

INDEPENDENT AUDITORS' REPORT

**SHAREHOLDERS OF
SAUDI INDUSTRIAL INVESTMENT GROUP
(A Saudi Joint Stock Company)**

We have audited the accompanying consolidated balance sheet of **SAUDI INDUSTRIAL INVESTMENT GROUP (A Saudi Joint Stock Company)** as of December 31, 2006 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 16 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, 2006 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.

**AIAzem, AISudairy & AlNemer
Certified Public Accountants**

**Salman B. AlSudairy
License No. 283**

6 Rabi Al-Awal 1428H (March 25, 2007)
Riyadh, Saudi Arabia

SAUDI INDUSTRIAL INVESTMENT GROUP
(A Saudi Joint Stock Company)
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2006
(In Thousands Saudi Riyals)

ASSETS

	<u>2006</u>	<u>2005</u>
Current Assets:		
Cash and bank balances	603,123	469,045
Accounts receivable	97,979	139,200
Inventory (Notes 2b and 3)	79,382	147,041
Investment in Government bonds (Note 2c)	620,738	757,038
Accrued Revenue	18,605	15,652
Prepayments and other assets	<u>162,045</u>	<u>235</u>
Total current assets	1,581,872	1,528,211
Deferred Expenses, net (Note 2d and 4)	42,574	31,030
Projects Under Construction (Note 5)	2,026,738	822,170
Properties and Equipments, net (Note 2e and 6)	<u>769,787</u>	<u>819,312</u>
	<u>4,420,971</u>	<u>3,200,723</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Current Liabilities:		
Accounts payable	65,627	126,030
Current portion of long term loans (Note 7)	-	59,044
Accrued expenses and other liabilities (Note 8)	<u>341,970</u>	<u>112,292</u>
Total current liabilities	407,597	297,366
Long Term Loans (Note 7)	1,090,626	570,000
End of Service Benefits (Note 2f)	<u>9,530</u>	<u>6,200</u>
Total liabilities	<u>1,507,753</u>	<u>873,566</u>
Shareholders' Equity:		
Paid-up capital (Note 9)	2,250,000	1,800,000
Statutory reserve (Note 10)	135,852	154,889
Retained earnings	<u>527,366</u>	<u>372,268</u>
Total shareholders' equity	<u>2,913,218</u>	<u>2,327,157</u>
	<u>4,420,971</u>	<u>3,200,723</u>

The accompanying notes from (1) to (16) 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, 2006
(In Thousands Saudi Riyals)

	<u>2006</u>	<u>2005</u>
Sales (Note 2g)	1,573,933	1,158,467
Cost of sales (Note 2i)	<u>(1,004,431)</u>	<u>(747,088)</u>
Gross profit	569,502	411,379
Selling and marketing expenses (Note 2i)	(3,151)	(6,360)
General and administrative expenses (Notes 2i and 11)	(16,860)	(11,835)
Finance charges	(1,050)	(5,528)
Other income, net (Notes 2g and 12)	<u>56,244</u>	<u>37,738</u>
Net income for the year before Zakat	604,685	425,394
Zakat (Notes 2h and 13)	<u>(17,735)</u>	<u>(10,605)</u>
Net income for the year	<u>586,950</u>	<u>414,789</u>
Net profit per share (Saudi Riyal)	<u>2,61</u>	<u>2,30</u>

The accompanying notes from (1) to (16) 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, 2006
(In Thousands Saudi Riyals)

	<u>2006</u>	<u>2005</u>
Paid-up capital (Note 9):		
Beginning of the year	1,800,000	1,200,000
Transfer from retained earnings	372,268	600,000
Transfer from statutory reserve	<u>77,732</u>	<u>-</u>
End of the year	<u>2,250,000</u>	<u>1,800,000</u>
Statutory reserve (Note 10):		
Beginning of the year	154,889	113,541
Transfer to paid –up capital	(77,732)	-
Transfer from retained earnings	<u>58,695</u>	<u>41,348</u>
End of the year	<u>135,852</u>	<u>154,889</u>
Retained earnings:		
Beginning of the year	372,268	599,185
Transfer to statutory reserve	(58,695)	(41,348)
Transfer to paid –up capital	(372,268)	(600,000)
Prior years adjustments	(889)	(358)
Net income for the year	<u>586,950</u>	<u>414,789</u>
End of the year	<u>527,366</u>	<u>372,268</u>
Total shareholders' Equity	<u>2,913,218</u>	<u>2,327,157</u>

The accompanying notes from (1) to (16) 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, 2006
(In Thousands Saudi Riyals)

