

**SAUDI INDUSTRIAL INVESTMENT GROUP
(A SAUDI JOINT STOCK COMPANY)**

**THE CONSOLIDATION FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
TOGETHER WITH SPECIAL AUDITORS' REPORT**



**Al Azem & Al Sudairy
Certified Public Accountants
Member of Horwath International**

INDEPENDENT AUDITORS' REPORT**SHAREHOLDERS OF
SAUDI INDUSTRIAL INVESTMENT GROUP
(A Saudi Joint Stock Company)**

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We have audited the accompanying consolidated balance sheet of **SAUDI INDUSTRIAL INVESTMENT GROUP (A Saudi Joint Stock Company)** as of December 31, 2007 and the related statements of income, changes in shareholders equity and consolidated cash flows for the year then ended, and the notes from 1 to 18 which are an integral part of these consolidated financial statements. These consolidated financial statements are the responsibility of the Company's management in accordance with Article (123) of the Companies Regulations. Our responsibility is to express our opinion on these financial statements based on our audit and the information and explanations we obtained which we considered necessary for the purposes of our audit.

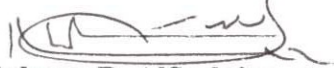
These financial statements were consolidated in accordance with international consolidation criteria, which do not conflict with auditing standards generally accepted in the Kingdom of Saudi Arabia

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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above:

1. Present fairly, in all material respects, the consolidated financial position of **SAUDI INDUSTRIAL INVESTMENT GROUP (A Saudi Joint Stock Company)** as of December 31, 2007 and the results of its operations and its consolidated cash flows for the year then ended based on the presentation and disclosure of the information included in the consolidated financial statements and in conformity with generally accepted accounting principles in the Kingdom of Saudi Arabia which are suitable to the Company's operations as summarized in Note 2.
2. Comply with the consolidated financial statement preparation and presentation requirement of the Commercial Code and the Company's by-laws.



AlAzem & AlSudairy
Certified Public Accountants

Salman B. AlSudairy
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28 Muharam 1429H (February 6, 2008)
Riyadh, Saudi Arabia

SAUDI INDUSTRIAL INVESTMENT GROUP
(A Saudi Joint Stock Company)
CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2007
(In Thousands Saudi Riyals)

ASSETS

	<u>2007</u>	<u>2006</u>
Current Assets:		
Cash and bank balances	749,049	603,123
Accounts receivable	83,873	97,979
Inventory (Notes 2b and 3)	167,390	79,382
Investments in Government bonds (Note 2c)	501,608	620,738
Accrued Revenue	18,151	18,605
Prepayments and other assets	<u>131,814</u>	<u>162,045</u>
Total current assets	1,651,885	1,581,872
Deferred Expenses, net (Note 2d and 4)	32,617	42,574
Long term investments (Note 2e)	2,000	-
Projects Under Construction (Note 5)	2,260,096	2,026,738
Properties and Equipments, net (Note 2f and 6)	<u>1,017,168</u>	<u>769,787</u>
Total assets	<u>4,963,766</u>	<u>4,420,971</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities:		
Accounts payable	101,344	65,627
Accrued expenses and other liabilities (Note 7)	<u>352,366</u>	<u>341,970</u>
Total current liabilities	453,710	407,597
Long Term Loans (Note 8)	1,371,875	1,090,626
End of Service Benefits (Note 2g)	<u>12,555</u>	<u>9,530</u>
Total liabilities	<u>1,838,140</u>	<u>1,507,753</u>
Shareholders' Equity:		
Paid-up capital	2,250,000	2,250,000
Statutory reserve (Note 9)	179,590	135,852
Retained earnings	<u>696,036</u>	<u>527,366</u>
Total shareholders' equity	<u>3,125,626</u>	<u>2,913,218</u>
Total liabilities and shareholders' equity	<u>4,963,766</u>	<u>4,420,971</u>

The accompanying notes from (1) to (18) are an integral part of these consolidated financial statements

SAUDI INDUSTRIAL INVESTMENT GROUP
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2007
(In Thousands Saudi Riyals)

	<u>2007</u>	<u>2006</u>
Sales (Note 2h)	1,459,118	1,573,933
Costs of sales (Note 2j)	<u>(981,843)</u>	<u>(939,247)</u>
Net operating profit	477,275	634,686
Selling and marketing expenses (Notes 2j and 10)	(25,278)	(30,593)
General and administrative expenses (Notes 2j and 11)	(52,719)	(54,602)
Finance charges	(388)	(1,050)
Other income, net (Notes 2h and 12)	<u>60,234</u>	<u>56,244</u>
Net income for the year before Zakat	459,124	604,685
Zakat (Notes 2i and 13)	<u>(21,746)</u>	<u>(17,735)</u>
Net income for the year	<u>437,378</u>	<u>586,950</u>
Net profit per share (Saudi Riyal)	<u>1,94</u>	<u>2,61</u>

