

**SAUDI INTERNATIONAL PETROCHEMICAL COMPANY
(SAUDI JOINT STOCK COMPANY)**

**CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AND AUDITORS' LIMITED REVIEW REPORT**

**FOR THE PERIOD ENDED
31 DECEMBER 2009**

Limited Review Report on the Consolidated Interim Financial Statements

TO THE SHAREHOLDERS OF SAUDI INTERNATIONAL PETROCHEMICAL COMPANY (SAUDI JOINT STOCK COMPANY)

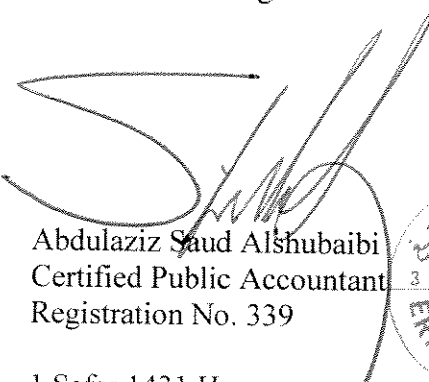
Scope of limited review:

We have reviewed the accompanying consolidated interim balance sheet of Saudi International Petrochemical Company (Saudi Joint Stock Company) and its subsidiaries as at 31 December 2009, and the related consolidated interim statements of income for the three months and the twelve months and the consolidated interim cash flows statement for the twelve months period then ended. These consolidated interim financial statements have been prepared by the parent company and submitted to us together with 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 Organization for Certified Public Accountants (SOCPA). The limited review consists principally of applying analytical procedures to financial data and information 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 of limited review:

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

for Ernst & Young


Abdulaziz Saud Alshubaibi
Certified Public Accountant
Registration No. 339



1 Safar 1431 H
16 January 2010

Alkhobar

Saudi International Petrochemical Company (Saudi Joint Stock Company)

CONSOLIDATED INTERIM BALANCE SHEET (UN-AUDITED)

As At 31 December 2009

	2009 SR	2008 SR
ASSETS		
Current assets		
Cash and cash equivalents	1,833,202,343	2,581,034,055
Accounts receivable, prepayments and other receivables	331,753,990	153,860,598
Inventories	78,682,405	106,728,502
Total current assets	2,243,638,738	2,841,623,155
Non-current assets		
Property, plant and equipment	9,511,338,392	7,881,213,185
Projects' development cost	45,257,224	109,732,727
Intangible assets	31,091,641	819,210
Total non-current assets	9,587,687,257	7,991,765,122
TOTAL ASSETS	11,831,325,995	10,833,388,277
LIABILITIES , SHAREHOLDERS' EQUITY AND MINORITY INTEREST		
Current liabilities		
Accounts payable, other payables and provisions	633,352,192	803,600,588
Short term advances from partners	19,491,953	29,927,659
Current portion of long term loans	85,267,856	133,064,356
Obligations under capital lease – current portion	42,810,811	42,810,811
Total current liabilities	780,922,812	1,009,403,414
Non-current liabilities		
Long term loans	4,376,122,193	3,106,392,804
Obligations under capital lease	401,351,351	444,162,162
Long term advances from partners	257,133,133	135,130,753
Employees' terminal benefits	40,318,729	33,530,749
Fair value of interest rate swaps	143,523,639	246,500,776
Total non-current liabilities	5,218,449,045	3,965,717,244
Total liabilities	5,999,371,857	4,975,120,658
Shareholders' equity and minority interest		
Share capital	3,333,333,330	3,333,333,330
Statutory reserve	932,907,275	864,300,418
General reserve	275,000,000	275,000,000
Retained earnings	483,758,581	692,500,351
Change in fair value of interest rate swaps	(102,917,751)	(200,539,418)
Total shareholders' equity	4,922,081,435	4,964,594,681
Minority interest	909,872,703	893,672,938
TOTAL SHAREHOLDERS' EQUITY AND MINORITY INTEREST	5,831,954,138	5,858,267,619
TOTAL LIABILITIES, SHAREHOLDERS' EQUITY AND MINORITY INTEREST	11,831,325,995	10,833,388,277

The attached notes form an integral part of these consolidated interim financial statements.

