

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

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


We have examined the accompanying Interim consolidated balance sheet of **NATIONAL PETROCHEMICAL COMPANY - PETROCHEM (A Saudi Closed Joint Stock Company)** as of June 30, 2009 and the related statements of income, cash flows and changes in shareholders' equity for the six months period then ended, and the notes from 1 to 12 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 50% of its shares) for the period ended June 30, 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 Closed Joint Stock Company)** and was conducted in accordance with the Saudi Organization for Certified Public Accountants standard on interim consolidated financial statements. The limited examination 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 six months period ended June 30, 2009 to be in conformity with generally accepted accounting principles.



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18 Rajab 1430H (July 11, 2009)
Riyadh, Saudi Arabia

NATIONAL PETROCHEMICAL COMPANY - PETROCHEM
(A Saudi Closed Joint Stock Company)
CONSOLIDATED BALANCE SHEET (UNAUDITED)
AS OF JUNE 30, 2009
(In Thousands Saudi Riyals)

	<u>Un-audited</u> <u>30/06/2009</u>	<u>Un-audited</u> <u>30/06/2008</u>
<u>ASSETS</u>		
Current Assets:		
Cash and bank balances (Note 4)	1,359,054	1,520,415
Accrued Revenue from time deposit	103	9,363
Prepayments and other assets	<u>2,899</u>	<u>13</u>
Total current assets	1,362,056	1,529,791
Preoperating expenses, net (Note 2b)	-	8,787
Deferred Expenses, net (Note 2c)	70,405	32,358
Projects Under Construction (Note 5)	4,168,806	1,024,705
Property and Equipment, net (Note 2d)	<u>1,422</u>	<u>299</u>
Total assets	<u>5,602,689</u>	<u>2,595,940</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Current Liabilities:		
Accrued expenses and other liabilities	273	-
Zakat provision (Note 2e)	<u>26,628</u>	<u>-</u>
Total current liabilities	26,901	-
Long term payable	596,733	204,152
Due to an affiliate company (Note 6)	131	155
Long Term Loans (Note 7)	2,781,331	187,500
End of Service Benefits (Note 2f)	<u>23</u>	<u>-</u>
Total liabilities	3,405,119	391,807
Shareholders' Equity:		
Paid-up capital (Note 8)	2,200,000	2,200,000
Statutory reserve	1,780	413
(Accumulated loss) retained earnings	<u>(4,210)</u>	<u>3,720</u>
Total shareholders' equity	<u>2,197,570</u>	<u>2,204,133</u>
Total liabilities and shareholders' equity	<u>5,602,689</u>	<u>2,595,940</u>

The accompanying notes from (1) to (12) are an integral part of these interim consolidated financial statements

NATIONAL PETROCHEMICAL COMPANY - PETROCHEM
(A Saudi Closed Joint Stock Company)
CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)
FOR THE PERIOD ENDED JUNE 30, 2009
(In Thousands Saudi Riyals)

	<u>Un-audited</u> <u>From 01/01/2009</u> <u>To 31/03/2009</u>	<u>Un-audited</u> <u>From 01/01/2008</u> <u>To 31/03/2008</u>	<u>Un-audited</u> <u>From 01/04/2009</u> <u>To 30/06/2009</u>	<u>Un-audited</u> <u>From 01/04/2008</u> <u>To 30/06/2008</u>	<u>Un-audited</u> <u>From 01/01/2009</u> <u>To 30/06/2009</u>	<u>Un-audited</u> <u>From 01/01/2008</u> <u>To 30/06/2008</u>
General and administrative exp. (Note 2g)	<u>(981)</u>	-	<u>(785)</u>	<u>(855)</u>	<u>(1,766)</u>	<u>(855)</u>
Net operating losses for the period	(981)	-	(785)	(855)	(1,766)	(855)
Amortizations (Note 2b)	-	-	-	(16,000)	-	(16,000)
Finance charges	(616)	-	(493)	(616)	(1,109)	(616)
Exchange losses (Note 2h)	-	-	-	(383)	-	(383)
Other income (Notes 2i and 9)	<u>7,031</u>	-	<u>2,240</u>	<u>21,987</u>	<u>9,271</u>	<u>21,987</u>
Net profit for the period before Zakat	5,434	-	962	4,133	6,396	4,133
Accrued Zakat for the period (Note 2e)	<u>(13,306)</u>	-	<u>(13,322)</u>	-	<u>(26,628)</u>	-
Net (loss) profit for the period	<u>(7,872)</u>	-	<u>(12,360)</u>	<u>4,133</u>	<u>(20,232)</u>	<u>4,133</u>
Net (loss) profit for the period /share	<u>(0,04)</u>	-	<u>(0,06)</u>	<u>0,02</u>	<u>(0,09)</u>	<u>0,02</u>

