

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

**INTERIM FINANCIAL STATEMENTS AND
AUDITORS' REPORT (LIMITED REVIEW)
FOR THE THREE MONTH AND NINE MONTH PERIODS ENDED
SEPTEMBER 30, 2012**

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

**INTERIM FINANCIAL STATEMENTS AND AUDITORS' REPORT (LIMITED REVIEW)
FOR THE THREE MONTH AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2012**

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AUDITORS' REPORT (LIMITED REVIEW) ON INTERIM FINANCIAL STATEMENTS

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

Scope of Review

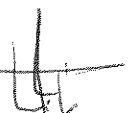
We have reviewed the interim balance sheet of Saudi Kayan Petrochemical Company ("Saudi Kayan") (a Saudi Joint Stock Company) as of September 30, 2012 and the related interim statements of operations for the three month and nine month periods then ended, cash flows and stockholders' equity for the nine months then ended, and notes 1 to 9 which form an integral part of these interim financial statements as prepared by the Company and presented to us with all the necessary information and explanations. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standard of auditing applicable to interim financial reporting in the Kingdom of Saudi Arabia issued by the Saudi Organization for Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data 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.

Review Results

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 generally accepted accounting standards in the Kingdom of Saudi Arabia.

Deloitte & Touche
Bakr Abulkhair & Co.


Nasser M. Al-Sagga
License No. 322
21 Dhu Al-Qa'dah, 1433
October 7, 2012



SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)
(SAUDI JOINT STOCK COMPANY)

INTERIM BALANCE SHEET
AS OF SEPTEMBER 30, 2012

	Note	2012 SR 000	2011 SR 000
		(Un-audited)	(Un-audited)
ASSETS			
Current assets			
Cash and cash equivalents	3	915,748	1,008,613
Accounts receivable		2,506,304	2,537,869
Inventories		1,988,008	1,673,603
Other receivables and prepayments		439,631	261,012
Total current assets		5,849,691	5,481,097
Non-current assets			
Cost of projects under construction	4	3,800,701	41,437,488
Property, plant and equipment		36,622,110	-
Other non-current assets		476,251	40,300
Total non-current assets		40,899,062	41,477,788
TOTAL ASSETS		46,748,753	46,958,885
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Current portion of long term debts	8	888,454	348,937
Accounts payable		744,502	969,243
Accrued and other current liabilities		1,695,374	1,087,778
Total current liabilities		3,328,330	2,405,958
Non-current liabilities			
Long term debts	8	28,650,837	29,039,536
Other non-current liabilities		135,099	110,338
Total non-current liabilities		28,785,936	29,149,874
Stockholders' equity			
Share capital	1	15,000,000	15,000,000
Statutory reserve	5	49,408	49,408
Retained earnings		(414,921)	353,645
Total stockholders' equity		14,634,487	15,403,053
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		46,748,753	46,958,885

The accompanying notes form an integral part of these interim financial statements

SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)
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INTERIM STATEMENT OF OPERATIONS

FOR THE THREE MONTH AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2012

	From July 1 to September 30		From January 1 to September 30	
	2012 SR 000 (Un-audited)	2011 SR 000 (Un-audited)	2012 SR 000 (Un-audited)	2011 SR 000 (Un-audited)
Sales	2,196,233	-	6,556,427	-
Cost of sales	(2,143,554)	-	(6,443,807)	-
Gross profit	52,679	-	112,620	-
Selling, general and administrative expenses	(77,536)	-	(223,973)	-
Loss from main operations	(24,857)	-	(111,353)	-
Pre-operative and other expenses, net	-	(4,137)	-	(10,976)
Financial charges	(128,996)	-	(393,789)	-
Other income, net	(131)	-	4,597	-
Loss before zakat	(153,984)	(4,137)	(500,545)	(10,976)
Zakat	(24,390)	(31,021)	(77,270)	(48,524)
LOSS FOR THE PERIOD	(178,374)	(35,158)	(577,815)	(59,500)
Loss per share-note 6				
Loss per share (in SR)	(0.119)	(0.023)	(0.385)	(0.039)
Loss per share from main operations (in SR)	(0.017)	-	(0.074)	-
Weighted average number of shares	1,500,000,000	1,500,000,000	1,500,000,000	1,500,000,000

The accompanying notes form an integral part of these interim financial statements

SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)
(SAUDI JOINT STOCK COMPANY)

INTERIM STATEMENT OF CASH FLOWS
FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2012

