside the hull of the vessel which consists of four decks dedicated to the carriage of bulk goods and cars.
- The delivery of (6) chemical carriers during the year and (5) other chemical carriers are

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expected to be delivered during 2012 and (1) specialized carrier is also expected to be delivered in 2013.

- The Board of Directors has agreed to adopt a mechanism of linking bonuses, salary increases and benefits of the employees completely to their performance and efficiencies.
- The completion of the administrative and legal formalities of company's new brand, which is expected to be launched during the second quarter of 2012.
- A service contract has been signed with the Ministry of Defense (MOD) for an amount of SAR 230 million for three years. According to this contract, the Company will be an official carrier of the Armed Forces for the Ministry of Defense in all sectors; it will cover air, sea and land logistic services. Further, there is an opportunity that the company can also be assigned to transport additional shipments beside the current scope of work of this contract, resulting in an increase of expected returns from this contract.
- The technical specifications to build the Dry Bulk vessels are finalized; negotiations are in progress to select an appropriate shipyard.
- The operational efficiency of the crude oil vessels' has been improved by reducing their sailing speed which helped to reduce the fuel consumption.
- The administrative and legal formalities regarding the transfer and registration of Mideast Ship Management Company Ltd. from Bermuda to Dubai have been finalized.

These achievements were a result of the concerted efforts by the Board of Directors, Executive Management and the employees of Bahri and its affiliates. In conclusion, I would like to extend my gratitude and appreciation to the Government of the Custodian of the Two Holy Mosques and King Abdullah bin Abdul Aziz for their constant support.

I would also like to thank all the shareholders for showing their support and confidence in the Company, my colleague members of the Board, Executive Management team and all the employees of Bahri and its affiliates to further improve and develop the company.

We look forward to achieve all our objectives for the current year, God willing.

Abdullah Sulaiman Al Rubaian
Chairman

Board of Directors Report

Introduction

The National Shipping Company of Saudi Arabia (Bahri) was established in the year 1979 as a Saudi Joint Stock Company by a Royal Decree No. M/5 dated 12/02/1398H, corresponding to 22/01/1979, to be the national carrier and a prominent company among the leading shipping companies of the world. The Public Investment Fund owns 28.2% of Bahri's share capital.

Bahri commenced its business operations in the General Cargo segment. In 1985, it entered into the transportation of petrochemical products and expanded in the mid-1990s into the segment of transporting crude oil. In 2005, Bahri entered into the liquefied petroleum gas (LPG) segment by buying a stake in Petredec Ltd., a company specialized in the trade and transport of liquefied petroleum gas (LPG). In 2010, Bahri announced its entry in the Dry Bulk segment. All these activities come in line with Bahri's strategy to diversify its sources of income.

Bahri embodies the national maritime transport industry and links the Kingdom's trade to the rest of the world. Bahri services cover various global markets through its branches, subsidiaries and a network of agents. Bahri has investments in its operations to realize profits on an annual basis, to contribute to the development of the country's economy and maximize the returns for its shareholders. Bahri also provides high quality services to satisfy its customer needs, in addition to creating job opportunities for Saudi graduates who are eligible to participate in building the national economy. Currently, Bahri operates extensively around the world to link the economies and participate in the global growth.

Bahri has committed itself to maintain transparency in all its dealings and the disclosure of the financial results. Bahri adopts safety standards in its operations to preserve the environment and committed to its social responsibilities. In 2010, Bahri was awarded first place for transparency by BMG, which is an award for the best corporate disclosure.

Through implementing the successive strategic plans, Bahri continues to grow and focus on the mission and stated objectives by utilizing its resources in order to achieve the best returns for the shareholders.

Vision

Connecting Economies, Sharing Prosperity and Driving Excellence in Global Logistics Services.

Mission

By consistently focusing on our Values and responsible business fundamentals, we shall be a leading service provider applying best practices to run a world-class fleet, whilst building mutually beneficial relationships with all stakeholders.

Values

Driven, Relentless, Transparent, Considered.

Strategy and Projects

Bahri continues to expand and grow in various shipping sectors including General Cargo, Dry Bulk and Petrochemicals. This is in line with the comprehensive strategic plan focused on growth in shipping activities to increase and diversify sources of income.

At the end of 2008, the Board of Directors adopted a new five-year strategic plan (2009-2013), which was prepared in coordination with an international consulting firm. This plan confirmed the strong financial and operational position of the Company, which enhances its competitive edge in the global markets.

The National Chemical Carriers Company (NCC) purchased the two chemical tankers whose contracts were previously cancelled due to their delayed delivery by the shipyard. (6) Tankers have been delivered in 2011 and the remaining (5) tankers, currently under construction are due to be delivered by the end of 2012.

On July 4, 2010, NCC signed a contract with Daewoo Shipping and Marine Engineering Co. Ltd. (DSME) to construct a specialized chemical tanker of 75,000 DWT expected to be delivered in 2013.

Bahri continues its focused progress in line with its stated strategy. The strategy is to expand the Company's business through expansion of the fleet, diversification of investments, effective management that monitors the markets, reduce operating costs and oversees processes of implementation.

The strategic plan consists of the following components:

- Operation of crude oil vessels in an optimal manner in the spot market and through time-charter contracts.
- Explore markets for optimal operation of the chemical tankers.
- Improve operational management in all business sectors.
- Explore promising investment opportunities for potential expansions in the future.

Completed Projects

- On August 28, 2010, Bahri signed an agreement with the Arabian Agricultural Services Company (ARASCO) to establish a JV company to transport dry bulk cargo, named Bahri Dry Bulk Company LLC.

- On March 6, 2011, Bahri signed a contract with Hyundai (MIPO) to build (4) ROCON vessels with an option to build (2) additional vessels. Bahri has exercised this option to build the (2) additional vessels.

- During 2011, NCC received from (SHINAsb) shipyard (6) chemical tankers each with a tonnage capacity of (45,000) tons.
  These tankers began its operations through (NCC ODFJELL CHEMICAL TANKERS JLT), headquartered in Dubai.

- Bahri signed a contract with an international consulting firm specialized in branding the identity to determine the Company's future strategy related to the rebranding project which is expected to be complete during the second quarter of 2012.

Financial Statements and Operational Results

The year 2011 was one of the most difficult years for the shipping industry due to the significant impact in the global economy and successive entry of large tonnage capacities of the VLCCs contracted during the prior years. The crude oil segment was the largest segment of the Company in terms of contribution to its profitability during the last years and the most affected sector of the industry in 2011.

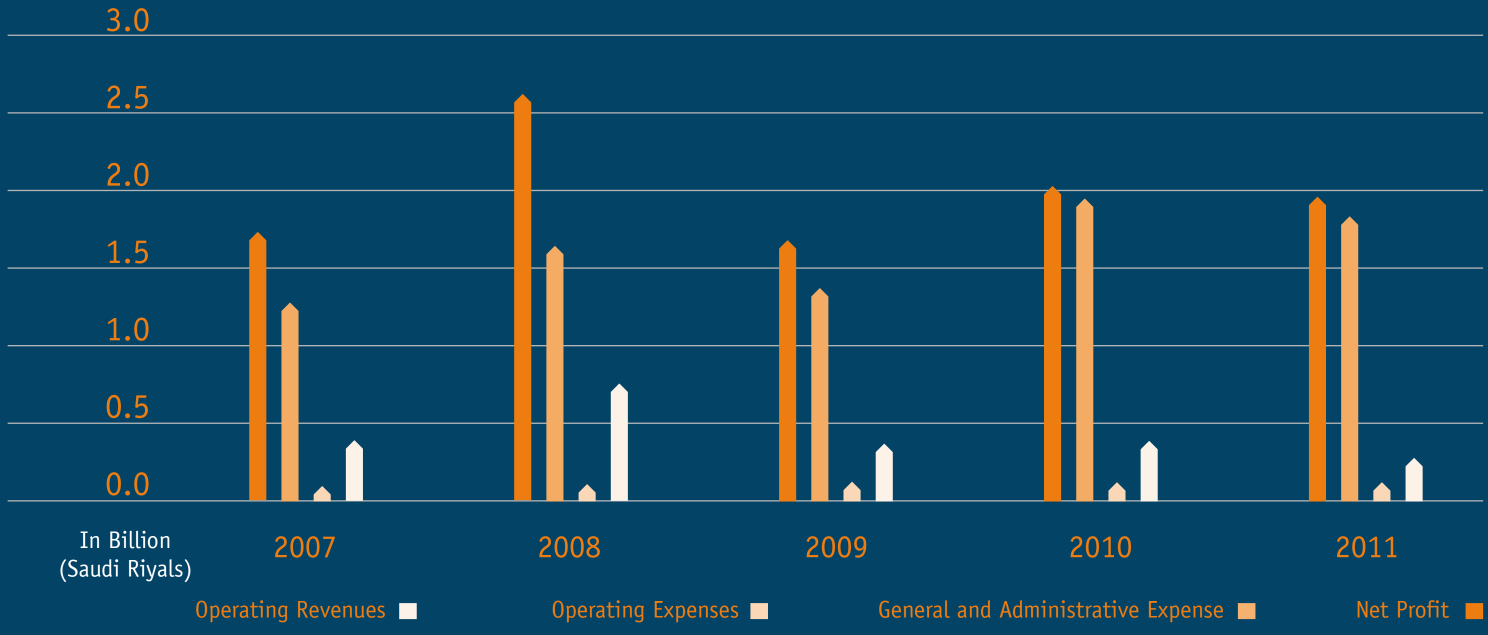
The time charter equivalent (TCE) rates in the spot market were the lowest in twenty years. Nevertheless, with the grace of God and the adoption of a policy for diversification of investments, Bahri has realized lucrative profits.

In 2011, Bahri realized a net profit of SAR 288 million compared to SAR 415 million in 2010. The total operating income for the year 2011 amounted to SAR 230 million compared to SAR 454 million in 2010, marking a decrease of 49% over prior year's operating income. This decrease is traced to the decline in the results of operations of the crude oil transport segment, which was affected by a decrease in the charter rates of crude oil in the spot market, which in turn was affected by the increase of tonnage resulting from the entry of new VLCCs in the market as well as the completion of charter agreements of (3) Very Large Crude Carriers (VLCCs) owned by the Company during the second and third quarters of 2011; in addition to the increasing purchase cost of bunker fuel for the vessels.

Financial results for five years

(In Thousands Saudi Riyals)

	2011	2010	2009	2008	2007
Operating Revenues	1,991,084	2,049,830	1,672,016	2,594,530	1,703,294
Bunker cost	(801,163)	(625,692)	(395,986)	(539,592)	(327,217)
Other operating expense	(1,027,214)	(976,253)	(903,559)	(1,094,290)	(924,741)
Gross operating income before bunker subsidy	162,707	447,885	372,471	960,648	451,336
Bunker subsidy	176,465	109,498	83,212	72,859	56,640
Gross operating income	339,172	557,383	455,683	1,033,507	507,976
General and Administrative Expense	(109,660)	(103,801)	(95,020)	(105,718)	(87,301)
Revenue (Expense) Other	83,753	2,339	43,227	(123,350)	174,166
Zakat & Tax Provision	(25,497)	(36,365)	(34,590)	(54,471)	(18,419)
Net Profit	287,768	414,878	369,300	749,968	576,422
Earning per share from net profit (SAR)	0.91	1.32	1.17	2.38	1.48



Assets & Liabilities as of December 31, 2011

(In Thousands Saudi Riyals)

Description	2011	2010	2009	2008	2007
Total Current Assets	1,042,280	1,578,464	1,225,146	1,579,185	1,400,642
Fixed Assets, net	7,252,854	6,407,630	6,730,766	5,658,910	4,634,435
Other non-current Assets	2,328,077	1,980,185	2,380,922	2,581,331	1,761,709
Total Assets	10,623,211	9,966,279	10,338,584	9,819,426	7,796,786
Total Current Liabilities	944,248	736,030	608,041	817,726	717,011
Murabaha financing and long-term finance	4,294,968	3,818,540	4,516,180	3,709,941	2,229,291
Other non-current Liabilities	28,058	33,326	34,974	37,888	37,002
Total Liabilities	5,267,274	4,587,896	5,160,945	4,565,555	2,983,304
Paid-up share capital	3,150,000	3,150,000	3,150,000	3,150,000	3,150,000
Statutory Reserve and Retained Earnings	1,912,623	1,939,691	1,837,520	1,940,796	1,509,793
Minority Interest	293,314	288,692	190,119	163,075	153,689
Total Equity	5,355,937	5,378,383	5,177,639	5,253,871	4,813,482
Total Liabilities and Equity	10,623,211	9,966,279	10,338,584	9,819,426	7,796,786

Affiliates and Segments

Bahri owns or invests in a group of companies within the Kingdom of Saudi Arabia and abroad, as shown in the following table:

Company Name	Activity	Country of Establishment	Head Office Location	Geographical Scope of Activity	Data of Incorporation	Ownership (%) 2011
Bhari (America) Inc.	Bahri Ship Agent	USA	USA	Global	1991	100%
Mideast Ship Management Ltd.	Technical Ship Management	UAE	UAE	Global	1996	100%
National Chemical Carriers Ltd. Co.	Petrochemical Transportation	KSA	KSA	Global	1990	80%
Bahri Dry Bulk	Dry Bulk Transportation	KSA	KSA	Global	2010	60%
Petredec Co. Ltd.	LPG Transportation and Trading	Bermuda	Singapore	Global	1980	30.3%
Arabian United Float Glass Company	Glass Manufacturing and Trading	KSA	KSA	Local	2006	10%

Financial Results for Affiliates and Segments for the FY 2011

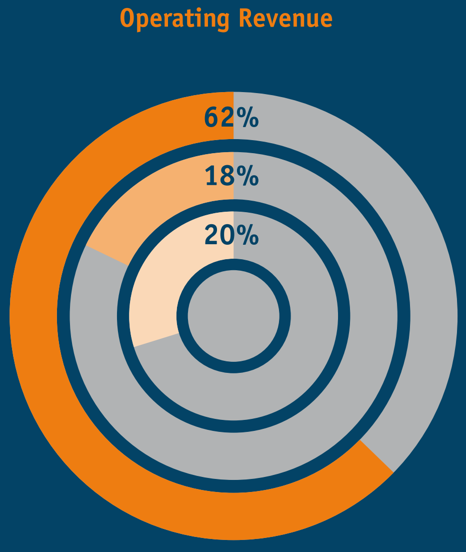
(In Thousands Saudi Riyals)

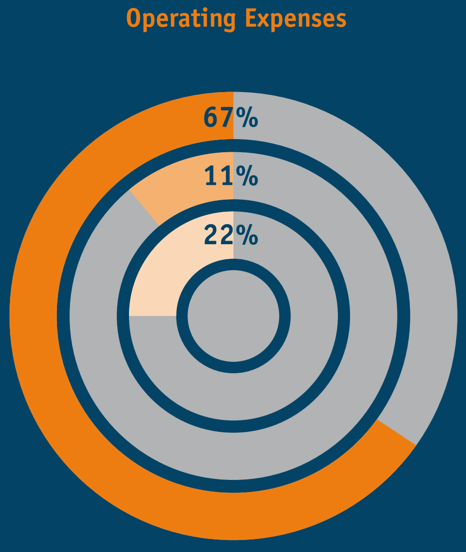
Company Name	Operating Revenue	Operating Expenses	General & Administrative	Other Income (Expenses)	Net Profit (Loss)	Percentage contribution in Company's Net Profit
Bahri (America) Inc.	23,470	(6,605)	(16,541)	(86)	238	0.1%
Mideast Ship Management Ltd.	40,665	----	(36,055)	(3,002)	1,608	0.1%
National Chemical Carriers Ltd. Co.	362,539	(210,785)	(7,439)	8,880	135,435	47%
Bahri Dry Bulk	----	----	(2,290)	(3,874)	(6,164)	(2%)

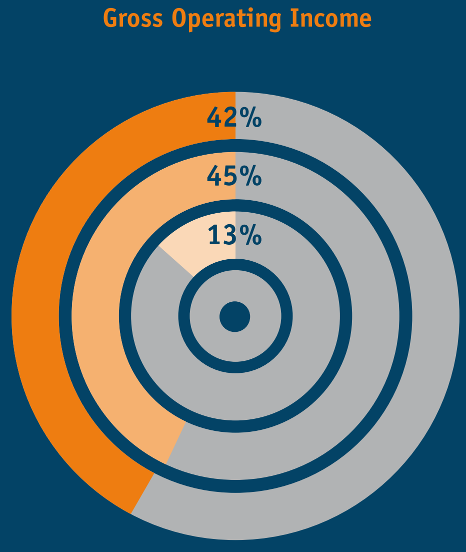
* Dependent entirely on the parent company in generating their income.

