

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

**FINANCIAL STATEMENTS AND AUDITORS' REPORT  
YEAR ENDED DECEMBER 31, 2010**

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

**FINANCIAL STATEMENTS AND AUDITORS' REPORT  
YEAR ENDED DECEMBER 31, 2010**

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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, 2010, and the related statements of pre-operating activities, cash flows and stockholders' equity for the year then ended, and notes 1 to 19 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, 2010, and results of its pre-operating activities and its cash flows for the year then ended in conformity with generally accepted accounting principles in Saudi Arabia 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  
22 Safar, 1432  
January 26, 2011



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

**BALANCE SHEET**  
**AS OF DECEMBER 31, 2010**

	Note	2010 SR 000	2009 SR 000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	3	967,032	2,471,788
Accounts receivable	13	1,297,641	-
Inventories	4	498,371	-
Other receivables and prepayments	5	119,599	167,614
<b>Total current assets</b>		<b>2,882,643</b>	<b>2,639,402</b>
<b>Non-current assets</b>			
Cost of projects under construction	6,13	40,557,238	33,147,217
Other non-current assets	7	34,189	21,042
<b>Total non-current assets</b>		<b>40,591,427</b>	<b>33,168,259</b>
<b>TOTAL ASSETS</b>		<b>43,474,070</b>	<b>35,807,661</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Current portion of long term debts	10	580,312	-
Accounts payable	8	261,499	271,805
Accrued and other current liabilities	9	1,572,039	883,473
<b>Total current liabilities</b>		<b>2,413,850</b>	<b>1,155,278</b>
<b>Non-current liabilities</b>			
Long term debts	10	25,509,115	19,113,470
Other non-current liabilities	11	88,552	61,748
<b>Total non-current liabilities</b>		<b>25,597,667</b>	<b>19,175,218</b>
<b>Stockholders' equity</b>			
Share capital	1	15,000,000	15,000,000
Statutory reserve	15	49,408	49,408
Retained earnings		413,145	427,757
<b>Total stockholders' equity</b>		<b>15,462,553</b>	<b>15,477,165</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>		<b>43,474,070</b>	<b>35,807,661</b>

The accompanying notes form an integral part of these financial statements

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

**STATEMENT OF PRE-OPERATING ACTIVITIES**  
**YEAR ENDED DECEMBER 31, 2010**

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	Note	2010 SR 000	2009 SR 000
Pre-operative and other expenses, net	14	<u>(14,246)</u>	<u>(16,845)</u>
Net loss from pre-operating activities before zakat		(14,246)	(16,845)
Zakat	12	<u>(366)</u>	<u>(71)</u>
<b>NET LOSS FROM PRE-OPERATING ACTIVITIES</b>		<u><b>(14,612)</b></u>	<u><b>(16,916)</b></u>
Loss per share for the year (in SR)	19	<u><b>(0.010)</b></u>	<u><b>(0.011)</b></u>

The accompanying notes form an integral part of these financial statements

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

**STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2010**

	2010 SR 000	2009 SR 000
<b>PRE-OPERATING ACTIVITIES</b>		
Net loss from pre-operating activities before zakat	(14,246)	(16,845)
Changes in:		
Accounts receivable	(1,297,641)	-
Inventories	(498,371)	-
Other receivables and prepayments	48,015	(79,804)
Accounts payable, accrued and other current liabilities	(1,022,568)	(858,429)
Other non-current liabilities	26,804	9,571
<b>Net cash used in pre-operating activities</b>	<b>(2,758,007)</b>	<b>(945,507)</b>
<b>INVESTING ACTIVITIES</b>		
Additions to cost of projects under construction	(5,709,559)	(13,409,765)
Other non-current assets	(13,147)	6,110
<b>Net cash used in investing activities</b>	<b>(5,722,706)</b>	<b>(13,403,655)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from long term debts	6,975,957	13,298,646
<b>Net cash from financing activities</b>	<b>6,975,957</b>	<b>13,298,646</b>
<b>Net change in cash and cash equivalents</b>	<b>(1,504,756)</b>	<b>(1,050,516)</b>
Cash and cash equivalents, January 1	2,471,788	3,522,304
<b>CASH AND CASH EQUIVALENTS, DECEMBER 31</b>	<b>967,032</b>	<b>2,471,788</b>

**Non-cash transactions:**

Cost of projects under construction includes accounts payable, accrued and other current liabilities amounting to SR 1,700.5 million (2009: SR 973.0 million).