	2012 SR 000	2011 SR 000
	(Un-audited)	(Un-audited)
OPERATING/PRE-OPERATING ACTIVITIES		
Net loss before zakat	(500,545)	(10,976)
Adjustments for:		
Depreciation	1,400,661	-
Amortization	52,446	-
Financial charges	393,789	-
Employees' benefits	23,073	-
Changes in operating assets and liabilities:		
Accounts receivable	119,097	(1,240,228)
Inventories	(442,871)	(1,175,232)
Other receivables and prepayments	(78,123)	(141,413)
Accounts payable, accrued and other current liabilities	561,865	174,959
Other non-current liabilities	-	21,786
Cash from (used in) operations	1,529,392	(2,371,104)
Zakat paid	(63,259)	-
Employees' benefits paid	(7,373)	-
Financial charges paid	(306,796)	-
Net cash from (used in) operating/pre-operating activities	1,151,964	(2,371,104)
INVESTING ACTIVITIES		
Additions to cost of projects under construction	(699,574)	(880,250)
Additions to property, plant and equipment	(38,224)	-
Other non-current assets	3,300	(6,111)
Net cash used in investing activities	(734,498)	(886,361)
FINANCING ACTIVITIES		
Net change in long term debts	29,087	3,299,046
Net cash from financing activities	29,087	3,299,046
Net change in cash and cash equivalents	446,553	41,581
Cash and cash equivalents, January 1	469,195	967,032
CASH AND CASH EQUIVALENTS, SEPTEMBER 30	915,748	1,008,613

The accompanying notes form an integral part of these interim financial statements

SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)
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INTERIM STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2012

	Share capital SR 000	Statutory reserve SR 000	Retained earnings SR 000	Total SR 000
January 1, 2011 (audited)	15,000,000	49,408	413,145	15,462,553
Net loss for the period from pre-operating activities	-	-	(59,500)	(59,500)
September 30, 2011 (un-audited)	15,000,000	49,408	353,645	15,403,053
January 1, 2012 (audited)	15,000,000	49,408	162,894	15,212,302
Net loss for the period	-	-	(577,815)	(577,815)
September 30, 2012 (un-audited)	15,000,000	49,408	(414,921)	14,634,487

The accompanying notes form an integral part of these interim financial statements

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

**NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTH AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2012**

1. ORGANIZATION AND ACTIVITIES

Saudi Kayan Petrochemical Company (Saudi Kayan) ("the Company") is a Saudi Joint Stock Company registered under commercial registration number 2055008450 dated 26 Jumada I, 1428 H (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 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.

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 phenolics. On August 15, 2012, the Amines plant commenced commercial operations.

The Company's principal place of business is in Al-Jubail Industrial City, Kingdom of Saudi Arabia.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying interim financial statements have been prepared in compliance with the accounting standards generally accepted in the Kingdom of Saudi Arabia 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) Use of estimates

The preparation of interim financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

c) Revenue recognition

All product sales are made to Saudi Basic Industries Corporation (referred to as "SABIC" or "the Marketer") under various marketing and offtake agreements. Upon delivery of products to the Marketer, sales are recorded at provisional selling prices which are later adjusted based upon actual selling prices received by the Marketer from third parties, after deducting costs of shipping, distribution and marketing. Adjustments are recorded as they become known to the Company.

d) Selling, and general and administrative expenses

Selling expenses principally comprise of costs incurred in the distribution and sale of the Company's products. All other expenses are classified as general and administrative expenses.

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

SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)
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NOTES TO THE INTERIM FINANCIAL STATEMENTS (Continued)
FOR THE THREE MONTH AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2012

e) Accounts receivable

Accounts receivable are stated at the original invoice amount less an allowance for any uncollectible amounts. Adjustments are recorded as they become known to the Company. An estimate for doubtful debts is made when the collection of the accounts receivable amount is considered doubtful. Bad debts are written off as incurred.

f) 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 on a weighted average cost basis. Inventories of finished goods include cost of materials, labor and an appropriate portion of direct overheads.

Inventory items that are considered as essential to ensure continuous plant operations are treated as capital spare parts and are classified as plant and equipment and are depreciated using the depreciation rate relevant to the corresponding plant and equipment.

g) Pre-operative expenses

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

h) 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.

i) Property, plant and equipment

Property, plant and equipment are stated at cost net of accumulated depreciation. Expenditure on maintenance and repairs is expensed, while expenditure for betterments is capitalized. Depreciation is provided over the estimated useful lives of the applicable assets using the straight-line method. Leasehold improvements are amortized over the shorter of the estimated useful life or the remaining term of the lease. The estimated years of depreciation of the principal classes of assets are as follows:

	<u>Years</u>
Buildings	33
Plant and equipment	20
Others	2-10

j) 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 (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately.

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NOTES TO THE INTERIM FINANCIAL STATEMENTS (Continued)
FOR THE THREE MONTH AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2012

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 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 (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately.

k) Other non-current assets

Other non-current assets mainly include intangible assets. They also include receivables related to the employees' home ownership program (note 2p).

