

SAUDI BASIC INDUSTRIES CORPORATION (SABIC)
(SAUDI JOINT STOCK COMPANY)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS AND
AUDITORS' REVIEW REPORT
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2006

SAUDI BASIC INDUSTRIES CORPORATION (SABIC)
(SAUDI JOINT STOCK COMPANY)

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REVIEW REPORT ON INTERIM CONSOLIDATED FINANCIAL STATEMENTS

To the shareholders
Saudi Basic Industries Corporation (SABIC)
(Saudi Joint Stock Company)
Riyadh, Saudi Arabia

We have reviewed the accompanying interim consolidated balance sheet of Saudi Basic Industries Corporation (SABIC) a Saudi joint stock company and its subsidiaries ("the Company") as of June 30, 2006, and the related interim consolidated statement of income for the three month and six month periods ended June 30, 2006 and interim consolidated statements of shareholders' equity and cash flows for the six months period then ended. These interim consolidated financial statements are the responsibility of Company's management and were prepared and presented to us with all the necessary information and explanations which we requested.

We conducted our review in accordance with the standard of the interim financial statements issued by the Saudi Organization for Certified Public Accountants. A review consists principally of applying analytical review procedures to financial data and information and making inquiries of persons responsible for financial accounting matters. The scope of the review is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion on the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim consolidated financial statements for them to be in conformity with generally accepted accounting standards.

Deloitte & Touche
Bakr Abulkhair & Co.



Bakr A. Abulkhair
License No. 101

Jumada Al-Thani 22, 1427
July 18, 2006

SAUDI BASIC INDUSTRIES CORPORATION (SABIC)
(SAUDI JOINT STOCK COMPANY)

INTERIM CONSOLIDATED BALANCE SHEET (Unaudited)
AS OF JUNE 30, 2006

| | Note | 2006 SR 000 | 2005 SR 000 |
|--|------|--------------------|--------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | | 39,480,937 | 27,223,845 |
| Accounts receivable | | 15,068,372 | 12,175,386 |
| Inventories | | 10,831,796 | 10,589,782 |
| Prepaid expenses and other receivables | | 2,410,975 | 1,917,794 |
| Total current assets | | 67,792,080 | 51,906,807 |
| Non-current assets | | | |
| Investments in associates and others | 2 | 2,751,402 | 3,004,221 |
| Property, plant and equipment, net | | 70,890,388 | 64,241,898 |
| Intangible assets | | 5,019,829 | 5,324,089 |
| Other non-current assets | | 3,806,138 | 3,663,819 |
| Total non-current assets | | 82,467,757 | 76,234,027 |
| TOTAL ASSETS | | 150,259,837 | 128,140,834 |
| LIABILITIES AND EQUITY | | | |
| Current liabilities | | | |
| Accounts payable | | 8,901,746 | 7,901,618 |
| Short term bank facilities | | 943,607 | 136,842 |
| Current portion of long term loans | | 5,088,944 | 4,730,972 |
| Accrued liabilities and provisions | | 7,092,905 | 5,017,907 |
| Dividends payable | 7 | 746,441 | 3,892,714 |
| Total current liabilities | | 22,773,643 | 21,680,053 |
| Non-current liabilities | | | |
| Long term loans | | 29,471,031 | 27,566,085 |
| Other non-current liabilities | | 6,498,037 | 4,573,390 |
| Total non-current liabilities | | 35,969,068 | 32,139,475 |
| Equity | | | |
| Shareholders' equity | | | |
| Share capital | 7 | 25,000,000 | 20,000,000 |
| Statutory reserve | | 9,415,968 | 7,500,000 |
| Research and technology reserve | | 1,291,691 | 1,291,691 |
| General reserve | | 20,631,558 | 17,589,241 |
| Retained earnings | | 8,750,169 | 6,635,168 |
| Total shareholders' equity | | 65,089,386 | 53,016,100 |
| Minority interests | | 26,427,740 | 21,305,206 |
| Total equity | | 91,517,126 | 74,321,306 |
| TOTAL LIABILITIES AND EQUITY | | 150,259,837 | 128,140,834 |

