

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

FINANCIAL STATEMENTS

31 DECEMBER 2008

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

Scope of audit:

We have audited the accompanying balance sheet of Yanbu National Petrochemical Company (YANSAB) (“the company”) - A Saudi Joint Stock Company as at 31 December 2008, and the related statements of income, cash flows and changes in shareholders' equity for the year then ended. These financial statements are the responsibility of the company's management and have been prepared by them in accordance with the provisions of Article 123 of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the financial statements.

Unqualified opinion:

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

- i) present fairly, in all material respects, the financial position of the company as at 31 December 2008 and the results of its operations and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.
- ii) comply with the requirements of the Regulations for Companies and the company's articles of association in so far as they affect the preparation and presentation of the financial statements.

Ernst & Young



Ahmed I. Reda
Certified Public Accountant
Registration No. 356



28 Safar 1430 H
25 January 2009

Jeddah

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

BALANCE SHEET

As at 31 December 2008

	<i>Note</i>	<i>2008</i> <i>SR'000</i>	<i>2007</i> <i>SR'000</i>
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	4	1,033,029	1,694,295
Receivables	5	76,789	155,489
Advances to suppliers and other receivables	5	99,066	125,095
Inventories		7,807	-
TOTAL CURRENT ASSETS		1,216,691	1,974,879
NON-CURRENT ASSETS			
Capital work in progress	6	17,105,252	12,987,313
Pre-operating expenses	7	200,000	200,000
Deferred charges	8	121,132	132,668
Other non-current assets	9	34,012	14,420
TOTAL NON-CURRENT ASSETS		17,460,396	13,334,401
TOTAL ASSETS		18,677,087	15,309,280
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable	10	63,105	104,961
Accruals and provisions	11	1,039,181	1,267,276
Current portion of long term loans	14	668,737	-
TOTAL CURRENT LIABILITIES		1,771,023	1,372,237
NON-CURRENT LIABILITIES			
Term loans	14	11,128,309	8,165,860
Employees' end of service benefits		80,832	48,672
TOTAL NON CURRENT LIABILITIES		11,209,141	8,214,532
TOTAL LIABILITIES		12,980,164	9,586,769
SHAREHOLDERS' EQUITY			
Share capital	15	5,625,000	5,625,000
Statutory reserve	16	14,030	14,030
Retained earnings		57,893	83,481
TOTAL SHAREHOLDERS' EQUITY		5,696,923	5,722,511
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		18,677,087	15,309,280

The attached notes 1 to 23 form part of these financial statements.

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

INCOME STATEMENT
Year ended 31 December 2008

		<i>Period from</i>	
		<i>11 February 2006</i>	
		<i>to</i>	
		<i>2008</i>	<i>31 December 2007</i>
	<i>Note</i>	<i>SR'000</i>	<i>SR'000</i>
EXPENSES			
General and administration	17	<u>(25,588)</u>	<u>(83,210)</u>
Other income	18	<u>-</u>	<u>196,836</u>
(LOSS)/INCOME BEFORE ZAKAT		(25,588)	113,626
Zakat	12	<u>-</u>	<u>(3,770)</u>
NET (LOSS) INCOME FOR THE YEAR/PERIOD		(25,588)	109,856
Basic (loss)/income per share (in SR)	15	<u>(0.045)</u>	<u>0.19</u>

The attached notes 1 to 23 form part of these financial statements.

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

STATEMENT OF CASH FLOWS
Year ended 31 December 2008

	Note	<i>Period from 11 February 2006 to 31 December 2007</i>
		<i>SR'000</i>
PRE – OPERATING ACTIVITIES		
(Loss)/income before zakat		113,626
Adjustment for:		
Provision for employees' terminal benefits		27,196
		<u>140,822</u>
Working capital changes:		
Inventories		-
Receivables		(280,584)
Payables		1,372,237
		<u>1,232,475</u>
Cash (used in)/from pre-operating activities		1,232,475
Employees' terminal benefits paid		(8,668)
Zakat paid		(3,770)
		<u>1,220,037</u>
Net cash from/(used in) pre-operating activities		1,220,037
INVESTING ACTIVITIES		
Capital work in progress		(12,987,313)
Pre-operating expenses		(200,000)
Deferred charges		(132,668)
Other non current assets		(14,420)
		<u>(13,334,401)</u>
Net cash used in investing activities		(13,334,401)
FINANCING ACTIVITIES		
Issue of share capital		5,625,000
Transaction costs		(12,345)
Proceeds from term loans		8,165,860
Employees' end of service benefits transferred in	13	30,144
		<u>13,808,659</u>
Net cash from financing activities		13,808,659
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		<u>1,694,295</u>
Cash and cash equivalents at the beginning of the year/period		-
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR/PERIOD	4	<u><u>1,694,295</u></u>

The attached notes 1 to 23 form part of these financial statements.

