



The image shows two men in white work clothes and yellow hard hats standing in an industrial setting at dusk. They are looking at a large set of blueprints held by one of them. In the background, there are industrial structures, including a tall distillation column and various pipes and walkways. The sky is a deep blue, and the scene is lit with a warm, golden light from the setting sun.

Investments
in the
Petrochemical
Industry



2. Petrochemical Industries

The presence of rich gas reserves especially in South Pars Oil Fields, which is one of the largest independent gas reserves in the world and approximately holds 48% of world's reserves, promises a high revenue and value added.

Considering the expansion of this gas field, its development in various phases with the aim of meeting the growing demand for natural gas, injection to the oil fields and gas export, the gas fluids and feeding the petrochemical units, was placed on government's agenda. In the 3rd and 4th Economic Development Plan significant importance was given to the establishment of downstream industries in oil industries specifically, petrochemical industry because petrochemical industry holds a special place as a supplying source for many domestic industries, production and export of products and an important source of foreign currency revenue generation and job creation for the country.

Countries in the Middle East region, such as Saudi Arabia, Qatar and Kuwait are regarded as competitors of Iran and in this direction have taken long steps before Iran and therefore have achieved a larger market share contrary to Iran which holds less than one percent of the global market share. It is hoped that the completion of a large number of petrochemical projects under the construction will enable our country to gain a larger market share in the industry.

In this course and to play a more effective role in advancing country's petrochemical industry, BMIIC is planning to establish a specialized petrochemical holding company. For such purpose, BMIIC has taken the preliminary measures to achieve this objective by participating in Arak Petrochemical Co.'s capital increase and fresh investments in Petroshimiran, Lavan Chemical and partly in Bakhtar Petrochemical Co.

2.1. Arak Petrochemical Co.

Currently, Arak Petrochemical Co. with annual production of more than 1.3 million tons petrochemical materials and products including polymer and chemical products is the second Petrochemical Complex in the nation.

Considering the range of product available for sale, this complex is able to supply a wide range of industries such as textile, rubber, oil, gas, petrochemical, detergents, water pipes, gas pipes, sewage pipes, adhesive products, pesticides, plastic serum container, syringes, etc.

The required raw materials and feeds for all products are supplied by other national petrochemical complexes and refineries and only some chemicals and catalyst are imported from abroad.



Capital & Shareholders

The capital of the company is 750 billion Rials divided into 750 million shares with nominal value of 1,000 Rials. The names of shareholders and the percentage of their ownerships are stated below:

Name	Percentage
BMIIC	27.18
BMIIMC	9.22
National Development Investment Co.	5.99
Social Security Investment Co.	3.01
Ta'min Chemical & Petrochemical Investment Co.	16.34
National Pension Fund	15.93
E'tezad Ghadir Investment Co.	3.95
Other	18.38
Total	100

Company's capital increase from 600 billion Rials to 1,200 billion Rials was ratified by Extraordinary General Assembly on March 15th, 2005. Based on that resolution, 25 percent of the capital increase was effected from 150 billion Rials in retained earnings and the remaining 450 billion Rials was increased on the basis of Board of Directors' Resolution dated January 16th, 2007 and on the date of preparation of this report its registration was effected. At the present, the capital of the company is 1,200 billion Rials.

Sales

Of the 1,315,000 tons production, estimated 54% (708,000 tons) are available for sale and the 49% (607,000 tons) remaining are consumable by the downstream units of the complex.

Domestic Sales	488,000 tons	4,327 billion RIs
Export	220,000 tons	1,883.5 billion RIs (205 million USD)
Total	708,000 tons	6,210.5 billion RIs

Compared to 2005/06, the amount of sale in 2006/07 increased by 36%. The domestic and export sales rose by 30% and 56%, respectively. It is to be noted that this increase is mainly related to increase in sales price. The product sales figures rose by 15% and 31%.

