

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

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015
AND INDEPENDENT AUDITORS' REPORT

SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)
(A Saudi Joint Stock Company)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

	Page
Independent auditors' report	2
Balance sheet	3
Income statement	4
Cash flow statement	5
Statement of changes in shareholders' equity	6
Notes to the financial statements	7 - 22



INDEPENDENT AUDITORS' REPORT

February 7, 2016

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) (the "Company") as of December 31, 2015 and the related statements of income, cash flows and changes in shareholders' equity for the year then ended, and the notes from 1 to 26 which form an integral part of the financial statements. These financial statements, which were prepared by the Company to comply with Article 123 of the Regulations for Companies and presented to us with all information and explanations which we required, are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in 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 policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Unqualified opinion

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

- Present fairly, in all material respects, the financial position of the Company as of December 31, 2015 and the results of its operations and its cash flows for the year then ended in conformity with accounting standards generally accepted in Saudi Arabia appropriate to the circumstances of the Company; and
- Comply, in all material respects, with the requirements of the Regulations for Companies and the Company's By-laws with respect to the preparation and presentation of financial statements.

PricewaterhouseCoopers

By: _____
Omar M. Al Sagga
License Number 369

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

		As at December 31,	
	Note	2015	2014
Assets			
Current assets			
Cash and cash equivalents	5	1,719,526	1,654,342
Accounts receivable	6	2,061,182	2,730,464
Inventories	7	1,679,778	2,332,340
Prepayments and other receivables	8	564,366	641,077
		<u>6,024,852</u>	<u>7,358,223</u>
Non-current assets			
Investment	9	161,644	161,696
Property, plant and equipment	10	35,499,228	37,251,149
Intangible assets	11	127,936	72,525
Other non-current assets	12	386,704	376,416
		<u>36,175,512</u>	<u>37,861,786</u>
Total assets		<u>42,200,364</u>	<u>45,220,009</u>
Liabilities			
Current liabilities			
Current portion of long term borrowings	15	2,153,408	2,123,473
Accounts payable	13	1,028,880	825,697
Accrued and other liabilities	14	1,063,869	910,148
		<u>4,246,157</u>	<u>3,859,318</u>
Non-current liabilities			
Long term borrowings	15	24,830,362	26,981,730
Other non-current liabilities	16	317,930	330,041
		<u>25,148,292</u>	<u>27,311,771</u>
Total liabilities		<u>29,394,449</u>	<u>31,171,089</u>
Shareholders' equity			
Share capital	19	15,000,000	15,000,000
Statutory reserve	20	49,408	49,408
Accumulated deficit		(2,243,493)	(1,000,488)
Total shareholders' equity		<u>12,805,915</u>	<u>14,048,920</u>
Total liabilities and shareholders' equity		<u>42,200,364</u>	<u>45,220,009</u>
Contingencies and commitments	25		

The accompanying notes from 1 to 26 form an integral part of these financial statements.

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

		Year ended December 31,	
	Note	2015	2014
Sales	18	7,975,715	11,636,030
Cost of sales	18	(8,184,754)	(10,660,433)
Gross (loss) profit		(209,039)	975,597
Selling, general and administrative expenses	18,21	(384,491)	(452,816)
(Loss) income from operations		(593,530)	522,781
Other (expenses) income			
Financial charges	15	(573,643)	(522,778)
Share in net loss of an associate	9	(52)	(304)
Other income, net	22	7,267	32,552
(Loss) income before zakat		(1,159,958)	32,251
Zakat	17	(83,047)	(76,956)
Net loss for the year		(1,243,005)	(44,705)
(Loss) earnings per share (Saudi Riyals)	24		
• Operating (loss) income		(0.396)	0.349
• Net loss for the year		(0.829)	(0.030)
Weighted average number of shares outstanding (in thousands)		1,500,000	1,500,000

The accompanying notes from 1 to 26 form an integral part of these financial statements.