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
Year ended 31 December 2008

	<i>Share capital SR'000</i>	<i>Statutory reserve SR'000</i>	<i>Retained earnings SR'000</i>	<i>Total SR'000</i>
Issue of share capital	5,625,000	-	-	5,625,000
Transaction costs (note 3)	-	-	(12,345)	(12,345)
Net income for the period	-	-	109,856	109,856
Transfer to statutory reserve	-	14,030	(14,030)	-
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2007	5,625,000	14,030	83,481	5,722,511
Loss for the year	-	-	(25,588)	(25,588)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2008	5,625,000	14,030	57,893	5,696,923
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The attached notes 1 to 23 form part of these financial statements.

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2008

1 ACTIVITIES

Yanbu National Petrochemical Company (YANSAB) (the company) is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under Commercial Registration number 4700009432 dated 14 Muharram 1427H corresponding to 13 February 2006. The company has obtained Industrial License number S/1367 dated 18 Rajab 1426H corresponding to 1 September 2005. The company is 51% owned by Saudi Basic Industries Corporation (SABIC), (the majority shareholder), 14% owned by other Saudi and GCC shareholders and 35% of the shares are publicly traded.

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

2 BASIS OF PRESENTATION

As per the company's Bye-laws, the company's first fiscal year commences on the issuance date of the Ministerial Resolution declaring the incorporation of the company, which was dated 12 Muharram 1427 H (corresponding to 11 February 2006), and will end on 31 December the following year, being 31 December 2007. Accordingly, the comparative figures relate to the period from 11 February 2006 to 31 December 2007. Comparative figures represent the audited financial statements for the period from incorporation date to 31 December 2007.

3 SIGNIFICANT ACCOUNTING POLICIES

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

The significant accounting policies adopted are as follows:

Accounting convention

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

Use of estimate

The preparation of 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 financial statements and the reported amounts of revenue and expenses during the reporting period.

Capital Work in Progress

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

Capitalisation of borrowing costs

Borrowing costs attributable to acquisition and construction of plant and equipment are capitalised during the construction period. Borrowing cost to be capitalized is reduced by any income earned on provisional investment of borrowed funds.

Pre-operating expenses

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2008

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred charges

Deferred charges comprise financial consultancy, legal, and arrangement fees, relating to funds obtained under long term financing arrangements which are being used to finance the partial construction of the company's plant. The fees are amortised using the effective interest rate over the period of the long term financing arrangements. The amortization portion that falls within the construction period is capitalised as part of capital work in progress.

Cash and cash equivalents

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

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

Accounts payable and accruals

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

Provisions

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

Employees' end of service benefits

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

Transaction costs

Transaction costs are incremental costs directly attributable to the acquisition, issue or disposal of share capital.

Foreign currencies

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

Zakat

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

Leases

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

Expenses

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
At 31 December 2008

4 CASH AND CASH EQUIVALENTS

	<i>2008</i> <i>SR'000</i>	<i>2007</i> <i>SR'000</i>
Time deposits	1,018,069	1,483,799
Current accounts	14,960	210,496
	<u>1,033,029</u>	<u>1,694,295</u>

Time deposits are maintained with banks inside and outside the Kingdom.

