

**SAUDI INTERNATIONAL PETROCHEMICAL COMPANY**  
**(SAUDI JOINT STOCK COMPANY)**

**CONSOLIDATED FINANCIAL STATEMENTS AND**  
**AUDITORS' REPORT**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

**SAUDI INTERNATIONAL PETROCHEMICAL COMPANY**  
**(SAUDI JOINT STOCK COMPANY)**

**CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' REPORT**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

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## AUDITORS' REPORT

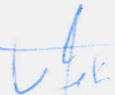
To the stockholders  
Saudi International Petrochemical Company  
(Saudi Joint Stock Company)  
Riyadh, Saudi Arabia

We have audited the accompanying consolidated balance sheet of Saudi International Petrochemical Company (Saudi Joint Stock Company) and Subsidiaries (note 1) as of December 31, 2007, and the related consolidated statements of income, stockholders' equity and cash flows for the year then ended, and notes 1 to 27 which form an integral part of these 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 financial position of the Company and Subsidiaries as of December 31, 2007, 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 Subsidiaries, 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  
21 Muharram 1429  
January 30, 2008



SAUDI INTERNATIONAL PETROCHEMICAL COMPANY  
(SAUDI JOINT STOCK COMPANY)

CONSOLIDATED BALANCE SHEET  
AS OF DECEMBER 31, 2007

	Note	2007 SR	2006 SR
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	3	1,562,011,930	1,507,117,805
Accounts receivable, prepayments and other receivables	4	330,975,440	256,990,630
Inventories	5	101,764,108	59,962,099
<b>Total current assets</b>		<b>1,994,751,478</b>	<b>1,824,070,534</b>
<b>Non-current assets</b>			
Property, plant and equipment	6,7	5,416,419,142	3,199,860,514
Projects development costs	8	170,739,344	40,836,032
Intangible assets	9	168,142,589	197,439,366
<b>Total non-current assets</b>		<b>5,755,301,075</b>	<b>3,438,135,912</b>
<b>TOTAL ASSETS</b>		<b>7,750,052,553</b>	<b>5,262,206,446</b>
<b>LIABILITIES, STOCKHOLDERS' EQUITY AND MINORITY INTEREST</b>			
<b>Current liabilities</b>			
Accounts payable and other liabilities	10	1,112,692,447	476,606,355
Short term loans	11	878,250,000	-
Current portion of long term debts	12	140,503,356	124,630,490
Current portion of capital lease	12	32,108,108	-
<b>Total current liabilities</b>		<b>2,163,553,911</b>	<b>601,236,845</b>
<b>Non-current liabilities</b>			
Long term debts	12	1,085,496,107	1,688,004,608
Obligations under capital lease	12	486,972,973	-
Shareholder advances	13	102,052,056	-
End-of-service indemnities	14	19,807,386	12,957,602
<b>Total non-current liabilities</b>		<b>1,694,328,522</b>	<b>1,700,962,210</b>
<b>Stockholders' equity and minority interest</b>			
Share capital	1	2,000,000,000	1,500,000,000
Statutory reserve	16	176,947,752	117,550,538
General reserve	17	275,000,000	-
Retained earnings		544,929,751	787,954,824
<b>Total stockholders' equity</b>		<b>2,996,877,503</b>	<b>2,405,505,362</b>
<b>Minority interest</b>	15	<b>895,292,617</b>	<b>554,502,029</b>
<b>Total stockholders' equity and minority interest</b>		<b>3,892,170,120</b>	<b>2,960,007,391</b>
<b>TOTAL LIABILITIES, STOCKHOLDERS' EQUITY AND MINORITY INTEREST</b>		<b>7,750,052,553</b>	<b>5,262,206,446</b>

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

**SAUDI INTERNATIONAL PETROCHEMICAL COMPANY**  
(SAUDI JOINT STOCK COMPANY)

**CONSOLIDATED STATEMENT OF INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

	Note	2007 SR	2006 SR
Sales		<b>1,527,675,242</b>	1,333,990,256
Cost of sales		<b>(574,984,319)</b>	(512,269,889)
<b>Gross profit</b>		<b>952,690,923</b>	821,720,367
General and administrative expenses	20	<b>(56,849,953)</b>	(48,493,802)
<b>Operating income</b>		<b>895,840,970</b>	773,226,565
Investment income		<b>38,239,638</b>	54,055,812
Financial charges		<b>(100,186,318)</b>	(81,289,510)
Net expenses of pre-operating activities	21	<b>(857,239)</b>	(1,105,906)
Other income (expenses)		<b>30,761,274</b>	(4,937,945)
<b>Income before minority interest and zakat</b>		<b>863,798,325</b>	739,949,016
Minority interest		<b>(250,019,387)</b>	(220,808,095)
<b>Net income before zakat</b>		<b>613,778,938</b>	519,140,921
Zakat	19	<b>(19,806,797)</b>	(25,447,628)
<b>NET INCOME</b>		<b>593,972,141</b>	493,693,293
<b>Earnings per share (EPS)</b>	22	<b>2.97</b>	2.47

