

**SAHARA PETROCHEMICAL COMPANY AND
SUBSIDIARY
(SAUDI JOINT STOCK COMPANY)**

**CONSOLIDATED FINANCIAL STATEMENTS AND
AUDITORS' REPORT
FOR THE YEAR ENDED DECEMBER 31, 2008**

SAHARA PETROCHEMICAL COMPANY AND SUBSIDIARY
(SAUDI JOINT STOCK COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' REPORT
FOR THE YEAR ENDED DECEMBER 31, 2008

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AUDITORS' REPORT

To the stockholders
Sahara Petrochemical Company
(Saudi Joint Stock Company)
Riyadh, Saudi Arabia

Scope of Audit

We have audited the consolidated balance sheet of Sahara Petrochemical Company (Saudi Joint Stock Company) and Subsidiary as of December 31, 2008 and the related consolidated statements of operations, stockholders' equity and cash flows for the year then ended, and notes 1 to 23 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 financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 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 basis for our opinion.

Unqualified Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company and Subsidiary as of December 31, 2008, and the results of their operations and their cash flows for the year then ended in conformity with generally accepted accounting standards appropriate to the nature of the Company and Subsidiary, 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.

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11 Muharram, 1430
January 8, 2009



**SAHARA PETROCHEMICAL COMPANY AND SUBSIDIARY
(SAUDI JOINT STOCK COMPANY)**

**CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2008**

	Note	2008 SR 000	2007 SR 000
Revenues			
Murabaha and other income		65	14,392
Share of income from associate	4	3,323	2,365
Total revenues		3,388	16,757
Costs and expenses			
General and administrative expenses	15,18	40,168	12,381
Pre-operative expenses		3,776	4,980
Total costs and expenses		43,944	17,361
Net loss before minority interest and zakat		(40,556)	(604)
Minority interest		944	(2,735)
Net loss before zakat		(39,612)	(3,339)
Zakat	14	(1,534)	(1,773)
NET LOSS		(41,146)	(5,112)
Earning (loss) per share for the year (in SR)			
Loss per share for the year	22	(0.22)	(0.03)
Loss per share from continuing main operation (in SR)		(0.22)	(0.11)
Earning per share from other operations (in SR)		-	0.08
Weighted average number of shares		187,500,000	187,500,000

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

SAHARA PETROCHEMICAL COMPANY AND SUBSIDIARY
(SAUDI JOINT STOCK COMPANY)

CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2008

	Note	2008 SR 000	2007 SR 000
ASSETS			
Current assets			
Cash and cash equivalents	3	453,036	81,162
Other receivables and prepayments		3,322	1,946
Total current assets		456,358	83,108
Non-current assets			
Investment in associate	4	732,947	760,886
Cost of projects under development	5	22,839	11,226
Projects under construction	6	3,390,364	2,092,733
Property and equipment	7	5,482	1,467
Intangible assets	8	112,860	98,497
Total non-current assets		4,264,492	2,964,809
TOTAL ASSETS		4,720,850	3,047,917
LIABILITIES, STOCKHOLDERS' EQUITY AND MINORITY INTEREST			
Current liabilities			
Due to banks	9	589,032	229,000
Advances against Islamic facilities		15,560	-
Retentions payable		130,925	-
Accounts payable and other liabilities	10	93,634	78,205
Zakat and income tax payable	14	-	1,623
Total current liabilities		829,151	308,828
Non-current liabilities			
Long term loans	11	957,670	200,000
Advances against Islamic facilities	12	659,620	112,530
Profit rate swap	17	148,547	-
End-of-service indemnities	13	7,606	3,688
Retentions payable		-	85,587
Total non-current liabilities		1,773,443	401,805
Stockholders' equity and minority interest			
Share capital	1	1,875,000	1,875,000
Statutory reserve	16	69	69
Change in fair value of cash flow hedge position	17	(167,987)	(28,074)
Retained earnings		62,102	103,248
Total stockholders' equity		1,769,184	1,950,243
Minority interest		349,072	387,041
Total stockholders' equity and minority interest		2,118,256	2,337,284
TOTAL LIABILITIES, STOCKHOLDERS' EQUITY AND MINORITY INTEREST		4,720,850	3,047,917