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

SAUDI BASIC INDUSTRIES CORPORATION (SABIC)
(JOINT STOCK COMPANY)

INTERIM CONSOLIDATED STATEMENT OF INCOME (Unaudited)
FOR THE THREE MONTHS AND SIX MONTH PERIODS ENDED JUNE 30, 2006

| | For the three month ended | | For the six month ended | |
|--|---------------------------|------------------|-------------------------|-------------------|
| | June 30, 2006 | June 30, 2005 | June 30, 2006 | June 30, 2005 |
| Note | SR 000 | SR 000 | SR 000 | SR 000 |
| Sales | 20,946,432 | 18,274,041 | 40,213,585 | 37,126,300 |
| Cost of sales | (13,216,252) | (10,303,832) | (24,900,133) | (20,721,420) |
| Gross profit | 7,730,180 | 7,970,209 | 15,313,452 | 16,404,880 |
| Administrative and marketing expenses | (1,084,575) | (1,017,703) | (2,053,647) | (2,050,203) |
| Operating income | 6,645,605 | 6,952,506 | 13,259,805 | 14,354,677 |
| Investment income and others | 649,353 | 412,403 | 979,983 | 623,562 |
| Financial charges | (427,686) | (322,364) | (768,974) | (659,613) |
| Income before minority interest and zakat | 6,867,272 | 7,042,545 | 13,470,814 | 14,318,626 |
| Minority interest in net income of subsidiaries | (2,149,665) | (2,144,262) | (4,420,645) | (4,203,458) |
| Income before zakat | 4,717,607 | 4,898,283 | 9,050,169 | 10,115,168 |
| Zakat | (150,000) | (140,000) | (300,000) | (280,000) |
| NET INCOME FOR THE PERIOD | 4,567,607 | 4,758,283 | 8,750,169 | 9,835,168 |
| Earnings per share | 9 SR 1.83 | SR 1.90 | SR 3.50 | SR 3.93 |

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

SAUDI BASIC INDUSTRIES CORPORATION (SABIC)
(SAUDI JOINT STOCK COMPANY)

INTERIM CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (Unaudited)
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2006

| | Note | Share capital SR 000 | Statutory reserve SR 000 | Research and technology reserve SR 000 | General reserve SR 000 | Retained earnings SR 000 | Total SR 000 |
|---------------------------------|------|----------------------------|--------------------------------|--|------------------------------|--------------------------------|-------------------|
| <u>June 30, 2006</u> | | | | | | | |
| Balance as of January 1, 2006 | | 20,000,000 | 9,415,968 | 1,291,691 | 17,589,241 | 14,043,717 | 62,340,617 |
| Increase in share capital | 7 | 5,000,000 | - | - | - | (5,000,000) | - |
| Dividends | 7 | - | - | - | - | (6,000,000) | (6,000,000) |
| Board of directors remuneration | 7 | - | - | - | - | (1,400) | (1,400) |
| Transfer to general reserve | 7 | - | - | - | 3,042,317 | (3,042,317) | - |
| Net income for the period | | - | - | - | - | 8,750,169 | 8,750,169 |
| Balance as of June 30, 2006 | | <u>25,000,000</u> | <u>9,415,968</u> | <u>1,291,691</u> | <u>20,631,558</u> | <u>8,750,169</u> | <u>65,089,386</u> |
| <u>June 30, 2005</u> | | | | | | | |
| Balance as of January 1, 2005 | | 15,000,000 | 7,500,000 | 1,291,691 | 13,881,503 | 13,209,138 | 50,882,332 |
| Increase in share capital | | 5,000,000 | - | - | - | (5,000,000) | - |
| Dividends | | - | - | - | - | (7,700,000) | (7,700,000) |
| Board of directors remuneration | | - | - | - | - | (1,400) | (1,400) |
| Transfer to general reserve | | - | - | - | 3,707,738 | (3,707,738) | - |
| Net income for the period | | - | - | - | - | 9,835,168 | 9,835,168 |
| Balance as of June 30, 2005 | | <u>20,000,000</u> | <u>7,500,000</u> | <u>1,291,691</u> | <u>17,589,241</u> | <u>6,635,168</u> | <u>53,016,100</u> |

