

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

**INTERIM FINANCIAL STATEMENTS  
FOR THE THREE-MONTH AND NINE-MONTH PERIODS  
ENDED SEPTEMBER 30, 2014 AND INDEPENDENT  
AUDITORS' LIMITED REVIEW REPORT**

**SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)**  
**(A Saudi Joint Stock Company)**  
**INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2014**

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## **LIMITED REVIEW REPORT**

October 19, 2014

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

### **Scope of review**

We have reviewed the accompanying interim balance sheet of Saudi Kayan Petrochemical Company (Saudi Kayan) (the "Company") as of September 30, 2014 and the interim income statement for the three-month and nine-month periods ended September 30, 2014, and the interim statements of cash flows and changes in shareholders' equity for the nine-month period then ended and the related notes which form an integral part of these interim financial statements. These interim financial statements are the responsibility of the management and have been prepared by them and submitted to us together with all the information and explanations which we required.

We conducted our limited review in accordance with the standard of Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants. A limited review consists principally of applying analytical procedures to financial data and information and making inquiries of persons responsible for financial and accounting matters. The scope of such limited review is substantially less than an audit conducted in accordance with auditing standards generally accepted in Saudi Arabia, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

### **Review conclusion**

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

### **PricewaterhouseCoopers**

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

	Note	September 30, 2014	September 30, 2013
		(Unaudited)	(Unaudited)
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		540,390	312,597
Accounts receivable		3,450,903	3,225,539
Inventories		2,143,317	2,023,219
Prepayments and other receivable		699,538	750,241
		<u>6,834,148</u>	<u>6,311,596</u>
<b>Non-current assets</b>			
Investment		162,000	162,000
Property, plant and equipment		37,580,458	39,265,500
Intangible assets		464,751	673,682
Other non-current assets		251,428	133,277
		<u>38,458,637</u>	<u>40,234,459</u>
<b>Total assets</b>		<u>45,292,785</u>	<u>46,546,055</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Current portion of long-term borrowings	3	1,844,393	1,514,205
Accounts payable		1,348,208	1,318,193
Accrued and other liabilities		1,096,872	1,826,616
		<u>4,289,473</u>	<u>4,659,014</u>
<b>Non-current liabilities</b>			
Long-term borrowings	3	26,629,490	27,636,460
Other non-current liabilities		336,434	160,374
		<u>26,965,924</u>	<u>27,796,834</u>
<b>Total liabilities</b>		<u>31,255,397</u>	<u>32,455,848</u>
<b>Shareholders' equity</b>			
Share capital		15,000,000	15,000,000
Statutory reserve		49,408	49,408
Accumulated deficit		(1,012,020)	(959,201)
<b>Total shareholders' equity</b>		<u>14,037,388</u>	<u>14,090,207</u>
<b>Total liabilities and shareholders' equity</b>		<u>45,292,785</u>	<u>46,546,055</u>
<b>Contingencies and commitments</b>	5		

The notes from 1 to 5 form an integral part of these interim financial statements.

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

	Note	For the three-month periods ended September 30,		For the nine-month periods ended September 30,	
		2014 (Unaudited)	2013 (Unaudited)	2014 (Unaudited)	2013 (Unaudited)
Sales		3,235,376	3,052,198	9,109,995	7,420,134
Cost of sales		<u>(2,920,571)</u>	<u>(2,747,249)</u>	<u>(8,413,969)</u>	<u>(7,076,600)</u>
<b>Gross profit</b>		<b>314,805</b>	<b>304,949</b>	<b>696,026</b>	<b>343,534</b>
Selling, general and administrative expenses		<u>(110,890)</u>	<u>(106,749)</u>	<u>(329,669)</u>	<u>(262,620)</u>
<b>Income from operations</b>		<b>203,915</b>	<b>198,200</b>	<b>366,357</b>	<b>80,914</b>
<b>Other (expenses) income</b>					
Financial charges		<u>(123,083)</u>	<u>(116,670)</u>	<u>(372,044)</u>	<u>(356,723)</u>
Other		<u>14,053</u>	<u>(12,350)</u>	<u>16,695</u>	<u>(6,085)</u>
<b>Income (loss) before zakat</b>		<b>94,885</b>	<b>69,180</b>	<b>11,008</b>	<b>(281,894)</b>
Zakat		<u>(27,975)</u>	<u>(25,906)</u>	<u>(67,245)</u>	<u>(67,934)</u>
<b>Net income (loss) for the period</b>		<b>66,910</b>	<b>43,274</b>	<b>(56,237)</b>	<b>(349,828)</b>
<b>Earnings (loss) per share (Saudi Riyals):</b>					
Operating income		<u>0.136</u>	<u>0.132</u>	<u>0.244</u>	<u>0.054</u>
Net income (loss) for the period		<u>0.045</u>	<u>0.029</u>	<u>(0.037)</u>	<u>(0.233)</u>
Weighted average number of shares outstanding (in thousands)	4	<u>1,500,000</u>	<u>1,500,000</u>	<u>1,500,000</u>	<u>1,500,000</u>