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

**SAUDI INTERNATIONAL PETROCHEMICAL COMPANY**  
**(SAUDI JOINT STOCK COMPANY)**

**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

	Share capital SR	Statutory reserve SR	General reserve SR	Retained earnings SR	Total SR
January 1, 2006	1,500,000,000	68,181,209	-	343,630,860	1,911,812,069
Net income for the year	-	-	-	493,693,293	493,693,293
Transfer to statutory reserve	-	49,369,329	-	(49,369,329)	-
December 31, 2006	1,500,000,000	117,550,538	-	787,954,824	2,405,505,362
Increase in share capital (note 1)	<b>500,000,000</b>	-	-	<b>(500,000,000)</b>	-
Net income for the year	-	-	-	<b>593,972,141</b>	<b>593,972,141</b>
Transfer to statutory reserve	-	<b>59,397,214</b>	-	<b>(59,397,214)</b>	-
Transfer to general reserve	-	-	<b>275,000,000</b>	<b>(275,000,000)</b>	-
Directors' remuneration	-	-	-	<b>(2,600,000)</b>	<b>(2,600,000)</b>
December 31, 2007	<b>2,000,000,000</b>	<b>176,947,752</b>	<b>275,000,000</b>	<b>544,929,751</b>	<b>2,996,877,503</b>

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

**SAUDI INTERNATIONAL PETROCHEMICAL COMPANY**  
(SAUDI JOINT STOCK COMPANY)

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

	2007 SR	2006 SR
<b>OPERATING ACTIVITIES</b>		
Net income before zakat	613,778,938	519,140,921
Adjustments for:		
Depreciation	152,784,207	147,694,751
Amortization of intangible assets	41,332,951	33,832,320
End-of-service indemnities	6,735,958	4,780,466
Finance charges	100,186,318	81,289,510
Minority interest	250,019,387	220,808,095
Net expenses of pre-operating activities	857,239	1,105,906
Changes in operating assets and liabilities:		
Accounts receivable, prepayments and other receivables	(73,984,810)	(173,021,271)
Inventories	(41,802,009)	(5,061,404)
Accounts payable and other liabilities	406,654,291	(7,614,840)
Cash from operations	1,456,562,470	822,954,454
End of service indemnities paid	(399,936)	(477,571)
Finance charges paid	(68,954,054)	(83,732,449)
Zakat and tax paid	(81,034,282)	(27,238,168)
<b>Net cash from operating activities</b>	<b>1,306,174,198</b>	<b>711,506,266</b>
<b>INVESTING ACTIVITIES</b>		
Net expenses of pre-operating activities	(857,239)	(1,105,906)
Changes in investments, net	-	259,583,759
Increase in intangible assets	(12,036,174)	-
Addition to property plant and equipment	(2,151,879,883)	(550,814,246)
Project development costs incurred	(133,258,219)	(16,945,778)
Other assets	-	14,134,340
<b>Net cash used in investing activities</b>	<b>(2,298,031,515)</b>	<b>(295,147,831)</b>
<b>FINANCING ACTIVITIES</b>		
Short term loans	878,250,000	-
Long term debts	(67,554,554)	(105,804,899)
Payment of Board of Directors' remuneration	(2,600,000)	-
Shareholder advances	102,052,056	-
Capital introduced by minority shareholders	304,397,426	32,980,770
Changes in minority interest	(167,793,486)	-
<b>Net cash from (used in) financing activities</b>	<b>1,046,751,442</b>	<b>(72,824,129)</b>
<b>Net change in cash and cash equivalents</b>	<b>54,894,125</b>	<b>343,534,306</b>
Cash and cash equivalents, January 1	1,507,117,805	1,163,583,499
<b>CASH AND CASH EQUIVALENTS, DECEMBER 31</b>	<b>1,562,011,930</b>	<b>1,507,117,805</b>

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

**SAUDI INTERNATIONAL PETROCHEMICAL COMPANY  
(SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

**1. ORGANIZATION AND ACTIVITIES**

Saudi International Petrochemical Company (“the Company” or “Sipchem”) is a Saudi joint stock company, registered in Saudi Arabia under commercial registration number 1010156910 dated 14 Ramadan 1420 H (December 22, 1999) in Riyadh with a branch in Al-Khobar, under commercial registration number 2051023922 dated 30 Shawwal 1420H (February 6, 2000). The share capital of the Company, after the stock dividend mentioned below, is SR 2,000 million, divided into 200 million shares of SR 10 each. Based on the directives of The Custodian of the Two Holy Mosques, The 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 joint stock companies to SR 10 per shares.

The principal activities of the Company are to own, establish, operate and manage industrial projects in the petrochemical and chemical fields commencing with the production of methanol, maleic anhydride, and butanediol. The Company incurs costs on projects under construction and development and subsequently establishes a separate company for each project that has its own commercial registration. Costs incurred by the Company are transferred to a separate company when it is established.

The Capital Market Authority (CMA) approved the listing of the Company’s shares on the Saudi stock exchange and the Company has offered 45 million of the existing shares at par value of SR 10 to general public at SR 55 per share in September 2006.

The shareholders of Sipchem at their extraordinary general assembly meeting held on May 12, 2007, approved the proposal of the Board of Directors to increase the share capital by SR 500 million through capitalization of part of the retained earnings by the distribution of one bonus share for every three shares held as of the date of the extraordinary general meeting.

