

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND
ITS SUBSIDIARIES
(Saudi Joint Stock Company)**

**INTERIM CONSOLIDATED FINANCIAL
STATEMENTS (UNAUDITED)
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2008**

SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES
(Saudi Joint Stock Company)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2008

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REVIEW REPORT

**To the shareholders of Saudi Basic Industries Corporation (SABIC)
(Saudi Joint Stock Company)**

Scope of Review

We have reviewed the accompanying interim consolidated balance sheet of Saudi Basic Industries Corporation (SABIC) - a Saudi Joint Stock Company and its subsidiaries (the "Group") as of 31 March 2008 and the related interim consolidated statements of income, cash flows and changes in shareholders' equity for the three-month period then ended. These interim consolidated financial statements are the responsibility of the Group's management and have been prepared by them and submitted to us with all the information and explanations which we required. We conducted our audit in accordance with the Standard on Review of Interim Financial Reporting issued by the Saudi Organisation for Certified Public Accountants (SOCPA). A review consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Conclusion

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

For Ernst & Young



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Certified Public Accountant
Registration No. 277



Riyadh: 13 Rabi Thani 1429H
(19 April 2008)

SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES
(Saudi Joint Stock Company)

INTERIM CONSOLIDATED BALANCE SHEET (Unaudited)
AS OF 31 MARCH 2008

	Note	31 March 2008 SR'000	31 March 2007 SR'000
ASSETS			
Current assets			
Cash and cash equivalents		51,981,665	42,067,977
Accounts receivable		27,377,162	16,716,921
Inventories		24,109,472	14,147,474
Prepaid expenses and other receivables		3,483,358	4,690,373
Total current assets		106,951,657	77,622,745
Non-current assets			
Property, plant and equipment		128,053,364	84,129,446
Investments in associates and others		6,742,604	8,971,288
Intangible assets		25,432,823	5,018,720
Other non-current assets		1,689,888	4,975,316
Total non-current assets		161,918,679	103,094,770
TOTAL ASSETS		268,870,336	180,717,515
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable		18,370,211	11,776,490
Dividend payable	12	5,526,435	6,885,029
Accrued expenses and other payables		12,603,944	9,319,689
Short term bank facilities		3,853,850	784,239
Current portion of long term debts		3,279,527	4,823,080
Total current liabilities		43,633,967	33,588,527
Non-current liabilities			
Long term debts	9	77,280,190	38,448,877
Other non-current liabilities		10,830,613	6,709,834
Total non-current liabilities		88,110,803	45,158,711
Total liabilities		131,744,770	78,747,238
EQUITY			
Shareholders' equity			
Share capital	4	30,000,000	25,000,000
Statutory reserve		12,500,000	11,445,362
Research and technology reserve	4	-	1,291,691
General reserve		43,652,631	28,894,706
Retained earnings		6,924,263	6,287,387
Total shareholders' equity		93,076,894	72,919,146
Minority interests		44,048,672	29,051,131
Total equity		137,125,566	101,970,277
TOTAL LIABILITIES AND EQUITY		268,870,336	180,717,515

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

SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES
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INTERIM CONSOLIDATED STATEMENT OF INCOME (Unaudited)
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2008

	Note	Three-month period ended 31 March	
		2008 SR'000	2007 SR'000
Sales		39,980,242	26,266,286
Cost of sales		(26,190,701)	(15,472,950)
GROSS PROFIT		13,789,541	10,793,336
Selling, general and administrative expenses		(2,899,048)	(1,230,247)
INCOME FROM MAIN OPERATIONS		10,890,493	9,563,089
Investment and other income		1,684,619	791,620
Financial charges		(1,238,028)	(580,008)
INCOME BEFORE MINORITY INTERESTS AND ZAKAT		11,337,084	9,774,701
Minority interests		(4,012,821)	(2,937,314)
INCOME BEFORE ZAKAT		7,324,263	6,837,387
Zakat	5	(400,000)	(550,000)
NET INCOME FOR THE PERIOD		6,924,263	6,287,387
Earnings per share for the period (SR)	11	2.3	2.1

