

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

**CONSOLIDATED FINANCIAL STATEMENTS AND
AUDITORS' REPORT
YEAR ENDED DECEMBER 31, 2014**

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

**CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' REPORT
YEAR ENDED DECEMBER 31, 2014**

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AUDITORS' REPORT

To the stockholders
Saudi International Petrochemical Company
Kingdom of Saudi Arabia

Scope of Audit

We have audited the consolidated balance sheet of Saudi International Petrochemical Company ("the Company"), a Saudi Joint Stock Company, and its subsidiaries (collectively "the Group") as of December 31, 2014 and the related consolidated statements of income, changes in stockholders' equity and cash flows for the year then ended and notes 1 to 33 which form an integral part of these consolidated financial statements as prepared by the Company in accordance with Article 123 of the Regulations for Companies and presented to us with all the necessary information and explanations. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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 statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Unqualified Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2014 and the consolidated results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting standards in the Kingdom of Saudi Arabia appropriate to the nature of the Group and comply with the relevant provisions of the Regulations for Companies and the articles of the Company as these relate to the preparation and presentation of these consolidated financial statements.

Deloitte & Touche
Bakr Abulkhair & Co.



Nasser M. Al-Sagga
License No. 322
20 Rabi' II, 1436
February 9, 2015



SAUDI INTERNATIONAL PETROCHEMICAL COMPANY
(SAUDI JOINT STOCK COMPANY)

CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2014

	Note	2014 SR	2013 SR
ASSETS			
Current assets			
Cash and cash equivalents	3	2,458,750,403	2,857,603,807
Accounts receivable, prepayments and other receivables	4	1,069,450,860	1,314,330,713
Inventories	5	532,008,409	302,726,432
Total current assets		4,060,209,672	4,474,660,952
Non-current assets			
Property, plant and equipment	6	12,888,114,174	11,547,456,930
Projects' development costs	7	62,160,218	473,322,399
Intangible assets	8	169,069,149	163,765,313
Goodwill	9	29,543,923	29,543,923
Total non-current assets		13,148,887,464	12,214,088,565
TOTAL ASSETS		17,209,097,136	16,688,749,517
LIABILITIES, STOCKHOLDERS' EQUITY AND NON-CONTROLLING INTERESTS			
Current liabilities			
Bank overdrafts	10	-	48,744,532
Current portion of long term loans	13	545,956,032	416,510,465
Current portion of obligations under capital lease	15	20,400,000	-
Accounts payable, accrued and other liabilities	11	915,009,956	744,465,823
Short term advances from partners	12	80,287,729	75,388,206
Total current liabilities		1,561,653,717	1,285,109,026
Non-current liabilities			
Long term loans	13	5,386,538,817	5,354,903,733
Sukuk	14	1,800,000,000	1,800,000,000
Obligations under capital lease	15	234,600,000	255,000,000
Long term advances from partners	12	58,981,712	392,077,039
Employees' benefits payable	16	136,728,449	103,006,580
Fair value of interest rate swaps	17	21,952,554	71,754,197
Other non-current liabilities	18	54,398,018	5,860,886
Total non-current liabilities		7,693,199,550	7,982,602,435
Total liabilities		9,254,853,267	9,267,711,461

SAUDI INTERNATIONAL PETROCHEMICAL COMPANY
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CONSOLIDATED BALANCE SHEET (Continued)
AS OF DECEMBER 31, 2014

	Note	2014 SR	2013 SR
Stockholders' equity and non-controlling interests			
Share capital	1	3,666,666,660	3,666,666,660
Statutory reserve	21	1,169,570,531	1,108,947,975
Reserve for the results of sale of shares in subsidiaries		48,893,677	48,893,677
Retained earnings		868,398,032	783,328,357
Proposed dividends	22	238,333,333	238,333,333
Net change in fair value of interest rate swaps	17	(16,952,840)	(54,992,116)
Foreign currency translation reserve		(6,411,004)	2,045,140
Total stockholders' equity		5,968,498,389	5,793,223,026
Non-controlling interests	23	1,985,745,480	1,627,815,030
Total stockholders' equity and non-controlling interests		7,954,243,869	7,421,038,056
TOTAL LIABILITIES, STOCKHOLDERS' EQUITY AND NON-CONTROLLING INTERESTS		17,209,097,136	16,688,749,517

The accompanying notes form an integral part of these consolidated financial statements

SAUDI INTERNATIONAL PETROCHEMICAL COMPANY
(SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 2014

	Note	2014 SR	2013 SR
Sales	20	4,124,406,137	4,071,609,554
Cost of sales		<u>(2,727,763,704)</u>	<u>(2,707,052,326)</u>
Gross profit		1,396,642,433	1,364,557,228
Selling, general and administrative expenses	24	<u>(218,793,573)</u>	<u>(202,511,556)</u>
Operating income		1,177,848,860	1,162,045,672
Investment income		9,146,003	17,091,938
Finance charges	10,13,14, 15	(156,151,501)	(171,308,067)
Other expenses, net	25	<u>(93,138,585)</u>	<u>(22,273,639)</u>
Income before non-controlling interests, zakat and foreign income tax		937,704,777	985,555,904
Non-controlling interests	23	<u>(244,582,325)</u>	<u>(309,900,853)</u>
Net income before zakat and foreign income tax		693,122,452	675,655,051
Zakat and foreign income tax	19	<u>(86,896,888)</u>	<u>(55,205,996)</u>
NET INCOME		<u>606,225,564</u>	<u>620,449,055</u>
Earnings per share			
Earnings per share from net income		<u>1.65</u>	<u>1.69</u>
Earnings per share from continuing main operations		<u>1.88</u>	<u>1.70</u>
Earnings per share from other operations		<u>(0.23)</u>	<u>(0.01)</u>
Weighted average number of shares outstanding		<u>366,666,666</u>	<u>366,666,666</u>