The Board of Directors of Sipchem in their meeting dated July 9, 2007 decided to recommend to the shareholders an increase in the share capital of the Company through a rights issue. Subsequently in 2008, the rights issue was approved by the Capital Market Authority and by the shareholders at the extraordinary general assembly meeting.

The Company has the following subsidiaries (the Company and its subsidiaries hereinafter referred to as “the Group”):

Subsidiaries – Saudi limited liability companies	Percentage of Ownership	
	2007	2006
International Methanol Company (“IMC”)	65%	65%
International Diol Company (“IDC”) formerly Gulf Advanced Chemical Industries Company Ltd.(“GACIC”)	53.91%	53.91%
International Vinyl Acetate Company Ltd.(“IVAC”)	87%	75%
International Acetyl Company Ltd. (“IAC”)	87%	75%
United Industrial Gasses Company Ltd. (“UIGC”)	72%	75%
Sipchem Marketing and Services Company (“SMSC”)	100%	-

The principal activity of IMC is the manufacture and sale of methanol. It commenced commercial operations in 2004 following the successful commissioning, testing and acceptance formalities with the main contractors.

**SAUDI INTERNATIONAL PETROCHEMICAL COMPANY**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

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The principal activity of IDC is the manufacture and sale of maleic anhydride, butanediol and Tetra Hydro Furan ("THF"). It commenced commercial operation with effect from March 17, 2006 following the successful commissioning, testing and completion of acceptance formalities with the main contractors. Up to March 16, 2006, it was in the development stage as its plant was under construction and start-up. The shareholders of GACIC in their fourth annual shareholders assembly meeting dated May 24, 2006 resolved to rename Gulf Advanced Chemical Industries Company Ltd. ("GACIC") to "International Diol Company". The legal formalities have been finalized in the month of December 2007 and officially the name has been changed in the last quarter of the year.

The principal activity of the IVAC is the manufacture and sale of vinyl acetate monomer. It is currently in the development stage as its plant is under construction. Mechanical completion of the plant is expected to complete in 4<sup>th</sup> quarter of 2008. Commissioning and start-up commencement with commercial operations is expected in early 2009.

The principal activity of the IAC is the manufacture and sale of acetic acid. It is currently in the development stage as its plant is under construction. Mechanical completion of the plant is expected to complete in 4<sup>th</sup> quarter of 2008. Commissioning and start-up commencement with commercial operations is expected in early 2009.

The principal activity of the UIGC is the manufacture and sale of carbon monoxide. It is currently in the development stage as its plant is under construction. Mechanical completion of the plant is expected to complete in 4<sup>th</sup> quarter of 2008. Commissioning and start-up commencement with commercial operations is expected in early 2009.

The principal activity of the SMSC is to provide marketing services for the products manufactured by the group companies.

The shareholders of IVAC, IAC and UIGC have resolved to increase the share capital, change the shareholding between the existing shareholders and admit Ministry of Islamic Affairs, Endowments, Da'wa and Guidance - Supreme Endowments Council, Saudi Arabia as a new shareholder with 3% shares in each of these companies. As a result of the change in shareholdings, the Company's holdings in IVAC and IAC have increased from 75% to 87% and in UIGC have decreased from 75% to 72%. The additional share capital from the existing shareholders and the new shareholder have been received in 2007 and the consolidated financial statements have been prepared based on the revised shareholdings of Sipchem. The legal formalities relating to the increase in share capital and the changes in shareholdings are still under progress as of December 31, 2007. Additionally, the Company has entered into a conditional sale agreement to sell 15% ownership in IVAC and IAC to Ikuras Petroleum Industrial Company, a company registered in Kuwait.

The Company's projects are located at Jubail Industrial City, Kingdom of Saudi Arabia.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying consolidated financial statements have been prepared in compliance with the standards and regulations promulgated by the Saudi Organization of Certified Public Accountants. The following is a summary of significant accounting policies applied by the Company and its subsidiaries:

### **Accounting convention**

The consolidated financial statements have been prepared on an historical cost basis.

**SAUDI INTERNATIONAL PETROCHEMICAL COMPANY**  
**(SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

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**Principles of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries controlled by the Company prepared up to December 31, 2007. 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 between group companies have been eliminated in preparing the consolidated financial statements.

**Revenue recognition**

IMC markets majority of its products through Sipchem and Japan-Arabia Methanol Company Limited (“JAMC”), (“the Marketers”). IDC markets majority of its products through Sipchem and Will & Co. B.V. and Vinmar International Ltd. (“the Marketers”). Sales are made directly to final customers and also to the Marketers’ distribution platforms. The sales through the distribution platforms are recorded at provisional prices at the time of shipments, which are later adjusted based on actual selling prices received by the Marketers from their final customers, after deducting the cost of shipping, distribution and marketing. Adjustments are made as they become known to IMC and IDC. Both export and local sales are recognized at the time of delivery of the product at the loading terminals located at the plants and at the King Fahd Industrial Port of Jubail Industrial City.

**General and administrative expenses**

General and administrative expenses include direct and indirect costs not specifically part of production costs as required under generally accepted accounting principles. Allocations between general and administrative expenses and cost of sales, when required, are made on a consistent basis.

