

**YANBU NATIONAL PETROCHEMICAL COMPANY (YANSAB)  
(A SAUDI JOINT STOCK COMPANY)**

**FINANCIAL STATEMENTS**

**31 DECEMBER 2006**

**AUDITORS' REPORT TO THE SHAREHOLDERS OF  
YANBU NATIONAL PETROCHEMICAL COMPANY (YANSAB)  
(A SAUDI JOINT STOCK COMPANY)**

We have audited the accompanying balance sheet of Yanbu National Petrochemical Company (YANSAB) (the company) - A Saudi Joint Stock Company - as of 31 December 2006, and the related statement of income, cash flows and changes in equity for the period from 11 February 2006 to 31 December 2006. These financial statements are the responsibility of the company's Board of Directors and have been prepared by them and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of 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 degree of assurance to enable us to express an opinion on the financial statements.

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

- i) present fairly, in all material respects, the financial position of the company as of 31 December 2006 and the results of its operations and its cash flows for the period from 11 February 2006 to 31 December 2006 in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.
- ii) comply with the requirements of the Regulations for Companies in so far as they affect the preparation and presentation of the financial statements.

Without qualifying our opinion, we draw attention to note 2 to the financial statements. As per the company's by laws of the company, the company's first fiscal year will commence on the issuance date of the Ministerial Resolution declaring the incorporation of the company, which was dated 12 Muharram 1427 H (corresponding to 11 February 2006), and will end on 31 December the following year, being 31 December 2007. These financial statements cover the period from the date of incorporation of the company, to 31 December 2006, and have been prepared to comply with the requirements of the Capital Market Authority.

for Ernst & Young

Dr. Abdullah A. Baeshen  
Registration No. 66

1 Safar 1428H  
19 February 2006

Jeddah

Yanbu National Petrochemical Company (YANSAB)  
(A Saudi Joint Stock Company)

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BALANCE SHEET

As at 31 December 2006

	<i>Note</i>	<i>2006 SR'000</i>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	4	821,490
Advances to suppliers and other receivables	5 & 12	37,023
<b>Total current assets</b>		<u>858,513</u>
<b>NON-CURRENT ASSETS</b>		
Capital work in progress	6	6,137,060
Pre-operating expenses	7	80,000
Other non-current assets	8	6,173
<b>Total non-current assets</b>		<u>6,223,233</u>
<b>TOTAL ASSETS</b>		<u><u>7,081,746</u></u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	9 & 12	210,587
Accruals and provisions	10	1,081,343
		<u>1,291,930</u>
<b>NON-CURRENT LIABILITY</b>		
Employees' end of service benefits	12 & 13	36,864
<b>Total liabilities</b>		<u>1,328,794</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	14	5,625,000
Statutory reserve	15	14,030
Retained earnings		113,922
<b>Total shareholders' equity</b>		<u>5,752,952</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<u><u>7,081,746</u></u>

The attached notes 1 to 22 form part of these financial statements.

Yanbu National Petrochemical Company (YANSAB)  
(A Saudi Joint Stock Company)

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INCOME STATEMENT

For the period from 11 February 2006 to 31 December 2006

	<i>Note</i>	<b>2006 SR'000</b>
<b>EXPENSES</b>		
General and administration	16	(48,973)
Other income	17	193,040
<b>INCOME BEFORE ZAKAT</b>		<b>144,067</b>
Zakat	11	(3,770)
<b>NET INCOME FOR THE PERIOD</b>		<b>140,297</b>
Weighted average number of outstanding shares (in thousands)	14	<b>562,500</b>
<b>Basic earnings per share (in SR)</b>	14	<b>0.25</b>

The attached notes 1 to 22 form part of these financial statements.

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Yanbu National Petrochemical Company (YANSAB)  
(A Saudi Joint Stock Company)

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STATEMENT OF CASH FLOWS

For the period from 11 February 2006 to 31 December 2006

	<i>2006</i> <i>SR'000</i>
<b>PRE – OPERATING ACTIVITIES</b>	
Net income for the period before zakat	144,067
Adjustment for:	
Provision for employees' end of service benefits	6,720
	<u>150,787</u>
Working capital changes	
Receivables	(37,023)
Payables	1,288,160
	<u>1,401,924</u>
Net cash from pre- operating activities	
<b>INVESTING ACTIVITIES</b>	
Capital work in progress	(6,137,060)
Pre-operating expenses	(80,000)
Other non current assets	(6,173)
	<u>(6,223,233)</u>
Net cash used in investing activities	
<b>FINANCING ACTIVITIES</b>	
Issue of share capital	5,625,000
Transaction costs	(12,345)
Proceeds from related parties for employees' end of service benefits transferred to the company (note 12 & 13)	30,144
	<u>5,642,799</u>
Net cash from financing activities	
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>821,490</b>
Cash and bank balance the beginning of the period	-
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b><u>821,490</u></b>

The attached notes 1 to 22 form part of these financial statements.