	<u>2006</u>	<u>2005</u>
Cash Flows from Operating Activities:		
Net income for the year	586,950	414,789
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	56,327	57,015
Amortization	12,456	15,475
Prior years adjustments	(889)	(358)
Net loss on sale of property and equipment	39	-
End of Service Benefits	3,330	408
Changes in assets and liabilities:		
Accounts receivable	41,221	65,526
Inventory	67,659	(27,483)
Accrued Revenue	(2,953)	(7,407)
Prepayments and other assets	(161,810)	(194)
Accounts payable	(60,403)	31,353
Accrued expenses and other liabilities	<u>229,678</u>	<u>(77,730)</u>
Net cash provided by operating activities	<u>771,605</u>	<u>471,394</u>
Cash Flows from Investing Activities:		
Transfer and purchase of property and equipment	(9,074)	(3,694)
Proceeds from sale of property and equipment	2,233	-
Net change in Investments in Government bonds	136,300	30,791
Net change in Deferred Expenses	(24,000)	(8,754)
Projects Under Construction	<u>(1,204,568)</u>	<u>(672,731)</u>
Net cash used in investing activities	<u>(1,099,109)</u>	<u>(654,388)</u>
Cash Flows from Financing Activities:		
Net change in Long Term Loans	<u>461,582</u>	<u>157,181</u>
Net cash provided by financing activities	<u>461,582</u>	<u>157,181</u>
Net increase (decrease) in cash and bank balances	134,078	(25,813)
Cash and bank balances at beginning of the year	<u>469,045</u>	<u>494,858</u>
Cash and bank balances at end of the year	<u>603,123</u>	<u>469,045</u>

The accompanying notes from (1) to (16) are an integral part of these consolidated financial statements

SAUDI INDUSTRIAL INVESTMENT GROUP
(A Saudi Joint Stock Company)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006
(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 Two billions and 250 millions Saudi Riyals comprising of 225 Million shares at a book value of 10 Saudi Riyals 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 to export the products of the industry and more ways for the private sector in the Kingdom to enter the industrial market depending on petrochemical products.

The accompanying consolidated financial statements comprise the Company's accounts and its Affiliate Companies in which the company owns 50% of their owner's equity. The consolidated financial statements comprise the following companies:

a) Saudi Chevron Phillips Company --

Saudi Chevron Phillips Company (S.C.P.) 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. 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.) 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. 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 of the Saudi Industrial Investment Group financial statement as of December 31, 2006 and its affiliate companies according to the audited financial statement for the affiliate companies as of December 31, 2006 and for the purpose of preparing the consolidated financial statements, all affiliate balances and transaction were settled between the Company and its affiliates.

The consolidated financial statements were made 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) 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%
Leases hold improvements	20%
Buildings	5%
Furniture and fixtures	10% - 15%
Motor vehicles	25%
Computers	15%

f) 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.

g) Revenue recognition --

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

h) 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. difference between Zakat provision and final settlement is settled.

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) Translation of foreign currencies --

The accompanying financial statements are denominated in Saudi Riyals. Appropriate exchange rates have been used to translate transactions or balances denominated in foreign currencies (if any). There were no material exchange gains or losses during the year.

3. INVENTORY

Inventory comprised of the following as of December 31:

	<u>In Thousands Saudi Riyals</u>	
	<u>2006</u>	<u>2005</u>
Raw materials	5,683	5,539
Finished goods	50,509	61,564
Spare parts	6,523	6,350
Chemical Catalyst	<u>16,667</u>	<u>73,588</u>
	<u>79,382</u>	<u>147,041</u>

4. DEFERRED EXPENSES, NET

Deferred expenses comprised of the following as of December 31:

	<u>In Thousands Saudi Riyals</u>	
	<u>2006</u>	<u>2005</u>
Deferred expenses		
Beginning of the year	67,902	67,902
Addition	24,000	-
Disposal	<u>(17,472)</u>	<u>-</u>
End of the year	74,430	67,902
Accumulated Amortization		
Beginning of the year	(36,872)	(30,150)
Addition	(12,456)	(6,722)
Disposal	<u>17,472</u>	<u>-</u>
End of the year	(31,856)	(36,872)
	<u>42,574</u>	<u>31,030</u>

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 National Chevron Phillips project. The cost of this project is expected to exceed S.R 14.4 Billion in cost. This project is scheduled to be launched at the end of 2010, and part of this project represents construction costs for Saudi Chevron Phillips Company.

6. PROPERTIES AND EQUIPMENTS, NET

Property and equipment comprised of the following at December 31:

	In Thousands Saudi Riyals									
	Plant and equipments	Platinum	Buildings	Furniture and fixtures	Motor vehicles	Lease hold improvements	Computers	Computers Software	Telecomm. equipments	Total
Cost										
Beginning of the year	1,055,669	48,987	35,481	9,340	4,530	77	238	-	-	1,154,322
Additions	1,352	-	5,342	1,107	501	542	169	43	18	9,074
Disposals	(3,411)	-	-	(175)	(558)	(77)	-	-	-	(4,221)
End of the year	1,053,610	48,987	40,823	10,272	4,473	542	407	43	18	1,159,175
Depreciation										
Beginning of the year	312,766	-	10,528	8,238	3,245	54	182	-	-	335,013
Additions	52,926	-	2,141	510	628	81	39	-	2	56,327
Disposals	(1,165)	-	-	(175)	(558)	(54)	-	-	-	(1,952)
End of the year	364,527	-	12,669	8,573	3,315	81	221	-	2	389,388
N.B.V 2006	689,083	48,987	28,154	1,699	1,158	461	186	43	16	769,787
N.B.V 2005	742,903	48,987	24,953	1,102	1,285	23	59	-	-	819,312

Depreciation was amounted to SR 56,327 and SR 57,015 (In Thousands Saudi Riyals) for the years ended December 31, 2006, and 2005 respectively.