5 ACCOUNTS RECEIVABLE, ADVANCES TO SUPPLIERS AND OTHER RECEIVABLES

	<i>2008</i> <i>SR'000</i>	<i>2007</i> <i>SR'000</i>
Amounts due from related parties (see note below and note 13)	76,789	155,489
Advances to related parties (see note below and note 13)	24,275	39,489
Advances to suppliers and contractors	52,376	53,924
Other receivables	22,415	31,682
	<u>175,855</u>	<u>280,584</u>

This balance represents advance payments to a shareholder in the normal course of business for the purchase of materials and receivables for product sales under pre-marketing arrangement. (see note 13)

6 CAPITAL WORK IN PROGRESS

a) Capital work in progress relates to the construction of the company's plant and comprises:

	<i>2008</i> <i>SR'000</i>	<i>2007</i> <i>SR'000</i>
Cost of work executed	14,953,804	11,926,774
Borrowing costs	690,066	192,176
Product licenses	160,166	116,069
Project management costs	334,586	223,421
Systems set-up charges (note 13)	142,945	97,231
Service agreements	163,393	133,173
Other	660,292	298,469
	<u>17,105,252</u>	<u>12,987,313</u>

b) The plant is situated on land leased from the Royal Commission in Yanbu for 35 Hijra years from 1 Dul Hijah 1426 H (corresponding to 1 January 2006). The lease is renewable for further similar periods at the option of the parties (see also note 23).

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
At 31 December 2008

7 PRE-OPERATING EXPENSES

These represent contributions amounting to SR 200 million to the Centennial Fund and Higher Plastic Institute that will financially support small and medium sized projects in the related industry and were conditional for the company to secure the gas and feedstock required to manufacture its products. Pre-operating expenses will be amortised using the straight line basis over the shorter of 7 years or their estimated useful life, with effect from the commencement of commercial operations.

8 DEFERRED CHARGES

These represent financial consultancy, legal, and arrangement fees totaling SR 143.2 million, relating to obtaining funds under long term financing arrangements to finance partial construction of the company's plant. These fees are included in the initial recognition of the related financing arrangements (see note 14) and amortized, using the effective interest rate, over the period of the long term financing agreements. The amortization portion that falls within the construction period amounting to SR 22 million as at 31 December 2008 is capitalised as part of capital work in progress.

9 OTHER NON-CURRENT ASSETS

	<i>2008</i> <i>SR'000</i>	<i>2007</i> <i>SR'000</i>
Amount due from a shareholder (note 13)	7,500	7,500
Home ownership receivables (see note below and note 13)	2,036	3,645
Advances to contractors	16,053	500
Advance payment of employees' furniture allowance	8,423	2,775
	<u>34,012</u>	<u>14,420</u>

In line with the majority shareholder's policy (SABIC) the company has a home ownership plan. Under the plan the company builds and transfer houses to its employees at cost. The cost will be recovered over maximum of 20 years. The company has not yet started the plan. As such, the above amount represents the balance to be recovered from the employees of SABIC affiliated companies transferred to the company.

10 ACCOUNTS PAYABLE

	<i>2008</i> <i>SR'000</i>	<i>2007</i> <i>SR'000</i>
Suppliers and contractors	8,465	33,367
Amount due to a shareholder and a related party (note 13)	54,640	71,594
	<u>63,105</u>	<u>104,961</u>

11 ACCRUALS AND PROVISIONS

	<i>2008</i> <i>SR'000</i>	<i>2007</i> <i>SR'000</i>
Accrued expenses	829,401	1,210,422
Accrued expenses due to a shareholder (note 13)	129,022	15,889
Other payables	80,758	40,965
	<u>1,039,181</u>	<u>1,267,276</u>

Yanbu National Petrochemical Company (YANSAB)
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NOTES TO THE FINANCIAL STATEMENTS (continued)
At 31 December 2008

12 ZAKAT

In accordance with the Department Zakat and Income Tax requirements, the company filed a zakat return for the period 11 February 2006 to 31 December 2006 and settled the zakat due thereunder. Due to negative zakat base, zakat was not provided for in respect of the twelve-month period ended 31 December 2007. The income reported in the fiscal year ended 31 December 2007 was earned in 2006 and zakat thereon was already paid. Zakat provision for the year ended 31 December 2008 is based on:

	2008 SR'000	<i>Period from</i> <i>11 February 2006</i> <i>to</i> <i>31 December 2007</i> <i>SR'000</i>
Equity	5,722,512	3,656,250
Provision for employees' end of service benefits transferred to the company	59,739	30,144
Book value of long term assets (net of related financing)	(6,862,836)	(6,233,223)
	(1,080,585)	(2,546,829)
Zakatable income for the year/period	-	150,787
Zakat base	-	150,787

The difference between the financial and the zakatable results is mainly due to certain adjustments in compliance with the relevant fiscal regulations.

