

In The Name of Allah, The Beneficent, The Merciful



# **Saudi Industrial Investment Group**

*The Board of Directors*

*Annual Report*

*for the year ended on December 31, 2006*

In The Name of Allah, The Beneficent, The Merciful

**To the shareholders of the Saudi Industrial Investment Group:**

**Greetings,**

On behalf of my self and my colleagues in the board of directors, I am glad to present to you the annual report for the year ended on December 31, 2006.

Fortunately, the year 2006 was the best in the history of our company in terms of its project in Jubail operating in full capacity and within a fully safe environment. This has resulted in the highest earnings per share in the history of our company. Moreover, work is in progress towards completing the construction of the second project for it to start operating by the end of the year 2007.

The company will proceed in the same direction towards providing safe operations for its projects, moving up the Saudization from its current percentage of 73%, and maximizing shareholders' wealth through dividends distribution at all times possible in the financing plan.

However, once again I find my self obligated to reminding the shareholders of the nature of this industry as it goes through a sharply fluctuating economic curve upwards & downwards as we have been enjoying a positive market since 2001. A period during which we made profits accumulating to 1,814 MM SAR.

At the end, I present the board of directors' utmost thanks to the government of the Custodian of the Two Holy Mosques, King Abdullah Bin Abdulaziz Al Saud, for its continuous support to the industrial sector.

Best regards,

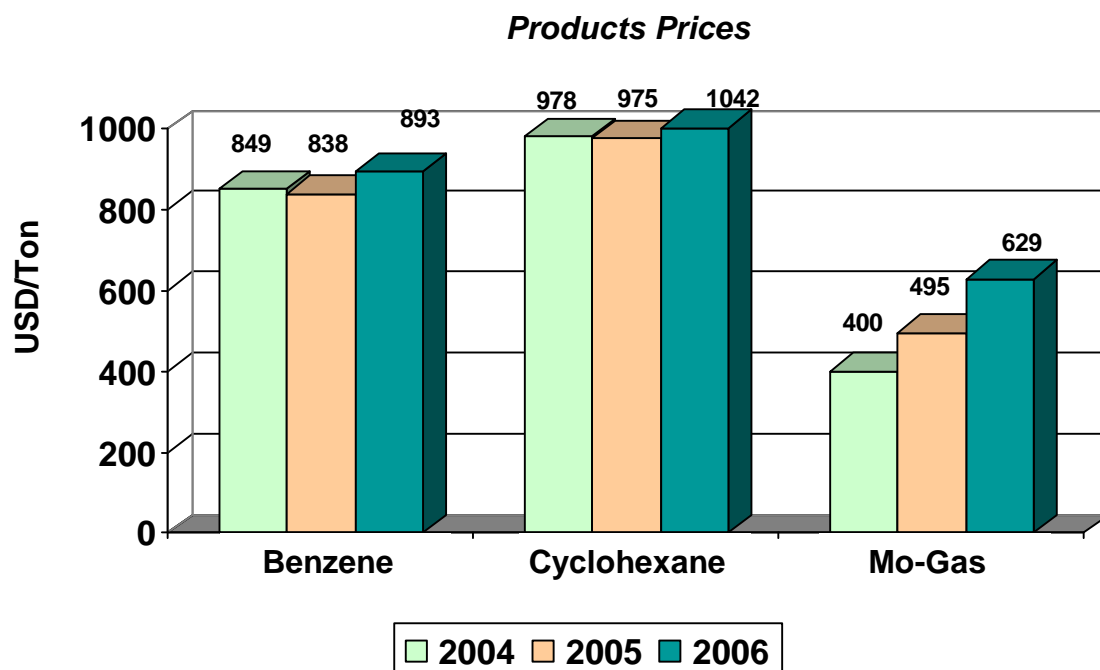
Chairman

**Abdulaziz Al-Quraishi**

## 1. The Projects:

### a. Saudi Chevron Phillips Co. (SCP):

The company owns 50% of SCP. A joint venture that started operating in the year 2000 producing Benzene, Cyclohexane, and Motor Gasoline. This facility operated in full capacity during 2006 and production was 20% higher than last year. It has increased from 1,140 MT to 1,373 MT and the products prices averaged as follows:



As a result of that, the project made annual sales of 3,148 MM SAR in 2006 compared to 2,317 MM SAR in 2005 and a net income of 1,154 MM SAR for 2006 compared to 809 MM SAR. In addition, the project was able to fully repay its loans to SIDF and all other debtors by the end of the first half of 2006.

