

**SAUDI INTERNATIONAL PETROCHEMICAL COMPANY
(SAUDI JOINT STOCK COMPANY)**

**CONSOLIDATED FINANCIAL STATEMENTS AND
AUDITORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2013**

**SAUDI INTERNATIONAL PETROCHEMICAL COMPANY
(SAUDI JOINT STOCK COMPANY)**

**CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2013**

INDEX	PAGE
Auditors' report	1
Consolidated balance sheet	2
Consolidated statement of income	3
Consolidated statement of cash flows	4-5
Consolidated statement of shareholders' equity	6
Notes to the consolidated financial statements	7-25

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

Scope of audit:


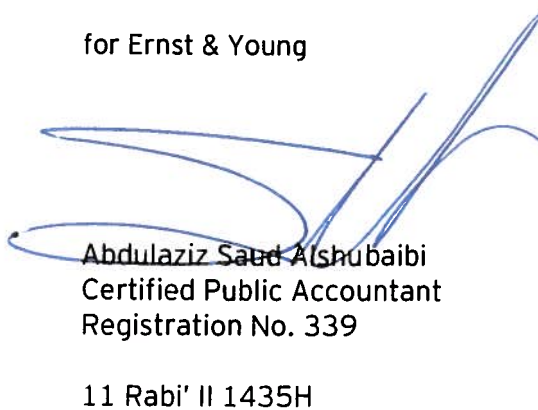
We have audited the accompanying consolidated balance sheet of Saudi International Petrochemical Company (the "Company") (Saudi joint stock company) and its subsidiaries (collectively referred to as the "Group") as at 31 December 2013 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended. These consolidated financial statements are the responsibility of the Company and have been prepared by them in accordance with the provisions of Article 123 of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the consolidated financial statements.

Unqualified opinion:

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

- i) present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2013 and the consolidated results of its operations and its consolidated cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.
- ii) comply with the requirements of the Regulations for Companies and the Company's by-laws in so far as they affect the preparation and presentation of the consolidated financial statements.

for Ernst & Young



Abdulaziz Saud Alshubaibi
Certified Public Accountant
Registration No. 339

11 Rabi' II 1435H
11 February 2014

Alkhobar

Saudi International Petrochemical Company
(Saudi Joint Stock Company)

CONSOLIDATED BALANCE SHEET

As at 31 December 2013

	Note	2013 SR	2012 SR
ASSETS			
Current assets			
Cash and cash equivalents	3	2,857,603,807	3,053,454,336
Accounts receivable, prepayments and other receivables	4	1,314,330,713	857,219,312
Inventories	5	302,726,432	277,956,178
Total current assets		<u>4,474,660,952</u>	<u>4,188,629,826</u>
Non-current assets			
Property, plant and equipment	6	11,547,456,930	10,648,927,193
Projects' development costs	7	473,322,399	252,576,753
Goodwill	8	29,543,923	29,543,923
Intangible assets	9	163,765,313	69,249,396
Total non-current assets		<u>12,214,088,565</u>	<u>11,000,297,265</u>
TOTAL ASSETS		<u>16,688,749,517</u>	<u>15,188,927,091</u>
LIABILITIES, SHAREHOLDERS' EQUITY AND MINORITY INTEREST			
Current liabilities			
Accounts payable, other payables and provisions	10	747,689,314	746,227,815
Bank overdrafts	12	48,744,532	-
Short term advances from partners	11	75,388,206	93,538,155
Current portion of long term loans	13	416,510,465	489,940,823
Current portion of obligation under capital lease	15	-	58,864,865
Total current liabilities		<u>1,288,332,517</u>	<u>1,388,571,658</u>
Non-current liabilities			
Long term loans	13	5,354,903,733	3,976,859,248
Sukuk	14	1,800,000,000	1,800,000,000
Obligations under capital lease	15	255,000,000	251,513,515
Long term advances from partners	11	392,077,039	414,324,544
Employees' terminal benefits	16	99,783,089	82,545,023
Fair value of interest rate swaps	17	71,754,197	130,553,193
Other non-current liabilities		5,860,886	9,235,860
Total non-current liabilities		<u>7,979,378,944</u>	<u>6,665,031,383</u>
Total Liabilities		<u>9,267,711,461</u>	<u>8,053,603,041</u>
Shareholders' equity and minority interest			
Share capital	18	3,666,666,660	3,666,666,660
Statutory reserve		1,108,947,975	1,046,903,069
Reserve for the results of sale of shares in subsidiaries	19	48,893,677	48,893,677
Retained earnings		783,328,357	960,457,541
Proposed dividends	20	238,333,333	-
Net change in the fair value of interest rate swaps	17	(54,992,116)	(99,492,806)
Foreign currency translation reserve		2,045,140	2,402,706
Total shareholders' equity		<u>5,793,223,026</u>	<u>5,625,830,847</u>
Minority interests	21	1,627,815,030	1,509,493,203
Total shareholders' equity and minority interest		<u>7,421,038,056</u>	<u>7,135,324,050</u>
TOTAL LIABILITIES, SHAREHOLDERS' EQUITY AND MINORITY INTEREST		<u>16,688,749,517</u>	<u>15,188,927,091</u>

The attached notes 1 to 31 form part of these consolidated financial statements.

Saudi International Petrochemical Company
(Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF INCOME
Year Ended 31 December 2013

	<i>Note</i>	2013 SR	2012 SR
Sales	22	4,005,632,539	3,921,878,521
Cost of sales		<u>(2,707,052,326)</u>	<u>(2,654,333,208)</u>
GROSS PROFIT		1,298,580,213	1,267,545,313
General and administrative expenses	23	<u>(136,534,541)</u>	<u>(131,668,476)</u>
INCOME FROM MAIN OPERATIONS		1,162,045,672	1,135,876,837
Investment income		17,091,938	22,730,187
Financial charges		(171,308,067)	(183,381,198)
Other (expenses)/income		<u>(22,273,639)</u>	<u>11,958,088</u>
INCOME BEFORE MINORITY INTEREST, ZAKAT AND FOREIGN INCOME TAX		985,555,904	987,183,914
Minority interests		<u>(309,900,853)</u>	<u>(314,496,588)</u>
INCOME BEFORE ZAKAT AND FOREIGN INCOME TAX		675,655,051	672,687,326
Zakat and foreign income taxes	24	<u>(55,205,996)</u>	<u>(71,517,348)</u>
NET INCOME		<u>620,449,055</u>	<u>601,169,978</u>
EARNINGS PER SHARE (SR)			
Earnings per share (from net income)		<u>1.69</u>	<u>1.64</u>
Earnings per share (from main operations)		<u>3.17</u>	<u>3.10</u>
Weighted average number of outstanding shares		<u>366,666,666</u>	<u>366,666,666</u>

The attached notes 1 to 31 form part of these consolidated financial statements.

