

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

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014
AND INDEPENDENT AUDITORS' REPORT**

SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)
(A Saudi Joint Stock Company)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

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INDEPENDENT AUDITORS' REPORT

February 12, 2015

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, 2014 and the related statements of income, cash flows and changes in shareholders' equity for the year then ended, and the notes from 1 to 25 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, 2014 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: 
Khalid A. Mahdhar
License Number 368



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	2014	2013
Assets			
Current assets			
Cash and cash equivalents	5	1,654,342	269,315
Accounts receivable	6	2,730,464	3,199,285
Inventories	7	2,332,340	2,175,760
Prepayments and other receivables	8	641,077	735,332
		7,358,223	6,379,692
Non-current assets			
Investment	9	161,696	162,000
Property, plant and equipment	10	37,156,017	38,910,201
Intangible assets	11	167,657	348,717
Other non-current assets	12	376,416	135,921
		37,861,786	39,556,839
Total assets		45,220,009	45,936,531
Liabilities			
Current liabilities			
Current portion of long term borrowings	15	2,123,473	1,696,264
Accounts payable	13	825,697	1,398,444
Accrued and other liabilities	14	910,148	1,138,519
		3,859,318	4,233,227
Non-current liabilities			
Long term borrowings	15	26,981,730	27,374,477
Other non-current liabilities	16	330,041	235,202
		27,311,771	27,609,679
Total liabilities		31,171,089	31,842,906
Shareholders' equity			
Share capital	19	15,000,000	15,000,000
Statutory reserve	20	49,408	49,408
Accumulated deficit		(1,000,488)	(955,783)
Total shareholders' equity		14,048,920	14,093,625
Total liabilities and shareholders' equity		45,220,009	45,936,531
Contingencies and commitments	25		

The accompanying notes from 1 to 25 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)

	Note	Year ended December 31,	
		2014	2013
Sales	18	11,636,030	10,352,654
Cost of sales	18	(10,660,433)	(9,727,550)
Gross profit		975,597	625,104
Selling, general and administrative expenses	18,21	(452,816)	(366,843)
Income from operations		522,781	258,261
Financial charges	15	(522,778)	(506,165)
Share in net loss of an associate	9	(304)	-
Other income (loss), net	22	32,552	(8,506)
Income (loss) before zakat		32,251	(256,410)
Zakat	17	(76,956)	(90,000)
Net loss for the year		(44,705)	(346,410)
Earnings (loss) per share (Saudi Riyals)	24		
• Operating income		0.349	0.172
• Net loss for the year		(0.029)	(0.231)
Weighted average number of shares outstanding (in thousands)		1,500,000	1,500,000

The accompanying notes from 1 to 25 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)

		<u>Year ended December 31,</u>	
	Note	2014	2013
Cash flow from operating activities			
Income (loss) before zakat		32,251	(256,410)
<u>Adjustments for non-cash items</u>			
Depreciation and amortization	10,11	2,427,253	2,268,945
Share in net loss of an associate	9	304	-
Financial charges		522,778	506,165
Employees' benefits	16	48,768	43,876
<u>Changes in working capital</u>			
Accounts receivable		468,821	(64,934)
Inventories		(175,725)	(215,762)
Prepayments and other receivables		94,255	(234,240)
Accounts payable		(572,747)	52,210
Accrued and other liabilities		(100,816)	(101,152)
		<u>2,745,142</u>	<u>1,998,698</u>
Zakat paid	17	(84,188)	(77,285)
Financial charges paid		(493,300)	(503,748)
Employees' benefits paid	16	(7,946)	(13,696)
Net cash generated from operating activities		<u>2,159,708</u>	<u>1,403,969</u>
Cash flow from investing activities			
Investment	9	-	(162,000)
Additions to property, plant and equipment, net	10	(528,721)	(729,655)
Additions to intangible assets	11	(881)	(373,203)
Changes in other non-current assets	12	(240,495)	(110,715)
Net cash utilized in investing activities		<u>(770,097)</u>	<u>(1,375,573)</u>
Cash flow from financing activities			
Proceeds from long-term borrowings		1,714,875	837,499
Repayments of long-term borrowings		(1,719,459)	(1,165,858)
Net cash utilized in financing activities		<u>(4,584)</u>	<u>(328,359)</u>
Net change in cash and cash equivalents		1,385,027	(299,963)
Cash and cash equivalents at beginning of year		<u>269,315</u>	<u>569,278</u>
Cash and cash equivalents at end of year	5	<u>1,654,342</u>	<u>269,315</u>
Supplemental cash flow information			
<u>Non-cash investing activities:</u>			
• Additions to property, plant and equipment recorded through accrued and other liabilities		-	20,843
• Capital spares transferred from inventories to property, plant and equipment		19,145	-
		<u>19,145</u>	<u>-</u>

