

**NATIONAL INDUSTRIALIZATION COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

**CONSOLIDATED FINANCIAL STATEMENTS  
AND AUDITORS' REPORT  
YEAR ENDED DECEMBER 31, 2006**

**NATIONAL INDUSTRIALIZATION COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**

**CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' REPORT**  
**YEAR ENDED DECEMBER 31, 2006**

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## **AUDITORS' REPORT**

To the shareholders  
National Industrialization Company  
A Saudi Joint Stock Company  
Riyadh, Saudi Arabia

We have audited the accompanying consolidated balance sheet of National Industrialization Company (A Saudi Joint Stock Company) as of December 31, 2006, and the related consolidated statements of income, shareholders' equity and cash flows for the year then ended, and notes 1 to 29 which form an integral part of these consolidated financial statements as prepared by the Company in accordance with Article 123 of the Regulations for Companies and presented to us with all the necessary information and explanations. These consolidated financial statements are the responsibility of the Company'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 generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting standards used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of National Industrialization Company as of December 31, 2006, and the consolidated results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting standards appropriate to the nature of the Company, and comply with the relevant provisions of the Regulations for Companies and the articles of the Company as these relate to the preparation and presentation of these consolidated financial statements.

Deloitte & Touche  
Bakr Abulkhair & Co.

Bakr A. Abulkhair  
(License No. 101)  
Safar 7, 1428  
February 25, 2007

**NATIONAL INDUSTRIALIZATION COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

**CONSOLIDATED BALANCE SHEET**  
**AS OF DECEMBER 31, 2006**

	Note	December 31, 2006 SR 000 (Note 1)	March 31, 2006 SR 000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	3	1,395,156	1,924,698
Short term investments		6,096	47,441
Accounts receivable	4	998,704	828,742
Inventories	5	499,036	487,745
Prepaid expenses and other assets	6	209,429	130,558
<b>Total current assets</b>		<b>3,108,421</b>	<b>3,419,184</b>
<b>Non-current assets</b>			
Investments in associated and other companies	7	2,483,083	278,450
Property and equipment	8	2,919,989	2,750,901
Intangible assets	1, 9	1,739,572	156,918
Projects under construction	10	105,739	233,831
<b>Total non-current assets</b>		<b>7,248,383</b>	<b>3,420,100</b>
<b>TOTAL ASSETS</b>		<b>10,356,804</b>	<b>6,839,284</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Short-term facilities	11	286,941	271,752
Current portion of long-term loans	12	426,575	406,206
Accounts payable	13	163,016	249,360
Accrued liabilities and other	14	332,797	230,313
<b>Total current liabilities</b>		<b>1,209,329</b>	<b>1,157,631</b>
<b>Non-current liabilities</b>			
Long-term loans	12	1,854,203	1,811,228
End-of-service indemnities	15	54,849	48,738
<b>Total non-current liabilities</b>		<b>1,909,052</b>	<b>1,859,966</b>
<b>Total liabilities</b>		<b>3,118,381</b>	<b>3,017,597</b>
<b>Equity</b>			
<b>Shareholders' equity</b>			
Share capital	1	2,330,491	1,570,000
Statutory reserve	17	171,130	101,820
Unrealized gain from investments in securities available for sale		-	3,551
Share premium	1	2,053,324	-
Retained earnings		778,822	391,253
Proposed dividends	23	233,049	-
<b>Total shareholders' equity</b>		<b>5,566,816</b>	<b>2,066,624</b>
Minority interest		1,671,607	1,755,063
<b>Total equity</b>		<b>7,238,423</b>	<b>3,821,687</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>10,356,804</b>	<b>6,839,284</b>

The accompanying notes form an integral part of these consolidated financial statements

**NATIONAL INDUSTRIALIZATION COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

**CONSOLIDATED STATEMENT OF INCOME**  
**YEAR ENDED DECEMBER 31, 2006**

	December 31, 2006	March 31, 2006
Note	SR 000	SR 000
	(Note 1)	
Sales	3,241,196	2,846,274
Cost of sales	<u>(2,052,280)</u>	<u>(1,792,619)</u>
<b>Gross profit</b>	<b>1,188,916</b>	1,053,655
Selling and marketing expenses	19 (152,405)	(145,331)
General and administrative expenses	20 (72,334)	(87,947)
Company's share in net income of associated companies	<u>42,739</u>	19,065
<b>Gross operating income</b>	<b>1,006,916</b>	839,442
Income from investments and other	18 104,038	50,688
Gain from sales of investments	-	12,180
Diminution in value of other investments	(20,852)	(7,381)
Finance charges	<u>(114,592)</u>	<u>(101,986)</u>
<b>Income before zakat and minority interests</b>	<b>975,510</b>	792,943
Zakat and income tax on subsidiaries	(48,160)	(41,202)
Minority interests in net income, loss of subsidiaries	<u>(232,944)</u>	<u>(381,323)</u>
Income before zakat	694,406	370,418
Zakat	16 (1,309)	-
<b>NET INCOME</b>	<b>693,097</b>	370,418
Earnings per share in Saudi Riyals	27 2.97	2.36

The accompanying notes form an integral part of these consolidated financial statements

NATIONAL INDUSTRIALIZATION COMPANY  
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY  
YEAR ENDED DECEMBER 31, 2006

