

**National Petrochemical Company  
(Petrochem) and its Subsidiaries  
(A Saudi Joint Stock Company)**

**INTERIM CONSOLIDATED FINANCIAL  
STATEMENTS (UNAUDITED)**

**FOR THE THREE MONTH PERIOD  
ENDED 31 MARCH 2011**

National Petrochemical Company (Petrochem) and its Subsidiaries  
(A Saudi Joint Stock Company)

---

INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2011

<b>INDEX</b>	<b>PAGE</b>
Auditors' limited review report	1
Interim consolidated balance sheet	2
Interim consolidated statement of income	3
Interim consolidated statement of cash flows	4
Interim consolidated statement of changes in shareholders' equity	5
Notes to the interim consolidated financial statements	6

## LIMITED REVIEW REPORT

To the shareholders of National Petrochemical Company (Petrochem)  
(A Saudi Joint Stock Company)


### Scope of review

We have reviewed the accompanying interim consolidated balance sheet of National Petrochemical Company - a Saudi Joint Stock Company - ("Petrochem") and its subsidiaries as at 31 March 2011, and the related interim consolidated statements of income, cash flows and changes in shareholders' equity for the three month period then ended. These interim consolidated financial statements are the responsibility of Petrochem's management and have been prepared by them and submitted to us together with all the information and explanations which we required. We conducted our limited review in accordance with the Standard on Review of Interim Financial Reporting issued by the Saudi Organisation for Certified Public Accountants (SOCPA). A limited review consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted 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.

### Conclusion

Based on our limited review, we are not aware of any material modifications that should be made to the accompanying interim consolidated financial statements for them to be in conformity with accounting standards generally accepted in the Kingdom of Saudi Arabia.

For Ernst & Young

  
Fahad M. Al-Toaimi  
Certified Public Accountant  
Registration No. 354



Riyadh: 15 Jumad Awal 1432H  
(19 April 2011)

National Petrochemical Company (Petrochem) and its Subsidiaries  
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED BALANCE SHEET (UNAUDITED)

As at 31 March 2011

(Amounts in SR'000)

	Note	2011	2010
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		3,018,176	2,799,360
Due from related parties		1,094	-
Accrued income and other assets		12,843	3,946
<b>TOTAL CURRENT ASSETS</b>		<b>3,032,113</b>	<b>2,803,306</b>
<b>NON-CURRENT ASSETS</b>			
Project under construction	4	16,559,032	12,412,205
Deferred charges, net		184,392	219,776
Property and equipment		993	1,349
<b>TOTAL NON-CURRENT ASSETS</b>		<b>16,744,417</b>	<b>12,633,330</b>
<b>TOTAL ASSETS</b>		<b>19,776,530</b>	<b>15,436,636</b>
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Accrued expenses and other liabilities		25,803	16,410
Zakat provision	5	51,078	96,833
<b>TOTAL CURRENT LIABILITIES</b>		<b>76,881</b>	<b>113,243</b>
<b>NON-CURRENT LIABILITIES</b>			
Long term accounts payable	6	344,099	943,016
Due to related parties		6,880	21
Term loans	7	12,948,014	8,274,947
Subordinated loan from the non-controlling partner	8	14,861	1,299,221
Employees' terminal benefits		4,753	937
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>13,318,607</b>	<b>10,518,142</b>
<b>TOTAL LIABILITIES</b>		<b>13,395,488</b>	<b>10,631,385</b>
<b>EQUITY</b>			
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	9	4,800,000	4,800,000
Statutory reserve		1,780	1,780
Accumulated losses		(97,722)	(87,512)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>4,704,058</b>	<b>4,714,268</b>
Non controlling interest		1,676,984	90,983
<b>TOTAL EQUITY</b>		<b>6,381,042</b>	<b>4,805,251</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>19,776,530</b>	<b>15,436,636</b>

The attached notes 1 to 16 form part of these interim consolidated financial statements.