The accompanying notes from 1 to 25 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, 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
January 1, 2013	15,000,000	49,408	(609,373)	14,440,035
Net loss for the year	-	-	(346,410)	(346,410)
December 31, 2013	15,000,000	49,408	(955,783)	14,093,625

The accompanying notes from 1 to 25 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, 2014
(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. The Company started commercial production of Low Density Polyethylene Plant on April 1, 2013. The Company expects to commence the commercial operations of Natural Detergent Alcohol (NDA) plant from mid of 2015.

The accompanying financial statements were authorized for issue by the Company's Board of Directors on February 12, 2015.

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.

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.

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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

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

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.

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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 Accounts payable and accruals

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

2.12 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.

2.13 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.

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2.14 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.

2.15 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 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.

2.16 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.

2.17 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.

2.18 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.

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2.19 Reclassifications

Certain amounts in the accompanying 2013 financial statements have been reclassified to conform with 2014 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 (see Note 15).

3 Financial instrument and risk management

Financial instruments carried on the balance sheet include cash and cash equivalents, accounts and other receivable, 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 interest rate cash flow 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.

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, 2014, approximately 99.6% (2013: 98.9%) of accounts receivable were due from SABIC, under a marketing arrangement, a shareholder having sound history of regular repayment. 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.

SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)
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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

	2014	2013
Cash and bank balances	1,154,342	189,315
Murabaha investments	500,000	80,000
	<u>1,654,342</u>	<u>269,315</u>

Cash and bank balances at December 31, 2014 include Saudi Riyals 10.1 million (2013: Saudi Riyals 8.1 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 1,038.8 million as reserve for the debt servicing (including principal repayments) under certain financing arrangements (see Note 15.7).

6 Accounts receivable

	Note	2014	2013
Related party	18.2 (a)	2,719,715	3,162,608
Other		10,749	36,677
		<u>2,730,464</u>	<u>3,199,285</u>

Receivable from Other parties at December 31, 2014 are carried at net of provision of Saudi Riyals 6.7 million (2013: Nil).

7 Inventories

	2014	2013
Chemicals, raw and packing materials	216,638	210,012
Spare parts and supplies, not held for sale	814,276	670,195
Intermediate and finished products	1,234,438	1,251,369
Goods in transit	66,988	44,184
	<u>2,332,340</u>	<u>2,175,760</u>

Intermediate and finished products inventories at December 31, 2014 include inventories amounting to Saudi Riyals 297.7 million (2013: Saudi Riyals 339.4 million) which are carried at net realizable values after making adjustments of Saudi Riyals 113.4 million (2013: Saudi Riyals 97.4 million).

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(All amounts in Saudi Riyals thousands unless otherwise stated)

8 Prepayments and other receivables

	Note	2014	2013
Receivable from related parties	18.2 (b)	532,580	654,062
Prepayments		66,386	73,579
Employee home ownership receivables - current portion	12	12,819	3,407
Other		29,292	4,284
		641,077	735,332

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 has commenced in early 2014 with anticipated completion during 2015.