	December 31, 2006	March 31, 2006
Note	SR 000	SR 000
<b>Share capital</b>	<b>(Note 1)</b>	
Balance, April 1	1,570,000	981,250
Transfer from share premium	-	331,271
Transfer from retained earnings	-	257,479
Increase in capital	1 760,491	-
<b>Balance, December 31</b>	<b>2,330,491</b>	<b>1,570,000</b>
<b>Statutory reserve</b>		
Balance, April 1	101,820	64,778
Transfer from net income	17 69,310	37,042
<b>Balance, December 31</b>	<b>171,130</b>	<b>101,820</b>
<b>Unrealized gain from investments in securities available for sale</b>	<b>-</b>	<b>3,551</b>
<b>Share premium</b>		
Balance, April 1	-	331,271
Share premium issues during the year	1 2,053,324	-
Transfer to share capital	-	(331,271)
<b>Balance, December 31</b>	<b>2,053,324</b>	<b>-</b>
<b>Retained earnings</b>		
Balance, April 1	391,253	315,356
Adjustment in profits of subsidiary company	(1,569)	-
Transfer to share capital	-	(257,479)
Net income for the year	693,097	370,418
Transfer to statutory reserve	17 (69,310)	(37,042)
Proposed dividends	23 (233,049)	-
Board of directors' remuneration	23 (1,600)	-
<b>Balance, December 31</b>	<b>778,822</b>	<b>391,253</b>
<b>Proposed dividends</b>	<b>23 233,049</b>	<b>-</b>
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>5,566,816</b>	<b>2,066,624</b>

The accompanying notes form an integral part of these consolidated financial statements

**NATIONAL INDUSTRIALIZATION COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2006**

	<b>December 31, 2006 SR 000</b>	March 31, 2006 SR 000
<b>OPERATING ACTIVITIES</b>	<b>(Note 1)</b>	
Net income	<b>693,097</b>	370,418
Adjustments for net income:		
Depreciation	<b>211,079</b>	187,807
Amortization	<b>7,506</b>	22,384
Company's share in net income of associated companies	<b>(42,739)</b>	(19,065)
Gain from sales of investments	<b>-</b>	(12,180)
End-of-service indemnities	<b>14,198</b>	10,883
Changes in operating assets and liabilities:		
Short term investment	<b>41,345</b>	(6,591)
Accounts receivable	<b>(177,207)</b>	(290,159)
Inventories	<b>(42,498)</b>	(70,319)
Prepaid expenses and other assets	<b>(81,034)</b>	(90,207)
Accounts payable	<b>(82,375)</b>	78,286
Accrued liabilities and other	<b>104,191</b>	(76,952)
End-of-services indemnities paid	<b>(6,021)</b>	(1,550)
<b>Net cash from operating activities</b>	<b>639,542</b>	102,755
<b>INVESTING ACTIVITIES</b>		
Purchase and disposal of investment in subsidiaries, net (note 22)	<b>41,634</b>	-
Investments in associated and other companies	<b>(2,169,190)</b>	(6,687)
Investments in Government Development Bonds	<b>(5,341)</b>	37,521
Additions to property and equipment	<b>(445,807)</b>	(277,338)
Disposal (additions) to projects under construction	<b>128,092</b>	(215,763)
Additions to intangible assets	<b>(8,133)</b>	(2,401)
Proceeds from sales of investments	<b>2,176</b>	13,116
Net disposal of property and equipment	<b>304</b>	51,081
Net disposal of intangible assets	<b>668</b>	-
<b>Net cash used in investment activities</b>	<b>(2,455,597)</b>	(400,471)

**NATIONAL INDUSTRIALIZATION COMPANY**  
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**CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)**  
**YEAR ENDED DECEMBER 31, 2006**

	<b>December 31, 2006 SR 000</b>	March 31, 2006 SR 000
<b>FINANCING ACTIVITIES</b>		
Short-term facilities	<b>15,189</b>	263,969
Long-term loans	<b>116,109</b>	(21,921)
Dividends paid	-	(117,750)
Minority interests	<b>1,155,215</b>	1,065,592
<b>Net cash from financing activities</b>	<b>1,286,513</b>	1,189,890
<b>Net change in cash and cash equivalents</b>	<b>(529,542)</b>	892,174
Cash and cash equivalents, April 1	<b>1,924,698</b>	1,032,524
<b>CASH AND CASH EQUIVALENTS, DECEMBER 31</b>	<b>1,395,156</b>	1,924,698
<b>NON-CASH TRANSACTIONS</b>		
Share premium	<b>(2,053,324)</b>	-
Increase in share capital	<b>(760,491)</b>	(588,750)
Intangible assets	<b>1,575,144</b>	-
Minority interest	<b>1,238,671</b>	-
	-	(588,750)

The accompanying notes form an integral part of these consolidated financial statements

**NATIONAL INDUSTRIALIZATION COMPANY**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2006**

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**1. ORGANIZATIN AND ACTIVITIES**

National Industrialization Company (“NIC”) is a Saudi joint stock company (the “Company”) registered in Riyadh on Shawwal 7, 1405H (corresponding to June 25, 1985) under Commercial Registration No. 1010059693. The Company was formed pursuant to the Ministerial Resolution No. 601 dated Thul Hijjah 24, 1404H. On July 3, 2006 the Extraordinary General Assembly approved the acquisition of the minority interest share in National Petrochemical Industrialization Company (NPIC) through a share swap ratio of 0.77 shares of NIC for each share of NPIC held by the minority interest and was merged effective January 1, 2006. Accordingly, 76,049 thousand shares were issued and the capital was increased by SR 760,491 thousand to become SR 2,330,491 thousand consisting of 233,049 thousand shares with a par value of SR 10 each (after the stock split). The shares have been issued based on the valuation of the Company’s financial advisor which resulted in a share premium amounting to SR 2,053,324 thousand and a corresponding goodwill amounting to SR 1,575,144 thousand.

On July 3, 2006, the Extraordinary General assembly also approved to amend the Company’s by-laws with respect to the fiscal year to start on January 1 and end on December 31 of each year with the current fiscal year-end to be December 31, 2006. Accordingly, the consolidated financial statements for the year ended December 31, 2006 include the financial statements of the Company for the nine month period and the subsidiary Companies for twelve month period.