SCP is scheduled for a 75-day production shutdown during the first quarter of 2007 for maintenance and for working on the link between SCP and the new expansion and the link between SCP and JCP.

b. Jubail Chevron Phillips Co. (JCP):

The company owns 50% of JCP. The joint venture is under construction as planned except for a two-month delay that it is currently planned to start operating before the end of 2007 producing Styrene and Propylene. This facility is estimated to cost 4,500 MM SAR in total.

c. National Chevron Phillips Co. (NCP):

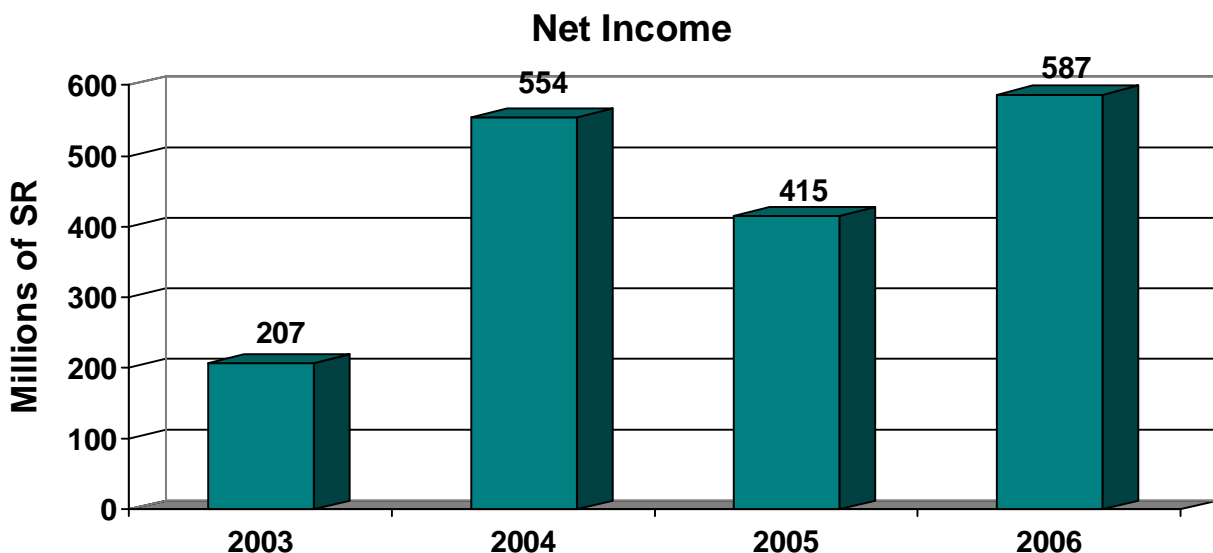
A separate report will be presented regarding NCP to extraordinary general assembly meeting.

## 2. The Financial Results:

Note: Upon the approval of SOCPA, the board of directors had decided to adopt a new accounting policy in accordance with the International Accounting Standards, that is, to proportionately consolidate 50% of its subsidiaries' financial results with its own accounts so that the consolidated financials would represent the company's net share in the joint ventures.

a. The Financial Highlights for the years 2003 to 2006:

The enclosed independent auditor's report and the consolidated financial statements present the financial position of the company for the year 2006.



<b>Balance Sheet</b>	<b>2006 (MM SR)</b>	<b>2005 (MM SR)</b>	<b>2004 (MM SR)</b>	<b>2003 (MM SR)</b>
<b><u>Assets</u></b>				
<b>Current assets:</b>				
Cash and bank balances	603.1	469.0	494.9	153.3
Accounts receivable	97.9	139.2	204.7	130.5
Inventories	79.4	147.0	119.6	112.8
Investment in government bonds	620.7	757.0	787.8	680.7
Accrued revenue & prepayments	180.6	15.9	8.3	7.7
<b>Total current assets</b>	<b>1,581.8</b>	<b>1,528.1</b>	<b>1,615.3</b>	<b>1,085.0</b>
Deferred charges, net	42.6	31.1	37.8	37.5
Projects under construction	2,026.7	871.2	198.4	82.9
Property, plant, & equipment, Net	769.8	770.3	823.6	876.9
<b>Total assets</b>	<b>4,420.9</b>	<b>3,200.7</b>	<b>2,675.1</b>	<b>2,082.3</b>
<b><u>Liabilities &amp; shareholders equity</u></b>				
<b>Current liabilities:</b>				
Accounts payable	65.6	126.0	94.7	45.2
Current portion of long-term loans	0	59.1	101.1	76.3
Accrued expenses & other liabilities	342.0	112.3	190.0	117.6
<b>Total current liabilities</b>	<b>407.6</b>	<b>297.4</b>	<b>385.8</b>	<b>239.1</b>
Long-term loans	1,090.6	570.0	370.8	378.6
End-of-service benefits	9.5	6.2	5.8	5.0
<b>Total liabilities</b>	<b>1,507.7</b>	<b>873.6</b>	<b>762.4</b>	<b>622.7</b>
<b>Shareholders equity:</b>				
Paid-up capital	2,250.0	1,800.0	1,200.0	1,200.0
Statutory reserve	135.9	154.9	113.5	58.1
Retained earnings	527.3	372.2	599.2	201.5
<b>Total shareholders equity</b>	<b>2,913.2</b>	<b>2,327.1</b>	<b>1,912.7</b>	<b>1,459.6</b>
<b>Total liabilities &amp; equity</b>	<b>4,420.9</b>	<b>3,200.7</b>	<b>2,675.1</b>	<b>2,082.3</b>