The notes from 1 to 5 form an integral part of these interim financial statements.

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

	Note	For the nine-month	
		periods ended September 30,	
		2014	2013
		(Unaudited)	(Unaudited)
<b>Cash flow from operating activities</b>			
Income (loss) before zakat		11,008	(281,894)
<u>Adjustments for non-cash items</u>			
Depreciation and amortization		1,841,234	1,696,421
Financial charges		372,044	356,723
Employee benefits		37,147	33,955
<u>Changes in working capital</u>			
Accounts receivable		(251,618)	(91,188)
Inventories		32,443	(63,221)
Prepayments and other receivable		35,794	(249,149)
Accounts payable		(50,236)	(28,041)
Accrued and other current liabilities		(58,014)	493,188
		<u>1,969,802</u>	<u>1,866,794</u>
Zakat paid		(84,188)	(77,284)
Financial charges paid		(326,464)	(326,374)
Employee benefits paid		(5,337)	(10,677)
Net cash generated from operating activities		<u>1,553,813</u>	<u>1,452,459</u>
<b>Cash flow from investing activities</b>			
Investment		-	(162,000)
Additions to property, plant and equipment		(288,568)	(560,139)
Additions to intangible assets		(510)	(349,201)
Other non-current assets		(115,507)	(108,071)
Net cash used in investing activities		<u>(404,585)</u>	<u>(1,179,411)</u>
<b>Cash flow from financing activity</b>			
Net (repayment) proceeds from long-term borrowings		<u>(878,153)</u>	<u>(529,729)</u>
<b>Net change in cash and cash equivalents</b>		<b>271,075</b>	<b>(256,681)</b>
Cash and cash equivalents at beginning of period		<u>269,315</u>	<u>569,278</u>
<b>Cash and cash equivalents at end of period</b>		<u>540,390</u>	<u>312,597</u>

The notes from 1 to 5 form an integral part of these interim financial statements.

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

	<b>Share capital</b>	<b>Statutory reserve</b>	<b>Accumulated deficit</b>	<b>Total</b>
<b>January 1, 2014 (Audited)</b>	15,000,000	49,408	(955,783)	<b>14,093,625</b>
Net loss for the period	-	-	(56,237)	<b>(56,237)</b>
<b>September 30, 2014 (Unaudited)</b>	<b>15,000,000</b>	<b>49,408</b>	<b>(1,012,020)</b>	<b>14,037,388</b>
<b>January 1, 2013 (Audited)</b>	15,000,000	49,408	(609,373)	14,440,035
Net loss for the period	-	-	(349,828)	<b>(349,828)</b>
<b>September 30, 2013 (Unaudited)</b>	<b>15,000,000</b>	<b>49,408</b>	<b>(959,201)</b>	<b>14,090,207</b>

The notes from 1 to 5 form an integral part of these interim financial statements.

**SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)**  
**(A Saudi Joint Stock Company)**  
**Notes to the interim financial statements**  
**For the three-month and nine-month periods ended September 30, 2014 (Unaudited)**  
**(All amounts in Saudi Riyals in 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 its majority of 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. The Company started commercial production of Low Density Polyethylene Plant on April 1, 2013. The Company started the trial run production of Natural Detergent Alcohol (NDA) plant with effect from June 25, 2014.

The accompanying interim financial statements were authorized for issue by the Board of Directors on October 19, 2014.

**2. Summary of significant accounting policies**

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

**2.1 Basis of preparation**

The accompanying interim financial statements have been prepared under the historical cost convention on the accrual basis of accounting and in compliance with the Standard of Accounting for Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants. Significant accounting policies adopted by the Company for preparing such interim financial statements are consistent with the accounting policies described in the 2013 annual audited financial statements of the Company.

