

NATIONAL INDUSTRIALIZATION COMPANY
(A SAUDI JOINT STOCK COMPANY)

**CONSOLIDATED FINANCIAL STATEMENTS
AND AUDITORS' REPORT
YEAR ENDED DECEMBER 31, 2007**

NATIONAL INDUSTRIALIZATION COMPANY
(A SAUDI JOINT STOCK COMPANY)

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YEAR ENDED DECEMBER 31, 2007

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INDEPENDENT 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, 2007, and the related consolidated statements of income, shareholders' equity and cash flows for the year then ended, and notes 1 to 33 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, 2007, 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 13, 1429
February 20, 2008

NATIONAL INDUSTRIALIZATION COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2007

	Note	2007 SR'000	2006 SR'000
ASSETS			
Current assets			
Cash and cash equivalents	3	2,209,349	1,395,156
Short term investments		25,337	6,096
Accounts receivable	4	2,001,230	982,618
Inventories	5	2,084,652	499,036
Prepaid expenses and other assets	6	413,421	225,515
Total current assets		6,733,989	3,108,421
Non-current assets			
Investments in associated and other companies	7	497,959	2,483,083
Investments in governmental Bonds		316,055	-
Property, plant and equipment	8	6,475,411	2,956,436
Intangible assets	9	3,139,722	1,739,572
Projects under construction	10	6,860,939	69,292
Other non-current assets	11	141,555	-
Total non-current assets		17,431,641	7,248,383
TOTAL ASSETS		24,165,630	10,356,804
LIABILITIES AND EQUITY			
Current liabilities			
Short-term facilities	12	468,688	286,941
Current portion of long-term loans	13	403,661	426,575
Accounts payable	14	1,126,199	163,067
Accrued liabilities and other	15	1,353,440	332,746
Total current liabilities		3,351,988	1,209,329
Non-current liabilities			
Long-term loans	13	9,990,011	1,854,203
Obligation under capital leases	16	1,312,500	-
Deferred gains on a sale and lease back transactions		145,358	-
Other liabilities	17	751,639	-
End-of-service indemnities	19	71,127	54,849
Total non-current liabilities		12,270,635	1,909,052
Total liabilities		15,622,623	3,118,381
Equity			
Shareholders' equity			
Share capital	1	3,495,736	2,330,491
Statutory reserve	22	237,244	171,130
Share premium	1	888,079	2,053,324
Retained earnings		1,373,844	778,822
Proposed dividends	27	-	233,049
Other Reserves		(66,988)	-
Total shareholders' equity		5,927,915	5,566,816
Minority interest		2,615,092	1,671,607
Total equity		8,543,007	7,238,423
TOTAL LIABILITIES AND EQUITY		24,165,630	10,356,804

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

NATIONAL INDUSTRIALIZATION COMPANY
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CONSOLIDATED STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 2007

	Note	2007 SR'000	2006 SR'000
Sales		7,147,115	3,241,196
Cost of sales		(5,348,187)	(2,051,045)
Gross profit		1,798,928	1,190,151
Selling and marketing expenses	24	(451,046)	(152,405)
General and administrative expenses	25	(280,459)	(72,334)
Company's share in net income of associated companies		28,445	42,739
Gross operating income		1,095,868	1,008,151
Income from investments and other	23	172,608	102,803
Diminution in value of other investments		(46,645)	(20,852)
Finance charges		(324,806)	(114,592)
Income before zakat and minority interests		897,025	975,510
Zakat and income tax on subsidiaries	20	(19,677)	(48,160)
Minority interests in net income, (loss) of subsidiaries		(211,974)	(232,944)
Income before zakat		665,374	694,406
Zakat	21	(4,238)	(1,309)
NET INCOME		661,136	693,097
Earnings per share in Saudi Riyals	32	1.89	1.98

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

**NATIONAL INDUSTRIALIZATION COMPANY
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**CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
YEAR ENDED DECEMBER 31, 2007**

	Note	2007 SR'000	2006 SR'000
Share capital	1		
Balance, January 1		2,330,491	1,570,000
Transfer from share premium		1,165,245	-
Increase in capital		-	760,491
Balance, December 31		3,495,736	2,330,491
Statutory reserve			
Balance, January 1		171,130	101,820
Transfer from net income	22	66,114	69,310
Balance, December 31		237,244	171,130
Share premium			
Balance, January 1		2,053,324	-
Share premium issues during the year		-	2,053,324
Transfer to share capital	1	(1,165,245)	-
Balance, December 31		888,079	2,053,324
Retained earnings			
Balance, January 1		778,822	391,253
Adjustment in profits of subsidiary company		-	(1,569)
Net income for the year		661,136	693,097
Transfer to statutory reserve	22	(66,114)	(69,310)
Proposed dividends		-	(233,049)
Board of directors' remuneration		-	(1,600)
Balance, December 31		1,373,844	778,822
Proposed dividends		-	233,049
Other reserves			
Hedging reserve		(112,828)	-
Foreign currency translation adjustments		70,606	-
Pension liability adjustment		(29,334)	-
Others		4,568	-
Balance, December 31		(66,988)	-
TOTAL SHAREHOLDERS' EQUITY		5,927,915	5,566,816