National Petrochemical Company (Petrochem) and its Subsidiaries  
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

For the three month period ended 31 March 2011

(Amounts in SR'000)

	Note	2011	2010
General and administration expenses		(4,206)	(3,345)
<b>LOSS FROM MAIN OPERATIONS</b>		<b>(4,206)</b>	<b>(3,345)</b>
Income from bank deposits		3,173	3,413
<b>(LOSS) INCOME BEFORE NON CONTROLLING INTEREST AND ZAKAT</b>		<b>(1,033)</b>	<b>68</b>
Non-controlling interest share in net loss of subsidiaries		506	757
<b>(LOSS) INCOME BEFORE ZAKAT</b>		<b>(527)</b>	<b>825</b>
Zakat	5	(9,993)	(43,768)
<b>NET LOSS</b>		<b>(10,520)</b>	<b>(42,943)</b>
<b>LOSS PER SHARE FOR THE PERIOD (SR)</b>			
Attributable to loss from main operations	10	(0.01)	(0.01)
Attributable to net loss		(0.02)	(0.09)

The attached notes 1 to 16 form part of these interim consolidated financial statements.

National Petrochemical Company (Petrochem) and its Subsidiaries  
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

For the three month period ended 31 March 2011

(Amounts in SR'000)

	2011	2010
<b>OPERATING ACTIVITIES</b>		
(Loss) Income before zakat	(527)	825
Adjustments for:		
Employees' terminal benefits, net	1,827	138
Depreciation	101	96
Non-controlling interest share in loss of the subsidiaries	(506)	(757)
Changes in operating assets and liabilities:		
Accrued income and other assets	(806)	97
Accrued expenses and other liabilities	79,191	(7,158)
Related parties, net	3,528	14
<b>Net cash from (used in) operating activities</b>	<b>82,808</b>	<b>(6,745)</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property and equipment, net	(11)	-
Deferred charges, paid	-	(90,000)
Project under construction	(540,132)	(1,238,487)
<b>Net cash used in investing activities</b>	<b>(540,143)</b>	<b>(1,328,487)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from term loans	1,371,652	862,504
Non-controlling interest	718	-
<b>Net cash from financing activities</b>	<b>1,372,370</b>	<b>862,504</b>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>915,035</b>	<b>(472,728)</b>
Cash and cash equivalents at the beginning of the period	2,103,141	3,272,088
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>3,018,176</b>	<b>2,799,360</b>

The attached notes 1 to 16 form part of these interim consolidated financial statements.

National Petrochemical Company (Petrochem) and its Subsidiaries  
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
(UNAUDITED)

For the three month period ended 31 March 2011

(Amounts in SR'000)

	Attributable to the shareholders' equity				Non- controlling interest
	Share capital	Statutory reserve	Accumulated losses	Total	
Balance as at 1 January 2011	4,800,000	1,780	(87,202)	4,714,578	1,676,772
Non-controlling interest	-	-	-	-	718
Net loss for the period	-	-	(10,520)	(10,520)	(506)
<b>Balance as at 31 March 2011</b>	<b>4,800,000</b>	<b>1,780</b>	<b>(97,722)</b>	<b>4,704,058</b>	<b>1,676,984</b>
Balance as at 1 January 2010	4,800,000	1,780	(44,569)	4,757,211	91,740
Net loss for the period	-	-	(42,943)	(42,943)	(757)
<b>Balance as at 31 March 2010</b>	<b>4,800,000</b>	<b>1,780</b>	<b>(87,512)</b>	<b>4,714,268</b>	<b>90,983</b>

The attached notes 1 to 16 form part of these interim consolidated financial statements.



National Petrochemical Company (Petrochem) and its Subsidiaries  
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
31 March 2011

1. ORGANIZATION AND ACTIVITIES

National Petrochemical Company ("Petrochem") is a Saudi joint stock company registered in the Kingdom of Saudi Arabia under commercial registration numbered 1010246363 dated 8 Rabi Al Awal 1429 H (corresponding to 16 March 2008), and was formed pursuant to the ministry of commerce and industry's resolutions numbered 53Q dated 16 Safar 1429H (corresponding to 24 February 2008).

Petrochem is engaged in the development, establishment, operation, management and maintenance of petrochemical, gas, petroleum and other industrial plants, wholesale and retail trading in petrochemical materials and products, owning land, real estate and buildings for its benefits.

