

**SAUDI KAYAN PETROCHEMICAL COMPANY
(SAUDI KAYAN)
(SAUDI JOINT STOCK COMPANY – IN DEVELOPMENT STAGE)**

**FINANCIAL STATEMENTS AND AUDITORS' REPORT
FOR THE PERIOD FROM INCEPTION (JUNE 12, 2007) TO
DECEMBER 31, 2008**

**SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)
(SAUDI JOINT STOCK COMPANY – IN DEVELOPMENT STAGE)**

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AUDITORS' REPORT

To the stockholders
Saudi Kayan Petrochemical Company (Saudi Kayan)
Al-Jubail, Saudi Arabia

Scope of Audit

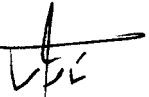
We have audited the balance sheet of Saudi Kayan Petrochemical Company ("Saudi Kayan"), a Saudi joint stock company - in development stage, as of December 31, 2008, and the related statements of pre-operating activities, cash flows and stockholders' equity for the period from inception (June 12, 2007) to December 31, 2008, and notes 1 to 18 which form an integral part of these financial statements as prepared by the Company in accordance with Article 123 of the Regulations for Companies and presented to us with all the necessary information and explanations. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Unqualified Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2008, and results of its pre-operating activities and its cash flows for the period from inception (June 12, 2007) to December 31, 2008 in conformity with generally accepted accounting principles appropriate to the nature of the Company and comply with the relevant provisions of the Regulations for Companies and the articles of the Company as these relate to the preparation and presentation of these financial statements.

Deloitte & Touche
Bakr Abulkhair & Co.


Nasser M. Al-Sagga
License No. 322
18 Muharram, 1430
January 15, 2009



SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)
(SAUDI JOINT STOCK COMPANY – IN DEVELOPMENT STAGE)

BALANCE SHEET
AS OF DECEMBER 31, 2008

	Note	SR 000
ASSETS		
Current assets		
Cash and cash equivalents	3	3,522,304
Other receivables and prepayments	4	<u>87,810</u>
Total current assets		<u>3,610,114</u>
Non-current assets		
Cost of projects under construction	5,12	18,764,456
Other non-current assets	6,12	<u>27,152</u>
Total non-current assets		<u>18,791,608</u>
TOTAL ASSETS		<u>22,401,722</u>
 LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	7	540,383
Accrued and other current liabilities	8	<u>500,257</u>
Total current liabilities		<u>1,040,640</u>
Non-current liabilities		
Long term debts	9	5,814,824
Other non-current liabilities	10	<u>52,177</u>
Total non-current liabilities		<u>5,867,001</u>
Stockholders' equity		
Share capital	1	15,000,000
Statutory reserve	14	49,408
Retained earnings		<u>444,673</u>
Total stockholders' equity		<u>15,494,081</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		<u>22,401,722</u>

The accompanying notes form an integral part of these financial statements

SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)
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STATEMENT OF PRE-OPERATING ACTIVITIES
FOR THE PERIOD FROM INCEPTION (JUNE 12, 2007) TO DECEMBER 31, 2008

	Note	SR 000
Islamic murabaha income		676,847
Interest income		2,368
Pre-operative, floatation costs and other expenses	13	(171,974)
Net income from pre-operating activities before zakat		507,241
Zakat	11	(13,160)
NET INCOME FOR THE PERIOD FROM PRE-OPERATING ACTIVITIES		494,081
Earnings per share for the period (in SR)	18	0.33

The accompanying notes form an integral part of these financial statements

SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)
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STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM INCEPTION (JUNE 12, 2007) TO DECEMBER 31, 2008

	<u>SR 000</u>
PRE-OPERATING ACTIVITIES	
Net income from pre-operating activities before zakat	507,241
Changes in:	
Other receivables and prepayments	(87,810)
Accounts payable, accrued and other current liabilities	105,512
Other non-current liabilities	<u>52,177</u>
Net cash from pre-operating activities	<u>577,120</u>
INVESTING ACTIVITIES	
Additions to cost of projects under construction	(17,842,488)
Other non-current assets	<u>(27,152)</u>
Net cash used in investing activities	<u>(17,869,640)</u>
FINANCING ACTIVITIES	
Proceeds from issuance of share capital	15,000,000
Proceeds from long term debts	<u>5,814,824</u>
Net cash from financing activities	<u>20,814,824</u>
Net change in cash and cash equivalents	3,522,304
Cash and cash equivalents, June 12, 2007	<u>-</u>
CASH AND CASH EQUIVALENTS, DECEMBER 31, 2008	<u><u>3,522,304</u></u>

Non-cash transactions:

Cost of projects under construction includes accounts payable, accrued and other current liabilities amounting to SR 921,968 million.