**Inventories**

Inventories comprise spare parts and finished goods and are stated at the lower of cost or estimated net realizable value. Costs of manufactured goods include raw materials, direct labor and manufacturing overheads.

The cost of spare parts and finished goods are arrived at using the weighted average cost method. Appropriate provisions are made for slow moving and redundant inventories.

**Projects development costs**

Project development costs represent mainly legal and feasibility related costs incurred by the parent company in respect of developing new projects. Upon successful development of the projects, costs associated with the projects are transferred to the respective company subsequently established for each project. Projects development costs relating to the projects determined to be non-viable are written off immediately.

**Property, plant and equipment**

Property, plant 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:

	Years
Plant and machinery	10 - 20
Buildings	2 - 33.3
Vehicles	4
Catalyst & tools	1 - 10
Computer, furniture, fixtures and office equipment	10

**SAUDI INTERNATIONAL PETROCHEMICAL COMPANY**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

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**Intangible assets**

Intangible assets comprise debt acquisition and arrangement costs, pre operating costs and turnaround costs.

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 current year’s consolidated statement of income.

Pre-operating costs comprise costs incurred during the development stage of the methanol and butanediol projects. It also includes costs incurred in association with production during the commissioning and start up of the project, offset by the revenue generated from the sale of products manufactured prior to commencement of commercial production. Since these costs were mainly incurred to improve the operating conditions and allow plants to reach the designed and expected production levels, they are deferred as pre-operating costs as they will benefit future periods. The project costs are amortized on a straight-line basis over a period of five to seven years from the commencement of commercial production.

The planned turnaround costs are deferred and amortized over the period until the date of the next planned turnaround. Should an unexpected turnaround occur prior to the previously envisaged date of planned turnaround, then the previously unamortized deferred costs are immediately expensed and the new turnaround costs are amortized over the period likely to benefit from such costs.

**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 consolidated 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.

**Provision for obligations**

A provision is recognized in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

**Zakat**

The Company and its subsidiaries are subject to zakat and income tax in accordance with the regulations of the Department of Zakat and Income Tax (“DZIT”). Zakat and income taxes are provided on an accrual basis. Any difference in the estimate is recorded when the final assessment is approved, at which time the provision is cleared. The zakat charge in the consolidated financial statements represents the zakat for the Company and the Company’s share of zakat in subsidiaries. The zakat charge and income tax, assessable on the minority shareholders, is included in minority interest.

**SAUDI INTERNATIONAL PETROCHEMICAL COMPANY**  
**(SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

**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 statement 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. 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 and Murabaha, with original maturities of three months or less.

	2007 SR	2006 SR
Cash and bank balances	532,902,489	241,719,762
Murabaha	1,029,109,441	1,265,398,043
	<u>1,562,011,930</u>	<u>1,507,117,805</u>

**4. ACCOUNTS RECEIVABLE, PREPAYMENTS AND OTHER RECEIVABLES**

	2007 SR	2006 SR
Trade receivables	288,270,829	237,020,209
Advances to employees	4,994,915	3,285,222
Accrued investment income	2,618,082	1,123,165
Deposits, prepayments and other receivables	35,091,614	15,562,034
	<u>330,975,440</u>	<u>256,990,630</u>

**5. INVENTORIES**

	2007 SR	2006 SR
Finished goods	58,074,542	24,210,880
Spare parts and others	43,689,566	35,751,219
	<u>101,764,108</u>	<u>59,962,099</u>

The spare parts inventories primarily relates to plant and machinery and, accordingly, this inventory is expected to be utilized over a period exceeding one year.

**SAUDI INTERNATIONAL PETROCHEMICAL COMPANY  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED DECEMBER 31, 2007**

**6. PROPERTY, PLANT AND EQUIPMENT**

	Plant & machinery SR	Land & buildings SR	Vehicles SR	Catalyst & tools SR	Computer, furniture, fixtures & office equipment SR	Construction work-in-progress SR	Total SR
<b>Cost</b>							
January 1, 2007	2,285,821,585	48,262,896	5,385,915	114,370,662	39,336,078	948,076,426	3,441,253,562
Additions	2,715,737	-	509,000	12,848,399	1,151,442	2,358,196,824	2,375,421,402
Transfer	4,972,758	165,660	-	336,599	2,145,989	(7,621,006)	-
Write off	-	-	-	(12,872,259)	-	-	(12,872,259)
December 31, 2007	<b>2,293,510,080</b>	<b>48,428,556</b>	<b>5,894,915</b>	<b>114,683,401</b>	<b>42,633,509</b>	<b>3,298,652,244</b>	<b>5,803,802,705</b>
<b>Depreciation</b>							
January 1, 2007	178,798,761	3,944,146	2,042,620	43,363,487	13,244,034	-	241,393,048
Charge for the year	115,124,227	1,270,073	1,512,528	28,800,125	6,077,254	-	152,784,207
Write off	-	-	-	(6,793,692)	-	-	(6,793,692)
December 31, 2007	<b>293,922,988</b>	<b>5,214,219</b>	<b>3,555,148</b>	<b>65,369,920</b>	<b>19,321,288</b>	<b>-</b>	<b>387,383,563</b>
<b>Net book value</b>							
December 31, 2007	<b>1,999,587,092</b>	<b>43,214,337</b>	<b>2,339,767</b>	<b>49,313,481</b>	<b>23,312,221</b>	<b>3,298,652,244</b>	<b>5,416,419,142</b>
December 31, 2006	2,107,022,824	44,318,750	3,343,295	71,007,175	26,092,044	948,076,426	3,199,860,514

IDC and IMC entered into an agreement on the “Principles of Cost Sharing” for the construction of production support and offsite facilities (U&O facilities) at Siphem complex. The agreement provides for joint use and proportionate ownership of the common production support and offsite facilities by IDC and IMC.