The accompanying notes form an integral part of these consolidated financial statements

SAUDI INTERNATIONAL PETROCHEMICAL COMPANY
(SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
YEAR ENDED DECEMBER 31, 2014

	Share capital	Statutory reserve	Reserve for the results of sale of shares in subsidiaries	Retained earnings	Proposed dividends	Net change in the fair value of interest rate swaps	Foreign currency translation reserve	Total
	SR	SR	SR	SR	SR	SR	SR	SR
January 1, 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 for 2013	-	-	-	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)	-	-	-	-
Dividends paid (note 22)	-	-	-	(495,000,000)	-	-	-	(495,000,000)
Proposed dividends (note 22)	-	-	-	(238,333,333)	238,333,333	-	-	-
Board of Directors' remuneration	-	-	-	(2,200,000)	-	-	-	(2,200,000)
December 31, 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
Net income for 2014	-	-	-	606,225,564	-	-	-	606,225,564
Net change in fair value of interest rate swaps	-	-	-	-	-	38,039,276	-	38,039,276
Net change in foreign currency translation reserve	-	-	-	-	-	-	(8,456,144)	(8,456,144)
Transfer to statutory reserve	-	60,622,556	-	(60,622,556)	-	-	-	-
Dividends paid (note 22)	-	-	-	(220,000,000)	(238,333,333)	-	-	(458,333,333)
Proposed dividends (note 22)	-	-	-	(238,333,333)	238,333,333	-	-	-
Board of Directors' remuneration	-	-	-	(2,200,000)	-	-	-	(2,200,000)
December 31, 2014	3,666,666,660	1,169,570,531	48,893,677	868,398,032	238,333,333	(16,952,840)	(6,411,004)	5,968,498,389

The accompanying notes form an integral part of these consolidated financial statements

**SAUDI INTERNATIONAL PETROCHEMICAL COMPANY
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**CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2014**

	2014 SR	2013 SR
OPERATING ACTIVITIES		
Net income before zakat and foreign income tax	693,122,452	675,655,051
Adjustments for:		
Depreciation and amortization	569,436,506	558,071,107
Employees' benefits payable, net	33,721,869	17,238,066
Finance charges	156,151,501	171,308,067
Non-controlling interests	244,582,325	309,900,853
Loss on disposal of property, plant and equipment	-	21,043,063
Property, plant and equipment written off	-	3,680,405
Investment income	(9,146,003)	(17,091,938)
Changes in operating assets and liabilities:		
Accounts receivable, prepayments and other receivables	244,879,853	(453,968,488)
Inventories	(229,281,977)	(24,770,254)
Accounts payable, accrued and other liabilities	188,845,100	(18,529,554)
Cash from operations	1,892,311,626	1,242,536,378
Finance charges paid	(150,172,213)	(257,762,488)
Zakat and income tax paid	(62,640,011)	(38,589,917)
Net cash from operating activities	1,679,499,402	946,183,973
INVESTING ACTIVITIES		
Additions to property, plant and equipment	(1,026,804,197)	(1,309,403,283)
Additions to intangible assets	(59,230,704)	(183,125,438)
Projects' development costs, net	(418,200,504)	(220,745,646)
Investment income received	9,146,003	17,091,938
Net cash used in investing activities	(1,495,089,402)	(1,696,182,429)
FINANCING ACTIVITIES		
Change in bank overdraft, net	(48,744,532)	48,744,532
Long term loans, net	161,080,651	1,304,614,127
Repayment of obligations under capital lease	-	(55,378,380)
Advances from partners	(328,195,804)	(40,397,454)
Change in non-controlling interests	101,585,758	(205,877,332)
Dividends paid	(458,333,333)	(495,000,000)
Board of Directors' remuneration paid	(2,200,000)	(2,200,000)
Net cash (used in) from financing activities	(574,807,260)	554,505,493
Net change in cash and cash equivalents	(390,397,260)	(195,492,963)
Cash and cash equivalents, January 1	2,857,603,807	3,053,454,336
Foreign currency translation reserve	(8,456,144)	(357,566)
CASH AND CASH EQUIVALENTS, DECEMBER 31	2,458,750,403	2,857,603,807

Non-cash transactions (note 27)

The accompanying notes form an integral part of these consolidated financial statements

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014**

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 number 1010156910 dated 14 Ramadan, 1420, corresponding to December 22, 1999. The Company’s head office is in the city of Riyadh with one branch in Al-Khobar, where the headquarters for the executive management is located, which is registered under commercial registration number 2051023922 dated 30 Shawwal, 1420, corresponding to February 6, 2000, and a branch in Jubail Industrial City which is registered under commercial registration number 2055007570 dated 4 Jumada I, 1427, corresponding to June 1, 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.

