

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

**CONSOLIDATED FINANCIAL STATEMENTS AND
AUDITORS' REPORT
FOR THE YEAR ENDED DECEMBER 31, 2008**

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

**CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' REPORT
FOR THE YEAR ENDED DECEMBER 31, 2008**

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AUDITORS' REPORT

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

Scope of Audit

We have audited the consolidated balance sheet of Saudi International Petrochemical Company (Saudi Joint Stock Company) and Subsidiaries (note 1) as of December 31, 2008, and the related consolidated statements of income, stockholders' equity and cash flows for the year then ended, and notes 1 to 28 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 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 statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Unqualified 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, 2008, and the results of their operations and their cash flows for the year then ended in conformity with generally accepted accounting standards 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
24 Muharram 1430
January 21, 2009



SAUDI INTERNATIONAL PETROCHEMICAL COMPANY
(SAUDI JOINT STOCK COMPANY)

CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2008

	Note	2008 SR	2007 SR
ASSETS			
Current assets			
Cash and cash equivalents	3	2,581,034,055	1,562,011,930
Accounts receivable, prepayments and other receivables	4	153,860,598	330,975,440
Inventories	5	106,728,502	101,764,108
Total current assets		2,841,623,155	1,994,751,478
Non-current assets			
Property, plant and equipment	6,7	7,682,107,497	5,416,419,142
Projects development costs	8	109,732,727	170,739,344
Intangible assets	9	199,924,898	168,142,589
Total non-current assets		7,991,765,122	5,755,301,075
TOTAL ASSETS		10,833,388,277	7,750,052,553
LIABILITIES, STOCKHOLDERS' EQUITY AND MINORITY INTEREST			
Current liabilities			
Accounts payable and other liabilities	10	803,600,588	1,112,692,447
Short term loans	11	-	878,250,000
Short term shareholder advances	13	29,927,659	-
Current portion of long term debts	12	133,064,356	140,503,356
Current portion of capital lease	12	42,810,811	32,108,108
Total current liabilities		1,009,403,414	2,163,553,911
Non-current liabilities			
Long term debts	12	3,106,392,804	1,085,496,107
Obligations under capital lease	12	444,162,162	486,972,973
Long term interest rate swap	12	246,500,776	-
Long term shareholder advances	13	135,130,753	102,052,056
End-of-service indemnities	14	33,530,749	19,807,386
Total non-current liabilities		3,965,717,244	1,694,328,522
Stockholders' equity and minority interest			
Share capital	1	3,333,333,330	2,000,000,000
Statutory reserve	16	864,300,418	176,947,752
General reserve	17	275,000,000	275,000,000
Fair value of cash flow hedge	12	(200,539,418)	-
Retained earnings		692,500,351	544,929,751
Total stockholders' equity		4,964,594,681	2,996,877,503
Minority interest	12,15	893,672,938	895,292,617
Total stockholders' equity and minority interest		5,858,267,619	3,892,170,120
TOTAL LIABILITIES, STOCKHOLDERS' EQUITY AND MINORITY INTEREST		10,833,388,277	7,750,052,553

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, 2008

	Note	2008 SR	2007 SR
Sales		1,708,581,660	1,527,675,242
Cost of sales		(693,774,688)	(574,984,319)
Gross profit		1,014,806,972	952,690,923
General and administrative expenses	20	(70,687,277)	(56,849,953)
Operating income		944,119,695	895,840,970
Investment income		52,721,779	38,239,638
Provision for project development cost	21	(77,600,000)	-
Financial charges		(79,117,903)	(100,186,318)
Net income (expenses) of pre-operating activities	22	503,618	(857,239)
Other income		10,059,591	30,761,274
Income before minority interest and zakat		850,686,780	863,798,325
Minority interest		(283,525,813)	(250,019,387)
Net income before zakat		567,160,967	613,778,938
Zakat	19	(30,378,819)	(19,806,797)
NET INCOME		536,782,148	593,972,141
Earnings per share (EPS)	23	1.66	2.28
Earnings per share for continuing main operations		1.49	2.08
Earnings per share for other operations		0.17	0.20
Weighted average number of shares		323,498,419	260,073,260

