

**IN THE REVIEW OF INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

IENT GROUP

anying Interim consolidated balance sheet of **SAUDI
GROUP (A Saudi Joint Stock Company)** as of December
: of income, changes in shareholders' equity and cash flows
ave been prepared by the company and submitted to us
nd explanations which we requested. We consolidated the
on financial data submitted to us from the company for it's
1 Phillips Company and Jubail Chevron Phillips Company
n their shares) for the period ended December 31, 2007.

as conducted in accordance with the Saudi Organization for
rdard on interim consolidated financial statements. The
lly of analytical procedures applied to financial data and
nel responsible for financial and accounting matters. It is
n audit in accordance with generally accepted auditing
is the expression of an opinion regarding the financial
ingly, we do not express such an opinion.

re not aware of any material modifications that should be
nancial statements for the year ended December 31, 2007 to
epted accounting principles.

**AlAzem & AlSudairy
Certified Public Accountants**



**Salman B. Al-Sudairy
License No. 283**

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

ASSETS

| | <u>31/12/2007</u> | <u>31/12/2006</u> |
|---|-------------------------|-------------------------|
| Current Assets: | | |
| Cash and bank balances | 749,048 | 603,123 |
| Accounts receivable | 199,626 | 97,979 |
| Inventory (Note 2b) | 167,391 | 79,382 |
| Investments in government bonds (Note 2c) | 501,608 | 620,738 |
| Accrued revenue | 18,151 | 18,605 |
| Prepayments and other assets | <u>11,560</u> | <u>162,045</u> |
| Total current assets | 1,647,384 | 1,581,872 |
| Deferred expenses, net (Note 2d) | 32,619 | 42,574 |
| Long term investments (Note 2e) | 2,000 | - |
| Projects under construction (Note 5) | 2,259,488 | 2,026,738 |
| Property and equipment, net (Note 2f) | <u>1,017,167</u> | <u>769,787</u> |
| Total assets | <u>4,958,658</u> | <u>4,420,971</u> |

LIABILITIES AND SHAREHOLDERS' EQUITY

| | | |
|---|-------------------------|-------------------------|
| Current Liabilities: | | |
| Accounts payable | 424,184 | 65,627 |
| Accrued expenses and other liabilities (Note 6) | <u>13,769</u> | <u>341,970</u> |
| Total current liabilities | 437,953 | 407,597 |
| Long Term Loans | 1,371,875 | 1,090,626 |
| End of Service Benefits (Note 2g) | <u>12,293</u> | <u>9,530</u> |
| Total liabilities | <u>1,822,121</u> | <u>1,507,753</u> |
| Shareholders' Equity: | | |
| Paid-up capital | 2,250,000 | 2,250,000 |
| Statutory reserve | 180,681 | 135,852 |
| Retained earnings | <u>705,856</u> | <u>527,366</u> |
| Total shareholders' equity | <u>3,136,537</u> | <u>2,913,218</u> |
| Total liabilities and Shareholders' Equity | <u>4,958,658</u> | <u>4,420,971</u> |

The accompanying notes from (1) to (7) are an integral part of these consolidated financial statements

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

| | <u>From 01/01/2007</u> <u>To 30/09/2007</u> | From 01/01/2006 To 30/09/2006 | <u>From 01/10/2007</u> <u>To 31/12/2007</u> | From 01/10/2006 To 31/12/2006 | <u>From 01/01/2007</u> <u>To 31/12/2007</u> | From 01/01/2006 To 31/12/2006 |
|--|--|----------------------------------|--|----------------------------------|--|----------------------------------|
| Sales (Note 2h) | 1,041,450 | 1,178,798 | 417,668 | 395,135 | 1,459,118 | 1,573,933 |
| Costs of sales (Note 2i) | <u>(681,428)</u> | <u>(761,334)</u> | <u>(300,414)</u> | <u>(243,097)</u> | <u>(981,842)</u> | <u>(1,004,431)</u> |
| Net operating profit | 360,022 | 417,464 | 117,254 | 152,038 | 477,276 | 569,502 |
| General and administrative and marketing expenses (Note 2i) | (58,607) | (8,756) | (18,854) | (11,255) | (77,461) | (20,011) |
| Finance charges | (259) | (635) | - | (415) | (259) | (1,050) |
| Other income (Note 2h) | <u>45,269</u> | <u>43,038</u> | <u>14,965</u> | <u>13,206</u> | <u>60,234</u> | <u>56,244</u> |
| Net income for the period before Zakat | 346,425 | 451,111 | 113,365 | 153,574 | 459,790 | 604,685 |
| Accrued Zakat for the period (Note 2j) | <u>(8,664)</u> | <u>(11,281)</u> | <u>(2,837)</u> | <u>(6,454)</u> | <u>(11,501)</u> | <u>(17,735)</u> |
| Net income for the period | <u>337,761</u> | <u>439,830</u> | <u>110,528</u> | <u>147,120</u> | <u>448,289</u> | <u>586,950</u> |
| Net profit per share | <u>1,50</u> | <u>1,95</u> | <u>0,49</u> | <u>0,65</u> | <u>1,99</u> | <u>2,61</u> |