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

SAHARA PETROCHEMICAL COMPANY AND SUBSIDIARY
(SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2008

	Share capital SR 000	Statutory reserve SR 000	Change in fair value of cash flow hedge position SR 000	Retained earnings SR 000	Total SR 000
January 1, 2007	1,500,000	48,343	-	435,086	1,983,429
Issuance of bonus shares	375,000	(48,343)	-	(326,657)	-
Net loss for the year	-	-	-	(5,112)	(5,112)
Transfer to statutory reserve	-	69	-	(69)	-
Change in fair value of cash flow hedge position	-	-	(28,074)	-	(28,074)
December 31, 2007	1,875,000	69	(28,074)	103,248	1,950,243
Net loss for the year	-	-	-	(41,146)	(41,146)
Change in fair value of cash flow hedge position	-	-	(139,913)	-	(139,913)
December 31, 2008	1,875,000	69	(167,987)	62,102	1,769,184

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

**SAHARA PETROCHEMICAL COMPANY AND SUBSIDIARY
(SAUDI JOINT STOCK COMPANY)**

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2008**

	2008 SR 000	2007 SR 000
OPERATING ACTIVITIES		
Net loss before zakat	(39,612)	(3,339)
Adjustments for:		
Depreciation	1,033	305
Write-off of property and equipment, net	29	-
End-of-service indemnities	4,021	1,653
Share of income from associate	(3,323)	(2,365)
Minority interest	(944)	2,735
Loss on disposal of property and equipment	9	-
Changes in operating assets and liabilities:		
Other receivables and prepayments	(1,376)	(769)
Accounts payable and other liabilities	15,429	(6,598)
Cash used in operations	(24,734)	(8,378)
End-of-service indemnities paid	(103)	(34)
Zakat and income tax paid	(401)	(4,419)
Net cash used in operating activities	(25,238)	(12,831)
INVESTING ACTIVITIES		
Additions to property and equipment	(5,152)	(1,296)
Additions to cost of projects under development	(11,613)	(12,231)
Proceeds from disposal of property and equipment	66	12
Additions to projects under construction	(1,252,293)	(1,199,889)
Additions to intangible assets	(14,363)	(46,163)
Net cash used in investing activities	(1,283,355)	(1,259,567)
FINANCING ACTIVITIES		
Due to banks	360,032	229,000
Proceeds from long term loans	757,670	200,000
Advances against Islamic facilities	562,650	112,530
Reimbursement of income tax from minority shareholder	115	-
Net cash from financing activities	1,680,467	541,530
Net change in cash and cash equivalents	371,874	(730,868)
Cash and cash equivalents, January 1	81,162	812,030
CASH AND CASH EQUIVALENTS, DECEMBER 31	453,036	81,162

Non-cash transactions:

- 1) Cost of projects under development transferred to projects under construction amounted to nil (2007 - SR 1.53 million)
- 2) Cost of project under construction includes retentions payable amounting to SR 45.34 million (2007 - SR 65.36 million)

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

**SAHARA PETROCHEMICAL COMPANY AND SUBSIDIARY
(SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

1. ORGANIZATION AND ACTIVITIES

Sahara Petrochemical Company ("the Company") is a Saudi Joint Stock Company registered under commercial registration number 1010199710 dated 19 Jumada I, 1425 (July 7, 2004). The authorized, issued and fully paid share capital of the Company, amounting to SR 1,500 million, was divided into 150 million shares of SR 10 each.

During March 2007, the Board of Directors proposed to increase the share capital of the Company through transfer of SR 375 million from retained earnings and statutory reserve by issuing 37.5 million bonus shares (one share for every four shares held by the existing stockholders) and also by issuing 100 million rights shares totalling SR 1,000 million to be issued to the existing shareholders (two shares for every three shares held by the stockholders). This would increase the capital of the Company to SR 2,875 million, with amounts raised being for the purpose of funding the new projects. In July 2007, the stockholders of the Company in their extraordinary general assembly meeting approved the proposal of Board of Directors to increase the share capital by SR 375 million through capitalization of the statutory reserves and part of retained earnings (one share for every four shares held by the existing stockholders at the date of the extraordinary general meeting). The legal formalities for increase in share capital by issuance of bonus shares were completed in July 2007. The rights issue has been postponed and consequently the bridge loan facility has been extended.