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

	2014	2013
January 1	162,000	-
Capital contribution	-	162,000
Share in net loss	(304)	-
December 31	161,696	162,000

Financial information of SaBuCo

	2014	2013
Assets	1,433,810	918,575
Liabilities	948,723	434,775
Net loss	913	-

Also see Note 12 for loans to the associate.

10 Property, plant and equipment

	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
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
	43,488,350	496,936	(6,706)	43,978,580
Accumulated depreciation				
Buildings	(152,033)	(73,756)	-	(225,789)
Plant, machinery and equipment	(4,223,264)	(2,093,409)	898	(6,315,775)
Furniture, fixtures, office equipment and other assets	(202,852)	(78,147)	-	(280,999)
	(4,578,149)	(2,245,312)	898	(6,822,563)
	38,910,201			37,156,017

SAUDI KAYAN PETROCHEMICAL COMPANY (SAUDI KAYAN)
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Notes to the financial statements for the year ended December 31, 2014
(All amounts in Saudi Riyals thousands unless otherwise stated)

	January 1, 2013	Additions	Disposals / transfers	December 31, 2013
2013				
Cost				
Buildings	2,030,692	-	386,027	2,416,719
Plant, machinery and equipment	37,415,703	-	2,024,116	39,439,819
Furniture, fixtures, office equipment and other assets	409,479	4,670	(1,567)	412,582
Assets under construction	2,882,942	746,431	(2,410,143)	1,219,230
	<u>42,738,816</u>	<u>751,101</u>	<u>(1,567)</u>	<u>43,488,350</u>
Accumulated depreciation				
Buildings	(76,920)	(75,113)	-	(152,033)
Plant, machinery and equipment	(2,278,037)	(1,945,227)	-	(4,223,264)
Furniture, fixtures, office equipment and other assets	(113,334)	(90,482)	964	(202,852)
	<u>(2,468,291)</u>	<u>(2,110,822)</u>	<u>964</u>	<u>(4,578,149)</u>
	<u>40,270,525</u>			<u>38,910,201</u>

Buildings and plant facilities of the Company are constructed on 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, 2014 and 2013 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. Assets under construction as of December 31, 2014 include costs amounting to Saudi Riyals 727.8 million related to the NDA plant which are expected to be capitalized during 2015.

Finance costs capitalized during the year ended December 31, 2014 amounted to Saudi Riyals 24.8 million (2013: Saudi Riyals 27.8 million).

11 Intangible assets

	Pre-operating costs	Employee home ownership-site development costs	Planned turnaround costs	Total
2014				
Cost				
January 1, 2014	132,599	10,853	377,032	520,484
Additions	-	-	881	881
December 31, 2014	<u>132,599</u>	<u>10,853</u>	<u>377,913</u>	<u>521,365</u>
Accumulated amortization				
January 1, 2014	(42,622)	(8,023)	(121,122)	(171,767)
Charge for the year	(18,943)	(1,339)	(161,659)	(181,941)
December 31, 2014	<u>(61,565)</u>	<u>(9,362)</u>	<u>(282,781)</u>	<u>(353,708)</u>
	<u>71,034</u>	<u>1,491</u>	<u>95,132</u>	<u>167,657</u>

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	Pre-operating costs	Employee home ownership-site development costs	Planned turnaround costs	Total
2013				
Cost				
January 1, 2013	132,599	10,853	3,829	147,281
Additions	-	-	373,203	373,203
December 31, 2013	132,599	10,853	377,032	520,484
Accumulated amortization				
January 1, 2013	(23,679)	(6,117)	-	(29,796)
Charge for the year	(18,943)	(1,906)	(121,122)	(141,971)
December 31, 2013	(42,622)	(8,023)	(121,122)	(171,767)
	89,977	2,830	255,910	348,717

12 Other non-current assets

	Note	2014	2013
Loans to an associate	9	288,801	116,518
Employee home ownership receivables		78,303	9,760
Other		9,312	9,643
		376,416	135,921

Loans to an associate at December 31, 2014 represent long-term loans to SaBuCo. These loans do not bear any financial charges and are not expected to be repaid during 2015.