The accompanying notes form an integral part of these financial statements

SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)
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STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE PERIOD FROM INCEPTION (JUNE 12, 2007) TO DECEMBER 31, 2008

	Share capital SR 000	Statutory reserve SR 000	Retained earnings SR 000	Total SR 000
Share capital introduced	15,000,000	-	-	15,000,000
Net income for the period from pre-operating activities	-	-	494,081	494,081
Transfer to statutory reserve	-	49,408	(49,408)	-
December 31, 2008	15,000,000	49,408	444,673	15,494,081

The accompanying notes form an integral part of these financial statements

**SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)
(SAUDI JOINT STOCK COMPANY – IN DEVELOPMENT STAGE)**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM INCEPTION (JUNE 12, 2007) TO DECEMBER 31, 2008**

1. ORGANIZATION AND ACTIVITIES

Saudi Kayan Petrochemical Company (Saudi Kayan) (“the Company”) is a Saudi Joint Stock Company, in the development stage, registered under commercial registration number 2055008450 dated 26 Jumada I, 1428 (June 12, 2007). The authorized, issued and fully paid share capital of the Company, amounting to SR 15,000 million, is divided into 1,500 million shares of SR 10 each.

As per the Article of Association of the Company, the first financial year of the Company shall cover the period from the inception of the Company until the 31st December of the following Gregorian year. As this is the first year for the Company therefore, the financial statements have not included any comparative figures.

The principal activity of the Company is to invest in industrial projects in the petrochemical and chemical fields and owning and constructing the industrial projects to support the Company’s activities including raw materials and other within and outside the Kingdom, operating and managing the industrial projects build by the Company and to provide the support and maintenance of the utilities related to these plants and gaining the technical expertise in petrochemical and chemical fields through co-operation and purchasing from others.

The Company’s principal place of business is at Jubail Industrial City, Kingdom of Saudi Arabia.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in compliance with the accounting standards issued by the Saudi Organization for Certified Public Accountants. The following is a summary of significant accounting policies applied by the Company:

Accounting convention

The financial statements are prepared under the historical cost convention.

Revenue recognition

Income from murabaha placements and deposits are recognized on accrual basis.

Pre-operating expenses

Pre-operating expenses include expenses not directly attributable to the construction costs of the Company and which do not have future benefits.

Cost of projects under construction

Cost of projects under construction represents the costs incurred for the construction of various projects and are accounted for at cost.

Foreign currency translation

Transactions denominated in foreign currencies are translated into Saudi Riyals at exchange rates prevailing on the dates of such transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Saudi Riyals at exchange rates prevailing at the balance sheet date. Exchange gains or losses are credited or charged to statement of pre-operating activities.

SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)
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NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE PERIOD FROM INCEPTION (JUNE 12, 2007) TO DECEMBER 31, 2008

Borrowing costs

Borrowing costs directly attributable to the projects under construction are added to the cost of that asset until such time as the assets are ready for its intended use. Investment income earned on temporary investment of specific borrowings pending their expenditure on the projects under construction is deducted from the borrowing costs eligible for capitalization.

End-of-service indemnities

End-of-service indemnities, required by the Company's policies and the Saudi Arabian labor law, are provided in the financial statements based on the employees' length of service.

Employees' home ownership program

The Company has a home ownership program that offers eligible Saudi employees home ownership opportunities.

Unsold housing units constructed for eventual sale to eligible employees are included under buildings and depreciated over 33 years.

When the houses are allocated to the employees, the cost of houses constructed and sold to the employees under the program is transferred from property and equipment to other non-current assets. Down payments and installments of purchase price received from employees are set off against the other non-current assets.