<b>Income Statement</b>	<b>2006</b> (MM SR)	<b>2005</b> (MM SR)	<b>2004</b> (MM SR)	<b>2003</b> (MM SR)
Sales	1,573.9	1,158.5	1,246.0	735.2
Cost of sales	(1,004.4)	(747.1)	(658.4)	(505.0)
Total G&A expenses	(21.1)	(23.7)	(37.2)	(23.8)
Other income	56.3	37.7	16.8	6.2
<b>Net income before Zakat</b>	<b>604.7</b>	<b>425.4</b>	<b>567.2</b>	<b>212.6</b>
Zakat	(17.7)	(10.6)	(14.2)	(5.3)
<b>Net income after Zakat</b>	<b><u>586.9</u></b>	<b><u>414.8</u></b>	<b><u>553.0</u></b>	<b><u>207.3</u></b>
<b>Earnings per share</b>	<b>2,61</b>	<b>2,31</b>	<b>4,61</b>	<b>1,73</b>

b. Expectations for 2007:

The scheduled 75-day production shutdown in SCP is expected to start on February 1, 2007 and thus would have a negative effect on the company's financial results. As for the second project, JCP, it is expected to start production by the end of 2007.

**3. The Dividends Distribution Policy:**

The board of directors have decided to recommend to the general assembly the distribution of 225 MM SR as cash dividends to shareholders, that is, 1 SR per share (10% of paid-up capital). The following presents details of the distribution:

Net income as of December 31, 2006	SR	604,685,299
Zakat for the year 2006		(17,734,863)
10% Transfer to statutory reserve		(58,695,044)
Prior year adjustments		<u>(888,956)</u>
<b>Earnings available for distribution as of December 31, 2006</b>		<b>527,366,437</b>
Recommended cash dividends (10% of paid-up capital)		(225,000,000)
Board of directors remuneration		<u>(2,100,000)</u>
<b>Retained earnings ending balance</b>	<b>SR</b>	<b><u>300,266,437</u></b>

The petrochemical industry is well-known to be a fluctuating industry. As international product prices move sharply upwards and downwards, it becomes too difficult for the company to forecast its future profits. This leads to continuous revision of the dividends distribution policy.

Moreover, there is the continuous growth in the company's investments that could require the need for financing from within the company's own cash flows. Nevertheless, the company would always target the continuous and growing annual dividends distribution to the shareholders whenever liquidity is available.

#### **4. The Company Loans:**

SIIG is not directly involved in any loans, though its second project, JCP, had borrowed loans as detailed below:

<b>JCP Loans</b> (Owned by SIIG at 50%)	<b>Loan Amount</b> <b>MM SR</b>
Saudi Industrial Development Fund	200
Public Investment Fund	544
Commercial banks, local & international	<u>347</u>
<b>Total</b>	<b><u>1,091</u></b>

#### **5. The Management:**

##### **a. The Directors' Memberships:**

The directors listed below are also members in the board of directors of other joint stock companies in the Kingdom:

<b>Director's Name</b>	<b>Joint Stock Companies Involved</b>
Mr. Ahmad Abdullah Al-Zamil	Eastern Province Cement Co. (Member)
Mr. Ibrahim Abdulaziz Al-Touq	Saudi Fransi Banque. (Chairman)

Mr. Hamed Abdullah Al-Zamil	Al-Zamil Industrial Investment Co. (Member)
Mr. Mohammed Abdullah Al-Kurashi	National Company for Cooperative Insurance. (Member) Saudi Telecommunications Co. (Member) Saudi Research & Marketing Group. (Member)
Mr. Hatem Ali Al-Juffali	Saudi Cement Co. (Member)