As of December 31, 2007, property, plant and equipment include plant and machineries held under capital lease obligations which have a cost of SR 594.6 million (2006 –nil) and accumulated depreciation of SR 82.7 million (2006 – nil).

**7. CONSTRUCTION WORK-IN-PROGRESS**

Construction work-in-progress (“CWIP”) comprises IAC’s, IVAC’s and UGIC’s plants along with the utilities and offsites plant, offplot facilities, administration and support facilities. In 2006, IDC started the commercial operations and the entire costs of construction work-in-progress had been transferred to property, plant and equipment. The assets included are stated at cost, comprising construction costs under various agreements and directly attributable costs to bring the asset to the location and working condition necessary for it to be capable of operating in the manner intended by the management. Also included are costs of testing to ensure the asset is functioning properly, and after deducting net proceeds from the sale of production generated during the testing phase. Directly attributable costs include employee benefits, site preparation costs, installation costs, licensing fees, professional fees and borrowing costs.

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**8. PROJECTS DEVELOPMENT COSTS**

The movement in the project development costs during the year was as follows:

	<b>2007</b>	2006
	<b>SR</b>	SR
January 1	<b>40,836,032</b>	251,153,731
Reimbursed	-	(208,662,950)
Transferred to work-in-progress	-	(227,263,477)
Incurred during the year	<b>129,903,312</b>	225,608,728
	<b>170,739,344</b>	40,836,032

Reimbursed costs mainly represent recovery from an ex-partner in respect to an earlier project.

**9. INTANGIBLE ASSETS**

	Debt acquisition & arrangement costs SR	Pre operating costs SR	Turnaround costs SR	Total SR
<b>Cost</b>				
January 1, 2007	75,586,036	184,667,624	-	260,253,660
Transfer from construction work-in-progress	-	<b>410,325</b>	<b>11,625,849</b>	<b>12,036,174</b>
December 31, 2007	<b>75,586,036</b>	<b>185,077,949</b>	<b>11,625,849</b>	<b>272,289,834</b>
<b>Amortization</b>				
January 1, 2007	20,517,383	42,296,911	-	62,814,294
Charge for the year	<b>8,983,483</b>	<b>29,665,541</b>	<b>2,683,927</b>	<b>41,332,951</b>
December 31, 2007	<b>29,500,866</b>	<b>71,962,452</b>	<b>2,683,927</b>	<b>104,147,245</b>
<b>Net book value</b>				
December 31, 2007	<b>46,085,170</b>	<b>113,115,497</b>	<b>8,941,922</b>	<b>168,142,589</b>
December 31, 2006	55,068,653	142,370,713	-	197,439,366

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**10. ACCOUNTS PAYABLE AND OTHER LIABILITIES**

	<b>2007</b>	2006
	<b>SR</b>	SR
Accounts payable	<b>472,567,250</b>	241,707,125
Retentions	<b>16,270,570</b>	2,882,416
Accruals and other liabilities	<b>586,033,307</b>	178,800,748
Zakat and income tax payable (note 19)	<b>37,821,320</b>	53,216,066
	<b>1,112,692,447</b>	476,606,355

**11. BANK FACILITIES**

The Group has short term facilities with local banks for short term revolving loans, guarantees, letters of credit, etc. The revolving loan facilities carry financing charges at SIBOR/RIBOR plus a margin and are secured by promissory notes equivalent to the total facilities.

In 2007, the Company has obtained various short term murabaha bridge financing facilities amounting to SR 2,000 million from local banks and from a local financial institution to finance its present and future project expenditures. At December 31, 2007 the Company has drawn down SR 878.25 million of the short term facilities.

**12. LONG TERM DEBT**

	<b>2007</b>	2006
	<b>SR</b>	SR
Obligation under capital lease	<b>519,081,081</b>	-
Saudi Industrial Development Fund loan	<b>648,499,500</b>	700,000,000
Syndicated bank loan	<b>146,250,000</b>	681,385,135
Public Investment Fund loan	<b>431,249,963</b>	431,249,963
	<b>1,745,080,544</b>	1,812,635,098
Less: current portion of obligation under capital lease	<b>32,108,108</b>	-
Less: current portion of long term debts	<b>140,503,356</b>	124,630,490
	<b>1,572,469,080</b>	1,688,004,608

Obligation under capital lease

On May 26, 2003, IMC entered into a Term Loan Facility Agreement (“the Facility Agreement”) with a syndicate of financial institutions to provide financing for the construction of the methanol project in the amount of US\$ 180 million, equivalent to SR 675 million. IMC utilized US\$ 160 million of the total loan granted and during the year 2005, the remaining unutilized portion of the loan amounting to US\$ 20 million, equivalent to SR 75 million, was cancelled as the IMC plant was substantially completed.