The legal formalities for the amendment of the Company’s articles of association with the Ministry of Commerce and Industry for these changes and the issuance of the new shares have been completed.

In accordance with the Capital Market Authority’s announcement No. 4/154/2006 dated Safar 27, 1427 (March 27, 2006) issued based upon the Council’s of Ministers resolution to split the shares of joint stock companies, the par value of the shares has been split to SR 10 instead of SR 50.

The consolidated financial statements include the accounts of the Company and its subsidiaries in which the Company owns more than 50% equity interest or has control. The accompanying consolidated financial statements as of December 31, 2006 and March 31, 2006 include the following subsidiaries:

**NATIONAL INDUSTRIALIZATION COMPANY**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED DECEMBER 31, 2006**

Company's Name	Legal Structure	Ownership percentage	
		December 31, 2006	March 31, 2006
Al-Rowad National Plastic Co. (Rowad)	Limited liability	<b>99.91</b>	99.91
National Industrialization Petrochemical Marketing Co. (1)	Limited liability	<b>99.91</b>	-
National Worldwide Industrial Advancement Company	Limited liability	<b>99.85</b>	98.53
National Gulf Company for Petrochemical Technology (1)	Limited liability	<b>99.85</b>	-
National Batteries Co. (Battariat)	Limited liability	<b>80.00</b>	80.00
Saudi Polyolefins Co. (1)	Limited liability	<b>75.00</b>	-
National Lead Smelting Co. (Rassas) and its Subsidiaries	Limited liability	<b>71.74</b>	71.74
The National Titanium Dioxide Co. (Cristal) and its Subsidiaries	Limited liability	<b>66.00</b>	66.00
National Operation and Industrial Services Co. (Khadamat)	Limited liability	<b>61.66</b>	61.66
National Inspection and Technical Testing Co. Ltd. (Fahs)	Limited liability	<b>57.94</b>	57.94
TUV – Middle East	Limited liability	<b>57.94</b>	57.94
Tasnee & Sahara Olefins Co.	Saudi joint stock	<b>60.45</b>	-
Arabian Axles and Foundries and Spare Parts Company Ltd.	Limited liability	-	55.41
National Petrochemical Industrialization Company Ltd. and its Subsidiaries	Saudi joint stock	-	50.66

(1) Subsidiaries of NPIC have been transferred to the Company.

**NATIONAL INDUSTRIALIZATION COMPANY**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED DECEMBER 31, 2006**

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The principal activities of the Company and its subsidiaries are investing in industrial projects, transfer of advanced industrial technology to the Kingdom, in particular, and to the Arab region, in general, in the areas of manufacturing, and transforming petrochemicals, and chemical, mechanical and engineering industries, and the management and ownership of petrochemical and chemical projects and marketing their products. The activities also include providing technical industrial services and manufacturing of steel and non-steel castings, production of towed wires, spring wires, steel wires for cables, twisted re-enforcement wires to carry the electrical conductors, twisted re-enforcement wires for concrete and welding wires. They also include production and marketing of liquid batteries for vehicles and for various industrial uses and the production and marketing of lead, polypropylene and sodium sulfate; production of axles for trucks and trailers and spare parts of trucks and equipment. They also include conducting technical tests on industrial facilities, chemical, petrochemical and metal plants, and water desalination and electricity generating plants; setting up all types of plastic industries and production and marketing acrylic boards; and the production and marketing of titanium dioxide.

During the year ended December 31, 2006, Arabian Axles, Foundries & Spare Parts Co in which the company had 55.41% interest was merged with National Metal Manufacturing and Casting Co. (Maadaniyah), an associated company, and accordingly has not been included in the consolidated financial statements. The Company's interest in Maadaniyah increased from 29.21% to 35.46%.

Pursuant to the Ministerial resolution No. 860 dated Rabie Al-Thani 4, 1427, Tasnee & Sahara Olefins Co. (a Saudi joint stock company) was established with a capital of SR 2,400 million divided into 240,000 thousand shares of SR 10 each (after the stock split).

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying consolidated financial statements have been prepared in accordance with the Standard of General Presentation and Disclosure issued by the Ministry of Commerce and Industry and in compliance with the accounting standards issued by the Saudi Organization for Certified Public Accountants (SOCPA). The significant accounting policies applied by the Company are as follows:

**NATIONAL INDUSTRIALIZATION COMPANY**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED DECEMBER 31, 2006**

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**Use of estimates**

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

**Basis of consolidation**

The consolidated financial statements include the financial statements of NIC for the nine month period ended December 31, 2006 and its subsidiaries for the twelve month period ended December 31, 2006 based on the audited financial statements due to the change of the fiscal year (Note 1). As a result, the consolidated financial statements for the year ended December 31, 2006 do not include NIC (Head office) results for the period from January 1 to March 31, 2006 which is immaterial. For the purposes of preparing the consolidated financial statements, all significant inter-company transactions and balances between the subsidiaries and the Company have been eliminated.

**Changes in accounting policies**

During the 2005, the Saudi Organization for Certified Public Accountant (SOCPA), issued amendments to the intangible assets standard effective at the beginning of the year 2006. This amendment contained certain changes in the accounting for intangible assets at acquisition and during the subsequent periods. The standard states that intangible assets that do not have a definite useful life such as goodwill is measured at the end of each reporting period and reported in the financial statements at cost after being adjusted for impairment, if any. The Company ceased the amortization of the goodwill effective April 1, 2006 and consider the net book value as of March 2006 as cost and implemented the amended standard.

**Accounting convention**

The consolidated financial statements are prepared under the historical cost convention except for investments in securities available for sale measured at fair value and investments in associated companies accounted for under the equity method.

**NATIONAL INDUSTRIALIZATION COMPANY**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED DECEMBER 31, 2006**

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**Sales recognition**

Sales are recognized upon delivery of goods to customers and are stated net of trade or quantity discounts.

