

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

**CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
AND AUDITORS' REPORT (LIMITED REVIEW)  
FOR THE THREE MONTHS ENDED MARCH 31, 2014**

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

**CONSOLIDATED INTERIM FINANCIAL STATEMENTS AND AUDITORS' REPORT  
(LIMITED REVIEW)  
FOR THE THREE MONTHS ENDED MARCH 31, 2014**

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## AUDITORS' REPORT (LIMITED REVIEW) ON CONSOLIDATED INTERIM FINANCIAL STATEMENTS

To the stockholders  
Saudi International Petrochemical Company  
Saudi Arabia

### Scope of Review


We have reviewed the consolidated interim balance sheet of Saudi International Petrochemical Company ("the Company"), a Saudi Joint Stock Company, and its subsidiaries as of March 31, 2014, and the related consolidated interim statements of income and cash flows for the three months then ended, and notes 1 to 8 which form an integral part of these consolidated interim financial statements as prepared by the Company and presented to us with all the necessary information and explanations. These consolidated interim financial statements are the responsibility of the Company's management.

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

### Review Results

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

Deloitte & Touche  
Bakr Abulkhair & Co.

  
Nasser M. Al-Sagga  
License No. 322  
9 Jumada II, 1435  
April 9, 2014



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

**CONSOLIDATED INTERIM BALANCE SHEET  
AS OF MARCH 31, 2014**

	2014 SR	2013 SR
	(Un-audited)	(Un-audited)
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	2,905,356,723	2,691,604,847
Accounts receivable, prepayments and other receivables	1,210,342,271	915,279,209
Inventories	321,044,577	260,135,169
<b>Total current assets</b>	<b>4,436,743,571</b>	<b>3,867,019,225</b>
<b>Non-current assets</b>		
Property, plant and equipment	11,724,263,208	10,919,394,609
Projects' development cost	558,752,417	291,566,655
Intangible assets	146,499,380	66,673,771
Goodwill	29,543,923	29,543,923
<b>Total non-current assets</b>	<b>12,459,058,928</b>	<b>11,307,178,958</b>
<b>TOTAL ASSETS</b>	<b>16,895,802,499</b>	<b>15,174,198,183</b>
<b>LIABILITIES, STOCKHOLDERS' EQUITY AND NON-CONTROLLING INTERESTS</b>		
<b>Current liabilities</b>		
Bank overdraft	329,798	150,040,000
Short term loans	257,447,500	-
Current portion of long term loans	477,527,184	391,212,920
Current portion of obligations under capital lease	-	64,216,215
Accounts payable, accrued and other liabilities	1,000,613,471	707,524,123
Short term advances from partners	92,812,624	76,099,689
<b>Total current liabilities</b>	<b>1,828,730,577</b>	<b>1,389,092,947</b>
<b>Non-current liabilities</b>		
Long term loans	5,320,150,333	4,152,442,134
Sukuk	1,800,000,000	1,800,000,000
Obligations under capital lease	255,000,000	219,405,407
Long term advances from partners	413,172,860	432,973,038
End-of-service indemnities	112,813,403	89,481,165
Fair value of interest rate swaps	57,977,761	114,051,523
Other non-current liabilities	12,027,668	9,235,860
<b>Total non-current liabilities</b>	<b>7,971,142,025</b>	<b>6,817,589,127</b>
<b>Total liabilities</b>	<b>9,799,872,602</b>	<b>8,206,682,074</b>

**SAUDI INTERNATIONAL PETROCHEMICAL COMPANY  
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**CONSOLIDATED INTERIM BALANCE SHEET (Continued)  
AS OF MARCH 31, 2014**

	Note	2014 SR	2013 SR
		(Un-audited)	(Un-audited)
<b>Stockholders' equity and non-controlling interests</b>			
Share capital	1	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		48,893,677	48,893,677
Retained earnings		849,784,721	749,910,480
Net change in fair value of interest rate swaps		(44,731,989)	(87,380,431)
Foreign currency translation reserve		(511,983)	1,074,840
<b>Total stockholders' equity</b>		<b>5,629,049,061</b>	<b>5,426,068,295</b>
Non-controlling interests		1,466,880,836	1,541,447,814
<b>Total stockholders' equity and non-controlling interests</b>		<b>7,095,929,897</b>	<b>6,967,516,109</b>
<b>TOTAL LIABILITIES, STOCKHOLDERS' EQUITY AND NON-CONTROLLING INTERESTS</b>		<b>16,895,802,499</b>	<b>15,174,198,183</b>