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Repayments will be in 37 equal quarterly installments commencing at completion as defined in the Facility Agreement. Financing expenses are charged at London Inter-bank Offered Rate ("LIBOR") plus a margin which changes at completion of construction and during the term of the loan. The loan is secured by an assignment of residual proceeds of IMC's fixed assets which are on a first priority mortgage to SIDF. The Facility Agreement requires IMC to comply with certain financial covenants including maintenance of minimum net worth. The Facility Agreement also requires maintenance of certain restricted bank accounts. Under a sponsor support agreement for the IMC project financing, the sponsors are obligated following completion to provide a letter of credit for operations support for a period during the life of the loan, of which Sipchem's share is \$13 million, equivalent to SR 48.75 million. At December 31, 2006, the total amount of the loan outstanding was US\$ 142.7 million, equivalent to SR 535.1 million, including the current portion amounting to US\$ 17.3 million, equivalent to SR 64.9 million.

In 2007, IMC entered into an Islamic Ijara Facility Agreement with the syndicate of financial institutions in the amount of US\$ 142.7 million, equivalent to SR 535.1 million to convert all funds due under the Facility Agreement into an Islamic mode of financing. IMC pre paid the outstanding amount of the commercial loan on January 10, 2007 by executing a sale and lease back transaction of certain property, plant and equipment at their carrying value equivalent to the outstanding loan amount of SR 535.1 million with a lease term of 10 years. IMC has an option to purchase the leased property, plant and equipment for a nominal amount at the conclusion of the lease agreement. IMC's obligation under capital lease is secured by the lessor's title of the leased assets. At December 31, 2007, the total obligations under capital lease agreement was US\$ 138.4 million, equivalent to SR 519.1 million including the current portion amounting to US\$ 8.6 million, equivalent to SR 32.1 million.

***Capital lease liabilities:***

	2007	2006
	SR	SR
Minimum lease payments (fixed and variable rental payments)	743,816,702	-
Less: variable rental payments	208,681,566	-
	<u>535,135,136</u>	-
Less: Payments made during the year	16,054,055	-
Present value of minimum lease payments	519,081,081	-
Less: current portion of obligation under capital lease	32,108,108	-
	<u>486,972,973</u>	-
<b><i>Future minimum lease payments:</i></b>		
No later than one year	32,108,108	-
Later than one year not later than five years	176,594,594	-
Later than five years	310,378,379	-
	<u>519,081,081</u>	-

***Saudi Industrial Development Fund loan - IMC***

The Saudi Industrial Development Fund ("SIDF") granted a loan to IMC for SR 400 million. This loan is guaranteed by promissory notes, shareholders' guarantees proportionate to their shareholding and a first priority mortgage on all present and future assets of IMC. The loan is payable over 13 unequal semi annual installments commencing 15 Safar, 1428 H (March, 2007). The loan agreement includes covenants to maintain financial ratios during the loan period.

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During 2006, in response to the request by IMC for a dividend waiver, SIDF agreed to the waiver in return for IMC making a pre-payment to SIDF of SR 100 million, out of which SR 80 million was applied towards the principal loan outstanding in inverse order and remaining SR 20 million on a pro-rata basis. An additional prepayment of SR 20 million was made in March 2007, which was applied on a pro-rata basis. At December 31, 2007 the total amount of the loan outstanding was SR 248.5 million (2006 – SR 300 million) including the current portion amounting to SR 39.2 million (2006 – nil).

*Saudi Industrial Development Fund loan - IDC*

The Saudi Industrial Development Fund has granted a loan to IDC for SR 400 million. This loan is secured by personal and corporate guarantees of certain shareholders and a mortgage on all present and future assets of IDC. The loan is payable in 14 unequal semi annual installments commencing from 15 Rabi-ul-Thani, 1429 H (April, 2008). The loan agreement includes covenants to maintain financial ratios during the loan period. At December 31, 2007 the total amount of the loan outstanding was SR 400.0 million (2006 – SR 400 million) including the current portion amounting to SR 23.0 million (2006 – nil).

*Saudi Industrial Development Fund loan –IAC, IVAC, and UIGC*

In 2007, the Saudi Industrial Development Fund has granted separate loans to IAC, IVAC and UGIC for SR 400 million, SR 400 million and SR 327 million respectively to provide financing for the construction of the projects (note 1). None of these loans have been utilized as of December 31, 2007.