A subsidiary company markets its products through other subsidiaries owned by the shareholders (referred hereto as "the Marketers"). Sales are made directly to the end customers and to the Marketers in Europe. Sales made through distribution channels of the Marketers are recorded at provisional prices at the time of shipment of goods, and are subsequently adjusted based on actual selling prices received by the Marketers from their end customers, after deducting the cost of shipping, distribution and marketing. Adjustments are made as they become known to the subsidiary.

**Expenses**

Selling and marketing expenses principally comprise of costs incurred in the marketing and sale of the subsidiaries products. All other expenses are classified as general and administrative expenses.

General and administrative expenses include direct and indirect costs not specifically part of cost of sales as required under generally accepted accounting standards. Allocations between general and administrative expenses and cost of sales, when required, are made on a consistent basis.

**Cash and cash equivalents**

Cash and cash equivalents include cash, Islamic marabaha, and highly liquid investments with original maturities of three months or less.

**Inventories**

Inventories are stated at the lower of cost or net realizable value. Cost is determined, for finished goods and work in process, on the weighted average cost basis and includes cost of materials, labor and an appropriate proportion of direct overheads. All other inventories are valued on a weighted average cost basis.

**Investments in associated and other companies**

Investments in companies which are at least 20% owned and in which National Industrialization Company exercises significant influence are recorded using the equity method of accounting, under which the investment is stated initially at cost and adjusted thereafter for the post acquisition change in National Industrialization Company's share of the net assets of the investee companies. These are referred to as associated companies. National Industrialization Company's share in the associated companies' net income for the year is included in the statement of income.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED DECEMBER 31, 2006**

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Investments of less than 20% for which there is no readily available market are stated at cost. The carrying amount of investments is reduced to recognize other than temporary diminution in value. Revenue is recognized from these investments upon declaration of dividends by the investee companies.

**Property and equipment**

Property and equipment are stated at cost less accumulated depreciation. Expenditure on maintenance and repairs is expensed, while expenditure for betterment is capitalized. Depreciation is provided over the estimated useful lives of the applicable assets using the straight-line method. The estimated useful lives of the principal classes of assets are as follows:

	<u>Years</u>
Buildings and constructions	30-33
Machinery and equipment	5-20
Tools	4-14
Furniture, fixtures and office equipment	3-10
Vehicles	4-5
Catalysts	1.5

**Impairment of assets**

At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any objective indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

In the event where the estimated recoverable value is less than the book value, the book value is reduced to the recoverable amount and the difference is charged to the interim consolidated statement of income.

**Intangible assets**

Intangible assets comprise the costs of obtaining financing loans, computer software, incorporation and pre-operating, goodwill and research and development.

Costs of financing are amortized using the straight-line method over the period of the loans.

Computer software costs are amortized using the straight-line method over a period of five years from the date of commencement of full operation.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED DECEMBER 31, 2006**

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Incorporation and pre-operating costs include lawyers' fees relating to the registration of companies, pre-production costs, recruitment expenses, and salaries of employees involved in the preparation of the production processes. These costs are amortized using the straight-line method over a period of seven years.

The goodwill represents the excess of the fair value of the Company's shares exchanged over the net assets acquired and is measured at the end of each fiscal period and reported at carrying value after being adjusted for impairment, if any.

Cost of research and development are charged to the statement of income once incurred, except for the clear and specified projects, in which their development costs can be recovered through the commercial activity generated by these projects. In this case, the development costs are considered intangible assets and are amortized using the straight-line method over a period of seven years.

**Borrowing costs**

Borrowing costs directly attributable to the project under construction relating to a subsidiary for the period until such time when the project is ready for its intended use are capitalized. Investment income earned on temporary investments of specifically borrowed funds that are pending expenditure on the projects under construction is deducted from the capitalized borrowing costs.

**Foreign currency translation**

Foreign currency transactions are translated into Saudi Riyal at the rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies at the consolidated balance sheet date are translated into Saudi riyal at the exchange rates prevailing at the end of the period. Gains and losses from settlement and translation of foreign currency transactions are included in the consolidated statement of income.

**End-of-service indemnities**

End-of-service indemnities, required by the Saudi Arabian Labor Law, are provided in the consolidated financial statements based on the employees' length of service by the Company and by its subsidiaries as of the balance sheet date.

**NATIONAL INDUSTRIALIZATION COMPANY**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED DECEMBER 31, 2006**

**Zakat**

The Company and its subsidiaries are subject to the regulations of the Department of Zakat and Income Tax in the Kingdom of Saudi Arabia. Zakat is provided for on the accrual basis. Zakat is computed on the Zakat base or adjusted net income, whichever is higher. Any differences between the provisional and the final assessments are recorded when the final assessment is approved and at which time the provision account is cleared.

**Operating leases**

Rentals payable under operating leases are charged to income statement on a straight-line basis over the term of the operating lease. In the case of operating leases, substantially all the risks and rewards of ownership of the relevant assets in the lease agreement remain with the lessor.

