

**Saudi Kayan Petrochemical Company (Saudi Kayan)  
(A Saudi Joint Stock Company)**

**FINANCIAL STATEMENTS**

**31 DECEMBER 2016**

**AUDITORS' REPORT TO THE SHAREHOLDERS OF  
SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)  
(A SAUDI JOINT STOCK COMPANY)**

**Scope of audit:**


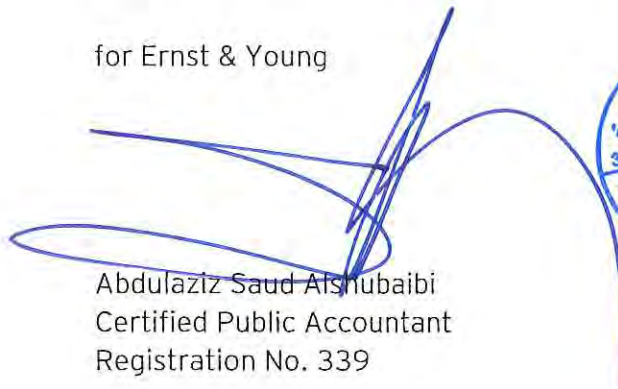
We have audited the accompanying balance sheet of Saudi Kayan Petrochemical Company (Saudi Kayan) - A Saudi Joint Stock Company ("the Company") as at 31 December 2016 and the related statements of income, cash flows and changes in shareholders' equity for the year then ended. These financial statements are the responsibility of the Company's management and have been prepared by them in accordance with the provisions of Article 123 of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. 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 statements presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the financial statements.

**Unqualified opinion:**

In our opinion, the financial statements taken as a whole:

- i) present fairly, in all material respects, the financial position of the Company as at 31 December 2016 and the results of its operations and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.
- ii) comply with the requirements of the Regulations for Companies and the Company's by-laws in so far as they affect the preparation and presentation of the financial statements.

for Ernst & Young



Abdulaziz Saud Alshubaibi  
Certified Public Accountant  
Registration No. 339

17 Jumada'l 1438H  
14 February 2017

Alkhobar

Saudi Kayan Petrochemical Company (Saudi Kayan)  
(A Saudi Joint Stock Company)

BALANCE SHEET

As at 31 December 2016

	Note	2016 SR"000"	2015 SR"000"
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	4	1,390,978	1,719,526
Trade accounts receivable	5	2,554,672	2,061,182
Prepayments, advances and other receivables	6	623,498	521,912
Inventories	7	1,531,275	1,679,778
Home ownership receivables – current portion	8	24,520	42,454
<b>TOTAL CURRENT ASSETS</b>		<b>6,124,943</b>	<b>6,024,852</b>
<b>NON-CURRENT ASSETS</b>			
Home ownership receivables	8	193,329	207,278
Investment in an associate and an advance	9	252,701	341,070
Property, plant and equipment	10	34,007,080	35,499,228
Intangible assets	11	89,499	127,936
<b>TOTAL NON-CURRENT ASSETS</b>		<b>34,542,609</b>	<b>36,175,512</b>
<b>TOTAL ASSETS</b>		<b>40,667,552</b>	<b>42,200,364</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	13	679,339	1,028,880
Accruals and other current liabilities	14	893,813	979,739
Zakat provision	15	98,756	84,130
Current portion of term loans	16	1,782,590	2,194,521
<b>TOTAL CURRENT LIABILITIES</b>		<b>3,454,498</b>	<b>4,287,270</b>
<b>NON-CURRENT LIABILITIES</b>			
Term loans	16	21,073,668	21,914,249
Subordinated loan from a shareholder	12	2,875,000	2,875,000
Employee's terminal benefits and saving plan	17	304,336	257,016
Other non-current liability		19,409	60,914
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>24,272,413</b>	<b>25,107,179</b>
<b>TOTAL LIABILITIES</b>		<b>27,726,911</b>	<b>29,394,449</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	18	15,000,000	15,000,000
Statutory reserve		49,408	49,408
Accumulated losses		(2,108,767)	(2,243,493)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>12,940,641</b>	<b>12,805,915</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>40,667,552</b>	<b>42,200,364</b>

Designate member  
**Mohammed Abdullah Al-Ghamdi**

Company's President  
**Nasser Abdulaziz Abanmi**

Finance Director  
**Ayed Habib Al-Haider**

The attached notes 1 to 25 form part of these financial statements.

Saudi Kayan Petrochemical Company (Saudi Kayan)  
(A Saudi Joint Stock Company)

STATEMENT OF INCOME

Year ended 31 December 2016

	<i>Note</i>	<i>2016</i> <i>SR"000"</i>	<i>2015</i> <i>SR"000"</i>
Sales	12	8,608,817	7,975,715
Cost of sales	12	(7,211,403)	(8,184,754)
<b>GROSS PROFIT (LOSS)</b>		<b>1,397,414</b>	<b>(209,039)</b>
Selling, general and administration expenses	19	(412,785)	(384,491)
<b>INCOME (LOSS) FROM MAIN OPERATIONS</b>		<b>984,629</b>	<b>(593,530)</b>
Financial income		16,639	3,733
Financial charges		(783,502)	(573,643)
Other (loss) income, net	20	(22,275)	3,534
<b>INCOME (LOSS) BEFORE SHARE IN NET RESULTS OF AN ASSOCIATE AND ZAKAT</b>		<b>195,491</b>	<b>(1,159,906)</b>
Share in net results of an associate	9	35,951	(52)
<b>INCOME (LOSS) BEFORE ZAKAT</b>		<b>231,442</b>	<b>(1,159,958)</b>
Zakat	15	(96,716)	(83,047)
<b>NET INCOME (LOSS) FOR THE YEAR</b>		<b>134,726</b>	<b>(1,243,005)</b>
<b><u>EARNINGS (LOSS) PER SHARE (SR):</u></b>			
Attributable to income (loss) from main operations		0.66	(0.40)
Attributable to net income (loss) for the year		0.09	(0.83)
Number of shares outstanding (in thousands)	18	1,500,000	1,500,000

Designated member	Company's President	Finance Director
Mohammed Abdullah Al-Ghamdi	Nasser Abdulaziz Abanmi	Ayed Habib Al-Haider

The attached notes 1 to 25 form part of these financial statements.