*Syndicated bank loan - IDC*

In 2004, the IDC entered into a commercial facility agreement (“the Agreement”) with a syndicate of financial institutions to provide financing for the construction of the BDO project (note 1) in the amount of US\$ 47 million, equivalent to SR 176.3 million. Repayments will be in 14 equal semi annual installments commencing at completion as defined in the Agreement with a final maturity date in 2014. Financing expenses are charged at a margin over the London Inter-bank Offered Rate (“LIBOR”) which changes at completion of construction and during the term of the loan. IDC utilized US\$ 39 million of the total loan granted and the remaining unutilized portion of the loan amounting to USD 8 million, equivalent to SR 30 million, was cancelled as the IDC plant was substantially completed. The loan is secured by an assignment of residual proceeds of IDC’s fixed assets which are on a first priority mortgage to SIDF. Certain obligations under the loan are secured by personal and corporate guarantees of certain shareholders. Under a sponsor support agreement for the IDC project financing, the sponsors are obligated following completion to provide a letter of credit for operations support for a period during the life of the loan, of which Sipchem’s share is \$18.8 million, equivalent to SR 70.4 million. The Agreement requires the Company to comply with certain financial covenants and also requires maintenance of certain restricted bank accounts. At December 31, 2007 the total amount of the loan outstanding was US\$ 39.0 million, equivalent to SR 146.3 million (2006 – SR 146.3 million), including the current portion amounting to US\$ 5.6 million, equivalent to SR 20.9 million. IDC is currently working on converting its outstanding commercial loan facility in to an Islamic mode of financing.

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Public Investment Fund loan - IDC

In 2004, the Public Investment Fund (“PIF”) approved a long term loan and subsequently signed the loan agreement in 2005, to finance the project cost of IDC in the amount of US\$ 115 million, equivalent to SR 431.25 million. The loan is repayable in 14 equal semi annual installments of US \$ 7.6 million, equivalent to SR 28.7 million, plus 1 final installment of US \$ 7.9 million, equivalent to SR 29.6 million and the financing expenses are charged at LIBOR plus a margin. The loan repayment will commence in 2008 and the final repayment is expected to be in 2015. The obligation under this loan agreement at all times ranks at pari passu with all other creditors. The loan agreement requires IDC to comply with certain financial covenants. The outstanding balance as at December 31, 2007, amounted to US\$ 115.0 million, equivalent to SR 431.25 million, including a current portion of US\$ 15.3 million, equivalent to SR 57.4 million. In 2005, IDC entered into a financing expenses exchange contract with a local bank, which results in capping the associated financial expenses of the PIF loan. The notional contract value was US\$ 115 million, equivalent to SR 431.2 million, reducing at each reset date from 2008, until the loan is fully repaid in 2015.

Syndicated Bank Loan -IAC, IVAC, and UIGC

In 2006, IAC, IVAC and UGIC jointly entered into a commercial facility agreement with a syndicate of financial institutions to provide financing for the construction of the projects (note 1) in the amount of US\$ 564.54 million (SR 2,117.03 million). None of this facility has been utilized as of December 31, 2007.

**13. SHAREHOLDER ADVANCES**

The shareholders of IVAC, IAC and UIGC have agreed to contribute SR 1,664.1 million to finance certain percentage of their project costs by way of shareholder advances as per the joint venture agreements. Shareholder advances shall be repaid as per the joint venture agreements after the payment of external indebtedness and funding of reserve account. At December 31, 2007, the Company and the minority shareholders have advanced SR 707.8 million and SR 102.1 million respectively.

**14. END-OF-SERVICE INDEMNITIES**

The movement in end-of-service indemnities comprises:

	2007	2006
	SR	SR
January 1	12,957,602	7,990,487
Provision during the year	7,249,720	5,444,686
Payment during the year	(399,936)	(477,571)
	<u>19,807,386</u>	<u>12,957,602</u>

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**15. MINORITY INTEREST**

Minority interest comprises the following:

	<b>2007</b>	2006
	<b>SR</b>	SR
International Methanol Company	<b>373,174,102</b>	329,927,690
International Diol Company	<b>185,166,579</b>	191,870,046
International Acetyl Company Ltd.	<b>130,114,075</b>	3,564,911
International Vinyl Acetate Company Ltd.	<b>87,556,375</b>	1,996,354
United Industrial Gasses Company Ltd.	<b>119,281,486</b>	27,143,028
	<b>895,292,617</b>	554,502,029

**16. STATUTORY RESERVE**

In accordance with Regulations for Companies in Saudi Arabia, the Group has established a statutory reserve by appropriation of 10% of net income until the reserve equals 50% of the share capital. This reserve is not available for dividend distribution. In 2003, the Company issued additional 3 million shares of SR 50 each to Islamic Development Bank Infrastructure Fund L.P. at a premium of SR 10 per share. In accordance with the articles of association of the Company, the resulting premium of SR 30 million was added to the statutory reserve. As of December 31, 2007, the statutory reserve of the consolidated subsidiaries amounting to SR 175.0 million (2006 - SR 101.9 million) is included in the retained earnings.

**17. GENERAL RESERVE**

In 2007, the General Assembly approved the Board of Directors proposal to establish a general reserve of SR 275 million, through transfer from retained earnings to finance the needs of the Company's future projects.

**18. RELATED PARTY TRANSACTIONS**

The board of directors' expenses and allowances for the year ended December 31, 2007 amounted to SR 1,194,274 (2006 - SR 1,083,060).

