

**YANBU NATIONAL PETROCHEMICAL
COMPANY (YANSAB)
(A SAUDI JOINT STOCK COMPANY)**

INTERIM FINANCIAL STATEMENTS (UNAUDITED)

PERIOD ENDED 30 SEPTEMBER 2010

**REVIEW REPORT TO THE SHAREHOLDERS OF
YANBU NATIONAL PETROCHEMICAL COMPANY - YANSAB
(A SAUDI JOINT STOCK COMPANY)
ON THE INTERIM FINANCIAL STATEMENTS**


Scope of review

We have reviewed the accompanying interim balance sheet of Yanbu National Petrochemical Company (YANSAB) ("the Company") - A Saudi Joint Stock Company - as at 30 September 2010 and the related interim statement of income for the three month and nine month periods then ended, and the interim statements of cash flows and changes in shareholders' equity for the nine month period then ended, which have been prepared by the company's management and submitted to us together with all the information and explanations which we required. Our review was conducted in accordance with Saudi Organization for Certified Public Accountants (SOCPA) standard on interim financial information. A review is limited primarily to analytical procedures applied to financial data and inquiries of company personnel on 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 on the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Conclusion

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

for Ernst & Young


Ahmed I. Reda
Certified Public Accountant
Licence No. 356



12 October 2010
4 Dhul Qada 1431 H

Jeddah

Yanbu National Petrochemical Company (YANSAB)
(A Saudi Joint Stock Company)

INTERIM BALANCE SHEET (UNAUDITED)

As at 30 September 2010

	Note	30 September 2010 SR'000	30 September 2009 SR'000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	3	1,445,363	249,483
Advances to suppliers and other receivables	4	1,802,739	210,818
Inventories	5	872,867	421,409
TOTAL CURRENT ASSETS		4,120,969	881,710
NON-CURRENT ASSETS			
Property, plant and equipment	6	18,508,591	18,493,723
Pre-operating expenses	7	183,333	200,000
Deferred charges	8	100,943	112,479
Other non-current assets		36,683	30,744
TOTAL NON-CURRENT ASSETS		18,829,550	18,836,946
TOTAL ASSETS		22,950,519	19,718,656
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable	9	194,423	40,631
Accruals and provisions	10	1,025,822	562,797
Current portion of term loans	11	915,664	892,281
TOTAL CURRENT LIABILITIES		2,135,909	1,495,709
NON-CURRENT LIABILITIES			
Term loans	11	11,082,721	11,998,359
Term loan from a shareholder	14	2,855,572	465,000
Employees' end of service benefits		90,591	84,557
TOTAL NON-CURRENT LIABILITIES		14,028,884	12,547,916
TOTAL LIABILITIES		16,164,793	14,043,625
SHAREHOLDERS' EQUITY			
Share capital	12	5,625,000	5,625,000
Statutory reserve	13	125,832	14,030
Retained earnings		1,034,894	36,001
TOTAL SHAREHOLDERS' EQUITY		6,785,726	5,675,031
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		22,950,519	19,718,656

The attached notes 1 to 14 form part of these unaudited interim condensed financial statements.

Yanbu National Petrochemical Company (YANSAB)
(A Saudi Joint Stock Company)

INTERIM STATEMENT OF INCOME (UNAUDITED)

For the period ended 30 September 2010

	<i>Three month period ended 30 September</i>		<i>Nine month period ended 30 September</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>
Sales	1,602,878	-	3,929,691	-
Cost of sales	(1,101,027)	-	(2,470,279)	-
Gross Profit	501,851	-	1,459,412	-
General and administration expenses	(33,188)	(7,001)	(84,328)	(21,892)
INCOME FROM MAIN OPERATIONS / (LOSS) FROM PRE-OPERATION	468,663	(7,001)	1,375,084	(21,892)
Finance cost	(108,705)	-	(257,179)	-
Other Income	1,241	-	35,039	-
INCOME/(LOSS) BEFORE ZAKAT	361,199	(7,001)	1,152,944	(21,892)
Zakat	(5,000)	-	(34,929)	-
NET INCOME/(LOSS) FOR THE PERIOD	356,199	(7,001)	1,118,015	(21,892)
Weighted number of shares Outstanding (in thousands)	562,500	562,500	562,500	562,500
Earning/(loss) per share				
Attributable to income from main operations/(loss) from pre-operation - SR	0.833	(0.012)	2.444	(0.039)
Attributable to net income/(loss) for the period - SR	0.633	(0.012)	1.988	(0.039)

The attached notes 1 to 14 form part of these unaudited interim condensed financial statements.