Saudi International Petrochemical Company (Saudi Joint Stock Company)

CONSOLIDATED INTERIM INCOME STATEMENT (UN-AUDITED)

Period ended 31 December 2009

	<i>Interim period from 1 October to 31 December</i>		<i>Period from the beginning of the year to 31 December</i>	
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
Sales	298,129,950	236,505,619	830,402,834	1,708,581,660
Cost of sales	(158,969,706)	(128,240,162)	(594,413,919)	(693,774,688)
Gross profit	139,160,244	108,265,457	235,988,915	1,014,806,972
General and administration expenses	(16,374,857)	(25,545,148)	(67,684,129)	(70,687,277)
INCOME FROM MAIN OPERATIONS	122,785,387	82,720,309	168,304,786	944,119,695
Investment income	2,120,440	21,671,789	14,725,539	52,721,779
Financial charges	(8,988,891)	(16,290,399)	(45,358,618)	(79,117,903)
(Provision for development cost)/ provision no longer required	-	(22,600,000)	75,000,000	(77,600,000)
Net (expenses) income of pre-operating activities	(1,165,631)	142,590	(1,707,959)	503,618
Other income (expenses)	370,917	(1,394,020)	(563,497)	10,059,591
INCOME BEFORE MINORITY INTEREST AND ZAKAT	115,122,222	64,250,269	210,400,251	850,686,780
Minority interest	(38,146,322)	(23,783,705)	(29,162,347)	(283,525,813)
INCOME BEFORE ZAKAT	76,975,900	40,466,564	181,237,904	567,160,967
ZAKAT	(20,442,540)	(5,741,042)	(40,358,389)	(30,378,819)
NET INCOME	56,533,360	34,725,522	140,879,515	536,782,148
EARNINGS PER SHARE (From net income)	0,17	0,11	0,42	1,66
EARNINGS PER SHARE (From main operations)	0,37	0,26	0,51	2,92
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	333,333,333	323,498,419	333,333,333	323,498,419

The attached notes form an integral part of these consolidated interim financial statements.

Saudi International Petrochemical Company (Saudi Joint Stock Company)

CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS (UN-AUDITED)

Period ended 31 December 2009

	2009 SR	2008 SR
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before zakat	181,237,904	567,160,967
Adjustments for:		
Depreciation and amortization	161,107,029	205,405,570
Employees' terminal benefits, net	6,787,980	13,723,363
Financial charges	45,358,618	79,117,903
Minority interest	29,162,347	283,525,813
Net expenses / (income) of pre-operating activities	1,707,959	(503,618)
Provision for projects' development cost, no longer required	(75,000,000)	77,600,000
Profit on disposal of property, plant and equipment	-	(50,263)
Changes in operating assets and liabilities:		
Receivables	(177,893,392)	177,829,854
Inventories	28,046,097	(4,964,394)
Payables	(213,508,104)	(53,451,624)
Cash (Used in) from operations	<u>(12,993,562)</u>	1,345,393,571
Financial charges paid	(45,358,618)	(58,252,208)
Zakat and income taxes paid	(37,457,070)	(73,014,012)
Net cash (used in) from operating activities	<u>(95,809,250)</u>	<u>1,214,127,351</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net (expenses) / income of pre-operating activities	(1,707,959)	503,618
Increase in intangible assets	(33,164,387)	(84,839,355)
Purchase of property, plant and equipment	(1,623,340,280)	(2,686,608,375)
Proceeds from sale of property, plant and equipment	-	236,000
Projects' development cost incurred	(25,524,497)	(36,577,428)
Proceeds from sale of shares in subsidiaries	239,208,904	-
Net cash used in investing activities	<u>(1,444,528,219)</u>	<u>(2,807,285,540)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Short term loans, net	(10,435,706)	(878,250,000)
Long term loans, net	1,179,122,078	1,981,349,589
Partners' advances.	122,002,380	63,006,356
Change in minority interest	(162,649,662)	(185,400,079)
Proceeds from rights issue	-	1,967,007,781
Dividends distribution and board remuneration	(335,533,333)	(335,533,333)
Net cash from financing activities	<u>792,505,757</u>	<u>2,612,180,314</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	<u>(747,831,712)</u>	1,019,022,125
Cash and cash equivalents at the beginning of the period	<u>2,581,034,055</u>	<u>1,562,011,930</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u>1,833,202,343</u>	<u>2,581,034,055</u>

The attached notes form an integral part of these consolidated interim financial statements.