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

NATIONAL INDUSTRIALIZATION COMPANY
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CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2007

	2007	2006
	SR'000	SR'000
OPERATING ACTIVITIES		
Net income	661,136	693,097
Adjustments for net income:		
Depreciation	369,584	211,079
Amortization	63,004	7,506
Amortization of deferred credit	(11,629)	-
Company's share in net income of associated companies	(28,445)	(42,739)
End-of-service indemnities	19,454	14,198
Changes in operating assets and liabilities:		
Short term investment	(19,241)	41,345
Accounts receivable	(1,018,612)	(177,207)
Inventories	(1,585,616)	(42,498)
Prepaid expenses and other assets	(329,461)	(81,034)
Accounts payable	963,132	(82,375)
Accrued liabilities and other	1,749,076	104,191
End-of-services indemnities paid	(3,176)	(6,021)
Net cash from operating activities	829,206	639,542
INVESTING ACTIVITIES		
Purchase and disposal of investment in subsidiaries	-	41,634
Investments in associated and other companies	1,946,581	(2,169,190)
Investments in Government Development Bonds	(316,055)	(5,341)
Additions to property and equipment	(3,708,477)	(445,807)
(Additions) disposal to projects under construction	(6,765,218)	128,092
Additions to intangible assets	(1,489,583)	(8,133)
Proceeds from sales of investments	-	2,176
Net disposal of property and equipment	1,312,662	304
Net disposal of intangible assets	-	668
Net cash used in investing activities	(9,020,090)	(2,455,597)

NATIONAL INDUSTRIALIZATION COMPANY
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CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)
YEAR ENDED DECEMBER 31, 2007

	2007	2006
	SR'000	SR'000
FINANCING ACTIVITIES		
Short-term facilities	181,747	15,189
Long-term loans	8,112,894	116,109
Dividends paid	(233,049)	-
Minority interests	943,485	1,155,215
Net cash from financing activities	9,005,077	1,286,513
Net change in cash and cash equivalents	814,193	(529,542)
Cash and cash equivalents, January 1	1,395,156	1,924,698
CASH AND CASH EQUIVALENTS, DECEMBER 31	2,209,349	1,395,156
NON-CASH TRANSACTIONS		
Share premium	(1,165,245)	(2,053,324)
Increase in share capital	1,165,245	(760,491)
Property , plant and equipment acquired on capital lease	1,312,500	-
Intangible assets	-	1,575,144
Other reserves	(66,988)	-
Deferred gains on a sale and lease back transactions	180,244	-
Amortization on intangible assets deferred as part of project under construction	26,429	-
Minority interest	-	1,238,671

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, 2007

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 September 25, 1985) under Commercial Registration No. 1010059693. The Company was formed pursuant to the Ministerial Resolution No. 601 dated Thul Hijjah 24, 1404H. On April 11, 2007 the Extraordinary General Assembly approved the increase of the Company’s share capital from SR 2,330,491 thousand to SR 3,495,736 thousand, divided into 349,574 thousand shares, through the distribution of one bonus share for every two shares held amounting to SR 1,165,245 thousand, from the share premium as of December 31, 2006.

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; the production and marketing of titanium dioxide and the production of ethylene, propylene and polyethylene

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, 2007

Basis of consolidation

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. 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. The accompanying consolidated financial statements as of December 31, 2007 and 2006 include the following subsidiaries:

Company's Name	Legal Structure	Ownership percentage	
		2007	2006
Al-Rowad National Plastic Co. (Rowad) and its subsidiary	Limited liability	99.91	99.91
National Industrialization Petrochemical Marketing Co.	Limited liability	99.91	99.91
National Worldwide Industrial Advancement Company	Limited liability	99.85	99.85
National Gulf Company for Petrochemical Technology	Limited liability	99.85	99.85
National Industrialization Company for Industrial investments	Limited liability	99.85	99.85
National Batteries Co. (Battariat)	Limited liability	80	80
Saudi Polyolefins Co. (SPC)	Limited liability	75	75
National Lead Smelting Co. (Rassas) and its Subsidiaries	Limited liability	74.90	71.74
The National Titanium Dioxide Co. (Cristal) and its Subsidiaries	Limited liability	66	66
National Operation and Industrial Services Co. (Khadamat)	Limited liability	61.66	61.66
National Inspection and Technical Testing Co. Ltd. (Fahs)	Limited liability	57.94	57.94
TUV – Middle East	Limited liability	57.94	57.94
Tasnee & Sahara Olefins Co. and its subsidiary	Saudi joint stock	60.45	60.45