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

SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES
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INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2008

	Three-month period ended 31 March	
	2008	2007
	SR'000	SR'000
OPERATING ACTIVITIES		
Income before zakat	7,324,263	6,837,387
Adjustments for:		
Depreciation and amortization	2,467,970	1,457,470
Share in earnings of associated companies	139,263	(219,822)
Minority partners' share in subsidiaries net income	4,012,821	2,937,314
Changes in operating assets and liabilities:		
Accounts receivable and prepaid expenses	265,711	(647,862)
Inventories	(1,803,512)	(489,229)
Accounts payable and accrued expenses	4,221,102	2,975,423
Other non-current liabilities	(3,774,832)	(53,035)
Zakat paid	(66,414)	(1,361,152)
Net cash from operating activities	12,786,372	11,436,494
INVESTING ACTIVITIES		
Purchase of property, plant and equipment, net	(7,025,644)	(5,387,743)
Investments, net	(1,454,741)	(5,197,876)
Intangible assets	(2,723,229)	(71,726)
Other non-current assets, net	3,437,217	(1,060,694)
Net cash used in investing activities	(7,766,397)	(11,718,039)
FINANCING ACTIVITIES		
Long-term debts, net	1,850,085	4,139,155
Short-term bank facilities, net	2,454,662	176,617
Dividends paid	(92,242)	(29,753)
Minority interest, net	(3,306,390)	(1,493,261)
Net cash from financing activities	906,115	2,792,758
NET CHANGE IN CASH AND CASH EQUIVALENTS	5,926,090	2,511,213
Cash and cash equivalents at the beginning of the period	46,055,575	39,556,764
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	51,981,665	42,067,977

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

SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES
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**INTERIM CONSOLIDATED STATEMENT OF CHANGES IN
 SHAREHOLDERS' EQUITY (Unaudited)
 FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2008**

	Note	Share capital SR 000	Statutory reserve SR 000	Research and technology reserve SR 000	General reserve SR 000	Retained earnings SR 000	Total SR 000
31 March 2008							
Balance as of 1 January 2008	4	25,000,000	12,500,000	1,291,691	28,894,705	23,467,635	91,154,031
Increase in share capital	4	5,000,000	-	-	-	(5,000,000)	-
Annual dividends of 2007	12	-	-	-	-	(5,000,000)	(5,000,000)
Board of directors remuneration	12	-	-	-	-	(1,400)	(1,400)
Transfer to general reserve	4 & 12	-	-	(1,291,691)	14,757,926	(13,466,235)	-
Net income for the period		-	-	-	-	6,924,263	6,924,263
Balance as of 31 March 2008		<u>30,000,000</u>	<u>12,500,000</u>	<u>-</u>	<u>43,652,631</u>	<u>6,924,263</u>	<u>93,076,894</u>
31 March 2007							
Balance as of 1 January 2007		25,000,000	11,445,362	1,291,691	20,631,558	14,514,548	72,883,159
Annual dividends of 2006		-	-	-	-	(6,250,000)	(6,250,000)
Board of directors remuneration		-	-	-	-	(1,400)	(1,400)
Transfer to general reserve		-	-	-	8,263,148	(8,263,148)	-
Net income for the period		-	-	-	-	6,287,387	6,287,387
Balance as of 31 March 2007		<u>25,000,000</u>	<u>11,445,362</u>	<u>1,291,691</u>	<u>28,894,706</u>	<u>6,287,387</u>	<u>72,919,146</u>

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

SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES
(Saudi Joint Stock Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
31 MARCH 2008 (Unaudited)

1. ORGANIZATION AND ACTIVITIES

Saudi Basic Industries Corporation (SABIC) is a Saudi joint stock company established pursuant to Royal Decree Number M/66 dated 13 Ramadan 1396 (corresponding to 6 September 1976) and registered in Riyadh under commercial registration No. 1010010813 dated 14 Muharram 1397 (4 January 1977). SABIC is 70% owned by the Government of the Kingdom of Saudi Arabia and 30% by the private sector.