Saudi International Petrochemical Company (Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS – (UN-AUDITED) 31 DECEMBER 2009

1. ORGANIZATION AND ACTIVITIES

Saudi International Petrochemical Company (“the company” or “Sipchem”) is a joint stock company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010156910 dated 14 Ramadan I 1420 H (corresponding to 22 December 1999). The company’s head office is in the city of Riyadh with one branch in Al-Khobar registered under commercial registration number 2051023922 dated 30 Shawwal 1420H (corresponding to 6 February 2000). The share capital of the company after the stock dividends and the rights issue is SR 3,333.3 million, divided into 333.3 million shares of SR 10 each.

The principal activities of the company are to own, establish, operate and manage industrial projects especially those related to the chemical and petrochemical industries. The company incurs costs on projects under development and subsequently establishes a separate company for each project that has its own commercial registration. Costs incurred by the company are transferred to the separate companies when they are established.

During the year 2008, the shareholders approved the right issue in their extraordinary General Assembly Meeting. The company issued 133,333,333 shares with a premium of SR 5/ share. The premium received on the shares issue has been transferred to the statutory reserve after deducting the transaction cost.

The company has the following subsidiaries (the company and its subsidiaries hereinafter referred to as “the Group”):

<u>Subsidiaries (Saudi Limited Liability Companies)</u>	<u>Effective percentage of shareholding</u>	
	<u>2009</u>	<u>2008</u>
International Methanol Company (IMC)	65.00%	65.00%
International Diol Company (IDC)	53.91%	53.91%
International Vinyl Acetate Company Ltd. (IVAC)	76.00%	87.00%
International Acetyl Company Ltd. (IAC)	76.00%	87.00%
International Gases Company (IGC)	72.00%	72.00%
Sipchem Marketing and Services Company (SMSC)	100%	100%
International Utilities Company (IUC)	68.58%	–
International Polymers Company (IPC)	100%	–

On 22 June 2009, the company sold off 11% of its share in each of IVAC and IAC to Ikarus Petroleum Industries, a Kuwaiti company, for SR 308.8 million. Gains on these disposals amounting to SR 55 million have been treated as additions to the statutory reserve as the company continues to maintain control over these subsidiaries.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated interim financial statements have been prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia. The significant accounting policies adopted are as follows:

Accounting convention

The consolidated interim financial statements are prepared under the historical cost convention modified to include the measurement at fair value for the interest rate swaps.

Basis of consolidation of interim financial statements

The consolidated interim financial statements are comprised of the interim financial statements of the Saudi Industrial Petrochemical Company and its subsidiaries, which are controlled by the company, and prepared for the twelve months ended 31 December 2009. All significant intercompany transactions and balances between the groups of companies have been eliminated upon the preparation of the consolidated interim financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES- continued

Revenue recognition

The revenue from sale of products is recognized upon the delivery of products to customers or marketers. In general most of the group's products are sold through marketers, and in this case the sales are recorded upon delivery of products to the marketers at provisional selling prices. These selling prices are later adjusted based upon actual selling prices received by the marketers from the ultimate customers after deducting costs related to shipping, distribution and marketing. Adjustments are recorded as they become known to the group.

Cash and cash equivalents

Cash and cash equivalent consists of bank balances, demand deposits, cash on hand and investments that are readily convertible into known amounts of cash and have maturity of three months or less when purchased.

Inventories

Inventories are stated at the lower of average cost or market value. The average cost for the finished goods includes the direct labor, direct materials and overheads. The spare parts and consumables cost is determined on a weighted average basis with due allowance for any obsolete or slow moving items.