Saudi Kayan Petrochemical Company (Saudi Kayan)  
(A Saudi Joint Stock Company)

STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	2016 <i>SR"000"</i>	2015 <i>SR"000"</i>
<b>OPERATING ACTIVITIES</b>		
Income (loss) before share in net results of an associate and zakat	195,491	(1,159,906)
Adjustments for:		
Depreciation of property, plant and equipment	2,371,866	2,438,952
Amortisation of intangible assets	38,437	38,503
Write-off of property, plant and equipment	29,862	24,231
Employees' terminal benefits and saving plans, net	47,320	48,918
Financial charges	783,502	573,643
	<u>3,466,478</u>	<u>1,964,341</u>
Changes in operating assets and liabilities		
Receivables	(577,142)	745,993
Inventories	138,916	475,054
Payables	(493,395)	280,603
	<u>2,534,857</u>	<u>3,465,991</u>
Cash from operations	2,534,857	3,465,991
Financial charges paid	(767,079)	(565,396)
Zakat paid	(82,090)	(76,023)
	<u>1,685,688</u>	<u>2,824,572</u>
Net cash from operating activities	1,685,688	2,824,572
<b>INVESTING ACTIVITIES</b>		
Additions to property, plant and equipment	(899,993)	(533,754)
Additions to intangible assets	-	(93,914)
Net movement in other non-current assets	138,269	(10,287)
	<u>(761,724)</u>	<u>(637,955)</u>
Net cash used in investing activities	(761,724)	(637,955)
<b>FINANCING ACTIVITY</b>		
Net movement in term loans	(1,252,512)	(2,121,433)
	<u>(1,252,512)</u>	<u>(2,121,433)</u>
Net cash used in a financing activity	(1,252,512)	(2,121,433)
<b>(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(328,548)</b>	<b>65,184</b>
Cash and cash equivalents at the beginning of the year	1,719,526	1,654,342
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b><u>1,390,978</u></b>	<b><u>1,719,526</u></b>
<b>Non-cash transaction:</b>		
Transfer from inventories to property, plant and equipment	9,587	177,508
	<u>9,587</u>	<u>177,508</u>

<u>Designate member</u>	<u>Company's President</u>	<u>Finance Director</u>
Mohammed Abdullah Al-Ghamdi	Nasser Abdulaziz Abanmi	Ayed Habib Al-Haider

The attached notes 1 to 25 form part of these financial statements.

Saudi Kayan Petrochemical Company (Saudi Kayan)  
(A Saudi Joint Stock Company)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Year ended 31 December 2016

	<i>Share capital SR"000"</i>	<i>Statutory reserve SR"000"</i>	<i>Accumulated losses SR"000"</i>	<i>Total SR"000"</i>
Balance at 31 December 2014	15,000,000	49,408	(1,000,488)	14,048,920
Net loss for the year	-	-	(1,243,005)	(1,243,005)
Balance at 31 December 2015	15,000,000	49,408	(2,243,493)	12,805,915
Net income for the year	-	-	134,726	134,726
<b>Balance at 31 December 2016</b>	<b>15,000,000</b>	<b>49,408</b>	<b>(2,108,767)</b>	<b>12,940,641</b>

<u>Designate member</u>	<u>Company's President</u>	<u>Finance Director</u>
<b>Mohammed Abdullah Al-Ghamdi</b>	<b>Nasser Abdulaziz Abanmi</b>	<b>Ayed Habib Al-Haider</b>

The attached notes 1 to 25 form part of these financial statements.

# Saudi Kayan Petrochemical Company (Saudi Kayan) (A Saudi Joint Stock Company)

---

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

### 1 ACTIVITIES

Saudi Kayan Petrochemical Company (Saudi Kayan) ("the Company") is a Saudi Joint Stock Company registered under Commercial Registration No. 2055008450 issued in Al-Jubail on 26 Jumada'I 1428 H (12 June 2007). The registered address of the Company is P.O. Box 10302, Al-Jubail Industrial City, the Kingdom of Saudi Arabia. 35% of the Company's shares are owned by Saudi Basic Industries Corporation ("SABIC") and remaining held by general public.

The Company is incorporated to engage in investing in industrial projects both inside and outside the Kingdom of Saudi Arabia in the petrochemical and chemical fields. The Company is also providing support and maintenance of the utilities related to these plants.

The Company commenced commercial operations of majority of its plants including olefins, ethylene glycol, polypropylene, high density polyethylene, polycarbonate and phenolics from 1 October 2011. The Company's Amines plant commenced commercial operations on 15 August 2012. Low Density Polyethylene Plant commenced commercial operations on 1 April 2013 and Natural Detergent Alcohol (NDA) plant commenced commercial operation on 4 June 2015.

### 2 BASIS OF PREPARATION

The Ministry of Commerce and Investment commenced the implementation of the new Companies Regulations effective 25 Rajab 1437H (corresponding to 2 May 2016) ("the effective date"). The new regulations shall replace the Companies Regulations promulgated by Royal Decree No. M/6 dated 22 Rabi'I 1385H and it shall supersede all provisions that are inconsistent therewith. Companies existing as at the effective date of the regulations shall make all necessary amendments to their articles of association/by-laws to comply with the requirements of the provisions of the new companies regulations within a period of one year of the effective date of the companies' regulations.