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2007

On May 15, 2007, The National Titanium Dioxide Co. (Cristal) acquired through its wholly owned subsidiary, Cristal Inorganic Chemicals Limited (CIC), a company incorporated in the Cayman Islands, the worldwide titanium dioxide business operating under Millennium Worldwide Holdings III from Lyondell Chemical Company, hereafter referred to as the "Acquisition". The total acquisition consideration, including cash, net assumed liabilities and transaction costs amounted to SR 5.5 billion and was financed through capital cash contribution from the company of SR 1,312 million and from Senior Secured Credit Facilities of SR 3,075 million.

The Acquisition was accounted for as a purchase business combination. CIC accordingly allocated the purchase price of the Acquisition based upon the fair value of the net assets acquired and liabilities assumed, which indicated a value that was in excess of the net book value of the business, resulting in the recognition of various intangible assets and goodwill. Accordingly, the application of purchase accounting will result in lower depreciation and amortization in future periods.

The total Acquisition consideration, including cash, assumed liabilities, and transaction costs, amounted to approximately SR 5.501 million (US\$ 1,467 million) and is detailed as follows:

	<u>SR (Million)</u>
Cash	4,286
Other net liabilities	1,050
Minority interest, Brazil	161
Other liabilities	4
Total Acquisition Cost	<u>5,501</u>

The appraised value at May 15, 2007 of the acquired net assets is as follows:

	<u>SR (Million)</u>
Normalized net working capital	1,538
Total property, plant and equipment	2,806
Trademarks	40
Technology	424
Other intangibles	153
Implied goodwill	540
Total Net Assets	<u>5,501</u>

NATIONAL INDUSTRIALIZATION COMPANY
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2007

CIC conducts its Brazilian operations under its indirect subsidiary, Millennium Inorganic Chemicals do Brasil S.A., a publicly-held company traded on the São Paulo Stock Exchange (“BOVESPA”) with a 28% minority interest. On February 26, 2007, in accordance with Brazilian regulations, the Company published a notice of material event informing its minority shareholders and BOVESPA, including the Brazilian Securities Exchange Commission (“CVM”), of the Acquisition. Subsequent to the Acquisition, the Company presented to the CVM a request for a special tender offer, in accordance with CVM Ruling N. 361/02. Cristal and CIC’s legal counsel believe the CVM will issue a favorable ruling from the CVM board.

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.

Accounting convention

The consolidated financial statements are prepared under the historical cost convention except investments in associated companies accounted for under the equity method.

Sales recognition

Sales are recognized upon delivery of goods to customers and represent the invoiced value of goods supplied 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2007

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 murabaha, 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.

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

Turnaround costs

Costs of major maintenance and repairs incurred as part of substantial overhauls or turnarounds of major units at the subsidiaries' manufacturing facilities are capitalized and amortized using the straight line method over the period until the next planned turnaround, predominantly 18 months to 3 years. These costs are necessary to maintain, extend and improve the operating capacity and efficiency rates of the production units.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2007

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.

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.

Investments in Government Development Bonds

Investments in Government Development Bonds represent investments held to maturity and are stated at cost. Revenue is recognized on accrual basis.

Impairment of assets

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately.

Intangible assets

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

NATIONAL INDUSTRIALIZATION COMPANY
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2007

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.

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.

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.

Goodwill represents the excess of the investment cost over the Company's share in the fair value of net assets of the investee company at the date of acquisition.

The carrying amount of goodwill is reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the goodwill is reduced to the estimated recoverable amount and an impairment loss is recognized in the consolidated statement of income.

CIC's trade name is considered an intangible asset with an indefinite life and is not being amortized but instead is measured for impairment at least annually, or when events indicate that impairment exists.

Other intangible assets are carried at cost or amortized cost and primarily consist of patents and license costs. These assets are amortized using the straight line method over their estimated useful lives or over the term of the related agreement, if shorter.

Environmental remediation costs

Anticipated expenditures related to investigation and remediation of contaminated sites, which include current and former plant sites and other remediation sites, are accrued when it is probable a liability has been incurred and the amount of the liability can reasonably be estimated. Only ongoing operations and monitoring costs, the timing of which can be determined with reasonable certainty, are discounted to present value. Future legal costs associated with such matters, which generally cannot be estimated, are not included in these liabilities.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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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.

On consolidation, the assets and liabilities of the Company's subsidiaries are translated in Saudi Riyals at exchange rates prevailing on the balance sheet date. Income and expenses are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Company's translation reserve.

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.

Zakat and income taxes

The Company and its Local 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.