The accompanying notes from (1) to (12) are an integral part of these interim consolidated financial statements

NATIONAL PETROCHEMICAL COMPANY - PETROCHEM
(A Saudi Closed Joint Stock Company)
CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE PERIOD ENDED JUNE 30, 2009
(In Thousands Saudi Riyals)

	<u>Un-audited</u> <u>From 1/1/2009</u> <u>To 30/06/2009</u>	<u>Un-audited</u> <u>From 1/1/2008</u> <u>To 30/06/2008</u>
Cash Flows from Operating Activities:		
Net (loss) profits for the period	(20,232)	4,133
Adjustments to reconcile net (loss) profit to net cash provided by operating activities:		
Depreciations for the period	143	6
Amortization of Preoperating expenses for the period	-	16,000
Amortization of Deferred Expenses for the period	1,918	-
Zakat provision for the period	26,628	-
End of Service Benefits for the period	12	-
Changes in assets and liabilities:		
Accrued Revenue from time deposit	33,842	(9,363)
Prepayments and other assets	(1,304)	(13)
Accrued expenses and other liabilities	207	-
Long term payable	<u>261,515</u>	<u>204,152</u>
Net cash provided by operating activities	<u>302,729</u>	<u>214,915</u>
Cash Flows from Investing Activities:		
Purchase of property and equipment	(914)	(305)
Preoperating expenses	-	(24,787)
Deferred Expenses	(7,500)	(32,358)
Projects Under Construction	<u>(2,009,920)</u>	<u>(1,024,705)</u>
Net cash used in investing activities	<u>(2,018,334)</u>	<u>(1,082,155)</u>
Cash Flows from Financing Activities:		
Net change in Due to an affiliate company	(380)	155
Proceeds from long term loans	1,562,025	187,500
Capital	<u>-</u>	<u>2,200,000</u>
Net cash provided by financing activities	<u>1,561,645</u>	<u>2,387,655</u>
Net (decrease) increase in cash and bank balances	(153,960)	1,520,415
Cash and bank balances at beginning of the period	<u>1,513,014</u>	<u>-</u>
Cash and bank balances at end of the period	<u>1,359,054</u>	<u>1,520,415</u>

The accompanying notes from (1) to (12) are an integral part of these interim consolidated financial statements

NATIONAL PETROCHEMICAL COMPANY - PETROCHEM
(A Saudi Closed Joint Stock Company)
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)
FOR THE PERIOD ENDED JUNE 30, 2009
(In Thousands Saudi Riyals)

	<u>Un-audited</u> <u>From 1/1/2009</u> <u>To 30/06/2009</u>	<u>Un-audited</u> <u>From 1/1/2008</u> <u>To 30/06/2008</u>
Paid-up capital (Note 9):		
Beginning of the period	2,200,000	-
Paid-up capital	<u>-</u>	<u>2,200,000</u>
End of the period	<u>2,200,000</u>	<u>2,200,000</u>
Statutory reserve:		
Beginning of the period	1,780	-
Transfer from retained earnings	<u>-</u>	<u>413</u>
End of the period	<u>1,780</u>	<u>413</u>
(Accumulated losses) retained earnings:		
Beginning of the period	16,022	-
Transfer to statutory reserve	-	(413)
Net (loss) profit for the period	<u>(20,232)</u>	<u>4,133</u>
End of the period	<u>(4,210)</u>	<u>3,720</u>
Total shareholders' Equity	<u><u>2,197,570</u></u>	<u><u>2,204,133</u></u>

The accompanying notes from (1) to (12) are an integral part of these interim consolidated financial statements

NATIONAL PETROCHEMICAL COMPANY - PETROCHEM
(A Saudi Closed Joint Stock Company)
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE PERIOD ENDED JUNE 30, 2009
(In Thousands Saudi Riyals)

National Petrochemical Company - Petrochem is a Saudi Closed Joint Stock Company. 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 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 period ended June 30, 2009, 2008 comprise the Company's accounts and its Affiliated Company (Saudi Polymers Company) in which the company owns 50% of owner's equity:

– Saudi Polymers Company --

Saudi Polymers Company is a Saudi mixed limited liability Company (capital SAR 187.5 million), located in Al Jubail Industrial City, National Petrochemical Company - Petrochem owns 50 % of Saudi Polymers Company shares and 50 % 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 June 30, 2009, 2008 and its affiliate company according to the unaudited interim financial statement for the affiliate company as of June 30, 2009, 2008 and for the purpose of preparing the interim consolidated financial statements, all affiliate balances and transaction were settled between the Company and them.