Al Waha Petrochemical Company ("the Subsidiary"), a Saudi limited liability company registered under commercial registration number 2055007751 and with a share capital of SR 1,547.6 million, is owned 75% by the Company and 25% by Basell Arabie Investments.

The principal activities of the Company and its Subsidiary ("the Group") are to invest in industrial projects in the petrochemical and chemical fields and to own and execute projects necessary to supply raw materials and utilities. The Group incurs costs on projects under development and subsequently establishes a separate company for each project that has its own commercial registration. Costs incurred by the Group will be transferred to separate companies when they are established.

The Company also owns a 32.55% share (initial contribution – SR 781.2 million) in Tasnee and Sahara Olefins Company (the "Associate"), a closed Saudi Joint Stock Company, an associated company.

The Company's principal place of business is at Jubail Industrial City, Kingdom of Saudi Arabia.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements have been prepared in compliance with the accounting standards issued by the Saudi Organization for Certified Public Accountants. The following is a summary of significant accounting policies applied by the Company and its Subsidiary:

Principles of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its Subsidiary controlled by the Company prepared up to the end of year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities. All significant inter-company transactions and balances have been eliminated in preparing the consolidated financial statements.

**SAHARA PETROCHEMICAL COMPANY AND SUBSIDIARY
(SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2008**

Accounting convention

The financial statements are prepared under the historical cost convention.

Revenue recognition

Income from murabaha placements and deposits are recognized on an accrual basis.

Expenses

General and administrative expenses generally comprise of salaries and related expenses of staff involved in such activities, rent, subscription etc. Costs related to projects under development are capitalized.

Investment in associate

An associate is an enterprise in which the Company is in a position to exercise significant influence, through participation in the financial and operating policy decisions of investee. The results and assets and liabilities of associate are incorporated in these financial statements using the equity method of accounting based on the latest available financial information. Where reliable financial data is not available, investment in associated company is recorded at cost and related income is recognized when dividends are received. The carrying amount of such investment is reduced to recognize any impairment in the value of the individual investment.

Intangible assets

Intangible assets mainly comprise a front end fee related to the loan from Saudi Industrial Development Fund ("SIDF") and debt acquisition and arrangement fees relating to the Islamic facilities.

These costs are being amortized over the period of the loans and the amortization is capitalized as part of projects under constructions up to the date of commencement of commercial production and subsequently charged to the statement of income.

Cost of projects under development

Cost of projects under development represents costs incurred for the study and development of industrial projects and are accounted for at cost. Upon successful development of the projects, costs associated with the project will be transferred to the respective company subsequently established for each project. Costs are written-off when projects are deemed not feasible.

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>
Vehicles	4
Computer, furniture, fixtures and office equipment	2-10

**SAHARA PETROCHEMICAL COMPANY AND SUBSIDIARY
(SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2008**

Foreign currency translation

Foreign currency transactions are translated into Saudi Riyals at the rates of exchange prevailing at the time of the 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, except changes in the fair value of derivative financial instruments that are designated as effective hedge for certain foreign currency risks, are included in the consolidated statement of operations.

End-of-service indemnities

End-of-service indemnities, required by Saudi Arabian Labor Law, are provided in the financial statements based on the employees' length of service.

Zakat and income tax

The Company and its Subsidiary are subject to zakat and income tax in accordance with the Regulations of the Department of Zakat and Income Tax ("DZIT"). Zakat and income tax are provided on an accrual basis. Any difference in the estimate is recorded when the final assessment is approved, at which time the provision is cleared. The zakat charge in the consolidated financial statements represents the zakat for the Company and the Company's share of zakat in Subsidiary and Associate. The income tax, assessable on the minority shareholder, is included in minority interest.

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

Borrowing costs

Borrowing costs directly attributable to the projects under construction are added to the cost of that asset until such time as the asset is ready for its intended use. Investment income earned on temporary investment of specific borrowings pending their expenditure on the projects under construction is deducted from the borrowing costs eligible for capitalization.

Derivative financial instruments

Derivative financial instruments are initially recorded at cost and are re-measured to fair value at subsequent reporting dates. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in the consolidated statement of operations as they arise.