The cost of the houses and the related purchase price is removed from other non-current assets when the title to the houses is transferred to the employees, at which time, no significant gain or loss is expected to result to the Company.

Employees' Savings Plan

The Company maintains an employee saving plan. The contributions from the participants are deposited in a separate bank account and provision is established for the Company's contribution.

Zakat

The Company is subject to the Regulations of the Department of Zakat and Income Tax ("DZIT") in the Kingdom of Saudi Arabia. Zakat is provided on an accruals basis and charged to the statement of pre-operating activities. Zakat is computed on the zakat base. Any difference in the estimate is recorded when the final assessment is approved, at which time the provision is cleared.

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. Rentals payable under operating leases are charged to income on a straight line basis over the term of the operating lease.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash and bank balances and murabaha investments with original maturities of three months or less.

	SR 000
Cash and bank balances	<u>2,972,304</u>
Islamic murabaha investments	<u>550,000</u>
	<u>3,522,304</u>

SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)
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NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE PERIOD FROM INCEPTION (JUNE 12, 2007) TO DECEMBER 31, 2008

4. OTHER RECEIVABLES AND PREPAYEMENTS

	<u>SR 000</u>
Amount due from Saudi Basic Industries Corporation “SABIC” and its affiliates	32,400
Prepayments	23,675
Murabaha income receivable	2,648
Others	29,087
	<u>87,810</u>

5. COST OF PROJECTS UNDER CONSTRUCTION

Cost of projects under construction represents the costs incurred by the Company for the construction of industrial projects in the petrochemical and chemical fields and to produce propylene, ethylene, benzene, cumene, phenol, acetone, polyethylene, ethylene, polypropylene, glycol, bisphenol, ethanolamines, methylamines, dimethyl formamide, choline chloride, polycarbonate and ethoxylates and other petrochemical products and related facilities at Jubail Industrial City, Kingdom of Saudi Arabia. Construction related costs at December 31, 2008 comprise construction costs under various agreements and directly attributable costs to bring the asset to the location and condition necessary for it to be capable of operating in a manner intended by the management. Directly attributable costs include employee benefits, site preparation and installation costs, licensing fees, professional fees and project management fees. The total costs and expenses of projects under construction up to December 31, 2008 amounting to SR 18,949.6 million. The Company during the period, in consistency with the accounting standards, charged SR 185.1 million to the pre-operating expenses.

Finance costs capitalized during the period amounted to SR 15.8 million.

The Company has leased land for plant and equipment and buildings from the Royal Commission for Jubail and Yanbu at nominal rent. The lease is for a period of 30 years commencing from 21 Rabi’l, 1428H (corresponding to April 9, 2007) and is renewable for a similar period under mutual agreed terms and conditions.

6. OTHER NON-CURRENT ASSETS

	<u>SR 000</u>
Employee loans and home ownership receivables	7,808
Software development costs (a)	19,344
	<u>27,152</u>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE PERIOD FROM INCEPTION (JUNE 12, 2007) TO DECEMBER 31, 2008

(a) Software development costs represent cost of implementation of SAP Enterprise Resource Planning System (“SAP ERP”) as follows:

	<u>SR 000</u>
Cost	
Addition during period	<u>38,295</u>
December 31, 2008	<u>38,295</u>
Amortization	
Charge for the period	<u>(18,951)</u>
December 31, 2008	<u>(18,951)</u>
Net book value	
December 31, 2008	<u>19,344</u>

7. ACCOUNTS PAYABLE

	<u>SR 000</u>
Amount due to Saudi Basic Industries Corporation and affiliates	63,224
Others	<u>477,159</u>
	<u>540,383</u>

8. ACCRUED AND OTHER CURRENT LIABILITIES

	<u>SR 000</u>
Retentions payable	219,920
Zakat (note 11)	13,160
Withholding tax payable	9,509
Accrued and other liabilities	<u>257,668</u>
	<u>500,257</u>

9. LONG TERM FACILITIES

During 2008, the Company entered into the following long term loan facilities with various lenders:

	<u>US\$ 000</u>	<u>SR 000</u>
Public Investment Fund facility agreement	1,067,000	4,001,250
Islamic Facility Agreements (“IFA”)	1,030,319	3,863,697
Commercial facility agreement	725,946	2,722,296
Export Credit Agency facility agreements (“ECA Facilities”)	2,000,000	7,500,000
Islamic working capital facility agreement	643,735	2,414,005
Saudi Industrial Development Fund (“SIDF”) facility agreement	<u>533,333</u>	<u>2,000,000</u>
	<u>6,000,333</u>	<u>22,501,248</u>

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE PERIOD FROM INCEPTION (JUNE 12, 2007) TO DECEMBER 31, 2008**

The following are the aggregate loan utilization at December 31, 2008 in respect of the above facilities:

	<u>SR 000</u>
Public Investment Fund facility agreement	1,203,465
Islamic Facility Agreements	1,162,455
Commercial facility agreement	819,049
Export Credit Agency facility agreements	2,067,371
Islamic working capital facility agreement	562,484
Saudi Industrial Development Fund facility agreement	-
	<u>5,814,824</u>

Public Investment Fund facility agreement

Commission is payable on facility drawn calculated at the London Inter Bank Offered Rate ("LIBOR") plus margin and is repayable in twenty four semi-annual equal installments commencing from June 2011. An amount of US\$ 320.9 million (SR 1,203.5 million) was drawn up to December 31, 2008.

Islamic Facility Agreements ("IFA")

During 2008, the Company entered into the IFAs pursuant to which the commercial banks will participate in the procurement of a portion of the project assets on the basis of a co-ownership structure.

On the completion of the project, the co-owned assets will be leased to the Company at an annual rental calculated at the LIBOR plus margin until final completion of the project.

A special purpose vehicle, Saudi Kayan Assets Leasing Company Limited (the "Custodian"), incorporated in the Kingdom of Saudi Arabia, holds, as agent, the Islamic financiers' interest in the co-owned assets.

Under the Forward Lease Agreement and the other IFAs, the Company will purchase from the Custodian, the Islamic financiers' ownership interest in the above assets over a period of twelve years starting from June 2011. At December 31, 2008, the Company has drawn down US\$310 million (SR 1,162.5 million) from the total available Islamic facility.

Commercial facility agreement

The Company has entered into a commercial facility agreement with a syndicate of banks. Under this facility, an amount of US\$ 218.4 million (SR 819 million) has been drawn up to December 31, 2008. Commission is payable on loans drawn calculated at LIBOR plus margin per annum. This facility is repayable in twenty four unequal installments on a semi-annual basis, over a period of twelve years, commencing from June 2011.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
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Export Credit Agency facility agreements

The Company has also entered into four ECA-backed facilities. Three of the ECA facilities are each with a syndicate of banks and one ECA facility is provided by an export credit agency on a direct funding basis. The Company has drawn down US\$ 551,299 million (SR 2,067.4 million) up to the end of the period. Repayment is in twenty four unequal installments on a semi-annual basis commencing from June 2011. Commission is payable on loans drawn calculated at LIBOR plus required margin applicable for the particular facility per annum.

Islamic working capital facility agreement

The Company has entered into an Islamic working capital arrangement for the project and signed a Credit Facility Agreement with a bank. From the total facility, an amount of US\$ 150 million (SR 562.5 million) was utilized up to December 31, 2008.

Saudi Industrial Development Fund facility agreement

SIDF facility has been signed in December 2008 and is repayable in fourteen unequal installments on a semi-annual basis starting from December 29, 2012. No amount has been drawn from the SIDF facilities up to December 31, 2008.

10. OTHER NON-CURRENT LIABILITIES

	<u>SR 000</u>
End-of-service indemnities	47,105
Employees' savings plan	<u>5,072</u>
	<u>52,177</u>

11. ZAKAT

The principal elements of the zakat base are as follows:

	<u>SR 000</u>
Share capital	15,000,000
Long term debts utilized for cost of projects under construction	2,292,520
Non-current assets	<u>(18,791,608)</u>
	(1,499,088)
Add: net income before zakat	<u>507,241</u>
Zakat base	<u>(991,847)</u>

Some of these amounts have been adjusted in arriving at the zakat charge for the year.

