

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

**CONSOLIDATED FINANCIAL STATEMENTS AND
AUDITORS' REPORT
FOR THE YEAR ENDED DECEMBER 31, 2006**

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

**CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' REPORT
FOR THE YEAR ENDED DECEMBER 31, 2006**

INDEX	PAGE
Auditors' report	1
Consolidated balance sheet	2
Consolidated statement of income	3
Consolidated statement of stockholders' equity	4
Consolidated statement of cash flows	5
Notes to the consolidated financial statements	6 - 13

AUDITORS' REPORT


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

We have audited the accompanying consolidated balance sheet of Sahara Petrochemical Company (Saudi Joint Stock Company) and Subsidiary as of December 31, 2006 and the related consolidated statements of income, stockholders' equity and cash flows for the year then ended, and notes 1 to 20 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.

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, 2006, and the results of their operations and their cash flows for the year then ended in conformity with generally accepted accounting principles 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.

Deloitte & Touche
Bakr Abulkhair & Co.


Nasser M. Al-Sagga
License No. 322
12 Muharram, 1428
January 31, 2007



SAHARA PETROCHEMICAL COMPANY AND SUBSIDIARY
(SAUDI JOINT STOCK COMPANY)

CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2006

	Note	2006 SR 000	2005 SR 000
ASSETS			
Current assets			
Cash and cash equivalents	3	353,209	55,461
Investments - trading	4	458,821	586,014
Investments - available for sale	4	-	1,361,790
Other receivable and prepayments		1,177	5,130
Total current assets		813,207	2,008,395
Non-current assets			
Investments - held to maturity	4	-	187,500
Investment in associate	5	786,718	-
Cost of projects under development	6	527	108,959
Construction work in progress	7	825,953	-
Property and equipment	8	488	461
Intangible assets	9	52,334	-
Total non-current assets		1,666,020	296,920
TOTAL ASSETS		2,479,227	2,305,315
LIABILITIES, STOCKHOLDERS' EQUITY AND MINORITY INTEREST			
Current liabilities			
Accounts payable and accrued expenses	10	84,803	5,257
Zakat payable	12	4,303	39,018
Total current liabilities		89,106	44,275
Non-current liabilities			
End-of-service indemnities	11	2,069	805
Retentions payable		20,228	-
Total non-current liabilities		22,297	805
Stockholders' equity and minority interest			
Share capital	1	1,500,000	1,500,000
Statutory reserve	14	48,343	31,863
Unrealized gains on available for sale investments		-	441,606
Retained earnings		435,086	286,766
Total stockholders' equity		1,983,429	2,260,235
Minority interest		384,395	-
Total stockholders' equity and minority interest		2,367,824	2,260,235
TOTAL LIABILITIES, STOCKHOLDERS' EQUITY AND MINORITY INTEREST		2,479,227	2,305,315

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

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

**CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Note	2006 SR 000	From inception (June 30, 2004) to December 31, 2005 SR 000
Revenues			
Murabaha income		31,595	45,583
Realized gain on investments		160,398	331,028
Share of income from associate	5	5,659	-
Total revenue		197,652	376,611
Costs and expenses			
General and administrative expenses	13,15	13,642	6,306
Pre-operative and floatation costs		16,404	12,658
Finance charges		847	-
Total costs and expenses		30,893	18,964
Net income before minority interest and zakat		166,759	357,647
Minority interest		2,505	-
Net income before zakat		169,264	357,647
Zakat		4,464	39,018
NET INCOME		164,800	318,629
Earning per share for the year / period (in SR)	19	1.10	2.12

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, 2006

	Note	Share capital SR 000	Statutory reserve SR 000	Unrealized gains on available for sale investments SR 000	Retained earnings SR 000	Total SR 000
Share capital introduced	1	1,500,000	-	-	-	1,500,000
Net income for period		-	-	-	318,629	318,629
Transfer to statutory reserve	14	-	31,863	-	(31,863)	-
Unrealized gains on available for sale investments	4	-	-	441,606	-	441,606
December 31, 2005		1,500,000	31,863	441,606	286,766	2,260,235
Net income for the year		-	-	-	164,800	164,800
Transfer to statutory reserve	14	-	16,480	-	(16,480)	-
Unrealized gains on available for sale investments		-	-	(441,606)	-	(441,606)
		<u>1,500,000</u>	<u>48,343</u>	<u>-</u>	<u>435,086</u>	<u>1,983,429</u>