The accompanying notes from (1) to (18) are an integral part of these consolidated financial statements

SAUDI INDUSTRIAL INVESTMENT GROUP
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2007
(In Thousands Saudi Riyals)

	<u>2007</u>	<u>2006</u>
Cash Flows from Operating Activities:		
Net income for the year	437,378	586,950
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	65,031	56,327
Amortization	9,957	12,456
Prior years adjustments	2,130	(889)
Net loss on sale of property and equipment	33	39
End of Service Benefits	3,025	3,330
Changes in assets and liabilities:		
Accounts receivable	14,106	41,221
Inventory	(88,008)	67,659
Accrued Revenue	454	(2,953)
Prepayments and other assets	30,231	(161,810)
Accounts payable	35,717	(60,403)
Accrued expenses and other liabilities	<u>10,396</u>	<u>229,678</u>
Net cash provided by operating activities	<u>520,450</u>	<u>771,605</u>
Cash Flows from Investing Activities:		
Transfer and purchase of property and equipment	(312,449)	(9,074)
Proceeds from sale of property and equipment	4	2,233
Net change in Investments in Government bonds	119,130	136,300
Net change in Long term investments	(2,000)	-
Net change in Deferred Expenses	-	(24,000)
Projects Under Construction	<u>(233,358)</u>	<u>(1,204,568)</u>
Net cash used in investing activities	<u>(428,673)</u>	<u>(1,099,109)</u>
Cash Flows from Financing Activities:		
Net change in Long Term Loans	281,249	461,582
Dividend distribution	(225,000)	-
Board of director bonuses distribution	<u>(2,100)</u>	<u>-</u>
Net cash provided by financing activities	<u>54,149</u>	<u>461,582</u>
Net increase in cash and bank balances	145,926	134,078
Cash and bank balances at beginning of the year	<u>603,123</u>	<u>469,045</u>
Cash and bank balances at end of the year	<u>749,049</u>	<u>603,123</u>

The accompanying notes from (1) to (18) are an integral part of these consolidated financial statements

SAUDI INDUSTRIAL INVESTMENT GROUP
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2007
(In Thousands Saudi Riyals)

	<u>2007</u>	<u>2006</u>
Paid-up capital:		
Beginning of the year	2,250,000	1,800,000
Transfer from retained earnings	-	372,268
Transfer from statutory reserve	<u>-</u>	<u>77,732</u>
End of the year	<u>2,250,000</u>	<u>2,250,000</u>
Statutory reserve (Note 9):		
Beginning of the year	135,852	154,889
Transfer to paid –up capital	-	(77,732)
Transfer from retained earnings	<u>43,738</u>	<u>58,695</u>
End of the year	<u>179,590</u>	<u>135,852</u>
Retained earnings:		
Beginning of the year	527,366	372,268
Dividend distribution	(225,000)	-
Board of director bonuses' distribution	(2,100)	-
Transfer to statutory reserve	(43,738)	(58,695)
Transfer to paid –up capital	-	(372,268)
Prior years adjustments	2,130	(889)
Net income for the year	<u>437,378</u>	<u>586,950</u>
End of the year	<u>696,036</u>	<u>527,366</u>
Total shareholders' Equity	<u><u>3,125,626</u></u>	<u><u>2,913,218</u></u>

The accompanying notes from (1) to (18) are an integral part of these consolidated financial statements

SAUDI INDUSTRIAL INVESTMENT GROUP
(A Saudi Joint Stock Company)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(In Thousands Saudi Riyals)

1. GENERAL

Saudi Industrial Investment Group is a Saudi Joint Stock Company founded according to the decree No. 291 issued by the Ministry of Commerce dated 29/6/1416H (corresponding to 23/11/1995). The Company is registered in the Kingdom of Saudi Arabia under the commercial registration No. 1010139946 issued in Riyadh dated 10/8/1416H (corresponding to 1/1/1996). The paid up capital of the Company is 2,250 billion Saudi Riyals comprising of 225 Million shares at a book value of Saudi Riyals 10 per share.

The principal activities of the Company are enhancing the growth and development of the industrial base of the Kingdom, mainly, the petrochemicals industry, opening more ways for the exportation of the products and more ways for the private sector in the Kingdom to enter the industrial market depending on petrochemical products after obtaining the required licenses from authorized departments.

