

SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)
(A Saudi Joint Stock Company)

INTERIM FINANCIAL STATEMENTS
FOR THE THREE-MONTH AND SIX-MONTH PERIODS
ENDED JUNE 30, 2013 AND INDEPENDENT
AUDITORS' LIMITED REVIEW REPORT

SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)
(A Saudi Joint Stock Company)
INTERIM FINANCIAL STATEMENTS
FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2013

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LIMITED REVIEW REPORT

July 16, 2013

To the shareholders of Saudi Kayan Petrochemical Company (Saudi Kayan)
(A Saudi Joint Stock Company)

Scope of review

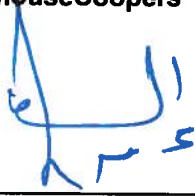
We have reviewed the accompanying interim balance sheet of Saudi Kayan Petrochemical Company (Saudi Kayan) (the "Company") as of June 30, 2013 and the interim income statement for the three-month and six-month periods ended June 30, 2013 and the statements of cash flows and changes in shareholders' equity for the six-month period then ended and the related notes which form an integral part of these interim financial statements. These interim financial statements are the responsibility of the management and have been prepared by them and submitted to us together with all the information and explanations which we required.

We conducted our limited review in accordance with the standard of Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants. A limited review consists principally of applying analytical procedures to financial data and information and making inquiries of persons responsible for financial and accounting matters. The scope of such limited review is substantially less than an audit conducted in accordance with auditing standards generally accepted in Saudi Arabia, 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.

Review conclusion

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

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SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)
(A Saudi Joint Stock Company)
Interim balance sheet
(All amounts in Saudi Riyals in thousands unless otherwise stated)

	Note	June 30, 2013 (Unaudited)	June 30, 2012 (Unaudited)
Assets			
Current assets			
Cash and cash equivalents	3	410,820	552,183
Accounts receivable		2,482,301	2,510,522
Inventories		2,070,468	1,721,288
Prepayment and other receivable		638,225	386,252
		<u>5,601,814</u>	<u>5,170,245</u>
Non-current assets			
Investment	1	162,000	-
Costs of projects under construction	4	1,221,444	4,921,485
Property, plant and equipment		38,494,289	35,868,450
Intangible assets		721,755	463,999
Other non-current assets		22,609	28,021
		<u>40,622,097</u>	<u>41,281,955</u>
Total assets		<u>46,223,911</u>	<u>46,452,200</u>
Liabilities			
Current liabilities			
Current portion of long-term borrowings	5	1,514,205	888,454
Accounts payable		1,195,280	816,484
Accrued and other liabilities		1,681,789	1,152,537
		<u>4,391,274</u>	<u>2,857,475</u>
Non-current liabilities			
Long-term borrowings	5	27,636,521	28,650,872
Other non-current liabilities		149,183	130,992
		<u>27,785,704</u>	<u>28,781,864</u>
Total liabilities		<u>32,176,978</u>	<u>31,639,339</u>
Shareholders' equity			
Share capital	1	15,000,000	15,000,000
Statutory reserve		49,408	49,408
Accumulated deficit		(1,002,475)	(236,547)
Total shareholders' equity		<u>14,046,933</u>	<u>14,812,861</u>
Total liabilities and shareholders' equity		<u>46,223,911</u>	<u>46,452,200</u>
Contingencies and commitments	7		

The notes on pages from 7 to 12 form an integral part of these interim financial statements.

SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)
(A Saudi Joint Stock Company)
Interim income statement
(All amounts in Saudi Riyals in thousands unless otherwise stated)

	Note	For the three-month periods ended June 30,		For the six-month periods ended June 30,	
		2013 (Unaudited)	2012 (Unaudited)	2013 (Unaudited)	2012 (Unaudited)
Sales		2,288,048	2,316,889	4,367,936	4,360,194
Cost of sales		(2,308,193)	(2,389,174)	(4,329,351)	(4,300,253)
Gross margin		(20,145)	(72,285)	38,585	59,941
Selling, general and administrative expenses		(86,410)	(89,861)	(155,871)	(146,437)
Loss from operations		(106,555)	(162,146)	(117,286)	(86,496)
Other income (expenses)					
Financial charges		(121,075)	(135,624)	(240,053)	(264,793)
Other income		3,363	5,254	6,265	4,728
Loss before zakat		(224,267)	(292,516)	(351,074)	(346,561)
Zakat		(13,970)	(35,808)	(42,028)	(52,880)
Net loss for the period		(238,237)	(328,324)	(393,102)	(399,441)
Loss per share (Saudi Riyals):					
Operating loss		(0.071)	(0.108)	(0.078)	(0.058)
Net loss for the period		(0.159)	(0.219)	(0.262)	(0.266)
Weighted average number of shares outstanding (in thousands)	6	1,500,000	1,500,000	1,500,000	1,500,000

