

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

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

**FOR THE PERIOD ENDED
31 MARCH 2010**

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

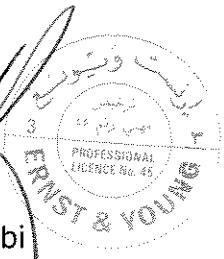
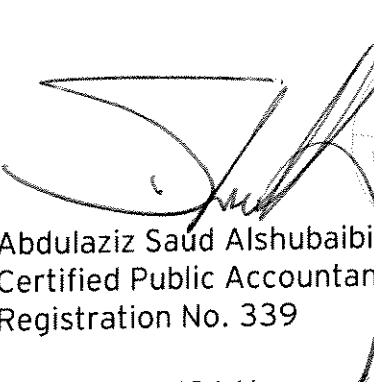
Scope of limited review:

We have reviewed the accompanying consolidated interim balance sheet of Saudi International Petrochemical Company (Saudi Joint Stock Company) and its subsidiaries as at 31 March 2010, and the related consolidated interim statements of income and cash flows for the three 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

29 Rabi' II 1431 H
14 April 2010

Alkhobar

CONSOLIDATED INTERIM BALANCE SHEET (UN-AUDITED)

As At 31 March 2010

	2010 SR	2009 SR
ASSETS		
Current assets		
Cash and cash equivalents	1,931,162,290	2,565,054,973
Accounts receivable, prepayments and other receivables	363,920,842	138,852,279
Inventories	91,893,931	99,491,417
Total current assets	<u>2,386,977,063</u>	<u>2,803,398,669</u>
Non-current assets		
Property, plant and equipment	9,616,570,589	8,164,051,230
Projects' development cost	64,161,034	137,195,314
Intangible assets	28,963,554	84,555
Total non-current assets	<u>9,709,695,177</u>	<u>8,301,331,099</u>
TOTAL ASSETS	<u>12,096,672,240</u>	<u>11,104,729,768</u>
LIABILITIES , SHAREHOLDERS' EQUITY AND MINORITY INTEREST		
Current liabilities		
Accounts payable, other payables and provisions	908,502,025	777,886,090
Short term advances from partners	23,160,985	29,927,659
Current portion of long term loans	250,610,437	125,254,062
Obligations under capital lease – current portion	42,810,811	42,810,811
Total current liabilities	<u>1,225,084,258</u>	<u>975,878,622</u>
Non-current liabilities		
Long term loans	4,434,205,419	3,411,747,670
Obligations under capital lease	379,945,945	422,756,757
Long term advances from partners	253,978,965	135,130,753
Employees' terminal benefits	43,433,590	34,071,393
Fair value of interest rate swaps	154,634,630	221,621,984
Total non-current liabilities	<u>5,266,198,549</u>	<u>4,225,328,557</u>
Total liabilities	<u>6,491,282,807</u>	<u>5,201,207,179</u>
Shareholders' equity and minority interest		
Share capital	3,333,333,330	3,333,333,330
Statutory reserve	932,907,275	867,217,834
General reserve	275,000,000	275,000,000
Retained earnings	231,621,734	718,757,099
Net change in fair value of interest rate swaps	(111,942,549)	(180,346,230)
Total shareholders' equity	<u>4,660,919,790</u>	<u>5,013,962,033</u>
Minority interest	<u>944,469,643</u>	<u>889,560,556</u>
TOTAL SHAREHOLDERS' EQUITY AND MINORITY INTEREST	<u>5,605,389,433</u>	<u>5,903,522,589</u>
TOTAL LIABILITIES, SHAREHOLDERS' EQUITY AND MINORITY INTEREST	<u>12,096,672,240</u>	<u>11,104,729,768</u>

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

CONSOLIDATED INTERIM STATEMENT OF INCOME (UN-AUDITED)

Period ended 31 March 2010

	<i>Period from the beginning of the year to 31 March</i>	
	<i>2010</i>	<i>2009</i>
	<i>SR</i>	<i>SR</i>
Sales	305,611,035	159,735,430
Cost of sales	(156,768,492)	(136,937,572)
Gross profit	148,842,543	22,797,858
General and administrative expenses	(14,237,468)	(17,155,118)
INCOME FROM MAIN OPERATIONS	134,605,075	5,642,740
Investment income	2,344,661	7,420,288
Financial charges	(7,786,449)	(13,839,860)
Provision for projects' development cost no longer required	-	25,000,000
Net expenses of pre-operating activities	(540,893)	(496,877)
Other expenses, net	(1,300,596)	(554,624)
INCOME BEFORE MINORITY INTEREST AND ZAKAT	127,321,798	23,171,667
Minority interest	(42,190,793)	6,950,941
INCOME BEFORE ZAKAT	85,131,005	30,122,608
ZAKAT	(3,934,519)	(948,444)
NET INCOME	81,196,486	29,174,164
EARNINGS PER SHARE (From net income)	0.24	0.09
EARNINGS PER SHARE (From main operations)	0.40	0.02
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	333,333,333	333,333,333