The Company is in the process to make the necessary amendments to the Company's by-laws as required by the new regulations. Management intends to complete all formalities within the grace period granted by the new regulations, which ends on 24 Rajab 1438H (corresponding to 21 April 2017). Accordingly, these financial statements have been prepared in accordance with the old Companies Regulations.

### 3 SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia. The significant accounting policies adopted are as follow:

#### **Accounting convention**

The financial statements are prepared under the historical cost convention.

#### **Use of estimates**

The preparation of 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.

#### **Cash and cash equivalents**

Cash and cash equivalents consist of bank balances and short term Murabaha investments that are readily convertible into known amounts of cash and have original maturities of three months or less.

#### **Accounts receivable**

Accounts receivable are stated at the original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debt is made when the collection of the account receivable amount is considered doubtful. Bad debts are written off as incurred.

#### **Inventories**

Inventories are stated at the lower of cost and market value. Costs are those expenses incurred in bringing each product to its present location and condition and calculated on the following basis:

Raw materials, spare parts and consumables	- purchase cost on a weighted average basis.
Intermediate and finished products	- cost of direct materials and labour plus attributable overheads based on a normal level of activity.

Saudi Kayan Petrochemical Company (Saudi Kayan)  
(A Saudi Joint Stock Company)

---

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2016

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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 Saudi employees are included under property, plant and equipment and depreciated over 33 years. Upon signing the sale contract, the related cost and accumulated depreciation are derecognised and the loans receivable from the employees in respect of the purchase of the housing units are classified under non-current assets and are recovered over a period not exceeding twenty years. Installments recoverable within twelve months period from the date of the balance sheet are classified under current assets.

Costs incurred in connection with the construction of employees' housing units, such as administrative costs, infrastructure and financing costs are capitalised as intangible assets. Such costs are amortised over a maximum period of five years.

**Investment in an associate**

Investment in associated company where the Company has significant influence over the investee's financial and operation decisions, normally when the Company owns stake between 20% to 50% of the capital of the investee company, is accounted for using the equity method.

**Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Construction work in progress is not depreciated. The cost of other property, plant and equipment is depreciated on a straight line basis over the estimated useful lives of the assets.

Improvements on assets are amortised on a straight-line basis over the shorter of the useful life of the improvement or the related assets.

Expenditure for repair and maintenance are charged to statement of income, while expenditure on improvements is capitalised. Financing costs related to qualifying assets are capitalised until they are ready for their intended use. Costs, which are directly attributable to turnarounds and major inspections and eligible for capitalisation, are capitalized under property, plant and equipment. Such costs once capitalised are depreciated over the period to the occurrence of next such turnaround or major inspection.

Capital spare parts which considered essential to ensure continuous plant operation, are classified under tangible assets, and are depreciated using the straight-line method in accordance with the applicable depreciation rates. The following two conditions must apply to all capitalised spare parts:

- They are not readily available in the market, or unavailable;
- Their manufacturing requires an extended time to complete.

**Impairment of non-current assets**

The Company reviews the carrying values of its non-current assets for impairment when events or circumstances indicate that carrying value may not be recoverable. If such indicators exist, the recoverable amount of the asset is estimated in order to determine the extent of impairment (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs.

The carrying value of the asset (or cash generating unit) is reduced to the recoverable value when the recoverable value is below the carrying value. Impairment loss is recognised as expense when incurred.

All constructed plants were pre-conditioned with gas allocation agreement, and the Company does not have the option to curtail/discontinue any one of these plants, accordingly the lowest level of identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets is the cash inflows generated by all plants together. Therefore, the Company as whole considered as single cash generating unit for the purpose of impairment calculation testing.

Where an impairment loss subsequently reverses, the carrying value of the asset is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. The reversal of impairment loss is recognised as income once identified.



Saudi Kayan Petrochemical Company (Saudi Kayan)  
(A Saudi Joint Stock Company)

---

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2016

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Intangible assets**

Costs which have a long term future benefits are treated as other intangible assets and are amortised over the estimated period of benefit.

*Employee home ownership - site development costs*

The costs are initially deferred as intangible assets and are subsequently amortised using the straight-line method over a period not exceeding five years.

The amortisation expenses are included under cost of sales in the statement of income.

**Accounts payable and accruals**

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

**Provisions**

Provisions are recognised when the Company has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and can be measured reliably.

**Zakat**

Zakat is provided for in accordance with Saudi Arabian fiscal regulations. The provision is charged to the statement of income. Additional amounts, if any, that may become due on finalisation of an assessment are accounted for in the year in which assessment is finalised.

**Employees' terminal benefits**

Provision is made for amounts payable under the Company's policies applicable to employees accumulated periods of service at the balance sheet date.

**Employees' saving plan**

The Company maintains an employees' saving plan for Saudi employees. The contributions from the participants are deposited in separate bank account and liability is established for these contributions. The Company's contribution under the saving plan is charged to the statement of income.

**Revenue recognition**

In general, most of the Company's sales are made to SABIC ("the Marketer"). Upon delivery to the Marketer, sales are recorded at provisional sales prices that are later adjusted based upon actual selling prices billed by the Marketer to his customers, after deducting the costs of shipping and marketing fees etc. Adjustments are recorded as they become known to the Company.

**Selling, general and administration expenses**

Selling expenses are those that specifically relate to product handling activities and distribution expenses and doubtful debts. Except for cost of sales and financial charges, all other expenses are general and administration expenses.

**Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction for a long period or production of a qualifying asset, are capitalised as part of the cost of that asset.

Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed.