2. BASIS OF CONSOLIDATION

The interim consolidated financial statements include the interim financial statements of Petrochem and its subsidiaries, as adjusted by the elimination of significant inter-company balances and transactions. The financial statements of the subsidiaries are prepared using accounting policies consistent with those of Petrochem. The financial statements of the subsidiaries are consolidated from the date on which Petrochem is able to exercise effective management control on them.

A subsidiary is an entity in which Petrochem has a direct or indirect investment of more than 50% of the voting capital or over which it exercise effective management control.

The subsidiaries included in these financial statements are as follows:

		Shareholding %		Country of Incorporation
		2011	2010	
Saudi Polymers Company ("SPCo")	Subsidiary	65	65	Saudi Arabia
Gulf Polymers Distribution Company FZCO	Subsidiary	65	-	United Arab of Emirates

**SAUDI POLYMERS COMPANY ("SPCo")**

Is a mixed limited liability company, registered in Jubail in the Kingdom of Saudi Arabia under registration numbered 2055008886 dated 29 Dhu Al Qedah 1428H (corresponding to 9 December 2007).

SPCo is engaged in production and sale of ethylene, propylene, hexene, gasoline, high and low density polyethylene, polypropylene and polystyrene. Currently, SPCo is in pre-operation stage and it is expected to commence its commissioning operation at the end of 2011.

During the fourth quarter ended 31 December 2010, the partners of SPCo have resolved the following:

- On 19 December 2010, the partners have resolved to increase SPCo's capital by SR 1,138 million from SR 268 million to SR 1,406 million by transferring it from the partners' subordinated loan. The legal formalities to effect such increase in the capital are still in progress.
- On 29 December 2010, the partners have resolved to increase SPCo's capital by SR 3,394 million from SR 1,406 million to SR 4,800 million by transferring it from the partners' subordinated loan. The legal formalities to effect such increase in the capital are still in progress.

**GULF POLYMERS DISTRIBUTION COMPANY FZCO ("GPDCo")**

Is a free zone limited liability company registered in the Dubai Airport Free Zone dated 12 Rabi Awal 1432 H (corresponding to 15 February 2011). GPDCo is engaged in worldwide sales of polymer and monomer products and international warehousing.



National Petrochemical Company (Petrochem) and its Subsidiaries  
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) -  
CONTINUED

31 March 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying interim consolidated financial statements have been prepared in accordance with the Standard on Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants (SOCPA). The significant accounting policies adopted by Petrochem in preparing its interim consolidated financial statements, summarized below, are consistent with those used in the preparation of the last audited consolidated financial statements for the year ended 31 December 2010. The interim consolidated financial statements and the accompanying notes should be read in conjunction with the audited consolidated financial statements and the related notes for the year ended 31 December 2010. The figures in these interim consolidated financial statements are rounded to nearest thousand.

*Accounting convention*

The interim consolidated financial statements are prepared under the historical cost convention.

*Use of estimates*

The preparation of the interim consolidated financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities. The actual results ultimately may differ from these estimates.

*Cash and cash equivalents*

Cash and cash equivalents consists of bank balances and cash on hand and short term deposits with original maturities of three months or less from the date of purchase.

*Property and equipment/Depreciation*

Property and equipment are stated at cost net of accumulated depreciation. Expenditure for maintenance and repairs is expensed, while expenditure for betterments is capitalized. Depreciation is provided over the estimated useful lives of the applicable assets using the straight- line method. Leasehold improvements are depreciated over the shorter of the estimated useful life or the remaining term of the lease.

The estimated useful lives of the asset in the calculation of depreciation are as follows:

Leasehold improvements	5 years
Office furniture and equipment	4 - 6.67 years
Motor vehicles	4 years
Computers and communication devices	4-5 years

*Project under construction*

Project under construction appear at cost until the asset is ready for its intended use, thereafter; it is re-classified to be as property and equipment. Project under construction includes the cost of contractors, materials, services, borrowing, salaries and other overhead allocated on systematic basis.