A fair value hedge is a hedge of the exposure to changes in fair value of an asset or liability that is already recognized in the balance sheet. The gain or loss from the change in the fair value of the hedging instrument is recognized immediately in the consolidated statement of operations. At the same time, the carrying amount of the hedged item is adjusted for the corresponding gain or loss since the inception of the hedge, which is also immediately recognized in the consolidated statement of operations.

A cash flow hedge is a hedge of the exposure to variability in cash flows relating to a recognized asset or liability, an unrecognized firm commitment or a forecasted transaction. To the extent that the hedge is effective, the portion of the gain or loss on the hedging instrument is recognized initially directly in equity. Subsequently, the amount is included in the consolidated statement of operations in the same period or periods during which the hedged item affects net profit or loss. For hedges of forecasted transactions, the gain or loss on the hedging instrument will adjust the recorded carrying amount of the acquired asset or liability.

**SAHARA PETROCHEMICAL COMPANY AND SUBSIDIARY
(SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2008**

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash and bank balances, demand deposits, and highly liquid investments with original maturity of three months or less. As at December 31, 2008 and 2007, cash and cash equivalents consist entirely of cash and bank balances, including murabaha investment of an amount equivalent to SR 428.0 million (2007 – SR 53.3 million).

4. INVESTMENT IN ASSOCIATE

At December 31, 2008, investment in associate represents 32.55% equity interest in Tasnee and Sahara Olefins Company, a Closed Saudi Joint Stock Company.

Summarized financial information of the Associate as of the balance sheet date is as follows:

	2008	2007
	SR 000	SR 000
Working capital	<u>697,523</u>	817,274
Other assets – net of liabilities	<u>2,193,388</u>	2,187,343
Net assets (including minority interest of SR 639,154 thousand)	<u>2,890,911</u>	3,004,617
The Company's share of net assets	<u>732,947</u>	760,886
Net income before zakat	<u>10,209</u>	7,266
The Company's share of income before zakat	<u>3,323</u>	2,365

5. COST OF PROJECTS UNDER DEVELOPMENT

Cost of projects under development mainly represent project relating to Chlor - Alakali and EDC.

	2008	2007
	SR 000	SR 000
January 1	<u>11,226</u>	527
Incurred during the year	<u>11,613</u>	12,231
Transferred to projects under construction	<u>-</u>	(1,532)
December 31	<u>22,839</u>	11,226

6. PROJECTS UNDER CONSTRUCTION

Projects under construction mainly represents the costs incurred by the Subsidiary for the construction of a Propane Dehydrogenation and Polypropylene Plant ("the Project") at Jubail Industrial City, Kingdom of Saudi Arabia. The cost of the project is currently estimated at approximately SR 4,000 million of which approximately 40% is financed by equity and the remaining by debt finance from SIDF, Public Investment Fund ("PIF") and commercial borrowings.

Construction related costs at December 31, 2008 comprise construction costs under various agreements and directly attributable costs to bring the asset to the location and working 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.

**SAHARA PETROCHEMICAL COMPANY AND SUBSIDIARY
(SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2008**

Finance costs capitalized by the Subsidiary during the year amounted to SR 88.44 million (2007: SR 2.66 million).

The Subsidiary's plant facilities are constructed on a plot of land allocated by the Royal Commission of Jubail and Yanbu to the Company and sub-leased to the Subsidiary.

7. PROPERTY AND EQUIPMENT

	Vehicles SR 000	Computers, furniture, fixtures & office equipment SR 000	Total SR 000
Cost			
January 1, 2008	986	1,043	2,029
Additions	2,845	2,307	5,152
Disposal	-	(82)	(82)
Write-off	-	(82)	(82)
December 31, 2008	3,831	3,186	7,017
Depreciation			
January 1, 2008	135	427	562
Charge for year	562	471	1,033
Disposal	-	(7)	(7)
Write-off	-	(53)	(53)
December 31, 2008	697	838	1,535
Net book value			
December 31, 2008	3,134	2,348	5,482
December 31, 2007	851	616	1,467

8. INTANGIBLE ASSETS

Intangible assets at December 31 mainly represent the debt acquisition and arrangement costs and loan front end fees.