As of December 31, 2014 and 2013, share capital of the Company amounted to SR 3,666,666,660 divided into 366,666,666 shares of SR 10 each.

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

	Effective ownership (%)	
	2014	2013
International Methanol Company (“IMC”)	65%	65%
International Diol Company (“IDC”)	53.91%	53.91%
International Acetyl Company (“IAC”)	76%	76%
International Vinyl Acetate Company (“IVC”)	76%	76%
International Gases Company (“IGC”)	72%	72%
Sipchem Marketing Company (“SMC”)	100%	100%
International Utility Company (“IUC”)	68.58%	68.58%
International Polymers Company (“IPC”)	75%	75%
Sipchem Chemical Company (“SCC”)	100%	100%
Sipchem Europe Cooperative U.A and its subsidiaries	100%	100%
Gulf Advanced Cable Insulation Company (“GACI”) (note 1)	50%	50%
Saudi Specialized Products Company (“SSPC”) (note 2)	75%	75%
Sipchem Asia PTE. Ltd. (note 3)	100%	100%

The principal activity of IMC is the manufacture and sale of methanol. IMC commenced its commercial operations in 2004.

The principal activity of IDC is the manufacture and sale of maleic anhydride, butanediol and tetra hydro furan. IDC commenced its commercial operation in 2006.

The principal activities of IAC and IVC are the manufacture and sale of acetic acid and vinyl acetate monomer respectively. IAC and IVC commenced their commercial activities in 2009.

The principal activity of IGC is the manufacture and sale of carbon monoxide. IGC commenced its commercial operations in 2009.

**SAUDI INTERNATIONAL PETROCHEMICAL COMPANY
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2014**

The principal activities of SMC and its subsidiary Sipchem Europe Cooperative U.A are to provide marketing services for the products manufactured by the group companies and other petrochemicals products.

The principal activity of IUC is to provide industrial utilities to the group companies.

The principal activity of IPC is to manufacture and sale of low density polyethylene (LDPE), polyvinyl acetate (PVAC) and polyvinyl alcohol (PVA). It is currently under trial production. IPC is expected to commence its commercial operation in the second quarter of 2015 after the successful commissioning, testing and completion of acceptance formalities with the main contractors.

The principal activity of SCC is the manufacture and sale of ethyl acetate, butyl acetate and polybutylene terephthalate. Ethyl acetate plant commenced its commercial operations in 2013 while polybutylene terephthalate plant is under development stage and expected to commence its commercial production in 2015.

The principal activity of GACI is the manufacture and sale of cross linked polyethylene and electrical connecting wire products. It is currently under trial production. GACI is expected to commence its commercial operation in the second quarter of 2015 after the successful commissioning, testing and completion of acceptance formalities with the main contractors.

The principal activities of SSPC Company is the manufacture and sale of Molds and Dies and related services as well as Production of EVA films. SSPC is under development stage and expected to commence its commercial production in 2015.

Note 1: Although the Company has only 50% share in GACI, the operations of Gulf Advances Cable Insulation Company are controlled by the Company effectively from the date of its commercial registration. Accordingly, the investee company is treated as a subsidiary of the Company.

Note 2: SSPC was formed during 2013 and its article of association is dated 12 Safar 1435, corresponding to December 15, 2013. The legal formalities relating to the establishment of the company have been completed in 2014.

Note 3: The investee company was incorporated during 2013 in Singapore, its article of association is dated 13 Jumada I, 1434, corresponding to March 25, 2013.

Sipchem signed a Memorandum of Understanding ("MOU") with Sahara Petrochemical company ("Sahara"), a Saudi Joint stock company, on December 4, 2013 to begin non-binding negotiations relating to the detailed terms of a proposed business merger between Sipchem and Sahara based on the principles of merger of equals (" the Proposed Merger").

Sipchem and Sahara have agreed that in the event the proposed merger occurs, it will be implemented by way of an exchange of shares and Sahara will become a subsidiary of Sipchem. As per the terms of proposed merger, Sipchem will issue 0.685 new shares for every one issued share in Sahara. As per the terms of the MOU, Sipchem and Sahara have agreed to continue to cooperate with each other to complete the financial, technical, commercial, market and legal due diligence, agree an integration plan and the governance and strategy for the combined group.

**SAUDI INTERNATIONAL PETROCHEMICAL COMPANY
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2014**

The Proposed Merger was subject to various conditions and approvals including, without limitation, the approval of the Capital Markets Authority (“CMA”), the approval at the general assembly for each of Sipchem and Sahara and the approval of the relevant Saudi Arabian Regulatory authorities.