**Foreign currency transactions**

Transactions in foreign currencies are recorded in Saudi Riyals at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the statement of income.

**Earnings (loss) per share**

Basic earnings (loss) per share from net income (loss) are calculated by dividing the net income (loss) for the year by the weighted average number of shares outstanding during the year.

Basic earnings (loss) per share from main operations are calculated by dividing income (loss) from main operations for the year by the weighted average number of shares outstanding during the year.

Saudi Kayan Petrochemical Company (Saudi Kayan)  
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2016

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Operating lease**

Operating lease payments are recognised as an expense in the statement of income on a straight line basis over the lease term.

**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.

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

**4 CASH AND CASH EQUIVALENTS**

	<i>2016</i> <i>SR"000"</i>	<i>2015</i> <i>SR"000"</i>
Bank balances	1,170,978	1,624,526
Short term Murabaha deposits	220,000	95,000
	<u>1,390,978</u>	<u>1,719,526</u>

The short term Murabaha deposits are kept with local commercial banks and are maintained in Saudi Riyals and US Dollars. The short term Murabaha deposits have an original maturity dates of less than 3 months and carry commission at normal commercial rates.

Cash and cash equivalents at the end of the year include restricted balance representing employees' contribution in saving plan of SR 16.2 million (2015: SR 12.8 million) which is currently held in separate bank account and not available to the Company. Interest earned on the employees' savings plan deposit is added to the deposit balance. Cash and cash equivalents also include SR 1,066.5 million (2015: SR 1,323.8 million) as reserve for the debt servicing (including principal repayments) under certain financing arrangements.

**5 TRADE ACCOUNTS RECEIVABLE**

	<i>2016</i> <i>SR"000"</i>	<i>2015</i> <i>SR"000"</i>
Trade accounts receivable due from related parties (note 12)	2,532,601	2,023,544
Trade accounts receivable due from third parties	22,071	37,638
	<u>2,554,672</u>	<u>2,061,182</u>

Receivables from third parties at 31 December 2016 are carried at net of provision of SR 5.5 million (2015: SR 5.7 million).

**6 PREPAYMENTS, ADVANCES AND OTHER RECEIVABLES**

	<i>2016</i> <i>SR"000"</i>	<i>2015</i> <i>SR"000"</i>
Advances and other receivables due from related parties (note 12)	404,386	255,609
Current portion of advances to an associate (note 12)	114,000	151,875
Prepayments	86,288	73,692
Other receivables	18,824	40,736
	<u>623,498</u>	<u>521,912</u>

Saudi Kayan Petrochemical Company (Saudi Kayan)  
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2016

**7 INVENTORIES**

	<i>2016</i> <i>SR"000"</i>	<i>2015</i> <i>SR"000"</i>
Spare parts and consumables	827,511	845,170
Intermediate and finished products	737,478	813,871
Raw materials	146,922	139,030
Goods in transit	34,074	56,991
	<u>1,745,985</u>	<u>1,855,062</u>
Less: provision for slow moving inventories	(214,710)	(175,284)
	<u><u>1,531,275</u></u>	<u><u>1,679,778</u></u>

The movement in the provision for slow moving inventories was as follows:

	<i>2016</i> <i>SR"000"</i>	<i>2015</i> <i>SR"000"</i>
At the beginning of the year	175,284	-
Provided during the year	39,426	175,284
At the end of the year	<u><u>214,710</u></u>	<u><u>175,284</u></u>

Intermediate and finished products with cost amounted to SR 448.9 million (2015: SR 469.6 million), are carried at net realisable value (lower than cost) of SR 312.4 million (2015: SR 309.7 million).

**8 HOME OWNERSHIP RECEIVABLES**

These represent amounts due from eligible Saudi employees under the Home Ownership Program (the "HOP"). Amounts are repayable over a period not exceeding twenty years and no borrowing costs are charged on the balances. Amounts due within one year from the balance sheet date are presented under current assets.

**9 INVESTMENT IN AN ASSOCIATE AND AN ADVANCE**

This represents 33.33% equity interest in Saudi Butanol Company Limited ("SBuCo") a limited liability company registered in the Kingdom of Saudi Arabia, which is engaged in production of Butanol and Iso-Butanol. SBuCo is registered with a capital of SR 486 million and the Company invested SR 162 million for its equity interest. Construction of production facilities of SBuCo commenced in early 2014 and were completed during 2015. Production has already started with commercial operations during 2016.

The movement in investment in SBuCo was as follows:

	<i>2016</i> <i>SR"000"</i>	<i>2015</i> <i>SR"000"</i>
Balance of investment in an associate at 1 January	161,644	161,696
Share in net results for the year	35,951	(52)
Balance of investment in an associate at 31 December	<u>197,595</u>	<u>161,644</u>
Add non-current portion of advances to the associate (note 12)	<u>55,106</u>	<u>179,426</u>
	<u><u>252,701</u></u>	<u><u>341,070</u></u>

Saudi Kayan Petrochemical Company (Saudi Kayan)  
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2016

10 PROPERTY, PLANT AND EQUIPMENT

The estimated useful lives of the assets for the calculations of depreciation are as follows:

Plant and equipment	20 years
Buildings and leasehold improvements	33 years
Furniture, fixture and office equipment	2 to 10 years
Capital spare parts	20 years
Major maintenance	2 to 5 years
Catalyst	2 to 4 years
Other	2 to 10 years