**b. The Board of Directors' Meetings:**

The board of directors held four meeting in the year 2006 and attendance was as follows:

Director's Name	Membership Type	Attendance
Mr. Abdulaziz Zaid Al-Quraishi (Chairman)	Dependant	4/4
Mr. Ahmad Abdullah Al-Zamil	Independent	4/4
Mr. Ibrahim Abdulaziz Al-Touq	Independent	4/4
Mr. Hamed Abdullah Al-Zamil	Independent	2/4
Mr. Mohammed Obaid Bin Zagr	Dependant	4/4
Mr. Mohammed Abdullah Al-Kurashi <sup>1</sup>	Independent	1/2
Mr. Hatem Ali Al-Juffali	Dependant	2/4
Dr. Abdulrahman Suliman Al-Rajhi	Independent	4/4
Mr. Dawood Suliman Al-Gosaibi <sup>1</sup>	Independent	2/2
Dr. Waleed Suliman Abanomay <sup>2</sup>	Independent	2/2
Mr. Saud Abdulaziz Al-Gosaibi <sup>2</sup>	Independent	2/2
Mr. Badr Abdulaziz Kanoo <sup>2</sup>	Independent	1/2
Mr. Suliman Mohammed Al-Mandeel (Managing Director)	Dependant & Executive	4/4

1. Both, Mr. Mohammed Al-Kurashi & Mr. Dawood Al-Gosaibi, were elected for the new board session that started on July 1, 2006.
2. Dr. Waleed Abanomay, Mr. Saud Al-Gosaibi, and Mr. Badr Kanoo have all ended their session in the board of directors on July 1, 2006.



c. **Fees & Remuneration of Directors & Senior Executives:**

No remunerations were paid to the board of directors throughout the year, though, the recommendation of cash dividends distribution for 2006 includes distributing a total of 2.1 MM SR to the directors as a remuneration for the year 2006. Salaries and bonuses paid to senior executives, including the managing director, amounted 2.1 MM SR in total for 2006.

d. **Audit Committee:**

The audit committee mission includes the following:

- Assessing the accounting policy of the company.
- Recommending an independent auditor.
- Reviewing interim and annual financial statements before approval and disclosure.
- Insuring sufficiency of internal controls and effectiveness of their design in an appropriate manner.
- Evaluating the effectiveness of the company's material and probable risk assessment and evaluating the manner in which they were assessed.
- Insuring the independence of internal auditors and reviewing the internal audit working plan within the company.

The committee consists of three independent members, all who has sufficient professional experience and qualification to participate effectively to the mission of the committee. The members are:

1. Dr. Abdullah Abdulaziz Al-Abdulqder (chairman).
2. Dr. Abdulrahman Suliman Al-Rajhi (member).
3. Mr. Mohammed Omran Al-Omran (member).

6. **Accruals to Governmental Institutions:**

<b>Payables to Governmental Institutions (in thousands of SR)</b>	<b>2006</b>	<b>2005</b>
Zakat payable	23,189	16,059

<b>Total</b>	<b>23,189</b>	<b>16,059</b>
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## **7. Relevant Issues:**

There is a law suit at the civil court between two shareholders regarding a deal on SIIG shares. The plaintiff in this case has requested that the company be engaged in this case for the purpose of adjusting the company's shareholders register. Ultimately, the court ruled that such a case is irrelevant to the civil court as it involves a decision in securities registration and such decisions should be ruled by the Committee of Resolving Disputes on Securities. The court added that any decisions to forbid dealing with the shares should be ruled by the Capital Market Authority.

## **8. Board of Directors Declarations:**

The board of directors declares the following:

1. Accounting records have been kept properly and correctly.
2. There is no doubt to be mentioned at all in regard to the company's ability to continue its operations.
3. The company will be working in 2007 to fully comply with the CMA's Corporate Governance rules issued on November 12, 2006.
4. There is no material personal interest for any of the directors in the company's contract.

## **9. Recommendations to the General Assembly:**

The board of directors recommends that the ordinary general assembly approves the following:

1. The board of directors report for the year ended on December 31, 2006.
2. The financial statements for the year ended on December 31, 2006.

3. Releasing the board of directors' liabilities for the year ended on December 31, 2006.
4. The distribution of 225 MM SR as cash dividends, that is, 1 SR per share (10% of paid-up capital).
5. Appointing the independent auditors recommended by the audit committee to audit the company's accounts for the year 2007 and approving their fees.

At the end, the board of directors presents its utmost thanks to the government of the Custodian of the Two Holy Mosques, King Abdullah Bin Abdulaziz Al Saud, for its continuous support to the industrial sector.

**The board of directors**