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

SAUDI BASIC INDUSTRIES CORPORATION (SABIC)
(SAUDI JOINT STOCK COMPANY)

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2006

| | 2006 SR 000 | 2005 SR 000 |
|---|--------------------|--------------------|
| OPERATING ACTIVITIES | | |
| Income before zakat | 9,050,169 | 10,115,168 |
| Adjustments for: | | |
| Depreciation and amortization | 3,271,805 | 3,262,453 |
| Equity in earnings of associated companies | 211,571 | (455,696) |
| Minority interest in net income of subsidiaries | 4,420,645 | 4,303,458 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable and prepaid expenses | (13,517) | 2,245,105 |
| Inventories | (189,350) | (1,435,158) |
| Payables, accrued liabilities and provisions | 1,698,313 | (2,718,896) |
| Other non-current liabilities | (266,610) | 423,148 |
| Zakat paid | (631,794) | (555,122) |
| Net cash from operating activities | 17,551,232 | 15,184,460 |
| INVESTING ACTIVITIES | | |
| Additions to property, plant and equipment, net | (7,486,439) | (3,174,815) |
| Investments, net | 2,935,125 | 141,446 |
| Intangible assets | 74,436 | 492,092 |
| Other non-current assets, net | (804,620) | (292,901) |
| Net cash used in investing activities | (5,281,498) | (2,834,178) |
| FINANCING ACTIVITIES | | |
| Long term loans, net | 5,190,531 | (1,045,983) |
| Short term bank facilities, net | 591,912 | (346,687) |
| Dividends paid | (5,869,984) | (4,145,275) |
| Minority interest, net | (873,825) | (2,833,623) |
| Net cash used in financing activities | (961,366) | (8,371,568) |
| Net change in cash and cash equivalents | 11,308,368 | 3,978,714 |
| Cash and cash equivalents, January 1 | 28,172,569 | 23,245,131 |
| CASH AND CASH EQUIVALENTS, JUNE 30 | 39,480,937 | 27,223,845 |

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2006

1. ORGANIZATION AND ACTIVITIES

Saudi Basic Industries Corporation (SABIC) is a Saudi joint stock company established pursuant to Royal Degree Number M/66 dated 13 Ramadan 1396 (September 6, 1976) and registered in Riyadh under commercial registration No. 1010010813 dated 14 Muharram 1397 (January 4, 1977). SABIC is 70% owned by the Government of the Kingdom of Saudi Arabia and is 30% owned by citizens of the Kingdom of Saudi Arabia and other Gulf Cooperation Council States.

The share capital consists of SR 25 billion divided into 2.5 billion shares each of SR 10 as of June 30, 2006 (SR 20 billion divided into 2 billion shares each of SR 10 after split as of June 30, 2005).

In accordance with the Capital Market Authority's announcement No. 4/154/2006 dated Safar 27, 1427 (March 27, 2006) issued based upon the Councils of Ministers resolution to split the shares of joint stock companies, the par value of the share has been split to SR 10 instead of SR 50. Accordingly, the Company's number of shares became 2.5 billion shares. The shares resumed trading after the split effective Rabie Al-Awal 17, 1427 (April 15, 2006).