The accompanying interim financial statements include all adjustments comprising mainly of normal recurring accruals considered necessary by the Company's management to present a fair statement of the financial position, results of operations and cash flows. The interim results of the operations for the three-month and nine-month periods ended September 30, 2014 may not represent a proper indication for the annual results of operations. These interim financial statements and notes should be read in conjunction with the annual audited financial statements and the related notes for the year ended December 31, 2013.

**2.2 Critical accounting estimates and judgments**

The preparation of interim financial statements in conformity with generally accepted accounting principles requires the use of certain critical estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting period. 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-current assets 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.

**2.3 Foreign currency translations**

**(a) Reporting currency**

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



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**(All amounts in Saudi Riyals in thousands unless otherwise stated)**

(b) Transactions and balances

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

**2.4 Cash and cash equivalents**

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

**2.5 Accounts receivable**

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

**2.6 Inventories**

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

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

**2.7 Investment in associates**

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

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

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

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

**2.8 Property, plant and equipment and projects under construction**

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

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

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

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

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

## **2.9 Intangible assets**

### *Front end fee and arrangement costs*

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

### *Planned turnaround costs*

Planned turnaround costs are deferred and amortized over the period until the date of the next planned turnaround. Should an unexpected turnaround occur prior to the previously envisaged date of planned turnaround, then the previously unamortized deferred costs are immediately expensed and the new turnaround costs are amortized over the period likely to benefit from such costs.

### *Employee home ownership - site development costs*

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

### *Pre-operating costs*

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

## **2.10 Impairment of non-current assets**

Non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-current assets 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.

## **2.11 Borrowings**

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

## **2.12 Accounts payable and accruals**

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

## **2.13 Provision**

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

**SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)**  
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**2.14 Zakat and taxes**

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

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

**2.15 Technology and innovation**

Technology and innovation costs are expensed when incurred.

**2.16 Employee benefits**

*Employee termination benefits*

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

*Employees' home ownership programme*

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

Unsold housing units constructed for eventual sale to eligible employees are capitalized and depreciated over 33 years.

When the houses are allocated to the employees, the cost of houses constructed and sold to the employees under the programme is transferred from property, plant and equipment to other non-current assets. Down payments and instalments of purchase price received from employees are set off against the other non-current assets.

The cost of the houses and the related purchase price is removed from other non-current assets when title to the houses is transferred to the employees, at which time no significant gain or loss is expected to result to the Company.

*Employees' saving plan*

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

**2.17 Revenues**

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

**2.18 Selling, general and administrative expenses**

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

**2.19 Statutory reserve**

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

**SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)**  
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**2.20 Leases**

Leases are classified as capital leases whenever the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Rental expenses under operating leases are charged to the income statement over the period of the respective lease. Rental income is recognized on the accrual basis in accordance with the terms of the contracts.

**2.21 Segment reporting**

(a) Business segment

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

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

The Company is primarily engaged in manufacturing of chemicals and related products.

(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.

**3. Long-term borrowings**

The Company has obtained long-term borrowings totaling Saudi Riyals 29.0 billion from local, government and international financial institutions to finance its capital expenditure. The aggregate outstanding amounts against these borrowing facilities are Saudi Riyals 25.6 billion as of September 30, 2014 (2013: Saudi Riyals 27.1 billion). The repayments of such borrowings are spread over a period of nine years from the date of the balance sheet. The borrowings are principally secured against the property, plant and equipment of the Company and guarantees provided by its major shareholder 'Saudi Basic Industries Corporation (SABIC)'.

In addition to the above, the Company also has long-term borrowings from SABIC amounting to Saudi Riyals 2.9 billion (2013: Saudi Riyals 2.0 billion). In accordance with the support agreement with SABIC, SABIC will maintain 35% ownership in the Company during the repayment period of these borrowings.

**4. Earnings (loss) per share**

Earnings (loss) per share for the three-month and nine-month periods ended September 30, 2014 and 2013 has been computed by dividing the operating income and net income (loss) for such periods by weighted average number of 1,500 million shares outstanding during such periods.

**5. Contingencies and commitments**

	September 30, 2014 (Unaudited)	September 30, 2013 (Unaudited)
Letters of guarantee	14,917	7,221
Letters of credit	562,500	562,500

The capital expenditure contracted by the Company but not incurred till September 30, 2014 was approximately Saudi Riyals 504.1 million (2013: Saudi Riyals 561.2 million).