13 Accounts payable

	Note	2014	2013
Trade		353,125	483,689
Related parties	18.2 (c)	472,572	914,755
		825,697	1,398,444

14 Accrued and other liabilities

	Note	2014	2013
Operating costs		505,113	627,035
Retentions payable		57,801	114,539
Zakat	17	77,106	84,338
Technology and innovation costs	18	50,502	58,647
Utilities		34,019	33,990
Withholding tax payable		3,499	3,155
Financial charges payable		79,491	78,937
Accrued and other liabilities		102,617	137,878
		910,148	1,138,519

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15 Long term borrowings

	Note	2014	2013
Public Investment Fund (PIF)	15.1	2,800,875	3,100,968
Islamic Facility Agreement (IFA)	15.2	3,500,509	3,670,512
Commercial Facility	15.3	2,466,400	2,586,182
Export Credit Agency (ECA)	15.4	5,695,690	6,540,223
Islamic Working Capital Facility	15.5	2,414,103	2,414,151
Saudi Industrial Development Fund (SIDF)	15.6	1,380,000	1,665,000
Subordinated loans	15.7	11,100,000	9,375,000
		<u>29,357,577</u>	<u>29,352,036</u>
Less: unamortized transaction costs		(252,374)	(281,295)
		<u>29,105,203</u>	<u>29,070,741</u>

Long term borrowings are presented as follow:

Current maturity under current liabilities	2,123,473	1,696,264
Long term borrowings	<u>26,981,730</u>	<u>27,374,477</u>
	<u>29,105,203</u>	<u>29,070,741</u>

Movements in unamortized transaction costs are as follows:

	2014	2013
January 1	281,295	320,218
Transaction costs	19,645	-
Less: amortization	(48,566)	(38,923)
December 31	<u>252,374</u>	<u>281,295</u>

Related to:

Current maturity shown under current liabilities	41,113	41,113
Shown under long term borrowing	<u>211,261</u>	<u>240,182</u>

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 semiannual instalments 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, the loan liability has not yet been converted into finance lease obligation for an equivalent amount with a corresponding amount of leased assets.

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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 1,938.06 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 semiannual 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. (KN to check)

15.6 Saudi Industrial Development Fund

The loan agreements with SIDF provided for loans of Saudi Riyals 2,000.0 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 un-equal semiannual installments which commenced in December 2012.

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

15.7 Subordinated loans

The Company has outstanding loans amounting to Saudi Riyals 11,100.0 million at December 31, 2014 obtained from SABIC and commercial banks against corporate guarantee of SABIC. Loan amounting to Saudi Riyals 837.5 million were drawn during 2013. Above borrowings include additional 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, 2014.

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 charges at prevailing market rates which are based on Saudi Inter Bank Offered rate and an agreed margin. Additionally, SABIC is required to maintain its 35% equity interest in the Company until the repayment of external loans.

On December 18, 2014, the corporate guarantee provided by SABIC to certain financial institutions was released upon the Company achieving its financial completion requirements under the borrowing arrangements with such financial institutions. However, 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.