The interim financial statements of the company and those of its affiliate were consolidated based on the congenital consolidation international criterion which is not in conflict with Saudi Standards.

b) Preoperating expenses --

Preoperating expenses represent costs incurred during the formation period of the Company's and are amortized during 2008.

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%
Computers	15%

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. Un-allocated 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 period ended June 30, 2009, 2008 does not give an accurate resemblance of the actual results of the whole year operations.

4. CASH AND BANKS BALANCES

Cash and banks balances comprised of the following as of June 30:

	<u>In Thousands Saudi Riyals</u>	
	<u>Un-audited</u>	<u>Un-audited</u>
	<u>2009</u>	<u>2008</u>
Cash and banks balances	498,431	67,165
Time deposits	860,623	1,453,250
	<u>1,359,054</u>	<u>1,520,415</u>

5. 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.

6. 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 period ended June 30, 2009, 2008.

7. LONG TERM LOAN

Long term loans represent withdrew part of 2,021 million SAR from the commercial banks loans (totaling 4,629 thousand million) which are approved to be granted to the Saudi Polymers 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 1,500 million SAR from PIF (Public Investment Fund) of which 759 million SAR was drawn, and 600 million SAR from SIDF (Saudi Industrial Development Fund), also against the pledge of property and equipment.

8. CAPITAL

The Capital of the company is 2,200,000,000 two billion and two hundred million Saudi Riyals, divider to 220,000,000 two hundred million and twenty thousand shares equal value, at a book value of Saudi Riyals 10 per share, and all is cash normal share:

	<u>%</u>	<u>Number of Shares</u>	<u>Amount</u>
Saudi Industrial Investment Group (J.S.C)	95 %	209,000,000	2,090,000,000
Saudi Benzene Company (L.L.C)	1,25 %	2,750,000	27,500,000
Saudi Cyclohexane Company (L.L.C)	1,25 %	2,750,000	27,500,000
Saudi Nylon Company (L.L.C)	1,25 %	2,750,000	27,500,000
Saudi Paraxylene Company (L.L.C)	1,25 %	2,750,000	27,500,000
Total	<u>100 %</u>	<u>220,000,000</u>	<u>2,200,000,000</u>

9. OTHER REVENUE

Other revenue balance for the period ended June 30, 2009, 2008 represents time deposits interest.

10. CAPITAL COMMITMENTS

- National Petrochemical Company-Petrochem, has a commitment of USD 750 million (SAR 2,812,500,000) towards each of Saudi Polymers Company, as the project's company, and Smitumu Mitsu Bank as it is the representative of the lending banks. This commitment stands for a bank letter of guarantee for the company's contribution in the equity of the Saudi polymers Company, which is half owned by the company, against the pledge of a time deposit amounting to USD 375 million (SAR 1,406,250,000).
- National Petrochemical Company-Petrochem has SAR 4,88 Billion of unused capital expenditure commitment as of June 30, 2009 regarding to being a partner in Saudi Polymers Company by 50% for the purpose of the plants construction.

11. CAPITAL INCREASE

The National Petrochemical Company held its extraordinary General Assembly meeting on 23/5/1430 H (corresponding to 18/5/2009 G), and the assembly agreed to raise the company's capital to 4,800 million Saudi Riyal divided into 480 million shares at (10) Saudi Riyal each through a subscription of Saudi Industrial Investment Group with a total of 20 million shares and the remaining, 240 million shares, will be allocated for public offering at (10) Saudi Riyals per share, where 80 million shares will be allocated for Public Pension Agency and General Organization for Social Insurance each, and the remaining 80 million shares will be offered to the public of the Saudi natural persons. Terms of subscription period begins on 25/7/1430H (corresponding to 18/7/2009G) and continues for Seven days till 2/8/1430H (corresponding to 24/7/2009G).

The founding shareholders will own 50% of shares after the completion of the subscription, and will retain control of National Petrochemical Company shares.

12. GENERAL

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