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, 2008

	Share capital SR	Statutory reserve SR	General reserve SR	Fair value cash flow hedge SR	Retained earnings SR	Total SR
January 1, 2007	1,500,000,000	117,550,538	-	-	787,954,824	2,405,505,362
Increase in share capital (note 1)	500,000,000	-	-	-	(500,000,000)	-
Net income for the year	-	-	-	-	593,972,141	593,972,141
Transfer to statutory reserve	-	59,397,214	-	-	(59,397,214)	-
Transfer to general reserve	-	-	275,000,000	-	(275,000,000)	-
Directors' remuneration	-	-	-	-	(2,600,000)	(2,600,000)
December 31, 2007	2,000,000,000	176,947,752	275,000,000	-	544,929,751	2,996,877,503
Increase in share capital (note 1)	1,333,333,330	-	-	-	-	1,333,333,330
Premium on increase in share capital (note 16)	-	633,674,451	-	-	-	633,674,451
Net income for the year	-	-	-	-	536,782,148	536,782,148
Net change in cash flow hedge (note 12)	-	-	-	(200,539,418)	-	(200,539,418)
Dividends	-	-	-	-	(333,333,333)	(333,333,333)
Transfer to statutory reserve	-	53,678,215	-	-	(53,678,215)	-
Directors' remuneration	-	-	-	-	(2,200,000)	(2,200,000)
December 31, 2008	<u>3,333,333,330</u>	<u>864,300,418</u>	<u>275,000,000</u>	<u>(200,539,418)</u>	<u>692,500,351</u>	<u>4,964,594,681</u>

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, 2008

	2008 SR	2007 SR
OPERATING ACTIVITIES		
Net income before zakat	567,160,967	613,778,938
Adjustments for:		
Depreciation	152,348,524	152,784,207
Gain on disposal of property, plant and equipment	(50,263)	-
Amortization of intangible assets	53,057,046	41,332,951
Provision for projects development costs	77,600,000	-
End-of-service indemnities	15,083,351	6,735,958
Finance charges	79,117,903	100,186,318
Minority interest	283,525,813	250,019,387
Net (income) expenses of pre-operating activities	(503,618)	857,239
Changes in operating assets and liabilities:		
Accounts receivable, prepayments and other receivables	177,829,854	(73,984,810)
Inventories	(4,964,394)	(41,802,009)
Accounts payable and other liabilities	(53,451,624)	406,654,291
Cash from operations	1,346,753,559	1,456,562,470
End of service indemnities paid	(1,359,988)	(399,936)
Finance charges paid	(58,252,208)	(68,954,054)
Zakat and tax paid	(73,014,012)	(81,034,282)
Net cash from operating activities	1,214,127,351	1,306,174,198
INVESTING ACTIVITIES		
Net income (expenses) of pre-operating activities	503,618	(857,239)
Increase in intangible assets	(84,839,355)	(12,036,174)
Purchase of property plant and equipment	(2,686,608,375)	(2,151,879,883)
Proceeds from disposal of property, plant and equipment	236,000	-
Addition to development costs	(36,577,428)	(133,258,219)
Net cash used in investing activities	(2,807,285,540)	(2,298,031,515)
FINANCING ACTIVITIES		
Change in short term loans	(878,250,000)	878,250,000
Change in long term debts and capital lease	1,981,349,589	(67,554,554)
Payment of Board of Directors' remuneration	(2,200,000)	(2,600,000)
Short term shareholder advances	29,927,659	-
Long term shareholder advances	33,078,697	102,052,056
Capital introduced by minority shareholders	-	304,397,426
Changes in minority interest	(185,400,079)	(167,793,486)
Proceeds from right issue	1,967,007,781	-
Dividend paid	(333,333,333)	-
Net cash from financing activities	2,612,180,314	1,046,751,442
Net change in cash and cash equivalents	1,019,022,125	54,894,125
Cash and cash equivalents, January 1	1,562,011,930	1,507,117,805
CASH AND CASH EQUIVALENTS, DECEMBER 31	2,581,034,055	1,562,011,930

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, 2008

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 and right issue mentioned below, is SR 3,333 million, divided into 333 million shares of SR 10 each.