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, 2006**

	2006 SR 000	From inception (June 30, 2004) to December 31, 2005 SR 000
OPERATING ACTIVITIES		
Net income before zakat	169,264	357,647
Adjustments for:		
Depreciation	161	97
End-of-service indemnities	1,408	808
Share of income from associate	(5,659)	-
Minority interest	(2,505)	-
Changes in operating assets and liabilities:		
Investments – trading	127,193	(586,014)
Other receivable and prepayments	3,953	(5,130)
Accounts payable and accrued expenses	79,546	5,257
Retention payable	20,228	-
Cash from (used in) operations	393,589	(227,335)
End-of-service indemnities paid	(144)	(3)
Zakat paid	(39,038)	-
Net cash from (used in) operating activities	354,407	(227,338)
INVESTING ACTIVITIES		
Additions to property and equipment	(188)	(558)
Additions to cost of projects under development	(94,508)	(108,959)
Additions to investment in associate	(781,200)	-
Proceeds from disposal of held to maturity investments	187,500	-
Proceeds from disposal of available for sale investments	920,184	-
Additions to intangible assets	(52,334)	-
Additions to construction work in progress	(623,013)	-
Additions to held to maturity investments	-	(187,500)
Additions to available for sale investments	-	(920,184)
Net cash used in investing activities	(443,559)	(1,217,201)
FINANCING ACTIVITIES		
Proceeds from share capital	-	1,500,000
Contributions by minority shareholders	386,900	-
Net cash from financing activities	386,900	1,500,000
Net change in cash and cash equivalents	297,748	55,461
Cash and cash equivalents, January 1	55,461	-
CASH AND CASH EQUIVALENTS, DECEMBER 31	353,209	55,461
Non-cash transactions:		
1) Cost of projects under development transferred to construction work in progress amounted to SR 202.94 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, 2006**

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, is divided into 30 million shares of SR 50 each. Based on the directives of The Custodian of the Two Holy Mosques, Capital Market Authority issued decision No. 4-154-2006 dated 27/2/1427H (March 27, 2006) where they decided to split the par value of the shares of all the listed companies to SR 10 per share. Based on the above decision, the number of shares of the Company was increased to 150 million shares of SR 10 each starting from April 2006.

On September 2, 2006, Al Waha Petrochemical Company ("the Subsidiary"), a Saudi limited liability company registered under commercial registration number 2055007751 was incorporated with a share capital of SR 1,237.5 million. The Subsidiary is owned 75% by the Company and 25% by Basell Arabie Investments SAS. Through a resolution dated December 19, 2006, shareholders of the Subsidiary agreed to increase the share capital to SR 1,547.6 million. The legal formalities for increase in share capital are in process at the year end.

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 produce propylene, polypropylene, ethane and other hydrocarbon based products. The Company incurs costs on projects under development and subsequently establishes a separate entity for each project that has its own commercial registration. Costs incurred by the Company will be transferred to separate companies when they are established.

In April 2006, the Company contributed SR 781.2 million as its 32.55% share in Tasnee & Sahara Olefins Company ("the Associate"), a Closed Saudi Joint Stock Company, an associated company (note 5).

The Company's principal place of business is at Jubail Industrial City.

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 December 31. 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.

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.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2006**

Expenses

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

Investments

Investments in held to maturity securities, murabaha placements and equity portfolios are classified according to the Company's intent with respect to those securities. Held to maturity securities are stated at amortized cost, adjusted for the related premium or discount. Murabaha placements are classified as trading investments and are stated at fair value, and unrealized gains and losses thereon are included in the statement of income. Investments in equity portfolios are classified as available for sale and are stated at fair value, and unrealized gains and losses thereon are included in stockholders' equity. Where the fair value is not readily determinable, such financial instruments are stated at cost less allowance for impairment in value.

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 the associated company 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, the associate 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 investments.

Intangible assets

Intangible assets comprise debt acquisition and arrangement fees.

Debt acquisition and arrangement costs relate to the loan from Saudi Industrial Development Fund ("SIDF") and syndicate of banks. These costs are being amortized over the period of the loans and the amortization is capitalized as part of the pre-operating cost up to the date of commencement of commercial production and subsequently it is 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, 2006**

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 are included in the statement of income.

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

The Company and its Subsidiary are subject to the Regulations of the Department of Zakat and Income Tax ("DZIT") in the Kingdom of Saudi Arabia. Zakat is provided on an accrual basis and charged to the statement of income. The zakat charge is computed on the zakat base, which includes adjusted net income. Any difference in the estimate is recorded when the final assessment is approved, at which time the provision is cleared.

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.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash and bank balances, demand deposits, and highly liquid investments with original maturities of three months or less. At December 31, 2006 and 2005, cash and cash equivalents comprise entirely of cash and bank balances.

4. INVESTMENTS

	2006 SR 000	2005 SR 000
Investments in equity portfolios	-	920,184
Unrealized gains on revaluation	-	441,606
Available for sale, at fair value	-	1,361,790
Held for trading, at fair value	458,821	586,014
Held to maturity, at cost	-	187,500
	<u>458,821</u>	<u>2,135,304</u>

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2006**

5. INVESTMENT IN ASSOCIATE

At December 31, 2006, investment in Associate represents 32.55% equity interest in Tasnee & Sahara Olefins Company, a Closed Saudi Joint Stock Company.

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

	2006 SR 000	2005 SR 000
Working capital	320,644	-
Other assets - net of liabilities	2,096,307	-
Net assets	2,416,951	-
The Company's share of net assets	786,718	-
Revenue	-	-
Net income before zakat	17,386	-
The Company's share of income before zakat	5,659	-

6. COST OF PROJECTS UNDER DEVELOPMENT

At December 31, 2006, cost of projects under development mainly represent project relating to Chlor - Alakali and EDC.