During the second quarter of 2014, Sipchem and Sahara reached a conclusion that it would be difficult to implement the Proposed Merger under the current Regulatory Framework using a structure acceptable to both the companies. Therefore, Sipchem and Sahara, have decided to postpone the commercial negotiations related to the Proposed Merger for the time being and agreed to independently pursue their business and strategic objectives. As per the management of Sipchem, this decision is not expected to impact the operations of the Company or its financial results. All expenses incurred towards the Proposed Merger amounting to SR 37 million have been expensed and classified as part of other expenses, net.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia issued by the Saudi Organization for Certified Public Accountants (“SOCPA”). The significant accounting policies adopted by the Group are as follows:

Accounting convention

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

Use of estimates

The preparation of the 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 contingencies at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management’s best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Principles of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries which are controlled by the Company and are prepared for the same period using unified accounting policies. Control is achieved where the Group has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities. The consolidation of the subsidiaries’ financial statements in these consolidated financial statements starts from the date control is obtained by the Group 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 the Group are classified under non-controlling interests in these consolidated financial statements. All significant inter-group transactions, unrealized profit and balances between the Group companies have been eliminated in preparing the consolidated financial statements.

Revenue recognition

The Group markets their 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 and distribution. Adjustments are made as they become known to the Group. Both export and local sales are recognized at the time of delivery of the products.

Expenses

All period and marketing expenses other than costs of sales, finance charges and other expenses, net are classified as selling, general and administrative expenses.

SAUDI INTERNATIONAL PETROCHEMICAL COMPANY
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2014

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.

Inventories

Inventories comprise spare parts, finished goods and raw materials, 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, finished goods and raw materials are arrived at using the weighted average cost method. Appropriate provisions are made for slow moving items and damaged inventories.

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. Leasehold land and construction work-in-progress are not depreciated. Expenditure on maintenance and repairs is expensed while expenditure for improvement 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:

	<u>Years</u>
Plant and machinery	10 - 25
Buildings on leasehold land	2 - 33.3
Vehicles	4
Catalyst and tools	1 - 10
Computer, furniture, fixtures and office equipment	1 - 10

Projects' development costs

Projects' development costs represent mainly legal and feasibility related costs incurred by the Company 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.

Intangible assets

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

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2014**

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit.

Any impairment loss for goodwill is recognized directly as loss in the consolidated statement of income. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Impairment

At each consolidated balance sheet date, the Group reviews the carrying amounts of its non-current assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. 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.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately.

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 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 (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized as an income immediately.

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.

Zakat and foreign income tax

The Group is subject to zakat and income tax in accordance with the regulations of the Department of Zakat and Income Tax ("DZIT"). Zakat and income taxes are provided on an accruals basis. The zakat charge is computed on the higher of zakat base or adjusted net income. Any difference in the estimate is recorded when the final assessment is approved, at which time the provision is cleared. The zakat and foreign income tax charge in the consolidated statement of income represents the zakat for the Company and the Company's share of zakat in subsidiaries and the foreign income tax on foreign shareholders' income. The zakat and income tax assessable on the non-controlling shareholders are included in non-controlling interests.

Foreign income tax is provided for in accordance with foreign fiscal regulations in which the Group's foreign subsidiaries operate.

End-of-service indemnities

End-of-service indemnities, required by labor law, are provided in the consolidated financial statements based on the employees' length of service.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2014

Employee's saving plan

The Company maintains an employee's saving plan for Saudi employees. The contribution from the participants are deposited in separate bank account and liability is established for this contribution. The Company's contribution under the saving plan is charged to the consolidated statement of income.

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.

Dividends

Dividends are recorded in the consolidated financial statements in the period in which they are approved by the Annual General Assembly. Interim dividends are recorded as and when approved by the Board of Directors.

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 period or periods 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.

The results and financial position of a foreign subsidiaries having reporting currency other than Saudi Riyals are translated into Saudi Riyals as follows:

- (i) Assets and liabilities for the balance sheet are translated at the closing exchange rate at the date of that consolidated balance sheet;

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- (ii) Income and expenses for consolidated statement of income are translated at average exchange rates; and
- (iii) Components of the shareholders' equity accounts are translated at the exchange rates in effect at the dates of the related items originated.

Cumulative adjustments resulting from the translations of the financial instruments of the foreign subsidiaries into Saudi Riyals are reported as a separate component of consolidated stockholders' equity.

Dividends received from the foreign subsidiary are translated at the exchange rate in effect at the transaction date and related currency translation differences are realized in the consolidated statement of income.

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. 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 are computed by dividing net income for the period by the weighted average number of shares outstanding during the period.

Earnings per share from the continuing main operations are computed by dividing net income excluding investment income and other expenses, net for the period by the weighted average number of shares outstanding during the period.

Earnings per share from other operations are computed by dividing the sum of investment income and other expenses, net for the period by the weighted average number of shares outstanding during the period.

Weighted average number of outstanding shares as of December 31, 2014 and 2013 were 366,666,666 shares.