SABIC and its subsidiaries (the Group) are globally engaged in petrochemical, fertilizers, metals and basic hydrocarbon industries, the establishment of projects to supply the Group's companies with raw material requirements and the marketing of industrial products.

2. BASIS OF CONSOLIDATION

The interim consolidated financial statements include the individual financial statements of SABIC and its subsidiaries, as adjusted by the elimination of inter-group balances and transactions. An investee company is classified as a consolidated subsidiary based on the degree of effective control exercised by SABIC compared to other shareholders, from the date on which control is transferred to SABIC.

The subsidiary companies consolidated in these financial statements are as follows:

	Direct and indirect shareholding %	
	2008	2007
SABIC Industrial Investments Company and its subsidiaries (SIIC)	100.00	100.00
SABIC Luxembourg S.a.r.l. and its subsidiaries	100.00	100.00
SABIC Asia Pacific Pte. Ltd. and its subsidiaries	100.00	100.00
Arabian Petrochemical Company and its subsidiary (Petrokemya)	100.00	100.00
Saudi Iron and Steel Company (Hadeed)	100.00	100.00
SABIC Antilles N.V.	100.00	100.00
SABIC Sukuk Company (SUKUK)	100.00	100.00
SABIC Capital Limited (SCL)	100.00	-
Saudi European Petrochemical Company (Ibn Zahr)	80.00	80.00
Jubail United Petrochemical Company (United)	75.00	75.00
National Chemical Fertilizer Company (Ibn Al-Baytar)	71.50	71.50
National Industrial Gases Company (Gas)	70.00	70.00
Yanbu National Petrochemical Company (Yansab)	55.95	55.95
Arabian Industrial Fiber Company (Ibn Rushd)	47.26	53.90
Saudi Methanol Company (Ar-Razi)	50.00	50.00

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SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES
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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 MARCH 2008 (Unaudited)

2. BASIS OF CONSOLIDATION (continued)

	Direct and indirect shareholding %	
	2008	2007
Al-Jubail Fertilizer Company (Al-Bayroni)	50.00	50.00
Saudi Yanbu Petrochemical Company (Yanpet)	50.00	50.00
National Methanol Company (Ibn Sina)	50.00	50.00
Saudi Petrochemical Company (Sadaf)	50.00	50.00
Eastern Petrochemical Company (Sharq)	50.00	50.00
Al-Jubail Petrochemical Company (Kemya)	50.00	50.00
Saudi Arabian Fertilizer Company (Safco)	42.99	42.99
Saudi Kayan Petrochemical Company (Saudi Kayan)	35.00	-

All subsidiaries are incorporated in the Kingdom of Saudi Arabia except for Sabic Luxembourg S.a.r.l., SABIC Antilles N.V., SABIC Asia Pacific Pte. Ltd. and SABIC Capital Limited (SCL), which are incorporated in Luxembourg Netherlands, Republic of Singapore and Guernsey, respectively.

Yanbu National Petrochemical Company (Yansab)

SABIC owns 55.95% of the share capital of Yansab. Included in this shareholding is 4% (22.5 million shares) owned by SIIC, which was sold to Corporation's eligible employees at par value under a stock grant scheme.

Saudi Kayan Petrochemical Company (Saudi Kayan)

SABIC owns 35% of the shares of Saudi Kayan Petrochemical Company (Saudi Kayan). Saudi Kayan is currently in development stage.

SABIC Innovative Plastics Holding B.V.

