

**NATIONAL PETROCHEMICAL COMPANY - PETROCHEM
(A SAUDI JOINT STOCK COMPANY)**

**THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
TOGETHER WITH LIMITED AUDITORS' REPORT**

**AUDITORS' REPORT ON THE REVIEW OF INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

**SHAREHOLDERS' OF
NATIONAL PETROCHEMICAL COMPANY - PETROCHEM
(A Saudi Joint Stock Company)**

We have examined the accompanying Interim consolidated balance sheet of **NATIONAL PETROCHEMICAL COMPANY - PETROCHEM (A Saudi Joint Stock Company)** as of December 31, 2009 and the related statements of income, cash flows and changes in shareholders' equity for year then ended, and the notes from 1 to 15 which are an integral part of these interim consolidated financial statements, which have been prepared by the company and submitted to us together with all the information and explanations which we requested. These consolidated financial statements are the responsibility of the Company's management. We examined the consolidated the interim financial statements based on financial data submitted to us from the company's affiliate company (Saudi Polymers Company which the Company owns 65% of its shares) for the year ended December 31, 2009. These consolidated financial statements are the responsibility of the Company.

Our examination was limited to the Interim consolidated financial statements of **NATIONAL PETROCHEMICAL COMPANY - PETROCHEM (A Saudi Joint Stock Company)** and was conducted in accordance with the Saudi Organization for Certified Public Accountants standard on interim consolidated financial statements. The limited examine consists principally of analytical procedures applied to financial data and inquiries of the Company's personnel responsible for financial and accounting matters. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our limited review, we are not aware of any material modifications that should be made to the interim consolidated financial statements for the year ended December 31, 2009 to be in conformity with generally accepted accounting principles.



**AlAzem & AlSudairy
Certified Public Accountants**



**Salman B. Al-Sudairy
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25 Moharam 1431H (January 11, 2010)
Riyadh, Saudi Arabia

NATIONAL PETROCHEMICAL COMPANY - PETROCHEM
(A Saudi Joint Stock Company)
CONSOLIDATED BALANCE SHEET (UN-AUDITED)
AS OF DECEMBER 31, 2009
(In Thousands Saudi Riyals)

	<u>Un-audited</u> <u>31/12/2009</u>	<u>Audited</u> <u>31/12/2008</u>
<u>ASSETS</u>		
Current Assets:		
Cash and bank balances (Note 5)	3,272,086	1,513,014
Accrued Revenue from time deposit	3,990	33,945
Prepayments and other assets	<u>347</u>	<u>1,595</u>
Total current assets	3,276,423	1,548,554
Deferred Expenses, net (Note 2c)	133,946	64,823
Projects Under Construction (Note 7)	11,169,547	2,158,886
Property and Equipment, net (Note 2d)	<u>1,445</u>	<u>651</u>
Total assets	<u>14,581,361</u>	<u>3,772,914</u>
<u>LIABILITIES AND OWNERSHIP EQUITY</u>		
Current Liabilities:		
Accrued expenses and other liabilities	1,057	66
Zakat provision (Note 2e)	<u>53,148</u>	<u>-</u>
Total current liabilities	54,205	66
Long term payable	965,968	335,218
Due to an affiliate company (Note 7)	7	511
Long Term Loans (Note 8)	7,674,947	1,219,306
Support Loans (Note 9)	1,036,721	-
End of Service Benefits (Note 2f)	<u>236</u>	<u>11</u>
Total liabilities	<u>9,732,084</u>	<u>1,555,112</u>
Ownership Equity		
Shareholders' Equity:		
Paid-up capital (Note 4a)	4,800,000	2,200,000
Statutory reserve	1,780	1,780
(Accumulated loss) retained earnings	<u>(44,241)</u>	<u>16,022</u>
Total shareholders' equity	<u>4,757,539</u>	<u>2,217,802</u>
Minority Equity	<u>91,738</u>	<u>-</u>
Total ownership equity	<u>4,849,277</u>	<u>2,217,802</u>
Total liabilities and ownership equity	<u>14,581,361</u>	<u>3,772,914</u>

The accompanying notes from (1) to (15) are an integral part of these interim consolidated financial statements

NATIONAL PETROCHEMICAL COMPANY - PETROCHEM
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF INCOME (UN-AUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2009
(In Thousands Saudi Riyals)