**3. CASH AND CASH EQUIVALENTS**

	<b>December 31, 2006 SR 000</b>	March 31, 2006 SR 000
Cash and bank balances	<b>296,959</b>	238,145
Murabaha	<b>1,098,197</b>	1,686,553
	<b>1,395,156</b>	1,924,698

**4. ACCOUNTS RECEIVABLE**

	<b>December 31, 2006 SR 000</b>	March 31, 2006 SR 000
Accounts receivable – trade	<b>487,550</b>	365,361
Due from related party (Note 24)	<b>518,060</b>	469,340
Allowance for doubtful accounts	<b>(6,906)</b>	(5,959)
	<b>998,704</b>	828,742

**5. INVENTORIES**

	<b>December 31, 2006 SR 000</b>	March 31, 2006 SR 000
Finished goods	<b>96,966</b>	136,498
Raw materials	<b>166,136</b>	143,790
Supplies and spare parts	<b>221,777</b>	194,557
Work in process	<b>14,157</b>	12,900
	<b>499,036</b>	487,745

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED DECEMBER 31, 2006**

**6. PREPAID EXPENSES AND OTHER ASSETS**

	<b>December 31, 2006 SR 000</b>	March 31, 2006 SR 000
Prepaid expenses	<b>32,549</b>	27,828
Advances to suppliers	<b>133,727</b>	61,519
Refundable deposits	<b>5,045</b>	8,566
Accrued revenues	<b>1,792</b>	11,936
Employees' receivables	<b>1,269</b>	2,388
Other debit balances	<b>35,047</b>	18,321
	<b>209,429</b>	130,558

**7. INVESTMENTS IN ASSOCIATED AND OTHER COMPANIES**

a) Associated companies

	<b>December 31, 2006 SR 000</b>	March 31, 2006 SR 000
Book value of investments	<b>2,319,465</b>	190,209
Loans	<b>4,356</b>	4,356
	<b>2,323,821</b>	194,565
Provision for loans	<b>(4,356)</b>	(4,356)
Total investments in associated companies	<b>2,319,465</b>	190,209

The investments in associated companies comprise the following:

<i>Company Name</i>	<i>Percentage of Ownership</i>	
	<b>December 31, 2006</b>	March 31, 2006
National Packing Products Co. Ltd. (Watan-Pac)	<b>42.60</b>	42.60
National Environmental Preservation Co. (Bee'a'h)	<b>32.33</b>	32.33
Tunisia Saudi Trading Co. Ltd.	<b>30</b>	30
National Metal Manufacturing and Casting Co. (Maáдания)	<b>35.46</b>	29.21
Arab Pesticides Industries Co. (Mobeed)	<b>25</b>	25
Saudi Ethylene and Polyethylene Co.	<b>45.34</b>	-

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Tasnee & Sahara Olefins Co. owns a 75% subsidiary, Saudi Ethylene and Polyethylene Co., (Saudi limited liability company), with a capital of SR 2,737 million which has been accounted for under the cost method as it is in the development stage and its first audited financial statements will be issued for the period ending December 31, 2007. The legal formalities for the registration of the company have been completed.

b) Other companies

	<b>December 31, 2006 SR 000</b>	March 31, 2006 SR 000
Investments in share capital of other companies	<b>221,039</b>	139,581
Provision for diminution in value of investments	<b>(57,421)</b>	(51,340)
Total	<b>163,618</b>	88,241

The investments in the capital of other companies comprise the following:

<i>Company Name</i>	<i>Percentage of Ownership</i>	
	<b>December 31, 2006</b>	March 31, 2006
Industrial Development Co.	<b>9</b>	9
Industrialization and Energy Services Co.	<b>5.62</b>	5.62
Madina Industrial Investment Co.	<b>5</b>	5
National Arabian Fibers Co. (Ibn Rushd)	<b>2.08</b>	2.08
Saudi Turkish Investment Holdings Inc.	<b>1.25</b>	1.25
National Industrialization Company for Industrial Investment	<b>95</b>	95
National Yanboo for Petrochemical (Yansab)	<b>0.4</b>	0.4

There were no operation for National Industrialization Company for Industrial Investment accordingly, the accounts of the company have not been consolidated in the accompanying consolidated financial statements. The capital of the company amounted to SR 500,000.

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**8. PROPERTY AND EQUIPMENT**

	Buildings and constructions SR 000	Machinery and equipment SR 000	Tools SR 000	Furniture, fixtures SR 000	Vehicles SR 000	Computers SR 000	Projects under construction SR 000	Catalysts SR 000	Total SR 000
<b>Cost</b>									
April 1, 2006	323,976	3,236,158	9,770	40,878	24,298	31,098	24,813	72,955	3,763,946
Additions	<b>43,786</b>	<b>364,811</b>	<b>303</b>	<b>3,151</b>	<b>3,646</b>	<b>6,715</b>	<b>8,971</b>	<b>14,424</b>	<b>445,807</b>
Disposals	<b>(3,914)</b>	<b>(29,547)</b>	<b>(1,414)</b>	<b>(5,094)</b>	<b>(536)</b>	<b>(4,476)</b>	-	-	<b>(44,981)</b>
Acquired upon purchase of subsidiary company	<b>6,148</b>	<b>9,305</b>	-	<b>92</b>	<b>494</b>	-	-	-	<b>16,039</b>
Elimination due to disposal of subsidiary company	<b>(32,094)</b>	<b>(110,462)</b>	-	<b>(2,402)</b>	<b>(1,587)</b>	<b>(886)</b>	-	-	<b>(147,431)</b>
December 31, 2006	<b>337,902</b>	<b>3,470,265</b>	<b>8,659</b>	<b>36,625</b>	<b>26,315</b>	<b>32,451</b>	<b>33,784</b>	<b>87,379</b>	<b>4,033,380</b>
<b>Depreciation</b>									
April 1, 2006	83,293	843,373	4,981	23,571	14,712	18,930	-	24,185	1,013,045
Additions	<b>10,514</b>	<b>146,681</b>	<b>550</b>	<b>3,830</b>	<b>4,242</b>	<b>4,121</b>	-	<b>41,141</b>	<b>211,079</b>
Disposals	<b>(3,914)</b>	<b>(29,532)</b>	<b>(1,360)</b>	<b>(4,908)</b>	<b>(498)</b>	<b>(4,465)</b>	-	-	<b>(44,677)</b>
Acquired upon purchase of subsidiary company	<b>137</b>	<b>1,590</b>	-	<b>23</b>	<b>215</b>	-	-	-	<b>1,965</b>
Elimination due to disposal of subsidiary company	<b>(13,171)</b>	<b>(51,589)</b>	-	<b>(2,096)</b>	<b>(1,165)</b>	-	-	-	<b>(68,021)</b>
December 31, 2006	<b>76,859</b>	<b>910,523</b>	<b>4,171</b>	<b>20,420</b>	<b>17,506</b>	<b>18,586</b>	-	<b>65,326</b>	<b>1,113,391</b>
<b>Net book value</b>									
December 31, 2006	<b>261,043</b>	<b>2,559,742</b>	<b>4,488</b>	<b>16,205</b>	<b>8,809</b>	<b>13,865</b>	<b>33,784</b>	<b>22,053</b>	<b>2,919,989</b>
March 31, 2006	240,683	2,392,785	4,789	17,307	9,586	12,168	24,813	48,770	2,750,901