On 31 August 2007, SABIC Innovative Plastics Holding B.V. (SIPH), an indirect wholly-owned subsidiary of SABIC Luxembourg S.a.r.l., acquired GE Plastics, an operating unit within the Industrial segment of General Electric Company (GE). SIPH is globally engaged in the manufacturing and marketing of high-performance plastics used by the compounders, moulders, and major original equipment manufacturers for use in a variety of applications, including fabrication of automotive parts, computer enclosures, compact discs and optical-quality media, major appliance parts, telecommunications equipment and construction materials. SIPH has a significant operating presence around the world and participates in several manufacturing and distribution ventures.

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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 MARCH 2008 (Unaudited)

2. BASIS OF CONSOLIDATION (continued)

SABIC Innovative Plastics Holding B.V. (continued)

SIPH acquired 100% of GE Plastics from GE through a tender offer by SABIC for cash in the aggregate amount of approximately USD 11.6 billion. The acquisition was financed through an equity contribution of USD 3.625 billion and balance through debt. The acquisition has been accounted for, using the purchase method of accounting, and, accordingly, the consideration paid has been allocated based on the estimated fair values of the assets acquired and liabilities assumed.

The excess of the consideration paid over the estimated fair value of the assets acquired, including separately identifiable intangible assets, and liabilities assumed has been allocated to goodwill.

The acquisition purchase price has been allocated to the assets and liabilities based on estimated fair values of the assets acquired and liabilities, as determined by appraisers' best estimates. The final allocation of the purchase price will be determined within the time-frame of 12 month period allowed under IFRS 3 on Business Combinations.

Arabian Industrial Fiber Company (Ibn Rushd)

In an Extraordinary General Assembly meeting of Ibn Rushd, held on 21 Thul Qaida 1428 corresponding to 1 December 2007, the shareholders approved the admission of Public Investment Fund (PIF) as a new shareholder with effect from 1 November 2007. The shareholders also approved the increase in the share capital to SR 8.510 billion by converting the debt of PIF and SABIC, as well as liabilities owed to SABIC relating to Acetic Acid Plant, into capital. The shareholders further resolved to split the nominal value per share from SR 50 to SR 10 per share. As a result of these changes, SABIC's ownership percentage in Ibn Rushd has now changed to 47.26%. SABIC continues to maintain effective control and therefore will continue to fully consolidate Ibn Rushd's financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying interim consolidated financial statements have been prepared in accordance with the Standard on Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants (SOCPA). The significant accounting policies adopted by the Company in preparing its interim consolidated financial statements, summarized below, are in conformity with those described in the annual audited consolidated financial statements for the year ended 31 December 2007. The interim consolidated financial statements and the accompanying notes should be read in conjunction with the annual audited consolidated financial statements and the related notes for the year ended 31 December 2007.

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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 MARCH 2008 (Unaudited)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting convention

The interim consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value for investments in available for sale securities and derivative financial instruments.

Use of estimates

The preparation of the interim consolidated financial statements by management requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities. The actual results ultimately may differ from these estimates.

Cash and cash equivalents

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

Accounts receivable

Accounts receivable are stated at the invoiced amount less an allowance for any uncollectible amounts. An estimate for doubtful debt is made when the collection of the receivable amount is considered doubtful. Bad debts are written off as incurred.

Inventories

Inventories are stated at the lower of cost or market value. Cost of raw materials, consumables, spare parts and finished goods is principally determined on a weighted average cost basis. Inventories of work in progress and finished goods include cost of materials, labor and an appropriate proportion of direct overheads.

Investments

Investments in associated companies

Investments of 20% or more in the share capital of investees, other than subsidiary companies, and over which SABIC exercises significant influence, are reflected in the interim consolidated financial statements based on the equity method. SABIC's share in the financial results of these investee companies is recognised in the interim consolidated statement of income.

Investments in securities available for sale

This represents investments in financial assets not acquired for trading purposes. These are stated at fair value. Differences between the fair value and the cost, if significant, are reported separately in the interim consolidated statement of changes in shareholders' equity. Any decline other than temporary in the value of these investments are charged to the interim consolidated statement of income.