7. LONG TERM LOANS

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

	In Thousands Saudi Riyals	
	<u>2006</u>	<u>2005</u>
Public Investment Fund (PIF)	543,750	401,250
Total loans from consortium	346,875	205,626
SIDF	<u>200,001</u>	<u>22,168</u>
Total loans	1,090,626	629,044
Current portion:		
Loans from consortium	-	(36,876)
SIDF	<u>-</u>	<u>(22,168)</u>
Total Current portion of long term loans	<u>-</u>	<u>(59,044)</u>
Total long term loans	<u>1,090,626</u>	<u>570,000</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.

8. ACCRUED EXPENSES AND OTHER LIABILITIES

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

	<u>In Thousands Saudi Riyals</u>	
	<u>2006</u>	<u>2005</u>
Other payable balances	179,641	-
Accrued Zakat for the current year	17,735	10,605
Accrued banks charges	9,010	3,014
Accrued Zakat for the years 97 and 98	5,454	5,454
Accrued dividends distribution	883	1,191
Others	<u>129,247</u>	<u>92,028</u>
	<u>341,970</u>	<u>112,292</u>

9. PAID-UP CAPITAL

The paid up capital as of December 31, 2006 shows an increase of S.R 450 million compared to December 31, 2005. This increase is due to the transfer of 2005 retained earning and part of statutory reserve according to the General Meeting dated May 23, 2006 which grant additional share for each four shares.

10. 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.

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>2006</u>	<u>2005</u>
Amortizations	10,060	6,198
Employees' salaries & benefits	3,497	3,087
Professional and legal fees	752	539
Rents	350	-
Depreciations	344	165
Subscriptions and fees	233	-
Business trips	395	-
Training	321	-
Others	<u>908</u>	<u>1,846</u>
	<u>16,860</u>	<u>11,835</u>

12. OTHER INCOME, NET

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

	<u>In Thousands Saudi Riyals</u>	
	<u>2006</u>	<u>2005</u>
Revenue from Investments in Government bonds	34,704	26,555
Revenue from bank deposits	21,579	11,183
Net capitalization profit (loss)	<u>(39)</u>	<u>-</u>
Net	<u>56,244</u>	<u>37,738</u>

13. ZAKAT

a) The company didn't obtain the final Zakat clearance certificates for all years since the inception till December 31, 2006.

b) The company paid all Zakat accrued for the following years (In Thousands Saudi Riyals):

<u>Financial year</u>	<u>Zakat Dep. Assessment</u>	<u>Payment based on Company's assessment</u>
1996	3,275	3,275
1998	3,780	3,780
2000	262	262
2001	262	262

c) The company provided objection on Zakat department assessment for the following years and there is still no answer from Zakat department about the objection up to date (In Thousands Saudi Riyals):

<u>Financial year</u>	<u>Zakat Dep. Assessment</u>	<u>Payment based on Company's assessment</u>
1997	3,338	292
1999	1,395	321

d) The company provided assessment for the following years and Zakat department still did not issue the final Zakat assessment up to date (In Thousands Saudi Riyals):

<u>Financial year</u>	<u>Payment based on Company's assessment</u>
2002	29
2003	75
2004	259

e) The company computed provision for Zakat difference for the Company's share in Saudi Chevron Phillips Company for the years 1997 and 1998 amounted S.R 5,454,000 according to the adjusted assessment which was included on Zakat department's letter No. 3/8584 dated 26/7/1424H (corresponding to 23/9/2003) which was objected on by Saudi Chevron Phillips Company in its letter No. 3/2884 dated 22/8/1424H (corresponding to 18/10/2003), and according to Saudi Chevron Phillips Company's request to Zakat department that the objection should be transferred to the Primary Dispute Committee if Zakat department reject the objection.

- f) Providing of the Zakat assessment for the year ended December 31, 2005 was suspended. a payment of S.R 11,466,423 was paid for the accrued Zakat of 2006.

14. CAPITAL COMMITMENTS

Saudi Industrial Investment Group has a commitment of S.R 167 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 S.R 334 million as of December 31, 2006 (S.R 608 million as of December 31, 2005) for constructing specific projects. And the Saudi Industrial Investment Group has a commitment to additional financing for the Jubail Chevron Phillips Company project amounted S.R 206,250,000 million by banks letter of guarantee against the mortgage of Government bonds at the same amount.

15. RECLASSIFICATIONS

Certain reclassifications have been made to the financial statements for the Company and its affiliate companies for the year ended December 31, 2006 to conform to the classification used in the consolidated financial statements.

16. GENERAL

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