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

		Year ended December 31,	
	Note	2015	2014
Cash flow from operating activities			
(Loss) income before zakat		(1,159,958)	32,251
<u>Adjustments for non-cash items</u>			
Provision for slow moving spare parts and supplies		175,284	-
Depreciation and amortization	10,11	2,477,446	2,427,253
Share in net loss of an associate	9	52	304
Financial charges		573,643	522,778
Employees' benefits	16	54,279	48,768
<u>Changes in working capital</u>			
Accounts receivable		669,282	468,821
Inventories		299,770	(175,725)
Prepayments and other receivables		76,711	94,255
Accounts payable		203,183	(572,747)
Accrued and other liabilities		77,420	(100,816)
		3,447,122	2,745,142
Zakat paid	17	(76,023)	(84,188)
Financial charges paid		(565,396)	(493,300)
Employees' benefits paid	16	(5,361)	(7,946)
Net cash generated from operating activities		2,800,342	2,159,708
Cash flow from investing activities			
Additions to property, plant and equipment	10	(509,523)	(529,602)
Additions to intangible assets	11	(93,914)	-
Changes in other non-current assets	12	(10,288)	(240,495)
Net cash utilized in investing activities		(613,725)	(770,097)
Cash flow from financing activities			
Proceeds from long-term borrowings		-	1,714,875
Repayments of long-term borrowings		(2,121,433)	(1,719,459)
Net cash utilized in financing activities		(2,121,433)	(4,584)
Net change in cash and cash equivalents		65,184	1,385,027
Cash and cash equivalents at beginning of year		1,654,342	269,315
Cash and cash equivalents at end of year	5	1,719,526	1,654,342
Supplemental cash flow information			
<u>Non-cash investing activity:</u>			
Capital spares transferred from inventories to property, plant and equipment		177,508	19,145

The accompanying notes from 1 to 26 form an integral part of these financial statements.

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

	Share capital	Statutory reserve	Accumulated deficit	Total
January 1, 2015	15,000,000	49,408	(1,000,488)	14,048,920
Net loss for the year	-	-	(1,243,005)	(1,243,005)
December 31, 2015	15,000,000	49,408	(2,243,493)	12,805,915
January 1, 2014	15,000,000	49,408	(955,783)	14,093,625
Net loss for the year	-	-	(44,705)	(44,705)
December 31, 2014	15,000,000	49,408	(1,000,488)	14,048,920

The accompanying notes from 1 to 26 form an integral part of these financial statements.

SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)
(A Saudi Joint Stock Company)
Notes to the financial statements for the year ended December 31, 2015
(All amounts in Saudi Riyals thousands unless otherwise stated)

1 General information

Saudi Kayan Petrochemical Company (Saudi Kayan) (the "Company") is engaged 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 is listed on the Saudi Arabian stock market and is 35% owned by Saudi Basic Industries Corporation ("SABIC") and remaining held by general public. The Company operates 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, the Kingdom of Saudi Arabia.

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

During the year ended December 31, 2015, the Company:

- received an approval of additional feedstock allocation from the Ministry of Petroleum and Mineral Resources effective from July 1, 2015. Approval was subject to meeting certain conditions including capital projects and operational requirements and reduction of the marketing fee from SABIC which has already been agreed upon; and
- incurred turnaround and related costs of Saudi Riyals 605.1 million, out of which Saudi Riyals 245.1 million, directly related to scheduled turnaround, have been capitalized under property, plant and equipment in the accompanying 2015 balance sheet. Remaining costs of Saudi Riyals 360.0 million, associated with the turnaround and arising due to other technical matters, were charged to cost of sales in the accompanying 2015 income statement.

The accompanying financial statements were authorized for issue by the Company's Board of Directors on February 7, 2016.

2 Summary of significant accounting policies

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

2.1 Basis of preparation

The accompanying financial statements have been prepared under the historical cost convention on the accrual basis of accounting and in compliance with the accounting standards issued by the Saudi Organization for Certified Public Accountants.

2.2 Critical accounting estimates and judgments

The preparation of 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. Estimates and judgments 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. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Assessment of impairment provision for non-financial assets (principally property, plant and equipment) and determination of lowest level of cash generating units have significant risk of causing a material adjustment to the carrying amounts of assets within the next reporting period.