	Un-audited From 01/01/2009 To 30/09/2009	Audited From 01/01/2008 To 30/09/2008	Un-audited From 01/10/2009 To 31/12/2009	Audited From 01/10/2008 To 31/12/2008	Un-audited From 01/01/2009 To 31/12/2009	Audited From 01/01/2008 To 31/12/2008
General and administrative exp. (Note 2g)	<u>(3,900)</u>	<u>(1,111)</u>	<u>(4,777)</u>	<u>(727)</u>	<u>(8,677)</u>	<u>(1,838)</u>
Net operating losses for the year	(3,900)	(1,111)	(4,777)	(727)	(8,677)	(1,838)
Amortizations (Notes 2b and 6)	(5,545)	(22,000)	(8,609)	(2,767)	(14,154)	(24,767)
Finance charges	(1,398)	(1,231)	-	(616)	(1,398)	(1,847)
Exchange losses (Note 2h)	(409)	(383)	-	-	(409)	(383)
Other income (Notes 2i and 10)	<u>11,175</u>	<u>34,259</u>	<u>4,595</u>	<u>12,378</u>	<u>15,770</u>	<u>46,637</u>
Net profit (loss) for the year before Zakat and minority equity	(77)	9,534	(8,791)	8,268	(8,868)	17,802
Estimated Zakat for the year (Note 2e)	<u>(39,779)</u>	-	<u>(13,369)</u>	-	<u>(53,148)</u>	-
Net (loss) profit for the year before minority equity	(39,856)	9,534	(22,160)	8,268	(62,016)	17,802
Minority share in net loss of subsidiary	<u>419</u>	-	<u>1,300</u>	-	<u>1,719</u>	-
Net (loss) profit for the year	<u>(39,437)</u>	<u>9,534</u>	<u>(20,860)</u>	<u>8,268</u>	<u>(60,297)</u>	<u>17,802</u>
Net (loss) profit for the year /share (Note 11)	<u>(0.14)</u>	<u>0.04</u>	<u>(0.07)</u>	<u>0.04</u>	<u>(0.19)</u>	<u>0.08</u>

The accompanying notes from (1) to (15) are an integral part of these interim consolidated financial statements

NATIONAL PETROCHEMICAL COMPANY - PETROCHEM
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF CASH FLOWS (UN-AUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2009
(In Thousands Saudi Riyals)

	Un-audited From 1/1/2009 To 31/12/2009	Audited From 1/1/2008 To 31/12/2008
Cash Flows from Operating Activities:		
Net (loss) profits for the year	(60,297)	17,802
Adjustments to reconcile net (loss) profit to net cash provided by operating activities:		
Depreciations for the year	318	45
Amortization	14,153	24,767
Amortization of Deferred Expenses for the year	10,701	-
Prior years' adjustment	34	-
Zakat provision for the year	53,148	-
End of Service Benefits for the year	225	11
Changes in assets and liabilities:		
Accrued Revenue from time deposit	29,955	(33,945)
Prepayments and other assets	1,248	(1,595)
Deferred subscription expenses	(14,153)	-
Accrued expenses and other liabilities	991	66
Long term payable	<u>630,750</u>	<u>335,218</u>
Net cash provided by operating activities	<u>667,073</u>	<u>342,369</u>
Cash Flows from Investing Activities:		
Purchase of property and equipment	(1,112)	(696)
Preoperating expenses	-	(24,767)
Deferred Expenses	(79,824)	(64,823)
Projects Under Construction	<u>(9,010,661)</u>	<u>(2,158,886)</u>
Net cash used in investing activities	<u>(9,091,597)</u>	<u>(2,249,172)</u>
Cash Flows from Financing Activities:		
Net change in Due to an affiliate company	(504)	511
Proceeds from loans	7,492,362	1,219,306
Capital	2,600,000	2,200,000
Net change in minority equity	<u>91,738</u>	<u>-</u>
Net cash provided by financing activities	<u>10,183,596</u>	<u>3,419,817</u>
Net increase in cash and bank balances	1,759,072	1,513,014
Cash and bank balances at beginning of the year	<u>1,513,014</u>	<u>-</u>
Cash and bank balances at end of the year	<u>3,272,086</u>	<u>1,513,014</u>

The accompanying notes from (1) to (15) are an integral part of these interim consolidated financial statements

NATIONAL PETROCHEMICAL COMPANY - PETROCHEM
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF CHANGES IN OWNERSHIP EQUITY (UN-AUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2009
(In Thousands Saudi Riyals)

	Un-audited From 1/1/2009 To 31/12/2009	Audited From 1/1/2008 To 31/12/2008
Paid-up capital (Note 4a):		
Beginning of the year	2,200,000	-
Paid-up capital	<u>2,600,000</u>	<u>2,200,000</u>
End of the year	<u>4,800,000</u>	<u>2,200,000</u>
Statutory reserve:		
Beginning of the year	1,780	-
Transfer from retained earnings	<u>-</u>	<u>1,780</u>
End of the year	<u>1,780</u>	<u>1,780</u>
(Accumulated losses) retained earnings:		
Beginning of the year	16,022	-
Prior years' adjustment	34	-
Transfer to statutory reserve	-	(1,780)
Net (loss) profit for the year	<u>(60,297)</u>	<u>17,802</u>
End of the year	<u>(44,241)</u>	<u>16,022</u>
Total Ownership Equity	<u>4,757,539</u>	<u>2,217,802</u>