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Yanbu National Petrochemical Company (YANSAB)  
(A Saudi Joint Stock Company)

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STATEMENT OF CHANGES IN EQUITY

For the period from 11 February 2006 to 31 December 2006

	<i>Share capital SR'000</i>	<i>Statutory reserve SR'000</i>	<i>Retained earnings SR'000</i>	<i>Total SR'000</i>
Issue of share capital	5,625,000	-	-	5,625,000
Transaction costs (note 3)	-	-	(12,345)	(12,345)
Net income for the period	-	-	140,297	140,297
Transfer to statutory reserve	-	14,030	(14,030)	-
<b>Balance at 31 December 2006</b>	<b>5,625,000</b>	<b>14,030</b>	<b>113,922</b>	<b>5,752,952</b>

The attached notes 1 to 22 form part of these financial statements.

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# Yanbu National Petrochemical Company (YANSAB) (A Saudi Joint Stock Company)

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## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2006

### 1 ACTIVITIES

Yanbu National Petrochemical Company (YANSAB) (the company) is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under Commercial Registration number 4700009432 dated 14 Muharram 1427H corresponding to 11 February 2006. The company has obtained Industrial License number S/1367 dated 18 Rajab 1426H corresponding to 1 September 2005. The company is owned 51% by Saudi Basic Industries Corporation (SABIC), (the major shareholder), 14% by other Saudi and GCC Founding shareholders and 35% of the shares are publicly traded.

The objectives of the company are to engage in manufacturing of petrochemical products in accordance with its Articles of Association, and other applicable regulations in the Kingdom. The company is in the pre-operation stage and has not yet started its commercial operations.

### 2 BASIS OF PRESENTATION

As per the company's Articles of Association, the company's first fiscal year will commence on the issuance date of the Ministerial Resolution declaring the incorporation of the company, which was dated 12 Muharram 1427 H (corresponding to 11 February 2006), and will end on 31 December the following year, being 31 December 2007. These financial statements cover the period from the date of incorporation of the company to 31 December 2006, and have been prepared to comply with the requirements of the Capital Market Authority.

As this is the first set of financial statements prepared by the company, no comparative information is presented.

### 3 SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.

The significant accounting policies adopted are as follows:

#### *Accounting convention*

The financial statements have been prepared under the historical cost convention.

#### *Capital Work in Progress*

Capital work in progress, representing plant under construction, is recorded at cost. Such costs include cost of equipment, material and other costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

#### *Capitalisation of borrowing costs*

Borrowing costs attributable to acquisition and construction of plant and equipment are capitalised during the construction period.

#### *Pre-operating expenses*

Pre-operating expenses are charged to the income statement unless their future benefits have been determined in which case they will be amortized using the straight line basis over 7 years or their estimated period of benefit, whichever is shorter, from the commencement of operations.

Yanbu National Petrochemical Company (YANSAB)  
(A Saudi Joint Stock Company)

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NOTES TO THE FINANCIAL STATEMENTS (continued)  
At 31 December 2006

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Cash and cash equivalents***

Cash and cash equivalents consists of bank balances, cash on hand, and murabaha commodity placements with an original maturity of three months or less.

Murabaha commodity placements with an original maturity period of three months or less are stated at cost, with accrued income being booked as other receivables until realized. Income from murabaha is accrued on a time apportionment basis over the period from disbursement of funds to the settlement date.

***Accounts payable and accruals***

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

***Provisions***

Provisions are recognized when the company has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and may be measured reliably.

***Employees' end of service benefits***

Provision is made for amounts payable under the Saudi Arabian labour law applicable to employees' accumulated periods of service at the balance sheet date.

***Transaction costs***

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of share capital. The transaction costs of an equity transaction are accounted for as a deduction from equity.

***Foreign currencies***

Transactions in foreign currencies are recorded in Saudi Riyals at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

***Zakat***

Zakat is provided for in accordance with Saudi Arabia fiscal regulations. The provision is charged to the income statement.

***Leases***

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments, are recognized as an expense in the income statement on a straight line basis over the lease term.

***Expenses***

As the company is still in the pre-operation stage, all expenses incurred are classified for as general and administration expenses.

**4 CASH AND CASH EQUIVALENTS**

	<i>2006</i> <i>SR'000</i>
Murabaha commodity placements	576,531
Current accounts	244,959
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	<b>821,490</b>
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Murabaha commodity placements are maintained with local banks.