Saudi International Petrochemical Company
(Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended 31 December 2013

	<i>Note</i>	2013	2012
		SR	SR
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before zakat and foreign income taxes		675,655,051	672,687,326
Adjustments for:			
Depreciation and amortization		558,071,107	514,391,992
Employees' terminal benefits, net		17,238,066	16,617,735
Financial charges		171,308,067	183,381,198
Minority interest		309,900,853	314,496,588
Loss on disposal of property, plant and equipment		21,043,063	17,104
Write-off of property, plant and equipment		3,680,405	-
Investment income		<u>(17,091,938)</u>	<u>(22,730,187)</u>
		1,739,804,674	1,678,861,756
Changes in operating assets and liabilities:			
Receivables		(453,968,488)	(169,310,511)
Inventories		(24,770,254)	3,124,784
Payables		<u>(18,529,554)</u>	<u>17,405,201</u>
Cash from operations		1,242,536,378	1,530,081,230
Financial charges paid		(257,762,488)	(281,482,815)
Zakat and foreign income taxes paid		<u>(38,589,917)</u>	<u>(54,225,402)</u>
Net cash from operating activities		<u>946,183,973</u>	<u>1,194,373,013</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment income received		17,091,938	22,730,187
Additions to property, plant and equipment		(1,309,403,283)	(1,208,191,312)
Additions to intangible assets		(183,125,438)	(54,556,806)
Additions to projects' development costs		(220,745,646)	(88,360,609)
Proceeds from disposals of property, plant and equipment		-	220,000
Net cash used in investing activities		<u>(1,696,182,429)</u>	<u>(1,328,158,540)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Bank overdrafts		48,744,532	(15,784,610)
Long term loans		1,304,614,127	480,072,171
Obligations under capital lease		(55,378,380)	(48,162,160)
Advances from partners		(40,397,454)	57,624,522
Minority interest		(205,877,332)	(274,927,491)
Dividends paid		(495,000,000)	(641,666,666)
Board of Directors' remuneration paid		<u>(2,200,000)</u>	<u>(2,200,000)</u>
Net cash from/(used in) financing activities		<u>554,505,493</u>	<u>(445,044,234)</u>
Net change in cash and cash equivalents		<u>(195,492,963)</u>	<u>(578,829,761)</u>
Cash and cash equivalents at the beginning of the year		3,053,454,336	3,629,881,391
Foreign currency translation reserve		<u>(357,566)</u>	<u>2,402,706</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	3	<u>2,857,603,807</u>	<u>3,053,454,336</u>

The attached notes 1 to 31 form part of these consolidated financial statements.

Saudi International Petrochemical Company
(Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year Ended 31 December 2013

SUPPLEMENTARY CASH FLOWS INFORMATION:

Non-cash transactions are as follows:

	<i>2013</i>	<i>2012</i>
	<i>SR</i>	<i>SR</i>
Proposed dividends	238,333,333	-
Borrowing cost capitalized over property, plant and equipment (note 6)	86,454,421	98,101,617
Transfer to statutory reserve	62,044,906	60,116,998
Net change in fair value of interest rate swaps (note 17)	14,298,306	35,905,199
Receivables against disposals of property, plant and equipment	3,142,913	-
Transfer from property, plant and equipment to intangible assets (note 6)	1,158,336	6,527,938
Transfer from goodwill to intangible assets (note 8)	-	4,438,759
Transfer from projects' development costs to intangible assets (note 7)	-	20,652,492

The attached notes 1 to 31 form part of these consolidated financial statements.

Saudi International Petrochemical Company
(Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

Year Ended 31 December 2013

EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

	Share capital SR	Statutory reserve SR	Reserve for the results of sale of shares in subsidiaries SR	Retained earnings SR	Proposed dividends SR	Net change in the fair value of interest rate swaps SR	Foreign currency translation reserve SR	Total SR
Balance at 1 January 2012	3,666,666,660	986,786,071	48,893,677	604,937,894	458,333,333	(135,398,005)	-	5,630,219,630
Net income	-	-	-	601,169,978	-	-	-	601,169,978
Net change in fair value of interest rate swaps	-	-	-	-	-	35,905,199	-	35,905,199
Net change in foreign currency translation reserve	-	-	-	-	-	-	2,402,706	2,402,706
Transfer to statutory reserve	-	60,116,998	-	(60,116,998)	-	-	-	-
Board of Directors' remuneration	-	-	-	(2,200,000)	-	-	-	(2,200,000)
Dividends paid (note 20)	-	-	-	(183,333,333)	(458,333,333)	-	-	(641,666,666)
Balance at 31 December 2012	3,666,666,660	1,046,903,069	48,893,677	960,457,541	-	(99,492,806)	2,402,706	5,625,830,847
Balance at 1 January 2013	3,666,666,660	1,046,903,069	48,893,677	960,457,541	-	(99,492,806)	2,402,706	5,625,830,847
Net income	-	-	-	620,449,055	-	-	-	620,449,055
Net change in fair value of interest rate swaps	-	-	-	-	-	44,500,690	-	44,500,690
Net change in foreign currency translation reserve	-	-	-	-	-	-	(357,566)	(357,566)
Transfer to statutory reserve	-	62,044,906	-	(62,044,906)	-	-	-	-
Board of Directors' remuneration	-	-	-	(2,200,000)	-	-	-	(2,200,000)
Dividends paid (note 20)	-	-	-	(495,000,000)	-	-	-	(495,000,000)
Proposed dividends (note 20)	-	-	-	(238,333,333)	238,333,333	-	-	-
Balance at 31 December 2013	3,666,666,660	1,108,947,975	48,893,677	783,328,357	238,333,333	(54,992,116)	2,045,140	5,793,223,026

The attached notes 1 to 31 form part of these consolidated financial statements.