The accompanying notes from (1) to (15) are an integral part of these interim consolidated financial statements

NATIONAL PETROCHEMICAL COMPANY - PETROCHEM
(A Saudi Joint Stock Company)
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2009
(In Thousands Saudi Riyals)

National Petrochemical Company - Petrochem is a Saudi Joint Stock Company founded according to the decree No. 53K issued by the ministry of Commerce dated 16/2/1429H (corresponding to 24/2/2008H). The Company is registered in the Kingdom of Saudi Arabia under the commercial registration No. 1010246363 dated 08/03/1429H (corresponding to 16/03/2008). The paid up capital of the Company is 4,800 Millions Saudi Riyals comprising of 480 million shares at a par value of Saudi Riyals 10 per share.

The principal activities of the Company are enhancing the growth, development, establishing, operating, managing and maintaining petrochemical, gas, petroleum and other industrial factories. Wholesale and retail trading in petrochemical materials and products, owning lands, real estate and buildings for the company's benefit.

The accompanying interim consolidated financial statements for the year ended December 31, 2009, 2008 comprise the Company's accounts and its Affiliated Company (Saudi Polymers Company) in which the company owns 65% of ownership equity:

– Saudi Polymers Company --

Saudi Polymers Company is a Saudi mixed limited liability Company (capital SAR 187.5 million), been an increase in capital to be SAR 267,9 million, and located in Al Jubail Industrial City, National Petrochemical Company - Petrochem owns 65 % of Saudi Polymers Company shares and 35 % is owned by Arabian Chevron Phillips Petrochemical Limited Company, The Company produces the following products (ethylene, propylene, 1-Hexene, high density and low density polyethylene, polypropylene, and polystyrene).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The interim consolidated financial statements are prepared in accordance with generally accepted accounting principles in Saudi Arabia. The following is a summary of the Company's significant accounting policies:

a) Consolidation base --

The accompanying interim consolidated financial statements comprise the National Petrochemical Company - Petrochem financial statement as of December 31, 2009, 2008 and its affiliate company according to the unaudited interim financial statement for the affiliate company as of December 31, 2009 and for the purpose of preparing the interim consolidated financial statements, all affiliate balances and transaction were settled between the Company and them.

Preliminary financial statements of the company and its affiliate were consolidated according to the international apportionment consolidation principle, which is in compliance with Saudi GAAP, and that for the comparative figures as of 31 December 2008, and for the two period ended 31, March and 30, June, 2009, consolidation was prepared according to the owners' equity method for the period ended September 30 and December 31, 2009.

b) Deferred subscription expenses --

Deferred subscription expenses represent costs incurred during the General subscription period for the purpose of augmenting the company's capital. These expenses are amortized using the straight-line method over a period of 5 months in the year 2009 only.

c) Deferred expenses --

Deferred expenses are amortized using the straight-line method over a period of 10 years.

d) Property and equipment --

Property and equipment are stated at net cost of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets based on the following annual percentage rates:

Motor vehicles	25%
Lease hold improvements	20%
Office furniture	15%
Computers	15%
Telecom equipments	25%

e) Zakat --

Zakat is an obligation payable by the Company. Estimated Zakat is provided for in the accompanying financial statements and charged to the statement of income, in accordance with Zakat standard issued by the Saudi Organization for Certified Public Accountants. Zakat calculation is made quarterly according to the accrual accounting concept. Any differences between Zakat provision and final settlement at the end of the year are settled.

f) End of service benefits --

Benefits payable to the employees at the end of their services are provided for in accordance with the guidelines set by the Saudi Arabian Labor Law.

g) Expenses –

Expenses incurred by the Company comprise of selling and marketing expenses, general and administrative expenses, and production costs. Production costs include raw materials, direct labor and indirect manufacturing expenses. All expenses related to marketing, selling and distribution of finished goods are classified under a separate line item as selling and marketing expenses. Other direct and indirect management expenses, which are not related to production or selling and marketing functions, are classified as general and administrative expenses. Unallocated expenses, if any, are distributed between general and administrative expenses, selling and marketing expenses, and production costs using fixed basis.

h) Transfer of foreign currencies--

The accompanying financial statements are denominated in Saudi Riyals. Appropriate exchange rates have been used to translate transactions or balances denominated in foreign currencies. The related losses or gains were reported in the statement of income.

i) Revenue recognition --

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

3. ADJUSTMENTS RELATED TO THE PERIOD

The company's management has prepared all the adjustments needed to fairly present the financial position and the results of its operations; however the results of its operations for the year ended December 31, 2009 does not give an accurate resemblance of the actual results of the whole year operations.