The accompanying notes form an integral part of these financial statements

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

**STATEMENT OF STOCKHOLDERS' EQUITY**  
**YEAR ENDED DECEMBER 31, 2010**

	Share capital SR 000	Statutory reserve SR 000	Retained earnings SR 000	Total SR 000
January 1, 2009	15,000,000	49,408	444,673	15,494,081
Net loss from pre-operating activities	-	-	(16,916)	(16,916)
December 31, 2009	15,000,000	49,408	427,757	15,477,165
Net loss from pre-operating activities	-	-	(14,612)	(14,612)
December 31, 2010	<b>15,000,000</b>	<b>49,408</b>	<b>413,145</b>	<b>15,462,553</b>

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  
YEAR ENDED DECEMBER 31, 2010**

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**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.

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:

**a. Accounting convention**

The financial statements are prepared under the historical cost convention.

**b. Revenue recognition**

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

**c. Inventories**

Finished goods, chemicals and raw materials are stated at the lower of cost or net realizable value. Cost of finished goods, chemicals and raw materials, spare parts and supplies is determined on a weighted average cost basis. Inventories of finished goods include cost of materials, labor and an appropriate portion of direct overheads.

**d. 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.

**e. 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.



**SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)**  
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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED DECEMBER 31, 2010**

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**f. Impairment**

At each balance sheet date, the Company reviews the carrying amounts of its non-current assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but 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. A reversal of an impairment loss is recognized as income immediately.

**g. 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.

**h. Provisions for obligations**

A provision is recognized in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

**i. Borrowing costs**

Borrowing costs directly attributable to the projects under construction are added to the cost of that assets 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.

**j. 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.

**k. 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.

**SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)**  
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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED DECEMBER 31, 2010**

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.

**l. 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.

**m. 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. The zakat charge is computed at 2.5% on the zakat base or adjusted net income, whichever is higher. Any difference in the estimate is recorded when the final assessment is approved, at which time the provision is cleared.

**n. 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 capitalized in cost of projects under construction 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.

	2010 SR 000	2009 SR 000
Cash and bank balances	10,782	325,538
Islamic murabaha investments	956,250	2,146,250
	<u>967,032</u>	<u>2,471,788</u>

Cash and cash equivalents at the end of the year include employees saving plan deposits held in a separate bank account of SR 4.5 million (2009- SR 3.1 million), which are not available to the Company.

**4. INVENTORIES**

	2010 SR 000	2009 SR 000
Finished goods	253,989	-
Chemicals and raw materials	17,662	-
Spare parts and supplies	217,830	-
Goods-in-transit	8,890	-
	<u>498,371</u>	<u>-</u>

The spare parts inventory primarily relates to projects under construction and accordingly, this inventory is expected to be utilized over a period exceeding one year.

**SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)**  
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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED DECEMBER 31, 2010**

**5. OTHER RECEIVABLES AND PREPAYEMENTS**

	2010	2009
	SR 000	SR 000
Amount due from Saudi Basic Industries Corporation "SABIC" and its affiliates (note 13)	93,360	78,124
Prepayments	2,870	20,992
Islamic murabaha income receivable	143	1,643
Others	23,226	66,855
	<u>119,599</u>	<u>167,614</u>

**6. 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, polypropylene, ethylene glycol, bisphenol, ethanolamines, polycarbonate and ethoxylates and other petrochemical products and related facilities at Jubail Industrial City, Kingdom of Saudi Arabia. Construction related costs at December 31, 2010 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. Also included were costs of testing to ensure the plants are working properly, and after deducting net proceeds from the sale of production made during the testing phase. Directly attributable costs include employee benefits, site preparation and installation costs, licensing fees, professional fees and project management fees. The total costs and expenses incurred on projects under construction up to December 31, 2010 amounting to SR 41.0 billion (2009: SR 33.3 billion) out of this SR 217.8 million has been reclassified as spare parts and supplies. The Company during the year, in accordance with the accounting standards, charged SR 14.6 million (2009: SR 16.9 million) to the pre-operating expenses. The Company charged SR 216.7 million to the statement of pre-operating activities from inception (June 12, 2007) to December 31, 2010.

Finance costs capitalized during the year ended December 31, 2010 amounted to SR 232.9 million (2009: SR 228.4 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'I, 1428H (corresponding to April 9, 2007) and is renewable for a similar period under mutual agreed terms and conditions.