The accompanying consolidated financial statements for the year ended December 31, 2007, 2006 comprise the Company's accounts and it's Affiliate Companies (Saudi Chevron Phillips Company and Jubail Chevron Phillips Company) in which the company owns 50% of their owner's equity without control:

a) Saudi Chevron Phillips Company --

Saudi Chevron Phillips Company (S.C.P.C) is a Saudi limited liability mixed Company (capital S.R 655 million), located in Al Jubail Industrial City, Saudi Industrial Investment Group owns 50 % from S.C.P.C quotas and 50 % is owned by Arabian Chevron Phillips Petrochemical Limited Company, The Company products the following products:

- Benzene
- Cyclohexane
- Gasoline

b) Jubail Chevron Phillips Company --

Jubail Chevron Phillips Company (J.C.P.C) is a Saudi limited liability mixed Company under construction (capital S.R 300 million), located in Al Jubail Industrial City, Saudi Industrial Investment Group owns 50 % from J.C.P.C quotas and 50 % is owned by Arabian Chevron Phillips Petrochemical Limited Company, The Company will produce the following products:

- Styrene
- Propylene

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements are prepared in accordance with generally accepted accounting principles in Saudi Arabia. The following is a summary of the Company's significant accounting policies:

a) Consolidation base --

The accompanying consolidated financial statements comprise the Saudi Industrial Investment Group financial statement as of December 31, 2007, 2006 and its affiliate companies according to the audited financial statement for the affiliate companies as of December 31, 2007, 2006 and for the purpose of preparing the consolidated financial statements, all affiliates' balances and transaction were settled between the Company and them, and the Company's portion in its propjets which represents 50% from the total cost and results of these projects was consolidated within its book records.

The consolidated financial statements were consolidated based on the congenital consolidation international criterion according to approval from Saudi Organization for Certified Public Accountants (SOCPA).

b) Inventory --

Inventories comprise of finished goods, goods in process and raw materials and are stated at the lower of cost or estimated net realizable value. Costs of finished goods and goods in process include raw materials, direct labor and manufacturing overheads. Costs of raw materials are calculated by using the weighted average method; appropriate provisions are made for slow moving and redundant inventories.

c) Investments in Government bonds --

Investments in Government bonds comprise of investments in government development bonds which are stated at cost. Gains are recognized when earned.

d) Deferred expenses --

Deferred expenses are amortized using the straight-line method over a period of 10 years.

e) Long term investments

Long term investments represent shares in companies owned by the company in different percentages, Investments in which the Company's share do not exceed 20% are shown at cost. Investments in which the Company's share ranges between 20% to 50% are accounted for using the equity method, whereas investments in which the Company's share exceeds 50% of the capital are accounted for using the consolidation method.

f) Property and equipment --

Property and equipment are stated at net cost of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets based on the following annual percentage rates:

Plant and equipments	5% - 17%
Buildings	5%
Furniture and fixtures	10% - 15%
Motor vehicles	25%
Leases hold improvements	20%
Computers	15%
Computers software	30%
Telecommunication equipments	25%

g) End of service benefits --

Benefits payable to the employees at the end of their services are provided in accordance with the guidelines set by the Saudi Arabian Labor Law.

h) Revenue recognition --

Revenue is recognized when goods are delivered and invoices are issued to customers. Other income is recorded when earned.

i) Zakat --

Zakat is an obligation the company obligation and Estimated Zakat is provided for in the accompanying financial statements and charged to the statement of income. in accordance with Zakat standard issued by the Saudi Organization for Certified Public Accountants, difference between Zakat provision and final settlement is settled.

j) Expenses –

Expenses incurred by the Company comprise of selling and marketing expenses, general and administrative expenses, and production costs. Production costs include raw materials, direct labor and indirect manufacturing expenses. All expenses related to marketing, selling and distribution of finished goods are classified under a separate line item as selling and marketing expenses. Other direct and indirect management expenses, which are not related to production or selling and marketing functions, are classified as general and administrative expenses. Un-allocated expenses, if any, are distributed between general and administrative expenses, selling and marketing expenses, and production costs using fixed basis.

k) Translation of foreign currencies --

The accompanying interim consolidated financial statements are denominated in Saudi Riyals. Appropriate exchange rates have been used to translate transactions or balances denominated in foreign currencies (if any).