**Saudi International Petrochemical Company
(Saudi Joint Stock Company)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

1. ORGANIZATION AND ACTIVITIES

Saudi International Petrochemical Company (the "Company" or "Sipchem") is a Saudi Joint Stock Company, registered in the Kingdom of Saudi Arabia under commercial registration No. 1010156910 dated 14 Ramadan 1420 H (corresponding to 22 December 1999). The Company's head office is in the city of Riyadh with one branch in Al-Khobar, where the head quarters for the executive management is located, which is registered under commercial registration number 2051023922 dated 30 Shawwal 1420H (corresponding to 6 February 2000), and a branch in Jubail Industrial City which is registered under commercial registration number 2055007570 dated 4 Jumada I 1427H (corresponding to 1 June 2006).

The principal activities of the Company are to own, establish, operate and manage industrial projects specially those related to chemical and petrochemical industries. The Company incurs costs on projects under development and subsequently establishes a separate company for each project that has its own commercial registration. Costs incurred by the Company are transferred to the separate companies when they are established.

The Company has the following subsidiaries (the Company and its subsidiaries hereinafter referred to as the "Group"):

Subsidiaries	Effective percentage of shareholding	
	2013	2012
International Methanol Company ("IMC")	65%	65%
International Diol Company ("IDC")	53.91%	53.91%
International Acetyl Company ("IAC") - (note 1)	76%	76%
International Vinyl Acetate Company ("IVC") - (note 1)	76%	76%
International Gases Company ("IGC")	72%	72%
Sipchem Marketing and Services Company ("SMSC")	100%	100%
International Utility Company ("IUC")	68.58%	68.58%
International Polymers Company ("IPC")	75%	75%
Sipchem Chemical Company ("SCC")	100%	100%
Sipchem Europe Cooperatief U.A and its subsidiaries	100%	100%
Gulf Advanced Cable Insulation Company (GACI) - (note 2)	50%	50%
Saudi Specialized Products Company ("SSPC") - (note 3)	75%	-
Sipchem Asia PTE ("TPE") - (note 4)	100%	-

Note 1: The percentages of ownership presented above are as per the investee companies' articles of association and represents the Group's ownership percentage from the investee companies' share capital. The Group's effective ownership percentages of the above two companies used to record the Group's share of results are 78.52% for both companies. Such an increase in ownership resulted from having the Group contributing advances exceeding its percentage of ownership to compensate a minority partner deficit in such advances, which resulted in increasing the effective ownership in those two investments. The articles of association of the two companies have not been updated yet (note 11).

Note 2: Although the Company has only 50% share in the investee company, the operations of Gulf Advances Cable Insulation Company are controlled by the Group effectively from the date of its commercial registration. Accordingly, the investee company is treated as a subsidiary of the Group.

Note 3: The investee company has been incorporated during the year in the Kingdom of Saudi Arabia, it's article of association is dated 12 Safar 1435H (corresponding to 15 December 2013). However, the legal formalities of establishing the company has been completed only in the period subsequent to the consolidated balance sheet date, as the commercial register is issued on 4 Rabi'I 1435H (corresponding to 5 January 2014). Accordingly, the investee company did not have any operating activities during the year.

Note 4: The investee company has been incorporated during the year in Singapore, it's article of association is dated 13 Jumada I 1434H (corresponding to 25 March 2013). The company is engaged in marketing, sale and storage of petrochemical products internationally.

Saudi International Petrochemical Company
(Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The accompanying consolidated financial statements have been prepared in compliance with the standards and regulations promulgated by the Saudi Organization for Certified Public Accountants. The following is a summary of significant accounting policies applied by the Group:

Accounting convention

The consolidated financial statements have been prepared using the historical cost convention modified to include the measurement at fair value for the interest rate swaps.

Use of estimates

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

Basis of consolidation of the financial statements

The consolidated financial statements incorporate the financial statements of the Company and the financial statements of subsidiaries controlled by the Company, either directly or indirectly, prepared for the same year using consistent accounting policies. Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise, either directly or indirectly, so as to obtain benefits from its activities. The consolidation of the subsidiaries' financial statements in these consolidated financial statements start from the date control is obtained by the Company until the date this control is ended. The acquisition of subsidiaries is accounted for using the purchase method. The ownership shares related to other parties in subsidiaries are classified under minority interest in these consolidated financial statements. All significant inter-Group transactions and balances between the Group entities have been eliminated in preparing the consolidated financial statements.

Revenue recognition

The Group markets its products through marketers. Sales are made directly to final customers and also to the marketers' distribution platforms. The sales through the distribution platforms are recorded at provisional prices at the time of shipments, which are later adjusted based on actual selling prices received by the marketers from their final customers, after deducting the cost of shipping, distribution and marketing. Adjustments are made as they become known to the Group.

Local and export sales are recognized at the time of delivery of the product at the loading terminals located at the plant and at the King Fahd Industrial Port in Jubail Industrial City.

Expenses

All the year expenses other than cost of sales, financial charges and other expenses are classified as general and administrative expenses.

Cash and cash equivalents

Cash and cash equivalent consists of bank balances, demand deposits, cash on hand and investments that are readily convertible into known amounts of cash and have maturity of three months or less when purchased.

Accounts receivable

Accounts receivable are stated at original invoice amount less allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Saudi International Petrochemical Company
(Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories comprise of spare parts, raw materials and finished goods and are stated at the lower of cost or market value. Costs of manufactured goods include raw materials, direct labor and manufacturing overheads. The cost of spare parts and finished goods are arrived at using the weighted average cost method. Appropriate provisions are made for slow moving and redundant inventories.