Fair value is determined by reference to the market value if an open market exists, or on the basis of the most recent financial statements. Otherwise, cost is considered to be the fair value.

SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES
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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 MARCH 2008 (Unaudited)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments (continued)

Investments in securities held to maturity

Investments that are acquired with the intention of being held to maturity are carried at cost (adjusted for any premium or discount), less any decline in value which is other than temporary. Such investments are classified as non-current assets with the exception of investments maturing in the following twelve months.

Property, plant and equipment

Property, plant and equipment are stated at cost net of accumulated depreciation except for freehold land and construction work in progress which are stated at cost. Expenditure for maintenance and repairs is expensed, while expenditure for betterments is capitalized. Depreciation is provided over the estimated useful lives of the applicable assets using the straight-line method. Leasehold improvements are depreciated over the shorter of the estimated useful life or the remaining term of the lease. The estimated years of depreciation of the principal classes of assets are as follows:

	<u>Years</u>
Plant and equipment	20
Buildings	33
Furniture and office equipment	4-10
Vehicles	4

Employees' home ownership program

Unsold housing units constructed for eventual sale to eligible employees are included under land and buildings and are depreciated over 33 years. Upon signing the sale contract with the eligible employees, the relevant housing units are classified under other non-current assets.

Intangible assets

Goodwill

The excess of consideration paid over the fair value of net assets acquired is recorded as goodwill and at the end of each fiscal year is re-measured and reported in the consolidated financial statements at carrying value after being adjusted for impairment, if any. The carrying amount of negative goodwill, if any, is netted off against fair value of non-current assets.

Pre-operating expenses

Expenses incurred during the development and start up periods, and which are expected to provide benefits in future periods, are deferred or capitalised. The deferred pre-operating expenses are amortised starting from the commencement of the commercial operations using a straight line method over the shorter of the estimated period of benefit or seven years.

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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 MARCH 2008 (Unaudited)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment

At each fiscal year end date, the Group reviews the carrying amounts of its long term tangible and 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. Where it is not possible to estimate the recoverable amount of an individual asset, the Group 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 or cash generating unit is reduced to its recoverable amount. Impairment losses are recognised in the consolidated statement of income.

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

Accounts payable and accruals

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

Provisions

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

Dividends

Dividends are recognised as a liability at the time of their approval by the General Assembly. Interim dividends are recorded as and when approved by the Board of Directors.

Zakat and income tax

Zakat is provided in accordance with the Regulations of the Directorate of Zakat and Income Tax (DZIT) in the Kingdom of Saudi Arabia and on an accrual basis. The provision is charged to the interim consolidated statement of income. Differences, if any, resulting from the final assessments are adjusted in the year of their finalization. Foreign shareholders in subsidiaries are subject to income tax which is included in minority interest in the interim consolidated financial statements.

For subsidiaries outside the Kingdom of Saudi Arabia, provision for tax is computed in accordance with tax regulations of the respective countries if required.

SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES
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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 MARCH 2008 (Unaudited)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employees' end of service benefits and early retirement plan

Employees' end of service benefits are provided for in accordance with the requirements of the Saudi Arabian Labor Law and SABIC's policies. Employees' early retirement plan costs were provided for in accordance with the Group's policies and are charged to the interim consolidated statement of income in the year the employee retires. The Group has pension schemes for its eligible employees in relevant foreign jurisdictions.

Foreign currency translation

Transactions in foreign currencies (which are not covered by forward foreign exchange contracts) are translated into Saudi Riyals at the rates of exchange prevailing at the time of such transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the exchange rates prevailing at that date. Gains and losses from settlement and translation of foreign currency transactions are included in the interim consolidated statement of income.

The financial statements of foreign operations are translated into Saudi Riyals using the exchange rate at each balance sheet date, for assets and liabilities, and the average exchange rates for revenues and expenses. Components of equity, other than retained earnings, are translated at the rates prevailing at the date of their occurrence. Translation adjustments, if material, are recorded as a separate component of shareholders' equity.