3. **INVENTORY**

Inventory comprised of the following as of December 31:

	<u>In Thousands Saudi Riyals</u>	
	<u>2007</u>	<u>2006</u>
Raw materials	47,050	5,683
Finished goods	93,570	50,509
Spare parts	9,553	6,523
Chemical Catalyst	<u>17,217</u>	<u>16,667</u>
	<u>167,390</u>	<u>79,382</u>

4. **DEFERRED EXPENSES, NET**

Deferred expenses comprised of the following as of December 31:

	<u>In Thousands Saudi Riyals</u>	
	<u>2007</u>	<u>2006</u>
Deferred expenses		
Beginning of the year	74,430	67,902
Addition	-	24,000
Disposal	<u>-</u>	<u>(17,472)</u>
End of the year	74,430	74,430
Accumulated Amortization		
Beginning of the year	(31,856)	(36,872)
Addition	(9,957)	(12,456)
Disposal	<u>-</u>	<u>17,472</u>
End of the year	(41,813)	(31,856)
Net	<u>32,617</u>	<u>42,574</u>

5. **PROJECTS UNDER CONSTRUCTION**

Projects under construction represent the company's share in the development of the Saudi Polymers Company project. The cost of this project is expected to exceed S.R 18.6 Billion in cost. This project is scheduled to be launched at the end of 2011, and part of this project represents construction costs for Saudi Chevron Phillips Company. In addition to the project under construction cost of Jubail Chevron Phillips Company project.

6. PROPERTIES AND EQUIPMENTS, NET

Property and equipment comprised of the following (In Thousands Saudi Riyals) at December 31:

	Plant and equipments	Platinum	Buildings	Furniture and fixtures	Motor vehicles	Lease hold improvements	Computers' Computers'	Computers' Software	Telecomm equipments	Total
<u>Cost</u>										
Beginning of the year	1,053,610	48,987	40,823	10,272	4,473	542	407	43	18	1,159,175
Additions during the year	300,657	-	9,808	995	791	-	124	70	4	312,449
Disposals during the year	-	-	-	(44)	-	-	-	-	-	(44)
End of the year	1,354,267	48,987	50,631	11,223	5,264	542	531	113	22	1,471,580
<u>Depreciations</u>										
Beginning of the year	364,527	-	12,669	8,573	3,315	81	221	-	2	389,388
Additions during the year	61,549	-	2,216	433	624	108	76	22	3	65,031
Disposals during the year	-	-	-	(7)	-	-	-	-	-	(7)
End of the year	426,076	-	14,885	8,999	3,939	189	297	22	5	454,412
<u>Net Book Value</u>										
December 31, 2007	928,191	48,987	35,746	2,224	1,325	353	234	91	17	1,017,168
December 31, 2006	689,083	48,987	28,154	1,699	1,158	461	186	43	16	769,787

Depreciation was amounted to SAR 65,031 and SAR 56,327 (In Thousands Saudi Riyals) for the years ended December 31, 2007, and 2006 respectively.

7. ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities comprise the following as of December 31:

	<u>In Thousands Saudi Riyals</u>	
	<u>2007</u>	<u>2006</u>
Other payable balances	100,890	179,641
Accrued banks charges	23,460	9,010
Accrued Zakat for the current year	21,746	17,735
Accrued dividends distribution	1,733	883
Accrued bonuses	606	-
Accrued Zakat for the years 97 and 98	-	5,454
Others	203,931	129,247
	<u>352,366</u>	<u>341,970</u>

8. LONG TERM LOANS

Following is a summary of long term loans balances as of December 31:

	<u>In Thousands Saudi Riyals</u>	
	<u>2007</u>	<u>2006</u>
Public Investment Fund (PIF)	543,750	543,750
Total loans from consortium	508,125	346,875
SIDF	<u>320,000</u>	<u>200,001</u>
Total loans	1,371,875	1,090,626
Current portion of long term loans	<u>-</u>	<u>-</u>
Total Current portion of long term loans	<u>-</u>	<u>-</u>
Total long term loans	<u>1,371,875</u>	<u>1,090,626</u>

Long term loans represent loans granted to Jubail Chevron Phillips Company to finance plant constructions, these loans were granted against Plant and equipments mortgage and Saudi Industrial Investment Group guarantees equal to 50% from its share capital.

9. STATUTORY RESERVE

In accordance with the Saudi Arabian Company's Regulations and the Company's Articles of Association, 10% of the annual net income is required to be transferred to a statutory reserve until this reserve equals 50% of the capital. This reserve is not available for dividend distribution.