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

CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS (UN-AUDITED)

Period ended 31 March 2010

	<i>2010</i>	<i>2009</i>
	<i>SR</i>	<i>SR</i>
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before zakat	85,131,005	30,122,608
Adjustments for:		
Depreciation and amortization	36,552,147	47,495,642
Employees' terminal benefits, net	3,114,861	540,644
Financial charges	7,786,449	13,839,860
Minority interest	42,190,793	(6,950,941)
Net expenses of pre-operating activities	540,893	496,877
Provision for projects' development cost no longer required	-	(25,000,000)
Changes in operating assets and liabilities:		
Receivables	(56,128,828)	(32,123,777)
Inventories	(13,211,526)	54,369,181
Payables	(54,464,488)	(34,300,402)
Cash from operations	51,511,306	48,489,692
Financial charges paid	(7,786,449)	(26,286,982)
Net cash from operating activities	43,724,857	22,202,710
CASH FLOWS FROM INVESTING ACTIVITIES		
Net expenses of pre-operating activities	(540,893)	(496,877)
Purchase of property, plant and equipment	(133,591,898)	(306,059,361)
Projects' development cost incurred	(12,128,653)	(7,764,721)
Net cash used in investing activities	(146,261,444)	(314,320,959)
CASH FLOWS FROM FINANCING ACTIVITIES		
Long term loans, net	202,020,400	276,139,167
Partners' advances	476,134	-
Net cash from financing activities	202,496,534	276,139,167
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	99,959,947	(15,979,082)
Cash and cash equivalents at the beginning of the period	1,831,202,343	2,581,034,055
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	1,931,162,290	2,565,054,973

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

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS – (UN-AUDITED)
31 March 2010

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 1420 H (corresponding to 22 December 1999). The company’s head office is in the city of Riyadh with one branch in Al-Khobar, where the head quarters for the executive management is located, which is registered under commercial registration number 2051023922 dated 30 Shawwal 1420H (corresponding to 6 February 2000). The share capital of the Company is SR 3,333 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 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.

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

<u><i>Subsidiaries (Saudi Limited Liability Companies)</i></u>	<u><i>Effective percentage of shareholding</i></u>	
	<u><i>2010</i></u>	<u><i>2009</i></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 239.2 million. Gains on these disposals amounting to SR 54.5 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 incorporate the interim financial statements of the Company and interim financial statements of subsidiaries controlled by the Company prepared up to 31 March of the same year using unified accounting policies. Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities. The consolidation of the subsidiaries’ interim financial statements in these consolidated interim financial statements start from the date control is obtained by the Company until the date this control is ended. The acquisition of subsidiaries is accounted for using the purchase method. The ownership shares related to other parties in the group of companies are classified under minority interest in these consolidated interim financial statements. All significant inter-group transactions and balances between group companies have been eliminated in preparing the consolidated interim financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

The group of companies market their products through marketers. Sales are made directly to final customers and also to the Marketers' distribution platforms. The sales through the distribution platforms are recorded at provisional prices at the time of shipments, which are later adjusted based on actual selling prices received by the Marketers from their final customers, after deducting the cost of shipping, distribution and marketing. Adjustments are made as they become known to the group of companies. Both export and local sales are recognized at the time of delivery of the product at the loading terminals located at the King Fahd Industrial Port in Jubail Industrial City.

Expenses

All period expenses other than production costs, financial charges and net expenses of pre-operating activities are classified as general and administrative expenses.

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 comprise of spare parts and finished goods and are stated at the lower of cost or estimated net realizable value. Costs of manufactured goods include raw materials, direct labor and manufacturing overheads.

The cost of spare parts and finished goods are arrived at using the weighted average cost method. Appropriate provisions are made for slow moving and redundant inventories.

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 successful development of the projects, costs associated with the projects are transferred to the respective company subsequently established for each project. Projects development costs relating to the projects determined to be non-viable are written off immediately.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Expenditure on maintenance and repairs is expensed, while expenditure for betterment is capitalized. Depreciation is provided over the estimated useful lives of the applicable assets using the straight line method. The estimated useful lives of the principal classes of assets are as follows:

	<u>Years</u>
Plant and machinery	10 – 25
Buildings	2 - 33.3
Vehicles	4
Catalyst & tools	1 – 10
Computer, furniture, fixtures and office equipment	1 – 10

Intangible assets

Intangible assets represent turnaround maintenance costs. The planned turnaround costs are deferred and amortized over the period until the date of the next planned turnaround. Should an 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 amortized over the period likely to benefit from such costs.