The principal activities of SABIC and its main subsidiaries ("the Company") are the setting up of petrochemical, fertilizers, metal, steel, and basic hydrocarbon industries, the execution of projects to supply the Company with raw material requirements, and the marketing of industrial products inside and outside the Kingdom of Saudi Arabia.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying interim consolidated financial statements have been prepared in accordance with the Standard of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants. The significant accounting policies adopted by the Company in preparing its interim consolidated financial statements, summarized below, are in conformity with those described in the annual audited consolidated financial statements for the year ended December 31, 2005. The interim consolidated financial statements and the accompanying notes should be read with the annual audited consolidated financial statements and the related notes for the year ended December 31, 2005.

Use of estimates

The preparation of the interim consolidated financial statements by management requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities. The actual results ultimately may differ from these estimates.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2006

Basic principles of consolidation

The interim consolidated financial statements include the individual financial statements of SABIC and its subsidiaries, as adjusted by the elimination of intercompany balances and transactions. An investee company is classified as a consolidated subsidiary based on the degree of effective control exercised by SABIC compared to other shareholders, from the date on which control is transferred to SABIC.

The subsidiary companies consolidated in these financial statements are as follows:

| | Shareholding % | |
|--|----------------|--------|
| | 2006 | 2005 |
| Arabian Petrochemical Company and its subsidiary (Petrokemya) | 100.00 | 100.00 |
| Saudi Iron and Steel Company (Hadeed) | 100.00 | 100.00 |
| SABIC Industrial Investments Company and its subsidiaries (SIIC) | 100.00 | 100.00 |
| SABIC Luxembourg S.a.r.l. and its subsidiaries | 100.00 | 100.00 |
| SABIC Asia Pacific Pte. Ltd. and its subsidiaries | 100.00 | 100.00 |
| SABIC Antilles N.V. | 100.00 | 100.00 |
| Jubail United Petrochemical Company (United) | 75.00 | 75.00 |
| National Chemical Fertilizer Co. (Ibn Al-Baytar) | 71.50 | 71.50 |
| National Industrial Gases Company (Gas) | 70.00 | 70.00 |
| Saudi European Petrochemical Co. (Ibn Zahr) | 80.00 | 70.00 |
| Yanbu National Petrochemical Company (Yansab) | 55.95 | - |
| Arabian Industrial Fiber Company (Ibn Rushd) | 53.90 | 53.90 |
| Saudi Methanol Company (Ar-Razi) | 50.00 | 50.00 |
| Al-Jubail Fertilizer Company (Al-Bayroni) | 50.00 | 50.00 |
| Saudi Yanbu Petrochemical Company (Yanpet) | 50.00 | 50.00 |
| National Methanol Company (Ibn Sina) | 50.00 | 50.00 |
| Saudi Petrochemical Company (Sadaf) | 50.00 | 50.00 |
| Eastern Petrochemical Company (Sharq) | 50.00 | 50.00 |
| Al-Jubail Petrochemical Company (Kemya) | 50.00 | 50.00 |
| Saudi Arabian Fertilizer Co. (Safco) | 42.99 | 42.99 |
| SABIC Sukuk Company (SUKUK) | 100.00 | - |

All subsidiaries are incorporated in the Kingdom of Saudi Arabia except for Sabic Luxembourg S.A.R.L., SABIC Antilles N.V. and SABIC Asia Pacific Pte. Ltd., which are incorporated in Luxembourg, Netherlands and Republic of Singapore, respectively.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2006

Pursuant to the Ministerial resolution number 10446 of Dhul Qa'da 5, 1426 (December 7, 2005), Yanbu National Petrochemical Company (Yansab), a Saudi joint stock company was established with a share capital of SR 5,625 million, divided into 112.5 million shares of SR 50 each (562.5 million shares of SR 10 each after the split). The Company owns 55.95% of the share capital of Yansab. Included in this holding is 4% (4.5 million shares, 22.5 million shares after the split) owned by SIIC, which was sold to eligible employees at par value under a stock grant scheme. Yansab's legal incorporation process was completed on Muharram 14, 1427 (February 13, 2006).