The Company operates through independent strategic shipping segments: oil & gas, petrochemicals, general cargo and dry bulk. The petrochemical and dry bulk cargo segments' operations are carried out through two independent companies: The National Chemical Carriers (NCC) and Bahri Dry Bulk, in collaboration with its strategic partners in these two segments.

Segment	Operating Revenue	Bunker Cost	Other Operating Expenses	Total Operating Expenses	Gross Operating Income before bunker subsidy	Bunker Subsidy	Gross Operating Profit	(%) of the segment contribution to the total
Crude Oil & LPG Transportation	1,227,423	(661,509)	(560,057)	(1,221,566)	5,857	137,449	143,306	42%
Petrochemical Transportation	362,539	---	(210,785)	(210,785)	151,754	---	151,754	45%
General Cargo Transportation	401,122	(139,654)	(256,372)	(396,026)	5,096	39,016	44,112	13%
Dry Bulk Transportation	---	---	---	---	---	---	---	---
Total	**1,991,084**	**(801,163)**	**(1,027,214)**	**(1,828,377)**	**162,707**	**176,465**	**339,172**	**100%**





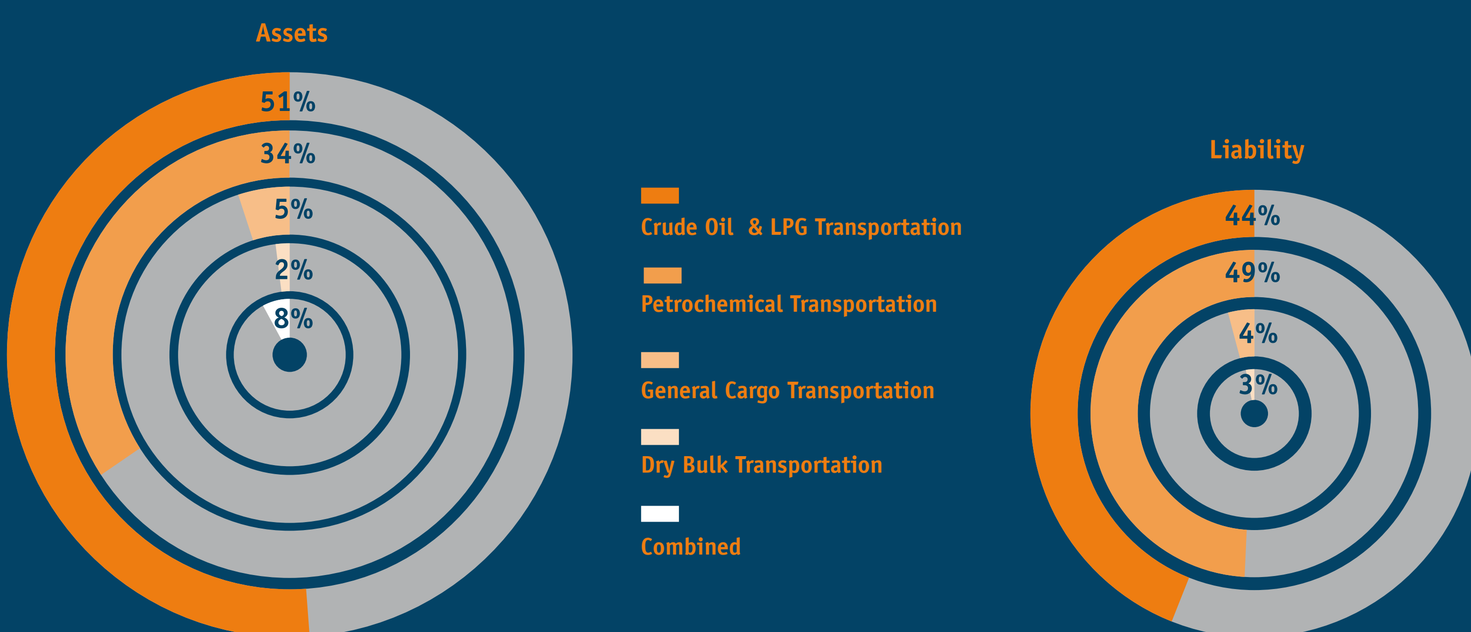


Crude Oil & LPG Transportation
Petrochemical Transportation
General Cargo Transportation
Dry Bulk Transportation

Asset and Liability distributions over the company's segment as on 31 December 2011

(In Thousands Saudi Riyals)

	Crude Oil & LPG Transportation	Petrochemical Transportation	General Cargo Transportation	Dry Bulk Transportation	Combined	Total
Assets	5,415,286	3,647,375	542,316	199,124	819,110	10,623,211
Percentage (%)	51%	34%	5%	2%	8%	100%
Liabilities	2,337,777	2,568,479	213,692	5,288	142,038	5,267,274
Percentage (%)	44%	49%	4%	0.1%	3%	100%



Crude Oil Transport Segment

The crude oil transport segment is the largest operating segment of Bahri. This segment operates a fleet of (17) Very Large Crude Carriers (VLCCs) in the spot market and long term contracts (time charter) basis. The risk management strategy is to balance between fixed and variable income, i.e. to benefit from the high revenue in the spot market and fixed revenue generated from time charter contracts. In 2011, (3) VLCCs completed their time charter agreements and were deployed in the spot market as a result (14) VLCCs were operating in the spot market by the end of the year 2011. Charter rates are set according to the mechanisms of supply and demand in the global market at the time of signing the charter contract. Due to the poor spot market rates during the year 2011 and their direct impact on the time charter contract rates, Bahri refrained from entering into medium- or long-term time charter contracts at low rates, pending the issuance of clear market indices. In the meantime, Bahri has devoted its best efforts to improve the relationship with its major customers, reduce the vessels speed to minimize bunker fuel consumption and aims to maximize the returns by establishing its presence in various markets and taking advantage of the timely presence of Bahri vessels in those markets.

Facts and Figures

- Bahri started the operation of crude oil transportation during 1996. The company presently owns a fleet of (17) VLCCs.
- The total DWT capacity of these VLCCs reached (5,256,605) tons which is equivalent to about (36) million barrels of crude oil.
- Number of VLCC Voyages completed during 2011 was as follows:

	Percentage at the beginning of the year	Percentage at the end of the year	Number of Voyages
Vessels operating in the Spot Market	66%	80%	79
Vessels operating on Time Charter Contracts	34%	20%	28
Total	100%	100%	107

- In 2011, VLCCs made 320 ports call.
- The main routes on which these VLCCs operated were as follows:
  - Arabian Gulf / Far East (45%).
  - Arabian Gulf / United States of America (30%).
  - West Africa / Far East (25%)
- Technology systems installed on VLCCs fleet include:
  - Energy-saving technology;
  - Electronic control system in the main operational engines.
- Global VLCCs market (new construction and exit from the service):
  - By the end of 2011, the total number of VLCCs operating in the global market reached (575) vessels and (127) vessels are under construction.
  - (61) VLCCs are expected to be delivered during 2012.
  - (12) VLCCs are expected to exit the market during 2012 and 2013.

Main Routes for VLCCs Globally

VLCC Fleet

S#	VLCC Name	Year of Manufacture	Type	Length (Meter)	Width (Meter)	Weight (Static Tons)	Number of Tanks	Speed (Knots)
1	Ramlah	1996	Double-Hull	340	56	300,361	17	15
2	Ghawar	1996	Double-Hull	340	56	300,361	17	15
3	Watban	1996	Double-Hull	340	56	300,361	17	15
4	Hawtah	1996	Double-Hull	340	56	300,361	17	15
5	Safaniyah	1996	Double-Hull	340	56	300,361	17	15
6	Harad	2001	Double-Hull	333	58	302,700	17	17.1
7	Marjan	2002	Double-Hull	333	58	302,700	17	17.1
8	Safwa	2002	Double-Hull	333	58	302,700	17	17.1
9	Abqaiq	2002	Double-Hull	333	58	302,700	17	17.1
10	Wafrah	2007	Double-Hull	333	60	318,000	17	16.7
11	Layla	2007	Double-Hull	333	60	318,000	17	16.7
12	Jana	2008	Double-Hull	333	60	318,000	17	16.7
13	Habari	2008	Double-Hull	333	60	318,000	17	16.7
14	Kahla	2009	Double-Hull	333	60	318,000	17	16.7
15	Dorra	2009	Double-Hull	333	60	318,000	17	16.7
16	Ghazal	2009	Double-Hull	333	60	318,000	17	16.7
17	Sahba	2009	Double-Hull	333	60	318,000	17	16.7
Total Capacity						**5,256,605**		

Liquefied Petroleum Gas (LPG)

Bahri operates in the Liquefied Petroleum Gas (LPG) segment through Petredec Co. Ltd. which was founded in 1980. This Bermuda-based company has offices in Monaco, Singapore and the Bahamas, operating exclusively in the trade and transport of LPG.

In 2005, Bahri bought a 30.3% stake in the share capital of Petredec Co. Ltd. The business activity of Petredec in LPG is supported by a fleet of specialized LPG carriers, consisting of (64) vessels of various sizes, of which (17) are owned by the company, (2) carriers are on bareboat charter contracts, (26) carriers are on time chartered agreements, (19) carriers operate in the spot market and additional (3) carriers are under construction. Petredec operations cover Asian, European, Caribbean and Middle Eastern markets.

Over the past years, Bahri realized remarkable profits from this investment. Bahri's share in Petredec's net profits amounted to SAR 135.38 million in 2011, compared to SAR 36.93 million in 2010, marking an increase of 267% over the previous year.

Chemical Transport Segment

In 1990, Bahri founded the National Chemical Carriers Company (NCC) with a capital of SAR 200 million, in collaboration with Saudi Basic Industries Corporation (SABIC) with an ownership of 80% and 20% respectively. Additional funds were injected to support the expansion plans of NCC, increasing its capital to SAR 610 million by the end of 2011, shareholders' equity to be SAR 1,079 million and total assets to be SAR 3,647 million.

The National Chemical Carriers Co. Ltd., an affiliate of Bahri, currently owns (19) specialized chemical carriers, operated as follows:

- (9) Carriers are operating in a commercial pool arrangement with (NCC Odfjell Chemical Tankers JLT) company.
- (6) Carriers are chartered to the International Shipping and Transportation Co. Ltd., an affiliate of Saudi Basic Industries Corporation (SABIC).
- (3) Carriers are chartered to Odfjell, a Norwegian company, under a bareboat capital lease arrangement.
- (1) Carrier is chartered to the Saudi International Petrochemical Company (Sipchem).

The purpose of NCC alliance with Odfjell in mid-2009 is to incorporate a JV company owned equally, to commercially operate the fleet of chemical carriers' of both companies' in one pool to transport chemicals, vegetable oils and refined petroleum products throughout the world. This JV will enhance its presence in the global markets with a special focus on the GCC region. Successive receipt and operation of carriers in this pool confirmed the financial returns and the presence of this strategy.

During 2011, the construction of (4) chemical carriers was completed and were delivered in June, August, September and October. Also, the (2) carriers purchased in March and April of the same year were also delivered. These vessels joined service in the pool with the (NCC Odfjell) JV immediately upon receiving their delivery.

Voyages:

The chemical fleet completed (100) voyages during 2011, (45) were completed by the carriers operating under the pool of (NCC Odfjell) JV and (55) voyages were completed by the carriers operating under time-charter contracts.

Volume of Shipments:

The total tonnage transported by the chemical carriers' segment in 2011 reached (3.7) million tons of chemicals, oils and clean fuel shipped to destinations globally. Of the total of these shipments, (1.7) million tons were carried by the carriers operating in the pool of the (NCC Odfjell) JV and (2) million tons were carried by carriers operating under time-charter contracts.

Main Routes for Chemical Fleet Globally:

- Middle East - Far East.
- Middle East – Europe.
- Far East - Europe - United States.
- Europe - United States - South America.
- Europe - Far East.
- United States - Europe - Far East.
- United States - South America.
- South America - Far East.

Main Routes for Chemical Tankers Globally

Growth of Chemical Carriers Fleet

Description	Number of Carriers	Capacity (Static Tons)
Fleet at the beginning of the year 2011	13	574,500
Fleet delivered during the year 2011	6	270,000
Fleet at the end of the year 2011	19	844,500
Carriers under construction and expected to be delivered during 2012-2013	6	300,000
Total	**25**	**1,144,500**

Chemical Carrier Fleet-Operational and Under Construction as on 31 December 2011

S#	Carrier	Year Built	Width (Meter)	Length (Meter)	Weight (Static Ton)	Number of Tanks	Speed (Knots)
1	NCC Makkah *	1995	32.2	183.10	37,500	52	16
2	NCC Riyadh *	1995	32.2	183.10	37,500	52	16
3	NCC Jubail *	1996	32.2	183.10	37,500	52	16
4	NCC Najd	2005	32.2	183.02	46,200	22	15
5	NCC Hijaz	2005	32.2	183.02	46,200	22	15
6	NCC Tihama	2006	32.2	183.02	46,200	22	15
7	NCC Abha	2006	32.2	183.02	46,200	22	15
8	NCC Tabuk	2006	32.2	183.02	46,200	22	15
9	NCC Qassim	2006	32.2	183.02	46,200	22	15
10	NCC Rabegh	2007	32.2	183.02	46,200	22	15
11	NCC Sudair	2007	32.2	183.02	46,200	22	15
12	NCC Dammam	2008	32.2	183.02	46,200	22	15
13	NCC Hail	2008	32.2	183.02	46,200	22	15
14	NCC Noor	2011	32.2	183	45,000	22	15
15	NCC Huda	2011	32.2	183	45,000	22	15
16	NCC Amal	2011	32.2	183	45,000	22	15
17	NCC Safa	2011	32.2	183	45,000	22	15
18	NCC Danah	2011	32.2	183	45,000	22	15
19	NCC Nesmah	2011	32.2	183	45,000	22	15
20	NCC Shams	Expected in 2012	32.2	183	45,000	22	15
21	NCC Najm	Expected in 2012	32.2	183	45,000	22	15
22	NCC Reem	Expected in 2012	32.2	183	45,000	22	15
23	NCC Samaa	Expected in 2012	32.2	183	45,000	22	15
24	NCC Bader	Expected in 2012	32.2	183	45,000	22	15
25	NCC Fajer	Expected in 2013	36.8	228	75,000	30	14
Total Capacity					**1,144,500**		

* The carriers (NCC Makkah), (NCC Riyadh) and (NCC Jubail) were bareboat chartered to Odfjell for (10) years with a purchase option after the third year.

General Cargo Segment

Bahri commenced its operation through the general cargo segment, which covers a geographical area extending from the eastern coast of the US and Canada to the Indian sub-continent, passing through the Mediterranean Sea, Red Sea and Arabian Gulf. This segment began its operation through Bahri offices in Dammam, Riyadh, Jeddah, Jubail, Mumbai, Livorno in Italy, and Baltimore in Maryland, U.S.A.

Bahri's focus is to expand its customer base and was awarded a contract for (3) years period amounting SAR (230) million to provide logistic services for the Ministry of Defense in the Kingdom of Saudi Arabia. Bahri is appointed as an official carrier for all the branches of the Armed Forces sectors of the Ministry of Defense, to transport cargo by sea, land and air to and from the Kingdom of Saudi Arabia.

Size of Shipments:
The total amount of cargo carried by General Cargo fleet (RoRo) during 2011 was, (20,126) containers and (811,235) DWT of general cargo carried by 14 liner voyages.

Main Route for the General Cargo Segment:
The general cargo fleet operates a liner service from the US East coast and Canada to the Indian sub-continent passing through Livorno Port in Italy, Jeddah Islamic Port on the Red Sea, King Abdul Aziz Port in Dammam and Jebel Ali Port on the Arabian Gulf coast.

Specifications of the General Cargo Fleet operating and under construction.