	2008 SR 000	2007 SR 000
January 1	98,497	52,334
Additions	14,363	46,163
December 31	112,860	98,497

**SAHARA PETROCHEMICAL COMPANY AND SUBSIDIARY
(SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2008**

9. DUE TO BANKS

These represents the short term financing facilities received from two banks and are utilized to bridge finance the project costs incurred by the Subsidiary until the disbursement of remaining loan facility from SIDF (note 11) and bridge loan obtained by the Company due to the postponement of the right issue (note 1). These facilities carry commission at commercial rates.

10. ACCOUNTS PAYABLE AND OTHER LIABILITIES

	2008	2007
	SR 000	SR 000
Accounts payable	58,118	77,015
Accrued expenses and other liabilities	35,516	1,190
	93,634	78,205

11. LONG TERM LOANS

	2008	2007
	SR 000	SR 000
SIDF loan	320,000	200,000
PIF loan	637,670	-
	957,670	200,000

SIDF loan

On June 18, 2007, the Subsidiary signed a term loan agreement of SR 400 million with SIDF. The loan is secured through mortgage of assets, assignment of insurance proceeds, technology rights and corporate guarantee of the shareholders to the extent of their ownership in the Subsidiary. The loan is payable over 13 semi-annual installments starting from 15 Sha'aban, 1432 (July 17, 2011). The loan agreement includes covenants to maintain financial ratios during the loan period. At December 31, 2008, the Subsidiary has drawn down SR 320 million (2007 - SR 200 million).

The repayment schedule is as follows:

<u>Hegira year</u>	<u>SR 000</u>
1432	15,000
1433	40,000
1434	50,000
1435	60,000
1436	75,000
1437	80,000
1438	80,000
	400,000

**SAHARA PETROCHEMICAL COMPANY AND SUBSIDIARY
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2008**

PIF loan

On October 31, 2007, the Subsidiary signed a term loan agreement of US\$ 250 million (SR 937.5 million) with PIF. This loan carries interest at London Inter Bank Offered Rate ("LIBOR") plus 0.5% and is repayable in twenty semi annual equal installments starting from May 2011. The loan is secured over the assets of the Subsidiary through an interparty deed with the commercial banks under Islamic Facilities Agreement ("IFA"). At December 31, 2008, the Subsidiary has drawn down US\$ 170 million (2007 - nil) from the total available facility.

12. ADVANCES AGAINST ISLAMIC FACILITIES

During 2006, the Subsidiary signed an IFA for US\$ 276.6 million (SR 1,037.3 million) through which the commercial banks will participate in the procurement of the Project assets on the basis of co-ownership. On the completion of the Project, the co-owned assets will be leased to the Subsidiary at an annual rental calculated at LIBOR plus 1.95%. Under a separate Purchase Undertaking Agreement, the Subsidiary will purchase the above assets from the banks over a period of 11 years starting six months after the completion of the Project. As of December 31, 2008, the Subsidiary has drawn down US\$ 180 million (2007: US\$ 30 million) from the total available facility. One installment of SR 15.6 million due in 2009 is shown as current liability.

The Subsidiary has entered into an profit rate swap contract with commercial banks to manage the exposure to volatility in interest rates for a notional amount ranging from US\$ 16.71 million (SR 62.68 million) to US\$ 503.79 million (SR 1,889.71 million) with no upfront premium. The option fixed rate is 5.105% per annum and is exercisable effective June 29, 2007 on a half yearly basis, up to December 31, 2016.

13. END-OF-SERVICE INDEMNITIES

	2008	2007
	SR 000	SR 000
January 1	3,688	2,069
Provision for year	4,021	1,653
Utilization of provision	(103)	(34)
December 31	7,606	3,688

14. ZAKAT AND INCOME TAX

The principal elements of the zakat base based on the Company's stand alone financial statements are as follows:

	2008	2007
	SR 000	SR 000
Non-current assets	1,965,552	1,938,570
Non-current liabilities	5,520	2,823
Opening stockholders' equity	1,950,810	1,990,941
Net loss before zakat	36,780	11,545

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

**SAHARA PETROCHEMICAL COMPANY AND SUBSIDIARY
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2008**

The movement in zakat and income tax provision is as follows:

	2008	2007
	SR 000	SR 000
Zakat		
January 1	1,649	4,303
Provision for year	-	1,648
(Over) under provision for previous years	(1,225)	2
Payment during year	(424)	(4,304)
December 31	-	1,649
	2008	2007
	SR 000	SR 000
Income tax		
January 1	(26)	-
Provision for year	-	89
Adjustment (payment) during year	23	(115)
Under provision for previous year	3	-
December 31	-	(26)

No provision for zakat has been provided for year 2008 as the zakat base was negative for the Company and Subsidiary.