During the period, SABIC acquired the share of one of the shareholders of Saudi European Petrochemical Co. (Ibn Zahr) representing 10% of total share holding, consequently, the equity interest of SABIC in Ibn Zahr increased from 70% to 80%.

SABIC Sukuk Company (SUKUK), a limited liability company, was incorporated on Jumada Al Awal 29, 1427 H, corresponding to June 14, 2006, with a share capital of SR 500,000 and is wholly owned by SABIC. SUKUK's objective is to provide services and support related to bonds/sukuk issued by SABIC.

Accounting convention

The interim consolidated financial statements are prepared under the historical cost convention except for available for sale securities which are measured at fair value, and investments in associated companies which are accounted for on the equity basis.

Changes in accounting policies

During the year 2005, the Saudi Organization for Certified Public Accountants (SOCPA) amended the standard on intangible assets, effective January 1, 2006, with respect to the initial recognition of intangible assets upon acquisition and in subsequent periods. The standard states that intangible assets which have no identifiable useful life or indefinite useful life should be measured and reported in the financial statements at cost after being adjusted for impairment at the end of each financial period, if any, although this change has no effect on the 2005 accounts. The Company ceased the amortization of the goodwill effective January 1, 2006 and considered the net book value of the goodwill as of December 31, 2005 as cost and adopted the new standard effective January 1, 2006.

Investments in associated companies and other

Investments which are owned 20% or more in the capital of investees, other than subsidiary companies, and over which there is significant influence, are reflected on the equity method. The Company's share in the results of these investee companies is classified as investment income in the interim consolidated statement of income.

Investments in marketable securities that are owned by less than 20% are reflected at market value and are classified as securities available for sale. Investments that are owned by less than 20% for which there is no readily available market are stated at cost less any decline in value which is other than temporary, if any. Investment income is recognized once dividends are declared.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2006

Investments that are bought with the intention of being held to maturity are carried at cost (adjusted for any premium or discount), less any decline in value which is other than temporary. Such investments are classified as non current assets with the exception of bonds which mature in the next fiscal period, which are classified as current assets.

Inventories

Inventories are stated at the lower of cost or market value. Cost is determined on a FIFO or weighted average cost basis. Spare parts are valued using the weighted average cost basis. The difference between weighted average cost basis (as required by Saudi standards) and FIFO cost basis is insignificant.

Pre-operating expenses

Pre-operating expenses include start-up costs expected to provide benefits in future periods. Amortization is provided, using the straight line method, over the shorter of the estimated useful lives or seven years.

Goodwill

The excess of consideration paid over the fair value of net assets acquired is recorded as goodwill and at the end of each reporting period it is measured and reported in the financial statements at carrying value after being adjusted for impairment, if any.

Property, plant and equipment

Property, plant and equipment are stated at cost net of accumulated depreciation. Expenditure on maintenance and repairs is expensed, while expenditure for betterments is capitalized. Depreciation is provided over the estimated useful lives of the applicable assets using the straight-line method. Leasehold improvements are amortized over the shorter of the estimated useful life or the remaining term of the lease. The estimated years of depreciation of the principal classes of assets are as follows:

| | <u>Years</u> |
|--------------------------------|--------------|
| Plant, machinery and equipment | 20 |
| Buildings | 33 |
| Furniture and office equipment | 4-20 |
| Vehicles | 4 |

Revenue recognition

Sales represent the invoice value of shipped goods and services provided by the Company during the period net of trade and quantity discounts. Sales are reported net of marketing expenses in accordance with marketing and off take agreements.

Investment income from associated companies is recognized based on the equity method.