Foreign subsidiaries

Income taxes on subsidiaries have been provided based upon the tax laws and rates in the countries in which operations are conducted and income is earned.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2007

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, as well as the net tax effects of net operating loss carry forwards. Valuation allowances are provided against deferred tax assets when it is more likely than not that some portion or all of the deferred tax asset will not be realized.

Leasing

Leases are classified as capital leases whenever the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Assets held under capital leases are recognized as assets of the Company at the lower of the present value of the minimum lease payments or the fair market value of the assets at the inception of the lease. Finance costs, which represent the difference between the total leasing commitments and the lower of the present value of the minimum lease payments or the fair market value of the assets at the inception of the lease, are charged to the income statement over the term of the relevant lease in order to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Rentals payable under operating leases are charged to income on a straight line basis over the term of the operating lease.

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.

Derivative financial instruments and hedge accounting

The Company and its consolidated subsidiaries use derivative financial instruments to hedge the exposure to certain portions of interest rate risks arising from financing activities. The Company designates these as cash flow hedges of interest rate risk. The use of financial derivatives is governed by the Company's policies approved by the Board of Directors, which provide written principles on the use of financial derivatives consistent with the Company's risk management strategy. The Company does not use derivative financial instruments for speculative purposes. Derivative financial instruments are initially measured at fair value on the contract date and are re-measured to fair value at subsequent reporting dates.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2007

Changes in the fair value of derivative financial instruments that are designated as effective hedges of future cash flows are recognized directly in equity and the ineffective portion is recognized immediately in the consolidated statement of income. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognized, the associated gain or loss on the derivative that had previously been recognized in equity is included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognized in statement of income in the same period in which the hedged item affects net profit or loss. Changes in fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in statement of income as they arise. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, for forecast transactions, any cumulative gain or loss on the hedging instrument recognized in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in equity is transferred to statement of income for the period.

3. CASH AND CASH EQUIVALENTS

	2007	2006
	SR'000	SR'000
Cash and bank balances	518,310	447,051
Murabaha	1,691,039	948,105
	2,209,349	1,395,156

4. ACCOUNTS RECEIVABLE

	2007	2006
	SR'000	SR'000
Accounts receivable – trade	1,487,236	469,199
Due from related party (Note 28)	534,418	520,325
Allowance for doubtful accounts	(20,424)	(6,906)
	2,001,230	982,618

As a result of the acquisition of Millennium Holdings III, accounts receivable trade increased with SR 934 million.

5. INVENTORIES

	2007	2006
	SR'000	SR'000
Finished goods	1,044,628	103,998
Raw materials	476,788	159,104
Supplies and spare parts	432,544	221,777
Work in process	130,692	14,157
	2,084,652	499,036

As a result of the acquisition of Millennium Holdings III, inventories increased with SR 1,560 million.

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6. PREPAID EXPENSES AND OTHER ASSETS

	2007	2006
	SR'000	SR'000
Prepaid expenses	52,372	32,548
Advances to suppliers	89,208	134,748
Refundable deposits	56,691	18,026
Accrued revenues	20,281	2,803
Employees' receivables	10,128	10,182
Other debit balances	184,741	27,208
	413,421	225,515

7. INVESTMENTS IN ASSOCIATED AND OTHER COMPANIES

Investments in associated companies and other as of December 31 are as follows:

	Percentage	2007	2006
		SR'000	SR'000
Saudi Ethylene and Polyethylene Co.	75	-	2,053,140
BE-Max Resources NL (BE-Max)	34.2	165,125	111,347
National Metal Manufacturing and Casting Co. (Maa'dania)	35.46	112,276	104,942
National Environmental Preservation Co. (Bee'a'h)	32.33	28,638	20,090
National Paking Products Co. Ltd. (Watan – Pac)	42.6	21,277	24,546
Rowad International Gosyntnetic Company Limited	70	-	4,900
Power and Water Utility Company for Jubail and Yanbu (MARAFIQ)	1	500	500
Saudi Global Makasib for Trading and Industry	99.75	325	-
National Petrochemical Industrialization Company	99.75	25	-
Total investment in associated company net		328,166	2,319,465
Add: Investment in other company, net		169,793	163,618
Total investment in associated and other companies		497,959	2,483,083

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 in 2006 as it was in the development stage and consolidated in the current year