Management assesses the impairment of non-financial assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors which could trigger an impairment review include evidence from internal and external sources related to the changes in technological, market, economic or legal environment in which the Company operates, changes in market interest rates and economic performance of the assets. The recoverable amounts of cash generating units are determined based on value-in-use calculations which require the use of estimates. Management considers the Company as a single cash generating unit for the purposes of impairment reviews.

SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)
(A Saudi Joint Stock Company)
Notes to the financial statements for the year ended December 31, 2015
(All amounts in Saudi Riyals thousands unless otherwise stated)

2.3 Foreign currency transaction and balances

(a) Reporting currency

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

(b) Transactions and balances

Foreign currency transactions, if any, are translated into Saudi Riyals using 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 at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the 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 against 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 "Selling, general and administrative expenses". When account receivable is uncollectible, it is written-off against the provision for doubtful debts. Any subsequent recoveries of amounts previously written-off are credited against "Selling, general and administrative expenses" in the income statement.

2.6 Inventories

Inventories are stated at the lower of cost or net realizable value and net of provision for slow moving and obsolete items.

Cost 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.

Provision for slow-moving and obsolete inventory is made considering various factors including age of the inventory items, historic usage, expected utilization in future and evaluation from the internal technical teams.

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.

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

SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)
(A Saudi Joint Stock Company)
Notes to the financial statements for the year ended December 31, 2015
(All amounts in Saudi Riyals thousands unless otherwise stated)

2.8 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation, except for assets under construction which are carried at cost. Depreciation is charged to the income statement, using the straight-line method, to allocate the costs of the related assets to their residual values over the following estimated useful lives:

	Number of years
• Buildings	33
• Plant, machinery and equipment	20
• Furniture, fixtures, office equipment and other assets	2 - 10

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, if any, are capitalized and the assets so replaced are retired.

Planned turnaround costs are deferred and depreciated 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 undepreciated deferred costs are immediately expensed and the new turnaround costs are depreciated over the period likely to benefit from such costs.

Capital spare parts that are considered essential to ensure continuous plant operation are classified under property, plant and equipment, and are depreciated using the straight-line method using depreciation rates relevant to the corresponding plant and equipment. Spare parts are capitalized if they are not readily available in the market or unavailable, and their manufacturing requires an extended time to complete.

2.9 Intangible assets

Intangible assets and their expected amortization periods are as follows:

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-financial assets

Non-financials assets, other than goodwill, 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-generating units. Non-financial 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 loss recognized on goodwill, if any, is not reversible.

SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)
(A Saudi Joint Stock Company)
Notes to the financial statements for the year ended December 31, 2015
(All amounts in Saudi Riyals thousands unless otherwise stated)

2.11 Borrowings

Borrowings are recognized at the proceeds received net of transaction cost incurred. Borrowings are subsequently carried at amortized cost. Any differences between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period using effective interest method. 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 Provisions

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 tax 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 and Company's Policies 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 on repayment of all instalments, at which time no significant gain or loss is expected to result to the Company.

SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)
(A Saudi Joint Stock Company)
Notes to the financial statements for the year ended December 31, 2015
(All amounts in Saudi Riyals thousands unless otherwise stated)

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.

2.17 Revenue

Substantially all product sales are made to SABIC (the "Marketer") under a marketing agreement. Upon delivery of the products to the Marketer, sales are recorded at provisional selling prices which are later adjusted based on 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. Revenues from third parties are recorded at the time of delivery of the products.

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. Selling expenses are primarily for freight and storage of the Company's products.

2.19 Operating leases

Rental expenses under operating leases is 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.

2.20 Reclassification

Planned turnaround costs (net) amounting to Saudi Riyals 95.1 million included under 'Intangible assets' at December 31, 2014 have been reclassified to 'Property, plant and equipment' as at that date for better presentation and to conform with 2015 presentation (see Note 10).

3 Financial instrument and risk management

Financial instruments carried on the balance sheet include cash and cash equivalents, accounts and other receivables, investment, other non-current assets, long-term borrowings, accounts payable and accrued and other current liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Financial asset and liability are offset and net amounts are reported in the financial statements, when the company has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and liability simultaneously. Risk management is carried out by senior management.