Revenue recognition

Sales represent the invoiced value of goods shipped and services rendered by the Group during the period, net of trade and quantity discounts. Generally sales are reported net of marketing expenses in accordance with executed marketing and off take agreements.

Investment income from associated companies is recognized based on the equity method.

Earnings on bank deposits are recognized on an accrual basis.

Research and technology expenses

Research and technology expenses are charged to the interim consolidated statement of income when incurred.

Selling, general and administrative expenses

Production costs and direct expenses are classified as cost of sales. All other expenses, including selling and distribution expenses not deducted from sales, are classified as selling, general and administrative expenses.

SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES
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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)
31 MARCH 2008 (Unaudited)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to certain portions of its interest rate risks arising from financing activities. The Group designates these as cash flow hedges of interest rate risk. The use of financial derivatives is governed by the Group's policies, which provide principles on the use of financial derivatives consistent with the Group's risk management strategy. The Group 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.

Changes in the fair value of derivative financial instruments that are designated as effective hedges of future cash flows are recognized directly in equity, if material and the ineffective portion is recognised immediately in the interim 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 recognised, the associated gain or loss on the derivative that had previously been recognised 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 recognised in interim consolidated 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 recognised in interim consolidated statement of income as they arise. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualified for hedge accounting. At that time, for forecast transactions, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transactions occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to interim consolidated statement of income for the period.

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 Group 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 return on the remaining balance of the obligations for each accounting period.

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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing (continued)

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Rentals payable under operating leases are charged to income on a straight line basis over the term of the operating lease.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (a business segment) or in providing products or services within a particular economic environment (a geographic segment), which is subject to risks and rewards that are different from those of other segments

4. SHARE CAPITAL

The share capital amounting to SR 30 billion is divided into 3 billion shares of SR 10 each as of 31 March 2008 (SR 25 billion divided into 2.5 billion shares of SR 10 as of 31 March 2007). The Extraordinary General Assembly in its meeting held on 21 Rabi Awal 1429H corresponding to 29 March 2008 approved to increase the share capital by SR 5,000 million through issuing one bonus share for every five shares held. The Extraordinary General Assembly has also approved the transfer of the research and technology reserve balance of SR 1,292 million to the general reserve.

5. ZAKAT

Zakat is provided for and charged to the interim consolidated income statement on an estimated basis. Differences resulting from the final zakat calculation are adjusted at year end.

SABIC has finalized and settled the zakat assessments with the DZIT for the years upto 31 December 2006. The DZIT has issued final zakat clearance certificates for the years up to 31 December 2006. The zakat assessment for the year 2007 is under review by the DZIT.

6. SEGMENT INFORMATION

The Group's operations consist of the following business segments:

- **The petrochemicals segment**, includes basic chemicals, intermediates, polymers, high performance plastics and fertilizer products
- **The metals segment**, consists of steel products and investments in aluminum production facilities
- **The corporate segment**, includes the corporate operations, and research and technology centers

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6. SEGMENT INFORMATION (continued)

There are no significant inter segment revenues.

	Petrochemicals SR'000	Metals SR'000	Corporate SR'000	Total SR'000
<u>31 March 2008</u>				
Sales	34,645,229	3,551,762	1,783,251	39,980,242
Gross profit	11,906,124	1,312,347	571,070	13,789,541
Net income	3,533,916	1,057,255	2,333,092	6,924,263
Total assets	178,949,067	18,601,387	71,319,882	268,870,336
Total liabilities	84,929,470	5,404,184	41,411,116	131,744,770
<u>31 March 2007</u>				
Sales	22,461,132	2,429,691	1,375,463	26,266,286
Gross profit	9,640,953	700,488	451,895	10,793,336
Net income	4,739,917	551,095	996,375	6,287,387
Total assets	115,285,783	16,790,842	48,640,890	180,717,515
Total liabilities	39,164,799	6,302,494	33,279,945	78,747,238

A substantial portion of the Group's operating assets are located in the Kingdom of Saudi Arabia. The principal markets for the Group petrochemical products are Europe, USA, the Middle East, and Asia Pacific. While the corporate activities are based in the Kingdom of Saudi Arabia, the metals segment sales are mainly in the Kingdom of Saudi Arabia and Gulf Cooperative Council Countries.