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

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

**CONSOLIDATED INTERIM STATEMENT OF INCOME**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2014**

	Note	2014 SR	2013 SR
		(Un-audited)	(Un-audited)
Sales	7	916,742,025	857,385,561
Cost of sales		<u>(694,094,625)</u>	<u>(676,843,627)</u>
<b>Gross profit</b>	7	222,647,400	180,541,934
General and administrative expenses		<u>(54,948,478)</u>	<u>(30,806,029)</u>
<b>Operating income</b>		167,698,922	149,735,905
Investment income		3,434,172	4,478,490
Finance charges		(40,226,945)	(41,892,575)
Net income from pre-operating activities		-	777,037
Other income, net		<u>2,682,338</u>	<u>1,207,180</u>
<b>Income before non-controlling interests, zakat and income tax</b>		133,588,487	114,306,037
Non-controlling interests		<u>(48,118,813)</u>	<u>(35,129,402)</u>
<b>Income before zakat and income tax</b>		85,469,674	79,176,635
Zakat and income tax		<u>(16,813,310)</u>	<u>(14,723,696)</u>
<b>NET INCOME</b>		<u>68,656,364</u>	<u>64,452,939</u>
<b>Earnings per share</b>			
Earnings per share from net income		<u>0.19</u>	0.18
Earnings per share from continuing main operations		<u>0.18</u>	0.17
Earnings per share from other operations		<u>0.01</u>	0.01
Weighted average number of shares		<u>366,666,666</u>	<u>366,666,666</u>

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

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

**CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2014**

	2014 SR	2013 SR
	(Un-audited)	(Un-audited)
<b>OPERATING ACTIVITIES</b>		
Net income before zakat and income tax	85,469,674	79,176,635
Adjustments for:		
Depreciation and amortization	131,635,453	129,866,389
End-of-service indemnities, net	13,030,314	6,936,142
Finance charges	40,226,945	41,892,575
Non-controlling interests	48,118,813	35,129,402
Investment income	(3,434,172)	(4,478,490)
Net income from pre-operating activities	-	(777,037)
Changes in operating assets and liabilities:		
Accounts receivable, prepayments and other receivables	103,988,442	(58,059,897)
Inventories	(18,318,145)	17,821,009
Accounts payable, accrued and other liabilities	245,654,179	(56,392,185)
Cash from operations	646,371,503	191,114,543
Finance charges paid	(43,883,866)	(41,892,575)
Zakat and income tax paid	(3,235,938)	-
<b>Net cash from operating activities</b>	<b>599,251,699</b>	<b>149,221,968</b>
<b>INVESTING ACTIVITIES</b>		
Additions to property, plant and equipment	(290,155,782)	(383,720,563)
Additions to intangible assets	(1,020,016)	(14,037,617)
Projects' development cost, net	(85,430,018)	(38,989,902)
Investment income received	3,434,172	4,478,490
Net income from pre-operating activities	-	777,037
<b>Net cash used in investing activities</b>	<b>(373,171,644)</b>	<b>(431,492,555)</b>
<b>FINANCING ACTIVITIES</b>		
Change in bank overdraft, net	(48,414,734)	-
Short term loan, net	257,447,500	150,040,000
Long term loans, net	26,263,319	76,854,983
Repayment of obligations under capital lease	-	(26,756,758)
Advances from partners	38,520,239	1,210,028
Change in non-controlling interests	(209,053,007)	(4,599,289)
Dividends paid	(238,333,333)	(275,000,000)
Board of Directors' remuneration paid	(2,200,000)	-
<b>Net cash used in financing activities</b>	<b>(175,770,016)</b>	<b>(78,251,036)</b>
<b>Net change in cash and cash equivalents</b>	<b>50,310,039</b>	<b>(360,521,623)</b>
Cash and cash equivalents, January 1	2,857,603,807	3,053,454,336
Foreign currency translation reserve	(2,557,123)	(1,327,866)
<b>CASH AND CASH EQUIVALENTS, MARCH 31</b>	<b>2,905,356,723</b>	<b>2,691,604,847</b>
<b>Non-cash transaction:</b>		
Net changes in fair value of interest rate swaps	(3,516,309)	(12,112,375)

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

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

**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 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 No. 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 March 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”):

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

Note 1: Although the Company has only 50% share in the investee company, 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: The investee company was formed during 2013 with article of association dated 12 Safar 1435 (corresponding to December 15, 2013). The legal formalities relating to the establishment of the company were completed during 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”).



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**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)  
FOR THE THREE MONTHS ENDED MARCH 31, 2014**

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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.