Yanbu National Petrochemical Company (YANSAB)
(A Saudi Joint Stock Company)

INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)

For the nine month period ended 30 September 2010

	Note	2010 SR'000	2009 SR'000
OPERATING ACTIVITIES			
Income/(loss) before zakat		1,118,015	(21,892)
Adjustments for:			
Provision for employees' end of service benefits		19,275	5,000
Depreciation		554,956	-
Amortisation		25,319	-
		<u>1,717,565</u>	<u>(16,892)</u>
Changes in working capital:			
Inventories		(135,050)	(413,602)
Receivables		(937,806)	(34,963)
Payables		456,504	(498,858)
		<u>1,101,213</u>	<u>(964,315)</u>
Cash from operations/(used in) pre-operation activities		(9,791)	(1,275)
Net cash from operations/(used in) pre-operation activities		<u>1,091,422</u>	<u>(965,590)</u>
INVESTING ACTIVITIES			
Other non-current assets		(6,518)	3,268
Purchase of property, plant and equipment		(592,308)	(1,379,818)
Proceeds from sale of property, plant and equipment		104,596	-
		<u>(494,230)</u>	<u>(1,376,550)</u>
FINANCING ACTIVITIES			
(Repayments of)/proceeds from term loans		(457,832)	1,093,594
Loan from a shareholder		700,372	465,000
		<u>242,540</u>	<u>1,558,594</u>
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		<u>839,732</u>	<u>(783,546)</u>
Cash and cash equivalents at the beginning of the period		605,631	1,033,029
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	3	<u><u>1,445,363</u></u>	<u><u>249,483</u></u>

The attached notes 1 to 14 form part of these unaudited interim condensed financial statements.

Yanbu National Petrochemical Company (YANSAB)
(A Saudi Joint Stock Company)

INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

For the nine month period ended 30 September 2010

	<i>Share capital SR'000</i>	<i>Statutory reserve SR'000</i>	<i>Retained earnings SR'000</i>	<i>Total SR'000</i>
Balance at 31 December 2009	5,625,000	14,030	28,681	5,667,711
Net income for the period	-	-	1,118,015	1,118,015
Transfer to statutory reserve	-	111,802	(111,802)	-
Balance at 30 September 2010	5,625,000	125,832	1,034,894	6,785,726
Balance at 31 December 2008	5,625,000	14,030	57,893	5,696,923
Loss for the period	-	-	(21,892)	(21,892)
Balance at 30 September 2009	5,625,000	14,030	36,001	5,675,031

The attached notes 1 to 14 form part of these unaudited interim condensed financial statements.

Yanbu National Petrochemical Company (YANSAB)
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the period ended 30 September 2010

1 ACTIVITIES

Yanbu National Petrochemical Company (YANSAB) ("the company") is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under Commercial Registration number 4700009432 dated 14 Muharram 1427 H (corresponding to 13 February 2006) in accordance with the Ministerial Resolution declaring the incorporation of the company dated 12 Muharram 1427 H (corresponding to 11 February 2006). The company has obtained Industrial License number S/1367 dated 18 Rajab 1426 H (corresponding to 1 September 2005). The company is 51% owned by Saudi Basic Industries Corporation (SABIC), (the majority shareholder), and 49% are owned and publically traded by other shareholders.

The company is engaged in the manufacturing of petrochemical products in accordance with the Company's Article of Association and other Saudi Arabian applicable regulations. The Company commenced its commercial operations on 1 March 2010.

2 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

These interim condensed financial statements have been prepared in accordance with Saudi Arabian Organisation of Certified Public Accountants (SOCPA) standards on interim financial statements. The accounting policies adopted for the preparation of these interim condensed financial statements are consistent with those used for the preparation of annual financial statements.