3.1 Currency risk

Currency risk is the risk that the value of the financial instrument will fluctuate due to changes in foreign exchange rates. The Company's transactions are principally in Saudi Riyals and United States dollars. Management believes the currency risk is not significant.

3.2 Fair value and cash flow interest rate risk

Fair value and cash flow interest rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Company's financial positions and cash flows. The Company's interest rate risks arise mainly from its long-term borrowings and murahaba investment which are at floating rates and are subject to re-pricing on a regular basis. Management monitors the changes in interest rates and believes that fair value and cash flow interest rate risks to the Company are not significant.

3.3 Price risk

The risk that the value of financial instrument will fluctuate as result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Company's financial instruments are not exposed to price risk.

SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)
(A Saudi Joint Stock Company)
Notes to the financial statements for the year ended December 31, 2015
 (All amounts in Saudi Riyals thousands unless otherwise stated)

3.4 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. At December 31, 2015, approximately 98.2% (2014: 99.6%) of accounts receivable were due from SABIC, a shareholder having sound history of regular repayment, under a marketing arrangement. Cash is placed with banks with sound credit ratings.

3.5 Liquidity risk

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

3.6 Fair value

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

4 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.

Substantially all of the Company's sales are made to one customer in Saudi Arabia and substantially all of the Company's operations are related to one operating segment which is petrochemicals. Accordingly, segmental analysis by geographical and operating segments has not been presented.

5 Cash and cash equivalents

	2015	2014
Cash and bank balances	1,624,526	1,154,342
Murabaha investments	95,000	500,000
	<u>1,719,526</u>	<u>1,654,342</u>

Cash and bank balances at December 31, 2015 include Saudi Riyals 12.8 million (2014: Saudi Riyals 10.1 million) as restricted balance representing employees' contribution in saving plan which is currently held in a separate bank account (see Note 16). Cash and bank balances also include Saudi Riyals 1,323.8 million (2014: 1,038.8 million) as reserve for the debt servicing (including principal repayments) under certain financing arrangements.

SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)
(A Saudi Joint Stock Company)
Notes to the financial statements for the year ended December 31, 2015
(All amounts in Saudi Riyals thousands unless otherwise stated)

6 Accounts receivable

	Note	2015	2014
Related party	18.2 (a)	2,023,544	2,719,715
Other		37,638	10,749
		2,061,182	2,730,464

Receivable from other parties at December 31, 2015 are carried at net of provision of Saudi Riyals 5.7 million (2014: Saudi Riyals 6.7 million).

7 Inventories

	2015	2014
Chemicals, raw and packing materials	139,030	216,638
Spare parts and supplies, not held for sale	845,170	814,276
Intermediate and finished products	813,871	1,234,438
Goods in transit	56,991	66,988
	1,855,062	2,332,340
Less: Provision for slow moving spare parts and supplies	(175,284)	-
	1,679,778	2,332,340

Intermediate and finished products inventories at December 31, 2015 include inventories amounting to Saudi Riyals 469.6 million (2014: Saudi Riyals 297.7 million) which are carried at net realizable values after making adjustments of Saudi Riyals 159.9 million (2014: Saudi Riyals 113.4 million).

8 Prepayments and other receivables

	Note	2015	2014
Receivable from related parties	18.2 (b)	407,484	532,580
Prepayments		73,692	66,386
Employee home ownership receivables - current portion		42,454	12,819
Other		40,736	29,292
		564,366	641,077

9 Investment

During 2013, 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 the Kingdom of Saudi Arabia to produce Butanol and Iso-Butanol. SaBuCo is registered with a share capital of Saudi Riyals 486.0 million and the Company invested Saudi Riyals 162.0 million for its equity interest. Construction of production facilities of SaBuCo commenced in early 2014 and were completed during 2015. Trial production has already started with commercial operations expected to start during 2016.