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8. PROPERTY, PLANT 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	Capital expenditure in progress SR'000	Catalysts SR'000	Total SR'000
Cost									
January 1, 2007	337,902	3,470,265	8,659	36,625	26,315	32,451	70,231	87,379	4,069,827
Additions	32,463	1,927,403	2,419	8,694	4,056	2,805	179,997	4,107	2,161,944
Disposals		(1,332,087)	-	-	(1,560)	-	-	(87,379)	(1,421,026)
Acquisition Foreign Currency Translation	223,918	2,605,639	-	-	-	-	-	-	2,829,557
Transfers	1,721	27,755	-	-	-	-	-	-	29,476
	1,896	35,095	-	60	-	-	(82,809)	45,758	-
December 31, 2007	597,900	6,734,070	11,078	45,379	28,811	35,256	167,419	49,865	7,669,778
Depreciation									
January 1, 2007	76,859	910,523	4,171	20,420	17,506	18,586	-	65,326	1,113,391
Charge for the year	10,607	311,047	627	4,991	4,961	4,613	-	32,738	369,584
Disposals	-	(199,819)	-	-	(1,410)	-	-	(87,379)	(288,608)
December 31, 2007	87,466	1,021,751	4,798	25,411	21,057	23,199	-	10,685	1,194,367
Net book value									
December 31, 2007	510,434	5,712,319	6,280	19,968	7,754	12,057	167,419	39,180	6,475,411
December 31, 2006	261,043	2,559,742	4,488	16,205	8,809	13,865	70,231	22,053	2,956,436

As of December 31, 2007 property, plant and equipment includes plant of SR 1,312.5 million (2006: SR nil) and accumulated depreciation of SR 38.6 million (2006: SR nil) purchased under a capital leases (note 16).

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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
Cost							
January 1, 2007	27,900	4,034	33,217	8,141	21,750	1,718,674	1,813,716
Additions	1,052	6,572	424,574	2,071	661,688	393,626	1,489,583
Disposals	-	-	(10,684)	-	-		(10,684)
December 31, 2007	28,952	10,606	447,107	10,212	683,438	2,112,300	3,292,615
Amortization							
January 1, 2007	12,687	2,674	10,993	3,762	14,448	29,580	74,144
Charge for the year	3,712	430	41,558	1,769	41,964	-	89,433
Disposals	-	-	(10,684)	-	-		(10,684)
December 31, 2007	16,399	3,104	41,867	5,331	56,412	29,580	152,893
Net book value							
December 31, 2007	12,553	7,502	405,240	4,681	627,026	2,082,720	3,139,722
December 31, 2006	15,213	1,360	22,224	4,379	7,302	1,689,094	1,739,572

As a result of the acquisition of Millennium Holdings III, intangible assets increased with SR 1,051 million.

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10. PROJECTS UNDER CONSTRUCTION

The balance of projects under construction as of December 31 consists from following project:

	2007	2006
	SR'000	SR'000
Ethylene and Polyethylene Project	6,809,311	-
Others	51,628	69,292
	6,860,939	69,292

Project under construction represents the costs incurred by one of the subsidiaries for the construction of ethylene and polyethylene plants and related facilities at Jubail Industrial City, Kingdom of Saudi Arabia. Construction related costs at December 31, 2007 comprise construction costs under various agreements and directly attributable costs to bring the asset to the location and condition necessary for it to be capable of operating in a manner intended by the management. Directly attributable costs include employee benefits, site preparation costs, installation costs, licensing fees, professional fees and borrowing costs fund temporarily invested pending their expenditure on project under construction. Mechanical completion of these plants is expected in the 3rd quarter of 2008 and commercial production is expected to commence in the year 2009 following the successful commissioning, testing and acceptance formalities with the main contractor.

Finance costs capitalized during the year amounted to SR 166.4 million.

11. OTHER NON CURRENT ASSETS

	2007	2006
	SR'000	SR'000
Pension asset	42,386	-
Deferred Income tax assets	27,656	-
Others	71,513	-
	141,555	-

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12. SHORT-TERM FACILITIES

	2007	2006
	SR'000	SR'000
Overdraft	-	17,181
Short-term loans	460,244	267,624
Notes payable	8,444	2,136
	468,688	286,941

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.

13. LONG-TERM LOANS

	2007	2006
	SR'000	SR'000
Saudi Industrial Development Fund (SIDF)	1,010,500	567,990
Commercial banks	9,383,172	1,712,788
	10,393,672	2,280,778
<u>Less:</u> Current portion	403,661	426,575
	9,990,011	1,854,203

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.

As discussed in Note 2, on May 15, 2007, Cristal, through its wholly owned subsidiary, CIC entered into SR 3,300 million (\$880 million) Senior Secured Credit facilities ("Credit Facilities") of which SR 3,075 million was drawn down to partially finance the Acquisition as described in Note 2. The Credit Facilities consist of (a) a First Lien Credit Agreement which includes a SR 375 million (\$100 million) Revolving Credit Facility maturing on May 15, 2012 and a SR 2,063 million (\$550 million) Term Loan maturing on May 15, 2014; and (b) a Second Lien Credit Agreement which includes a SR 863 million (\$230 million) Term Loan maturing on November 15, 2014. All obligations of the Credit Facilities are guaranteed and secured by a pledge of collateral by CIC and each of its material subsidiary. CIC has the right at any time to prepay any portion of the Credit Facilities in whole or in part, subject to certain provisions as described in the related credit agreements, at 100% of the principal amount. The Credit Facilities also contain certain mandatory prepayment provisions, as described in the related credit agreements.