The interim condensed financial statements do not cover all the information and disclosures required for full financial statements prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia. In addition, the results presented in these interim condensed financial statements may not be a fair indicator of the results for the full financial year ending 31 December 2010.

The significant accounting policies adopted are as follows:-

Accounting convention

The interim condensed financial statements have been prepared under the historical cost convention.

Cash and cash equivalents

Cash and cash equivalents comprise bank balances, cash on hand, murabaha commodity placements and time deposits with an original maturity of three months or less. Murabaha commodity placements and time deposits with original maturity of three months or less are stated at cost, with accrued income being captioned under other receivables until realized. Income from murabaha placements or time deposits is accrued on time apportionment basis over the period from disbursement of funds to redemption date.

Accounts receivable

Accounts receivable are stated at original invoice amount less allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Inventory

Inventories are stated at the lower of cost and net realisable value. Cost of raw materials, consumables, spare parts and finished goods are determined on a weighted average basis. Cost of inventory under process and finished goods include the cost of raw materials, labour and a reasonable portion of manufacturing overhead expenses.

Property, plant and equipment/depreciation

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. The cost less estimated residual value of other property, plant and equipment is depreciated on a straight line basis over the estimated useful lives of the assets.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Expenditure for repair and maintenance are charged to income. Betterments that increase the value or materially extend the life of the related assets are capitalized.

2 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Capital Work in Progress

Capital work in progress, representing new auxiliary projects and an employee housing project, is recorded at cost. Included in such costs are the costs of material, construction, installation and other costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Pre-operating expenses

Pre-operating expenses are charged to income statement unless attributable future benefits are determined in which case these will be amortised using the straight line method over the shorter of seven years or the estimated useful lives, commencing on the beginning of commercial operations of 1 March 2010.

Deferred charges

Deferred charges relate to financial, legal advisory and arrangement fees for obtaining long term financing arrangements which are being used to partially finance the construction of the company's plants. These fees are amortised over the period of long term financing arrangements. The amortization portion that falls within the construction period is capitalised as part of capital work in progress, the amortization is charged to statement of income when the Company started its operations.

Accounts payable and accruals

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

Provisions

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

Employees' end of service benefits

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

Revenue recognition

Sales represent the invoiced value of goods shipped by the Company during the period, net of any trade and quantity discounts. Generally sales are reported net of marketing and distribution expenses incurred in accordance with executed marketing and off-take agreements.

Expenses

Production costs and direct expenses are classified as cost of sales. All other expenses are classified as general and administrative expenses.

Zakat

Zakat is provided for in accordance with Saudi Arabian fiscal regulations. The provision is charged to the interim income statement and is calculated at year end.

Foreign currencies

Transactions in foreign currencies are recorded in Saudi Riyals at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the interim statement of income.

Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight line basis over the lease period.

Yanbu National Petrochemical Company (YANSAB)
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

For the period ended 30 September 2010

3 CASH AND CASH EQUIVALENTS

	2010 SR'000	2009 SR'000
Murabaha commodity placements	322,500	207,500
Current accounts	1,122,863	41,983
	<u>1,445,363</u>	<u>249,483</u>

Murabaha commodity placements are maintained with local and foreign banks.

4 ADVANCES TO SUPPLIERS AND OTHER RECEIVABLES

	2010 SR'000	2009 SR'000
Amounts due from a shareholder (see note below)	1,720,537	174,331
Advances to suppliers and contractors	-	9,443
Other receivables	82,202	27,044
	<u>1,802,739</u>	<u>210,818</u>

This represents advance payments to a shareholder in the normal course of business for the purchase of materials and receivables for product sales under pre-marketing arrangements, in addition to sale of production during the testing period, and before the commercial production.