Earnings from bank deposits are recognized on the accrual basis.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2006

Zakat

Zakat is provided in accordance with the Regulations of the Directorate of Zakat and Income Tax ("DZIT") in the Kingdom of Saudi Arabia and on an accrued basis. The provision is charged to the consolidated statement of income. Zakat is provided on quarterly basis and adjusted based on actual at year end. Any difference in the estimate is recorded when the final assessment is approved by DZIT, at which time the provision is cleared. Foreign shareholders in subsidiaries are subject to income tax which is included in minority interest in the consolidated financial statements.

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 interim consolidated statement of income.

For the purposes of consolidated financial statements, the financial statements in foreign currencies are translated into Saudi Riyals at the rates of exchange prevailing at the balance sheet date for assets and liabilities and the average of exchange rates for the period for revenues and expenses. Components of equity, other than retained earnings are translated at the rates prevailing at the date of their occurrence. Translation adjustments, if significant, are recorded as a separate component of shareholders' equity.

End-of-service indemnities and early retirements plan

End-of-services indemnities are provided for in accordance with the Company's policies and the requirements of Saudi Arabian Labor Law. Employees' early retirement plan costs are charged to the interim consolidated statement of income in the period the employee retires.

Cash and cash equivalents

Cash and cash equivalents include cash, demand deposits, and highly liquid investments with original maturities of three months or less.

Research and development expenses

Research and development expenses are charged to the consolidated statements of income when incurred.

Expenses

Production costs, direct expenses and selling and distribution expenses not deducted from sales are classified as cost of sales. All other expenses are classified as administrative and marketing expenses.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2006

Dividends

Dividends are recognized as a liability at the time of their approval by the General Assembly of the shareholders. Interim dividends are recorded as approved by the Board of Directors.

Derivative financial instruments

The Company uses derivative financial instruments, including interest rate swaps and options, to hedge its risks associated with interest rate and foreign currency fluctuations. Derivative assets related to the financial instruments are initially recognized in the interim consolidated balance sheet at cost and are subsequently measured at fair market value, with gains and losses being included in the interim consolidated statement of income.

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.

Assets held under capital leases are recognized as assets of the Company at the lower of the present value of the minimum lease payments or the fair market value of the assets at the inception of the lease.

Finance costs, which represent the difference between the total leasing commitments and the lower of the present value of the minimum lease payments or the fair market value of the assets at the inception of the lease, are charged to the income statements over the term of the relevant lease in order to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

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

Impairment of assets

At each interim balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2006

If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash generating unit is reduced to its estimated recoverable amount. Impairment losses are expensed in the interim consolidated statement of income.

Where an impairment loss subsequently reverses, the carrying amount of the asset or the cash generating unit is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the interim consolidated statement of income.

3. CONTINGENT LIABILITIES

The Company is involved in litigation matters in the ordinary course of business, which are being defended. While the ultimate results of these matters cannot be determined with certainty, management does not expect that they will have a material adverse effect on the interim consolidated financial statements of the Company.

The Company's bankers have issued, on its behalf, bank guarantees amounting to SR 2,036 million (SR 564 million as of June 30, 2005) in the normal course of business.

4. ZAKAT

DZIT finalized the assessments on the unconsolidated financial statements of SABIC up to December 31, 2002. SABIC has contested these assessments and has discussed them with the preliminary objection committee which has not yet issued its opinion.

In the opinion of the management, adequate provision has been made for any liability to the DZIT that may arise from the decision of the preliminary objection committee.

5. SEGMENT INFORMATION

The Company operations consist of the following segments:

- **The petrochemicals segment**, includes basic chemicals, intermediates, PVC and polyesters, polyolefins and fertilizer products
- **The metals segment**, consists of steel products and investments in aluminum production facilities
- **The corporate segment**, includes the corporate and treasury operations, and research and technology centers

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2006

There are no significant inter segment revenues between the petrochemicals and the metal segments.