The principal activities of the Company are to own, establish, operate and manage industrial projects in the petrochemical and chemical fields. 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 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 assembly 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. In 2007, the Capital Market Authority approved the rights issue of the Company to increase the share capital of the Company and in 2008, the rights issue was approved by the shareholders at their extra ordinary general assembly meeting. The Company has issued 133,333,333 shares at a premium of SR 5 per share and the share premium collected from the rights issue, net of transaction costs, have been transferred to the statutory reserve.

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	
	2008	2007
International Methanol Company (“IMC”)	65%	65%
International Diol Company (“IDC”)	53.91%	53.91%
International Vinyl Acetate Company Ltd.(“IVAC”)	87%	87%
International Acetyl Company Ltd. (“IAC”)	87%	87%
International Gasses Company Ltd. (“IGC”)	72%	72%
Sipchem Marketing and Services Company (“SMSC”)	100%	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, 2008

The principal activity of IDC is the manufacture and sale of maleic anhydride, butanediol and Tetra Hydro Furan. It commenced commercial operation with effect from March 17, 2006 following the successful commissioning, testing and completion of acceptance formalities with the main contractors. The shareholders of GACIC in their forth 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 were finalized in the month of December 2007 and officially the name was changed in year 2007.

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. In light of the current available information, mechanical completion of the plant is expected to complete in 1st quarter of 2009. Commissioning and start-up commencement with commercial operations is expected in mid of 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. In light of the current available information, mechanical completion of the plant is expected to complete in 1st quarter of 2009. Commissioning and start-up commencement with commercial operations is expected in mid of 2009.

The principal activity of the IGC 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 1st quarter of 2009. Commissioning and start-up commencement with commercial operations is expected in mid of 2009. The shareholders of IGC in their annual shareholders assembly meeting during January 2008 resolved to rename United Industrial Gases Company ("UIGC") to "International Gases Company". The legal formalities have been finalized during the year and officially the name has been changed during the year.

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

In 2007, the shareholders of IVAC, IAC and IGC 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 IGC have decreased from 75% to 72%. The additional share capital from the existing shareholders and the new shareholder has 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 have been completed during the first quarter of 2008. 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. It is expected that the formalities associated with agreement will be completed and the ownership will be transferred during 2009.

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.

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. 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 SMSC and Japan-Arabia Methanol Company Limited ("JAMC"), ("the Marketers"). IDC markets majority of its products through SMSC, 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.

SAUDI INTERNATIONAL PETROCHEMICAL COMPANY
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2008

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

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.

Derivative financial instruments

Derivative financial instruments are initially recorded at cost and are re-measured to fair value at subsequent reporting dates. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in the income statement as they arise.

A fair value hedge is a hedge of the exposure to changes in fair value of an asset or liability that is already recognized in the balance sheet. The gain or loss from the change in the fair value of the hedging instrument is recognized immediately in the statement of income. At the same time, the carrying amount of the hedged item is adjusted for the corresponding gain or loss since the inception of the hedge, which is also immediately recognized in the statement of income.

A cash flow hedge is a hedge of the exposure to variability in cash flows relating to a recognized asset or liability, an unrecognized firm commitment or a forecasted transaction. To the extent that the hedge is effective, the portion of the gain or loss on the hedging instrument is recognized initially directly in equity. Subsequently, the amount is included in the statement of income in the same period or periods during which the hedged item affects net profit or loss. For hedges of forecasted transactions, the gain or loss on the hedging instrument will adjust the recorded carrying amount of the acquired asset or liability.