Projects' development cost

Projects' development cost represent legal, license, feasibility related and other costs incurred by the Group in respect of developing new projects. Upon successful development of the projects, costs associated with the projects are transferred to the respective company subsequently established for each project. Projects development costs relating to the projects determined to be non-viable are written off immediately.

Property, plant and equipment

Property, plant and equipment are initially recorded at cost and are stated at cost less accumulated depreciation and any impairment in value. Freehold land and construction work in progress is not depreciated. Expenditure on maintenance and repairs is expensed, while expenditure for betterment including borrowing costs that are directly attributable to the acquisition, construction for long period or production of a qualifying asset is capitalized. Depreciation is provided over the estimated useful lives of the applicable assets using the straight line method. The estimated useful lives of the principal classes of assets are as follows:

	<i>Years</i>
Plant and machinery	10 – 25
Buildings	2 – 33.3
Vehicles	4
Catalyst & tools	1 – 10
Computer, furniture, fixtures and office equipment	1 – 10

Intangible assets

Intangible assets mainly represent turnaround maintenance costs, upfront fees paid for existing long term off-take agreement and other deferred charges. The planned turnaround costs are deferred and amortized over the year 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. Other deferred charges are amortized over the estimated period of the benefits.

Business combination and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any minority interests in the acquiree. For each business combination, the acquirer measures the minority interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Goodwill is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the consolidated statement of income.

At 31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combination and goodwill (continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units, or Groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or Groups of units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed off, the goodwill associated with the operation disposed off is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed off in this circumstance is measured based on the relative values of the operation disposed off and the portion of the cash-generating unit retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognised in the consolidated statement of income.

Impairment of non-current assets

At each balance sheet date, the Group reviews the carrying values of its non-current assets other than goodwill to determine whether there is any indication that those assets have suffered impairment. If such indicators exist, the recoverable amount of the asset is estimated in order to determine the extent of impairment (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

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

Goodwill is tested for impairment at least annually, by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (group of cash-generating units) to which goodwill has been allocated, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

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

Employee's terminal benefits

Provision is made for amounts payable under the employment contracts applicable to employee's accumulated years of service at the consolidated balance sheet date.

Provision for obligations

A provision is recognized when the Group has a legal or constructive obligation as a result of a past event, and the settlement of such obligations is probable and can be measured reliably.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Zakat and foreign taxes

The Group is subject to zakat regulations in the Kingdom of Saudi Arabia. Foreign income tax is also provided for in accordance with foreign fiscal authorities in which the Group's foreign subsidiaries operate. Zakat and income tax are provided on an accrual basis. Any difference between the estimated zakat and foreign income tax for the year and the zakat and foreign income tax provision that is calculated based on the detailed zakat basis at year end are accounted for at the end of the year. The zakat and foreign income tax charge in the consolidated financial statements represents the zakat for the Company, the Company's share of zakat in subsidiaries and foreign income tax for foreign subsidiaries. The zakat charge and income tax, assessable on the minority shareholders, is included in minority interest.

Statutory reserve

In accordance with Saudi Arabian Regulations for Companies, the Company must set aside 10% of its net income in each year until it has built up a reserve equal to one half of the capital. The reserve is not available for distribution.

Reserve for the results of sale of shares in subsidiaries

The gains or losses resulting from sale of shares in subsidiaries, when the Group continues to exercise control over the respective subsidiary, are booked in the reserve for the results of sale of shares in subsidiaries.

Derivative financial instruments

Derivative financial instruments are initially recorded at cost and are re-measured to fair value at subsequent reporting dates. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in the consolidated statement of income as they arise.

A fair value hedge is a hedge of the exposure to changes in fair value of an asset or liability that is already recognized in the consolidated balance sheet. The gain or loss from the change in the fair value of the hedging instrument is recognized immediately in the consolidated statement of income. At the same time, the carrying amount of the hedged item is adjusted for the corresponding gain or loss since the inception of the hedge, which is also immediately recognized in the consolidated statement of income.

A cash flow hedge is a hedge of the exposure to variability in cash flows relating to a recognized asset or liability, an unrecognized firm commitment or a forecasted transaction. To the extent that the hedge is effective, the portion of the gain or loss on the hedging instrument is recognized initially directly in equity. Subsequently, the amount is included in the consolidated statement of income in the same year or years during which the hedged item affects net profit or loss. For hedges of forecasted transactions, the gain or loss on the hedging instrument will adjust the recorded carrying amount of the acquired asset or liability.

Foreign currency transactions

Foreign currency transactions are translated into Saudi Riyals at the rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies at the consolidated balance sheet date are translated at the exchange rates prevailing at that date. Gains and losses from settlement and translation of foreign currency transactions are included in the consolidated statement of income.

Financial statements of foreign operations are translated into Saudi Riyals using the exchange rate at the balance sheet date for assets and liabilities and the average exchange rate for revenues, expenses, gains and losses. Components of equity, other than retained earnings, are held at the historical rates. Translation adjustments are recorded as a separate component of consolidated shareholders' equity. Translation loss that is considered permanent is charged to the consolidated statement of income.

Saudi International Petrochemical Company
(Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
At 31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing

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. Assets held under capital leases are recognized as assets of the Group at the lower of the present value of the minimum lease payments or the fair market value of the assets at the inception of the lease. Finance costs, which represent the difference between the total leasing commitments and the lower of the present value of the minimum lease payments or the fair market value of the assets at the inception of the lease, are charged to the consolidated statement of income over the term of the relevant lease in order to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Rentals payable under operating leases are charged to the consolidated statement of income on a straight line basis over the term of the operating lease.

Segmental Analysis

A segment is a distinguishable component of the group that is either engaged in providing products or services (a business segment) or in providing products or services within a particular economic environment (a geographical segment) which is subject to risks and rewards that are different from those of other segments.

Earnings per share

Earnings per share from net income is calculated by dividing the net income for the year by the weighted average number of shares outstanding during the year.