	2006 SR 000	2005 SR 000
Opening balance	108,959	-
Incurred during the year / period	94,508	108,959
Transferred to construction work in progress (note 7)	(202,940)	-
December 31	527	108,959

7. CONSTRUCTION WORK IN PROGRESS

This represents the cost incurred by the Subsidiary for the construction of a Propane Dehydrogenation and Polypropylene Plant at Jubail Industrial City, Kingdom of Saudi Arabia. The cost of the project is currently estimated at approximately SR 3,838 million of which approximately 40% will be financed by equity and the remaining by debt financed from SIDF, Public Investment Fund and commercial borrowings.

During the year, the Subsidiary signed an Islamic Facilities Agreement ("IFA") for SR 1,886 million through which the commercial banks will participate in the procurement of the project assets on the basis of co-ownership which will subsequently be leased upon the completion of the construction of the project and the Subsidiary will gradually purchase the same from the co-owners. The Subsidiary is also in the process of finalizing a term loan of SR 400 million from SIDF. The conditions precedent for signing of the loan agreement is expected to be completed in the first quarter of 2007.

SAHARA PETROCHEMICAL COMPANY AND SUBSIDIARY
(SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2006

Construction related costs at December 31, 2006 principally comprise of progress payments on engineering, procurement and construction contract ("EPC Contract") related to the Subsidiary's plant facilities.

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

8. PROPERTY AND EQUIPMENT

	Vehicles SR 000	Computer, furniture, fixtures & office equipment SR 000	Total SR 000
Cost			
January 1, 2006	-	558	558
Additions	70	118	188
December 31, 2006	70	676	746
Depreciation			
January 1, 2006	-	97	97
Charge for year	13	148	161
December 31, 2006	13	245	258
Net book value			
December 31, 2006	57	431	488
December 31, 2005	-	461	461

9. INTANGIBLE ASSETS

	2006 SR 000	2005 SR 000
Opening balance	-	-
Additions	52,334	-
December 31	52,334	-

10. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	2006 SR 000	2005 SR 000
Accounts payable	83,239	24
Due to related parties	465	3,792
Accrued expenses	1,099	1,441
	84,803	5,257

SAHARA PETROCHEMICAL COMPANY AND SUBSIDIARY
(SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2006

11. END-OF-SERVICE INDEMNITIES

	2006 SR 000	2005 SR 000
Opening balance	805	-
Provision for year / period	1,408	808
Utilization of provision	(144)	(3)
December 31	<u>2,069</u>	<u>805</u>

12. ZAKAT

The principal elements of the zakat base based on the Company's standalone financials are as follows:

	2006 SR 000	2005 SR 000
Non-current assets	1,948,780	296,920
Non-current liabilities	1,545	805
Opening share capital	1,500,000	1,500,000
Opening statutory reserve	31,863	-
Opening retained earnings	286,766	-
Net income before zakat	169,264	357,647

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

The movement in zakat provision is as follows:

	2006 SR 000	2005 SR 000
Opening balance	39,018	-
Provision for year	4,303	39,018
Under provision for previous period	20	-
Payment during year	(39,038)	-
December 31	<u>4,303</u>	<u>39,018</u>

The zakat liability of the Company's investment in Associate being SR 0.14 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 income and is reflected in the carrying value of the investment.

The charge for the year / period for zakat is as follows:

	2006 SR 000	2005 SR 000
Zakat for current year	4,303	39,018
Under provision for previous years	20	-
Share of zakat of associated company	141	-
Charge to statement of income	<u>4,464</u>	<u>39,018</u>

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2006**

Outstanding assessments

The DZIT has yet to issue the final assessment for the period ended December 31, 2005 as it is currently under study by the DZIT.

13. RELATED PARTY TRANSACTIONS

During the year / period, 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:

	2006 SR 000	From inception (June 30, 2004) to December 31, 2005 SR 000
Services received	1,011	5,466

The board of directors' fees and expenses for the year ended December 31, 2006 amounted to SR 0.1 million (2005 – SR 0.2 million.)

14. 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.

15. GENERAL AND ADMINISTRATIVE EXPENSES

	2006 SR 000	From inception (June 30, 2004) to December 31, 2005 SR 000
Salaries, wages and other benefits	11,281	4,143
Rent	672	869
Dues and subscription	489	404
Advertising and public relations	206	223
Others	994	667
	<u>13,642</u>	<u>6,306</u>

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2006**

16. OPERATING LEASE ARRANGEMENTS

	2006 SR 000	From inception (June 30, 2004) to December 31, 2005 SR 000
Payments under operating leases recognized as an expense during the year / period	<u>447</u>	<u>869</u>

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

17. CAPITAL COMMITMENTS

As at December 31, 2006, the Group had outstanding capital commitments amounting to SR 2,244.30 million (2005 - SR 122.75 million).

18. CONTINGENCIES AND COMMITMENTS

	2006 SR 000	2005 SR 000
Letters of credit	<u>353,409</u>	-
Forward foreign exchange contracts	<u>860,298</u>	-

19. EARNINGS PER SHARE

Earnings per share are computed by dividing net income for the year / period by the number of shares amounting to 150 million shares.

20. FAIR VALUES

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