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15.8 Currency denomination

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

	2014	2013
Saudi Riyals	12,480,000	11,040,000
United States dollars	16,877,577	18,312,036
	<u>29,357,577</u>	<u>29,352,036</u>

15.9 Maturity profile of long-term borrowings

	2014	2013
Years ending December 31:		
2014	-	1,737,377
2015	2,164,585	2,215,011
2016	2,194,521	2,243,371
2017	6,282,590	6,312,215
2018	3,152,475	3,172,645
2019	1,493,713	1,511,677
Thereafter	14,069,693	12,159,740
	<u>29,357,577</u>	<u>29,352,036</u>

16 Other non-current liabilities

	2014	2013
Employee termination benefits	190,704	153,668
Employees' savings plan	17,394	13,608
Accrued license fee	121,943	67,926
	<u>330,041</u>	<u>235,202</u>

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

	Employee termination benefits	Employees' savings plan	Total
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	<u>190,704</u>	<u>17,394</u>	<u>208,098</u>
January 1, 2013	123,925	13,171	137,096
Provisions	41,690	2,186	43,876
Payments / transfers	(11,947)	(1,749)	(13,696)
December 31, 2013	<u>153,668</u>	<u>13,608</u>	<u>167,276</u>

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.

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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	2014	2013
Shareholders' equity at beginning of year		14,093,625	14,440,035
Adjusted net income (loss)		79,540	(200,543)
Long-term borrowings	15	27,380,203	29,352,036
Property, plant and equipment, as adjusted	10	(37,861,425)	(39,838,134)
Other		(607,791)	(440,883)
Approximate zakat base		<u>3,084,152</u>	<u>3,312,511</u>

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

	2014	2013
January 1	84,338	71,623
Provisions for the year	76,956	90,000
Payments during the year	(84,188)	(77,285)
December 31	<u>77,106</u>	<u>84,338</u>

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 and 2013 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

- 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).
- In addition to procurement services, SSO also provides accounting, human resources, information technology, engineering, and other general services to the Company.
- SABIC Terminal Services Limited (Sabtank) provides shipping and material handling services to the Company (Note 21).
- Certain feedstocks were purchased from related parties of SABIC.
- SABIC also provides the Company with certain required technology and innovation, administrative and other services in accordance with executed agreements (Note 21).

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- 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 2014, the Company was charged approximately Saudi Riyals 1,539.4 million (2013: Saudi Riyals 1,416.2 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, 2014 and 2013 represent balance receivable from SABIC.

- b) Other receivables from related parties

	2014	2013
SABIC	529,808	653,836
Other	2,772	226
	<u>532,580</u>	<u>654,062</u>

- c) Payable to related parties

	2014	2013
SABIC	466,698	910,347
Other	5,874	4,408
	<u>472,572</u>	<u>914,755</u>

19 Share capital

The share capital of the Company as of December 31, 2014 and 2013 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, 2014 and 2013 due to accumulated deficits at end of such years.

21 Selling, general and administrative expenses

	Note	2014	2013
Salaries, wages and benefits		11,723	9,567
Technology and innovation costs	18	232,654	206,637
Freight and storage		196,697	138,382
Other		11,742	12,257
		<u>452,816</u>	<u>366,843</u>

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22 Other income (loss), net

	2014	2013
Financial income	6,054	2,646
Foreign exchange gains (losses)	19,986	(5,583)
Other income (expenses)	6,512	(5,569)
	32,552	(8,506)

23 Operating leases

	2014	2013
Rental expenses under operating leases charged during the year	32,576	25,781

Commitments for minimum lease payments under the non-cancelable leases were not significant at December 31, 2014.

Rental expenses under operating leases charged during the year are for vehicles, properties and land (Note 10). Property rentals are fixed for 1 to 2 years and rentals for vehicles are fixed for an average of 3 years.

24 Earnings (loss) per share

Earnings (loss) per share for the years ended December 31, 2014 and 2013 have been computed by dividing the operating income and net loss for each years by weighted average number of shares outstanding during such years.

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 14.9 million at December 31, 2014 (2013: Saudi Riyals 7.2 million).
- (ii) The Company was contingently liable for letters of credit amounting to Saudi Riyals Nil at December 31, 2014 (2013: Saudi Riyals 562.5 million).
- (iii) The capital expenditure contracted by the Company but not incurred till December 31, 2014 was approximately Saudi Riyals 532.0 million (2013: Saudi Riyals 649.5 million).