

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

INTERIM FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD
ENDED MARCH 31, 2015 AND
LIMITED REVIEW REPORT

SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)
(A Saudi Joint Stock Company)
INTERIM FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2015

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LIMITED REVIEW REPORT

April 15, 2015

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 March 31, 2015 and the interim statements of income, cash flows and changes in shareholders' equity for the three-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 Company's 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

By: 
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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	March 31, 2015 (Unaudited)	March 31, 2014 (Unaudited)
Assets			
Current assets			
Cash and cash equivalents	3	2,056,057	668,573
Accounts receivable		2,020,400	3,163,546
Inventories		2,076,574	2,314,508
Prepayments and other receivable		610,755	673,615
		<u>6,763,786</u>	<u>6,820,242</u>
Non-current assets			
Investment		161,761	162,000
Property, plant and equipment		36,461,082	38,510,889
Intangible assets		257,388	303,572
Other non-current assets		417,513	187,040
		<u>37,297,744</u>	<u>39,163,501</u>
Total assets		<u>44,061,530</u>	<u>45,983,743</u>
Liabilities			
Current liabilities			
Current portion of long-term borrowings	4	2,123,472	1,696,264
Accounts payable		152,744	1,167,722
Accrued and other liabilities		1,028,896	1,320,030
		<u>3,305,112</u>	<u>4,184,016</u>
Non-current liabilities			
Long-term borrowings	4	26,992,393	27,384,181
Other non-current liabilities		306,749	311,981
		<u>27,299,142</u>	<u>27,696,162</u>
Total liabilities		<u>30,604,254</u>	<u>31,880,178</u>
Shareholders' equity			
Share capital		15,000,000	15,000,000
Statutory reserve		49,408	49,408
Accumulated deficit		(1,592,132)	(945,843)
Total shareholders' equity		<u>13,457,276</u>	<u>14,103,565</u>
Total liabilities and shareholders' equity		<u>44,061,530</u>	<u>45,983,743</u>
Contingencies and commitments	6		

The accompanying notes from 1 to 6 form an integral part of these interim financial statements.

SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)
(A Saudi Joint Stock Company)
Interim income statement
For the three-month period ended March 31, 2015
(All amounts in Saudi Riyals in thousands unless otherwise stated)

	Note	2015 (Unaudited)	2014 (Unaudited)
Sales		1,752,653	2,909,358
Cost of sales		<u>(2,120,515)</u>	<u>(2,648,395)</u>
Gross (loss) profit		(367,862)	260,963
Selling, general and administrative expenses		<u>(75,046)</u>	<u>(99,461)</u>
(Loss) income from operations		(442,908)	161,502
Other income (expenses)			
Share in net income of an associate		65	-
Financial charges		(139,639)	(129,289)
Other		19,922	139
(Loss) income before zakat		(562,560)	32,352
Zakat		<u>(29,084)</u>	<u>(22,412)</u>
Net (loss) income for the period		(591,644)	9,940
(Loss) earnings per share (Saudi Riyals):			
Operating (loss) income		<u>(0.295)</u>	0.108
Net (loss) income for the period		<u>(0.394)</u>	0.007
Weighted average number of shares outstanding (in thousands)	5	<u>1,500,000</u>	<u>1,500,000</u>

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SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)
(A Saudi Joint Stock Company)
Interim cash flow statement
For the three-month period ended March 31, 2015
(All amounts in Saudi Riyals in thousands unless otherwise stated)

	Note	2015 (Unaudited)	2014 (Unaudited)
Cash flow from operating activities			
(Loss) income before zakat		(562,560)	32,352
<u>Adjustments for non-cash items</u>			
Depreciation and amortization		650,964	600,154
Share in net income of an associate		(65)	-
Financial charges		139,639	129,289
Employee benefits		9,986	8,124
<u>Changes in working capital</u>			
Accounts receivable		710,064	35,739
Inventories		398,269	(138,748)
Prepayments and other receivable		30,322	61,717
Accounts payable		(672,953)	(230,722)
Accrued and other current and non-current liabilities		(8,771)	66,495
		<hr/> 694,895	564,400
Financial charges paid		(45,153)	(48,203)
Employee benefits paid		(6,750)	(768)
Net cash generated from operating activities		<hr/> 642,992	515,429
Cash flow from investing activities			
Additions to property, plant and equipment		(65,056)	(64,649)
Additions to intangible assets		(135,124)	(403)
Other non-current assets		(41,097)	(51,119)
Net cash used in investing activities		<hr/> (241,277)	(116,171)
Net increase in cash and cash equivalents			
		401,715	399,258
Cash and cash equivalents at beginning of period		<hr/> 1,654,342	269,315
Cash and cash equivalents at end of period	3	<hr/> 2,056,057	668,573
<u>Non-cash investing activity -</u>			
Spares parts transferred from property, plant and equipment		<hr/> 142,503	-

The accompanying notes from 1 to 6 form an integral part of these interim financial statements.