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Saudi Ethylene and Polyethylene Company (SEPC), a consolidated subsidiary, has entered into facility agreements with a syndicate of banks arranged through the inter-creditor agent. The facilities amount to SR 6,575.2 million (US\$ 854.38 million and € 610 million) in the form of a project tranche whereas SR 328.1 million and SR 543.7 million is in the form of a standby tranche and working capital tranche respectively. SEPC has drawn down SR 4,672.2 million from the project tranche up to the end of the year. Repayment is in 22 semi-annual installments commencing from the first repayment date, which is the earlier of a) June 30 or December 31 falling at least six months after the project completion date and b) December 31, 2010. Project completion is expected in 2009 and hence no repayment will be due in next twelve months.

SEPC has also entered into interest rate swap contracts with foreign and local commercial banks to manage the exposure to volatility in interest rates for notional amounts ranging from US\$ 21.4 million to US\$ 127.3 million and € 29.5 million to € 101.6 million with no upfront premium. The option fixed rate is 5.19% and 3.80% per annum for US Dollar and Euro borrowings respectively and are exercisable effective from December 2006 on a quarterly basis, up to March 2015.

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.

Cristal, also has credit facilities from various banks for long term debts including Islamic financing amounting to SR 1,637 million, secured by demand order notes for SR 1 billion signed by Cristal. The facilities include certain covenants which provide amongst other items, maintenance of a minimum, level of net worth and a minimum level of leverage ratio.

On April 01, 2007, Public Investment Fund has approved a term loan agreement of US\$ 400 million (SR 1,500 million) for SEPC. This loan carries interest at LIBOR plus 0.5% and is repayable in thirteen semi annual equal installments. No amount has been drawn from the facility at December 31, 2007.

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14. ACCOUNTS PAYABLE

	2007	2006
	SR'000	SR'000
Trade	1,113,053	152,166
Due to related parties	6,641	1,516
Due to contractors	-	2,251
Others	6,505	7,134
	1,126,199	163,067

15. ACCRUED LIABILITIES AND OTHER

	2007	2006
	SR'000	SR'000
Accrued liabilities	715,799	187,856
Provision for zakat	58,691	50,424
Unclaimed dividends	40,113	37,789
Other payable and subscription surplus	355,991	28,331
Other provisions	11,539	11,589
Accrued tickets and vacations	171,307	16,757
	1,353,440	332,746

As a result of the acquisition of Millennium Holdings III, accrued liabilities and other increased with SR 587 million.

16. OBLIGATIONS UNDER CAPITAL LEASES

Commitments for minimum lease payments under capital leases are as follows:

	2007
	SR 000
Within one year	-
Year two	98,438
Year three	147,656
Year four	164,063
Year five	164,063
Later than five years	738,280
Net minimum lease payments	1,312,500
Less: current portion	-
	1,312,500

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	2007
	SR 000
Rental costs from capital leases recognized as an expense during the year	39,791

During 2007, Saudi Polyolefins Co. (SPC), one of the subsidiaries, has entered into an Ijara sale and leaseback facility agreement with a group of financiers. The net book value of assets sold under the above-mentioned facility amounted to US\$ 301.9 million (SR 1,132.3 million) and these were leaseback at US\$ 350 million (SR 1,312.5 million). The difference between the sales proceeds and net book value of US\$ 48.1 million (SR 180.2 million), will be amortized over the term of the finance lease. The Lease payments will commence on March 31, 2009 and the final repayment date is March 31, 2015.

The Ijara lease facility agreement requires the Subsidiary to comply with certain financial covenants in respect of maintenance of finance charge cover, finance service cover and minimum cash balances and limits on the amount of financial indebtedness. The Subsidiary has signed two order notes of the assets leased under the above-mentioned Ijara sale and leaseback facility agreement amounting to US\$ 350 million and US\$ 21.4 million (SR 1,312.5 million and 80.3 million respectively).

The Subsidiary also entered into another Ijara sale and leaseback facility agreement with the same group of financiers amounting to US\$ 50 million (SR 187.5 million). As of December 31, 2007, the facility has not been utilized.

In addition to above Ijara sale and leaseback facility agreements, the Subsidiary has entered into a Master Murabaha agreement for an amount of US\$ 175 million (SR 656.3 million) with the same group of financiers. The Murabaha payments commence on March 31, 2009 and the final repayment date is March 31, 2015. The Murabaha agreement requires the subsidiary to comply with financial covenants in respect of maintenance of finance charge cover, finance service cover and minimum cash balances and limits on the amount of financial indebtedness. As of December 31, 2007, the facility has not been utilized.