SAUDI INTERNATIONAL PETROCHEMICAL COMPANY
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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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.

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.

	2008	2007
	SR	SR
Cash and bank balances	438,766,839	532,902,489
Murabaha	2,142,267,216	1,029,109,441
	2,581,034,055	1,562,011,930

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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4. ACCOUNTS RECEIVABLE, PREPAYMENTS AND OTHER RECEIVABLES

	2008 SR	2007 SR
Trade receivables	106,039,869	288,270,829
Advances to employees	6,124,903	4,994,915
Accrued investment income	1,790,587	2,618,082
Deposits, prepayments and other receivables	39,905,239	35,091,614
	<u>153,860,598</u>	<u>330,975,440</u>

5. INVENTORIES

	2008 SR	2007 SR
Finished goods	54,329,602	58,074,542
Spare parts and others	52,398,900	43,689,566
	<u>106,728,502</u>	<u>101,764,108</u>

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

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
Cost							
January 1, 2008	2,293,510,080	48,428,556	5,894,915	114,683,401	42,633,509	3,298,652,244	5,803,802,705
Additions	3,000,916	-	-	1,634,081	969,284	2,392,857,431	2,398,461,712
Transfers	-	-	-	-	-	20,475,916	20,475,916
Disposal	-	-	-	-	(336,335)	-	(336,335)
Write off	(736,649)	-	-	-	-	-	(736,649)
December 31, 2008	<u>2,295,774,347</u>	<u>48,428,556</u>	<u>5,894,915</u>	<u>116,317,482</u>	<u>43,266,458</u>	<u>5,711,985,591</u>	<u>8,221,667,349</u>
Depreciation							
January 1, 2008	293,922,988	5,214,219	3,555,148	65,369,920	19,321,288	-	387,383,563
Charge for the year	115,208,251	1,272,624	1,503,504	27,424,909	6,939,236	-	152,348,524
Disposal	-	-	-	-	(150,598)	-	(150,598)
Write off	(21,637)	-	-	-	-	-	(21,637)
December 31, 2008	<u>409,109,602</u>	<u>6,486,843</u>	<u>5,058,652</u>	<u>92,794,829</u>	<u>26,109,926</u>	<u>-</u>	<u>539,559,852</u>
Net book value							
December 31, 2008	<u>1,886,664,745</u>	<u>41,941,713</u>	<u>836,263</u>	<u>23,522,653</u>	<u>17,156,532</u>	<u>5,711,985,591</u>	<u>7,682,107,497</u>
December 31, 2007	<u>1,999,587,092</u>	<u>43,214,337</u>	<u>2,339,767</u>	<u>49,313,481</u>	<u>23,312,221</u>	<u>3,298,652,244</u>	<u>5,416,419,142</u>

SAUDI INTERNATIONAL PETROCHEMICAL COMPANY
(SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2008

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 Sipchem 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, 2008, property, plant and equipment include plant and machineries held under capital lease obligations which have a cost of SR 594.6 million (2007 –SR 594.6 million) and accumulated depreciation of SR 168.5 million (2007 – 82.7 million).

7. CONSTRUCTION WORK-IN-PROGRESS

Construction work-in-progress (“CWIP”) comprises IAC’s, IVAC’s and IGC’s plants along with the utilities and offsites plant, offplot facilities, administration and support facilities. 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.

