

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

**TO THE 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 December 31, 2008 and the related statements of income, cash flows and changes in shareholders' equity for the nine 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 December 31, 2008. 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 nine months period ended December 31, 2008 to be in conformity with generally accepted accounting principles.

**AlAzem & AlSudairy
Certified Public Accountants**




Salman B. AlSudairy
License No. 283

10 Muharam 1430H (January 7, 2009)
Riyadh, Saudi Arabia

NATIONAL PETROCHEMICAL COMPANY - PETROCHEM
(A Saudi Closed Joint Stock Company)
CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2008
(In Thousands Saudi Riyals)

ASSETS

Current Assets:

Banks balances (Note 3)	1,513,014
Accrued Revenue from time deposit	33,945
Prepayments and other assets (Note 4)	<u>1,595</u>

Total current assets	1,548,554
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Deferred Expenses (Note 2c)	64,823
Projects Under Construction (Note 5)	2,158,886
Property and Equipment, net (Notes 2d and 6)	<u>651</u>

Total assets	<u><u>3,772,914</u></u>
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LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities:

Accrued expenses and other liabilities	<u>66</u>
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Total current liabilities	66
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Long term payable	335,218
Due to an affiliate company (Note 7)	511
Long Term Loan (Note 8)	1,219,306
End of Service Benefits (Note 2e)	<u>11</u>

Total liabilities	<u><u>1,555,112</u></u>
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Shareholders' Equity:

Paid in capital (Note 9)	2,200,000
Statutory reserve (Note 10)	1,780
Retained earnings	<u>16,022</u>

Total shareholders' equity	<u><u>2,217,802</u></u>
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Total liabilities and shareholders' equity	<u><u>3,772,914</u></u>
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The accompanying notes from (1) to (15) are an integral part of these consolidated financial statements

NATIONAL PETROCHEMICAL COMPANY - PETROCHEM
(A Saudi Closed Joint Stock Company)
CONSOLIDATED STATEMENT OF INCOME
FROM INCEPTION TILL PERIOD ENDED DECEMBER 31, 2008
(In Thousands Saudi Riyals)

General and administrative expenses (Notes 2f and 11)	(1,838)
Preoperating expenses amortizations (Notes 2g and 12)	(24,767)
Exchange losses (Note 2h)	<u>(383)</u>
Net operating losses	(26,988)
Finance charges	(1,847)
Other income (Notes 2i and 13)	<u>46,637</u>
Net profit for the period	<u>17,802</u>
Net profit for the period per share (Saudi Riyal)	<u>0,08</u>

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

NATIONAL PETROCHEMICAL COMPANY - PETROCHEM
(A Saudi Closed Joint Stock Company)
CONSOLIDATED STATEMENT OF CASH FLOWS
FROM INCEPTION TILL PERIOD ENDED DECEMBER 31, 2008
(In Thousands Saudi Riyals)

Cash Flows from Operating Activities:

Net profit for the period 17,802

**Adjustments to reconcile net profit to
net cash provided by operating activities:**

Depreciations for the period 45

Deferred Expenses amortizations for the period 24,767

End of Service Benefits for the period 11

Changes in assets and liabilities:

Accrued Revenue from time deposit (33,945)

Prepayments and other assets (1,595)

Accrued expenses and other liabilities 66

Accounts payable 335,218

Net cash provided by operating activities 342,369

Cash Flows from Investing Activities:

Purchase of property and equipment (696)

Preoperating expenses (24,767)

Deferred Expenses (64,823)

Projects Under Construction (2,158,886)

Net cash used in investing activities (2,249,172)

Cash Flows from Financing Activities:

Net change in Due to an affiliate company 511

Proceeds from long term loan 1,219,306

Capital 2,200,000

Net cash provided by financing activities 3,419,817

Net change in banks balances 1,513,014

Banks balances at beginning of the period -

Banks balances at end of the period 1,513,014

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

NATIONAL PETROCHEMICAL COMPANY - PETROCHEM
(A Saudi Closed Joint Stock Company)
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FROM INCEPTION TILL PERIOD ENDED DECEMBER 31, 2008
(In Thousands Saudi Riyals)

Paid in capital (Note 9):

Beginning of the period	-
Paid in capital	<u>2,200,000</u>
End of the period	<u>2,200,000</u>

Statutory reserve (Note 10):