The summary of movements in investment in SuBuCo during years ended December 31 is as follows:

	2015	2014
January 1	161,696	162,000
Share in net loss	(52)	(304)
December 31	161,644	161,696

SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)
(A Saudi Joint Stock Company)
Notes to the financial statements for the year ended December 31, 2015
(All amounts in Saudi Riyals thousands unless otherwise stated)

Financial information of SaBuCo

	2015	2014
Assets	1,957,033	1,433,810
Liabilities	1,472,101	948,723
Expenses cumulative to date	1,068	913
Net loss	155	913

Also see Note 12 for loans to an associate.

10 Property, plant and equipment

	January 1, 2015	Additions	Disposals / transfers	December 31, 2015
2015				
Cost				
Buildings	2,433,230	-	85,180	2,518,410
Plant, machinery and equipment	39,786,706	137,238	967,307	40,891,251
Planned turnaround costs	377,913	246,340	(1,281)	622,972
Furniture, fixtures, office equipment and other assets	444,564	-	110,129	554,693
Assets under construction	1,314,080	125,945	(983,827)	456,198
	44,356,493	509,523	177,508	45,043,524
Accumulated depreciation				
Buildings	(225,789)	(75,655)	-	(301,444)
Plant, machinery and equipment	(6,315,775)	(2,078,909)	-	(8,394,684)
Planned turnaround costs	(282,781)	(131,163)	-	(413,944)
Furniture, fixtures, office equipment and other assets	(280,999)	(153,225)	-	(434,224)
	(7,105,344)	(2,438,952)	-	(9,544,296)
	37,251,149			35,499,228
	January 1, 2014	Additions	Disposals / transfers	December 31, 2014
2014				
Cost				
Buildings	2,416,719	4,869	11,642	2,433,230
Plant, machinery and equipment	39,439,819	150,848	196,039	39,786,706
Planned turnaround costs	377,032	881	-	377,913
Furniture, fixtures, office equipment and other assets	412,582	23,416	8,566	444,564
Assets under construction	1,219,230	317,803	(222,953)	1,314,080
	43,865,382	497,817	(6,706)	44,356,493
Accumulated depreciation				
Buildings	(152,033)	(73,756)	-	(225,789)
Plant, machinery and equipment	(4,223,264)	(2,093,409)	898	(6,315,775)
Planned turnaround costs	(121,122)	(161,659)	-	(282,781)
Furniture, fixtures, office equipment and other assets	(202,852)	(78,147)	-	(280,999)
	(4,699,271)	(2,406,971)	898	(7,105,344)
	39,166,111			37,251,149

SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)
(A Saudi Joint Stock Company)
Notes to the financial statements for the year ended December 31, 2015
(All amounts in Saudi Riyals thousands unless otherwise stated)

Buildings and plant facilities of the Company are constructed on a land leased under a renewable operating lease arrangement from the Royal Commission for Jubail and Yanbu for an initial term of 30 years commencing 21 Rabi'l 1428 H (April 9, 2007).

Assets under construction as of December 31, 2015 and 2014 represents the costs incurred by the Company for the construction of its industrial projects in the petrochemical and chemical fields and other petrochemical products and related facilities.

Finance costs capitalized during the year ended December 31, 2015 amounted to Saudi Riyals 17.4 million (2014: Saudi Riyals 24.8 million).

11 Intangible assets

	Pre-operating costs	Employee home ownership-site development costs	Total
<u>2015</u>			
Cost			
January 1, 2015	132,599	10,853	143,452
Additions	-	93,914	93,914
December 31, 2015	<u>132,599</u>	<u>104,767</u>	<u>237,366</u>
Accumulated amortization			
January 1, 2015	(61,565)	(9,362)	(70,927)
Charge for the year	<u>(18,943)</u>	<u>(19,560)</u>	<u>(38,503)</u>
December 31, 2015	<u>(80,508)</u>	<u>(28,922)</u>	<u>(109,430)</u>
	<u>52,091</u>	<u>75,845</u>	<u>127,936</u>
	Pre-operating costs	Employee home ownership-site development costs	Total
<u>2014</u>			
Cost			
January 1 and December 31, 2014	<u>132,599</u>	<u>10,853</u>	<u>143,452</u>
Accumulated amortization			
January 1, 2014	(42,622)	(8,023)	(50,645)
Charge for the year	<u>(18,943)</u>	<u>(1,339)</u>	<u>(20,282)</u>
December 31, 2014	<u>(61,565)</u>	<u>(9,362)</u>	<u>(70,927)</u>
	<u>71,034</u>	<u>1,491</u>	<u>72,525</u>