Specifications of the General Cargo Fleet operating and under construction

S#	Vessel	Weight (Static Ton)	Immersion (Meter)	Width (Meter)	Length	TEUs	Horse Power	Speed (Knots)
1	Saudi Hofuf	42,600	11.12	32.29	248.72	2,310	27,600	18
2	Saudi Diriyah	42,600	11.12	32.29	248.72	2,310	27,600	18
3	Saudi Abha	42,600	11.12	32.29	248.72	2,310	27,600	18
4	Saudi Tabuk	42,600	11.12	32.29	248.72	2,310	27,600	18
5	Hull No. 8085	26,000	9.5	32.30	225	2,500	---	17
6	Hull No. 8086	26,000	9.5	32.30	225	2,500	---	17
7	Hull No. 8087	26,000	9.5	32.30	225	2,500	---	17
8	Hull No. 8088	26,000	9.5	32.30	225	2,500	---	17
9	Hull No. 8089	26,000	9.5	32.30	225	2,500	---	17
10	Hull No. 8090	26,000	9.5	32.30	225	2,500	---	17

Main Route For General Cargo Fleet

Owned and leased Containers as on 31 December 2011

	Type	2011	2010
1	20ft standard container	3,118	2,835
2	20ft open-top container	328	332
3	40ft standard container	552	556
4	40ft high cube container	1,325	1340
5	40ft open-top container	146	146
6	20ft flat bed	55	55
7	40ft flat bed	134	153
8	20ft trailers (chassis)	43	225
9	40ft trailers (chassis)	66	248
10	20ft Mafi – 30 tons	4	4
11	40ft Mafi – 60 tons	69	69
12	40ft Mafi – 80 tons	8	8
13	40ft Mafi – 100 tons	212	212
14	62ft Mafi – 80 tons	15	15

Container Yard

Bahri owns a spacious container yard in the Jeddah Islamic Port. This yard is used as a workshop to repair and store Bahri containers and related equipment. This also contributes to handle the containers to and from the vessels rapidly and speeds up the clearance of customers shipments.

Dry Bulk Cargo Transport Segment

In line with the company's policy to expand its activities in selected transportation segments, Bahri signed a JV agreement with the Arabian Company for Agricultural Services (ARASCO). This JV Company is specialized in transporting dry bulk cargo and has an initial capital of SAR 200 million. Bahri contributed 60% and ARASCO contributed the remaining 40% of the capital.

The newly-formed JV Company is expected to start its operations of transporting wheat, corn and other dry bulk cargo during the year 2012 after obtaining the vessels of the appropriate size to the nature of this activity. The total initial investment in the newly established company amounts to SAR 656 million and is expected to increase to SAR 1,325 million during the next three years. Negotiations are currently underway with financial institutions to finance about 70% of the cost to build the first (5) vessels. Final specifications of the vessels have been approved and bids have been solicited from specialized shipyards. Negotiations are underway to award the building contracts of the requested vessels.

Technical Ship Management

In 1997, Bahri established the Mideast Ship Management Co. Ltd. in partnership with a strategic specialized company in ship management services. Subsequently, Bahri acquired the share of the partner and the Company became wholly owned by Bahri. The main objective of this subsidiary company is to set-up a specialized technical management for Bahri's vessels which applies all technical and operational standards and develops operational efficiencies.

Mideast Ship Management Co. Ltd. is committed to adopt the highest quality standards, safety rules and protect the environment by following the directives issued by the International Maritime Organization (IMO) of the United Nations and the laws of different countries, wherein the Company's vessels may call on their ports as these laws are getting stricter on an ongoing basis. This company operates in accordance with the requirements of international maritime organizations and standards of international oil companies and companies that produce and export chemicals, and other clients whose expectations continuously increases for a districted performance. Mideast Ship Management manages the company's VLCCs, chemical tankers and general cargo vessels. Mideast Ship Management recruits the crew for the ships in accordance with the requirements of high efficiency, and seeks to train the crew on all new processes and devices adopted by the Company. Mideast Ship Management Company has a specialized team of dedicated captains, engineers and technicians with high technical expertise and extensive experience in the management as well as technical and administrative operation of the fleet.

The total number of employees working for the Company's vessels reached (1,182) members from (28) different nationalities, of whom (1,098) persons are employed on board the vessels and (84) employees working in the office of the Company. Those employees working in the office carry out diverse activities ranging from specialists in fleet management; engineers specializing in technical supervision; officials in procurement, recruitment and training, accountants and specialists in quality, safety and the environment.

Mideast submits technical reports to Bahri on the performance and status of the vessels, fuel consumption, results of periodic inspections and recommendations in this regard. The Company also provides periodic financial reporting on operating expenses, budgeting and several other reports. Mideast is also responsible to train newcomers from Saudi sailors aboard the vessels and tankers of the Company.

Business Planning and Development

The Planning and Business Development Department of Bahri is responsible to prepare strategic plans and follow-up their implementation; do periodic planning of business development; coordinate with the business segments and other support units of the Company; follow-up regarding the performance of these segments and units and to compare their performance in light of the stated goals as listed in the approved plans.

Planning and Business Development Department Functions:

- Prepare and review the Company's strategic plans.
- Monitor and implement approved initiatives.
- Assist in the development of new plans of implementation to ensure optimal utilization of corporate resources.
- Prepare action plans and key performance indicators.
- Follow-up on the measures of change, restructuring and exploring available opportunities in line with the approved initiatives.
- Monitor various corporate expansion projects to ensure their timely implementation, including coordination with partners, shipyards, marine engineers, consultants and consulting firms.
- Identify, explore and assess the suitability of the proposed business in line with the strategic objectives of the Company.
- Assist in identifying investment opportunities and developing strategic partnerships.
- Communicate with all business units and assist in the implementation of the initiatives that are identified.
- Submit reports on financial business activities, operational costs, major competitors' performance, forecasts and market trends in the shipping industry.
- Monitor performance measurement for all segments and business units prior to submittal of quarterly reports to senior management.
- Follow-up projects with the shipyards.

Communications and Public Relations

The Communications Department is the key link between the Company and various media, government offices and other institutions. The Communications Department has adopted several initiatives, including the project to rebrand and change company's commercial identity, media relationship, advertising, social responsibility, corporate management events, information published by the Company's management and other related responsibilities.

The Company has set up a distinct and efficient Communications and Public Relations Department with a professional team, experienced in public relations, local and foreign media, and preparation of conferences, meetings and exhibitions locally and abroad.

Memberships

- Membership of the Islamic Ship Owners' Conference.
- Membership of the Saudi-American Business Council.

Achievements

- Implementation of a unified system for management and planning of the Company's resources (Oracle ERP).
- The first Saudi joint stock company to apply the electronic remote voting system for all the items on the agenda of the General Assembly meetings, management of the General Assembly activities and sorting the results of voting electronically. This is accomplished in coordination with Tadawul using "Tadwulati" software.

Contributions and Participations

- Participation in the preparation of the Special Report on the Public Investment Fund, which was published in "Al Eqtisadiah" newspaper.
- Participation in the (Marine Money) Conference in March 2011.

Information Technology

During 2011, a study was embarked regarding the second phase of company's Information Technology Department strategy (Manarah 2). This study covered a range of strategic projects and initiatives to provide the latest technologies and advanced applications software for achieving the desired objectives and to support all business segments of the Company. It will assist its various departments to cope with the growth and upgrade the level of services and competitive edge.

Among the most important projects of that stage is the completion of the first phase of the unified system for management and planning of corporate resources (ERP) at the various levels of business segments of the Company; in addition to setting up a backup Information Center to ensure continuity of critical systems. At this stage, the information technology network of the Company has been linked to a standard international network in order to utilize consolidated common services and conduct a comprehensive update of the information technology infrastructure.

The planning phase of the new IT system for the general cargo segment covering all general cargo activities was completed and will begin implementation early 2012. This system is expected to be finalized by the end of the year.

Among the completed projects are the development of the Company's website to keep pace with the requirements of customers, shareholders and visitors of the website and development of an intranet portal to enhance internal communications among Company employees. Special webpages were also set up for the Company on world-renowned social networking sites for the diversification and enhancement of the Company's foreign channels for communication.

Bahri's website is considered one of the best Pan Arab websites in terms of content, design and friendly browsing.

Internal Audit and Control

The Internal Audit and Control Department employs highly qualified professionals, in addition to competent and qualified technical marine personnel with experience in surveying the maintenance of vessels. The Department continues to develop the capacity of its staff and to refine their skills through the application of modern technology in the implementation of audit programs, training and access to new audit and risk analysis information.

The Internal Audit and Control Department verifies that the business units and offices of the Company comply with the stated rules, standards, policies, procedures, controls, government laws and relevant legislation.

The Department also develops relevant plans and projects related to risk management based on international audit standards.

The Internal Audit and Control Department implemented applications for internal control systems of the Company and its affiliates. These systems aim to protect the assets of the Company, maintain and protect its accounting records against any unauthorized use, ensure the application of accounting policies, regulations and internal procedures of the Company in order to obtain reliable financial reporting.

The Internal Audit and Control Department has implemented several tools and programs in the control applications which led to the integration of the head office, subsidiaries and regional offices of the Company. The Department has also completed the internal audit functions for the year 2011, according to the approved audit plan. This included the review and examination of accounts and documents relating to the various offices, affiliates and branches. The Department has achieved its goals of completing those tasks, according to the audit plan, and submitted its recommendations to the Company's Audit Committee which is directly in charge of the functions of this Department.

The Internal Audit and Control Department has also implemented the Governance, Risk and Compliance Management System (GRCM), which is a component of the unified Enterprise Resource Planning (ERP) system. This system has contributed to the promotion and improvement of audit functions, enhanced transparency, risk control and overall control over the Company's dealings and operations. The system also helped in converting the internal audit functions to an electronic operating system.

Human Resources

Bahri is committed to develop a human resources strategy to support the Company to fulfill its mission and achieve its strategic objectives. This strategy is reviewed and revised annually in light of the changing priorities of the Human Resources Department and the changing needs of the Company. The role of Human Resources Department is manifested in adding value to the Company through the development and implementation of human resources plans, playing a leading role in the promotion and development of employees and preparing the necessary training programs to achieve this objective.

The Company's policy is to ensure that the staff have adequate experience and receive the necessary trainings to enable them to perform their duties and tasks effectively and efficiently. Bahri selects its employees based on their academic and technical abilities and previous experience which satisfy the business requirements of the Company.

The total hours of training during 2011 was 3,360 hours covering various areas in the respective fields of work. In 2012, the Human Resource Department plans to offer training programs in English, shipping and staff skills development to help them acquaint themselves with the changes and updates in their respective fields of work.

Saudization Policies

Saudization schemes are key areas that underpin the efforts of Bahri to attract a more qualified national caliber in line with national aspirations for creation of job opportunities and employment of Saudi national manpower. Accordingly, priority is given to nationals in filling all the vacant positions in the Company. In this regard, the Company boasts that the rate of Saudization in administrative, middle and top management positions has reached (83%). The number of Saudi employees in the Kingdom has reached 176, rendering the overall rate of Saudization to be (58%). This qualifies the Company to be first class according to (Nitaqat) system launched by the Ministry of Labor recently.

Marketing & Customer Services

Bahri seeks to be a leader in its field of work and it is keen to provide optimal service to its customers wherever they are. Bahri's core of clients consists of major oil-producing companies, refineries, manufacturers and exporters of chemicals around the world. In the segment of general cargo, Bahri serves a broad base of clients in line with its strategy to deal with customers to identify their requirements and provide them with the service that satisfies those needs.

The Sales and Customer Service in the crude oil transportation segment conducted more than (52) field visits of major clients during the year 2011, compared to (50) such field visits in 2010.

Quality Assurance

The Quality Management Department continues to manage, direct and conduct training programs in the field of international quality management system (ISO 9001-2000).
This effort includes core courses, workshops and training programs for the qualification of internal quality control personnel and key controllers, in order to enhance and improve the corporate quality management system.
In 2006, Bahri was awarded (ISO 9001-2000) quality certificates and in 2009 the company succeeded in developing and upgrading its quality management system to comply with the standards of (ISO 9001 – 2008).

The Quality Management Department has laid down necessary plans to include all business segments and offices of the Company under one umbrella of the Quality Management System. The Department has also developed necessary plans to ensure the implementation of the Total Quality Management (TQM) system. In 2012, this Department will embark on the implementation of (ISO 9001:2008) Quality Management Certification Program in the general cargo transportation segment.

Bahri and its affiliates apply the quality management system throughout all their activities, which are handled in line with the international quality system certification already awarded to Bahri.

Bahri regularly reviews and upgrades the safety procedures of its fleet and conducts an assessment of such procedures to ensure that the latest safety and security procedures are in compliance with the international quality standards (ISO 9001-2000).

Quality Policies

Bahri is committed to excellence in its work and delivering flawless service to its customers by pursuing the following basic principles:

- Satisfy all regulatory and legal requirements.
- Take all necessary steps to protect the assets of the Company and its customers.
- Develop and manage customer relationships in a proactive manner.
- Use performance measurement mechanism to drive the Company towards continuous improvement.
- Committed towards work ethics of the Company and its practice with honesty and sincerity.

Environment and Safety

The shipping industry covers vast areas of the world. This increases the odds of impact on the safety of the marine environment and climate change. In this regard, Bahri strictly complies with the controls towards the environment and the requirements of public safety which are compatible with the criteria established by the global environmental bodies and organizations, relevant to maintaining the integrity of the marine environment and climate. Bahri also takes into account all the requirements necessary to serve this objective as provided in the technical specifications of its fleet and is keen to minimize the negative impact caused on the environment by the pollution from fleet's engines and other equipment used on board the fleet. Bahri conducts periodic tests of the fleet and its equipment by specialized international consulting firms to ensure its compliance with the technical specifications and standards approved by international safety standards.

Bahri also continues to take measures to maintain the safety and health of its employees including workers on board the fleet.

Social Responsibility

Contributions of business enterprises are not confined to developing economies but their positive effects extend to the communities in which they operate as a whole. For this reason, Bahri has placed social responsibility in focus. Since its initial inception, business activity of Bahri has exceeded the stated economic targets by adopting a comprehensive outlook towards the local community, shareholders and investors. Bahri also believes that social responsibility extends far beyond to cover the surrounding institutions, charities and the community at large.

Bahri seeks to play an effective social role in locations where it operates. Social contributions of Bahri in 2011 were as follows:

- Sponsoring the (Language and Communication Unit) Program of the Disabled Children Association.
- Participation in the cancer awareness campaign organized by the Ministry of Health.
- Support the work of the Charitable Society for Orphans (Insan).
- Participation in the National Festival for Heritage and Culture (Janadria 26).
- Participation in the activities of the National Day (81) of the Kingdom of Saudi Arabia.

Risk Management

The shipping industry involves many risks at the financial, operational and information levels, both in domestic and foreign markets. Bahri has paid great attention to this aspect in order to identify and assess risks accurately and respond properly to actively manage those risks. Risk management activities are implemented within the framework of the stated goals, objectives, strategies, internal controls and organizational priorities of Bahri. From this standpoint, all departments and individuals working in the company assume their responsibilities in the application of appropriate internal and risk management controls. These are set out to achieve the stated objectives of the Company and safeguard its resources.

Financial Operations

The Treasury Department is responsible to monitor the financial markets, analyze data and assess market trends and follow-up changes in exchange and interest rates. By taking necessary measures, the Treasury Department seeks to avoid the risk of inflation, credit risk and fluctuation in exchange and interest rates to determine the best ways to minimize financial risks; furthermore, explore available opportunities to invest its cash surplus.

Information Security

The Information Technology Department applies the best practices in the areas of systems security, protection of computer hardware, software, information media, IT and communications software. In this regard, the IT Department has adopted a set of software in order to ensure safety and confidentiality of the Company information and to protect such information from unauthorized access.

Operational Risk

One of the main objectives of the Company's management is to minimize operational risks through securing insurance coverage in appropriate ways with the best benefits and at the lowest cost. For this reason, the management of Bahri seeks to be up-to-date of the latest developments in the insurance coverage. Bahri constantly strives to improve the current status of all types of insurance coverage in order to avoid redundancy in some areas of the insurance policies held by the Company.

The strategic plans of Bahri's fleet expansion recognized that there will be a need for new competitive insurance bids that would provide a combination of the best types of insurance benefits. In this regard, Bahri's management is keen to review the services of insurance providers on an ongoing basis to assess their financial positions, their capability to meet their obligations and technical abilities. Bahri will also solicit the assistance of specialized consultancy firms in this field.

- **Maritime Insurance:** This includes insurance coverage of the fleet, equipment, crew working on board the Company's fleet, civil liability arising therefrom and the consequent sea risks. In fact, certain countries stipulate that all the vessels calling any port in their country must have adequate insurance coverage compatible with the requirements of those countries.