8. PROJECTS DEVELOPMENT COSTS

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

	2008	2007
	SR	SR
January 1	170,739,344	40,836,032
Transferred to construction work-in-progress	(20,475,916)	-
Incurred during the year	37,069,299	129,903,312
Provision for project development costs	(77,600,000)	-
	109,732,727	170,739,344

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9. INTANGIBLE ASSETS

	Debt acquisition & arrangement costs SR	Pre operating costs SR	Turnaround costs SR	Total SR
Cost				
January 1, 2008	75,586,036	185,077,949	11,625,849	272,289,834
Additions	84,500,000	-	339,355	84,839,355
December 31, 2008	160,086,036	185,077,949	11,965,204	357,129,189
Amortization				
January 1, 2008	29,500,866	71,962,452	2,683,927	104,147,245
Charge for the year	14,077,329	30,517,650	8,462,067	53,057,046
December 31, 2008	43,578,195	102,480,102	11,145,994	157,204,291
Net book value				
December 31, 2008	116,507,841	82,597,847	819,210	199,924,898
December 31, 2007	46,085,170	113,115,497	8,941,922	168,142,589

10. ACCOUNTS PAYABLE AND OTHER LIABILITIES

	2008 SR	2007 SR
Accounts payable	107,612,107	472,567,250
Retentions	51,688,424	16,270,570
Accruals and other liabilities	595,329,879	586,033,307
Zakat and income tax payable (note 19)	48,970,178	37,821,320
	803,600,588	1,112,692,447

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 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. During 2008, the Company has fully repaid the out standing short term loans.

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12. LONG TERM DEBT

	2008 SR	2007 SR
Obligation under capital lease	486,972,973	519,081,081
Saudi Industrial Development Fund loan	1,386,788,000	648,499,500
Syndicated bank loan	1,478,794,198	146,250,000
Public Investment Fund loan	373,874,962	431,249,963
	3,726,430,133	1,745,080,544
Less: current portion of obligation under capital lease	42,810,811	32,108,108
Less: current portion of long term debts	133,064,356	140,503,356
	3,550,554,966	1,572,469,080

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.

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 535.0 million, including the current portion amounting to US\$ 17.3 million, equivalent to SR 64.1 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, 2008, the total obligations under capital lease agreement was US\$ 129.86 million (2007 - US\$ 138.4) equivalent to SR 486.97 (2007 - US\$ 519.8) million including the current portion amounting to US\$ 11.42 (2007 – US\$ 8.6) million equivalent to SR 42.81 million (2007 - SR 32.1).

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Capital lease liabilities:

	2008 SR	2007 SR
Minimum lease payments (fixed and variable rental payments)	703,799,697	743,816,702
Less: variable rental payments	168,664,562	208,681,566
	535,135,135	535,135,136
Less: Payments made during the year	48,162,162	16,054,055
Present value of minimum lease payments	486,972,973	519,081,081
Less: current portion of obligation under capital lease	42,810,811	32,108,108
	444,162,162	486,972,973
<i>Future minimum lease payments:</i>		
No later than one year	42,810,811	32,108,108
Later than one year not later than five years	192,648,649	176,594,594
Later than five years	251,513,513	310,378,379
	486,972,973	519,081,081

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.

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, 2008 the total amount of the loan outstanding was SR 108.2 million (2007 – SR 248.5 million) including the current portion amounting to SR 24.8 million (2007 – SR 39.2 million).

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, 2008 the total amount of the loan outstanding was SR 377.0 million (2007 – SR 400 million) including the current portion amounting to SR 23.0 million (2007 – 23.0 million).

Saudi Industrial Development Fund loan –IAC, IVAC, and IGC

In 2007, the Saudi Industrial Development Fund has granted separate loans to IAC, IVAC and IGC for SR 400 million, SR 400 million and SR 327 million respectively to provide financing for the construction of the projects (note 1). The loans are repayable in 12 unequal installments commencing from 15 Rabi II, 1432 (March 20, 2011). The loan agreement includes covenants to maintain financial ratios during the loan period. As at December 31, 2008, the total amount of loan outstanding was SR 320 million, SR 320 million and SR 261.6 million relating to IAC, IVAC and IGC respectively.

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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, 2008 the total amount of the loan outstanding was US\$ 39.0 million, equivalent to SR 146.3 million (2007 – 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.