Cash and cash equivalents at the period end amounting to SR 3,522 million represents the unutilized proceeds from long term debts borrowed for the purpose of projects under construction.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE PERIOD FROM INCEPTION (JUNE 12, 2007) TO DECEMBER 31, 2008

The movement in zakat provision is as follows:

	<u>SR 000</u>
Provision for period	<u>13,160</u>
December 31	<u>13,160</u>

The charge for the period is as follows:

	<u>SR 000</u>
Zakat for current period	<u>13,160</u>
Charge to statement of pre-operating activities	<u>13,160</u>

Zakat has been calculated based on adjusted net income as the zakat base is negative.

12. RELATED PARTY TRANSACTIONS

During the period, the Company transacted with the following related parties:

<u>Name</u>	<u>Relationship</u>
Saudi Basic Industries Corporation and affiliates	Shareholder and affiliates
Al Kayan Petrochemicals Company	Shareholder

The significant transactions and the related amounts are as follows:

Saudi Basic Industries Corporation through the Shared Services Organization provided information technology, engineering, accounting, human resources and other services to the Company. Total amount charged in respect of these services was SR 106.7 million.

Additionally, in compliance with the agreement signed, the Company has reimbursed the founding shareholders all costs and expenses incurred by them in developing this project up to the incorporation of the Company. The total amounted to SR 1,973.7 million.

13. PRE-OPERATIVE, FLOATATION COSTS AND OTHER EXPENSES

	<u>SR 000</u>
Salaries, wages and other benefits	59,610
Development expenses	30,000
Floatation costs	26,362
Currency exchange differences	25,320
Communication	4,351
Professional fee	3,303
Rent	2,520
Board of directors' expenses	211
Others	<u>20,297</u>
	<u>171,974</u>

SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)
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NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE PERIOD FROM INCEPTION (JUNE 12, 2007) TO DECEMBER 31, 2008

14. STATUTORY RESERVE

In accordance with Regulations for Companies in Saudi Arabia, the Company has established a statutory reserve by appropriation of 10% of net income until the reserve equals 50% of the share capital. This reserve is non cash item and not available for dividend distribution.

15. RISK MANAGEMENT

Financial instruments carried on the balance sheet principally include cash and cash equivalents, other receivables, accounts payable, accrued and other current liabilities and long term debts.

Credit Risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. The Company has no significant concentration of credit risk. Cash is substantially placed with banks with sound credit ratings.

Commission rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Company is exposed to interest rate risk on certain of its cash and cash equivalents and long term debts. The Company limits interest rate risk by monitoring changes in interest rates in the currencies in which its cash and cash equivalents and long term debts are denominated. The management is also expected to hedge its commission rate risk on long term debts by entering into interest rate swaps with various lenders.

Liquidity Risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available to meet any future commitments.

Currency Risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Management monitors the fluctuations in currency exchange rates and manages its effect on the financial statements accordingly.

Fair Value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. As the Company's financial instruments are compiled under the historical cost convention, differences can arise between the book values and fair value estimates. Management believes that the fair value of the Company's financial assets and liabilities are not materially different from their carrying values as the Company is still in development stage.

16. OPERATING LEASE ARRANGEMENTS

	<u>SR 000</u>
Payments under operating leases capitalized during the period	<u>4,241</u>

Operating lease charges represent rentals payable for vehicles and properties (refer note 5 for land lease). Rentals are fixed at the start of each lease term for a period of 3 years for vehicles and 1 to 2 years for properties except land lease.

SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)
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NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE PERIOD FROM INCEPTION (JUNE 12, 2007) TO DECEMBER 31, 2008

17. CONTINGENCIES AND COMMITMENTS

	<u>SR 000</u>
Letters of guarantee	<u>3,494</u>
Letters of credit	<u>38,271</u>

At December 31, 2008, the Company had outstanding capital commitments of SR 18,523 million in respect of cost of projects under construction.

18. EARNINGS PER SHARE

Earnings per share are computed by dividing net income for the period from pre-operating activities by the weighted average number of shares outstanding amounting to 1,500 million shares.