- **Non-maritime insurance:** This includes coverage of the Company's buildings, office equipment, vehicles and personnel as needed; in addition to, medical insurance for Company personnel.

- **Protection & Indemnity (P&I) Clubs:** The size of Bahri's fleet and its position qualify it to be an active member of the two largest P&I Clubs in the United Kingdom, which provide coverage of risks arising from incidents of damage to the fleet and its cargo. The Company is a member of the boards of these two clubs, which would be of benefit to Bahri as manifested in the exchange of experience and consolidating knowledge of operational risks and Takaful insurance.

Financing and Investment

With a strong financial position and abundant surplus cash, Bahri is capable of meeting its obligations and financing its various projects. Additionally, Bahri has maintained strong relationships with local and international financial institutions over the past years and adopted Sharia-compliant investment financing policies. According to these policies, 88% of the Company's loans have been converted to Sharia-compliant financing instruments. The proportion of the Sharia-compliant financing will reach 100% upon repayment of the current outstanding conventional commercial loans.

The Company pursues a conservative financial policy in the investment of its surplus cash in low risk investments rendering it easier to liquidate these investments when needed to finance its operations. The Company's financial policies are compatible with the nature of its business and assets. The Company's assets are managed proportionate to the stated useful life and the expected returns of the assets. This leads to flexibility in cash flow that enables the Company to meet its local and international obligations.

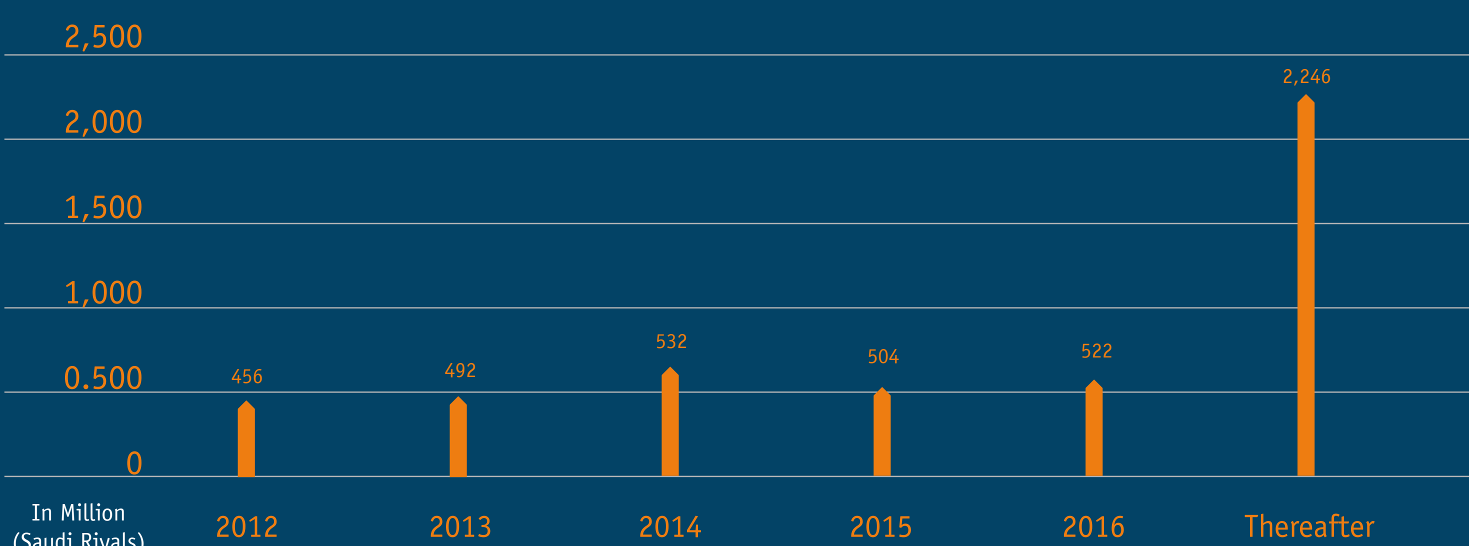
By the end of 2011, total financing of the Company's assets reached SAR 4.82 billion. Bahri expects that financing will reach its maximum level of SAR 4.96 billion by the end of 2013 before it will start to diminish gradually depending on the current financing agreements.

Financing during 2011

(In Thousands Saudi Riyals)

Company	Loan balance at the beginning of the year	Average Financing Period in Years	Drawn during the year	Repayments during the year	Loan balance at year end
Bahri	2,313,762	11	228,520	(228,323)	2,313,959
NCC	1,810,056	10.5	770,045	(96,425)	2,483,676
Mideast Ship Management Ltd.	19,369	7	---	(1,991)	17,378
Total	4,143,187	---	998,565	(326,739)	4,815,013

Murabaha Financing and Long Term Loans



Capital for the Subsidiary Companies during the year 2010 and 2011

Company	Company type	Date of incorporation	Capital 2011	Capital 2010	Ownership % 2011	Ownership % 2010	Shares	Debt Instruments
Bahri (America) Inc.	Limited Liability	1991	3,750,000	3,750,000	100%	100%	1,000	None
Mideast Ship Management Ltd.	Limited Liability	1996	306,540	45,000	100%	100%	1	None
NCC	Limited Liability	1990	610,000,000	610,000,000	80%	80%	61,000,000	None
Bahri Dry Bulk	Limited Liability	2010	200,000,000	200,000,000	60%	60%	200,000	None

Regulatory Payments

Zakat & Tax:

The Company and its affiliates prepare zakat and Tax returns on a regular basis and pays zakat & tax accruals pursuant to these returns in a timely manner within the stated regulatory deadlines. All tax deductions on payments to non-resident foreign parties are also paid on a regular periodic basis pursuant to applicable laws and regulations.

Bahri has not received any zakat assessments from the Department of Zakat & Income Tax (DZIT) for the period 2001 - 2010 and tax assessments for the period 2001-2004. Additionally, Bahri's affiliate did not receive any zakat and tax assessments for the period 2005 - 2010.

Subsequently, Bahri's affiliate NCC received additional Zakat and tax-deductible assessments for the period 1991 - 2004 for an amount of SAR 59 million. The affiliate objected to certain items of those assessments and to the method of their treatment. In April 2010, a final settlement was reached with the Department of Zakat and Income Tax for those years which amounted to SAR 53 million, of which the affiliate paid SAR 26 million in 2011 and filed a request with the DZIT for installment of the balance of this amount.

Bahri and its affiliates formed sufficient provisions to account for any zakat and tax claims for these periods.

Statement of Accrued Regulatory Payments as at 31/12/2011

Description	Bahri	NCC
Provision for Zakat	13,087,990	3,506,444
December 2011 Tax Provision	146,567	176,806
December 2011 Social Insurance Provision	348,284	34,721

Dividend Distribution

Dividend distribution depends on the Company's results of operations, cash flow, working capital requirements, and capital investments. Based on this data, the Board of Directors, in its meeting held on 22/12/2011, decided to recommend to the General Assembly a dividend distribution of SAR 157.5 million for the fiscal year 2011, i.e. at the rate of SAR 0.50 per share.

Article (36) of the Company's Memorandum and Articles of Association stipulates that, "Dividends shall be distributed to shareholders after deducting all general expenses, other costs and statutory reserve in accordance with the provisions of Article (34) of the memorandum and articles of association of the Company. Members of the Board of Directors are also entitled to remuneration for attending Board meetings, in addition to a lump sum annual bonus in accordance with applicable regulatory rules."

The following table shows the net profit generated, the rate of dividend to net profit, which reached an average of (70%), and rate of dividends to capital which reached (10%) during the past five years (2007 - 2011).

Fiscal Year	Net Profit (SAR'000)	Cash Dividends (SAR'000)	Bonus Share Distributions	Cash Dividends to Net Profit Ratio (%)	Distribution to Capital Ratio (%)
2007	422,576	315,000	---	74.5%	10%
2008	749,968	472,500	---	63%	15%
2009	369,300	315,000	---	85.3%	10%
2010	414,878	315,000	---	76%	10%
2011	287,768	157,500*	---	55%	5%
Total	2,244,490	1,575,000	---	Annual Average 70%	Annual Average 10%

* Subject to the approval by the Ordinary General Assembly

Shareholders' Equity and Communication with Shareholders

Bahri shareholders enjoy all the rights and privileges set forth in the Memorandum of Association, which are consistent with the Companies Act and Rules of Implementation of Corporate Governance Regulations duly issued by the Capital Market Authority.

The Board of Directors and Executive Management of Bahri are keen to create a favorable environment for the shareholders to enjoy all those rights through easy access to the Company's management and the Shareholders' Department. In addition to their right of nomination to membership of the Board of Directors, subject to satisfying the applicable regulatory conditions of eligibility. Shareholders are invited through local newspapers, through the Company's website and Tadawul website to attend the General Assembly meetings. Shareholders also have the right to vote in the General Assemblies and select their representatives to Board membership. Many shareholders participate in the discussions of all Company activities and its future plans by attending the General Assembly meetings. When the General Assembly adopts any dividend distribution, such information will be announced forthwith and the Company immediately starts payment of dividends to shareholders who are registered in the records of the Securities Depository Center (SDC) at the end of trading on the day of the General Assembly meeting. Dividends will be deposited in the shareholders' portfolios with the respective local banks within a deadline of thirty (30) days from the date of adoption of such dividend distribution by the General Assembly.

The Company participates in investment forums organized by certain investment companies. Bahri held meeting with potential investors and current shareholders organized by interested investing parties. Additionally, Bahri welcomes many representatives from various investment entities. However, it is to be noted here that the information provided by Bahri is restricted to previously disclosed information through the official channels of communication, consistent with the guidelines of the Capital Market Authority, Ministry of Commerce and the Industry.

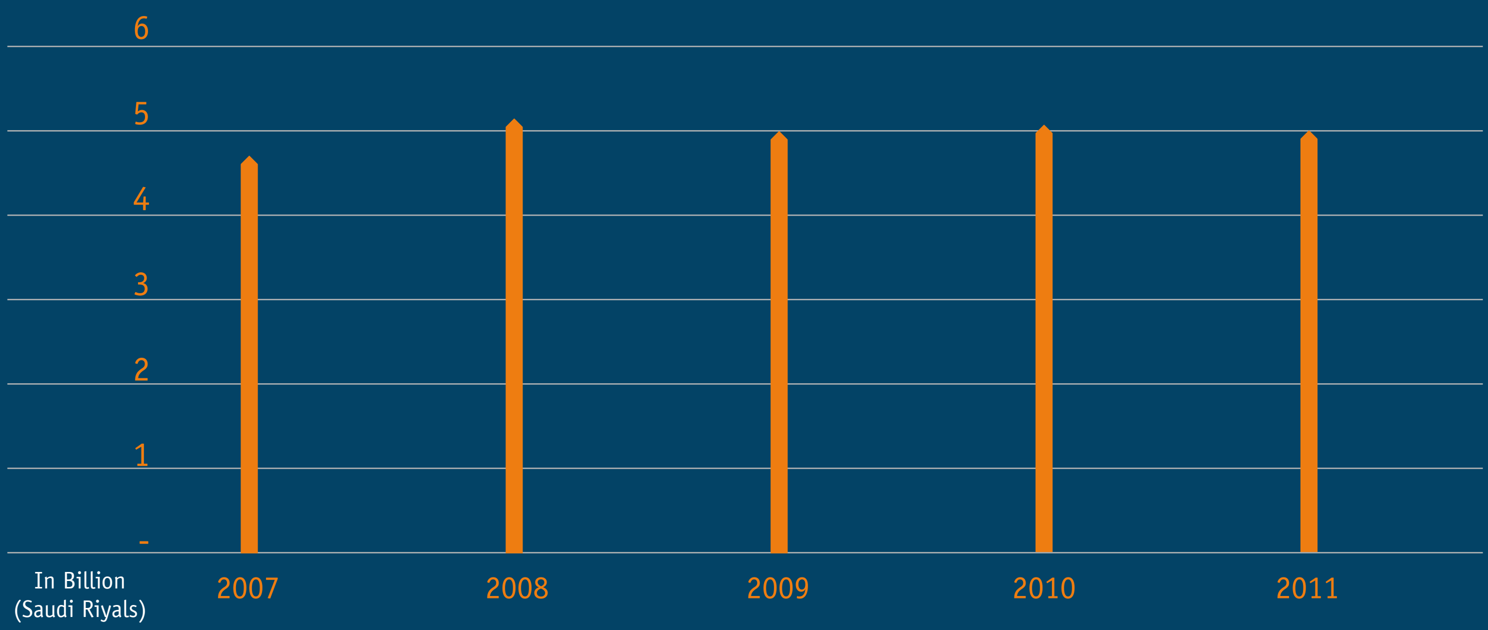
Through its website (www.Bahri.sa), Bahri provides a gateway to shareholders and all other users to communicate with the Company on an ongoing basis. This website can be used to explore any required information and information related to Bahri, including periodical and annual reports, operational reports, publications and announcements; in addition to, current and prior year's shareholder data.
The Company also furnishes all the news on its performance and activities through official channels such as "Tadawul" website in accordance with the directives of the Capital Market Authority and the disclosure policy duly approved by the Company as part of Bahri's Corporate Governance regulations.

Shareholders' Equity as on 31 December
(In Thousands Saudi Riyals)

The following table shows changes in shareholders' equity over the last five years:

Year	Shareholders' Equity	Variance	Variance Percentage
2011	5,062,624	(27,067)	(0.5%)
2010	5,089,691	102,171	2%
2009	4,987,520	(103,276)	(2%)
2008	5,090,796	431,003	9%
2007	4,659,793	1,655,174	55%

Shareholders' Equity

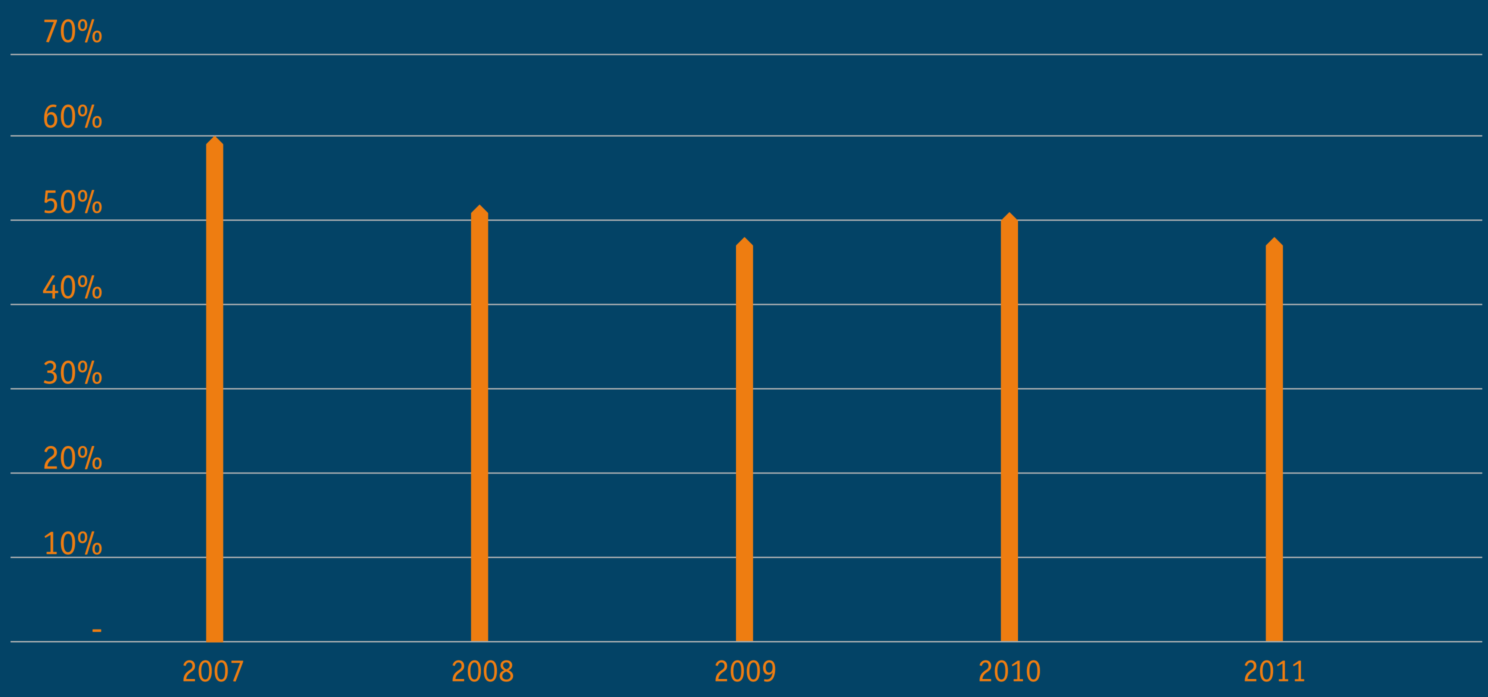


Shareholder's equity to Assets as on 31 December

(In Thousands Saudi Riyals)

Year	Shareholders Equity	Total Assets	%
2011	5,062,624	10,609,448	48%
2010	5,089,691	9,966,279	51%
2009	4,987,520	10,338,584	48%
2008	5,090,796	9,819,426	52%
2007	4,659,793	7,796,786	60%

Shareholders' Equity To Assets



Disclosure and Governance

Strong governance is essential to safeguard the reputation of the Company and to maintain the success of any business in the long term. Bahri has a clear, transparent and effective policy to deal with all the stakeholders in the Company. These policies have been set out in line with the business rules and regulations governing the work of Bahri and issued by competent bodies. Bahri discloses all its activities and publishes all data, financial results and facts that have a significant impact on its business.