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. Certain liabilities in the loan are guaranteed by certain shareholders based on guarantee support agreement to finance the project. According to the agreement, the guarantors have to submit letter of credit upon the completion of the project. The loan agreement requires IDC to comply with certain financial covenants. The outstanding balance as at December 31, 2008, 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 IGC

During the year 2006, IGC, IAC and IVAC entered into a Joint Commercial Facility Agreement with a Consortium of Financial Institutions to provide financing for the construction of the project for an amount of US \$ 741.3 million (equivalent to SR 2779.9 million). IGC, IAC and IVAC have utilized an amount of SR 1,353.4 million during the year 2008. Repayments will be in 10 equal semi annual installments commencing at completion of the project as defined in the Agreement. Financing expenses are charged at a Fixed margin plus London Inter-bank Offered Rate ("LIBOR"). The loan is secured by an assignment of residual proceeds of IGC, IAC and IVAC'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 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.

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The Agreement requires IGC, IAC and IVAC to comply with certain financial covenants and also requires maintenance of certain restricted bank accounts. At December 31, 2008 the total amount of the loan outstanding was US\$ 360.9 million, equivalent to SR 1,353.4 million (2007 – NIL)

Interest Rate Swap

As at December 31, 2008, IDC, IAC, IVAC and IGC had interest rate swap (“IRS”) contracts with local commercial banks in relation to the loans obtained from Public Investment Fund and commercial loans from syndicate of financial institutions as required according to the loans agreements. At December 31, 2008, the notional amount of IRS contracts was US\$ 539.3 million, equivalent to SR 2,022.2 million. The fair value of the interest rate swap was US\$ 65.7 million (SR 246.5 million) lower than the fair value at the inception of the contract, SIPCHEM share of the fair value amounting to SR 200.5 million has been recorded in equity under the head of fair value cash flow hedge. This amount represents what has to be paid in case the Company decides to settle the agreement. However the Company has no intention to settle the agreement. In case of the increase in the interest rates this difference will be eliminated and may become positive.

13. SHAREHOLDER ADVANCES

The shareholders of IVAC, IAC and IGC have agreed to contribute SR 912 million to finance certain percentage of their project costs by way of long term 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, 2008, the Company and the minority shareholders have advanced SR 777 million and SR 135 million respectively in a long term form, and SR 381.8 million and SR 29.9 million respectively in a short term form.

14. END-OF-SERVICE INDEMNITIES

	2008	2007
	SR	SR
January 1	19,807,386	12,957,602
Provision during the year	15,083,351	7,249,720
Payment during the year	(1,359,988)	(399,936)
	<u>33,530,749</u>	<u>19,807,386</u>

15. MINORITY INTEREST

	2008	2007
	SR	SR
International Methanol Company	414,585,198	373,174,102
International Diol Company	172,345,467	185,166,579
International Acetyl Company Ltd.	114,110,161	130,114,075
International Vinyl Acetate Company Ltd.	78,311,463	87,556,375
International Gasses Company Ltd.	114,320,649	119,281,486
	<u>893,672,938</u>	<u>895,292,617</u>

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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. In 2007, the Capital Market Authority approved the rights issue of the Company to increase the share capital of the Company and in 2008, the rights issue was approved by the shareholders at their extra ordinary general assembly meeting. The Company has issued 133,333,333 shares at a premium of SR 5 per share and the share premium collected from the rights issue, net of transaction costs, have been transferred to the statutory reserve. As of December 31, 2008, the statutory reserve of the consolidated subsidiaries amounting to SR 254.7 million (2007 - SR 175.0 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, 2008 amounted to SR 1,235,342 (2007 - SR 1,194,274).