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3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash and bank balances, demand deposits, and highly liquid investments with original maturities of three months or less. As of December 31, 2014 and 2013, cash and cash equivalents comprises the following:

	2014	2013
	SR	SR
Cash and bank balances	1,154,644,410	886,566,694
Murabaha deposits	1,304,105,993	1,971,037,113
	<u>2,458,750,403</u>	<u>2,857,603,807</u>

4. ACCOUNTS RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES

	2014	2013
	SR	SR
Accounts receivable	861,519,582	1,087,813,095
Deposits, prepayments and other receivables	207,931,278	226,517,618
	<u>1,069,450,860</u>	<u>1,314,330,713</u>

5. INVENTORIES

	2014	2013
	SR	SR
Spare parts	191,589,899	146,209,300
Finished goods	316,279,678	118,714,576
Raw materials	24,138,832	37,802,556
	<u>532,008,409</u>	<u>302,726,432</u>

Spare parts are primarily related to property, plant and equipment and, are accordingly, expected to be utilized over more than one year.

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6. PROPERTY, PLANT AND EQUIPMENT

	Buildings on leasehold land SR	Plant and machinery SR	Catalysts and tools SR	Vehicles, computers, furniture, fixtures and office equipment SR	Construction work- in- progress SR	Total SR
Cost						
January 1, 2014	191,622,151	10,192,537,404	300,969,013	75,037,168	3,237,224,122	13,997,389,858
Additions	96,827	10,222,819	85,578,282	5,509,340	925,396,929	1,026,804,197
Transfers	951,096	133,710,959	30,466,747	14,368,370	611,508,388	791,005,560
Reclassification	-	(12,381,442)	12,381,442	-	-	-
Write-off	-	-	(88,356,621)	-	-	(88,356,621)
December 31, 2014	192,670,074	10,324,089,740	341,038,863	94,914,878	4,774,129,439	15,726,842,994
Depreciation						
January 1, 2014	25,158,406	2,072,385,201	294,474,061	57,915,260	-	2,449,932,928
Charge for the year	5,698,815	410,968,583	53,951,041	6,534,074	-	477,152,513
Reclassification	-	(12,381,442)	12,381,442	-	-	-
Write-off	-	-	(88,356,621)	-	-	(88,356,621)
December 31, 2014	30,857,221	2,470,972,342	272,449,923	64,449,334	-	2,838,728,820
Net book value						
December 31, 2014	161,812,853	7,853,117,398	68,588,940	30,465,544	4,774,129,439	12,888,114,174
December 31, 2013	166,463,745	8,120,152,203	6,494,952	17,121,908	3,237,224,122	11,547,456,930

As of December 31, 2014, property, plant and equipment includes plant and equipment held under capital lease obligation with a cost of SR 535.1 million (2013: SR 535.1 million) and accumulated depreciation of SR 236 million (2013: SR 216 million) (note 15).

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

Some of the Group's property, plant and equipment which has net book value of SR 6,259 million (2013: SR 6,433 million) are pledged as security against Saudi Industrial Development Fund loans, syndicated bank loans and Public Investment Fund loans (note 13).

As of December 31, 2014 and 2013, construction work-in-progress is comprised of construction costs of various plants under development stage (note 1) along with other support facilities. The assets are stated at cost, comprising construction costs under various agreements and directly attributable costs to bring the asset to the location and working condition necessary for it to be capable of operating in the manner intended by the management. Also included are 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 include employee benefits, site preparation costs, installation costs, licensing fees, professional fees and borrowing costs.

Borrowing costs relating to projects under development in IDC, IPC, SCC, SSPC and GACI have been capitalized during the year amounting to SR 77.1 million (2013: SR 86.5 million).

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7. PROJECTS' DEVELOPMENT COSTS

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

	2014 SR	2013 SR
January 1	473,322,399	252,576,753
Additions during the year	418,200,504	220,745,646
Transferred to property, plant and equipment (note 6)	(791,005,560)	-
Transferred to intangible assets (note 8)	(38,357,125)	-
December 31	<u>62,160,218</u>	<u>473,322,399</u>

8. INTANGIBLE ASSETS

	2014 SR	2013 SR
Cost		
January 1	352,372,188	168,088,414
Additions	59,230,704	183,125,438
Transfer (note 6,7)	38,357,125	1,158,336
December 31	<u>449,960,017</u>	<u>352,372,188</u>
Amortization		
January 1	188,606,875	98,839,018
Charge for the year	92,283,993	89,767,857
December 31	<u>280,890,868</u>	<u>188,606,875</u>
Net book value		
December 31	<u>169,069,149</u>	<u>163,765,313</u>

In 2013, the Group paid an amount of SR 37.5 million upfront fee to an existing long term off-take agreement. The amount is amortized over the remaining useful life of the agreement.

9. GOODWILL

Pursuant to board resolution of the Group, Sipchem European Operations was found where Sipchem Marketing and Services Company acquired 100% of the voting shares of Aectra SA (a subsidiary of Sipchem Europe Cooperatief U.A) on December 31, 2011, an unlisted company registered in Switzerland. Accordingly, the financial statements 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.

In 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 amortized 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.

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10. BANK FACILITIES

The Group obtained bank facilities (“the Facilities”) from local banks in the form of bank overdrafts, letters of credit and guarantee, and other facilities. The Facilities carry commission at the prevailing market rates. The Facilities are secured by corporate guarantees.