In December 2011, Bahri was selected as one of the top 50 companies in the Arab world to embody the standard of social environmental index and governance. This index has been developed by the Institute of Corporate Governance in cooperation with Standard & Poor's. It is based on a thorough review of annual reports of companies, their websites, publications and ongoing disclosures on the financial markets.

Bahri publishes its annual reports and resolutions relating to its business activities in the local newspapers. Bahri also displays these details on Tadawul website and on the Company's website (www.bahri.sa) to make them available to all stakeholders including investors, financiers and others. These reports include all directions related to operating activities and analysis of financial statements. Financial statements and related notes set forth in the annual report are consistent with accounting standards applicable to the Kingdom of Saudi Arabia and with the requirements of presentation and disclosure as set out in corporate governance regulations.

The Board of Directors represents that the accounting records of the Company are prepared in an automated manner using Oracle Software. The Board also represents that the consolidated financial statements and attached notes as stated in this annual report have been prepared properly in accordance with Generally Accepted Accounting Standards of the Saudi Organization for Certified Public Accountants and international standards, which reflect fairly on the Company's assets and liabilities and that the Company is in a position to continue its business activities and implement its future expansion plans. Additionally, there are no risks or constraints affecting the Company's ability to continue its work. The Board of Directors is always keen to make the optimal use of the resources of the Company and operation of its assets for the best benefit of shareholders. The Board applies the latest methods and related systems in this regard.

The Board of Directors confirms that there is no interest in the class of shares with voting right pertaining to people who have reported such rights to the issuer pursuant to the provisions of Article (30) of the Listing Rules.

The Board of Directors also confirms that the internal control system has been prepared on a sound basis and is being implemented effectively; that the results of annual audit of internal control procedures are effective and sound; that no punishment, penalty or precautionary restriction has been imposed on the Company by the CMA or by any supervisory, regulatory or other judicial body in 2011.

The chairman of the Board of Directors of the National Shipping Company of Saudi Arabia (BAHRI) is also the Chairman of the Arabian Agricultural Services Company (ARASCO) and one of its owners. The National Shipping Company of Saudi Arabia owns (60%) and Arabian Agricultural Services Company owns (40%) of the Bahri Dry Bulk company share capital.

The 2011 annual report depicts the current status of the Company with respect to the provisions of presentation and disclosure set forth in paragraph (b) of Article 27 of the Listing Rules, and paragraph (c) of Article 1 of the Rules of Corporate Governance issued by the Capital Market Authority, except for the following:

Article #	Article/Para Text	Reasons for Non-Compliance
Article 27-Para B	Geographical distribution of the total revenue of the exporter and total revenues of its affiliate outside the Kingdom	Due to the nature of work of the Company, its vessels and vessels of its affiliates operate in the high seas, and their cargo moves between many ports of the world.
Article 1 – Para C	Cumulative voting method must be followed to select members of the Board of Directors in the General Assembly.	The Company applies the provisions of regulations duly issued by the Ministry of Commerce and Industry based on the Companies Act with regard to the voting system at the General Assemblies, besides, the method of cumulative voting is not stipulated in the Company's Articles of Association.

The Company's corporate governance regulations, as approved by the Board of Directors on 20/12/2009, are based on the Articles of Association and internal regulations of the Company, which are consistent with the executive regulations issued by the Capital Market Authority and the Saudi Companies Act. The purpose of these Regulations is to assist the Board of Directors in the fulfillment of its obligations and the development of the effectiveness of the Board and its committees, and to ensure achieving the objectives of the Company.

These regulations have been prepared as instructed by the Board of the Capital Market Authority, and in accordance with the provisions of the indicative regulations issued by the CMA board in order to ensure compliance with best corporate governance practices which safeguard the rights of shareholders and the rights of stakeholders, cope with the requirements, take advantage of new opportunities to work effectively and to respond to the expectations of shareholders and other parties of stakeholders.

These Regulations are binding on the Company, members of its Board of Directors, all its employees and shareholders. The rules contained in these Regulations are mainly based on the Company's Articles of Association, Capital Market Law and its implementing regulations and decisions issued pursuant thereto and the Corporate Act.

Board of Directors:

The Board of Directors, at its current term (2011 - 2013), consists of nine members. The Board of Directors assumes its responsibilities as manifested in the steering and oversight role of leading the Company and drawing its strategies. On the other hand, the executive management undertakes the role of executive conduct of business within the framework of policies, plans and regulations approved by the Board and the General Assembly.

Details for the attendance of the chairman and board members for the meetings held during 2011

Name	Classification	(1/11)	(2/11)	(3/11)	(4/11)	(5/11)	(6/11)	(7/11)	(8/11)	(9/11)	(10/11)	(11/11)	(12/11)	
Abdullah Sulaiman Al-Rubaian	Chairman	√	√	√	√	√	√	√	√	√	√	√	√	12
Mohammed Abdulaziz AlSarhan	Vice Chairman	√	√	√	√	√	√	√	√	√	√	√	√	12
Esam Hamad Al-Mubarak	Member	√	√	√	√	√	√	√	√	√	√	√	√	12
Nasser Mohammed Al-Kahtani	Member	√	√	√	√	√	√	√	√	√	√	√	√	12
Saleh Abdullah AlDebasi	Member	√	×	√	√	√	×	√	√	√	√	√	√	10
Abdulkarim Ibrahim Al-Nafie	Member	√	√	√	√	√	×	√	×	×	√	√	√	9
Farraj Mansour Abothenain	Member	√	√	√	√	√	√	√	√	√	√	√	√	12
Abdullah Ali Al-Ajaji	Member	√	√	√	√	√	√	√	√	√	√	√	√	12
Ghassan Abdulrahman Al- Shibl	Member	√	×	×	√	√	×	√	√	√	√	√	√	9

Board Members Classification during 2011- Independent/non-executive

Name	Classification
Abdullah Sulaiman Al-Rubaian	Independent
Mohammed Abdulaziz AlSarhan	Independent
Esam Hamad Al-Mubarak	Non-executive
Nasser Mohammed Al-Kahtani	Non-executive
Saleh Abdullah AlDebasi	Non-executive
Abdulkarim Ibrahim Al-Nafie	Independent
Farraj Mansour Abothenain	Independent
Abdullah Ali Al-Ajaji	Independent
Ghassan Abdulrahman Al-Shibl	Independent

Board Members in Other Joint Stock Companies in 2011

Name	Membership
Abdullah Sulaiman Al-Rubaian	Board Member – Arab Shield Insurance Co.
Mohammed Abdulaziz AlSarhan	Board Member – Saudi Public Transport Co. (SAPTCO)
Esam Hamad Al-Mubarak	NA
Nasser Mohammed Al-Kahtani	NA
Saleh Abdullah AlDebasi	NA
Abdulkarim Ibrahim Al-Nafie	NA
Farraj Mansour Abothenain	Board Member – Astra Industrial Group Board Member– National Petrochemical Company (Petrochem)
Abdullah Ali Al-Ajaji	The Qassim Cement Company
Ghassan Abdulrahman Al- Shibl	Malath Cooperative Insurance & Reinsurance Company

Statement of Compensation and Remuneration of Board Members in 2011

Name	Allowance for Meeting Attendance	Board Compensation	Remuneration after Dividend Distribution	Total
Abdullah Sulaiman Al-Rubaian	42,000	200,000	200,000	442,000
Mohammed Abdulaziz AlSarhan	66,000	200,000	200,000	466,000
Esam Hamad Al-Mubarak	63,000	200,000	200,000	463,000
Nasser Mohammed Al-Kahtani	60,000	200,000	200,000	460,000
Saleh Abdullah AlDebasi	48,000	200,000	200,000	448,000
Abdulkarim Ibrahim Al-Nafie	51,000	200,000	200,000	451,000
Farraj Mansour Abothenain	66,000	100,000	200,000	366,000
Abdullah Ali Al-Ajaji	57,000	200,000	200,000	457,000
Ghassan Abdulrahman Al-Shibl	45,000	100,000	200,000	345,000

The Board of Directors represents that, apart from the corporate shares owned by members of the Board and described in the following table, there are no special interests, option rights, rights of subscription or affiliations of members of the Board, their spouses or minor children in the Company or its affiliates, whether in the form of corporate shares, direct or indirect commitments or contracts of employment, etc.

Description of any interest belonging to board members, their spouses and minor children in the shares or debt instruments issued by the Company in 2011

Name	Title	Ownership Year-Beginning	Ownership Year-end	Change During the Year	Variance Percentage
Abdullah Sulaiman Al-Rubaian	Chairman	300,000	200,000	(100,000)	(33.3%)
Mohammed Abdulaziz AlSarhan & his family	Vice-chairman	413,271	516,903	103,632	25%
Esam Hamad Al-Mubarak	Member	---	50,000	50,000	---
Nasser Mohammed Al-Kahtani	Member	---	---	---	---
Saleh Abdullah AlDebasi	Member	2,500	2,500	---	---
Abdulkarim Ibrahim Al-Nafie	Member	13,000	13,000	---	---
Farraj Mansour Abothenain	Member	25,000	25,000	---	---
Abdullah Ali Al-Ajaji	Member	---	---	---	---
Ghassan Abdulrahman Al-Shibl	Member	5,000	5,000	---	---

Board Committees

Three committees have emerged from the Board of Directors: Executive Committee, Audit Committee and Nominations & Remuneration Committee. Each of these committees is entrusted with specific powers by the Board of Directors, as follows:

Executive Committee:
This committee is entrusted with laying down the basic principles for the Company's strategies; review of these strategies on a periodic basis; optimal utilization of the Company's resources; maximizing return on investment and deliberating the issues referred to it by the Board of Directors.

Table below shows the attendance (Chairman and Board Members for the Executive Committee) during year 2011

Name	Classification	(1/11)	(2/11)	(3/11)	(4/11)	(5/11)	(6/11)	(7/11)	(8/11)	(9/11)	
Mohammed Abdulaziz AlSarhan	Chairman	√	√	√	√	√	√	√	√	√	9
Esam Hamad Al-Mubarak	Member	√	√	√	√	√	√	×	√	√	8
Abdulkarim Ibrahim Al-Nafie	Member	√	√	√	√	×	×	√	×	√	6
Farraj Mansour Abothenain	Member	√	√	√	√	√	√	√	√	√	9
Ghassan Abdulrahman Al-Shibl	Member	×	×	√	√	×	×	√	√	√	5

Audit Committee:
This committee is in charge of verifying the adequacy of the internal control system in a manner that would achieve the objectives of the Company and safeguard the interests of shareholders. The Audit Committee is authorized to examine all relevant information and data, reports, records or other matters, which it considers important to access; review the interim and annual financial statements and accounting policies; nominate the Company's auditor for the respective fiscal year and verify the independence of internal auditors.

The Committee, having reviewed the current controls as manifested in the systems duly adopted by the Internal Audit Department, confirms the soundness and effectiveness of the internal audit and control system that is being implemented in an orderly and effective manner by a team of qualified auditors and specialists in risk management and quality control.

Table below shows the attendance (Chairman and Board Members for the Audit Committee) during year 2011

Name	Classification	(1/11)	(2/11)	(3/11)	(4/11)	(5/11)	(6/11)	
Nasser Mohammed Al-Kahtani	Chairman	√	√	√	√	√	√	6
Saleh Abdullah AlDebasi	Member	√	×	√	×	√	√	4
Abdullah Ali Al-Ajaji	Member	√	√	√	√	×	√	5
Ahmed Abdullah Al-Moghamis	Member	√	√	√	×	×	√	4

The Nomination and Remuneration Committee:
This committee is in charge of nomination for the next term in office of members of the Board of Directors; annual review of the needs and skills required for membership of the Board; review of the structure of the Board of Directors and recommending changes as necessary; identifying weaknesses and strengths of the current Board of Directors and proposing to have them addressed in the subsequent session; developing clear-cut policies for compensations and emoluments of the members of the Board of Directors and senior executives based on their performance.

The Ordinary General Assembly of Bahri has approved the rules of selection of members for the Nomination and Remuneration Committee, their term in office and method of work. The Board of Directors has also determined the remuneration of the members of this Committee.

Table below shows the attendance (Chairman and Board Members for the Compensation and Remuneration Committee) during year 2011

Name	Classification	(1/11)
Abdullah Sulaiman Al-Rubaian	Chairman	√
Nasser Mohammed Al-Kahtani	Member	√
Saleh Abdullah AlDebasi	Member	√
Abdulkarim Ibrahim Al-Nafie	Member	√
Abdullah Ali Al-Ajaji	Member	√

Table shows the Executive Management list for the year 2011

Name	Title
Saleh Nasser Al-Jasser	Chief Executive Officer
Abdulaziz Khaled Al-Rasheed	Vice Chief Executive Officer, Planning & Business Development.
Saleh Abdulrahman Al-Shamekh	President (Oil & Gas)
Mohammad Omair Al-Otaibi	Vice Chief Executive Officer, Finance
Ahmed Sulaiman Al-Eidan	Assistant Chief Executive Officer, Board Secretariat & Communication

The Company is run by a team of executives with extensive experience. This team assumes the responsibility of financial, administrative, technical, operational and informational, risk management and related corporate activities. Ad hoc committees are also formed to provide assistance in following up certain activities and contingent tasks on an as-needed basis.

Pursuant to the authorities vested in it by the Board of Directors, the Executive Management is committed to act in line with the stated policies and to implement Board resolutions and strategic and operational plans that aim at development and growth of corporate activities and serve the interests of shareholders. No investments or reserves have been created for the benefit of Company employees other than their legal entitlements. It is also to be noted here that senior executives, who are five (5) in number, including the Vice Chief Executive Officer (Finance) , do not hold any shares in the Company according to Tadawul records as at 31/12/2011 other than as stated in senior executive ownership table below.

Description of any interest belonging to Executive Management, their spouses and minor children in the shares or debt instruments issued by the Company in 2011

Name	Ownership Year-Beginning	Ownership Year-end	Change During the Year	Variance Percentage
Saleh Nasser Al-Jasser	100,000	200,000	100,000	100%
Abdulaziz Khaled Al-Rasheed	---	---	---	---
Saleh Abdulrahman Al-Shamekh	---	---	---	---
Mohammad Omair Al-Otaibi	---	---	---	---
Ahmed Sulaiman Al-Eidan	---	20,000	20,000	---

Table shows the Compensations and Remunerations for the five Executive Management members for the year 2011*

Description	Amount in Thousands Saudi Riyals
Salaries & Remunerations	4,443
Allowances	1,326
Periodic and Annual Bonuses	2,101
Incentive Plans	---
In-Kind compensations & other benefits	400
Total	**8,270**

*Executive Management includes the Chief Executive Officer and the Chief Financial Officer.

Conclusion

The annual report for 2011, has been prepared in accordance with the standards of transparency, disclosure, requirements of the Capital Markets Authority, International Financial Reporting Standards and standards of the Saudi Organization for Certified Public Accountants.