The zakat liability of the Company's investment in associate being SR 2.76 million (2007 – SR 0.12 million) is excluded from the Company's zakat liability above but is included in the zakat charge for the year in the consolidated statement of operations and is reflected in the carrying value of the investment.

The charge for the year for zakat is as follows:

	2008	2007
	SR 000	SR 000
Zakat for current year	-	1,648
(Over) under provision for previous years	(1,225)	2
Share of zakat of associated company	2,759	123
Charge to consolidated statement of operations	1,534	1,773

During 2008, the Company received the final zakat assessment of SR 4.69 million related to period ended December 31, 2005 from the DZIT. The Company has filed an objection against the DZIT assessment and believes that no additional zakat is payable and no provision is provided in the books of accounts.

The DZIT has yet to issue the final assessment for the years ended December 31, 2006 and 2007, as these are currently under study by the DZIT.

**SAHARA PETROCHEMICAL COMPANY AND SUBSIDIARY
(SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2008**

15. RELATED PARTY TRANSACTIONS

During the year, the Company transacted with the following related parties:

<u>Name</u>	<u>Relationship</u>
Zamil group of companies	Affiliate

The significant transactions and the related amounts are as follows:

	<u>2008</u>	<u>2007</u>
	<u>SR 000</u>	<u>SR 000</u>
Services received	5,889	1,157

Board of Directors' fees and expenses for the year ended December 31, 2008 amounted to SR 0.71 million (2007 – 0.88 million)

16. STATUTORY RESERVE

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

17. CHANGE IN FAIR VALUE OF CASH FLOW HEDGE POSITION

This includes the difference arising from translation of those long term loans borrowed by the Associate denominated in Euros at the exchange rates prevailing at the balance sheet date, which have been designated as a hedge of expected future revenues denominated in the same currency. It also includes the difference arising from fair value measurements of the effective portion of interest rate swap contracts signed by the Subsidiary and Associate at the balance sheet date, which are hedging instruments against foreign currency loans based on LIBOR rates.

18. GENERAL AND ADMINISTRATIVE EXPENSES

	<u>2008</u>	<u>2007</u>
	<u>SR 000</u>	<u>SR 000</u>
Salaries, wages and other benefits	30,972	7,985
Rent	1,153	893
Dues and subscription	396	663
Advertising and public relations	1,910	372
Others	5,737	2,468
	<u>40,168</u>	<u>12,381</u>

**SAHARA PETROCHEMICAL COMPANY AND SUBSIDIARY
(SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2008**

19. OPERATING LEASE ARRANGEMENTS

	2008	2007
	SR 000	SR 000
Payments under operating leases recognized as an expense during the year	<u>8,447</u>	<u>921</u>

Operating lease payments represent rentals payable by the Company and Subsidiary for certain office properties and precious metals. Leases are negotiated for an average term of one year and rentals are fixed for an average of one year.

20. CAPITAL COMMITMENTS

As at December 31, 2008, the Group had outstanding capital commitments amounting to SR 251 million (2007 - SR 1,033 million).

21. CONTINGENCIES AND COMMITMENTS

	2008	2007
	SR 000	SR 000
Letters of guarantee	<u>380,801</u>	-
Letters of credit	<u>21,859</u>	-
Forward foreign exchange contracts	<u>-</u>	<u>86,337</u>

22. LOSS PER SHARE

Loss per share from net loss after zakat is computed by dividing net loss for the year by the weighted average number of shares outstanding.

Loss per share from the continuing main operations is computed by dividing operating loss less minority interest less zakat for the year by the weighted average number of shares outstanding.

23. FAIR VALUES

The fair values of the Group's financial assets and liabilities approximate their carrying amounts.