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SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)
(A Saudi Joint Stock Company)
Interim cash flow statement
(All amounts in Saudi Riyals in thousands unless otherwise stated)

	Note	For the six-month period ended June 30,	
		2013 (Unaudited)	2012 (Unaudited)
Cash flow from operating activities			
Loss before zakat		(351,074)	(346,561)
<u>Adjustments for non-cash items</u>			
Depreciation and amortization		1,106,891	961,491
Financial charges		240,053	264,793
Employee benefits		25,435	16,918
<u>Changes in working capital</u>			
Accounts receivable		652,050	114,879
Inventories		(110,470)	(176,151)
Prepayments and other receivables		(137,133)	(24,744)
Accounts payable		(150,969)	34,136
Accrued and other current liabilities		406,999	99,989
		<u>1,681,782</u>	<u>944,750</u>
Zakat paid		(77,284)	(63,259)
Financial charges paid		(236,491)	(212,657)
Employee benefits paid		(13,348)	(5,325)
Net cash generated from operating activities		<u>1,354,659</u>	<u>663,509</u>
Cash flow from investing activities			
Investment		(162,000)	-
Additions to costs of projects under construction		(509,404)	(542,053)
Additions to property, plant and equipment		(744)	(70,032)
Additions to intangible assets		(313,897)	-
Other non-current assets		2,597	2,442
Net cash used in investing activities		<u>(983,448)</u>	<u>(609,643)</u>
Cash flow from financing activity			
Net (repayment) proceeds from long-term borrowings		<u>(529,669)</u>	<u>29,122</u>
Net change in cash and cash equivalents		(158,458)	82,988
Cash and cash equivalents at beginning of period		<u>569,278</u>	<u>469,195</u>
Cash and cash equivalents at end of period	3	<u>410,820</u>	<u>552,183</u>

The notes on pages from 7 to 12 form an integral part of these interim financial statements.

SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)
(A Saudi Joint Stock Company)
Interim statement of changes in shareholders' equity
(All amounts in Saudi Riyals in thousands unless otherwise stated)

	Share capital	Statutory reserve	Accumulated deficit	Total
January 1, 2013 (Unaudited)	15,000,000	49,408	(609,373)	14,440,035
Net loss for the period	-	-	(393,102)	(393,102)
June 30, 2013 (Unaudited)	15,000,000	49,408	(1,002,475)	14,046,933
January 1, 2012 (Unaudited)	15,000,000	49,408	162,894	15,212,302
Net loss for the period	-	-	(399,441)	(399,441)
June 30, 2012 (Unaudited)	15,000,000	49,408	(236,547)	14,812,861

The notes on pages from 7 to 12 form an integral part of these interim financial statements.

SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)
(A Saudi Joint Stock Company)
Notes to the interim financial statements
For the three-month and six-month periods ended June 30, 2013 (Unaudited)
(All amounts in Saudi Riyals in thousands unless otherwise stated)

1. General information

Saudi Kayan Petrochemical Company (Saudi Kayan) (the "Company") engaged in investing 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 built 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 is a Saudi Joint Stock Company and registered in the Kingdom of Saudi Arabia, operating under Commercial Registration No. 2055008450 issued in Al Jubail on 26 Jumada'l 1428 H (June 12, 2007). The registered address of the Company is P.O. Box 10302, Al-Jubail Industrial City, Kingdom of Saudi Arabia.

During six-month period ended June 30, 2013:

- the Company started commercial production of its Low Density Polyethylene Plant with effect from April 1, 2013 and all related costs of Saudi Riyals 2,011 million were capitalized; and
- the Company entered into an agreement with two other Saudi Arabian companies to form 'Saudi Butanol Company Limited ("SaBuCo")', a limited liability company registered in Kingdom of Saudi Arabia, which will be involved in the production of normal Butanol and Iso-Butanol. The Company invested Saudi Riyals 162.0 million for its equal equity share (33.34%) with other companies. Construction of production facility of SaBuCo is scheduled to commence in January 2014 with anticipated completion in May 2015. At June 30, 2013, the share capital contribution of SaBuCo was kept in its bank account and there were no other assets or liabilities, including contingent liabilities at that date and it does not have any operations for the period ended June 30, 2013.