The Board of Directors would like to take this opportunity to offer its gratitude and deep appreciation to the Custodian of the Two Holy Mosques King Abdullah bin Abdulaziz, and His Royal Highness Prince Naif bin Abdulaziz, the Crown Prince and Minister of Interior, may God protect them, and to the rightly-guided Saudi government, especially the Ministry of Finance, Ministry of Commerce and Industry, Ministry of Transport, Capital Market Authority and the Public Investment Fund.

The Board is also pleased to thank the shareholders and customers of the Company and to express its deep gratitude for their support and cherished confidence which motivates the Board to extend more efforts to lead the Company in the right direction towards achieving its stated objectives successfully.

The Board of Directors would also extend its deep gratitude and appreciation to the executive management and all employees of the Company for their sincere efforts to enhance performance and achieve the Company's stated goals.

Board of Directors

Riyadh (29 Rabi Al Awwal 1433 H)
corresponding to (February 21,2012)

Consolidated Financial Statements

For the year ended December 31, 2011
Together with the Auditors' report

Consolidated Financial Statements

Independent Auditors Report

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
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INDEPENDENT AUDITORS' REPORT

February 22, 2012

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

Scope of audit
We have audited the accompanying consolidated balance sheet of The National Shipping Company of Saudi Arabia, a Saudi Joint Stock Company, (the "Company") and subsidiaries (the "Group") as of December 31, 2011 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended, and the accompanying notes which form an integral part of the consolidated financial statements. These consolidated financial statements, which were prepared by the Company in accordance with Article 123 of the Regulations for Companies and presented to us with all information and explanations which we required, are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted 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 principles 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.

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

- Present fairly, in all material respects, the financial position of the Group as of December 31, 2011, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in Saudi Arabia appropriate to the circumstances of the Group; and

- Comply, in all material respects, with the requirements of the Regulations for Companies and the Company's Articles of Association with respect to the preparation and presentation of consolidated financial statements.

PricewaterhouseCoopers

By: ______________________
Khalid A. Mahdhar
License Number 368

برايس وترهاوس كوبرز
محاسبون قانونيون
ترخيص رقم ٢٥
PRICEWATERHOUSECOOPERS
CERTIFIED PUBLIC ACCOUNTANTS
LICENSE NO. 25

Consolidated Balance Sheet
As of December 31, 2011
(In Thousands Saudi Riyals)

ASSETS	Notes	2011	2010
Current assets:			
Cash in hand and at banks	3	144,798	108,713
Investments in Murabaha and short-term deposits	3/4	274,469	1,014,559
Trade receivables and other debit balances, net	5	288,496	175,243
Prepaid expenses		40,457	40,099
Bareboat lease receivable, net	6	7,538	6,615
Agents' current accounts		21,278	15,147
Inventories	7	145,049	133,366
Investments held for trading		20,312	18,827
Accrued bunker subsidy, net	8	87,779	65,895
Incomplete voyages		12,104	---
Total current assets		**1,042,280**	**1,578,464**
Non-current assets:			
Investment in government bonds		587	604
Bareboat lease receivable, net	6	404,822	412,359
Investments held to maturity (Sukuk)		30,000	30,000
Investments available for sale		26,903	29,577
Investments in affiliates and other	9	561,432	455,796
Deferred dry-docking cost, net	10	67,203	40,383
Fixed assets, net	11	7,252,854	6,407,630
Ships under construction and other	12	1,237,130	1,011,466
Total non-current assets		**9,580,931**	**8,387,815**
Total assets		**10,623,211**	**9,966,279**

Continue

Consolidated Balance Sheet
As of December 31, 2011
(In Thousands Saudi Riyals)

LIABILITIES AND EQUITY

Current liabilities:	Notes	2011	2010
Accounts payable and other credit balances	13	288,907	254,357
Current portion of Murabaha financing and long-term finance	14	456,045	324,648
Short term finance		64,000	-
Unclaimed dividends	15	30,720	26,896
Provision for zakat and tax	16	104,576	129,429
Incomplete voyages		-	700
Total current liabilities		**944,248**	**736,030**
Non-current liabilities:			
Murabaha financing and long-term finance	14	4,294,968	3,818,540
Obligation from fluctuations in swap fair market value for finance commission rates	17	-	1,734
Employees end of service benefits provision		28,058	31,592
Total non-current liabilities		**4,323,026**	**3,851,866**
Total liabilities		**5,267,274**	**4,587,896**
Equity:			
Shareholders' equity			
Paid-up share capital		3,150,000	3,150,000
Statutory reserve	18	872,435	843,658
Retained earnings		1,039,654	1,095,663
Hedging reserve for finance commission	17	-	(1,734)
Unrealized gain from available for sale investments		534	2,104
Total shareholders' equity		**5,062,623**	**5,089,691**
Minority interest		293,314	288,692
Total equity		**5,355,937**	**5,378,383**
Total liabilities and equity		**10,623,211**	**9,966,279**

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

Consolidated Income Statement
For the year ended December 31, 2011

(In Thousands of Saudi Riyals)

	Notes	2011	2010
Operating revenues	19	1,991,084	2,049,830
Bunker cost	19	(801,163)	(625,692)
Other operating expenses	19	(1,027,214)	(976,253)
Gross operating income before bunker subsidy		**162,707**	**447,885**
Bunker subsidy		176,465	109,498
Gross operating income		**339,172**	**557,383**
General and administrative expenses	21	(109,660)	(103,801)
Operating income		**229,512**	**453,582**
Company's share in affiliates' net income	9	139,723	40,788
Financing charges	14	(51,901)	(50,179)
Other income (expense), net	22	20,553	25,625
Profit before zakat, tax and minority interest		**337,887**	**469,816**
Zakat provision	16	(21,594)	(35,104)
Tax provision, net	16	(3,903)	(1,261)
Profit before minority interest		**312,390**	**433,451**
Minority interest in consolidated subsidiaries' net profit		(24,622)	(18,573)
Net profit for the year		**287,768**	**414,878**
Earnings per share from operating income (SR)	**15**	**0.73**	**1.44**
Earnings per share from net profit (SR)	**15**	**0.91**	**1.32**

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

Consolidated Statement of Cash Flows For the year ended December 31, 2011

(In Thousands of Saudi Riyals)

Cash flows from operating activities:	Notes	2011	2010
Net profit for the year		287,768	414,878
Adjustments to reconcile net profit to net cash provided by operating activities:			
Depreciation	11	352,308	327,151
Amortization of deferred charges	10	28,264	33,545
Unrealized gain on investments held for trading		(1,485)	(2,510)
Company's share in affiliates' net income	9	(139,723)	(40,788)
Gains from sale of fixed assets	22	(99)	(152)
Net recovery against cancelled ship construction contracts	12	---	(15,122)
Minority interest in consolidated subsidiaries' net profit		24,622	18,573
Provision for zakat	16	21,594	35,104
Provision for tax, net	16	3,903	1,261
Employees› end of service benefits provision, net		(3,534)	148
Changes in operating assets and liabilities:			
Trade receivables and other debit balances, net		(113,253)	28,718
Prepaid expenses		(358)	3,895
Bareboat lease receivable		6,614	5,925
Agents' current accounts		(6,131)	(521)
Inventories		(11,683)	(16,565)
Accrued bunker subsidy, net		(21,884)	(34,643)
Accounts payable and other credit balances		34,550	40,937
Zakat and tax paid	16	(51,272)	(26,986)
Tax refund related to a subsidiary	16	922	1,411
Incomplete voyages		(12,804)	7,313
Net cash provided by operating activities		**398,319**	**781,572**

Continue

Consolidated Statement of Cash Flows
For the year ended December 31, 2011

(In Thousands Saudi Riyals)

Cash flows from investing activities:	Notes	2011	2010
Investments in Murabaha and short-term deposits		3,476	(13,884)
Investment in government bonds		17	-
Investment available for sale		1,104	659
Dividends received from affiliate	9	34,087	3,511
Additions of fixed assets	11	(390,957)	(4,555)
Proceeds from cancelled ship construction contracts	12	---	701,654
Proceeds from sale of fixed assets		296	692
Ships under construction and other, net	12	(1,025,775)	(266,300)
Deferred dry-docking costs	10	(61,745)	(22,540)
Net cash provided by (used in) investing activities		**(1,439,497)**	**399,237**
Cash flows from financing activities:			
Short-term Murabaha finance		64,000	-
Murabaha financing and long-term loans		934,565	140,000
Repayments against Murabaha financing and long-term loans		(326,740)	(759,785)
Dividends paid		(311,176)	(317,293)
Change in minority interest		(20,000)	80,000
Net cash provided by (used in) financing activities		**340,649**	**(857,078)**
Net change in cash and cash equivalents during the year		**(700,529)**	**323,731**
Cash and cash equivalents at beginning of the year		1,085,349	761,618
Cash and cash equivalents at end of the year	**3**	**384,820**	**1,085,349**
Non-cash items:			
Ships under construction transferred to fixed assets	11/12	800,111	-
Deferred charges transferred to fixed assets	10	6,661	-
Unrealized loss (gain) from available for sale investments		1,570	(497)

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

Consolidated Statement of Changes in Shareholders' Equity For the year ended December 31, 2011

(In Thousands of Saudi Riyals)

	Paid-up capital	Statutory reserve	Retained earnings	Hedging reserve	Unrealized gain from available for sale investments	Total
Balance at December 31, 2009	**3,150,000**	**802,170**	**1,037,273**	**(3,530)**	**1,607**	**4,987,520**
Net profit for the year	---	---	414,878	---	---	414,878
Statutory reserve	---	41,488	(41,488)	---	---	---
Hedging reserve for finance commission	---	---	---	1,796	---	1,796
Dividends	---	---	(315,000)	---	---	(315,000)
Unrealized gain from available for sale investments	---	---	---	---	497	497
Balance at December 31, 2010	**3,150,000**	**843,658**	**1,095,663**	**(1,734)**	**2,104**	**5,089,691**
Net profit for the year	---	---	287,768	---	---	287,768
Statutory reserve	---	28,777	(28,777)	---	---	---
Hedging reserve for finance commission	---	---	---	1,734	---	1,734
Dividends	---	---	(315,000)	---	---	(315,000)
Unrealized loss from available for sale investments	---	---	---	---	(1,570)	(1,570)
Balance at December 31, 2011	**3,150,000**	**872,435**	**1,039,654**	**---**	**534**	**5,062,623**

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

Notes To The Consolidated Financial Statements For the year ended December 31, 2011

(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 (liner).

The authorized and paid-up capital of the Company is SR 3,150 million from 315 million shares for the nominal value of SR 10 each as of December 31, 2011 and 2010.

The Company owns seventeen Very Large Crude Carriers (VLCCs), one of which is chartered to RWE Supply & Trading GmbH (A German Company), two to Hanjin Company (A Korean Company) and fourteen are operating 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 Ltd. Co. ("Subsidiary") owns nineteen chemical tankers, out of which three were leased to Odfjell SE ("Odfjell"), a Norwegian company, on January 30, 2009 under a bareboat capital lease arrangement as stated in Note 6, nine are operating in a pool with NCC-Odfjell Chemical Tankers JLT, six are chartered to the International Shipping and Transportation Company Limited (ISTC), a subsidiary of Saudi Basic Industries Corporation (SABIC), and one tanker is chartered out to Saudi International Petrochemical Company (SIPCHEM).

The Subsidiary signed a 50 percent joint venture agreement with "Odfjell SE" on 22/06/1430H, corresponding to June 15, 2009 to establish a company in Dubai, (United Arab Emirates), by the name of NCC-Odfjell Chemical Tankers JLT (hereinafter referred as "Joint Venture"), to commercially operate the two companies' combined fleet of coated chemical tankers in a pool for transporting petrochemicals, vegetable oils and clean petroleum products markets on a world-wide basis with emphasis on the growing production and export of the Arabian Gulf Region. The new company commenced operations in 2010.

On August 28, 2010, the Company entered into an agreement with the Arabian Agricultural Services Company (ARASCO) to establish a new subsidiary "Al-Bahri Company for Bulk Transportation" for dry bulk transportation with a capital of SR 200 million of which 60% is owned by the Company and 40% by ARASCO. The full capital contributions were made by the shareholders as of March 31, 2011. The new subsidiary is expected to commence its commercial operations in the second half of 2012.

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:

Name	Activity	Location	Date of Incorporation	Ownership % 2011	Ownership % 2010
Consolidated Subsidiaries:					
National Shipping Company of Saudi Arabia (America) Inc.	Company's ships agent	USA	1991	100 %	100 %
Mideast Ship Management Ltd. (Bermuda) *	Ship management	Dubai	1996	100 %	100 %
National Chemical Carriers Ltd. Co. (NCC)	Petrochemicals transportation	Riyadh	1990	80 %	80 %
Al-Bahri Company for Bulk Transportation	Bulk transportation	Riyadh	2010	60%	60 %
Mideast Ship Management Ltd. (JLT) *	Ship management	Dubai	2011	100%	-
Affiliates:					
Petredec Ltd.	Liquefied petroleum gas transportation	Bermuda	1980	30.3 %	30.3 %
Arabian United Float Glass Co.	Glass manufacturing & trading	Riyadh	2006	10%	10%

* For organizational and restructuring purposes, the Company established a new wholly owned subsidiary, Mideast Ship Management Ltd. (JLT), which was registered in Dubai Multi Commodities Centre (DMCC) Free Zone in the United Arab Emirates on October 31, 2010 with a share capital of Emirati Dirhams 300,000. The purpose of this new arrangement is to transfer the operations of Mideast Ship Management Ltd (Bermuda) to the new company. The above two subsidiaries signed a business transfer agreement on June 7, 2011 by which all the assets and liabilities of Mideast Ship Management Ltd (Bermuda) were to be transferred to Mideast Ship Management Ltd. (JLT) at the book value as of March 31, 2011. The legal formalities to transfer the title deed of the transferred assets were completed during the second half of 2011 and Mideast Ship Management Ltd (Bermuda) license was cancelled on December 12, 2011.

The above transaction and arrangement does not have any effect on the consolidated financial statements of the Company.

Notes To The Consolidated Financial Statements For the year ended December 31, 2011

(In Thousands Saudi Riyals)

2. SIGNIFICANT ACCOUNTING POLICIES

a) Accounting convention

The accompanying consolidated financial statements are prepared in accordance with the accounting standards issued by the Saudi Organization for Certified Public Accountants (SOCPA) and under the historical cost convention, except for the investment in financial instruments and derivative financial instruments at fair value. The Company applies the accrual basis of accounting in recognizing revenues and expenses.

b) Period of financial statements

According to the by-laws of the Company, the fiscal year of the Company starts on the 1st of January and ends on December 31st of each Gregorian year.

c) Basis of consolidation

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

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) Accounting for finance lease

The present value of lease payments for assets sold under finance lease together with unguaranteed residual value at end of the lease is recognized as a receivable net of unearned finance income. Lease income is recognized over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

The Company accounts for the assets acquired under a lease arrangement as a finance lease when the lease transfers to the lessee (the "Company") substantially all the benefits and risks incident to the ownership of leased assets.

f) 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, investment in Murabaha and short-term deposits, and investments that can be liquidated to cash and maturing within three months or less from the date of acquisition which is available to the Company and its subsidiaries without any restrictions.

g) Investments

1- Investments in affiliates and others:

Investment in affiliates in which the Company has significant influence, but no control, over the investee's financial and operational policies, or in which the Company owns equity interest ranging between 20% and 50% are accounted for using the equity method. The Company's investment in an associate includes goodwill identified on acquisition, being the excess of the purchase price over the value of purchased net assets, net of any accumulated amortization and impairment losses, if any. Due to the timing difference between Petredec Ltd. fiscal year and the Company's fiscal year, the Company's share in Petredec Ltd. net profits or losses is 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 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% is accounted for using the cost method.

2- Investments in government bonds:

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

3- Investments in financial instruments:

Investments in financial instruments represent investments in mutual funds units and investment portfolios managed by local banks, which were classified into three categories as follows:

- Investments held to maturity

  Certain investments in financial instruments are classified as held to maturity based on the Company's management intention. These investments are stated at cost adjusted by premium or discount, if any.

- Investments held for trading

  Certain investments in financial instruments are classified as held for trading based on the Company's management intention. These investments are stated at fair value. Unrealized gains or losses are recorded in the consolidated income statement.