*Deferred charges/amortization*

Deferred charges comprises agency and upfront fees and are amortized over the terms of the related loans. The amortization is capitalized in the cost of the project under construction.

National Petrochemical Company (Petrochem) and its Subsidiaries  
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) -  
CONTINUED

31 March 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*Impairment of assets*

Periodically, a review of the carrying amounts of the long term tangible assets is conducted to determine whether there is any indication that those assets have suffered impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment. Where it is not possible to estimate the recoverable amount of an individual asset, an estimate of the recoverable amount of the cash generating unit to which the asset belongs is computed.

If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash generating unit is reduced to its recoverable amount. Impairment is recognised in the interim consolidated statement of income.

Where impairment base subsequently reversed, the carrying amount of the asset or the cash generating unit is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised for the asset or cash generating unit in prior years. A reversal of impairment is recognised as income immediately in the interim consolidated statement of income.

*Accounts payable and accruals*

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

*Provisions*

Provisions are recognised when Petrochem or its subsidiaries has an obligation (legal or constructive) arising from a past event, and the costs to settle these obligation are both probable and may be measured reliably.

*Zakat and income tax*

Zakat is provided in accordance with the Regulations of the Directorate of Zakat and Income Tax (DZIT) in the Kingdom of Saudi Arabia and on an accrual basis. The provision is charged to the interim consolidated statement of income. Differences, if any, resulting from the final Zakat assessments are adjusted in the year of their finalization. Foreign shareholders in subsidiaries are subject to income tax which is included in non-controlling interest in the interim consolidated financial statements.

*Employees' terminal benefits*

Provision is made for amounts payable under the Saudi Arabian labour law applicable to employees' accumulated periods of service at the interim consolidated balance sheet date.

*Borrowing costs*

Borrowing costs that are directly attributable to the construction of an asset are capitalised up to the stage when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed and, thereafter, such costs are charged to the interim consolidated statement of income.

*Foreign currencies*

Transactions in foreign currencies are translated into Saudi Riyals at the rate prevailing at the date of those transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the rate prevailing at that date. All differences are taken to the interim consolidated statement of income.

*Revenue recognition*

Income from bank deposits is recognized on an accrual basis.

*General and administration expenses*

All of main operations expenses, other than capitalized costs, are classified as general and administration expenses.



National Petrochemical Company (Petrochem) and its Subsidiaries  
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) -  
CONTINUED

31 March 2011

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Segment reporting*

A segment is a distinguishable component of Petrochem and its subsidiaries that is engaged either in providing products or services (a business segment) or in providing products or services within a particular economic environment (a geographic segment), which is subject to risks and rewards that are different from those of other segments.

*Fair value*

The fair value of commission-bearing items are estimated based on discounted cash flows using commission rates for items with similar terms and risk characteristics.

*Statutory reserve*

In accordance with Saudi Arabian Regulations for Companies, the company must transfer 10% of its income for the year after deducting accumulated losses to the statutory reserve. The company may resolve to discontinue such transfers when the reserve totals 50% of the capital. The reserve is not available for distribution.

**4. PROJECT UNDER CONSTRUCTION**

Represents cost of construction works under progress related to the polymers plant (the "Plant"), which is expected to cost more than SR 20 billion. It is anticipated that the construction works will be completed and commissioning works will start at the end of 2011.

The Plant is constructed on land leased from the Royal Commission for Jubail and Yanbu. The lease is initially for a period of 30 years commencing from 29 Dhu Al Qedah 1428H (corresponding to 9 December 2007) and is renewable for further periods thereafter.

The machinery and equipment of the Plant are pledged as a part of collaterals against loan facilities (note 7).

**5. ZAKAT**

Zakat is provided for and charged to the interim consolidated statement of income on an estimated basis. Differences resulting from the final zakat calculation are adjusted at year end.

A Zakat return has been filed with the Department of Zakat & Income Tax (DZIT) for 2008 and 2009, and Zakat was settled accordingly. The DZIT has raised the zakat assessment for 2008, claiming a difference of SR 53,092,939. Petrochem has filed an appeal against this assessment before the Preliminary Zakat Appeal Committee, which is still pending. Based on the zakat consultant's opinion, the management believes that the ultimate outcome of this issue will be in the favor of Petrochem.