**7. OTHER NON-CURRENT ASSETS**

	2010	2009
	SR 000	SR 000
Employee loans and home ownership receivables	30,081	9,278
Software development costs (a)	4,108	11,764
	<u>34,189</u>	<u>21,042</u>

**SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)**  
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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED DECEMBER 31, 2010**

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

	2010 SR 000	2009 SR 000
<b>Cost</b>		
January 1	38,295	38,295
December 31,	38,295	38,295
<b>Amortization</b>		
Accumulated balance at January 1	26,531	18,951
Charge for the year	7,656	7,580
December 31,	34,187	26,531
<b>Net book value</b>		
December 31,	4,108	11,764

**8. ACCOUNTS PAYABLE**

	2010 SR 000	2009 SR 000
Amount due to SABIC and its affiliates	84,646	89,658
Others (contractors/suppliers)	176,853	182,147
	261,499	271,805

**9. ACCRUED AND OTHER CURRENT LIABILITIES**

	2010 SR 000	2009 SR 000
Retentions payable	599,538	473,372
Zakat (note 12)	8,695	8,400
Withholding tax payable	20,631	2,416
Accrued and other liabilities	943,175	399,285
	1,572,039	883,473

**10. LONG TERM FACILITIES**

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

	US\$ 000	SR 000
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	533,333	2,000,000
	6,000,333	22,501,248

**SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)**  
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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED DECEMBER 31, 2010**

The following are the aggregate loan utilization at December 31, in respect of the above facilities as well as subordinated loans during the current year:

	2010 SR 000	2009 SR 000
Public Investment Fund facility agreement	4,001,250	3,769,626
Islamic Facility Agreements	3,863,697	3,677,406
Commercial facility agreement	2,722,296	2,617,008
Export Credit Agency facility agreements	6,749,936	5,899,559
Islamic working capital facility agreement	2,414,748	2,249,871
Saudi Industrial Development Fund facility agreement	1,800,000	900,000
Subordinated loans	4,537,500	-
	26,089,427	19,113,470

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\$ 1,067.0 million (SR 4,001.2 million) was drawn up to December 31, 2010 (2009- US\$ 1,005.2 million (SR 3,769.6 million)).

Islamic Facility Agreements ("IFA")

In 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 as agreed plus margin.

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, 2010, the Company has drawn down US\$ 1,030.3 million (SR 3,863.7 million) from the total available Islamic facility (2009- US\$ 980.6 million (SR 3,677.4 million)).

Commercial facility agreement

The Company has entered into a commercial facility agreement with a syndicate of banks. Under this facility, an amount of US\$ 725.9 million (SR 2,722.3 million) has been drawn up to December 31, 2010 (2009- US\$ 697.9 million (SR 2,617.0 million)). 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.

**SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)**  
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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED DECEMBER 31, 2010**

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*Export Credit Agency facility agreements*

The Company has also entered into four ECA-backed facilities. The Company has drawn down US\$ 1,800 million (SR 6,749.9 million) up to December 31, 2010 (2009- US\$ 1,573.2 million (SR 5,899.6 million). 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\$ 643.9 million (SR 2,414.7 million) was utilized up to December 31, 2010 (2009- US\$ 600 million (SR 2,249.9 million)).

*Saudi Industrial Development Fund facility agreement*

The Company has entered into a term loan facility with SIDF for total amount of SR 2,000 million includes SIDF front end fee, out of which SR 1,800 million has drawn up to December 31, 2010 (2009- SR 900 million). This facility is payable over fourteen unequal semi-annual installments starting from 15 Safar, 1434H (corresponding to December 29, 2012). The front end fee is being capitalized as part of cost of projects under construction up to the date of commencement of commercial operations and subsequently will be amortized to the statement of income.

*Subordinated loans*

During 2010, the Company has secured loans facilities for an amount of SAR 6,038 million as subordinated loans from SABIC or commercial banks with the guarantee of SABIC as its major shareholder to finance the additional funding required to complete the projects under construction and start up costs based on certain terms and conditions. The loan maturity is after eight years and its commission is payable on loan drawn amount calculated at SIBOR plus margin per annum. The amount of SR 4,537.5 million have been utilized as of December 31, 2010 from the above facility.