The domestic market prices were based on global prices (FOB Bandar Abbas price minus 10% discount). With the rise in international oil and petroleum prices and petrochemical soared and therefore, during 2006/07, Arak Petrochemical adjusted its prices accordingly.

In general, so far the sales policies of the company have been based on supplying the domestic demand and exporting the surplus. However, with commissioning of the new petrochemical complexes and presence of new competitors in the coming years, the company strived to identify secure and reliable markets by performing a proper and accurate market research and it appears that the 31% export tonnage increase in 2006/07 shows a sign of achievement on this course.



Due to the existing rationing, the supply of the domestic demands are still the first priority, regardless of reaching the suitable export position.

Arak Petrochemical Co.'s quest in production and export resulted in receiving the Appreciation Plaque and Statuette for Exemplary Exporter, National Production Festival Appreciation Plaque and Statuette and ranking Third Place on Kharazmi Festival.

Profitability

	2002/03	2003/04	2004/05	2005/06	2006/07
Cost Price on Sales Ratio	66%	65%	63%	65%	61%
Gross Profit on Sales Ratio	34%	35%	37%	35%	39%
Operating Profit on Sales Ratio	27%	32%	33%	30%	34%
*Net Profit on Sales Ratio	26%	33%	38%	34%	34%
Net EPS / Rials	844	1,299	1,599	1,841	2,501

Despite the considerable increase in price of naphtha (the most important raw material which accounts for 75% cost of production) during last year the company managed to maintain its profitability. With 750 billion Rials capital, the net EPS is 2,501 Rials and with the capital of 1,200 billion Rials the same figure is 1,563 Rials.