17. OTHER LIABILITIES

	2007	2006
	SR'000	SR'000
Post retirement benefit plans (Note 18)	413,067	-
Environmental liability	58,428	-
Insurance	14,256	-
Deferred income	1,954	-
Others	263,934	-
	751,639	-

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18. PENSION AND OTHER POSTRETIREMENT BENEFITS

CIC has defined benefit pension plans, which cover U.S. employees, permanent transfers from international locations, supplemental executive retirement plans (SERP), and employees in a number of countries outside of the U.S. Retirement benefits are generally based on years of credited service and average compensation as defined under the respective plan provisions. CIC funds its non-U.S. and U.S. plans through contributions to pension trust funds, generally subject to minimum funding requirements as provided by applicable law. The SERP and Permanent Transfer plans are funded through general assets of CIC. The measurement date for all of CIC's benefit obligations and plan assets is December 31. In addition, CIC sponsors postretirement benefit plans other than pension for U.S. employees, which provide medical and life insurance to most employees and their dependents.

The accrued benefit liability and other post retirement benefits for CIC's U.S., permanent transfer, SERP and non-U.S. pension benefits is included in "other long term liabilities" in the consolidated balance sheet.

As of December 31, 2007, future expected benefit payments for the CIC U.S., permanent transfer, SERP and non-U.S. pension plans, which reflect expected future service, as appropriate, were as follows:

	Pension Benefits <u>SR million</u>
2008	75.00
2009	86.25
2010	78.75
2011	86.25
2012	93.75
2013 through 2017	843.00

CIC sponsors a U.S. defined contribution savings plans for eligible employees and limits employer contributions to no more than 75 percent of the first six percent of the employee's contribution. Contributions to the plans by CIC were SR 7.5 million in 2007.

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19. END-OF-SERVICE INDEMNITIES

	2007	2006
	SR'000	SR'000
Balance, April 1	54,849	48,738
Payments during the year	(3,176)	(6,021)
Charge for the year	19,454	14,198
Elimination due to disposal of subsidiary company	-	(2,066)
Balance, December 31	71,127	54,849

20. INCOME TAX ON SUBSIDIARIES

CIC is a Cayman Island company and as such is not subject to income tax in the Cayman Islands. CIC operates through its various subsidiaries in a number of countries throughout the world. Income taxes have been provided based upon the tax laws and rates in the countries in which operations are conducted and income is earned. There is no expected relationship between the provision for or benefit from income taxes and income or loss before income taxes because the countries in which the Company operates have taxation regimes that vary not only with respect to the nominal tax rate, but also in terms of the availability of deductions, credits and other benefits.

As part of the Acquisition of Millennium Inorganics from Lyondell as described in note 2, any tax liability for tax periods prior to the Acquisition will be indemnified by Lyondell.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, as well as the net tax effects of operating losses.

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21. 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:

	2007	2006
	SR'000	SR'000
Share capital	2,330,491	2,330,491
Statutory reserve	171,130	101,820
Share premium	2,053,324	2,053,324
Retained earnings	778,822	391,253
Adjusted net loss	(45,055)	(13,135)
Provisions	29,328	20,329
Long term loans	-	200,000
Property and equipment	(57,929)	(57,947)
Investments	(3,368,789)	(3,073,583)
Projects under development	(51,628)	(69,292)
Intangible assets	(1,672,317)	(1,672,317)
Zakat base	167,377	210,943

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

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

	2007	2006
	SR'000	SR'000
Balance, January 1	3,915	2,606
Payments during the year	(3,969)	-
Provision for the year	4,238	1,309
Zakat provision for National Industrialization Company	4,184	3,915
Zakat provision for the subsidiary companies	54,507	46,509
Balance, December 31	58,691	50,424

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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, 2007 based on zakat declarations but has not yet received the final zakat assessments for those years.

22. 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.

23. INCOME FROM INVESTMENTS AND OTHER

	2007	2006
	SR'000	SR'000
Gain from murabaha and other	75,287	66,943
Foreign exchange differences	62,951	24,832
Income from development projects	-	4,450
Gain from sale of scrap	480	498
Dividends received	6,804	1,550
Technology rights and other	10,431	-
Other	16,655	4,530
	172,608	102,803

24. SELLING AND MARKETING EXPENSES

	2007	2006
	SR 000	SR 000
Salaries, wages and other benefits	75,723	13,601
Freight charges	299,634	110,357
Distributors' commissions	28,936	13,168
Depreciation and amortization	1,921	871
Advertising and publicity	6,826	2,458
Transportation and travel expenses	12,613	2,417
Telephone and postage	1,312	705
Rent	4,913	805
Others	19,168	8,023
	451,046	152,405

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25. GENERAL AND ADMINISTRATIVE EXPENSES

	2007	2006
	SR'000	SR'000
Salaries, wages and other benefits	115,700	47,039
Depreciation and amortization	16,366	5,378
Professional fees and consultation expenses	32,606	6,333
Research and development	64,068	-
Rent	4,916	1,244
Advertising and printing	3,508	1,730
Charitable contributions and social acts	7,208	3,460
Currency exchange differences	-	13
Other	36,087	7,137
	280,459	72,334

26. 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 128 million as of December 31, 2007 (2006: SR 116 million).