Permanent Impairment of assets

At each balance sheet date the group reviews the carrying values of property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered impairment. If such indicators exist, the recoverable amount of the asset is estimated in order to determine the extent of impairment (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash generating unit to which the asset belongs.

The carrying value of the asset (or cash generating unit) is reduced to the recoverable value when the recoverable value is below the carrying value. Impairment loss is recognized as expense when incurred.

Where an impairment loss subsequently reverses, the carrying value of the asset (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 loss been recognized for the asset (cash generating unit) in prior years. The reversal of impairment loss is recognized as income once identified.

Property, plant and equipment

Property, plant and equipment are stated at cost net of accumulated depreciation. Depreciation is provided for all property, plant and equipment other than freehold land using the straight- line method over the estimated useful lives of the depreciable assets. The cost and accumulated depreciation of an asset are written off from the consolidated interim balance sheet upon the sale or withdrawal of the related asset. Gains or losses as a result of the transaction are recognized in the consolidated interim income statement.

Projects development cost

Projects development cost represent mainly legal and feasibility related costs incurred by the parent company in respect of developing new projects. Upon the successful development of the projects, costs associated with the projects are transferred to the respective companies which are established subsequently for each project. Projects development cost related to projects determined to be non-viable are written off immediately.

Intangible assets

Planned turnaround costs are deferred and amortized over the period until the date of next planned turnaround. Should unexpected turnaround occur prior to the previously envisaged date of planned turnaround, then the previously unamortized deferred costs are immediately expensed and the new turnaround costs are deferred and amortized over the period likely to benefit from such costs. The amortization expense is included under cost of sales in the consolidated interim income statement.

2. SIGNIFICANT ACCOUNTING POLICIES- continued

Derivative financial instruments

Derivative financial instruments are initially recorded at cost and are re-measured at fair value at subsequent reporting dates. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in the consolidated interim income statement as they arise.

A fair value hedge is the hedge of the exposure to changes in fair value of an asset or liability that is already recognized in the consolidated interim balance sheet. The gain or loss from the change in the fair value of the hedging instrument is recognized immediately in the consolidated interim income statement. At the same time, the carrying amount of the hedged item is adjusted for the corresponding gain or loss since the inception of the hedge, which is also immediately recognized in the consolidated interim income statement.

A cash flow hedge is the hedge of the exposure to variability in cash flows relating to a recognized covered asset or liability, an unrecognized firm commitment or a forecasted transactions. To the extent that the hedge is effective, the portion of the gain or loss on the hedging instrument is recognized initially directly in the shareholders' equity. Subsequently, the amount is included in the consolidated interim income statement in the same period during which the hedged item affects net profit or loss. For hedges of forecasted transactions, the gain or loss on the hedging instrument will adjust the recorded carrying amount of the acquired asset or liability.

Employees' terminal benefits

Provision is made for amounts payable under the employment contracts applicable to employees' accumulated periods of service at the consolidated interim balance sheet date.

Zakat

Zakat is provided for in accordance with Saudi Arabian fiscal regulations. The provision is charged to the consolidated interim income statement. Additional amounts, if any, that may become due on finalisation of the assessment are accounted for in the year in which the assessment is finalised.

Accounts Payable and accruals

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

Statutory reserve

In accordance with Saudi Arabian Regulations for Companies, the company must set aside 10% of its net income in each year until it has built up a reserve equal to one half of the capital. The reserve is not available for distribution.

Leasing

Leasing are classified as capital leases whenever the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Foreign currencies

Transactions in foreign currency are recorded in Saudi Riyals at the rate of exchange 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 consolidated interim balance sheet date. All differences are taken to the consolidated interim income statement.

Expenses

All period expenses other than production costs and financial charges are classified as general and administration expenses.

Segmental Analysis

A segment is a distinguishable component of the group that is either engaged in providing products or services (a business segment) or in providing products or services within a particular economic environment (a geographical segment) which is subject to risks and rewards that are different from those of other segments. As substantial portion of the group sales is made outside the Kingdom and all of the group's products are considered within one business segment, no segmental analysis was presented.