Earnings per share from main operations is calculated by dividing income from main operations for the year by the weighted average number of shares outstanding during the year.

3. CASH AND CASH EQUIVALENTS

	2013 SR	2012 SR
Murabaha deposits	1,971,037,113	1,998,896,408
Bank balances and cash	<u>886,566,694</u>	<u>1,054,557,928</u>
	<u>2,857,603,807</u>	<u>3,053,454,336</u>

4. ACCOUNTS RECEIVABLE, PREPAYMENTS AND OTHER RECEIVABLES

	2013 SR	2012 SR
Trade account receivables	1,087,813,095	670,711,272
Deposits, prepayments and other receivables	<u>226,517,618</u>	<u>186,508,040</u>
	<u>1,314,330,713</u>	<u>857,219,312</u>

Saudi International Petrochemical Company
(Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
At 31 December 2013

5. INVENTORIES

	<i>2013</i>	<i>2012</i>
	<i>SR</i>	<i>SR</i>
Spare parts	146,209,300	137,683,476
Finished goods	118,714,576	133,336,058
Raw materials	<u>37,802,556</u>	<u>6,936,644</u>
	<u>302,726,432</u>	<u>277,956,178</u>

The spare parts inventory primarily relates to plant and machinery and, accordingly, this inventory is expected to be utilized over a period exceeding one year.

Saudi International Petrochemical Company
(Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2013

6. PROPERTY, PLANT AND EQUIPMENT

	Plant & equipment SR	Land & buildings SR	Catalyst & tools SR	Vehicles, computer, furniture, fixtures & office equipment SR	Construction work in progress SR	Total	
						2013 SR	2012 SR
Cost:							
At the beginning of the year	9,809,297,211	174,005,185	238,089,226	73,688,094	2,346,712,825	12,641,792,541	11,362,289,007
Additions	155,659,220	2,017,328	44,906,276	957,473	1,192,317,407	1,395,857,704	1,306,292,929
Transfers	259,033,876	15,599,638	25,622,659	391,601	(300,647,774)	-	-
Transfer to intangible assets (note 9)	-	-	-	-	(1,158,336)	(1,158,336)	(6,527,938)
Disposals	(31,452,903)	-	-	-	-	(31,452,903)	(20,261,457)
Write-off	-	-	(7,649,148)	-	-	(7,649,148)	-
At the end of the year	10,192,537,404	191,622,151	300,969,013	75,037,168	3,237,224,122	13,997,389,858	12,641,792,541
Depreciation:							
At the beginning of the year	1,686,406,707	19,992,983	234,957,636	51,508,022	-	1,992,865,348	1,554,587,492
Charge for the year	393,245,421	5,165,423	63,485,168	6,407,238	-	468,303,250	458,302,209
Disposals	(7,266,927)	-	-	-	-	(7,266,927)	(20,024,353)
Write-off	-	-	(3,968,743)	-	-	(3,968,743)	-
At the end of the year	2,072,385,201	25,158,406	294,474,061	57,915,260	-	2,449,932,928	1,992,865,348
Net book value:							
At 31 December 2013	8,120,152,203	166,463,745	6,494,952	17,121,908	3,237,224,122	11,547,456,930	10,648,927,193
At 31 December 2012	8,122,890,504	154,012,202	3,131,590	22,180,072	2,346,712,825	-	-

As at 31 December 2013, property, plant and equipment include plant and equipment held under capital lease obligations which have a cost of SR 535.1 million (2012: SR 535.1 million) and accumulated depreciation of SR 216 million (2012: SR 195.9 million).

The property, plant and equipment are constructed over a land in Jubail Industrial City leased from the Royal Commission for Jubail and Yanbu' for 30 years commencing on 16 Muharram 1423H corresponding to 30 March 2002. The lease agreements are renewable upon the two parties agreement.

Saudi International Petrochemical Company
(Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2013

6. PROPERTY, PLANT AND EQUIPMENT (continued)

Some of the Group's property, plant and equipment which has a net book value of SR 6,433 thousands (2012: SR 7,312 thousands) are pledged as security against Saudi Industrial Development Fund loans, Public Investment Fund loans and commercial loans (note 13).

Construction work in progress is stated at cost and is comprised of construction costs under various agreements and directly attributable costs to bring the asset for its intended use which also includes costs of testing to ensure the asset is functioning properly, and after deducting net proceeds from the sale of production generated during the testing phase. Directly attributable costs includes employee benefits, site preparation costs, installation costs, licensing fees, professional fees and borrowing costs.

Borrowing costs relating to IDC, IPC, SCC and GACI projects were capitalized during the year with an amount of SR 86.5 million (2012: SR 98.1 million).

7. PROJECTS' DEVELOPMENT COSTS

The movement in the projects' development costs is as follows:

	2013 SR	2012 SR
At the beginning of the year	252,576,753	184,868,636
Additions during the year	220,745,646	88,360,609
Transfer to intangible assets (note 9)	-	(20,652,492)
	<u>473,322,399</u>	<u>252,576,753</u>

8. GOODWILL

Pursuant to board resolutions of the Group, Sipchem European Operations was formed where Sipchem Marketing and Servicers Company acquired 100% of the voting shares of Aectra SA (a subsidiary of Sipchem Europe Cooperatief U.A) on 31 December 2011, an unlisted company registered in Switzerland. Accordingly, the balance sheet of Aectra SA has been consolidated in these consolidated financial statements.

The acquisition amount of SR 105.7 million is inclusive of SR 75.8 million cash and SR 4 million of other working capital and also an amount of SR 33.9 million for valuation premium including contingent consideration reflected as goodwill on the acquisition date.

During 2012, the Group completed purchase price allocation exercise on acquisition of Aectra SA. In accordance with the exercise, the Group identified and reclassified to intangible assets SR 4.4 million related to customers relationship and this amount is being amortised over the life of 3 years. The excess amount over the net book value of SR 29.5 million is reflected as goodwill as shown in the consolidated balance sheet and is subject to impairment testing.