Beginning of the period	-
Transfer from retained earnings	<u>1,780</u>
End of the period	<u>1,780</u>

Retained earnings:

Beginning of the period	-
Transfer to statutory reserve	(1,780)
Net profit for the period	<u>17,802</u>
End of the period	<u>16,022</u>

Total shareholders' Equity	<u>2,217,802</u>
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The accompanying notes from (1) to (15) are an integral part of these consolidated financial statements

NATIONAL PETROCHEMICAL COMPANY - PETROCHEM
(A Saudi Closed Joint Stock Company)
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FROM INCEPTION TILL PERIOD ENDED DECEMBER 31, 2008
(In Thousands Saudi Riyals)

1. GENERAL

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.

Based on Company's article of association, the first financial year started from the date of ministry resolution issued for the establishment of the company and ends in December 31, 2008, therefore, these are the first interim consolidated financial statements for the company.

The accompanying consolidated financial statements for the period ended December 31, 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 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) Accounting convention --

The financial statements are prepared under historical cost convention.

b) Consolidation base --

The accompanying consolidated financial statements comprise the National Petrochemical Company - Petrochem financial statement as of December 31, 2008 and its affiliate company according to the audited financial statement for the affiliate company as of December 31, 2008 and for the purpose of preparing the 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.

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	20%

e) End of service benefits --

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

f) 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.

g) Preoperating expenses --

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

h) Translation 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.

j) 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. There is no Zakat for this period based on accrual base as the financial statement will not complete one Hijri year as of December 31, 2008.

3. **BANKS BALANCES**

Banks balances comprised of the following as of December 31, 2008:

	<u>In Thousands Saudi Riyals</u>
Cash in banks	62,139
Time deposits	<u>1,450,875</u>
	<u>1,513,014</u>

4. **PREPAYMENTS AND OTHER ASSETS**

Prepayments and other assets comprised of the following as of December 31, 2008:

	<u>In Thousands Saudi Riyals</u>
Advance payments for legal and professional fees	1,027
Advance payments to contractor	372
Rents	170
Others	<u>26</u>
	<u>1,595</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. PROPERTY AND EQUIPMENT, NET

Property and equipment comprised the following as of December 31:

	Motor vehicles	Lease hold Improvements	Computers	Total
<u>Cost</u>				
Beginning of the period	-	-	-	-
Additions during the period	684	7	5	696
Disposals during the period	-	-	-	-
End of the period	684	7	5	696
<u>Depreciations</u>				
Beginning of the period	-	-	-	-
Additions during the period	44	1	-	45
Disposals during the period	-	-	-	-
End of the period	44	1	-	45
<u>Net Book Value</u>				
December 31, 2008	640	6	5	651

Depreciation was amounted SAR 45 (In Thousands Saudi Riyals) for the period ended December 31, 2008.

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 period ended December 31, 2008.

8. LONG TERM LOAN

Long term loans represent the withdrew part of 1,219 thousand 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 thousand million SAR from PIF (Public Investment Fund), and 300 million SAR from SIDF (Saudi Industrial Development Fund), also against the pledge of property and equipment.

9. CAPITAL

The Capital of the company is 2,200,000,000 two billion and two hundred million Saudi Riyals, divided to 220,000,000 two hundred twenty million 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>

10. STATUTORY RESERVE

In accordance with the Saudi Arabian Companies Regulations and the Company's Articles of Association, 10% of the annual net income is required to be transferred to a statutory reserve until this reserve equals 50% of the capital. This reserve is not available for dividend distribution.

11. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses comprised of the following for the period ended December 31, 2008:

Professional and legal fees	820
Employees' salaries & benefits	786
Recruiting expenses	86
Depreciations	45
Rents	28
Travel and transporting	19
Printing and Stationery	8
Insurance	7
Postage and telephone bill	5
Others	<u>34</u>
	<u>1,838</u>

12. PREOPERATING EXPENSES, NET

Preoperating expenses comprised of the following as of December 31, 2008:

	<u>In Thousands Saudi Riyals</u>
Preoperating expenses	24,767
Accumulated Amortization	<u>(24,767)</u>
Net	<u>-</u>

13. OTHER REVENUE

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

14. 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 6,5 Billion of unused capital expenditure commitment as of December 31, 2008 regarding to being a partner in Saudi Polymers Company by 50% for petrochemical plant construction.

15. GENERAL

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