	Plant and equipment SR"000"	Buildings and leasehold improvements SR"000"	Furniture, fixture and office equipment SR"000"	Capital spare parts SR"000"	Major maintenance SR"000"	Catalyst SR"000"	Other SR"000"	Construction work in progress SR"000"	Total 2016 SR"000"	Total 2015 SR"000"
<i>Cost:</i>										
At the beginning of the year	40,358,015	2,519,164	10,541	533,239	622,879	263,885	280,267	455,534	45,043,524	44,356,493
Additions	180,503	11,805	14	32,883	223,600	54,752	7,093	389,343	899,993	533,754
Write-off	(29,715)	-	-	-	-	-	-	(6,621)	(36,336)	(24,231)
Transfers	162,864	6,683	13	5,808	(25,522)	22,508	11,855	(184,209)	-	-
Transferred from inventories	-	-	-	-	-	-	-	9,587	9,587	177,508
At the end of the year	40,671,667	2,537,652	10,568	571,930	820,957	341,145	299,215	663,634	45,916,768	45,043,524
<i>Accumulated depreciation:</i>										
At the beginning of the year	8,317,644	301,303	2,403	77,189	413,944	209,141	222,672	-	9,544,296	7,105,344
Charge for the year	2,019,737	77,789	1,055	29,418	138,659	56,695	48,513	-	2,371,866	2,438,952
Related to write-off	(6,474)	-	-	-	-	-	-	-	(6,474)	-
At the end of the year	10,330,907	379,092	3,458	106,607	552,603	265,836	271,185	-	11,909,688	9,544,296
Net book amounts:										
At 31 December 2016	30,340,760	2,158,560	7,110	465,323	268,354	75,309	28,030	663,634	34,007,080	35,499,228
At 31 December 2015	32,040,371	2,217,861	8,138	456,050	208,935	54,744	57,595	455,534	33,320,168	32,954,992

Saudi Kayan Petrochemical Company (Saudi Kayan)  
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2016

**10 PROPERTY, PLANT AND EQUIPMENT (continued)**

The construction work in progress mainly relates to construction of Waste Water Treatment Upgrade Unit, Olefins Furnace and Ethylene Oxide Ethylene Glycol Debottlenecking and other support facilities with a total cost of SR 473.98 million (2015: SR 259.45 million).

Borrowing costs capitalised during the year on construction work in progress amounted to SR 8.4 million (2015: SR 17.4 million).

Property, plant and equipment are constructed on a land leased by the Company from Royal Commission for Jubail and Yanbu under a long-term renewable lease agreement with an initial term of 30 years effective from 21 Rabi'I 1428 H (corresponding to 9 April 2007).

**11 INTANGIBLE ASSETS**

The estimated useful lives of the intangible assets for the calculation of amortisation are as follows:

Employee home ownership-site development costs	5 years
Other intangible assets	7 years

	<i>Employee home ownership-site development costs</i> SR"000"	<i>Other intangible assets</i> SR"000"	<i>Total 2016</i> SR"000"	<i>Total 2015</i> SR"000"
<i>Cost:</i>				
At the beginning of the year	104,767	132,599	237,366	143,452
Additions	-	-	-	93,914
At the end of the year	<u>104,767</u>	<u>132,599</u>	<u>237,366</u>	<u>237,366</u>
<i>Amortisation:</i>				
At the beginning of the year	28,922	80,508	109,430	70,927
Charge for the year	19,494	18,943	38,437	38,503
At the end of the year	<u>48,416</u>	<u>99,451</u>	<u>147,867</u>	<u>109,430</u>
Net carrying value:				
<b>At 31 December 2016</b>	<u>56,351</u>	<u>33,148</u>	<u>89,499</u>	
At 31 December 2015	<u>75,845</u>	<u>52,091</u>		<u>127,936</u>

Saudi Kayan Petrochemical Company (Saudi Kayan)  
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2016

**12 RELATED PARTIES' TRANSACTIONS AND BALANCES**

Related parties represent major shareholders, directors and key management personnel of the Company, and entities controlled or significantly influences by such parties.

The following are the details of major related parties' transactions during the year and the year end balances:

	<i>2016</i> <i>SR"000"</i>	<i>2015</i> <i>SR"000"</i>
<b>Trade accounts receivable due from related parties (under note 5)</b>		
SABIC	2,530,437	2,023,544
Other	2,164	-
	<u>2,532,601</u>	<u>2,023,544</u>
	<i>2016</i> <i>SR"000"</i>	<i>2015</i> <i>SR"000"</i>
<b>Advances and other receivables from related parties (under note 6)</b>		
Advances to SABIC	328,250	253,767
Other related parties	76,136	1,842
	<u>404,386</u>	<u>255,609</u>
	<i>2016</i> <i>SR"000"</i>	<i>2015</i> <i>SR"000"</i>
<b>Advances to an associate (under notes 6&amp;9)</b>		
Saudi Butanol Company		
Current portion	114,000	151,875
Non-current portion	55,106	179,426
	<u>169,106</u>	<u>331,301</u>
	<i>2016</i> <i>SR"000"</i>	<i>2015</i> <i>SR"000"</i>
<b>Amounts due to related parties (under note 13)</b>		
SABIC	440,726	751,205
Other	6,291	4,695
	<u>447,017</u>	<u>755,900</u>
	<i>2016</i> <i>SR"000"</i>	<i>2015</i> <i>SR"000"</i>
<b>Subordinated loans from a shareholder - included under non-current liabilities in the balance sheet</b>		
SABIC	<u>2,875,000</u>	<u>2,875,000</u>

Saudi Kayan Petrochemical Company (Saudi Kayan)  
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2016

12 RELATED PARTIES' TRANSACTIONS AND BALANCES (continued)

Name	Nature of relationship	Nature of transaction	Amount of transaction	
			2016 SR"000"	2015 SR"000"
SABIC	Shareholder	Purchase of inventory, capital goods and services	746,024	890,664
		Shipping and storage cost charged by the shareholder	38,198	35,714
		Shared services implementation and operational costs charged by the shareholder	111,809	102,599
		Research and technology cost charged by the shareholder (note 19)	171,960	158,240
		Sales	8,535,981	7,983,220
		Purchase of insurance policies through the shareholder	20,928	20,850
		Finance cost charged by the shareholder	268,345	226,749
Saudi Butanol Company	Affiliates	Costs charged by an associate	141,512	-
SABIC affiliates	Affiliates	Purchase of inventory, capital goods and services	47,114	42,967
		Shipping	77,406	48,989