The aggregate repayment schedule of long term debts is as follows

	<b>2010</b>
	<b>SR 000</b>
2011	580,312
2012	510,609
2013	1,094,904
2014	1,622,620
2015 and thereafter	22,280,982
	<u>26,089,427</u>

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED DECEMBER 31, 2010**

**11. OTHER NON-CURRENT LIABILITIES**

	End-of-service indemnities SR 000	Employees' savings plan SR 000	Total SR 000
January 1, 2010	56,563	5,185	61,748
Additional provisions during year	28,003	1,052	29,055
Transfer from other affiliates	-	275	275
Employees' contributions	-	1,799	1,799
Benefits paid	(3,373)	(952)	(4,325)
December 31, 2010	81,193	7,359	88,552

**12. ZAKAT**

The principal elements of the zakat base are as follows:

	2010 SR 000	2009 SR 000
Opening stockholders' equity	15,477,165	15,494,081
Long term debts utilized for cost of projects under construction	25,122,395	16,641,682
Non-current assets	(40,591,427)	(33,168,259)
	8,133	(1,032,496)
Add: net loss before zakat	(14,246)	(16,845)
Zakat base	(6,113)	(1,049,341)

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

Cash and cash equivalents at the year end amounting to SR 967.0 million (2009: SR 2,471.8 million) represents the unutilized proceeds from long term debts borrowed for the purpose of projects under construction which has received during 2010 and not completed one year.

The movement in zakat provision is as follows:

	2010 SR 000	2009 SR 000
January 1	8,400	13,160
Provision for year	366	71
Payments during year	(71)	(4,831)
December 31	8,695	8,400

The charge for the year is as follows:

	2010 SR 000	2009 SR 000
Zakat for the year	366	71
Charge to statement of pre-operating activities	366	71

**SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)**  
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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED DECEMBER 31, 2010**

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

**Outstanding assessments**

The Company has submitted its zakat returns up to the year ended December 31, 2009, settled zakat as per the returns and obtained the required certificates and official receipts. The DZIT has yet to issue the final assessment for the period from inception (June 12, 2007) to December 31, 2009 as they are still under study by the DZIT.

**13. RELATED PARTY TRANSACTIONS**

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

<u>Name</u>	<u>Relationship</u>
Saudi Basic Industries Corporation ("SABIC") and affiliates	Shareholder and affiliates

Accounts receivable from related parties at December 31, 2010 mainly represent trade receivables from the Marketer (SABIC).

The Company obtained procurement services including warehousing, transporting and arranging for delivery of materials related to the Company's spare parts, supplies and materials are provided by SABIC through the Shared Services Organization (SSO). SABIC charged the Company SR 2.2 million in 2010 (2009: SR 1.3 million) as procurement services fees. Advances to SABIC for such services, which are included under other receivables and prepayments, amounted to SR 33.0 million at December 31, 2010 (2009: SR 14.5 million).

In addition to procurement services, SSO also provide accounting, human resources, information technology, engineering, and other general services to the Company. The total amount charged in respect of these services was SR 33.4 million (2009: SR 25.1 million).

SABIC Terminal Services Limited (Sabtank) provides shipping and material handling services to the Company. The total service fee charged by the related party in this respect amounted to SR 16.8 million.

**14. PRE-OPERATIVE AND OTHER EXPENSES, NET**

	<u>2010</u>	<u>2009</u>
	<u>SR 000</u>	<u>SR 000</u>
Salaries, wages and other benefits	12,472	4,243
Currency exchange differences	(155)	12,071
Professional fee	164	141
Board of directors' expenses	1,611	253
Others	154	137
	<u>14,246</u>	<u>16,845</u>



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

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED DECEMBER 31, 2010**

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**15. 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.

**16. RISK MANAGEMENT**

Financial instruments carried on the balance sheet principally include cash and cash equivalents, accounts 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.

**17. OPERATING LEASE ARRANGEMENTS**

	2010	2009
	SR 000	SR 000
Payments under operating leases capitalized during the year	<u>5,215</u>	<u>6,420</u>

Operating lease charges represent rentals payable for vehicles and properties (refer note 6 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)  
(SAUDI JOINT STOCK COMPANY – IN DEVELOPMENT STAGE)**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)  
YEAR ENDED DECEMBER 31, 2010**

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**18. CONTINGENCIES AND COMMITMENTS**

	<b>2010</b>	2009
	<b>SR 000</b>	SR 000
Letters of guarantee	<u>13,509</u>	<u>17,082</u>
Letters of credit	<u>562,500</u>	<u>-</u>

At December 31, 2010, the Company had outstanding capital commitments of SR 3,757.7 million (2009: SR 7,143.2 million) in respect of cost of projects under construction.

**19. LOSS PER SHARE**

Loss per share is computed by dividing net loss for the year from pre-operating activities by the weighted average number of shares outstanding amounting to 1,500 million shares.