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**9. INTANGIBLE ASSETS**

	Pre-operating costs SR 000	Deferred Costs SR 000	Finance cost SR 000	Software implementation costs SR 000	Development costs SR 000	Goodwill SR 000	Total SR 000
<b>Cost</b>							
April 1, 2006	34,315	4,034	33,217	8,141	21,750	133,609	235,066
Additions	<b>8,134</b>	-	-	-	-	<b>1,585,732</b>	<b>1,593,866</b>
Disposals	<b>(135)</b>	-	-	-	-	<b>(667)</b>	<b>(802)</b>
Acquired upon purchase of subsidiary company	<b>3,348</b>	-	-	-	-	-	<b>3,348</b>
Elimination due to disposal of subsidiary company	<b>(17,762)</b>	-	-	-	-	-	<b>(17,762)</b>
December 31, 2006	<b>27,900</b>	<b>4,034</b>	<b>33,217</b>	<b>8,141</b>	<b>21,750</b>	<b>1,718,674</b>	<b>1,813,716</b>
<b>Amortization</b>							
April 1, 2006	21,013	2,253	11,158	2,130	12,014	29,580	78,148
Disposals	<b>(134)</b>	-	-	-	-	-	<b>(134)</b>
Charge for the year	<b>3,184</b>	<b>421</b>	<b>(165)</b>	<b>1,632</b>	<b>2,434</b>	-	<b>7,506</b>
Acquired upon purchase of subsidiary company	<b>1,172</b>	-	-	-	-	-	<b>1,172</b>
Elimination due to disposal of subsidiary company	<b>(12,548)</b>	-	-	-	-	-	<b>(12,548)</b>
December 31, 2006	<b>12,687</b>	<b>2,674</b>	<b>10,993</b>	<b>3,762</b>	<b>14,448</b>	<b>29,580</b>	<b>74,144</b>
<b>Net book value</b>							
December 31, 2006	<b>15,213</b>	<b>1,360</b>	<b>22,224</b>	<b>4,379</b>	<b>7,302</b>	<b>1,689,094</b>	<b>1,739,572</b>
March 31, 2006	13,302	1,781	22,059	6,011	9,736	104,029	156,918

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**10. PROJECTS UNDER DEVELOPMENT**

The balance of projects under development as of December 31, 2006, represents amounts paid for the Acetex and Methanol projects and for studies made for the development of other projects.

**11. SHORT-TERM FACILITIES**

	<b>December 31, 2006 SR 000</b>	March 31, 2006 SR 000
Overdraft	<b>17,181</b>	11,471
Short-term loans	<b>267,624</b>	251,816
Notes payable	<b>2,136</b>	8,465
	<b>286,941</b>	271,752

These facilities were issued against personal guarantees of the subsidiaries' partners and promissory notes. Also, certain facilities are guaranteed by the National Industrialization Company based on the Company's ownership in these companies.

**12. LONG-TERM LOANS**

	<b>December 31, 2006 SR 000</b>	March 31, 2006 SR 000
Saudi Industrial Development Fund (SIDF)	<b>567,990</b>	551,615
Commercial banks	<b>1,712,788</b>	1,665,819
	<b>2,280,778</b>	2,217,434
<u>Less:</u> Current portion	<b>426,575</b>	406,206
	<b>1,854,203</b>	1,811,228

The loans from Saudi Industrial Development Fund are repayable in semi annual unequal installments commencing on various dates. Finance charges paid in advance are deferred and amortized over the periods of the loans. Commercial loans are repayable in unequal installments and bear finance charges based on prevailing market rates.

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The long-term loans are collateralized by mortgages and liens over the property and equipment of the related subsidiaries. Certain long-term loans are also secured by personal and corporate guarantees of the partners' according to their proportionate ownership in these companies. Some of the loan agreements include covenants to maintain certain financial ratios during the loan period.

**13. ACCOUNTS PAYABLE**

	<b>December 31, 2006 SR 000</b>	March 31, 2006 SR 000
Trade	<b>152,116</b>	234,517
Due to related parties	<b>554</b>	468
Due to contractors	<b>2,251</b>	3,955
Others	<b>8,095</b>	10,420
	<b>163,016</b>	249,360

**14. ACCRUED LIABILITIES AND OTHER**

	<b>December 31, 2006 SR 000</b>	March 31, 2006 SR 000
Accrued liabilities	<b>189,515</b>	90,023
Provision for zakat	<b>50,424</b>	30,999
Unclaimed dividends	<b>37,789</b>	40,764
Other payable and subscription surplus	<b>26,693</b>	26,523
Other provisions	<b>11,589</b>	28,093
Accrued tickets and vacations	<b>16,787</b>	13,911
	<b>332,797</b>	230,313

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**15. END-OF-SERVICE INDEMNITIES**

	<b>December 31, 2006 SR 000</b>	March 31, 2006 SR 000
Balance, April 1	48,738	39,405
Payments during the year	(6,021)	(1,550)
Charge for the year	14,198	10,883
Elimination due to disposal of subsidiary company	(2,066)	-
Balance, December 31	<b>54,849</b>	48,738

**16. ZAKAT**

The Company and its subsidiaries, which are Saudi joint stock company and Saudi limited liability companies, present their zakat and income tax declarations to the Department of Zakat and Income Tax on an individual company basis.