Saudi International Petrochemical Company
(Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
At 31 December 2013

9. INTANGIBLE ASSETS

	2013 SR	2012 SR
Cost:		
At the beginning of the year	168,088,414	81,912,419
Additions	183,125,438	54,556,806
Transfers (notes 6, 7 & 8)	<u>1,158,336</u>	<u>31,619,189</u>
At the end of the year	<u>352,372,188</u>	<u>168,088,414</u>
Amortization:		
At the beginning of the year	98,839,018	42,749,235
Charge for the year	89,767,857	56,089,783
Transfers	<u>-</u>	<u>-</u>
At the end of the year	<u>188,606,875</u>	<u>98,839,018</u>
Net book value:		
At the end of the year	<u>163,765,313</u>	<u>69,249,396</u>

The Group paid an amount of SR 37.5 million during the year, as upfront fees to an existing long term off-take agreement. The amount is amortized over the remaining useful life of the agreement.

10. ACCOUNTS PAYABLE, OTHER PAYABLES AND PROVISIONS

	2013 SR	2012 SR
Accrued expenses	380,798,815	402,881,721
Trade accounts payable	168,937,676	115,204,925
Zakat provision	90,916,032	74,299,953
Retentions	36,156,156	86,275,606
Other payables	<u>70,880,635</u>	<u>67,565,610</u>
	<u>747,689,314</u>	<u>746,227,815</u>

11. ADVANCES FROM PARTNERS

The partners of IDC, IAC, IVC, IGC, IPC, SCC and GACI have agreed to contribute long term advances to finance certain percentage of their projects' costs as per the joint venture agreements. As per the joint venture agreements, long term partners' advances shall be repaid after the repayment of external indebtedness and funding of reserve accounts.

During the year partial settlement was made by IDC to the partners. At 31 December 2013, the Company and the minority partners had long term advances of SR 1,897 million and SR 392 million, respectively (2012: SR 1,715.1 million and SR 414.3 million, respectively). The Company and the minority partners have also made short term advances of SR 591.5 million and SR 75.4 million, respectively (2012: SR 204.8 and SR 93.5 million, respectively). The long term advances do not carry any financial charges except IPC whereas the short term advances carry financial charges at normal commercial rates.

The minority partners in both IAC and IVC made contributions lesser than their prorated ownership percentage which lead in diluting their share from these two investments share of results. The articles of association of the two companies have not been updated yet.

Saudi International Petrochemical Company
(Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2013

12. BANK FACILITIES

The Group has short term facilities with local commercial banks including bank overdrafts, guarantees, letters of credit, and other facilities. The facilities are secured by corporate guarantees.

13. LONG TERM LOANS

	2013 SR	2012 SR
Saudi Industrial Development Fund loans (note a)	1,550,540,000	1,702,540,000
Syndicated bank loans (note b)	2,639,374,198	1,607,385,071
Public Investment Fund loans (note c)	<u>1,581,500,000</u>	<u>1,156,875,000</u>
	5,771,414,198	4,466,800,071
Less: current portion of long term loans	<u>(416,510,465)</u>	<u>(489,940,823)</u>
	<u>5,354,903,733</u>	<u>3,976,859,248</u>

- a) The Saudi Industrial Development Fund (SIDF) granted loans to IDC, IAC, IVC, IGC, IPC and SCC. These loans are secured by partners' guarantees proportionate to their shareholding and a first priority mortgage on all present and future assets. The loans are repayable in unequal semi-annual installments. The loan agreements include covenants to maintain financial ratios during the loans period. Management and follow up fees are charged to the loans as stated in the loan agreements.
- b) The Group entered into credit facility agreements with syndicates of financial institutions. The loans are secured by partners' guarantees and a second priority mortgage on the assets already mortgaged to SIDF. Under a partner support agreement for the projects financing, the partners are obligated following completion of a project to provide a letter of credit for support of operations during the life of the loans. The loans are repayable in unequal semi-annual installments. The agreements include covenants to maintain certain financial ratios and also require maintenance of certain restricted bank accounts. The loans carry financial charges at LIBOR plus a variable margin. During the year, there were several refinancing's which provided for reduced scheduled repayments via an extension of loan tenor. IAC, IVC, and IGC restructured its commercial loan facility providing an additional 5 year loan tenor, conversion of LIBOR to SIBOR, and the reduction in loan margin. IDC refinanced its commercial bank providing for an additional 6 years loan repayments, conversion of LIBOR to SIBOR, reduction in loan margin, and the ability to borrow for expansion purposes with a 10 year loan tenor in the amount of SR 525 million. The above amount includes a balance of SR 300 million of revolving loan with a local commercial bank.
- c) The Public Investment Fund (PIF) granted loans to IDC, IAC, IVC and IGC to finance the construction of the plants of these companies. The obligation under this loan agreement at all times ranks at pari passu with all other creditors. The loans are repayable in unequal semi-annual installments other than that of IDC loan which is repayable in equal semi-annual installments. The agreements include covenants to maintain certain financial ratios. The loans carry financial charges at LIBOR plus a fixed margin. The loan agreements require the companies to enter into an interest rate swap contract to cap the financial charges associated with the PIF loans. During the current year, PIF granted a new loan to IPC with an amount of SR 704 million. The loan is repayable on 26 equal semi-annual installments, the loan carry financial charges at SIBOR plus a fixed margin.

Saudi International Petrochemical Company
(Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
At 31 December 2013

13. LONG TERM LOANS (continued)

The combined repayment schedule for the long term loans is as follow:

	<i>2013</i>	<i>2012</i>
	<i>SR</i>	<i>SR</i>
2013	-	489,940,823
2014	416,510,465	564,125,379
2015	526,325,855	659,800,104
2016	653,710,698	703,007,423
2017	725,021,389	695,823,936
After	<u>3,449,845,791</u>	<u>1,354,102,406</u>
	<u>5,771,414,198</u>	<u>4,466,800,071</u>

Saudi International Petrochemical Company
(Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2013

14. SUKUK

On 27 November 2010, the Extraordinary General Assembly has approved the issue of Islamic Modaraba Bonds ("Sukuk") so as to be in compliance with Shari'a Laws, for the purpose of financing the capital expansions of the new projects. The Company obtained the approval of the Capital Market Authority for Sukuk issuance during the second quarter of 2011 and the first issuance completed at 29 June 2011 for an amount of SR 1,800 million which will be for five years and carry an interest rate equal to SIBOR plus a profit margin of 1.75% per annum payable at the end of each quarter.