- The Company has a service level agreement with SABIC (Shared Services Organization – SSO) for the provision of accounting, warehousing, human resources, information technology (ERP/SAP), transporting and arranging for delivery of materials related to the Company's spare parts, engineering, procurement and related services and other general services to the Company.
- Advances to SABIC represent the amount paid by the Company according to shared service agreement to finance the purchase of the Company's materials and services.
- SABIC has provided long term advance to the Company which carries commission at normal commercial rate, and is subordinated to certain term loans obtained from commercial banks.
- The Company's annual contribution to SABIC for research and technology is 2% of total sales, which is charged to general and administrative expenses in the statement of income.
- SABIC also charged finance charges, guarantee fees and commitment fees to the Company in relation to the subordinated loans.
- The majority of Company's products are sold to SABIC ("the Marketer") under marketing and off-take agreements. Upon delivery of the product, sales are recorded at net provisional price which are subsequently adjusted, on a monthly basis, to actual selling prices received by SABIC from its customers after deducting shipping, distribution and selling cost, and a marketing fee to cover all other marketing expenses.

Prices and terms of payments for the above transactions are approved by the Company's management.

Saudi Kayan Petrochemical Company (Saudi Kayan)  
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)  
At 31 December 2016

**13 ACCOUNTS PAYABLE**

	<i>2016</i> <i>SR"000"</i>	<i>2015</i> <i>SR"000"</i>
Amounts due to related parties (note 12)	447,017	755,900
Trade accounts payable	232,322	272,980
	<u>679,339</u>	<u>1,028,880</u>

**14 ACCRUALS AND OTHER CURRENT LIABILITIES**

	<i>2016</i> <i>SR"000"</i>	<i>2015</i> <i>SR"000"</i>
Accrued operating costs	364,024	497,143
Accrued expenses	159,586	136,746
Accrued technology and innovation costs	47,540	36,338
Accrued royalties and licenses fees	57,588	65,785
Accrued utilities	45,283	36,431
Accrued financial charges	37,838	24,227
Accrued financial charges due to a related party	66,323	63,511
Accrued expenses due to related parties	8,832	18,855
Retentions payable	53,161	40,499
Accrued employees' costs and bonus	43,693	50,815
Other payables and accruals	9,945	9,389
	<u>893,813</u>	<u>979,739</u>

**15 ZAKAT**

**Charge for the year**

The zakat charge consists of:

	<i>2016</i> <i>SR"000"</i>	<i>2015</i> <i>SR"000"</i>
Current year provision and charge for the year	<u>96,716</u>	<u>83,047</u>

Zakat base is calculated as follows:

	<i>2016</i> <i>SR"000"</i>	<i>2015</i> <i>SR"000"</i>
Equity	12,805,915	14,048,920
Opening provisions and other adjustments	25,731,258	26,983,770
Book value of long term assets	(30,638,886)	(36,656,022)
Zakat base	<u>7,898,287</u>	<u>4,376,668</u>
Zakatable loss for the year	(4,029,648)	(1,051,989)
Zakat base	<u>3,868,639</u>	<u>3,324,679</u>

The differences between the financial and the zakatable income are mainly due to provisions which are not allowed in the calculation of zakatable income.



Saudi Kayan Petrochemical Company (Saudi Kayan)  
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2016

**15 ZAKAT (continued)**

**Movements in provision**

The movement in the zakat provision is as follows:

	<i>2016</i> <i>SR"000"</i>	<i>2015</i> <i>SR"000"</i>
At the beginning of the year	84,130	77,106
Provided during the year	96,716	83,047
Payments during the year	(82,090)	(76,023)
At the end of the year	<u>98,756</u>	<u>84,130</u>

**Status of assessments**

The Company has filed its zakat returns with the General Authority of Zakat and Tax ("GAZT") up to year ended 31 December 2015. The Company zakat assessments has been agreed with the GAZT up to 2011. The Zakat assessments for the years 2012 to 2015 are under GAZT's review.

Zakat base has been computed based on the Company's understanding of the zakat regulations enforced in the Kingdom of Saudi Arabia. The zakat regulations in Saudi Arabia are subject to different interpretations and new zakat regulations are expected to be announced in due course. The assessments to be raised by the GAZT could be different from the declarations filed by the Company.

**16 TERM LOANS**

	<i>2016</i> <i>SR"000"</i>	<i>2015</i> <i>SR"000"</i>
Public Investment Fund (PIF) (note 16.1)	2,200,688	2,500,781
Islamic Facility Agreement (IFA) (note 16.2)	2,975,047	3,257,097
Commercial facility from various commercial banks (note 16.3)	2,096,168	2,294,896
Export Credit Agency (ECA) (note 16.4)	3,432,462	4,546,114
Islamic Working Capital Facility from a commercial bank (note 16.5)	2,414,048	2,414,088
Saudi Industrial Development Fund (SIDF) (note 16.6)	780,000	1,080,000
Commercial term loans obtained against corporate guarantee of SABIC (note 16.7)	9,125,000	8,225,000
	<u>23,023,413</u>	<u>24,317,976</u>
Less: current portion	(1,782,590)	(2,194,521)
prepaid financing costs (see below for the movement)	(167,155)	(209,206)
Non-current portion	<u>21,073,668</u>	<u>21,914,249</u>

The movement of prepaid financing costs during the year was as follows:

	<i>2016</i> <i>SR"000"</i>	<i>2015</i> <i>SR"000"</i>
At the beginning of the year	209,206	252,374
Amortisation	(42,051)	(43,168)
At the end of the year	<u>167,155</u>	<u>209,206</u>

The above loans are secured either by mortgage of the assets of the Company or guarantees provided by SABIC. In accordance with the support agreement with SABIC, SABIC will maintain 35% ownership in the Company during the repayment period of these borrowings.