**19. ZAKAT AND INCOME TAX**

The principal elements of the zakat base in respect of Saudi International Petrochemical Company are as follows:

	<b>2007</b>	2006
	<b>SR</b>	SR
Non-current assets	<b>3,683,342,489</b>	1,636,060,725
Non-current liabilities	<b>14,064,500</b>	9,096,296
Opening shareholders' equity	<b>2,405,505,362</b>	1,911,812,069
Net income before zakat	<b>146,052,106</b>	107,009,710

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

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The movements in zakat and income tax provisions for the Group are as follows:

	2007 SR	2006 SR
<b><u>Zakat</u></b>		
January 1	26,308,418	8,039,391
Provision for the year	20,930,529	25,990,357
Payments during the year	(27,695,345)	(7,721,330)
	<u>19,543,602</u>	<u>26,308,418</u>
	2007 SR	2006 SR
<b><u>Income tax</u></b>		
January 1	26,907,648	11,166,844
Provision for the year	44,709,007	35,257,642
Payment during the year	(26,894,666)	(19,516,838)
Accelerated tax payments for 2007	(26,444,271)	-
	<u>18,277,718</u>	<u>26,907,648</u>

Minority's share of income tax of SR 44,709,007 (2006 - SR 35,257,642) and zakat of SR 1,123,732 (2006 - SR 542,729) has been included in minority interest.

Zakat returns for the Company have been filed and paid for all years through 2006 and the Zakat certificates have been received. During the year the Company received its assessments for the years from 2001 through 2003 which showed an additional amount due of SR 14.6 million. The Company filed an objection against the assessment received from the DZIT. The years 2004 through 2006 are awaiting finalization by the DZIT.

The zakat charge for the year for the Group is as follows:

	2007 SR	2006 SR
Zakat of the Company for current year	4,377,455	8,581,579
Share of zakat of subsidiaries	15,429,342	16,866,049
Charge in statement of income	<u>19,806,797</u>	<u>25,447,628</u>

**20. GENERAL AND ADMINISTRATIVE EXPENSES**

	2007 SR	2006 SR
Employee costs	35,161,159	24,909,675
Board of directors' fees and expenses (note 18)	1,194,274	1,083,060
General office expenses	11,481,712	14,239,514
Depreciation	9,012,808	8,261,553
	<u>56,849,953</u>	<u>48,493,802</u>

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**21. NET EXPENSES OF PRE-OPERATING ACTIVITIES**

These net expenses represent costs charged to the year relating to IAC, IVAC and UGIC and are analyzed as follows:

	<b>2007</b>	2006
	<b>SR</b>	SR
Investment income	<b>(2,137,861)</b>	(1,246,014)
General and administrative expenses	<b>2,995,100</b>	2,351,920
	<b>857,239</b>	1,105,906

**22. EARNINGS PER SHARE**

Earnings per share are computed by dividing net income for the year by the weighted average number of shares outstanding during the year ended December 31, 2007 amounting to 200 million shares and the average number of shares as at December 31, 2006 have been retrospectively adjusted to 200 million from 150 million in last year to take the effect of bonus issue made during the year 2007.

**23. SUPPLEMENTAL CASH FLOW INFORMATION**

Non-cash transactions comprised the following:

	<b>2007</b>	2006
	<b>SR</b>	SR
Amortization of debt acquisition costs capitalized in property, plant and equipment	<b>1,202,887</b>	762,460
Provision for end-of-service indemnities	<b>513,762</b>	664,220

**24. OPERATING LEASE ARRANGEMENTS**

	<b>2007</b>	2006
	<b>SR</b>	SR
Payments under operating leases recognized as an expense during the year	<b>2,165,207</b>	2,816,076

The main leases are with the Royal Commission and the Port Authority. The lease with the Royal Commission is for an initial term of 30 Hijra years and renewable at the option of the Group.

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Commitments for minimum lease payments under non-cancelable operating leases are as follows:

	<b>2007</b>	2006
	<b>SR</b>	<b>SR</b>
Not later than one year	<b>2,165,207</b>	2,003,281
Year two	<b>2,165,207</b>	2,165,207
Year three	<b>2,165,207</b>	2,165,207
Year four	<b>2,165,207</b>	2,165,207
Year five	<b>2,165,207</b>	2,165,207
Later than five years	<b>41,496,765</b>	43,845,442
Net minimum lease payments	<b>52,322,800</b>	54,509,551

**25. CAPITAL COMMITMENTS**

As at December 31, 2007, the Group had outstanding capital commitments amounting to SR 2,076.0 million (2006 - SR 2,620.2 million).

Additionally, the Company has committed to finance the project costs of IVAC, IAC and UIGC by way of shareholder advances and at the year end the outstanding amount committed by the Company was SR 791.2 million as per the joint venture agreements (note 13).

**26. CONTINGENCIES**

At December 31, 2007, the Group had outstanding letters of credit and guarantee amounting to SR 96.7 million (2006 - SR 161.3 million).

A petition was filed against Sipchem, IVAC and IAC (Group companies) by Celanese Co. Ltd., in the State of Texas- United States Of America for the alleged misappropriation of various trade secrets of Celanese Ltd. The Group companies deny these allegations and are vigorously defending against Celanese Ltd.'s claims. The charges against IVAC and IAC were dismissed by the court. Management of the Company is certain that such case is without foundation and will not be material.

**27. FAIR VALUES**

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