Movements in provision during the year/period

The movement in zakat provision for the year/period was as follows:

	2008 SR'000	2007 SR'000
At the beginning of the year/period	-	-
Provided during the year/ period	-	3,770
Payments during the year/period	-	(3,770)
At the end of the year/period	-	-

The differences between the financial and zakatable results are mainly due to certain adjustments in accordance with the relevant fiscal regulations.

Status of assessment

Zakat assessment for the period ended 31 December 2007 has not yet been raised by Department of Zakat and Income Tax.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
At 31 December 2008

13 RELATED PARTY TRANSACTIONS AND BALANCES

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

<i>Related party</i>	<i>Nature of transaction</i>	<i>Amount of transaction</i>		<i>Current and non-current balances</i>	
		<i>2008 SR'000</i>	<i>2007 SR'000</i>	<i>2008 SR'000</i>	<i>2007 SR'000</i>
<i>Amounts due from related parties</i>					
Saudi Basic Industries Corporation (SABIC)	Employees' end of service benefits transferred in, net	11,066	27,603	-	-
	Advance payments for purchase of materials	(15,605)	39,880	24,275	39,880
	Sale of products	273,454	116,375	76,789	153,133
	Advance payment for products freight charges	-	7,500	7,500	7,500
Affiliates	Miscellaneous transactions	12,201	22,829	-	3,590
				<u>108,564</u>	<u>204,103</u>
<i>Amounts due to related parties</i>					
Saudi Basic Industries Corporation (SABIC)	Amounts paid on behalf of the company	(637,161)	(2,193,125)	(183,662)	(82,805)
	Software installation charges	-	(97,231)	-	-
	Home ownership receivables transferred in	(1,471)	(3,645)	-	-
Other affiliates	Miscellaneous transactions	-	(20,592)	-	(4,678)
				<u>(183,662)</u>	<u>(87,483)</u>

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2008

14 TERM LOANS

The term loans are as follows:

	<i>2008</i> <i>SR'000</i>	<i>2007</i> <i>SR'000</i>
Public Investment Fund (PIF) (see note a) below)	4,001,250	2,645,006
The Commercial, ECA, SACE and ECGD loans (see note b) below)	4,620,296	3,387,867
Islamic financing facilities (see note c) below)	3,175,500	2,132,987
	11,797,046	8,165,860
Less:		
Current portion of long term loans (notes a, b, c & d below)	(668,737)	-
	11,128,309	8,165,860
Financial advisory, legal and arrangement fees, net of amortisation (see note 8)	(121,132)	(132,668)
	11,007,177	8,033,192

- a) The PIF term loan limited to SR 4,001 million was obtained in 2007 to finance the partial construction of the plant. The loan carries borrowing costs at commercial rates and is repayable in equal semi-annual installments of SR 200 million. The first installment is payable on 31 December 2009, and the last installment is payable on 30 June 2019.
- b) The above loan limited to SR 5,948 million were obtained in 2007 from a consortium of banks in the form of three loans to partially finance the construction of company's plant and working capital. The repayment of two loans out of the three loans is guaranteed by Expert Credits Guarantee Department (ECA), Servits Assicurativi Del Commercio Estero (SACE) And Export Credits Guarantee Department (ECED). The loans which carries borrowing cost at commercial rates are payable in variable semi annual installments with the first installment payable on 30 June 2009 and the last installment payable on 30 June 2018.
- c) The Islamic financing facilities represent advance payments received by the company from a consortium of banks ("Original Islamic Facility Participants") to finance the construction of the project. The company has entered into financing agreement with the Original Islamic Facility Participants. Under the financing agreement, the undivided 18% of the project cost will be delivered to the Original Islamic Facility Participants and then leased back (under Ijara agreement) to the company. The first installment of the lease payments is payable on 30 June 2009, and last installment is payable on 30 June 2018. The facility has been accounted for as a borrowing in accordance with the substance of the transactions.

As at the end of the year the company has drawn the entire loans and facilities as agreed except the facilities relating to financing of working capital which will be needed by the company during the first quarter of 2009.