12 Other non-current assets

	Note	2015	2014
Loans to an associate	9	179,426	288,801
Employee home ownership receivables			
- non-current portion		194,677	78,303
Other		<u>12,601</u>	<u>9,312</u>
		<u>386,704</u>	<u>376,416</u>

Loans to an associate at December 31, 2015 represent non-current portion of long-term loans to SaBuCo. These loans do not bear any financial charges and are not expected to be repaid during 2016.

SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)
(A Saudi Joint Stock Company)
Notes to the financial statements for the year ended December 31, 2015
(All amounts in Saudi Riyals thousands unless otherwise stated)

13 Accounts payable

	Note	2015	2014
Trade		272,980	353,125
Related parties	18.2 (c)	755,900	472,572
		1,028,880	825,697

14 Accrued and other liabilities

	Note	2015	2014
Operating costs		497,143	505,113
Retentions payable		40,499	57,801
Zakat	17	84,130	77,106
Technology and innovation costs	18.1 (e)	36,338	50,502
Utilities		36,431	34,019
Withholding tax payable		4,321	3,499
Financial charges payable		87,738	79,491
Accrued and other liabilities		277,269	102,617
		1,063,869	910,148

15 Long term borrowings

	Note	2015	2014
Public Investment Fund (PIF)	15.1	2,500,781	2,800,875
Islamic Facility Agreement (IFA)	15.2	3,257,097	3,500,509
Commercial Facility	15.3	2,294,896	2,466,400
Export Credit Agency (ECA)	15.4	4,546,114	5,695,690
Islamic Working Capital Facility	15.5	2,414,088	2,414,103
Saudi Industrial Development Fund (SIDF)	15.6	1,080,000	1,380,000
Subordinated loans	15.7	11,100,000	11,100,000
		27,192,976	29,357,577
Less: unamortized transaction costs		(209,206)	(252,374)
		26,983,770	29,105,203

Long term borrowings are presented as follows:

Current maturity under current liabilities	2,153,408	2,123,473
Long term borrowings	24,830,362	26,981,730
	26,983,770	29,105,203

SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)
(A Saudi Joint Stock Company)
Notes to the financial statements for the year ended December 31, 2015
(All amounts in Saudi Riyals thousands unless otherwise stated)

Movements in unamortized transaction costs are as follows:

	2015	2014
January 1	252,374	281,295
Transaction costs	-	19,645
Less: amortization	(43,168)	(48,566)
December 31	209,206	252,374
Related to:		
Current maturity shown under current liabilities	41,113	41,113
Shown under long term borrowings	168,093	211,261

15.1 Public Investment Fund

The loan agreement with PIF provided for a loan facility of United States ("US") dollars 1,067.0 million (Saudi Riyals 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 United States ("US") dollars. The loan is secured by mortgage of the assets of the Company.

15.2 Islamic Facility Agreement

During 2008, the Company entered into the IFA facility amounting to US dollars 1,030.3 million (Saudi Riyals 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 December 31, 2015, 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 over a period of twelve years ending in December 2022. The loan is denominated in United States ("US") dollars.

15.3 Commercial Facility

The Company has obtained loan facilities amounting to US dollar 725.9 million (Saudi Riyals 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.

15.4 Export Credit Agency

The Company entered into four ECA backed facilities amounting to US dollars 1,938.1 million (Saudi Riyals 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.

15.5 Islamic Working Capital Facility

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

SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)
(A Saudi Joint Stock Company)
Notes to the financial statements for the year ended December 31, 2015
(All amounts in Saudi Riyals thousands unless otherwise stated)

15.6 Saudi Industrial Development Fund

The loan agreements with SIDF provided for loans of Saudi Riyals 2,000 million to finance construction of the Company's production facilities, which was fully drawn by December 31, 2011. Up front and annual administrative fees are charged by SIDF under the loan agreements. The loans are payable in fourteen unequal 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.