From October 1, 2011, the Company announced the commencement of commercial operation for the majority of its plants including olefins, ethylene, glycol, polypropylene, high density polyethylene, polycarbonate and phenolic. On August 15, 2012, the Amines plant also commenced commercial operations.

The accompanying interim financial statements include all adjustments comprising mainly of normal recurring accruals considered necessary by the Company's management to present a fair statement of the financial position, results of operations and cash flows. The interim results of the operations for the three-month and six-month periods ended June 30, 2013 may not represent a proper indication for the annual results of operations. These interim financial statements and notes should be read in conjunction with the annual audited financial statements and the related notes for the year ended December 31, 2012.

The accompanying interim financial statements were authorized for issue by the Board of Directors on July 15, 2013.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these interim financial statements are set out below. These policies have been consistently applied to all periods presented.

2.1 Basis of preparation

The accompanying interim financial statements have been prepared under the historical cost convention on the accrual basis of accounting and in compliance with the Standard of Accounting for Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants. Significant accounting policies adopted by the Company for preparing such interim financial statements are consistent with the accounting policies described in the 2012 annual audited financial statements of the Company.

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For the three-month and six-month periods ended June 30, 2013 (Unaudited)
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2.2 Critical accounting estimates and judgments

The preparation of interim financial statements in conformity with generally accepted accounting principles requires the use of certain critical estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting period. Although these estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management makes estimates and assumptions concerning the future which, by definition, seldom equal the related actual results.

2.3 Foreign currency translations

(a) Reporting currency

These interim financial statements are presented in Saudi Riyals, which is the reporting currency of the Company.

(b) Transactions and balances

Foreign currency transactions are translated into Saudi Riyals at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the period end exchange rates are recognized in the interim income statement.

2.4 Cash and cash equivalents

Cash and cash equivalents include cash in hand and with banks and other short-term highly liquid investments with maturities of three months or less from the purchase date.

2.5 Accounts receivable

Accounts receivable are carried at original invoice amount less provision for doubtful debts. A provision for doubtful debts is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Such provisions are charged to the income statement and reported under "General and administrative expenses". When an account receivable is uncollectible, it is written-off against the provision for doubtful debts. Any subsequent recoveries of amounts previously written-off are credited to "General and administrative expenses" in the income statement.

2.6 Inventories

Finished goods, chemicals and raw materials are stated at the lower of cost or net realizable value. The cost of finished goods, chemicals, spare parts and supplies is determined using weighted average method. The cost of finished products include the cost of raw materials, labor and production overheads.

Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

2.7 Investment in associates

Associates are entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost.

The Company's share of its associates' post-acquisition income or losses is recognized in the income statement, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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Dilution gains and losses arising in investments in associates are recognized in the income statement.

2.8 Property, plant and equipment and projects under construction

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is charged to the income statement, using the straight-line method, to allocate the cost of the related assets to their estimated useful lives.

Leasehold improvements are amortized over the shorter of the estimated useful life or the remaining term of the lease.

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the income statement.

Maintenance and normal repairs which do not materially extend the estimated useful life of an asset are charged to the income statement as and when incurred. Major renewals and improvements for betterments, if any, are capitalized and the assets so replaced are retired.

Capital spare parts represent spare parts that are considered as essential to ensure continuous plant operation are classified as plant and equipment and are depreciated over the initial life of related plant and equipment.

2.9 Intangible assets

Front end fee and arrangement costs

Upfront fees payment and arrangement fees costs related to the long term borrowing are capitalized and being amortized over the remaining period of the related loans facilities.

Planned turnaround costs

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.

Employee home ownership - site development costs

Employee home ownership - site development costs are amortized using the straight-line method over a period of five years.

Pre-operating costs

Pre-operating costs include costs incurred prior to commencement of commercial operations of the plants and are being amortized over a period of seven years on a straight-line basis beginning from the commencement of commercial operations of each plant.

2.10 Impairment of non-current assets

Non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-current assets other than intangible assets that suffered impairment are reviewed for possible reversal of impairment at each reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the income statement. Impairment losses recognized on intangible assets are not reversible.

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2.11 Borrowings

Borrowings are recognized at the proceeds received. Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalized as part of those assets until such time as the assets are ready for their intended use. Other borrowing costs are charged to the income statement.

2.12 Accounts payable and accruals

Liabilities are recognized for amounts to be paid for goods and services received, whether or not billed to the Company.

2.13 Provision

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated.