The term loans are secured against the revenue from the project, as soon as the company will start it commercial operations. In addition, the company has signed an Equity Support, Subordination and Retention Agreement with the major Shareholder (SABIC) under which SABIC shall maintain its ownership in Yansab at 51% for the life of the loans.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
At 31 December 2008

14 TERM LOANS (continued)

d) Total long term loans payable over the next years are as follows:

	<i>2008</i> <i>SR'000</i>
2009	668,738
2010	915,668
2011	946,913
2012	1,181,250
2013	1,278,891
Thereafter	6,821,040
Total	<u>11,812,500</u>

Subsequent to 31 December 2008 the company received the last payment of the loan amounting to SR 15 million from ECA, SACE and ECED loans.

15 SHARE CAPITAL

- a) The authorized, issued and fully paid share capital of the company consists of 562.5 million shares of SR 10 each.
- b) The company initially issued 112.5 million shares of SR 50 each. In accordance with the Capital Market Authority's pronouncement of 27 March 2006, the shares of the company were split into five shares for every one share effective 22 April 2006. Accordingly, the issued shares of the company increased from 112.5 million shares of SR 50 each to 562.5 million shares of SR 10 each. The earnings per share calculation is based on 562.5 million shares. The calculation of diluted earnings per share is not applicable to the company.

16 STATUTORY RESERVE

As required by Saudi Arabian Regulations for Companies, the company should transfer 10% of net income for the year/period to the statutory reserve. The company may resolve to discontinue such transfer when the reserve totals 50% of the capital. The reserve is not available for distribution. The company prepared financial statements covering the period from 11 February 2006 to 31 December 2006 to comply with the requirements of the Capital Market Authority. The net income for this period was SR 140 million. Accordingly, the company transferred 10% of net income to the statutory reserve (see note 2).

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

At 31 December 2008

17 GENERAL AND ADMINISTRATION EXPENSES

	2008	<i>Period from 11 February 2006 to 31 December 2007</i>
	SR'000	SR'000
Salaries and benefits	18,431	25,269
Training and trainees costs	5,139	47,294
Other expenses	2,018	10,647
	<u>25,588</u>	<u>83,210</u>

18 OTHER INCOME

	2008	<i>Period from 11 February 2006 to 31 December 2007</i>
	SR'000	SR'000
Income from murabaha commodity placements	-	157,285
Commission earned on deposits and current accounts	-	39,551
	<u>-</u>	<u>196,836</u>

Income from deposits and current account is included in capital works in progress is offset against financial charges.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2008

19 RISK MANAGEMENT

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The company is subject to interest rate risk on its interest bearing assets and liabilities, including bank deposits and term loans. As required by loan agreement, the company has entered into hedging arrangements with local and international banks, under which the company pays a fixed interest rate and receive floating interest rate for part of the US \$ 1,784 million loan (2007: US\$ 445 million).

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

Liquidity risk

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

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The company is subject to fluctuations in foreign exchange rates in the normal course of its business. The company did not undertake any significant transactions in currencies other than Saudi Riyals and US Dollars, during the year.

20 FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2008

21 COMMITMENT AND CONTINGENCIES

- a) The Board of Directors in their meeting of 25 November 2007 has approved a revised budget for the company's entire project amounting to SR 20,854 million. The cost of the project incurred by the company as at 31 December 2008 is SR 17,426 million.
- b) On 6 May 2006, the Board of Directors authorized a set of long term financing arrangements, including Islamic financing, SACE, Public Investment Funds, Export Credits Guarantee Agencies, commercial and working capital facilities totaling SR 13,125 million to finance the partial construction of the company's plant. The drawdown as at 31 December 2008 amounted to SR 11,797 million (note 14).
- c) The company has obtained bank facilities from a local bank amounting to SR 50 million for the issuance of bank guarantees to Customs Department, out of which SR 44.8 million was used as at 31 December 2008 (31 December 2007: SR 24.3 million).

22 LEASE COMMITMENTS

Future minimum rentals payable under non-cancellable operating leases as at 31 December 2008 are as follows:

	<i>2008</i>	<i>2007</i>
	<i>SR'000</i>	<i>SR'000</i>
Within one year	27,634	4,790
After one year but no more than five years	108,714	19,162
More than five years	96,434	57,634
	<u>232,782</u>	<u>81,586</u>

23 COMPARATIVE FIGURES

Certain prior year figures were reclassified to conform to the presentation in current year.