These loans bear financial charges at prevailing market rates and an agreed margin. The repayments of such borrowings are spread over a period of thirteen years from the date of the balance sheet.

Saudi Kayan Petrochemical Company (Saudi Kayan)  
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2016

**16 TERM LOANS (continued)**

The carrying values of the term loans borrowings are denominated in the following currencies:

	<i>2016</i> <i>SR"000"</i>	<i>2015</i> <i>SR"000"</i>
Saudi Riyals	9,905,000	9,305,000
United State dollars	13,118,413	15,012,976
	<u>23,023,413</u>	<u>24,317,976</u>

**16.1 Public Investment Fund**

The loan agreement with PIF provided for a loan facility of US dollars 1,067 million (SR 4,001.2 million) to partially finance the construction of the Company's production facilities. The loan bears financial charges based on prevailing market rates which are generally based on London Inter Bank Offer Rate ("LIBOR") and an agreed margin. The loan is payable in twenty four semi-annual installments which commenced in June 2011. The loan is denominated in US dollars and is secured by mortgage of the assets of the Company.

**16.2 Islamic Facility Agreement**

During 2008, the Company entered into the IFA facility amounting to US dollars 1,030.1 million (SR 3,863.7 million) pursuant to which the commercial banks will participate in the procurement of portion of the Company production facilities on the basis of a co-ownership structure. As per the terms of the facility, upon completion of the construction phase and certain other formalities, such co-owned assets will be leased to the Company at agreed annual rentals. A special purpose vehicle, Saudi Kayan Assets Leasing Company Limited (the "Custodian"), has been incorporated in the Kingdom of Saudi Arabia to hold Islamic financiers' interest in the co-owned assets on their behalf. Under the Forward Lease Agreement and the other IFAs, the Company will purchase such co-owned assets from the Custodian upon repayment of IFA facility. During 2014, the Company has achieved the completion requirement as required by the terms of the facility and the arrangement to transfer the title of the co-owned assets has been initiated by the Company and currently is in progress for completion of contractual formalities. Accordingly, as of 31 December 2016, the loan liability has not yet been converted into finance lease obligation for an equivalent amount with a corresponding amount of leased assets.

The repayment of such facility will be made on semi-annual installments over a period of twelve years ending in December 2022. The loan is denominated in US dollars.

**16.3 Commercial Facility**

The Company has obtained loan facilities amounting to US dollar 725.9 million (SR 2,722.3 million) from various commercial banks. The aggregate maturities of these loans, based on their respective repayment schedules, are spread in 2011 through 2022. These loans bear financial charges based on prevailing market rates which are based on LIBOR and an agreed margin. These loans are payable in twenty four un-equal semiannual installments. These loans are mainly denominated in US dollars.

**16.4 Export Credit Agency**

The Company entered into four ECA backed facilities amounting to US dollars 1,938.1 million (SR 7,267.7 million). The aggregate maturities of these loans, based on their respective repayment schedules, are spread in 2011 through 2022. These loans bear financial charges based on prevailing market rates which are based on LIBOR and an agreed margin. The loans are payable in twenty four un-equal semi-annual installments. These loans are mainly denominated in US dollars.

**16.5 Islamic Working Capital Facility**

The Company has entered into an Islamic Working Capital Facility arrangement for funding its working capital requirements and signed a Credit Facility Agreement for a facility of US dollars 643.8 million (SR 2,414.4 million) with a local commercial bank. The tenure of the loan is fifteen years from the date of signing of the agreement.

Saudi Kayan Petrochemical Company (Saudi Kayan)  
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2016

**16 TERM LOANS (continued)**

**16.6 Saudi Industrial Development Fund**

The loan agreements with SIDF provided for loans of SR 2,000 million to finance construction of the Company's production facilities, which was fully drawn by 31 December 2011. Up-front and annual administrative fees are charged by SIDF under the loan agreements. The loans are payable in fourteen un-equal semiannual installments which commenced in December 2012.

The above loans are secured by mortgage of the assets of the Company. The covenants of the borrowing facility with SIDF require the Company to maintain certain level of financial conditions, limiting the dividends distribution and annual capital expenditure above certain limits.

**16.7 Subordinated loans**

The Company has outstanding loans amounting to SR 9,125 million at 31 December 2016 (2015: SR 8,225 million) obtained from commercial banks against corporate guarantee of SABIC. Above borrowings include borrowings facility of SR 2,625 million obtained during 2014 from local financial institutions out of which SR 2,625 (2015: SR 1,725 million) were drawn.

These loans were used to finance the additional funding required for completing the Company's production facilities and start-up costs based on certain terms and conditions. The aggregate maturities of these loans, based on their respective repayment schedules, are spread from 2018 through 2029. These loans bear financial charges at prevailing market rates which are based on Saudi Inter Bank Offered rate and an agreed margin. Additionally, SABIC is required to maintain its 35% equity interest in the Company until the repayment of external loans.

The Company is required to maintain a cash reserve equivalent to the debt servicing requirement (including principal repayments) for certain borrowings under these arrangements for the next 6 month-period.