15.7 Subordinated loans

The Company has outstanding loans amounting to Saudi Riyals 11,100 million at December 31, 2015 obtained from SABIC and commercial banks against corporate guarantee of SABIC. Above borrowings include borrowings facility of Saudi Riyals 2,625.0 million obtained during 2014 from local financial institutions out of which Saudi Riyals 1,725.0 million were drawn until December 31, 2015.

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 2017 through 2029. These loans bear financial changes 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.

15.8 Currency denomination

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

	2015	2014
Saudi Riyals	12,180,000	12,480,000
United States dollars	15,012,976	16,877,577
	27,192,976	29,357,577

15.9 Maturity profile of long-term borrowings

	2015	2014
Years ending December 31:		
2015	-	2,164,585
2016	2,194,521	2,194,521
2017	6,282,590	6,282,590
2018	3,152,475	3,152,475
2019	1,493,713	1,493,713
2020	2,754,225	2,754,225
Thereafter	11,315,452	11,315,468
	27,192,976	29,357,577

16 Other non-current liabilities

	2015	2014
Employee termination benefits	234,849	190,704
Employees' savings plan	22,167	17,394
Accrued license fee	60,914	121,943
	317,930	330,041

SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)
(A Saudi Joint Stock Company)
Notes to the financial statements for the year ended December 31, 2015
(All amounts in Saudi Riyals thousands unless otherwise stated)

Movement in employees' termination benefits and employees' savings plan during the years ended December 31 is as follows:

	Employee termination benefits	Employees' savings plan	Total
January 1, 2015	190,704	17,394	208,098
Provisions	51,142	4,773	55,915
Adjustments	(1,636)	-	(1,636)
Payments / transfers	(5,361)	-	(5,361)
December 31, 2015	234,849	22,167	257,016
January 1, 2014	153,668	13,608	167,276
Provisions	47,948	2,115	50,063
Adjustments	(1,287)	(8)	(1,295)
Payments / transfers	(9,625)	1,679	(7,946)
December 31, 2014	190,704	17,394	208,098

The Company administers a saving plan covering substantially all of its qualified Saudi employees. Participating employees may elect to contribute 1 to 15 percent of their basic salary. The Company matches cumulative employee contribution at a rate which increases by 10 percent 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 there and the Company's contributions. Employees may withdraw their contribution at any time under certain conditions, and have the option to repay such withdrawals. All fully vested amounts are payable to the employees when the employee elects to leave the saving plan. Upon completion of ten years participation in the plan, Saudi employees may elect to continue their participation or to collect all fully vested amounts and to rejoin the plan as if for the first time.

17 Zakat

17.1 Significant components of zakat base

Significant components of zakat base which are subject to changes under DZIT regulations are as follow:

	Note	2015	2014
Shareholders' equity at beginning of year		14,048,920	14,093,625
Adjusted net (loss) income		(1,051,989)	79,540
Long-term borrowings	15	26,983,770	27,380,203
Property, plant and equipment, as adjusted	10	(35,499,228)	(37,861,425)
Other		(1,156,794)	(607,791)
Approximate zakat base		3,324,679	3,084,152

Zakat is payable at 2.5 percent of higher of the approximate zakat base or adjusted net income attributable to the shareholders.

17.2 Provision for zakat

	2015	2014
January 1	77,106	84,338
Provisions for the year	83,047	76,956
Payments during the year	(76,023)	(84,188)
December 31	84,130	77,106

SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)
(A Saudi Joint Stock Company)
Notes to the financial statements for the year ended December 31, 2015
(All amounts in Saudi Riyals thousands unless otherwise stated)

17.3 Status of final assessments

The Company has received the final zakat assessments from the DZIT for the years through 2011. Zakat assessments for the years 2012 through 2014 have not been finalized by DZIT.

18 Related parties matters

The Company enters into transactions with SABIC and its related parties (collectively the "related parties").