**6. LONG TERM ACCOUNTS PAYABLE**

This includes contractor's accrued expenses and other liabilities. The management expects that the settlement of these liabilities will be refinanced through long term liabilities. Accordingly, such balances are reclassified as long term liability.

National Petrochemical Company (Petrochem) and its Subsidiaries  
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) -  
CONTINUED

31 March 2011

**7. TERM LOANS**

Term loans balance represent the utilized amounts from loan facilities obtained by SPCo from a syndication of commercial banks, Public Investment Fund (PIF) and Saudi Industrial Development Fund (SIDF), in order to finance the construction of the Plant. The total withdrawn out of the loan extended amounted to 96% as of 31 March 2011 (2010: 63%).

These loans are secured by charge and assignment of residual proceeds of plant and equipment, charge and assignment over secured project documents, charge and assignment over SPCo's offshore bank accounts of the project and pledge and assignment over SPCo's onshore bank account of the project and pledge and assignment of Petrochem's bank accounts of the project, in addition to assignment of insurance proceeds and the technology rights.

The loans obtained from commercial banks carry interest at Libor plus 0.06% to 1.15% and fees on the unutilized portion of the loan 0.3% to 0.5%. The loans obtained from PIF carry interest at Libor plus 0.50% along with a onetime appraisal fee of 0.50% of the principle amount of the loan.

Loans repayment for the commercial banks shall commence within 6 months of the project's operational phase on 22 semi-annual installments. Loans from PIF and SIDF should be repaid on 15 and 14 semi-annual installments respectively starting from December 2013.

SPCo is required to comply with covenants under all the loan facility agreements.

**8. SUBORDINATED LOAN FROM THE NON-CONTROLLING PARTNER**

Represents share of Arabian Chevron Petrochemical Company Limited (the "non-controlling partner") in the commission free loan granted to SPCo from partners in proportion of their ownership. The repayment of the loan subject to the minimum level required to be maintained by the terms of the loan facility arrangements granted by SIDF (note 7).

**9. SHARE CAPITAL**

Share capital of Petrochem is divided into 480 million shares of SR 10 each (2010: 480 million shares).

**10. LOSS PER SHARE**

The loss per share is calculated by dividing loss from main operations and net loss by the number of shares outstanding amounting to 480 million shares (2010: 480 million shares).

**11. INTERIM RESULTS**

The interim consolidated results of operations of Petrochem and its subsidiaries may not be an accurate indicator of the annual results of operations.

**12. SEGMENT INFORMATION**

Since Petrochem or its subsidiaries has not started the operations as of 31 March 2011, no segment information is available.

**13. COMPENSATION OF NON-CONTROLLING PARTNER**

As set out in note 2 and as a result to partners resolution dated 29 December 2010 to increase SPCo's capital by SR 3,394 million; which will cause the non-controlling partner to incur additional costs; the management of Petrochem has decided to compensate the non-controlling partner by making annual payments in the future based on the future earnings of SPCo, considering the non-distributable cash as a result of the said proposed capital increase.



National Petrochemical Company (Petrochem) and its Subsidiaries  
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) -  
CONTINUED

31 March 2011

**14. SUBSEQUENT EVENTS**

Petrochem's board of directors has in its meeting held on 4 Jumad Awal 1432 (corresponding to 10 April 2011) proposed to the board of directors of Saudi Industrial Investment Group to study a potential merger between the two companies. If this proposal is approved by Saudi Industrial Investment Group board of directors, the necessary procedures will be initiated, including the conduct of the studies to determine the fair value of the shares of both companies and obtain the approval of the official authorities and concerned parties, and present the outcome to the shareholders' general assembly of both companies.

**15. CAPITAL COMMITMENTS**

The balance of unutilized capital expenditure approved by the board of directors in connection with the project of the Plant amounted to SR 1.84 billion (2010: SR 6.34 billion).

**16. COMPARATIVE FIGURES**

Certain of the prior period amounts have been reclassified to conform within the current period's presentation.