Intangible assets anticipated to provide identifiable future benefits are classified as non-current assets, and are amortized using the straight-line method over their estimated useful lives. Such intangible assets and their expected amortization periods are as follows:

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.

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.

Front end fee, debt acquisition and arrangement costs

Loan front end fees, debt acquisition and arrangement costs relate to the loans from Saudi Industrial Development Fund ("SIDF") and a syndicate of banks. These costs are being amortized over the period of the loans and the amortization is capitalized as part of cost of projects under construction up to the date of commencement of commercial production and subsequently it is charged to the statement of operations.

Employee home ownership cost

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

l) 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 the statement of operations.

m) Provision 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.

SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)
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NOTES TO THE INTERIM FINANCIAL STATEMENTS (Continued)
FOR THE THREE MONTH AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2012

n) Borrowing costs

Borrowing costs directly attributable to the projects under construction are added to the cost of those assets until such time as the assets are ready for their 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.

o) End-of-service indemnities

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

p) 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.

q) Employees' savings 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.

r) Zakat

The Company is subject to zakat in accordance with the Regulations of the Department of Zakat and Income Tax ("DZIT") in the Kingdom of Saudi Arabia. Zakat is calculated and accrued for the quarter based on estimation. Zakat is recorded at the period end based on period end figures and any difference between the estimate and the actual is adjusted at that time. Any difference between the estimate and final assessment is recorded when settled.

s) Technology and innovation

Technology and innovation costs are expensed when incurred.

t) 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 the statement of operations on a straight-line basis over the term of the operating lease.

u) Segmental analysis

A segment is a distinguishable component of the Company that is engaged in providing products or services (a business segment) or in providing products or services within a particular economic environment (a geographic segment), which is subject to risks and rewards that are different from those of other segments.

SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)
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NOTES TO THE INTERIM FINANCIAL STATEMENTS (Continued)
FOR THE THREE MONTH AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2012

All of the Company's sales are made to one customer and substantially all of the Company's operations are related to one operating segment which is petrochemicals. Accordingly, segmental analysis by geographic and operating segment has not been presented.

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.

	2012	2011
	SR 000	SR 000
	(Un-audited)	(Un-audited)
Cash and bank balances	490,748	40,613
Murabaha investments	425,000	968,000
	915,748	1,008,613

4. COST OF PROJECTS UNDER CONSTRUCTION

Cost of projects under construction as of September 30, 2012 represents the cost incurred by the Company for the construction of industrial projects in the petrochemical and chemical fields and to produce LDPE and other petrochemical products and related facilities in Al-Jubail Industrial City, Kingdom of Saudi Arabia. Construction related costs as of September 30, 2012 comprise construction costs under various agreements and directly attributable 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, project management fees and employee benefits.

Finance costs capitalized during the nine months period ended September 30, 2012 amounted to SR 45.5 million (2011: SR 270.6 million)

5. STATUTORY RESERVE

In accordance with Regulations for Companies in the Kingdom of Saudi Arabia and the Company's articles of association, 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 a non-cash item and not available for dividend distribution.

6. LOSS PER SHARE

Loss per share is computed by dividing net loss for the period by the weighted average number of shares outstanding during the period.

Loss per share from main operations is computed by dividing the loss from main operations for the period by the weighted average number of shares outstanding during the period.

SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)
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NOTES TO THE INTERIM FINANCIAL STATEMENTS (Continued)
FOR THE THREE MONTH AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2012

7. CONTINGENCIES AND COMMITMENTS

	2012	2011
	SR 000	SR 000
	(Un-audited)	(Un-audited)
Letters of guarantee	<u>7,592</u>	<u>9,108</u>
Letters of credit	<u>562,500</u>	<u>562,691</u>

As of September 30, 2012, the Company had outstanding capital commitments of SR 3,329 million (2011: SR 4,885 million) in respect of cost of projects under construction.

8. FINANCING ARRANGEMENTS

The Company has obtained financing totaling SR 22.5 billion to be paid over a period not exceeding 15 years to cover project construction costs. This amount has been arranged from local, government and international financial institutions. The outstanding balance against these facilities is SR 21.5 billion as of September 30, 2012.

As of September 30, 2012, the Company has utilized an additional amount of SR 1.5 billion from the major shareholder (SABIC) and SR 6.5 billion (out of SR 6.5 billion arranged) from local commercial banks. Additionally, in accordance with the support agreement with the major shareholder (SABIC) to complete the project under construction, SABIC will maintain a 35% ownership in the Company during the period of loans.

9. RESULTS OF INTERIM PERIOD

The results of the interim period are not an indication of the results for the year.