11. ACCOUNTS PAYABLE, ACCRUED AND OTHER LIABILITIES

	2014 SR	2013 SR
Accounts payable	111,764,848	168,937,676
Zakat and income tax (note 19)	124,280,164	100,023,287
Accrued expenses	423,665,808	380,798,815
Retentions payable	243,244,640	36,156,156
Others	12,054,496	58,549,889
	915,009,956	744,465,823

12. ADVANCES FROM PARTNERS

The partners of IAC, IVC, IGC, IPC, SCC, GACI, and SSPC have agreed to contribute long term advances to finance certain percentages 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 the reserve accounts.

In 2014, full settlement was made by IDC to the partners. As of December 31, 2014, the Company and the minority partners had long term advances of SR 596 million and SR 58.9 million respectively (2013: SR 1,897 million and SR 392 million respectively). The Company and the minority partners have also made short term advances of SR 240.9 million and SR 80.3 million, respectively (2013: SR 591.5 million and SR 75.4 million respectively). Some of the long term advances do not carry any finance charges and have no specific maturity dates, while other long term advances and the short term advances carry finance charges at normal commercial rates.

The minority partners in both IAC and IVC made contribution lesser than their prorated ownership percentage which lead in diluting their share from these two investments share of results. The Company’s share of long term and short term advances to the above mentioned subsidiaries amounting to SR 596 million and SR 240.9 million respectively (2013: SR 1,897 million and SR 591.5 million respectively) have been eliminated at the consolidated financial statements level.

13. LONG TERM LOANS

	2014 SR	2013 SR
Saudi Industrial Development Fund loans (note a)	1,664,092,000	1,550,540,000
Syndicate bank loans (note b)	1,419,396,000	2,639,374,198
Public Investment Fund loans (note c)	2,849,006,849	1,581,500,000
	5,932,494,849	5,771,414,198
Less: current portion	(545,956,032)	(416,510,465)
Non-current portion	5,386,538,817	5,354,903,733

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- a) The Saudi Investment Development Fund (“SIDF”) granted loans to IAC, IVC, IGC, IPC, SCC and GACL. These loans are secured by partners’ guarantees proportionate to their shareholdings 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 has 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 obliged 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 finance charges at SIBOR plus a variable margin. During 2013, several were refinanced which provided for reduced scheduled repayments via an extension for loan tenor. IAC, IVC and IGC restructured their commercial loan facilities providing an additional 5 year loan tenor, conversion of LIBOR to SIBOR, and the reduction in loan margin. IMC refinanced its loans for an additional 6 years of loan repayment with an additional SR 70 million to fund miscellaneous requirements. 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.
- c) The Public Investment Fund (“PIF”) granted loans to IAC, IVC, IGC and IPC to finance the construction of plants of these companies. The obligation under this loan agreements at all times ranks a pari passu with all other creditors. The loans are repayable in unequal semi-annual installments. The agreements includes covenants to maintain certain financial ratios. The loans carry financial charges at LIBOR / SIBOR plus a fixed margin. The loan agreements for IAC, IVC and IGC requires the companies to enter into an interest rate swap contract to cap the finance charges associated with PIF loans. In 2013, 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.

Aggregate maturities of the long term loans at December 31, 2014 were as follows:

	2014	2013
	SR	SR
2014	-	416,510,465
2015	545,956,032	526,325,855
2016	720,244,449	653,710,698
2017	788,933,553	725,021,389
2018	601,819,916	531,840,757
Above	3,275,540,899	2,918,005,034
	5,932,494,849	5,771,414,198

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14. SUKUK

On November 27, 2010, the Extraordinary General Assembly approved the issue of Islamic Modarba Bonds ("Sukuk") so as to be in compliance with Shari'a Laws, for the purpose of financing the capital expansion 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 on June 29, 2011 for an amount of SR 1,800 million which will be for five years and carry an interest rate to SIBOR plus a profit margin 1.75% per annum payable at the end of each quarter.

15. CAPITAL LEASE OBLIGATIONS

Commitments for minimum lease payments under capital leases are as follows:

	2014 SR	2013 SR
Minimum lease payments	255,000,000	255,000,000
Current portion	(20,400,000)	-
Non-current portion	234,600,000	255,000,000
Within one year	20,400,000	-
Later than a year and less than five years	117,300,000	109,650,000
Later than five years	117,300,000	145,350,000
	255,000,000	255,000,000
	2014 SR	2013 SR
Finance costs from capital leases recognized as an expense during the year	5,095,815	8,380,688

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 commitments under the lease is secured by the lessor's ownership of the leased assets.

In 2013, 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 and reduction in loan margin.

16. EMPLOYEES' BENEFITS PAYABLE

	2014 SR	2013 SR
End-of-service indemnities (note a)	130,465,812	99,783,090
Thrift plan (note b)	6,262,637	3,223,490
	136,728,449	103,006,580

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a) End-of-service indemnities

	2014	2013
	SR	SR
January 1	99,783,090	82,545,023
Provision for the year	36,228,200	23,200,490
Utilization of provision	(5,545,478)	(5,962,423)
December 31	130,465,812	99,783,090

b) Thrift plan

The Group maintains an employee's saving plan for Saudi employees. The contribution from the participants are deposited in separate bank account and liability is established for this contribution. The Group's contribution under saving plan is charged to the consolidated statement of income.