The accompanying notes from (1) to (7) 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 (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2007
(In Thousands Saudi Riyals)

| | <u>31/12/2007</u> | <u>31/12/2006</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: | | |
| Beginning of the year | 135,852 | 154,889 |
| Transfer to paid –up capital | - | (77,732) |
| Transfer from retained earnings | <u>44,829</u> | <u>58,695</u> |
| End of the year | <u>180,681</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) | - |
| Prior years' adjustments | 2,130 | (889) |
| Transfer to statutory reserve | (44,829) | (58,695) |
| Transfer to paid –up capital | - | (372,268) |
| Net income for the year | <u>448,289</u> | <u>586,950</u> |
| End of the year | <u>705,856</u> | <u>527,366</u> |
| Total shareholders' Equity | <u>3,136,537</u> | <u>2,913,218</u> |

The accompanying notes from (1) to (7) are an integral part of these consolidated financial statements

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

| | <u>31/12/2007</u> | <u>31/12/2006</u> |
|--|-----------------------|-----------------------|
| Cash Flows from Operating Activities: | | |
| Net profit for the year | 448,289 | 586,950 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation for the year | 65,033 | 56,327 |
| Amortization for the year | 4,264 | 12,456 |
| Prior years adjustments | 2,130 | (889) |
| Loss (gain) on sale of property and equipment | 34 | 39 |
| End of Service Benefits | 2,763 | 3,330 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (101,647) | 41,221 |
| Inventory | (88,009) | 67,659 |
| Accrued Revenue | 454 | (2,953) |
| Prepayments and other assets | 150,485 | (161,810) |
| Accounts payable | 358,557 | (60,403) |
| Accrued expenses and other liabilities | (328,201) | 229,678 |
| Net cash provided by operating activities | <u>514,152</u> | <u>771,605</u> |
| Cash Flows from Investing Activities: | | |
| Purchase of property and equipment | (316,715) | (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 Deferred Expenses | 9,955 | (24,000) |
| Long term investments | (2,000) | - |
| Projects Under Construction | (232,750) | (1,204,568) |
| Net cash used in investing activities | <u>(422,376)</u> | <u>(1,099,109)</u> |
| Cash Flows from Financing Activities: | | |
| Net change in loans | 281,249 | 461,582 |
| Dividend distribution | (225,000) | - |
| Board of director bonuses distribution | (2,100) | - |
| Net cash provided by financing activities | <u>54,149</u> | <u>461,582</u> |
| Net increase in cash and bank balances | 145,925 | 134,078 |
| Cash and bank balances at beginning of the period | <u>603,123</u> | <u>469,045</u> |
| Cash and bank balances at end of the period | <u>749,048</u> | <u>603,123</u> |

The accompanying notes from (1) to (7) are an integral part of these consolidated financial statements

SAUDI INDUSTRIAL INVESTMENT GROUP
(A Saudi Joint Stock Company)
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
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 interim 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 produces 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 interim 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 interim consolidated financial statements comprise of the Saudi Industrial Investment Group financial statement as of December 31, 2007, 2006 and its affiliate companies according to the unaudited interim financial statement for the affiliate companies as of December 31, 2007, 2006 and for the purpose of preparing the interim consolidated financial statements, all affiliates' balances and transactions were settled between the Company and them, and the Company's portion in its projects which represents 50% from the total cost and results of these projects was consolidated within its book records.

The interim 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) 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.

j) Zakat –

Zakat is a 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. differences between Zakat provision and final settlement is settled.

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. ADJUSTMENTS RELATED TO THE PERIOD

The company's management has prepared all the adjustments needed to fairly present The financial position and the results of its operations, however the results of its operations for the year ended December 31, 2007 and 2006 do not give an accurate resemblance of the actual results of the whole year's operations.

4. SIGNIFICANT EVENTS AFFECTING THE ACCOMPANYING INTERIM FINANCIAL STATEMENTS

– Dividend distribution --

According to the General meeting dated 25/4/1428 H corresponding to 12/5/2007 the company decided that it will distribute profits in total of 225 million Saudi Riyals as of one Saudi Riyals per share (10 % from nominal capital).

5. PROJECTS UNDER CONSTRUCTION

Projects under construction represent the project cost of Jubail Chevron Phillips Company and it represents the Company's shares in the development of 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.

6. ACCRUED EXPENSES AND OTHER LIABILITIES

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

| | <u>In Thousands Saudi Riyals</u> | |
|---------------------------------------|----------------------------------|----------------|
| | <u>2007</u> | <u>2006</u> |
| Accrued Zakat for the year | 11,501 | 17,735 |
| Accrued dividends distribution | 1,733 | 883 |
| Accrued Zakat for the years 97 and 98 | - | 5,454 |
| Others | <u>535</u> | <u>317,898</u> |
| | <u>13,769</u> | <u>341,970</u> |

7. GENERAL

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