The principal elements of the zakat base related to National Industrialization Company are as follows:

	<b>December 31, 2006 SR 000</b>	March 31, 2006 SR 000
Share capital	2,330,491	1,570,000
Statutory reserve	101,820	64,778
Share premium	2,053,324	-
Retained earnings	391,253	57,877
Adjusted net loss	(13,135)	(4,827)
Provisions	11,839	2,972
Long term loans	75,000	-
Property and equipment	(57,947)	(15,678)
Investments	(3,073,583)	(1,616,528)
Projects under development	(69,292)	(667)
Intangible assets	(1,672,317)	(97,173)
Zakat base	<b>77,453</b>	(39,246)

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Some of these amounts have been adjusted in arriving at the zakat charge for the year.

The zakat provision has been computed for the period from April 1 to December 31, 2006.

The movement in zakat provision of the National Industrialization Company is as follows:

	<b>December 31, 2006 SR 000</b>	March 31, 2006 SR 000
Balance, April 1	<b>2,606</b>	5,739
Payments during the year	-	(3,133)
Provision for the year	<b>1,309</b>	-
Zakat provision for National Industrialization Company	<b>3,915</b>	2,606
Zakat provision for the subsidiary companies	<b>46,509</b>	28,393
Balance, December 31	<b>50,424</b>	30,999

The Company received the final zakat assessments for the year ended March 31, 2003 which showed a difference of SR 856 thousand against which the Company has filed an objection. The Company has paid the zakat due for the years ended March 31, 2004 to March 31, 2006 based on zakat declarations but has not yet received the final zakat assessments for those years.

**17. STATUTORY RESERVE**

In accordance with Regulations for Companies in Saudi Arabia and the Company's articles of association, the Company has established a statutory reserve by appropriation of 10% of net income until the reserve equals 50% of the share capital. This reserve is not available for dividend distribution.

**18. INCOME FROM INVESTMENTS AND OTHER**

	<b>December 31, 2006 SR 000</b>	March 31, 2006 SR 000
Gain from murabaha and other	<b>78,825</b>	41,953
Foreign exchange differences	<b>12,948</b>	-
Income from development projects	<b>4,450</b>	-
Gain from sale of scrap	<b>1,714</b>	1,321
Dividends received	<b>1,550</b>	3,238
Technology rights and other	-	2,587
Other	<b>4,551</b>	1,589
	<b>104,038</b>	50,688

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**19. SELLING AND MARKETING EXPENSES**

	<b>December 31, 2006 SR 000</b>	March 31, 2006 SR 000
Salaries, wages and other benefits	<b>13,601</b>	11,203
Freight charges	<b>110,383</b>	105,691
Distributors' commissions	<b>13,142</b>	14,011
Depreciation and amortization	<b>871</b>	887
Advertising and publicity	<b>2,309</b>	2,283
Transportation and travel expenses	<b>2,417</b>	1,801
Telephone and postage	<b>705</b>	646
Rent	<b>805</b>	614
Others	<b>8,172</b>	8,195
	<b>152,405</b>	145,331

**20. GENERAL AND ADMINISTRATIVE EXPENSES**

	<b>December 31, 2006 SR 000</b>	March 31, 2006 SR 000
Salaries, wages and other benefits	<b>46,851</b>	46,430
Depreciation and amortization	<b>5,378</b>	12,370
Professional fees and consultation expenses	<b>6,290</b>	3,217
Rent	<b>1,121</b>	1,221
Advertising and printing	<b>1,730</b>	1,253
Charitable contributions and social acts	<b>3,460</b>	2,200
Currency exchange differences	<b>13</b>	10,458
Other	<b>7,491</b>	10,798
	<b>72,334</b>	87,947

**21. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS**

The Company has provided guarantees to commercial banks and to the Saudi Industrial Development Fund based on the Company's related percentage of ownership in certain companies. The total guarantees amounted to approximately SR 116 million as of December 31, 2006 (March 31, 2006: approximately SR 109 million).

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Certain subsidiaries have outstanding commitments and contingencies as of December 31, 2006 in the form of letters of credit and letters of guarantee amounting to SR 11 million (March 31, 2006: SR 54 million).

The subsidiary company has capital commitments as follows:

	<b>December 31, 2006 SR 000</b>	March 31, 2006 SR 000
Commitments related to project under construction	-	65,184
Commitments for the acquisition of property and equipment	<b>3,972,118</b>	22,709

**22. PURCHASE/DISPOSAL OF SUBSIDIARIES**

During the year ended December 31, 2006, the Company transferred its shares in Arabian Axles and Foundries and Spare Parts Company Ltd. to National Metal Manufacturing and Casting Co. (Ma'adaniah), (Note 1).

The following was the net assets of the subsidiary as of December 31, 2005:

	<b>Amount SR'000</b>
Cash and cash equivalent	1,616
Accounts receivable	7,405
Inventories	34,277
Prepaid expenses and others assets	2,163
Investments in Government Development Bonds	5,341
Property and equipment	79,410
Intangible assets	5,214
Accounts payable	(8,332)
Accrued liabilities and other	(3,307)
Current portion of long-term loans	(8,100)
Long-term loans	(44,665)
End-of-service indemnities	(2,066)
Net assets as at December 31, 2005	68,956
Cash and cash equivalents	(1,616)
	<b>67,340</b>

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During the year, a subsidiary company purchased all the shares in Technical Tetravalent Lead Smelting Plant for a cash consideration of SR 27,000 thousand which resulted in a goodwill amounting to SR 10,589.