| | Petrochemicals SR 000 | Metals SR 000 | Corporate SR 000 | Total SR 000 |
|-----------------------------|--------------------------|------------------|---------------------|-----------------|
| <u>June 30, 2006</u> | | | | |
| Sales | 34,637,194 | 3,447,813 | 2,128,578 | 40,213,585 |
| Gross profit | 13,674,229 | 857,295 | 781,928 | 15,313,452 |
| Net income | 7,238,769 | 638,989 | 872,411 | 8,750,169 |
| Total assets | 98,562,831 | 14,879,433 | 36,817,573 | 150,259,837 |
| Total liabilities | 29,876,516 | 6,066,369 | 22,799,826 | 58,742,711 |
| <u>June 30, 2005</u> | | | | |
| Sales | 31,449,196 | 3,579,233 | 2,097,871 | 37,126,300 |
| Gross profit | 14,533,450 | 1,438,561 | 432,869 | 16,404,880 |
| Net income | 7,148,893 | 1,265,043 | 1,421,232 | 9,835,168 |
| Total assets | 85,614,013 | 13,351,890 | 29,174,931 | 128,140,834 |
| Total liabilities | 30,740,683 | 4,731,948 | 18,346,896 | 53,819,527 |

A substantial portion of SABIC's operating assets are located in the Kingdom of Saudi Arabia. The principal markets for SABIC petrochemical products are Europe, the Middle East, and Asia Pacific. It is not practicable to summarize the sales of the petrochemicals segment by geographic areas.

6. SALES AND COST OF SALES

The main reason for the increase in sales is due to the increase of the quantities of products sold compared to those of the comparable prior period.

The main reason for increase in cost of sales is due to the increase in prices of gas and iron ore.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2006

7. APPROPRIATION OF NET INCOME

The General Assembly, in its annual meeting held on Rabie Al-Awal 24, 1427 (April 22, 2006), approved the appropriation of the net income for the year ended December 31, 2005 as follows:

- distribution of cash dividends of SR 9,200 million (SR 23 per share) including interim cash dividends of SR 3,200 million (SR 8 per share) year 2005
- increase the share capital through issuing 1 bonus share for every 4 shares held
- transfer 10% of net income to statutory reserve
- payment of SR 1.4 million as Board of Directors' remuneration
- transfer the remaining balance to the general reserve

8. DERIVATIVES

The Company entered into interest rate swap agreements and swap arrangements to hedge the volatility in interest rates related to loans outstanding at period end amounting to SR 12.4 billion (SR 12.2 billion as of June 30, 2005). The swap agreements can be exercised on different dates. The agreements state that premiums should be paid quarterly.

9. EARNINGS PER SHARE

The earnings per share are calculated based on the number of outstanding shares at the end of the period. The outstanding number of shares at June 30, 2006 was 2.5 billion shares (2.5 billion shares at June 30, 2005 adjusted for the stock split).

The calculation of the earnings per share for the previous financial periods for the year 2005 has been adjusted retroactively to reflect the bonus share and the stock split.

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FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2006

10. SUBSEQUENT EVENTS

The Saudi Capital Market Authority (CMA) has given its approval to SABIC to issue Sukuk aggregating up to SR 3 billion with a nominal value of SR 50 thousand each, with a minimum holdings of SR 500 thousand for a period of 20 years from the issuance date. SABIC Sukuk Company (a wholly owned subsidiary of SABIC) will be the custodian for the Sukuk's assets.

SABIC commenced the incorporation of a company in the name of "Saudi Kayan Petrochemical Company" "KAYAN Saudi", company under establishment, located in Jubail industrial city with a share capital amounting to SR 12 billion, in which SABIC and Kayan Petrochemical will hold 35% and 20% of the shares respectively and the remaining 45% will be offered to the public.

The Board of Directors has resolved on July 15, 2006, to distribute semi-annual cash dividends of SR 3,750 million (SR 1.5 per share) for the period ended June 30, 2006.

11. COMPARATIVE FIGURES

Certain of the prior period figures have been re-classified to conform with the current period's presentation.