18.1 Related party transactions

- a) The Company obtained procurement services including warehousing, transporting and arranging for delivery of materials related to the Company's spare parts, supplies and materials, which are provided by SABIC through the Shared Service Organization (SSO).
- b) In addition to procurement services, SSO also provides accounting, human resources, information technology, engineering, and other general services to the Company.
- c) Shipping and material handling services are provided to the Company by the related parties (Note 21).
- d) Certain feedstocks were purchased from related parties of SABIC.
- e) SABIC also provides the Company with certain required technology and innovation, administrative and other services in accordance with executed agreements (Note 21).
- f) SABIC also charged finance charges, guarantee fees and commitment fees to the Company in relation to the subordinated loans. See Note 15.7.
- g) Substantially, all product sales are made to SABIC 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 their customers after deducting shipping, distribution and selling cost, and a marketing fee to cover all other marketing expenses.
- h) During 2015, the Company was charged approximately Saudi Riyals 1,247 million (2014: Saudi Riyals 1,572 million) for all above services and feedstock.

18.2 Related parties balances

- a) Receivable from a related party

Receivable from a related party at December 31, 2015 and 2014 represent balance receivable from SABIC.

- b) Other receivables from related parties

	2015	2014
SABIC	253,767	529,808
Current maturity of loan to SaBuCo	151,875	-
Other	1,842	2,772
	<u>407,484</u>	<u>532,580</u>

- c) Payable to related parties

	2015	2014
SABIC	751,205	466,698
Other	4,695	5,874
	<u>755,900</u>	<u>472,572</u>

SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)
(A Saudi Joint Stock Company)
Notes to the financial statements for the year ended December 31, 2015
(All amounts in Saudi Riyals thousands unless otherwise stated)

19 Share capital

The share capital of the Company as of December 31, 2015 and 2014 was comprised of 1,500 million shares stated at Saudi Riyals 10 per share. Also see Note 1.

20 Statutory reserve

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia, the Company is required to transfer 10% of the net income for the year, after recovering for accumulated deficit, to statutory reserve unless it equals to 50% of its share capital. This reserve currently is not available for distribution to the shareholders of the Company. No such transfer was made during the years ended December 31, 2015 and 2014 due to accumulated deficits at end of such years.

21 Selling, general and administrative expenses

	Note	2015	2014
Salaries, wages and benefits		12,736	11,723
Technology and innovation costs	18.1 (e)	158,240	232,654
Freight and storage		198,397	196,697
Other		15,118	11,742
		384,491	452,816

22 Other income, net

	2015	2014
Financial income	3,733	6,054
Foreign exchange gains	2,381	19,986
Other income	1,153	6,512
	7,267	32,552

23 Operating leases

	2015	2014
Rental expenses under operating leases charged during the year	32,143	32,576

Commitments for minimum lease payments under the non-cancelable leases were not significant at December 31, 2015.

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.

24 (Loss) earnings per share

(Loss) earnings per share for the years ended December 31, 2015 and 2014 have been computed by dividing the operating (loss) income and net loss for each years by weighted average number of shares outstanding during such years.

SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)
(A Saudi Joint Stock Company)
Notes to the financial statements for the year ended December 31, 2015
(All amounts in Saudi Riyals thousands unless otherwise stated)

25 Contingencies and commitments

- (i) The Company was contingently liable for bank guarantees issued on behalf of the Company in the normal course of business amounting to Saudi Riyals 15.1 million at December 31, 2015 (2014: Saudi Riyals 14.9 million).
- (ii) The capital expenditure contracted by the Company but not incurred till December 31, 2015 was approximately Saudi Riyals 537.8 million (2014: Saudi Riyals 532.0 million).

26 Subsequent events

On January 16, 2016, a fire incident happened in one of the industrial waste storage tanks in the utilities' unit of the Company, which was extinguished and controlled immediately, without any casualty and impact on the Company's operations.

The Company's management is currently evaluating the financial impact of this incidence, which is not expected to be significant. In addition, the Company's property, plant and equipment are adequately insured.