- Investments available for sale

  Certain investments are classified as available for sale when the conditions of classification as investments held to maturity or for trading are not met.
  The available for sale investments are stated at fair value. Unrealized gains or losses are recognized under shareholders' equity, whereas the realized gains or losses from the redemptions of units are recognized in the consolidated income statement in the period in which these units are redeemed. If there is a permanent decline in the value of these investments or an objective evidence for impairment, the unrealized loss is transferred to the consolidated income statement. If the investment available for sale is within 12 months from the ending date of the financial statements, it is reported under current assets otherwise under non-current assets.

h) Inventories

Inventories representing 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 to the consolidated income statement. Spare parts and other consumables on board for each vessel are charged to operating expenses on purchase.

i) Deferred dry-docking costs

Deferred dry-docking costs are amortized over a period of two to five years from the date of completion of dry-docking depending on the type of vessel. Where a vessel undergoes another dry-docking operation during the specified amortization period, any unamortized balance of deferred costs related to the previous dry-docking of the vessel is amortized in the consolidated income statement in the period that ends at the beginning of the new dry-docking operation.

j) Fixed assets, net

Fixed assets are recorded at actual cost and are depreciated using the straight-line method to allocate the costs of the related assets over the estimated useful lives using the following depreciation rates:

Buildings and improvements	From 5 to 33.3%
Fleet and equipment *	From 4 to 15%
Containers and trailers	From 8.33 to 20%
Furniture and fixtures	10%
Tools and office equipment	From 2.5 to 25%
Motor vehicles	From 20 to 25%
Computers equipment	From 15 to 25%
Container yard	From 10 to 25%
Others	From 7 to 15%

* RoRo' vessels are depreciated over a period of twenty years, while VLCCs are depreciated over a period of twenty-five years. Used vessels are depreciated based on their estimated remaining useful lives, after taking into consideration 10% of the vessels' cost as residual value. RoRos' equipment are depreciated over a period of fifteen years.

* Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the consolidated income statement.

* Maintenance and normal repairs which do not materially extend the estimated useful life of an asset are charged to the consolidated income statement as and when incurred. Major renewals and improvements, if any, are capitalized and the assets so replaced are retired.

k) Impairment of non-current assets

Non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-current assets other than intangible assets that suffered impairment are reviewed for possible reversal of impairment at each reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount 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 consolidated income statement. Impairment losses recognized on intangible assets are not reversible.

l) Employees' 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 to these subsidiaries.

Notes To The Consolidated Financial Statements For the year ended December 31, 2011

(In Thousands Saudi Riyals)

m) 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.

n) Bunker subsidy

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

o) Expenses

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

p) Borrowing costs

Borrowings are recognized at the proceeds received, net of transactions costs incurred. Borrowing costs that are directly attributable to the acquisition, construction and production of qualifying assets are capitalized as part of those assets. Other borrowing costs are charged to the consolidated income statement.

q) Foreign currency transactions

Foreign currency transactions are translated into Saudi riyal at prevailing exchange rates on transaction date. Monetary assets and liabilities in foreign currencies at balance sheet date are translated into Saudi riyal at the prevailing exchange rates on that date. Gains and losses resulting from fluctuation of exchange rates, which were not significant for 2011 and 2010, are recognized in the 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 consolidated balance sheet date. Revenues and expenses of the consolidated subsidiaries denominated in foreign currencies are converted into Saudi riyal at average exchange rates during the period. Also the components of shareholders' equity excluding retained earnings (deficit) are converted applying the exchange rate prevailing at the dates the related items originated.

Exchange differences arising from such conversion, if material, are included in a separate line item under shareholders' equity.

r) Zakat and taxes

Provision for zakat is computed in accordance with the regulations of Department of Zakat and Income Tax (DZIT) and charged to the consolidated income statement based on the higher of zakat base or adjusted net income for each individual company. Provision is made for withholding tax on payments made to non-resident parties and is charged to the consolidated income statement. For subsidiaries outside the Kingdom of Saudi Arabia, provisions for tax are computed in accordance with the regulations applicable in the respective countries and are charged to consolidated income statement.

s) Hedging reserve for loans commission

The Company uses commission rate swaps and caps agreements to hedge its long-term loans against fluctuations in market commission rates. Changes in the fair market value of the commission rate swaps that qualifies for hedge accounting are recorded in the hedging reserve which is included in shareholders' equity; also, the hedging reserve is adjusted based on the periodical valuation of commission rate swaps.

t) Earning per share and proposed dividends

Earning per share from operating income, other operations and net profit 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.

u) Trade accounts receivables

Trade accounts receivables are stated at net value after deducting provision for doubtful debts. A provision against doubtful debts is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Such provisions are charged to the consolidated income statement and reported under "General and administrative expenses". When account receivable is uncollectible, it is written-off against the provision for doubtful debts.

Any subsequent recoveries of amounts previously written-off are credited against "General and administrative expenses" in the consolidated income statement.

v) Segment reporting

Business segment

A business segment is group of assets, operations or entities:

- engaged in revenue producing activities;
- results of its operations are continuously analyzed by management in order to make decisions related to resource allocation and performance assessment; and
- financial information is separately available.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2011 represent cash in hand and at banks, Murabaha and short-term deposits, out of which SR 0.03 million (2010: SR 0.03 million) is subject to bank restrictions for letters of guarantee issued for the Jeddah Islamic Port.

It also includes SR 33.3 million as of December 31, 2011 (2010: SR 36.77 million) restricted for repayment of current portion of Murabaha financing and long-term loans maturing within 180 days from the balance sheet date.

It also includes SR 0.57 million as of December 31, 2011 which represents restricted bank balances (2010: SR 0.61 million) related to Mideast Ship Management Ltd., and SR 0.54 million which represents restricted bank balances (2010: SR 0.54 million) related to National Shipping Company of Saudi Arabia (America) Inc.

For the purpose of preparing the statement of cash flows, cash and cash equivalents as of December 31 comprises the following:

	2011	2010
Cash in hand and at banks	144,798	108,713
Amounts restricted by banks	(16,563)	(18,226)
	128,235	**90,487**
Investment in Murabaha and short-term deposits	274,469	1,014,559
Amounts restricted by banks	(17,884)	(19,697)
	256,585	**994,862**
Balance at the end of the year	**384,820**	**1,085,349**

4. INVESTMENTS IN MURABAHA AND SHORT-TERM DEPOSITS

Investments in Murabaha and short-term deposits at December 31 comprise the following:

	2011	2010
Investments in Murabaha and short-term deposits in Saudi riyals	200,031	559,163
Investments in Murabaha and short-term deposits in USD	34,691	376,254
Investments in Murabaha and short-term deposits in AED	39,747	75,365
Investments in Murabaha and short-term deposits in EURO	---	3,777
	274,469	**1,014,559**

Notes To The Consolidated Financial Statements For the year ended December 31, 2011

(In Thousands Saudi Riyals)

5. TRADE RECEIVABLES AND OTHER CURRENT DEBIT BALANCES, NET

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

	2011	2010
Trade receivables	243,185	134,386
Insurance claims	35,053	41,821
Employee receivables	10,469	11,137
Other debit balances	12,375	7,317
	301,082	**194,661**
Provision for doubtful debts	(12,586)	(19,418)
	288,496	**175,243**

Movement in provision for doubtful debts is as follows:

	2011	2010
Balance at beginning of the year	19,418	18,237
Additions	5,290	2,397
Write-offs	(12,122)	(1,216)
Balance at end of the year	12,586	19,418

6. BAREBOAT LEASE RECEIVABLE, NET

On January 30, 2009, the National Chemical Carriers Ltd. Co. signed agreements with Odfjell to charter three vessels under bareboat arrangement for a period of ten years with purchase option after three years. These ships were delivered to Odfjell on February 1, 2009.

The arrangement qualifies as a capital lease as it transfers to Odfjell substantially all the benefits and risks and also gives Odfjell a purchase option under the arrangement.

The net bareboat lease receivable balance as of December 31 is summarized as follows:

Description	2011	2010
Future minimum lease payments	467,005	522,439
Un-guaranteed residual value at the end of lease term	247,875	247,875
Total	**714,880**	**770,314**
Unearned income	(302,520)	(351,340)
Net bareboat lease receivable balance	412,360	418,974

The above amount is classified at December 31 as under:

Description	2011	2010
Current	7,538	6,615
Non-current	404,822	412,359
Net bareboat lease receivable balance	**412,360**	**418,974**

The future minimum lease payments and unguaranteed residual value at the end of lease term to be received during the next five years and thereafter is as follows:

	2011	2010
Due within 12 months	55,586	55,435
Due within 1-2 years	57,313	55,586
Due within 2-3 years	61,245	57,313
Due within 3-4 years	65,351	61,245
Due within 4-5 years	69,649	65,351
Thereafter	405,736	475,384
	714,880	**770,314**

Income related to the above arrangement for the year ended December 31, 2011 amounted to SR 48.82 million (2010: SR 49.51 million) and is included in the operating revenues in the accompanying consolidated income statement.

Notes To The Consolidated Financial Statements For the year ended December 31, 2011

(In Thousands Saudi Riyals)

7. INVENTORIES

Inventories on board the ships at December 31 comprise the following:

	2011	2010
Fuel	122,835	109,880
Lubricants	22,214	21,502
Other	-	1,984
	145,049	**133,366**

8. ACCRUED BUNKER SUBSIDY, NET

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

	2011	2010
Accrued bunker subsidy	130,374	90,753
Provision for doubtful bunker subsidy	(42,595)	(24,858)
	87,779	**65,895**

9. INVESTMENTS IN AFFILIATES AND OTHER

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

	2011	2010
Balance, beginning of the year	455,796	418,519
Company's share in affiliate's net income	135,384	36,932
Company's share in net income of a joint venture	4,339	3,856
Dividends received during the year	(34,087)	(3,511)
Balance, end of the year	**561,432**	**455,796**

a) Petredec Ltd.
Petredec Ltd. was incorporated on February 20, 1980 under the laws of Bermuda. It 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 signed an agreement on February 22, 2005 to acquire 30.3% share of the capital of Petredec Ltd. for total amount of SR 187.5 million (equivalent to USD 50 million).

The difference between the net investment value and the value of the net assets acquired of SR 119.18 million was considered as goodwill and is included as part of the carrying value of the investment.

Petredec financial year starts on September 1 and ends on August 31 of each Gregorian year. The Company's share in Petredec net profit amounted to SR 135.38 million up to October 31, 2011 (October 31, 2010: SR 36.93 million), which included SR 46.69 million representing unrealized gain on open commodity swap contracts (October 31, 2010: unrealized loss of SR 2.09 million).

b) The Arabian United Float Glass Company
The Company signed a contract for establishing the Arabian United Float Glass Company as a founding member. It was established by a ministerial decision No. (1299) dated 11/05/1427H (corresponding to 08/06/2006). An investment of SR 20 million was made for the ownership of fully paid 2 million shares representing 10% of the share capital. Also, an amount of SR 1.2 million was paid through December 31, 2011 representing the Company's share in establishing and developing costs. The company is engaged to manufacture float glass and commenced operations in April 2009.

c) NCC-Odfjell Chemical Tankers JLT (hereinafter referred as "Joint Venture")
NCC signed a 50 percent joint venture agreement with Odfjell on 22/6/1430H (corresponding to June 15, 2009) to establish a company in Dubai, United Arab Emirates, by the name of NCC-Odfjell Chemical Tankers JLT to commercially operate the two companies' combined fleet of coated chemical tankers in a pool for trading in the chemicals, vegetable oils and clean petroleum products markets on a world-wide basis with emphasis on the growing production and export of the Arabian Gulf Region. The Joint Venture commenced operations in 2010.

NCC share in the net income of the Joint Venture amounted to SR 4.34 million (2010: SR 3.86 million) which was included in the consolidated income statement.

10. DEFERRED DRY-DOCKING COSTS, NET

Deferred dry-docking costs, net at December 31 comprise the following:

	2011	2010
Total dry-docking costs	260,149	205,065
Accumulated amortization expense	(192,946)	(164,682)
	67,203	**40,383**

Movement in the dry-docking costs is as follows:

	2011	2010
Balance, beginning of the year	40,383	51,388
Additional dry-docking costs	61,745	22,540
Transfer to fixed assets	(6,661)	-
Amortization expense	(28,264)	(33,545)
Balance, end of the year	**67,203**	**40,383**

11. FIXED ASSETS, NET

Movement in fixed assets during the year 2011 was as follows:

Particulars	Cost				Accumulated Depreciation				Net Book Value		Depreciation Rate %
	Balance at 01.01.2011	Additions/ transfers during the year	Disposals	Balance at 31.12.2011	Balance at 01.01.2011	Charged for the year	Disposals	Balance at 31.12.2011	31.12.2011	31.12.2010	
Land	13,593	---	---	13,593	--	--	--	--	13,593	13,593	--
Buildings and improvements	4,950	351	---	5,301	(3,500)	(1,913)	186	(5,227)	74	1,450	5 - 33.3%
Fleet and equipment *	9,152,204	1,181,090	(311)	10,332,983	(2,766,357)	(344,479)	--	(3,110,835)	7,222,148	6,385,847	4 - 15%
Containers and trailers	54,992	---	(101)	54,891	(53,217)	(1,642)	101	(54,758)	133	1,775	8.33 - 20%
Furniture and fixtures	5,521	1,585	(824)	6,282	(4,886)	(412)	817	(4,481)	1,801	635	10%
Tools and office equipment	4,431	37	(45)	4,423	(3,916)	(125)	56	(3,985)	438	515	2.5 - 25%
Motor vehicles	1,597	---	(38)	1,559	(1,210)	(145)	38	(1,317)	242	387	20 - 25%
Computers equipment	41,517	13,878	(3,495)	51,900	(40,280)	(3,443)	3,460	(40,263)	11,637	1,237	15 - 25%
Container yard	11,597	780	---	12,377	(10,503)	(132)	--	(10,636)	1,741	1,094	10 - 25%
Others	1,536	8	(41)	1,503	(439)	(17)	--	(456)	1,047	1,097	7 - 15%
Total	**9,291,938**	**1,197,729**	**(4,855)**	**10,484,812**	**(2,884,308)**	**(352,308)**	**4,658**	**(3,231,958)**	**7,252,854**	**6,407,630**	

* Fleet and equipment above includes VLCCs and petrochemical carriers financed by banks and mortgaged in favor of lending banks as mentioned in Note 14.
Also, deferred dry-docking costs amounting to SR 6.66 million were transferred to fixed assets (see Note 10).

Notes To The Consolidated Financial Statements For the year ended December 31, 2011

(In Thousands Saudi Riyals)

12. SHIPS UNDER CONSTRUCTION AND OTHERS

At December 31, 2011, the balance of ships and other assets under construction represents costs incurred by the Company and NCC (a subsidiary) under signed contracts for constructing new RoRo vessels and chemical tankers, and also includes SR 5.4 million (2010: SR 12.53 million) incurred for the Company's building and software development costs.

The Company

On March 6, 2011, the Company signed four RoRo vessel contracts with Hyundai MIPO of South Korea for total cost of SR 1.03 billion (USD 274.2 million). Further, on September 12, 2011, the Company exercised its option to buy additional two RoRo vessels under the above agreement with the same agreed specifications and price for a total cost of SR 0.51 billion (USD 137.1 million). This brought the total number of RoRo vessels under construction to six vessels with a total cost of SR 1.54 billion (USD 411.3 million).

The Company paid an amount of SR 308.48 million (USD 82.26 million) during 2011 which represents the first installment on these contracts. The Company expects to receive four of these six vessels in December 2013. The remaining two vessels will be received in 2014.

The Subsidiary (NCC)

- NCC signed a contract in 2006 with SLS Shipbuilding Co. Ltd. ("SLS") of South Korea to build 10 petrochemical carriers and another contract during the year 2007 to build six additional petrochemical carriers with a total cost of SR 3.01 billion (USD 802 million). These carriers were scheduled to be delivered during 2011 through 2012.

- During 2010, NCC in mutual agreement with SLS decided to cancel seven ships building contracts since SLS was not able to build the carriers and deliver them within the period specified in the agreements. As of December 31, 2010, NCC collected SR 701.6 million which include all installments paid to SLS on all the cancelled contracts totaling to SR 641.3 million (USD 171 million), all other incidental costs amounting to SR 45.2 million, as mutually agreed between the parties, and net recovery amounting to SR 15.1 million which was included in the other income in the year ended December 31, 2010 (see Note 22).