15. OBLIGATIONS UNDER CAPITAL LEASE

	2013 SR	2012 SR
Minimum lease payments (fixed and variable rental payments)	356,250,599	418,048,350
Less: variable rental payments	<u>(45,872,219)</u>	<u>(59,507,810)</u>
	310,378,380	358,540,540
Less: Payments made during the year	<u>(55,378,380)</u>	<u>(48,162,160)</u>
Present value of minimum lease payments	255,000,000	310,378,380
Less: current portion of obligations under capital lease	<u>-</u>	<u>(58,864,865)</u>
	<u>255,000,000</u>	<u>251,513,515</u>
Future minimum lease payments:		
Within a year	-	58,864,865
More than one year and less than five years	109,650,000	251,513,515
More than five years	<u>145,350,000</u>	<u>-</u>
	<u>255,000,000</u>	<u>310,378,380</u>

IMC entered into an Islamic lease agreement with a syndicate of financial institutions for the purpose of converting a commercial loan into an Islamic mode of financing. IMC has the right to purchase property and equipment leased for a nominal fee at the end of the leasing agreement. The company's commitment under the lease is secured by the lessor's ownership of the leased assets.

During the year, the Group refinanced its capital lease obligation with a new Islamic loan facility providing an extension of loan tenor for an additional 6 years, conversion from LIBOR to SIBOR, reduction in loan margin.

16. EMPLOYEES' TERMINAL BENEFITS

	2013 SR	2012 SR
At the beginning of the year	82,545,023	65,927,288
Provision made during the year	23,200,489	27,604,211
Payments made during the year	<u>(5,962,423)</u>	<u>(10,986,476)</u>
At the end of the year	<u>99,783,089</u>	<u>82,545,023</u>

**Saudi International Petrochemical Company
(Saudi Joint Stock Company)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
At 31 December 2013

17. INTEREST RATE SWAP AGREEMENTS

As at 31 December 2013, IDC, IAC, IVC and IGC (collectively the "subsidiaries") had interest rate swap ("IRS") contracts with local commercial banks in relation to the loans obtained from Public Investment Fund and syndicated commercial loans as required by the loan agreements. At 31 December 2013, the notional amount of IRS contracts was SR 1,333 million (31 December 2012: SR 1,599 million).

The fair value of the interest rate swap has declined as of 31 December 2013 compared to the contract date by SR 71.8 million (31 December 2012: SR 130.6 million). The Group share amounted to SR 55 million (31 December 2012: SR 99.4 million), which has been recorded in shareholders' equity. This amount represents what has to be paid in case the Groups' management decides to cancel the agreements. However, the Group's management has no intention to cancel the agreements. In case of the increase in the interest rates, this difference will be eliminated and may become positive during the agreement term.

18. SHARE CAPITAL

Share capital of the Company amounted to SR 3,666,666,660 (2012: SR 3,666,666,660) is divided into 366,666,666 shares of SR 10 each (2012: 366,666,666 shares of SR 10 each).

19. RESERVE FOR THE RESULTS OF SALE OF SHARES IN SUBSIDIARIES

This reserve represents the difference between the fair value of the consideration received and the amount of the change in minority interests upon the sale of shares in certain subsidiaries without the Group losing its control over it.

20. DIVIDENDS

The General Assembly of the Company, in its meeting held on 16 March 2013, approved the distribution of cash dividends amounting to SR 458.3 million, i.e. SR 1.25/ share, equivalent to 12.5% of the share capital for shareholders in records at the date of the General Assembly. Out of the approved dividends of SR 458.3 million, interim dividends of SR 183.3 million have already been distributed during 2012 and the remaining dividends of SR 275 million was distributed during the first quarter of 2013.

On 14 July 2013, the board of directors proposed to distribute interim cash dividends for the first half of the year 2013 amounting to SR 220 million i.e. SR 0.6 per share, equivalent to 6% of the share capital. These dividends have been distributed during August 2013.

The board of directors in their meeting held on 3 December 2013 proposed to distribute cash dividends amounting to SR 238.3 million i.e. SR 0.65 per share, equivalent to 6.5% of the share capital for the approval of the General Assembly in their next meeting which is expected to be held on March 2014. Distributions will be made to the shareholders registered on the closing of the General Assembly meeting day.

Saudi International Petrochemical Company
(Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2013

21. MINORITY INTERESTS

	<i>2013</i> <i>SR</i>	<i>2012</i> <i>SR</i>
International Methanol Company	497,265,637	438,565,401
International Diol Company	386,470,742	361,339,690
International Acetyl Company	225,091,878	216,084,552
International Polymers Company	176,781,663	176,102,691
International Vinyl Acetate Company	155,099,740	153,854,658
International Gases Company	144,262,739	134,871,173
Gulf Advanced Cables Insulation Company	28,842,631	28,675,038
Saudi Specialized Products Company	14,000,000	-
	<u>1,627,815,030</u>	<u>1,509,493,203</u>

22. RELATED PARTY TRANSACTIONS

Related parties represent major shareholders, directors and key management personnel of the Group, and entities controlled or significantly influences by such parties. Material related party transactions occurred during the year were as follows:

- Foreign partners to the Company marketed part of the Group's products. Total sales made through those foreign partners amounted to SR 1,710 million (2012: SR 1,796 million).
- One of the subsidiaries bought certain fixed assets from one of the foreign partners. Total purchases of fixed assets from the foreign partner during the year amounted to SR 20.7 million (2012: SR 12.2 million).
- The Company and the minority partners granted advances to the companies of the Group to support their operations and comply with debt covenants. Some of the long term advances do not carry any financial charges and have no specific maturity dates, while other long term advances and the short term advances carry financial charges at normal commercial rates (note 11).