The MOU does not constitute an offer by Sipchem to Sahara shareholders or its board of directors nor does it constitute an announcement of a firm intention to make an offer. The MOU will expire on the earlier of the date (i) on which the Merger Agreement is signed by Sipchem and Sahara or (ii) specified by a notice of termination from one company to other. If the terms of the Proposed Merger are agreed, it will be 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 competent Saudi Arabian Regulatory authorities.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The consolidated interim 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 interim 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 interim 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 interim 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 interim financial statements incorporate the interim 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 interim financial statements in these consolidated interim 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 interim financial statements. All significant inter-group transactions, unrealized profit and balances between the Group companies have been eliminated in preparing the consolidated interim 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, distribution and marketing. 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.

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

**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2014**

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**Expenses**

All period expenses other than costs of sales, finance 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.

**Inventories**

Inventories comprise of spare parts 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 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. Freehold land and capital 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	2 – 33.3
Vehicles	4
Catalyst and tools	1 – 10
Computer, furniture, fixtures and office equipment	1 – 10

**Projects' development cost**

Projects' development cost represents mainly legal and feasibility related 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.

**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.

**SAUDI INTERNATIONAL PETROCHEMICAL COMPANY  
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**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)  
FOR THE THREE MONTHS ENDED MARCH 31, 2014**

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**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.

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 interim 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 interim balance sheet date, the Group reviews the carrying amounts of its tangible and intangible 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 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 charge in the consolidated interim statement of income represents the zakat for the Company and the Company's share of zakat in subsidiaries. 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 authorities in which the Group's foreign subsidiaries operate.

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**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)  
FOR THE THREE MONTHS ENDED MARCH 31, 2014**

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**End-of-service indemnities**

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

**Statutory reserve**

In accordance with Regulations for Companies in Saudi Arabia, the Company has established a statutory reserve by the appropriation of 10% of annual net income until the reserve equals to 50% of the share capital. This reserve is not available for dividend distribution. Appropriation to the reserve is made at the end of the year.

**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 interim financial statements in the period in which they are approved by 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 interim 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 interim balance sheet. The gain or loss from the change in the fair value of the hedging instrument is recognized immediately in the consolidated interim 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 interim 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 interim 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 interim 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 interim statement of income.

**SAUDI INTERNATIONAL PETROCHEMICAL COMPANY**  
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**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2014**

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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 interim balance sheet;
- (ii) Income and expenses for consolidated interim 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 interim 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 interim 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 interim 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 interim 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 other income, 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 other income, net for the period by the weighted average number of shares outstanding during the period.

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



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**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)  
FOR THE THREE MONTHS ENDED MARCH 31, 2014**

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**3. CAPITAL COMMITMENTS**

As of March 31, 2014, the Group had capital commitments amounting to SR 937.7 million (March 31, 2013: SR 2,073 million).

**4. 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. 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 appointed an Engineering firm to inspect the site and assess the extent of work which has been completed by the contractor. The said Engineering firm prepared a report dated January 21, 2014 about the work which has been completed by the Contractor and submitted with the Arbitration Panel.

The Contractor objected to the contents of this Report and accordingly, the Arbitration Panel, in its hearing on March 19, 2014, reappointed the same Engineering Consultants to examine and study the items raised by the Contractor and to put out another report within the next two months.

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.

The Company has 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.

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.

**5. INTEREST RATE SWAP CONTRACTS**

As of March 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 March 31, 2014, the notional amount of IRS contracts was SR 1,304.24 million (March 31, 2013: SR 1,570 million).

The fair value of the interest rate swap has declined as of March 31, 2014 to SR 58.0 million (March 31, 2013: SR 114.1 million). The Group share amounted to SR 44.7 million (March 31, 2013: SR 87.4 million), which has been recorded in the 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.

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

**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2014**

**6. 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 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 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 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 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 General Assembly in their meeting held on March 16, 2014. The Company has distributed such dividends during the quarter ended March 31, 2014.

**7. SEGMENTAL ANALYSIS**

	Petrochemical operations SR	Marketing activities SR	Total SR
<b>2014 (un-audited)</b>			
Sales	690,938,986	225,803,039	916,742,025
Gross profit	217,434,096	5,213,304	222,647,400
Net assets	5,549,778,212	79,270,849	5,629,049,061
<b>2013 (un-audited)</b>			
Sales	643,149,517	214,236,044	857,385,561
Gross profit	173,709,720	6,832,214	180,541,934
Net assets	5,340,251,000	85,817,295	5,426,068,295

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.

**8. RESULTS OF INTERIM PERIOD**

The results of the interim period are not audited and therefore it may not give accurate indication of the annual operating results.