Following was the net assets of the subsidiary at acquisition date:

	Amount SR 000
Cash and cash equivalent	1,294
Accounts receivable	160
Inventories	3,070
Property and equipment, net	14,074
Pre operating expenses	2,176
Accounts payable	(4,363)
Net assets purchased	16,411
Goodwill resulting from acquisition	10,589
Purchased price	27,000
Cash and cash equivalent	(1,294)
Net	<u>25,706</u>

For the purpose of cash flow preparation, the following balances have been eliminated and the net effect of SR 41,634 thousand has been reflected as a separate line item in the consolidated statement of cash flows.

**23. APPROPRIATION OF NET PROFIT**

The Board of Directors has proposed the distribution from retained earnings and share premium as follows:

- Distribution of cash dividends to the shareholders amounting to SR 233,049 thousand which represents 10% of the share capital (SR 1 per share).
- Distribution of 1 bonus shares for every 2 shares held amounting to SR 1,165,245 thousand.
- Payment of SR 1,600 thousand as Board of Directors' remuneration.

**24. BALANCES AND TRANSACTION WITH RELATED PARTIES**

Saudi Polyolefin's Company has signed marketing and sales agreements with its foreign partner (referred to as the "Marketer"), whereby the Marketer have agreed to market its product quantities at prices in accordance with such an agreement. The agreement specify the marketing responsibilities, quantities to be marketed by the Marketer, territories in which the products are to be sold, the price formula, payment terms and others obligations.

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Significant related party transactions consists of the following:

	<b>December 31, 2006 SR 000</b>	March 31, 2006 SR 000
Sales to marketers	<b>1,445,066</b>	1,198,978

Significant related party balances consists of the following:

	<b>December 31, 2006 SR 000</b>	March 31, 2006 SR 000
Trade receivables – Marketers and its subsidiary (Basel Asia Pasific Limited) – Note 4	<b>518,060</b>	469,340

**25. SEGMENT INFORMATION**

The activity of the Company (Head office) represents investments while subsidiary companies operate in the industrial and petrochemical sectors. The accounting policies adopted by these sectors are the same as stated in the significant accounting policies. The main markets of the petrochemical sector are in the Kingdom of Saudi Arabia, Europe, Middle East, and Asia while the other sectors are in the Kingdom of Saudi Arabia. The following is a selected financial information for these sectors:

	Industrial sector SR 000	Petrochemical sector SR 000	Head office & service sector SR 000	Total SR 000
<b>Year ended December 31, 2006</b>				
Total assets	<b>2,277,062</b>	<b>5,509,476</b>	<b>2,570,266</b>	<b>10,356,804</b>
Total liabilities	<b>1,384,923</b>	<b>1,310,722</b>	<b>422,736</b>	<b>3,118,381</b>
Sales	<b>1,056,735</b>	<b>2,050,381</b>	<b>134,080</b>	<b>3,241,196</b>
Gross profit	<b>350,695</b>	<b>810,503</b>	<b>27,718</b>	<b>1,188,916</b>
Depreciation and amortization	<b>73,285</b>	<b>142,657</b>	<b>2,643</b>	<b>218,585</b>
Operating income	<b>269,297</b>	<b>705,898</b>	<b>31,721</b>	<b>1,006,916</b>
Capital expenditures	<b>418,621</b>	<b>2,083,666</b>	<b>112,710</b>	<b>2,614,997</b>
Intangible assets	<b>1,450</b>	<b>7,350</b>	<b>1,574,477</b>	<b>1,583,277</b>
<b>Year ended March 31, 2006</b>				
Total assets	1,976,097	4,356,839	506,348	6,839,284
Total liabilities	1,145,477	1,580,715	291,405	3,017,597
Sales	1,045,194	1,704,986	96,094	2,846,274
Gross profit	375,584	657,514	20,557	1,053,655
Depreciation and amortization	80,868	120,255	9,068	210,191
Operating income	283,003	551,207	5,232	839,442
Capital expenditures	216,622	272,632	10,534	499,788
Intangible assets	-	1,746	655	2,401

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**26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

Financial instruments carried on the balance sheet principally include cash and cash equivalent, accounts receivables and other assets, accounts payable, borrowings and accrued and other liabilities.

**Credit risk** is the risk that one party will fail to discharge an obligation and cause the other party to incur a financial loss. The Company has no significant concentration of credit risk. Cash is placed with banks with sound credit ratings.

**Commission rate risk** is the risk that the value of a financial instrument will fluctuate due to changes in market commission rates. The subsidiaries have no significant commission bearing assets but have commission-bearing liabilities at December 31, 2006. The Company manages its borrowings made at floating rates by using floating-to-fixed interest rate swaps. Such commission rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Under the interest rate swaps, the Company agrees with the counter party to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rate and floating rate commission amounts calculated by reference to the agreed notional principal amounts.

**Liquidity risk** is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available to meet any future commitments.

**Currency risk** is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company transactions are principally in Saudi riyals, Euro and U.S. Dollars. Management monitors the fluctuations in currency exchange rates and believes that the currency risk is not material.

**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. As the Company's financial instruments are compiled under the historical cost convention, differences can arise between the book values and fair value estimates. Management believes that the fair values of the Company's financial assets and liabilities are not materially different from their carrying values.

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**27. EARNINGS PER SHARE**

Earnings per share has been computed on the basis of the number of shares which was 233,049 thousand shares as of December 31, 2006 (March 31, 2006: 157,000 thousand shares).

**28. APPROVAL OF FINANCIAL STATEMENTS**

These financial statements have been approved by the Board of Directors on February 25, 2007.

**29. COMPARATIVE FIGURES**

Certain figures for the year ended March 31, 2006 have been reclassified to conform with the presentation in the year ended December 31, 2006.