Permanent impairment of assets

At each balance sheet date, the group reviews the carrying values of property, plant and equipment and other non-current 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Permanent impairment of asset (continued)

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.

Derivative financial instruments

Derivative financial instruments are initially recorded at cost and are re-measured to 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 statement of income as they arise.

A fair value hedge is a hedge of the exposure to changes in fair value of an asset or liability that is already recognized in the consolidated balance sheet. The gain or loss from the change in the fair value of the hedging instrument is recognized immediately in the consolidated interim statement of income. 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 statement of income.

A cash flow hedge is a hedge of the exposure to variability in cash flows relating to a recognized asset or liability, an unrecognized firm commitment or a forecasted transaction. To the extent that the hedge is effective, the portion of the gain or loss on the hedging instrument is recognized initially directly in equity. Subsequently, the amount is included in the consolidated interim statement of income in the same period or periods 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.

Foreign currency transactions

Foreign currency transactions are translated into Saudi Riyals at the rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies at the consolidated interim balance sheet date are translated at the exchange rates prevailing at that date. Gains and losses from settlement and translation of foreign currency transactions are included in the consolidated interim statement of income.

Employees' terminal benefits

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

Provision for obligations

A provision is recognized when the company has a legal or constructive obligation as a result of a past event, and the settlement of such obligations is probable and can be measured reliably.

Zakat

The Company and its subsidiaries are subject to zakat and income tax regulations in the Kingdom of Saudi Arabia. Zakat and income taxes are provided on an accrual basis. Any difference between the estimated zakat for the interim periods and the zakat provision that is calculated based on the detailed zakat base at year end are accounted for at the end of the year. The zakat charge in the consolidated interim financial statements represents the zakat for the Company and the Company's share of zakat in subsidiaries. The zakat charge and income tax, assessable on the minority shareholders, is included in minority interest.

2. SIGNIFICANT ACCOUNTING POLICIES- continued

Leasing

Leases 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. Assets held under capital leases are recognized as assets of the Company at the lower of the present value of the minimum lease payments or the fair market value of the assets at the inception of the lease. Finance costs, which represent the difference between the total leasing commitments and the lower of the present value of the minimum lease payments or the fair market value of the assets at the inception of the lease, are charged to the consolidated interim statement of income over the term of the relevant lease in order to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Rentals payable under operating leases are charged to the consolidated income statement on a straight line basis over the term of the operating lease.

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.

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 the group's products are considered within one business segment. Hence, no segmental analysis was presented.

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.

Results of the interim period

The Company has made all necessary adjustments which are important in order to present fairly in all material respects the consolidated interim financial position and results of operations. The consolidated interim financial results may not be considered an accurate basis for the actual results for the whole year.

3. CHANGE IN ACCOUNTING ESTIMATES

The board of directors of Sipchem resolved to change the estimated useful life of plants to become 25 years instead of 20 years. The change in estimate was accounted for prospectively with effect from 1 January 2010. As a result, net income for the period ended 31 March 2010 was higher by SR 4.4 million compared to the results had the old estimate been used. The management of the Company has made this change based on the technical opinion of the technology licensors and consultants as the new estimate reflects the expected useful life of the plants.

4. CONTINGENCES AND CAPITAL COMMITMENTS

As at 31 March 2010, the group has letters of credit and bank guarantees amounting to SR 135.5 million (2009: SR 207.3 million). Also the group has capital commitments amounting to SR 42.6 million (2009: SR 610.3 million).

5. CONTINGENT LIABILITIES

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UN-AUDITED) – continued
31 March 2010

Some Chinese companies filed a petition in respect of anti-dumping the Chinese market with Methanol against companies in several countries including IMC, where the Chinese companies requested to impose anti-dumping duty. The investigation in this case is still in progress by the Chinese authorities.

The group's management emphasizes that they have not been engaged in any activities or caused any damages to the Chinese producers, and that they will strongly defend such claims and is fully convinced that these lawsuits have no basis and will not be material.

6. INTEREST RATE SWAP CONTRACT

As at 31 March 2010, 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 March 2010, the notional amount of IRS contracts was US\$ 605 million, equivalent to SR 2,270 million.

The fair value of the interest rate swap has declined as of 31 March 2010 compared to the contract date by US\$ 41.2 million (SR 154.6 million). The group's share amounted to SR 111.9 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. DIVIDENDS

The general assembly of the Company, in its meeting on 11 Rabi' II 1431H corresponding to 27 March 2010, approved the distribution of cash dividends amounting to SR 333.3 million, i.e. SR 1/ share, equivalent to 10% of the share capital to shareholders in records after the end of trading on the day the meeting was held.

8. COMPARATIVE FIGURES

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