17. INTEREST RATE SWAPS CONTRACTS

As of December 31, 2014, IDC, IAC, IVC and IGC 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. As of December 31, 2014, the notional amount of IRS contracts was SR 1,075 million (December 31, 2013: SR 1,333 million).

The fair value of the interest rate swap has declined as of December 31, 2014 to SR 21.9 million (December 31, 2013: SR 71.8 million). The Group share amounted to SR 16.9 million (December 31, 2013: SR 55.0 million), which has been recorded in the consolidated statement of stockholders' 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. OTHER NON-CURRENT LIABILITIES

	2014	2013
	SR	SR
Product supply advance from customer (note a)	50,602,500	-
Others	3,795,518	5,860,886
	54,398,018	5,860,886

- a) In 2014, IGC entered into a Carbon Monoxide ("CO") supply an agreement with a customer to process the Natural Gas and supply of Carbon Monoxide. IGC has received an advance of USD 13.5 million, equivalent to SR 50.6 million, which will be adjusted against the agreed supply price of CO during the first sixty months from the commencement date of CO supply to the customer.

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19. ZAKAT AND INCOME TAX

The principal elements of the zakat base of the Group are as follows:

	2014	2013
	SR	SR
Non-current assets	13,148,887,464	12,214,088,565
Non-current liabilities	7,693,199,550	7,982,602,435
Opening shareholders' equity	5,793,223,026	5,625,830,847
Net income before non-controlling interest, zakat and income tax	937,704,777	985,555,904
Spare parts	191,589,899	146,209,300
Dividends paid	458,333,333	495,000,000

Some of these amounts have been adjusted in arriving at the zakat charge for the year.

The movements in zakat and income tax provisions are as follows:

	2014	2013
	SR	SR
Zakat		
January 1	100,023,287	83,407,208
Provision for the year	86,896,888	55,205,996
Payments during the year	(62,640,011)	(38,589,917)
December 31	124,280,164	100,023,287

The zakat charge for the Group was as follows:

	2014	2013
	SR	SR
Current year zakat charge for the Company	54,146,663	34,000,000
Company's share in the zakat and income taxes in subsidiaries	32,750,225	21,205,996
Charge to consolidated statement of income	86,896,888	55,205,996

Outstanding assessments

The Company received zakat assessments for the years 2007 to 2010 with additional zakat liability of SR 118.3 million. The Company does not agree with the additional liability and has appealed against these assessments. The Preliminary Appeal Committee ruled in favor of the DZIT in respect of the Company's appeal against the DZIT's these assessments. The Company does not agree with the Preliminary Appeal Committee decision and filed an appeal with the Higher Appeal Committee.

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

All of the other companies within the Group submitted their zakat and income tax declarations up to 2013 which are still subject to the DZIT review.

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20. RELATED PARTY TRANSACTIONS

Related parties represent associated companies, key personnel of the group, and entities controlled, jointly controlled or significantly influenced by such parties. The following are the details of major related party transactions during the year:

Foreign partners to the Company marketed part of the Group's products. Total sales made through those foreign partners amounted to SR 1,835 million (2013: SR 1,710 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 97.1 million (2013: SR 20.7 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 finance charges and have no specific maturity dates, while other long term advances and the short term advances carry finance charges at normal commercial rates (note 12).

Sipchem has allocated SR 114.2 million of its funds to IPC for the construction of its polymers plant. In exchange, during 2015 Sipchem will allocate costs of its Research and Development Centre to IPC.

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

Amounts due from / to related parties arising mainly as a result of the transactions listed above, are disclosed as part of current assets and current liabilities.

21. STATUTORY RESERVE

In accordance with Regulations for Companies in Saudi Arabia and Company's articles of association, the Company has established a statutory reserve by the appropriation of 10% of net income until the reserve equals 50% of the share capital. This reserve is not available for dividend distribution.

22. 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 per share, equivalent to 12.5% of the share capital for stockholders at the date of the General Assembly. Out of the approved dividends of SR 458.3 million, interim dividends of SR 183.3 million were distributed during 2012 and the remaining dividends of SR 275 million were distributed during the first quarter of 2013.

On July 14, 2013, the Board of Directors approved 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 were distributed during August 2013.

The Board of Directors in their meeting held on December 3, 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 that was approved by the stockholders in the General Assembly meeting held on March 16, 2014. The Company distributed such dividends during the quarter ended March 31, 2014.

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On June 26, 2014, the Board of Directors approved to distribute interim cash dividends for the first half of the year 2014 amounting to SR 220 million i.e. SR 0.6 per share, equivalent to 6% of the share capital and the Company distributed such dividends during the quarter ended September 30, 2014.

The Board of Directors in their meeting held on November 30, 2014 proposed to distribute final 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 in 2015. Distributions will be made to the shareholders registered on the closing of the General Assembly meeting day.