Yanbu National Petrochemical Company (YANSAB)  
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NOTES TO THE FINANCIAL STATEMENTS (continued)  
At 31 December 2006

**5 ADVANCES TO SUPPLIERS AND OTHER RECEIVABLES**

	<i>2006</i> <i>SR'000</i>
Advances to suppliers and contractors	18,105
Amounts due from a shareholder ( see note below)	4,261
Other receivables	14,657
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	37,023
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This balance represents advance payments to a shareholder in the normal course of business for purchase of materials (note 12).

**6 CAPITAL WORK IN PROGRESS**

- a) This item represents capital work in progress in respect of the construction of the company's plant and comprises the following:

	<i>2006</i> <i>SR'000</i>
Cost of work executed	5,143,238
Advances to contractors	479,899
Financing cost (see b) below)	143,243
Product licenses	106,321
Project management costs	86,903
Systems set-up charges	75,266
Service agreements	43,489
Others	58,701
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	6,137,060
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- b) This item includes financial advisory, legal, and arrangement fees totaling SR 143.2 million as at 31 December 2006, relating to obtaining a group of long term financing arrangements that will be used to finance the construction of part of the company's plant (see note 21-b). These fees will be included in the initial recognition of the related financing arrangements and amortized, using the effective interest rate, over the period of the long term financing agreements. The amortization portion that falls within the construction period will be capitalized as part of capital work in progress.

**7 PRE-OPERATING EXPENSES**

This represents a contribution of SR 80 million to the Centennial Fund that will financially support small and medium sized projects in the related industry and was conditional for the company to secure the gas and feedstock required to manufacture its products. Pre-operating expenses will be amortised using the straight line basis over 7 years or their estimated period of benefit, whichever is shorter, from the commencement of commercial operations.

Yanbu National Petrochemical Company (YANSAB)  
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NOTES TO THE FINANCIAL STATEMENTS (continued)  
At 31 December 2006

**8 OTHER NON-CURRENT ASSETS**

	<i>2006</i> <i>SR'000</i>
Home ownership receivables (see note below and note 12)	4,487
Others	1,686
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	6,173
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Consistent with the major shareholder policy (SABIC), the company maintains a Home Ownership Program for its eligible Saudi employees. Under the Program, the company builds houses for its eligible employees and transfers them to the employees at cost which will be collected from employees over a period not to exceed 20 years. The company has not yet started the program and the balance shown above represents the remaining balance which will be collected from employees who joined the program with SABIC affiliates before they transferred to the company.

**9 ACCOUNTS PAYABLE**

	<i>2006</i> <i>SR'000</i>
Trade suppliers and contractors	186,360
Amount due to a shareholder and an affiliate (note 12)	24,227
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	210,587
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**10 ACCRUALS AND PROVISIONS**

	<i>2006</i> <i>SR'000</i>
Accrued expenses	1,076,919
Zakat payable (note 11)	3,770
Other payables	654
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	1,081,343
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**11 ZAKAT**

**Charge for the period**

The zakat charge consists of:

	<i>2006</i> <i>SR'000</i>
Current period provision	3,770
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Yanbu National Petrochemical Company (YANSAB)  
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NOTES TO THE FINANCIAL STATEMENTS (continued)  
At 31 December 2006

**11 ZAKAT (continued)**

The current period's provision is based on the following:

	<i>2006</i> <i>SR'000</i>
Equity (founders equity that has been retained for 12 months or more)	3,656,250
Provision for employees' end of service benefits transferred to the company	30,144
Book value of long term assets (net of related financing)	<b>(6,223,233)</b>
	<b>(2,536,839)</b>
Zakatable income for the period	<b>150,787</b>
Zakat base	<b>150,787</b>

The differences between the financial and the zakatable results are mainly due to provisions which are not allowed in the calculation of zakatable income.

**12 RELATED PARTY TRANSACTIONS AND BALANCES**

The following are the details of major related party transactions during the period and the related balance at the period end:

<i>Related party</i>	<i>Nature of transaction</i>	<i>Amount of transaction</i> <i>SR'000</i>	<i>Balance 2006</i> <i>SR'000</i>
<i>Amounts due from related parties</i>			
Saudi Basic Industries Corporation (SABIC)	Shareholder Transfer of employees' benefits to the company, net	24,618	-
	Advance payments for purchase of materials.	4,261	4,261
Saudi Petrochemical Co. (SADAF)	Affiliate Transfer of employees' benefits to the company, net	1,312	-
Yanbu National Petrochemical Co. (YANPET)	Affiliate Transfer of employees' benefits to the company, net	733	-
Arabian Industrial Fibers Co. (Ibn Rushd)	Affiliate Transfer of employees' benefits to the company, net	496	-
			<b>4,261</b>