The prices and terms of the above transactions were approved by the Board of Directors of the companies of the Group.

23. GENERAL AND ADMINISTRATIVE EXPENSES

	<i>2013</i> <i>SR</i>	<i>2012</i> <i>SR</i>
Employee costs	88,275,948	90,863,834
Depreciation	14,737,019	9,316,422
Expenses of board of directors and board meetings for the Group	2,042,077	1,819,208
Others	31,479,497	29,669,012
	<u>136,534,541</u>	<u>131,668,476</u>

Saudi International Petrochemical Company
(Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2013

24. ZAKAT

Zakat charge:

The zakat charge consists of:

	2013 SR	2012 SR
Current year provision	<u>55,205,996</u>	<u>71,517,348</u>

The zakat charge for the Group was as follows:

	2013 SR	2012 SR
Current year zakat charge of the Company	34,000,000	53,684,650
Company's share in the zakat and income taxes of foreign subsidiaries	21,205,996	17,832,698
Charge in consolidated statement of income	<u>55,205,996</u>	<u>71,517,348</u>

Movement in zakat provision

The movement in the zakat provision was as follows:

	2013 SR	2012 SR
At the beginning of the year	74,299,953	57,008,007
Provision for the year	55,205,996	71,517,348
Payments made during the year	<u>(38,589,917)</u>	<u>(54,225,402)</u>
At the end of the year	<u>90,916,032</u>	<u>74,299,953</u>

Status of zakat assessments

The Company received zakat assessments for the years 2007 to 2010 with additional zakat liability of SR 118.3 million including additional assessments for the years 2007 and 2008. The Company does not agree with the additional liability and has filed appeals against these assessments and additional assessments for the years 2007 and 2008. The PAC ruled in favor of DZIT in respect Company's appeal against the DZIT's additional assessments for the years 2007 and 2008. The Company does not agree with the PAC decision and intends to file an appeal with HAC.

The IGC has received zakat assessments for the years 2008 to 2010 with additional zakat liability of SR 3.4 million including additional assessments for the years 2008 to 2010. The company has accepted the assessments and the additional liability will be settled shortly.

The IMC received withholding tax assessment for the years 2007 to 2012 for the delay fines of SR 17.7 million. The company does not agree with the delay fines and has filed an appeal against these assessments.

All of the other companies within the Group submitted their tax and zakat declarations up to 2012 which is still subject to the DZIT review.

Saudi International Petrochemical Company
(Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2013

25. OPERATING LEASE ARRANGEMENTS

	<i>2013</i>	<i>2012</i>
	<i>SR</i>	<i>SR</i>
Payments under operating leases recognized as an expense during the year	<u>2,165,207</u>	<u>2,165,207</u>

The main leases are with the Royal Commission and the Port Authority. The lease with the Royal Commission is for an initial term of 30 Hijra years and is renewable upon the agreement of the two parties.

The minimum lease payments under non-cancellable operating leases are as follows:

	<i>2013</i>	<i>2012</i>
	<i>SR</i>	<i>SR</i>
Less than one year	2,165,207	2,165,207
Year two	2,165,207	2,165,207
Year three	2,165,207	2,165,207
Year four	2,165,207	2,165,207
Year five	2,165,207	2,165,207
More than five years	<u>28,505,523</u>	<u>30,670,730</u>
Net minimum lease payments	<u>39,331,558</u>	<u>41,496,765</u>

26. CAPITAL COMMITMENTS

As at 31 December 2013, the Group had capital commitments amounting to SR 1,047 million (31 December 2012: SR 2,106 million).

27. CONTINGENCIES

Sipchem is currently in a dispute with the construction contractor of Sipchem's Research and Development Centre in Dhahran, Saudi Arabia after terminating the construction contract. This dispute has been referred to arbitration under the current Saudi Arabian Arbitration Regulation. While this arbitration is going on, Sipchem and the construction contractor have conducted series of negotiations for settling the dispute but without reaching any substantive results. The Arbitration Panel has recently appointed an Engineering firm to inspect the site and assess the extent of work which has been completed by the contractor. Sipchem believes that it will not be liable to any payments other than what has already been accrued by Sipchem for the work completed by the contractor.

Saudi International Petrochemical Company
(Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2013

28. SEGMENTAL ANALYSIS

	Petrochemical operations SR 000	Marketing activities SR 000	Total SR 000
<i>For the year ended 31 December 2013</i>			
Sales	3,208,188	797,445	4,005,633
Gross profit	1,273,403	25,177	1,298,580
Net assets	5,700,751	92,472	5,793,223
<i>For the year ended 31 December 2012</i>			
Sales	3,174,194	747,685	3,921,879
Gross profit	1,248,034	19,511	1,267,545
Net assets	5,550,220	75,611	5,625,831

Marketing activities include the marketing activities of Sipchem. These marketing activities support the customer development activities to enhance the Petrochemical operations.

No geographical segment disclosure has been prepared as 97% (2012: 97%) of sales are export sales.

29. RISK MANAGEMENT

Credit risk

Credit risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. In general most of the Group's sales are made to reputable customers and marketers. Cash is placed with local banks with sound credit rating.

Commission rate risk

Commission rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market commission rates. The Group is subject to commission rate risk on its commission bearing assets including bank deposits and its commission bearing liabilities including short term loans, long term loans, sukuk, and the obligations under capital lease. The Group has an interest rate swap contract to hedge against the variability of the commission on term loans.

Liquidity risk

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

Currency risk

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

There are transactional currency exposures also. Such exposures arise mainly from the sales or purchases made by foreign subsidiaries in currencies of their respective countries, which are not pegged with the functional currency of the Company.

Saudi International Petrochemical Company
(Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
At 31 December 2013

30. FAIR VALUES

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. The Group's financial assets consist of cash and cash equivalents and accounts receivable; its financial liabilities consist of accounts payable, short and long term advances from partners, bank overdrafts, term loans, sukuk, obligations under capital lease and interest rate swaps.

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

31. COMPARATIVE FIGURES

Certain of the prior year figures have been reclassified to conform with the presentation in the current year.