The maturity profile for term loans is as follows:

	<b>2016</b>	<b>2015</b>
	<b>SR"000"</b>	<b>SR"000"</b>
2016	-	2,194,521
2017	<b>1,782,590</b>	6,282,590
2018	<b>6,114,975</b>	3,152,475
2019	<b>1,493,713</b>	1,493,713
2020	<b>1,416,725</b>	2,754,225
2021	<b>3,620,891</b>	3,620,891
2022 and after	<b>8,594,519</b>	4,819,561
	<b>23,023,413</b>	<b>24,317,976</b>

Amounts due within one year from the balance sheet date are presented in the balance sheet under current liabilities. All other amounts are presented in the balance sheet under non-current liabilities.

Saudi Kayan Petrochemical Company (Saudi Kayan)  
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2016

**17 EMPLOYEE'S TERMINAL BENEFITS AND SAVING PLAN**

	<i>Employee's terminal benefits</i>	<i>Employees' Savings plan</i>	<i>Total</i>
	<i>SR"000"</i>	<i>SR"000"</i>	<i>SR"000"</i>
<b>31 December 2016:</b>			
At the beginning of the year	234,849	22,167	257,016
Charged during the year	52,929	7,011	59,940
Adjustments/recharged to related parties	(5,577)	-	(5,577)
Paid during the year	(7,043)	-	(7,043)
<b>At the end of the year</b>	<b>275,158</b>	<b>29,178</b>	<b>304,336</b>
<b>31 December 2015:</b>			
At the beginning of the year	190,704	17,394	208,098
Charged during the year	51,142	4,773	55,915
Adjustments/recharge to related parties	(1,636)	-	(1,636)
Paid during the year	(5,361)	-	(5,361)
<b>At the end of the year</b>	<b>234,849</b>	<b>22,167</b>	<b>257,016</b>

The Company administers a saving plan for its employees. Eligible employees may elect to contribute 1% to 15% of their salary. The Company matches cumulative employee contributions at a rate, which increases by 10% each year until completion of ten years of participation, at which time the Company's cumulative contributions equal the employee's cumulative contributions. The Company's contributions to the saving plan are accrued monthly and are not funded.

Employees are always fully vested in their contributions and the Company's accruals. Employees may withdraw their contributions at any time under certain conditions, and have the option to repay such withdrawals. All of employee's contributions and the Company's accruals are paid to the employee upon retirement. Upon completion of ten years participation in the plan, employees may elect to contribute their participation or to collect all fully vested amounts and to rejoin the plan as if for the first time.

**18 SHARE CAPITAL**

The authorised, issued and paid up share capital is SR 15,000 million, which is divided into 1,500 million shares (2015: 1,500 million shares) of SR 10 each.

**19 SELLING, GENERAL AND ADMINISTRATION EXPENSES**

	<i>2016 SR"000"</i>	<i>2015 SR"000"</i>
Freight and storage (note 12)	210,311	199,323
Technology and innovation cost (note 12)	171,960	158,240
Employees' costs	13,027	12,736
Other	17,487	14,192
	<b>412,785</b>	<b>384,491</b>

Saudi Kayan Petrochemical Company (Saudi Kayan)  
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2016

**20 OTHER (LOSS) INCOME, NET**

	<i>2016</i> <i>SR"000"</i>	<i>2015</i> <i>SR"000"</i>
Settlement of insurance claims	273	6,303
Write-off of property, plant and equipment (note 10)	(29,862)	(24,231)
Foreign currency exchange (losses) gains	(5,165)	2,381
Other miscellaneous income, net	12,479	19,081
	<u>(22,275)</u>	<u>3,534</u>

**21 OPERATING LEASE ARRANGEMENTS**

	<i>2016</i> <i>SR"000"</i>	<i>2015</i> <i>SR"000"</i>
Charges under operating lease recognised as an expense during the year	<u>21,221</u>	<u>32,143</u>

Commitments for minimum lease payments under non-cancelable operating leases were not significant at 31 December 2016.

Rental expenses under operating leases charged during the year are for vehicles, properties and land. Property rentals are fixed for 1 to 2 years and rentals for vehicles are fixed for an average of 3 years.

**22 CAPITAL COMMITMENTS**

- (i) The Company contingently liable for bank guarantees issued on behalf of the Company in the normal course of business amounting to SR 8 million (2015: SR 15.1 million).
- (ii) The capital expenditure contracted by the Company but not incurred till year end was approximately SR 650 million (2015: SR 537.8 million).

**23 RISK MANAGEMENT**

**Interest rate risk**

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market interest rates. The Company is subject to interest rate risk on its interest bearing assets and liabilities including short term Murabaha deposits, subordinated loans from a shareholder and term loans

**Credit risk**

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 is not significantly exposed to credit risk. Cash and cash equivalents are generally placed with banks with sound credit ratings and, in general, most of the Company's sales are made to SABIC, which is a shareholder and has strong market reputation.

**Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Company manages its liquidity risk by ensuring that sufficient cash flows are available. The Company's sales invoices are usually settled within 90 to 120 days of the date of the invoices. Payables are normally settled within 45 to 90 days of the date of the invoices.

**Currency risk**

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company is not significantly subject to fluctuations in foreign exchange rates in the normal course of its business as the Company did not undertake significant transactions during the year in currencies other than Saudi Riyals and US Dollars which is pegged against Saudi Riyal.

Saudi Kayan Petrochemical Company (Saudi Kayan)  
(A Saudi Joint Stock Company)

---

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2016

**24 FAIR VALUES OF FINANCIAL INSTRUMENTS**

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. The Company's financial assets consist of cash and cash equivalents, accounts receivable; its financial liabilities consist of accounts payable, other current liabilities and term loans.

Management believes that fair values of the Company's financial instruments are not materially different from their carrying values at year end.

**25 COMPARATIVE FIGURES**

Certain prior year's amounts have been reclassified to conform to the presentation in the current year.