2. SIGNIFICANT ACCOUNTING POLICIES- continued

Earning per share

Basic earning per share from net income is calculated by dividing the net income for the period over the weighted average number of shares outstanding during the period.

Basic earning per share from main operations is calculated by dividing the income from main operations for the period over the weighted average number of shares outstanding during the period.

The weighted average number of shares outstanding as at 31 December 2009 was 333.3 million shares (31 December 2008: 323.5 million shares after adjustment for the rights issue during the first quarter of 2008).

3. CONTINGENCES AND CAPITAL COMMITMENTS

The group has letters of credit and bank guarantees amounting to SR 137.5 million as of 31 December 2009 (2008: SR 178.6 million). Also the group has capital commitments amounting to SR 63.7 million (2008: SR 719,3 million).

4. CONTINGENT LIABILITIES

A) A lawsuit has been filed by Silaniz company limited in Texas - United States against Saudi International Petrochemical Company (Sipchem), International Vinyl Acetate Company Ltd. (IVAC) and International Acetyl Company Ltd. (IAC) (group of companies), claiming that the group of companies had used some techniques belonging to Silaniz company limited. Silaniz company limited dropped the lawsuit filed against the group of companies due to the absence of any evidence in favor of the claim. Neither Sipchem nor any of its subsidiaries has financial liability in this regard. This is in line with the previous position of the company's management in respect of illegitimacy of the claims against the group.

B) Some Chinese companies filed a lawsuit in respect of dumping the market with methanol against companies in several countries including the Saudi International Petrochemical Company (Sipchem), where the Chinese companies requested to impose dumping-tax. These proceedings are currently under investigation by the Chinese government authorities.

The company's management emphasizes that Sipchem has not been engaged in any activities or cause any damages to the Chinese producers, and that they will strongly defend such claims and is fully convinced that this lawsuit had no basis and will not be material.

5. PROVISION FOR PROJECT DEVELOPMENT COSTS

During 2008, a provision of SR 75 million was made against the project development cost. The management of the group had not taken a decision to discontinue any ongoing projects. However, this provision was made on a conservative basis against any projects which may not be pursued further in the future at that time. During the first quarter of 2009, the group's management reversed SR 25 million of the provision provided for earlier. Subsequently, the company successfully signed the license agreement for the projects the company intends to undertake. In addition, the company entered into a joint venture agreement with other partners in which they have accepted the project development costs previously incurred by the company. Consequently, there is no need for the provision which the company has made previously. Therefore, the company has reversed the remainder of the provision which amounted to SR 50 million in the third quarter of 2009. The total amount of the provision reversed during the year ended 31 December 2009 amounted SR 75 million.

6. INTEREST RATE SWAP CONTRACT

As at 31 December 2009, IDC, IAC, IVAC and IGC (“subsidiaries”) had interest rate swap (“IRS”) contracts with local commercial banks in relation to the loans obtained from Public Investment Fund and syndicated commercial loans as required by the loan agreements. At 31 December 2009, the notional amount of IRS contracts was US\$ 760 million, equivalent to SR 2,850 million.

The fair value of the interest rate swap has declined as of 31 December 2009 compared to the contract date by US\$ 38.3 million (SR 144 million). The group’s share amounted to SR 103 million, which has been recorded in shareholders’ equity. This amount represents what has to be paid in case the groups’ management decides to cancel the agreement. However the group’s management has no intention to cancel the agreement. In case of the increase in the interest rates this difference will be eliminated and may become positive during the agreement term.

7. DIVIDEND

In April 2009, the parent company distributed cash dividends amounted to SR 333,3 million of SR 1/ share, which equals to 10% of the share capital for the shareholders as of 4 April 2009.

8. PROPOSED DIVIDEND

The board of directors has recommended in its meeting held on 23 December 2009, for the approval of the general assembly, the distribution of cash dividends of SR 333,3 million i.e. SR 1/ share, equivalent to 10% of the share capital for the shareholders as of the date of general assembly meeting.

9. COMPARATIVE FIGURES

Certain of the prior period figures have been reclassified to conform with presentation of the current period.