2.14 Zakat and taxes

The Company is subject to zakat in accordance with the regulations of the Department of Zakat and Income Taxes (the "DZIT"). Provision for zakat for the Company is charged to the income statement. Additional amounts payable, if any, at the finalization of assessments are accounted for when such amounts are determined.

The Company withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under the Saudi Arabian Income Tax Law.

2.15 Technology and innovation

Technology and innovation costs are expensed when incurred.

2.16 Employee benefits

Employee termination benefits

Employee termination benefits required by Saudi Labor and Workman Law are accrued by the Company and are charged to the income statement. The liability is calculated at the current value of the vested benefits to which the employee is entitled, should the employee leave at the balance sheet date. Termination payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the laws of Saudi Arabia.

Employees' home ownership programme

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

Unsold housing units constructed for eventual sale to eligible employees are capitalized 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 programme is transferred from property, plant and equipment to other non-current assets. Down payments and instalments 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 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' saving plan

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

SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)
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2.17 Revenues

Revenues are recognized upon delivery of the products to the marketer and the customers. Upon delivery to the marketers, sales are recorded at provisional sales prices that are later adjusted based upon actual selling prices received by the marketers from third parties, after deducting the costs of shipping and marketing fees etc.

2.18 Selling, general and administrative expenses

Selling, general and administrative expenses include direct and indirect costs not specifically part of production costs as required under generally accepted accounting principles. Allocations between selling, general and administrative expenses and production costs, when required, are made on a consistent basis.

2.19 Statutory reserve

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia, the Company transfers 10% of the net income for the year to a statutory reserve until such reserve equal 50% of its share capital. Such allocation is made at the end of the fiscal year. This reserve currently is not available for distribution to the shareholders of the Company.

2.20 Leases

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. Rental expenses under operating leases are charged to the income statement over the period of the respective lease. Rental income is recognized on the accrual basis in accordance with the terms of the contracts.

2.21 Segment reporting

(a) Business segment

A business segment is group of assets, operations or entities:

- (i) engaged in revenue producing activities;
- (ii) results of its operations are continuously analyzed by management in order to make decisions related to resource allocation and performance assessment; and
- (iii) financial information is separately available.

(b) Geographical segment

A geographical segment is group of assets, operations or entities engaged in revenue producing activities within a particular economic environment that are subject to risks and returns different from those operating in other economic environments.

The Company is primarily engaged in manufacturing of chemicals and substantially all of its products are sold to a marketer in Saudi Arabia.

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.

	June 30, 2013	June 30, 2012
Cash and bank balances	410,820	177,183
Murabaha investments	-	375,000
	<u>410,820</u>	<u>552,183</u>

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4. Costs of projects under construction

Cost of projects under construction as of June 30, 2013 represents the costs incurred by the Company for the construction of industrial projects in the petrochemical and chemical fields and other petrochemical products and related facilities in Al-Jubail Industrial City, Kingdom of Saudi Arabia. Construction related costs include costs to bring the assets to location and condition necessary for them to be capable of operating in a manner intended by management. Directly attributable costs include site preparation, plant and equipment and installation costs, licensing fees, professional fees, projects management fees and employee benefits.

Finance costs capitalized during the six-month period ended June 30, 2013 amounted to Saudi Riyals 11.8 million (2012: Saudi Riyals 35.1 million).

5. Financing arrangements

The Company has obtained financing totaling Saudi Riyals 22.5 billion to be paid over a period not exceeding 15 years to cover projects construction costs. This financing has been arranged from local, government and international financial institutions. The outstanding balance against these facilities is Saudi Riyals 20.6 billion as of June 30, 2013.

As of June 30, 2013, the Company has utilized an additional amount of Saudi Riyals 2.0 billion from the major shareholder (Saudi Arabian Basic Industries Corporation (SABIC)) and Saudi Riyals 6.5 billion from local commercial banks. Additionally, in accordance with the support agreement with SABIC to complete the project under construction, SABIC will maintain a 35% ownership in the Company during the period of loans.

6. Loss per share

Loss per share for the three-month and six-month periods ended June 30, 2013 has been computed by dividing the operating loss and net loss for such periods by weighted average number of 1,500 million shares outstanding during such periods.

7. Contingencies and commitments

	June 30, 2013	June 30, 2012
Letters of guarantee	7,200	479
Letters of credit	562,500	562,500

The capital expenditure contracted by the Company but not incurred till June 30, 2013 was approximately Saudi Riyals 877.0 million (2012: Saudi Riyals 3,520 million).