10. SELLING AND MARKETING EXPENSES

Selling and marketing expenses comprised of the following for the years ended December 31:

	<u>In Thousands Saudi Riyals</u>	
	<u>2007</u>	<u>2006</u>
Marketing fees	20,815	26,916
Freight, loading and shipment	3,098	2,959
Employees' salaries & benefits	891	503
Advertisement	395	192
Others	<u>79</u>	<u>23</u>
	<u>25,278</u>	<u>30,593</u>

11. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses comprised of the following for the years ended December 31:

	<u>In Thousands Saudi Riyals</u>	
	<u>2007</u>	<u>2006</u>
Employees' salaries & benefits	22,736	23,256
Insurance	10,776	8,944
Amortizations	4,268	10,060
Depreciations	3,276	2,862
Rents	1,938	2,473
Postage and telephone	1,639	1,956
Donations	1,000	-
Bonuses	906	-
Business trips	476	395
Professional and legal fees	431	752
Subscriptions and fees	417	233
Banks expenses	214	-
Training	133	321
Others	<u>4,509</u>	<u>3,350</u>
	<u>52,719</u>	<u>54,602</u>

12. OTHER INCOME, NET

Other income comprised of the following for the years ended December 31:

	<u>In Thousands Saudi Riyals</u>	
	<u>2007</u>	<u>2006</u>
Revenue from bank deposits	31,746	21,579
Revenue from Investments in Government bonds	28,531	34,704
Net capitalization loss	(34)	(39)
Others	<u>(9)</u>	<u>-</u>
Net	<u>60,234</u>	<u>56,244</u>

13. ZAKAT

a) The company has obtained the Zakat clearance certificates for all years since inception up to December 31, 2000.

b) The company paid all Zakat accrued for the following years:

<u>Financial year</u>	<u>Zakat Dep. Assessment</u>	<u>Payment based on Company's assessment</u>
2001	261,507	261,507

c) The company provided assessment for the following years and Zakat department still did not issue the final Zakat assessment up to date:

<u>Financial year</u>	<u>Payment based on Company's assessment</u>
2002	28,740
2003	75,467
2004	258,862
2005	11,466,423
2006	16,603,811

- d) Total accrued Zakat for the year ended December 31, 2007, shows an increase of SAR 10,244,453 from the fourth interim quarter consolidated primary financial statements for the year ended December 31, 2007. This raise is due to the fact that, the fourth interim quarter accrued Zakat, was calculated based on estimation in accordance to the adjusted Net Income for the year and not on the Zakat base.

14. CAPITAL COMMITMENTS

Saudi Industrial Investment Group has a commitment of SAR 32,45 million regarding to being a partner in Saudi Chevron Phillips Company by 50%, according to the board of directors decision in approving future capital expenditure for the company amounted SAR 64,9 million as of December 31, 2007 (SAR 334 million as of December 31, 2006) for constructing specific projects. And the Saudi Industrial Investment Group has a commitment to additional financing for the Jubail Chevron Phillips Company project amounted SAR 240,000,000 as of December 31, 2007 (SAR 206,250,000 as of December 31, 2006) by banks letter of guarantee against the mortgage of Government bonds at the same amount.

15. COMMITMENTS AND CONTINGENCIES

The Company is contingently liable for letter of guarantee issued by local bank to the Ministry of Petroleum and Mineral Resources benefit which are related to Nylon project against the pledge of Time deposit amounted SAR 250 millions and the letter of guarantee amounted by SAR 562,500,000.

16. SUBSEQUENT EVENTS

In 27/1/1429H corresponding to 5/2/2008. The irregular general meeting took place, in the presence of both the industry and trade ministries representatives as well as a deputy for the Capital Market Authority, The result was:

- a) The approval to increase the capital of the group from (SAR 225,000,000) two hundred twenty five million shares with a value of (SAR 2,250,000,000) two thousand two hundred and fifty million, to (SAR 450,000,000) four hundred and fifty million shares with a value of (SAR 4,500,000,000) four thousand and five hundred million. To achieve its objective, the irregular general meeting agreed on the presentation, by the end of the day, of a (10) ten Saudi Riyal share, for the subscription of preferred rights for each share registered in the stock register and without a premium issue.
- b) The approval to modify article (7) of the company's article of association, in order to adjust with the increase in the capital.
- c) The board decided to recommend, the regular general meeting of the company, to distribute its profit following the raise of the capital; either by half a Saudi Riyal per share or by 5% of the share par value.

17. RECLASSIFICATIONS

Certain reclassifications have been made to the financial statements for the Company and its affiliate companies for the year ended December 31, 2007 to conform to the classification used in the consolidated financial statements.

18. GENERAL

The figures in the financial statements are rounded to the nearest thousand Saudi Riyal.