19. ZAKAT AND INCOME TAX

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

	2008 SR	2007 SR
Non-current assets	4,105,619,211	3,683,342,489
Non-current liabilities	23,201,451	14,064,500
Opening shareholders' equity	2,996,877,503	2,405,505,362
Net income before zakat	41,714,263	146,052,106

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

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

	2008 SR	2007 SR
<u>Zakat</u>		
January 1	19,543,602	26,308,418
Provision for the year	31,710,627	20,930,529
Payments during the year	(21,252,338)	(27,695,345)
	<u>30,001,891</u>	<u>19,543,602</u>

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	2008	2007
	SR	SR
<u>Income tax</u>		
January 1	18,277,718	26,907,648
Provision for the year	52,452,243	44,709,007
Payment during the year	(18,244,840)	(26,894,666)
Accelerated tax payments	(33,516,834)	(26,444,271)
	<u>18,968,287</u>	<u>18,277,718</u>

Minority's share of income tax of SR 52,452,243 (2007 - SR 44,709,007) and zakat of SR 1,331,808 (2007 - SR 1,123,732) has been included in minority interest.

Zakat returns for the Company have been filed and paid for all years through 2007 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 2007 are awaiting finalization by the DZIT.

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

	2008	2007
	SR	SR
Zakat of the Company for current year	13,355,600	4,377,455
Share of zakat of subsidiaries	17,023,219	15,429,342
Charge in statement of income	<u>30,378,819</u>	<u>19,806,797</u>

20. GENERAL AND ADMINISTRATIVE EXPENSES

	2008	2007
	SR	SR
Employee costs	41,353,415	35,161,159
Board of directors' fees and expenses (note 18)	1,217,115	1,194,274
General office expenses, net	19,016,003	11,481,712
Depreciation	9,100,744	9,012,808
	<u>70,687,277</u>	<u>56,849,953</u>

21. PROVISION FOR PROJECT DEVELOPMENT COSTS

For the year ended December 31, 2008 a provision of SR 77.6 million (2007-nil) was made against the project development costs. The management of the Company has not taken a decision to discontinue any ongoing projects. However, this provision is made on a conservative basis against any projects which may not be pursued further in the future.

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22. NET INCOME (EXPENSES) OF PRE-OPERATING ACTIVITIES

Net income (expenses) of pre-operating activities represent transactions relating to IAC, IVAC and IGC and are analyzed as follows:

	2008	2007
	SR	SR
Investment income	2,456,942	2,137,861
General and administrative expenses	(1,953,324)	(2,995,100)
	503,618	(857,239)

23. EARNINGS PER SHARE

Earnings per share are computed by dividing net income for the periods by the weighted average number of shares outstanding, after the bonus and right issue during the year ended December 31, 2008 amounting to 323.5 million shares (2007 – 260.1 million shares after the adjustment for rights issue that took place in 2008).

Earnings per share from the continuing main operations is computed by dividing the operating income less minority interest less zakat for the period by the weighted average number of shares outstanding.

Earning per share from other operations are computed by dividing total other income and expenses which are not attributable directly to company's main operations by the weighted average number of shares outstanding.

24. SUPPLEMENTAL CASH FLOW INFORMATION

Non-cash transactions comprised the following:

	2008	2007
	SR	SR
Fair value of cash flow hedge	200,539,418	-
Amortization of debt acquisition costs capitalized in property, plant and equipment	5,926,737	1,202,887
Provision for end-of-service indemnities	-	513,762

25. OPERATING LEASE ARRANGEMENTS

	2008	2007
	SR	SR
Payments under operating leases recognized as an expense during the year	2,165,207	2,165,207

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:

	2008	2007
	SR	SR
Not later than one year	2,165,207	2,165,207
Year two	2,165,207	2,165,207
Year three	2,165,207	2,165,207
Year four	2,165,207	2,165,207
Year five	2,165,207	2,165,207
Later than five years	39,331,558	41,496,765
Net minimum lease payments	50,157,593	52,322,800

26. CAPITAL COMMITMENTS

As at December 31, 2008, the Group had outstanding capital commitments amounting to SR 719.3 million (2007 - SR 2,076.0 million).

27. CONTINGENCIES

At December 31, 2008, the Group had outstanding letters of credit and guarantee amounting to SR 178.6 million (2007 - SR 96.7 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.

28. FAIR VALUES

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