Certain subsidiaries have outstanding commitments and contingencies as of December 31, 2007 in the form of letters of credit and letters of guarantee amounting to SR 11 million (2006: SR 11 million).

The subsidiaries have capital commitments as follows:

	2007	2006
	SR'000	SR'000
Commitments for the acquisition of property and equipment	1,197,000	3,972,118

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CIC has various agreements for the purchase of ore used in the production of TiO₂ and certain other agreements to purchase raw materials, utilities and services with various terms extending through 2020. At December 31, 2007, estimated future minimum payments under these contracts with non-cancelable contract terms in excess of one year were as follows:

	(SR Million) <u>Ore</u>	(SR Million) <u>Other</u>	(SR Million) <u>Total</u>
2008	1,061	525	1,586
2009	806	529	1,331
2010	555	427	982
2011	555	259	4,502
2012	555	210	765
Thereafter	-	487	487
Total	<u>3,532</u>	<u>2,437</u>	<u>5,970</u>

CIC's total purchases under these agreements were SR 149 million in 2007.

27. 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 ----- thousand which represents % of the share capital (SR ----per share).
- Distribution of -----bonus shares for every -----hares held amounting to SR ----- thousand.
- Payment of SR -----thousand as Board of Directors' remuneration.

28. 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.

Significant related party transactions consists of the following:

	<u>2007</u> <u>SR'000</u>	<u>2006</u> <u>SR'000</u>
Sales to marketers	<u>1,592,456</u>	<u>1,445,066</u>

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Significant related party balances consists of the following:

	2007	2006
	SR'000	SR'000
Trade receivables – Marketers and its subsidiary (Basel Asia Pasific Limited)	529,971	518,060
Others	4,447	2,265
	534,418	520,325

29. 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 selected financial information for these sectors:

	Industrial segment	Petrochemical segment	Head office & other	Eliminations	Total
	SR'000	SR'000	SR'000	SR'000	SR'000

The year ended December 31, 2007

Total assets	9,784,340	12,263,694	6,237,421	(4,119,825)	24,165,630
Total liabilities	7,934,026	7,852,163	149,762	(313,328)	15,622,623
Sales	4,920,226	2,921,617	200,005	(894,733)	7,147,115
Gross profit	963,113	793,322	44,007	(1,514)	1,798,928
Depreciation and amortization	274,491	181,437	3,089	-	459,017
Operating income	419,621	657,740	731,767	(713,260)	1,095,868
Capital expenditures	4,600,528	7,677,880	925	-	12,279,333

	Industrial segment	Petrochemical segment	Head office & other	Elimination	Total
	SR'000	SR'000	SR'000	SR'000	SR'000

The year ended December 31 2006

Total assets	2,305,550	5,752,009	6,112,382	3,813,137	10,356,804
Total liabilities	1,411,133	1,504,087	439,710	236,549	3,118,381
Sales	1,187,157	2,595,513	134,080	675,554	3,241,196
Gross profit	354,208	810,503	27,718	2,278	1,190,151
Depreciation and amortization	73,285	142,657	2,643	-	218,585
Operating income	272,810	706,650	719,347	690,656	1,008,151
Capital expenditures	425,412	2,091,016	112,043	-	2,628,471

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YEAR ENDED DECEMBER 31, 2007

30. OPERATING LEASE ARRANGEMENTS

	2007	2006
	SR'000	SR'000
Payments under operating leases recognized as an expense during the year	59,012	3,762

Operating lease payments represent rentals payable by the Company for residential accommodation, offices and site for the factory in Yanbu, the commitments for which will expire within one year.

CIC leases various facilities and equipment under non-cancelable operating lease arrangements for varying periods. As of December 31, 2007, future minimum lease payments for the next five years and thereafter, relating to all non-cancelable operating leases with terms in excess of one year were as follows:

	Land and property SR'000	Other SR'000	Total SR'000
2008	31,868	35,396	67,264
2009	29,273	33,004	62,276
2010	24,124	31,024	55,148
2011	22,185	20,546	42,731
2012	20,775	19,867	40,642
Thereafter	88,624	36,300	161,224
Total minimum lease payments	216,849	176,137	429,285

31. 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.

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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, 2007. 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.

32. EARNINGS PER SHARE

Earnings per share has been computed on the basis of the number of shares which was 349,574 thousand shares as of December 31, 2007.

33. APPROVAL OF FINANCIAL STATEMENTS

These financial statements have been approved by the Board of Directors on February 20, 2008.