5 INVENTORIES

	2010 SR'000	2009 SR'000
Finished goods	452,551	-
Raw material production	-	118,537
Spare parts	247,319	220,607
Raw materials	172,997	82,265
	<u>872,867</u>	<u>421,409</u>

Yanbu National Petrochemical Company (YANSAB)
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

For the period ended 30 September 2010

6 PROPERTY, PLANT AND EQUIPMENT

The estimated useful lives of the assets for the calculation of depreciation are as follows:

Building & Leasehold improvements	33 years
Plant & equipment	20 years
Furniture	10 years
Vehicles	4 years
Computers & software	5 years
Laboratory & safety equipment	5 years

	Buildings & leasehold improvements SR'000	Machinery & equipment SR'000	Heavy duty tools & equipment SR'000	Furniture SR'000	Vehicles SR'000	Computers & software SR'000	Laboratories & safety equipment SR'000	Capital work in progress SR'000	Total SR'000
Cost									
At the beginning of the period	-	-	-	-	-	-	-	18,575,835	18,575,835
Additions	10,508	468,852	54,940	679	1,543	6,907	795	48,084	592,308
Transfers	164,073	17,961,018	10,509	11,156	-	55,648	41,096	(18,243,500)	-
Disposals	-	-	-	-	(425)	-	-	(104,197)	(104,622)
At the end of the period	174,581	18,429,870	65,449	11,835	1,118	62,555	41,891	276,222	19,063,521
Depreciation									
At the beginning of the period	-	-	-	-	-	-	-	-	-
Charge for the period	3,086	537,092	1,276	690	627	7,298	4,887	-	554,956
Transfers	-	-	438	-	(438)	-	-	-	-
Disposals	-	-	-	-	(26)	-	-	-	(26)
At the end of the period	3,086	537,092	1,714	690	163	7,298	4,887	-	554,930
Net book amounts:									
At 30 September 2010	171,495	17,892,778	63,735	-11,145	955	55,257	37,004	276,222	18,508,591

Yanbu National Petrochemical Company (YANSAB)

(A Saudi Joint Stock Company)

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

For the period ended 30 September 2010

6 PROPERTY, PLANT AND EQUIPMENT (continued)

The plants are situated on land leased from the Royal Commission in Yanbu for 35 Hijra years commencing 1 Dhul Al-Hija 1426 H (corresponding to 1 January 2006). The lease is renewable for further similar periods at the option of the parties.

7 PRE-OPERATING EXPENSES

These represent a contribution of SR 200 million to the Centennial Fund and Higher Plastic Institute that will financially support small and medium sized projects in the related industry and was conditional for the company to secure the gas and feedstock required to manufacture its products. Pre-operating expenses will be amortized using the straight line basis over the shorter of 7 years or their estimated period of benefit, from the commencement of commercial operations. The amortization of pre-operating expenses started on 1 March 2010.

8 DEFERRED CHARGES

These represent financial legal advisory and arrangement fees totalling SR 143.2 million, relating to long term financing arrangements to finance the partial construction of the company's plant. These fees were included in the initial recognition of the related financing arrangements and are being amortized, using the effective interest rate, over the period of long term financing agreements. The amortized portion that occurred during the construction period amounting to SR 35.6 million as at 28 February 2010 has been capitalized. Amortization for the period from 1 March 2010, date of commencement of operations, to 30 September 2010 was charged to the interim statement of income.

9 ACCOUNTS PAYABLE

	30 September 2010 SR'000	30 September 2009 SR'000
Suppliers and contractors	150,312	28,053
Amount due to a shareholder and a related party (note 14)	44,111	12,578
	<u>194,423</u>	<u>40,631</u>

10 ACCRUALS AND PROVISIONS

	30 September 2010 SR'000	30 September 2009 SR'000
Accrued expenses	570,567	460,833
Amounts due to a shareholder and related parties (note 14)	416,297	99,162
Zakat payable	34,929	-
Other payables	4,029	2,802
	<u>1,025,822</u>	<u>562,797</u>

Yanbu National Petrochemical Company (YANSAB)
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

For the period ended 30 September 2010

11 TERM LOANS

Term loans comprise of:

	<i>30 September 2010 SR'000</i>	<i>30 September 2009 SR'000</i>
Public Investment Fund (PIF) (see note (a) below)	3,601,125	4,001,250
The Commercial, ECA, SACE and ECGD loans (see note (b) below)	5,517,082	5,809,155
Islamic financing facilities (see note (c) below)	2,880,178	3,080,235
	<u>11,998,385</u>	<u>12,890,640</u>
Less:		
Current portion for long term loans (see notes (a), (b) and (c) below)	(915,664)	(892,281)
	<u>11,082,721</u>	<u>11,998,359</u>
Financial legal advisory, legal and arrangement fees, net of amortisation (see note 8)	(100,943)	(112,479)
	<u><u>10,981,778</u></u>	<u><u>11,885,880</u></u>

- a) The PIF term loan obtained in 2007 to finance the partial construction of the plants is limited to SR 4,001 million. The term loan carries charges at commercial rates and is repayable in equal semi-annual instalments of SR 200 million. The first instalment is paid on 31 December 2009, and the last instalment is payable on 30 June 2019.
- b) During 2007, the above loans obtained from a consortium of banks in three loans, of which two loans were limited to SR 5,948 million and guaranteed by Export Credit Agencies (ECA), Servizi Assicurativi Del Commercio Estero and Export Credits Guarantee Department (ECGD) to finance the partial construction of plants and working capital. The loans which carry commission at commercial rates are repayable in semi-annual variable instalments. The first instalment paid on 30 June 2009 and the last instalment payable on 30 June 2018.
- c) The Islamic financing facilities represent advance payments received by the company from a consortium of banks ("Original Islamic Facility Participants") to finance the partial construction of the plants. The company has entered into financing agreement with the Original Participants of Islamic Financing Facility up to the maximum of SR 3,176 million. Under the financing agreement, the undivided 18% of the cost of the project will be delivered to the Original Islamic Facility Participants and then leased back (under Ijara agreement) to the company. The first instalment for the lease payments is paid on 30 June 2009, and last instalment is due on 30 June 2018.

During the first quarter of 2009 the company withdrew the remaining balance of contracted bank facilities and loans including the facilities for working capital requirements.

The term loans are secured on the proceeds of project, when the company starts its commercial operations. In addition, the company has signed an Equity Support, Subordination and Retention Agreement with the majority Shareholder (SABIC) under which SABIC shall maintain its ownership in Yansab at 51% for the life of the loans.

12 SHARE CAPITAL

The authorized, issued and fully paid share capital of the company consists of 562.5 million shares of SR 10 each.

13 STATUTORY RESERVE

As required by Saudi Arabian Regulations for Companies the company must set aside 10% of net income for the period until it has built up a reserve equal to 50% of the capital. The company may resolve to discontinue such transfers when the reserve totals 50% of the capital. The company transferred 10% from the net income for the nine month period ended 30 September 2010.

Yanbu National Petrochemical Company (YANSAB)
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

For the period ended 30 September 2010

14 RELATED PARTY TRANSACTIONS AND BALANCES

Related party	Nature of transactions	Amount of transaction For the nine month period ended		Balance	
		30 September		At 30 September	
		2010 SR'000	2009 SR'000	2010 SR'000	2009 SR'000
<i>Amounts due from related parties</i>					
Saudi Basic Industries Corporation (SABIC) – (the majority shareholder)	Sale of products	4,452,600	197,200	1,623,877	148,503
	Advances for purchase of materials, product sales and other transactions	38,578	(110)	93,675	25,967
	Long term advance for freight expenses	-	-	7,500	7,500
Affiliates	Sale of products	71,245	-	2,985	(139)
	Other	6,775	178	-	-
				1,728,037	181,831
<i>Amounts due to related parties</i>					
Saudi Basic Industries Corporation (SABIC) – (the majority shareholder)	Payments on behalf of the company and other services provided by the shareholder	(998,137)	(226,310)	(350,846)	(98,472)
	Loan from a shareholder	(700,373)	(465,000)	(2,855,572)	(465,000)
Affiliates	Other	(197,794)	(147,333)	(109,562)	(13,276)
				(3,315,980)	(576,748)

The company obtained a loan from the above shareholder in accordance with the retention of shareholding and support agreement with the main shareholder (SABIC). The term loan which carries borrowing charges at commercial rates is fully payable within three years commencing on the date of withdrawal and the first instalment is due on 30 June 2012.