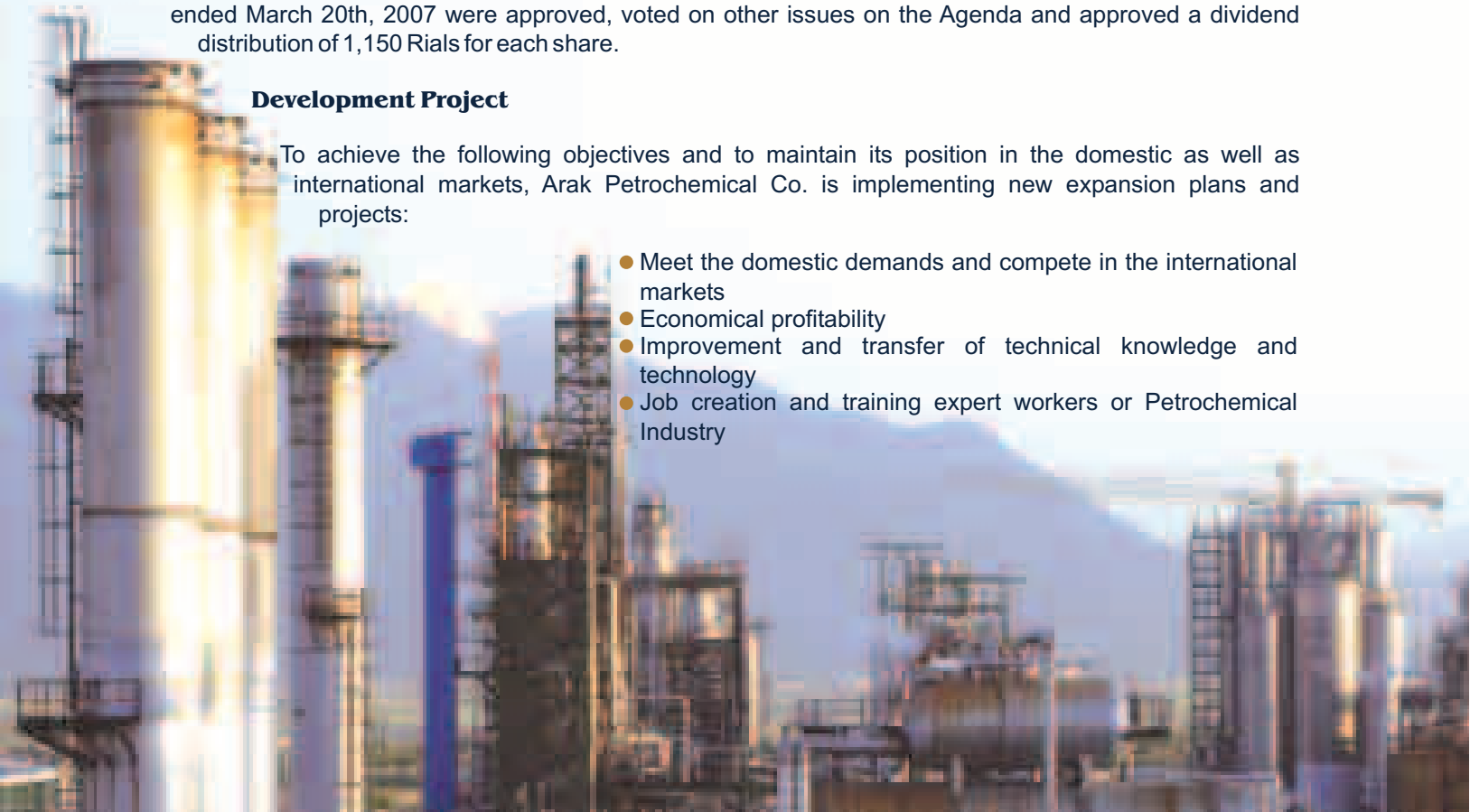
Profit Distribution

The Annual Assembly Meeting was held on May 19th, 2007 during which financial notes for the fiscal year ended March 20th, 2007 were approved, voted on other issues on the Agenda and approved a dividend distribution of 1,150 Rials for each share.

Development Project

To achieve the following objectives and to maintain its position in the domestic as well as international markets, Arak Petrochemical Co. is implementing new expansion plans and projects:

- Meet the domestic demands and compete in the international markets
- Economical profitability
- Improvement and transfer of technical knowledge and technology
- Job creation and training expert workers or Petrochemical Industry



The expansion project of Olefin Unit is one of the important plans for Arak Petrochemical Co. The objective is to provide adequate Ethylene feeds in the complex and supply the new polymer and Chemical units as well as expansion plan units.

2.2. Lavan Chemical Co.

Lavan Chemical Co. was established with joint investment of SAB of India, International Petrochemical Co. and Arak Petrochemical Co. and BMIIC.

Initial capital of the company was 850 million Rials which was increased to 10,200 million Rials (divided into 1,200 shares 8,500,000 Rials each) through the capital increases affected during 2005/06 and 2006/07. The objective for the implementation of this project is to have an annual production of 660,000 tons of Ammoniac and 858,000 tons of Urea in Assalouyeh Zone.

The total investment for the project is estimated at 350 million Dollars of which it is expected that 70% of the cost will be funded by the financial facilities and the remaining 30% of the cost will be covered by shareholders' contribution.

2.3. Petroshimiran Co.

Petroshimiran Co. was established with the initial capital of 10 billion Rials divided into 10 million shares with nominal value of 1,000 Rials and objective of investment on construction, operation and commissioning of petrochemical production facilities. BMIIC and Bank Melli Iran Investment Management Co. respectively own 10% and 7.5% of Petroshimiran Co. It is worth noting that during 2006/07 the shareholding structure of Petroshimiran Co. was changed and Arak Petrochemical Co. purchased 33.5% of the shares of Petroshimiran Co.

2.4. Pars Carbon Black Co.

Pars Carbon Black Co. produces various grades of soft and hard Carbon Black. Nominal capacity of the plant is 15,000 tons however the company has managed to produce 20,369 tons in fiscal year 2006/07. The primary raw material for extract production (grease) is available from domestic market.