7. INTERIM RESULTS

The results of operations for the interim periods may not be an accurate indication of the results of the full year operations.

8. CONTINGENT LIABILITIES

The Group is involved in litigation matters in the ordinary course of business, which are being defended. While the ultimate results of these matters cannot be determined with certainty, management does not expect that they will have a material adverse effect on the interim consolidated financial statements of the Group.

The Group's bankers have issued, on its behalf, bank guarantees amounting to SR 4.4 billion (SR 2.3 billion as of 31 March 2007) in the normal course of business.

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9. LONG-TERM DEBTS

Sukuk

On 29 July 2006, the Group issued SR 3 billion Sukuk, at par value of SR 50,000 each without discount or premium, maturing in 2026. On 15 July 2007, The Group issued its second Sukuk amounting to SR 8 billion, at par value of SR 10,000 each, subject to minimum holding of SR 50,000, without discount and premium, maturing on 2027. The first and second Sukuk bear a rate of return based on SIBOR plus a specified margin payable quarterly in arrears from the net income received under the Sukuk assets held by the Sukuk custodian 'SABIC Sukuk Company', a wholly owned subsidiary of SABIC.

At the end of each five year period, the Group shall pay an amount equal to 10% of the aggregate face value of the Sukuk as bonus to the Sukuk holders. The Group has provided an undertaking to the Sukuk holders to purchase the Sukuk from the Sukuk holders in the first, second and third "fifth year date" (the respective periodic distribution date following after fifth, tenth and fifteenth year of issue) at an amount equivalent to 90%, 60% and 30% of the face value respectively.

As of 31 March 2008, total Sukuk issued by the Group under the above mentioned facility amounted to SR 11 billion (SR 3 billion as of 31 March 2007). The periodic distributions expensed during the period amounted to SR 127 million (31 March 2007: SR 40 million).

Debt

In connection with the acquisition of SABIC Innovative Plastics B.V., a non-recourse debt of SR 30.64 billion (USD 8.17 billion) was raised. The debt components comprise senior unsecured notes of SR 5.63 billion (USD 1.5 billion) at fixed coupon of 9.5% with a final maturity in 2015 and senior secured term loans of SR 25.01 billion (USD 6.67 billion) denominated in US dollars and Euros, with varying spreads over LIBOR or EURIBOR and maturities of up to seven years from the acquisition date.

In addition, certain other subsidiaries utilized their debt facilities for various expansion projects.

10. DERIVATIVES

The Group entered into interest rate swap agreements and swap arrangements to hedge the volatility in interest rates related to loans outstanding at period end amounting to SR 12 billion (SR 13.2 billion as of 31 March 2007).

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11. EARNINGS PER SHARE

The earnings per share are calculated based on the number of outstanding shares at the end of the period. The outstanding number of shares at 31 March 2008 was 3 billion shares (2.5 billion shares at 31 March 2007 adjusted for bonus shares).

The calculation of the earnings per share for the comparative previous financial periods of 2007 has been adjusted retroactively to reflect the issue of bonus shares.

12. APPROPRIATION OF NET INCOME

The General Assembly, in its annual meeting held on 29 March 2008 approved the appropriation of the net income for the year ended 31 December 2007 as follows:

- distribution of cash dividends of SR 7.5 billion (SR 3 per share) including interim cash dividends of SR 2.5 billion (SR 1 per share)
- transfer 10% of net income to statutory reserve
- payment of SR 1.4 million as Board of Directors' remuneration
- transfer the remaining balance to the general reserve

13. COMPARATIVE FIGURES

Certain of the prior period figures have been re-classified to conform with the current period's presentation.