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

	Share capital	Statutory reserve	Accumulated deficit	Total
January 1, 2015 (Audited)	15,000,000	49,408	(1,000,488)	14,048,920
Net loss for the period	-	-	(591,644)	(591,644)
March 31, 2015 (Unaudited)	15,000,000	49,408	(1,592,132)	13,457,276
January 1, 2014 (Audited)	15,000,000	49,408	(955,783)	14,093,625
Net income for the period	-	-	9,940	9,940
March 31, 2014 (Unaudited)	15,000,000	49,408	(945,843)	14,103,565

The accompanying notes from 1 to 6 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 period ended March 31, 2015 (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 in the petrochemical and chemical fields and operating and managing the industrial projects and plants built by the Company within and outside the Kingdom of Saudi Arabia and to provide the support and maintenance of the utilities related to these plants and gaining the technical expertise in petrochemical and chemical fields through co-operation and purchasing from others.

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

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. The Company started commercial production of Low Density Polyethylene Plant with effect from April 1, 2013. The Company expects to commence the commercial operations of Natural Detergent Alcohol (NDA) plant from mid of 2015.

During the three-month period ended March 31, 2015, the Company:

- received an approval of additional feedstock allocation from the Ministry of Petroleum and Mineral Resources effective from July 1, 2015. Such approval is subject to meeting certain conditions including capital projects and operational requirements and reduction of the marketing fee from 'Saudi Basic Industries Corporation (SABIC)' which has already been agreed upon; and
- incurred turnaround and related costs of Saudi Riyals 495.2 million, out of which Saudi Riyals 135.2 million, directly related to scheduled turnaround, have been capitalized under intangible assets 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 interim financial statements were authorized for issue by the Board of Directors on April 15, 2015.

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 2014 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 period ended March 31, 2015 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, 2014.

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2.2 Critical accounting estimates and judgments

The preparation of interim financial statements in conformity with generally accepted accounting principles in the Kingdom of Saudi Arabia 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.

2.3 Foreign currency translations

(a) Reporting currency

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

(b) Transactions and balances

Foreign currency transactions, 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 carried at the lower of cost or net realizable value. 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.

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.

SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)

(A Saudi Joint Stock Company)

Notes to the interim financial statements

For the three-month period ended March 31, 2015 (Unaudited)

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

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, 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 their respective estimated useful lives.

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

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

Capital spare parts 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:

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-financial assets

Non-financial 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-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.

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.

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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 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 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.

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

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.

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

Notes to the interim financial statements

For the three-month period ended March 31, 2015 (Unaudited)

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

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 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, after recovery from accumulated deficit, to a statutory reserve until such reserve equal 50% of its share capital. Such allocation is made at the end of the fiscal year. This reserve currently is not available for distribution to the shareholders of the Company.

2.20 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.

2.21 Reclassifications

Certain amounts in the accompanying 2014 interim financial statements have been reclassified to conform with 2015 presentation and principally represent presentation of the transaction fee related to the long-term borrowings which has now been reclassified from intangible assets and presented as net against borrowings.

2.22 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.

3. Cash and cash equivalents

	March 31, 2015	March 31, 2014
	(Unaudited)	(Unaudited)
Cash and bank balances	1,493,557	143,573
Murabaha investments	562,500	525,000
	2,056,057	668,573

Cash and bank balances also include Saudi Riyals 1,038.8 million (2014: Nil) 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 interim financial statements
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(All amounts in Saudi Riyals in thousands unless otherwise stated)

4. Long-term borrowings

The Company has obtained long-term borrowings totaling Saudi Riyals 31.6 billion from local, government and international financial institutions to finance its capital expenditure. The aggregate outstanding amounts against these borrowing facilities are Saudi Riyals 26.5 billion as of March 31, 2015 (2014: Saudi Riyals 26.5 billion). The aggregate maturities of these loans, based on their respective repayment schedules, are spread from balance sheet date through 2029. The borrowings are principally secured against the property, plant and equipment of the Company and guarantees provided by its major shareholder SABIC.

In addition to the above, the Company also has long-term borrowings from SABIC amounting to Saudi Riyals 2.9 billion (2014: Saudi Riyals 2.9 billion). In accordance with the support agreement with SABIC, SABIC will maintain 35% ownership in the Company during the repayment period of these borrowings.

5. Earnings (loss) per share

Earnings (loss) per share for the three-month periods ended March 31, 2015 and 2014 has been computed by dividing the operating (loss) income and net (loss) income for such periods by weighted average number of 1,500 million shares outstanding during such periods.

6. Contingencies and commitments

	March 31, 2015 (Unaudited)	March 31, 2014 (Unaudited)
Letters of guarantee	15,317	7,417
Letters of credit	-	562,500

The capital expenditure contracted by the Company but not incurred till March 31, 2015 was approximately Saudi Riyals 494.6 million (2014: Saudi Riyals 557.7 million).