4. SIGNIFICANT EVENTS AFFECTING THE ACCOMPANYING INTERIM FINANCIAL STATEMENTS

a. Capital increase –

Paid up capital as of 31 December 2009 shows an increase of SAR 2,600 million for the period ending 31 December 2008. Increase was due to the subscription of Saudi Industrial Investment Group (Saudi Joint Stock Company) which owns 95% of the shares before subscription and 47,7% after it, totaling 20 million shares, and 240 million shares at the general subscription for a value of SAR 10 per share according to the unordinary general assembly dated 23/5/1430H (corresponding to 18/5/2009).

b. Investment increase in affiliate –

During the third quarter of 2009, capital of Saudi Company for Polymers (Saudi mixed limited liability company) increase from SAR 187,5 million to SAR 267,9 million. Company's shares are owned by National Company for Petrochemicals – Petrochem at percentage of 65% after the increase, and 50% before it. Subsequently, the company was forced to change its consolidation policy for the third quarter.

5. CASH AND BANKS BALANCES

Cash and banks balances comprised of the following as of December 31:

	<u>In Thousands Saudi Riyals</u>	
	<u>Un-audited</u>	<u>Audited</u>
	<u>2009</u>	<u>2008</u>
Cash and banks balances	572,383	62,139
Time deposits	2,699,703	1,450,875
	<u>3,272,086</u>	<u>1,513,014</u>

6. PROJECTS UNDER CONSTRUCTION

Projects under construction represent the Company's share in establishing Saudi Polymers Company project. The cost of this project is expected to exceed SAR 20.8 Billion in cost. This project is scheduled to be launched at the end of 2011.

7. DUE TO AN AFFILIATE COMPANY

Due from an affiliate company balance represents the amount due to **Saudi Industrial Investment Group (A Saudi Joint Stock Company)** for the year ended December 31, 2009, 2008.

8. LONG TERM LOAN

Long term loans represent withdrew part of 5,524 million SAR from the commercial banks loans (totaling SAR 9,259 million) which are approved to be granted to the Company from commercial bank, to finance factory construction. The loan is granted against the pledge of factory's property and equipment. Loan payments are due within 6 months of project's operational phase which is scheduled to be around the end of 2011. Total loans approved for granting and were not drawn totaled 3,000 million SAR from PIF (Public Investment Fund) of which 2,149 million SAR was drawn, and 1,200 million SAR from SIDF (Saudi Industrial Development Fund), also against the pledge of property and equipment.

9. SUPPORT LOANS

Supporting loan as of 31 December 2009, stands for a loan granted from the partner Arabian Chevron Philips Petrochemical Company Ltd. To Saudi Polymers Company which equals 35% of the loan granted from the partners of Saudi Polymers Company (65% of its shares are owned by National Company for Petrochemicals – Petrochem and the remaining 35% are owned by Arabian Chevron Philips Petrochemical Company Ltd), and amounting SAR 2,962 million. This loan was granted to support the partners setting up the project of Saudi Polymers Company.

10. OTHER REVENUE

Other revenue balance for the year ended December 31, 2009, 2008 represents time deposits interest.

11. NET (LOSSES) EARNING PER SHARE

Net (loss) earning per share for the year ending 31 December 2009, was calculated by dividing net loss of the period over the weighted average number of the normal shares for the year ending 31 December 2009, which totaled SAR 317,0 million shares (220 million shares for the year ending 31 December 2008).

12. DEFERRED SUBSCRIBING EXPENSES, NET

Deferred subscribing expenses comprised of the following as of September 30:

	<u>In Thousands Saudi Riyals</u>	
	<u>Un-audited</u>	<u>audited</u>
	<u>2009</u>	<u>2008</u>
Subscribing expenses	14,153	-
Amortization	(14,153)	-
	<u>-</u>	<u>-</u>

13. CAPITAL COMMITMENTS

Unused capital commitments intended for the establishment of Saudi Polymers Company's factory, amounted SAR 4,9 million as of December 31, 2009.

14. COMPARATIVE FIGURES

For comparative purpose, comparative figures for the period ending 31 December 2008 for the consolidated financial statements of National Company for Petrochemicals – Petrochem and its affiliate (Saudi Polymers Company) which was consolidated according to the international apportionment consolidation principle, which is in compliance with Saudi GAAP, where company's share as of the second quarter of 2009 totaled 50% affiliate's shares, while the shares of National Company for Petrochemicals – Petrochem for the third quarter of 2009 totaled 65%. Financial statements were consolidated according to the ownership equity method.

15. GENERAL

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