- SLS completed the construction of four of the nine remaining petrochemical carriers, after the cancellation of the contracts as stated above, and it was added to the Joint Venture's fleet in June 2011, August 2011, September 2011 and October 2011 for a total cost of Saudi Riyals 748.7 million. The remaining five carriers under construction are expected to be delivered in 2012

- NCC also signed a contract on July 4, 2010 with Daewoo Shipbuilding and Marine Engineering Co. Ltd. of South Korea to build a specialized chemical tanker for total price of approximately SR 245 million (USD 65.3 million) with expected delivery during 2013.

- NCC also signed contracts with SLS on December 21, 2010 to purchase two chemical carriers for a total price of SR 322.5 million (USD 86 million). These two carriers were received and were added to the Joint Venture's Fleet on March 16, 2011 and April 15, 2011, respectively. These additions were reflected directly as part of additions to fixed assets.

The movement in ships under construction and others is as follows:

	2011	2010
Balance, beginning of the year	1,011,466	1,431,698
Additions	1,025,775	266,300
Transfers to fixed assets	(800,111)	-
Recovery of costs on cancelled ships under construction contracts	-	(686,532)
Balance, end of the year	1,237,130	1,011,466

Notes To The Consolidated Financial Statements For the year ended December 31, 2011

(In Thousands Saudi Riyals)

Capital commitments

The Company's capital commitments for constructing RoRo vessels amounted to SR 1.23 billion as of December 31, 2011 (2010: Nil). The Subsidiary's capital commitments for constructing chemical tankers amounted to SR 0.34 billion as of December 31, 2011 (2010: SR 1.05 billion).

13. ACCOUNTS PAYABLE AND OTHER CREDIT BALANCES

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

	2011	2010
Trade payables	9,155	14,868
Accrued operating expenses	226,025	173,254
Accrued insurance expenses	19,921	18,104
Accrued finance charges	11,501	11,621
Value of shares sold belonging to old shareholders	22,305	22,446
Other credit balances	-	14,064
	288,907	**254,357**

14. MURABAHA FINANCING AND LONG TERM FINANCE

The Company and its subsidiaries have entered into various Murabaha financing and long-term loans agreements principally to finance building of new VLCCs, petrochemical carriers and the Company's office in Dubai. The balance of these financing as at December 31 comprises the following:

	2011	2010
Finance to the Company	2,249,959	2,313,763
Finance to the subsidiaries	2,501,054	1,829,425
Total Murabaha and long-term finance	**4,751,013**	**4,143,188**
Current portion of Murabaha and long-term finance	(456,045)	(324,648)
Non-current portion of Murabaha and long-term finance	**4,294,968**	**3,818,540**

Break down of Murabaha and long-term finances is listed below at December 31:

2011

Financing:	Parent Co.	%	Subsidiaries	%	Total	%
Murabaha Finance	980,124	44%	2,119,773	85%	3,099,897	65%
Commercial Finances	121,585	5%	-	-	121,585	3%
Public Investment Fund "Murabaha Finance"	1,050,000	47%	-	-	1,050,000	22%
Public Investment Fund finance "conventional"	98,250	4%	381,281	15%	479,531	10%
TOTAL	**2,249,959**	**100%**	**2,501,054**	**100%**	**4,751,013**	**100%**

2010

Financing:	Parent Co.	%	Subsidiaries	%	Total	%
Murabaha Finance	907,016	39%	1,411,831	77%	2,318,847	56%
Commercial Finances	220,997	10%	---	---	220,997	5%
Public Investment Fund "Murabaha Finance"	1,050,000	45%	---	---	1,050,000	26%
Public Investment Fund finance "conventional"	135,750	6%	417,594	23%	553,344	13%
TOTAL	**2,313,763**	**100%**	**1,829,425**	**100%**	**4,143,188**	**100%**

The cost of financing is calculated as per the respective financing agreements. The aggregate maturities of the outstanding financing under the Murabaha financing and loan agreements at December 31, 2011, are as follows:

2012	456,045
2013	491,521
2014	531,922
2015	503,885
2016	521,983
Thereafter	**2,245,657**
	4,751,013

The Murabaha financing and long-term loans 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 total finance facilities of the Company and its subsidiaries amounted to SR 4.75 billion out of which SR 0.35 billion remained unutilized at December 31, 2011 relating to NCC.

Finances granted to the subsidiaries are for the purpose of refinancing of certain loans, construction of new carriers and the Company's office in Dubai.

Total financing charges on Murabaha financing and long-term loans amounted to SR 61.7 million for the year 2011 (2010: SR 62.54 million), out of which SR 26.68 million related to the subsidiary (NCC) loans (2010: SR 24.31 million) and SR 1.1 million related to the subsidiary, Mideast Ship Management Ltd., finance (2010: SR 1.2 million).

Financing charges related to financing of VLCCs, petrochemical carriers and new office for a sum of SR 9.71 million (2010: SR 12.36 million) were capitalized (see Note 12).

Notes To The Consolidated Financial Statements For the year ended December 31, 2011

(In Thousands Saudi Riyals)

15. EARNINGS PER SHARE AND DIVIDENDS

Earnings per share was calculated based on the number of shares outstanding during the years ended December 31, 2011 and 2010 totaling to 315 million shares.

The General Assembly on March 29, 2011 approved dividends at the rate of 10% of the share capital equal to SR 315 million at SR 1.0 per share for 2010 and the distribution was completed on April 13, 2011. The balance of unclaimed dividends as of December 31, 2011 amounted to SR 30.72 million (2010: SR 26.9 million).

NCC's shareholders approved dividends of SR 100 million for 2010 which was distributed during the second quarter of 2011.The Company's share of these dividends amounted SR 80 million and the minority shareholders' share amounted to SR 20 million.

The earning per share from non-operating income is SR 0.18 for 2011 (2010: SR (0.12).

16. ZAKAT AND INCOME TAX

The significant components of the zakat base of the Company under zakat and income tax regulations are principally comprised of shareholders' equity, provisions at the beginning of year, long-term borrowings and adjusted net income, less deductions for the net book value of fixed assets, investments and certain other items.

The Company's zakat and tax status

The Company finalized its zakat and tax status with the DZIT up to 2000. The Company submitted the zakat returns for all fiscal years from 2001 up to 2010 and paid the zakat due according to these returns. The Company has not received zakat assessments from the DZIT for these years.

The Company also has not received the final withholding tax assessments for the years 2001 up to the end of July 2004, the date of enforcement of the new tax law.

Since the enforcement of the new tax law, the Company pays regularly the withholding tax on payments to non-resident parties. The Company believes that adequate provision is maintained at December 31, 2011 for any potential zakat and tax claims by DZIT for the concerned years.

Zakat and Tax status for the subsidiary (NCC)

NCC submitted the zakat returns for all fiscal years up to 2010 and the withholding tax returns up to November 2011 and paid the zakat and withholding taxes due according to these returns. NCC received additional zakat and withholding tax assessments for the years 1991 to 2004 amounting to SR 59 million. NCC had filed appeals against some items in these assessments and their treatments. In April 2010, NCC reached an agreement with the DZIT for a final settlement of the above assessments in the amount of SR 53 million for the above-mentioned assessment years. NCC paid SR 26 million of this due amount during 2011 and has requested the DZIT for payment of the remaining amount on installment basis. NCC believes that it maintains adequate provision for zakat and withholding taxes as at December 31, 2011.

Zakat returns are prepared separately for the Company and NCC.

Provision for zakat and tax

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

	2011	2010
Balance, beginning of the year	129,429	118,639
Amounts paid during the year	(51,272)	(26,986)
Income tax refund related to a subsidiary	922	1,411
Provisions for the year:		
Zakat	21,594	35,104
Tax:		
• Withholding tax	3,904	2,137
• Income tax (benefit) related to a subsidiary	(1)	(876)
Balance, end of the year	**104,576**	**129,429**

17. HEDGING RESERVE FOR LOANS COMMISSION

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.

18. STATUTORY RESERVE

In accordance with Saudi Arabian Regulations for Companies, the Company is required to transfer 10% of the net income to the statutory reserve until such reserve equals 50% of the paid-up capital. This reserve is not currently available for distribution to shareholders.

Notes To The Consolidated Financial Statements For the year ended December 31, 2011

(In Thousands Saudi Riyals)

19. SEGMENT INFORMATION

a- The following schedule illustrates the distribution of the Company's and subsidiaries' activities according to the operational segments as of December 31:

	2011				
	Crude Oil Transportation	Petrochemical Transportation	General Cargo Transportation (Liner)	Bulk Transportation	Total
Operating revenues	**1,227,423**	**362,539**	**401,122**	**-**	**1,991,084**
Bunker cost	661,509	-	139,654	-	801,163
Other operating expenses					
Vessel related expenses	209,329	116,698	47,039	-	373,066
Cargo related expenses	-	-	137,954	-	137,954
Voyage related expenses	74,231	-	57,798	-	132,029
Depreciation and amortization	267,760	92,818	13,581	-	374,159
Others	8,737	1,269	-	-	10,006
Total other operating expenses	**560,057**	**210,785**	**256,372**	**-**	**1,027,214**
Total operating expenses	**1,221,566**	**210,785**	**396,026**	**-**	**1,828,377**
Gross operating income before bunker subsidy	**5,857**	**151,754**	**5,096**	**-**	**162,707**
Bunker subsidy	137,449	-	39,016	-	176,465
Gross operating income	**143,306**	**151,754**	**44,112**	**-**	**339,172**

	2010				
	Crude Oil Transportation	Petrochemical Transportation	General Cargo Transportation (Liner)	Bulk Transportation	Total
Operating revenues	**1,445,532**	**266,744**	**337,554**	**-**	**2,049,830**
Bunker cost	513,193	-	112,499	-	625,692
Other operating expenses					
Vessel related expenses	212,933	86,692	49,903	-	349,528
Cargo related expenses	-	-	134,995	-	134,995
Voyage related expenses	67,912	-	57,173	-	125,085
Depreciation and amortization	266,679	65,036	23,099	-	354,814
Others	9,704	2,127	-	-	11,831
Total other operating expenses	**557,228**	**153,855**	**265,170**	**-**	**976,253**
Total operating expenses	**1,070,421**	**153,855**	**377,669**	**-**	**1,601,945**
Gross operating income (loss) before bunker subsidy	**375,111**	**112,889**	**(40,115)**	**-**	**447,885**
Bunker subsidy	79,510	-	29,988	-	109,498
Gross operating income (loss)	**454,621**	**112,889**	**(10,127)**	**-**	**557,383**

b- The following schedule illustrates the distribution of the Company's and subsidiaries' assets and liabilities according to the operational segments as of December 31:

	2011					
	Crude Oil Transportation	Petrochemical Transportation	General Cargo Transportation (Liner)	Bulk Transportation	Shared Assets and Liabilities *	Total
Assets	**5,415,286**	**3,647,375**	**542,316**	**199,124**	**819,110**	10,623,211
Liabilities	**2,337,777**	**2,568,479**	**213,692**	**5,288**	**142,038**	5,267,274

	2010					
	Crude Oil Transportation	Petrochemical Transportation	General Cargo Transportation (Liner)	Bulk Transportation	Shared Assets and Liabilities *	Total
Assets	**5,519,163**	**2,961,285**	**207,488**	**200,000**	**1,078,343**	**9,966,279**
Liabilities	**2,460,319**	**1,917,823**	**61,724**	**-**	**148,030**	**4,587,896**

* Shared assets and liabilities represent amounts which cannot be determined for a specific segment such as cash, investments in Murabaha, deposits and government bonds, unclaimed dividends, etc.

Notes To The Consolidated Financial Statements For the year ended December 31, 2011

(In Thousands Saudi Riyals)

20. RELATED PARTY MATTERS

During the year, the Company transacted with the following related parties. The terms of those transactions are similar to ordinary transactions.

Name	Relationship
International Shipping and Transportation Co. Ltd. (ISTC)	Affiliate
NCC Odfjell Chemical Tankers JLT	Affiliate

a- Related party transactions

Significant transactions with related parties in the ordinary course of business included in the consolidated financial statements are summarized below:

	2011	2010
Operating revenue	**281,554**	**185,068**
Pool technical expenses incurred	**2,175**	**1,080**
Insurance expenses incurred	**161**	**135**

b- Related party balances

Significant year end balances arising from transactions with related parties are as follows:

Receivable from related parties

	2011	2010
ISTC	**15,935**	**16,291**
NCC Odfjell Chemical Tankers JLT	**35,119**	**5,946**
	51,054	**22,237**

Payable to related parties

	2011	2010
ISTC	5,200	1,886
NCC Odfjell Chemical Tankers JLT	---	3,207
	5,200	5,093

21. GENERAL AND ADMINISTRATIVE EXPENSES

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

	2011	2010
Employees' costs	86,845	80,180
Other general and administrative expenses	12,669	17,604
Depreciation	5,774	1,884
Boards of Directors expenses for the Company and its subsidiaries	4,372	4,133
	109,660	103,801

22. OTHER INCOME (EXPENSE), NET

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

	2011	2010
Income from Murabaha and short-term deposits	4,336	5,784
Income (losses) from investments, net	2,035	3,267
Bank commissions	(152)	(173)
Gains on sale of fixed assets	99	152
Recovery on cancelled ships construction contracts (Note 12)	---	15,122
Foreign currency exchange differences	(1,469)	(181)
Excess recovery against insurance claim	7,535	---
Recovery against law suit	6,183	---
Other	1,986	1,654
	20,553	25,625

Notes To The Consolidated Financial Statements For the year ended December 31, 2011

(In Thousands Saudi Riyals)

23. 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 as of and for the year ended December 31:

	2010			
	Total assets	Total liabilities	Gross operating income	Net (loss) profit
National Chemical Carriers Ltd. Co.	3,647,375	(2,568,479)	151,754	135,435
Mideast Ship Management Ltd.	59,904	(58,120)	40,665	1,608
NSCSA (America) Inc.	10,972	(3,490)	16,864	238
Al-Bahri Company for Bulk Transportation	199,124	(5,288)	-	(6,164)

	2010			
	Total assets	Total liabilities	Gross operating income	Net (loss) profit
National Chemical Carriers Ltd. Co.	2,961,285	(1,917,823)	112,889	92,868
Mideast Ship Management Ltd.	56,615	(40,298)	34,658	268
NSCSA (America) Inc.	12,969	(5,725)	16,955	(1,556)
Al-Bahri Company for Bulk Transportation	200,000	-	-	-

24. COMMITMENTS AND CONTINGENCIES

The Company has outstanding letters of guarantee of SR 89.6 million at December 31, 2011 issued in the Company's normal course of business.

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 (12) in relation to future capital commitments to build RoRo vessels, chemical tankers and office building in Dubai.

25. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's activities, including subsidiaries, expose it to a variety of financial risks: market risk (including currency risk, fair value and cash flow commission rate exposure and price risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Financial instruments carried on the balance sheet principally include cash and cash equivalents, investments, receivables, borrowings, derivative financial instruments, payables and certain accrued expenses.

Financial asset and liability is offset and net amounts reported in the financial statements, when the Company has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and liability simultaneously.

Risk management is carried out by senior management. The most important types of risk are summarized below.

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, approximately 21 % of trade receivable balances are due from related parties. The Company and its subsidiaries maintains its cash with high credit rated banks. Receivables are carried net of provision for doubtful debts.

Commission rate exposure

This relates to the Company's and subsidiaries' exposure to the risk of fluctuations in commission rates in the market and the potential impact on the consolidated financial position of the Company and its cash flows. The Company's and subsidiaries' commission rate risk arises mainly from its short-term deposits and borrowings. The Company where appropriate uses 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 finance. The Company monitors the commission rate changes and believes that expected commission rate change on the Company is not significant.

Currency risk

This relates to the risk of change in the value of financial instruments due to change in foreign currency rates. The Company's and subsidiaries' transactions are mainly in Saudi riyals, UAE Dirhams and US dollars. Management monitors the currency rate changes and acts accordingly.

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. To manage its price risk arising from investments in equity securities, the Company diversifies its portfolio.

Liquidity risk

This represents risks that the Company, including subsidiaries, will be unable to meet its funding requirements related to financial instruments. The liquidity risk arises if the entity cannot sell its financial assets quickly at an amount close 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 to settle liabilities between knowledgeable willing parties on an arms-length basis. As the consolidated financial statements of the Company are compiled based on historical cost convention, except for the investments in financial instruments and derivative financial instruments at fair value, 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.

RECLASSIFICATION

Certain amounts previously reported in 2010 consolidated financial statements have been reclassified to conform to current year presentation.

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