Yanbu National Petrochemical Company (YANSAB)  
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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2006

**12 RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

*Amounts due to related parties*

Saudi Basic Industries Corporation (SABIC)	Shareholder	Payments on behalf of the company	<b>1,701,541</b>	<b>(23,821)</b>
		Charges for systems set-up	<b>75,266</b>	-
		Transfer of home ownership receivables	<b>4,487</b>	-
Arabian Industrial Fibers Co. (Ibn Rushd)	Affiliate	Miscellaneous	<b>2,607</b>	<b>(406)</b>
Jubail United Co.	Affiliate	Miscellaneous	<b>1,021</b>	-
Other affiliates	Affiliate	Services provided to the company	<b>696</b>	-
				<u><b>(24,227)</b></u>

**13 EMPLOYEES' END OF SERVICE BENEFITS**

Employees' end of service benefits at 31 December 2006 include an amount of SR 30 million, being the balance at the date of transfer, in respect of employees transferred from related parties during the period ( note 12).

**14 SHARE CAPITAL**

- The authorized, issued and fully paid share capital of the company consists of 562.5 million shares of SR 10 each.
- The company had originally issued 112.5 million shares of SR 50 each. In accordance with the Capital Market Authority's announcement dated 27 March 2006, the shares of the company were split into five shares for every one share effective 22 April 2006. Accordingly the issued shares of the company increased from 112.5 million shares of SR 50 each to 562.5 million shares of SR 10 each. The earnings per share calculation is based on 562.5 million shares.

The calculation of diluted earnings per share is not applicable to the company.

**15 STATUTORY RESERVE**

As required by Saudi Arabian Regulations for Companies, 10% of net income for the period has been transferred to the statutory reserve. The company may resolve to discontinue such transfers when the reserve totals 50% of the capital. The reserve is not available for distribution.

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NOTES TO THE FINANCIAL STATEMENTS (continued)  
At 31 December 2006

**16 GENERAL AND ADMINISTRATION EXPENSES**

	<i>Period from 11 February to 31 December 2006 SR'000</i>
Training costs	31,154
Employee costs	6,842
Security	4,420
Finance costs	1,902
Other expenses	4,655
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	48,973
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**17 OTHER INCOME**

	<i>Period from 11 February to 31 December 2006 SR'000</i>
Income from murabaha commodity placements	156,421
Commission earned on term deposits and current accounts	36,619
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	193,040
	<hr/> <hr/>

**18 BOARD OF DIRECTORS' REMUNERATION**

A distribution of remuneration to the board of directors is not proposed for 2006.

**19 RISK MANAGEMENT**

**Interest rate risk**

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The company is subject to interest rate risk on its interest bearing assets, including bank deposits.

The company is not exposed to interest rate risk on its Murabaha commodity placements as no interest is charged. The fair value of Murabaha commodity placements may be affected by current market forces including interest rates.

**Liquidity risk**

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial liabilities. The company limits its liquidity risk by ensuring that bank facilities are available.

**Currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The company is subject to fluctuations in foreign exchange rates in the normal course of its business. The company did not undertake significant transactions in currencies other than Saudi Riyals and US Dollars, during the period.

Yanbu National Petrochemical Company (YANSAB)  
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NOTES TO THE FINANCIAL STATEMENTS (continued)  
At 31 December 2006

**20 FAIR VALUES OF FINANCIAL INSTRUMENTS**

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. The company's financial assets consist of cash and cash equivalents, advances to suppliers and other receivables, its financial liabilities consist of payables. The fair values of final instruments are not materially different from their carrying values.

**21 COMMITMENT AND CONTINGENCIES**

- a) The Board of Directors in their meeting dated 1 August 2006 has approved a revised budget for the company's entire project of SR 18,750 million. The cost of the project incurred by the company as at 31 December 2006 is SR 6,217 million.
- b) On 6 May 2006, the Board of Directors authorized a group of long term financing arrangements, including Islamic, SACE, Public Investment Funds, Export Credits Guarantee Agencies, commercial and working capital facilities totaling SR 13,125 million for the purpose of financing the construction of part of the company's plant. The agreements were signed on 18 June 2006. As of 31 December 2006, no drawdown was made by the company under the said facilities. The conditions precedent for drawing from the facilities were satisfied on 26 January 2007 and the company has made its first drawdown amounting to SR 2,190 million which was received on 7 February 2007.

**22 LEASE COMMITMENTS**

Future minimum rentals payable under non-cancellable operating leases as at 31 December 2006 are as follows:

	<i>2006</i> <i>SR'000</i>
Within one year	4,790
After one year but no more than five years	19,162
More than five years	59,163
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	<b>83,115</b>
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