23. NON-CONTROLLING INTERESTS

	<u>2014</u> <u>SR</u>	<u>2013</u> <u>SR</u>
International Methanol Company	430,555,416	497,265,637
International Diol Company	347,542,566	386,470,742
International Acetyl Company	347,380,827	225,091,878
International Polymers Company	217,477,969	176,781,663
International Vinyl Acetate Company	338,749,620	155,099,740
International Gases Company	261,384,130	144,262,739
Gulf Advanced Cables Insulation Company	28,639,551	28,842,631
Saudi Specialized Products Company	14,015,401	14,000,000
	<u>1,985,745,480</u>	<u>1,627,815,030</u>

24. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	<u>2014</u> <u>SR</u>	<u>2013</u> <u>SR</u>
Employees' related costs	98,625,957	88,275,948
Selling and marketing expenses	63,382,893	65,977,015
Depreciation	11,102,923	14,737,019
Expenses of board of directors and board meetings for the Group	2,131,601	2,042,077
Others	43,550,199	31,479,497
	<u>218,793,573</u>	<u>202,511,556</u>

25. OTHER EXPENSES, NET

	<u>2014</u> <u>SR</u>	<u>2013</u> <u>SR</u>
Exchange loss (gain)	50,691,080	(6,424,667)
Proposed merger expenses (note 1)	37,500,000	7,170,056
Others expenses, net	4,947,505	21,528,250
	<u>93,138,585</u>	<u>22,273,639</u>

26. OPERATING LEASE ARRANGEMENTS

	<u>2014</u> <u>SR</u>	<u>2013</u> <u>SR</u>
Payments under operating leases recognized as an expense during the year	2,165,207	2,165,207

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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 Hijri years and is renewal upon the agreement of the two parties.

Commitments for minimum lease payments under non-cancelable operating leases are as follows:

	2014 SR	2013 SR
Not later 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
Later than five years	26,340,316	28,505,523
Total net minimum lease payments	37,166,351	39,331,558

27. NON-CASH TRANSACTIONS

	2014 SR	2013 SR
Receivables against disposals of property, plant and equipment	-	3,142,913
Transfer from property, plant and equipment to intangible assets	-	1,158,336
Transfer from projects' development costs to intangible assets	38,357,125	-
Transfer from projects' development costs to property, plant and equipment	791,005,560	-
Net changes in fair value of interest rate swaps	11,762,367	14,298,306

28. CONTINGENT LIABILITIES

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. The Arbitration Panel has appointed an independent Engineering firm to inspect the site and assess the extent of work which has been completed by the contractor. The Engineering firm has issued its final report and submitted to the Arbitration Panel. The Arbitration Panel is expected to take its final decision on the value of the work completed by the contractor and also its decision on the compensation for any party in 2015. The site has been handed over to Sipchem since February 2014 and construction work is ongoing.

Sipchem believes that it will not be liable to any payments other than what has already been accrued for the work completed by the contractor.

The Company has received zakat assessments for the years 2007 to 2010 with additional zakat liability of SR 118.3 million. The Company does not agree with the additional liability and filed appeals against these assessments.

In 2013, IMC received withholding tax assessments for the years 2007 to 2012 for the delay fines of SR 17.7 million. IMC does not agree with the delay fines and has filed an appeal against this assessment.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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29. COMMITMENTS AND CONTINGENCIES

As of December 31, the Company had the following commitments and contingencies:

	2014 SR	2013 SR
Letters of guarantees and credits	<u>773,627,852</u>	<u>592,605,968</u>
Capital commitments	<u>829,006,541</u>	<u>1,047,246,445</u>

30. SEGMENTAL ANALYSIS

	Petrochemical operations SR	Marketing activities SR	Total SR
2014			
Sales	3,399,955,384	724,450,753	4,124,406,137
Gross profit	1,378,762,900	17,879,533	1,396,642,433
Net assets	5,898,461,951	70,036,438	5,968,498,389
2013			
Sales	3,275,397,201	796,212,353	4,071,609,554
Gross profit	1,339,960,235	24,596,993	1,364,557,228
Net assets	5,699,605,335	93,617,691	5,793,223,026

Marketing activities include the marketing activities of Sipchem and its European subsidiary Aectra SA. These marketing activities support the customer development activities to enhance the Petrochemical operations.

No geographical segment disclosure has been prepared as significant portion of sales are export sales.

31. RISK MANAGEMENT

Commission rate risk

Commission rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market 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.

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. The Group seeks to manage its credit risk with respect to customers by monitoring outstanding receivables. Adequate allowances are made for debts considered doubtful. At the balance sheet date, no significant credit risk was identified by the management.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. The Group limits 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 invoice. Trade payables are normally settled within 45 to 120 days of the date of purchase.

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Group did not undertake significant transactions in currencies other than Saudi Riyals, US Dollars and Euro, during the year. As Saudi Riyal is pegged to US Dollar, balances in US Dollars are not considered to represent significant currency risk. The Group has not entered into any forward currency deals to cover the currency risk in Euro.

32. FAIR VALUE

The fair values of the Group's financial assets and liabilities approximate their carrying amounts.

33. COMPARATIVE FIGURES

Certain prior year figures have been reclassified to conform to the current year's presentation.