

**SAUDI INTERNATIONAL PETROCHEMICAL  
COMPANY**

(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

**(UNAUDITED)**

**JUNE 30, 2015**



**KPMG Al Fozan & Al Sadhan**  
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**LIMITED REVIEW REPORT ON THE CONSOLIDATED INTERIM  
FINANCIAL STATEMENTS**

**The Shareholders**  
**Saudi International Petrochemical Company**  
**(A Saudi Joint Stock Company)**  
**Kingdom of Saudi Arabia**

***Scope of limited review:***

We have reviewed the accompanying consolidated interim balance sheet of Saudi International Petrochemical Company ("the Company") as at 30 June 2015, the related consolidated interim statement of income for three and six months period ended June 30, 2015 and the consolidated interim statement of cash flows for six months period ended June 30, 2015 and the attached consolidated notes 1 to 8 which form an integral part of these consolidated interim financial statements. These consolidated interim financial statements are the responsibility of the Company's management and have been prepared by them and submitted to us together with all the information and explanations which we required. Our responsibility is to express a conclusion on these interim consolidated financial statements based on our limited review.

We conducted our limited review in accordance with the auditing Standard on Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants (SOCPA). A limited review consists principally of applying analytical procedures to financial data and information and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express such an opinion.

***Conclusion:***

Based on our limited review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial statements are not prepared, in all material respects, in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.

**For KPMG Al Fozan & Al Sadhan**

**Tareq Abdulrahman Al Sadhan**  
License No: 352



Al Khobar, July 16, 2015  
Corresponding to: Ramadan 29, 1436 H

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

**CONSOLIDATED INTERIM BALANCE SHEET (UNAUDITED)**

**AS AT JUNE 30, 2015**

(Expressed in Saudi Arabian Riyals)

	Note	2015	2014
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and cash equivalents		2,071,008,877	2,858,252,393
Accounts receivable, prepayments and other receivables		1,206,632,131	1,290,189,664
Inventories		644,668,131	417,570,337
<b>Total Current Assets</b>		<b>3,922,309,139</b>	<b>4,566,012,394</b>
<b>Non-current Assets:</b>			
Property, plant and equipment		12,883,548,414	12,039,385,538
Project development costs		55,686,954	425,992,682
Intangible assets		165,321,990	142,865,598
Goodwill		29,543,923	29,543,923
<b>Total Non-current Assets</b>		<b>13,134,101,281</b>	<b>12,637,787,741</b>
<b>Total Assets</b>		<b>17,056,410,420</b>	<b>17,203,800,135</b>
<b>LIABILITIES, SHAREHOLDERS' EQUITY AND NON-CONTROLLING INTERESTS</b>			
<b>Current Liabilities:</b>			
Short term loans		250,000,000	138,000,000
Current portion of long term loans		644,617,207	479,527,184
Current portion of obligations under capital lease		26,000,000	10,200,000
Accounts payable, accruals and other liabilities	6	992,432,965	1,149,560,690
Short term advances from partners		81,208,786	87,745,542
<b>Total Current Liabilities</b>		<b>1,994,258,958</b>	<b>1,865,033,416</b>
<b>Non-current Liabilities:</b>			
Long term loans		5,064,265,275	5,479,304,333
Sukuk		1,800,000,000	1,800,000,000
Obligations under capital lease		286,000,000	244,800,000
Long term advances from partners		59,333,414	401,553,350
End-of-service indemnities		154,163,824	117,587,455
Fair value of interest rate swaps		-	46,836,709
Other non current liabilities		50,602,500	9,407,508
<b>Total Non-current Liabilities</b>		<b>7,414,365,013</b>	<b>8,099,489,355</b>
<b>Total Liabilities</b>		<b>9,408,623,971</b>	<b>9,964,522,771</b>

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

**CONSOLIDATED INTERIM BALANCE SHEET (UNAUDITED) (continued)**  
**AS AT JUNE 30, 2015**  
**(Expressed in Saudi Arabian Riyals)**

	<u>Note</u>	<u>2015</u>	<u>2014</u>
<b>Shareholders' equity and non-controlling interests</b>			
Share capital	1	3,666,666,660	3,666,666,660
Statutory reserve		1,169,570,535	1,140,273,816
Reserve for the results of sale of shares in subsidiaries		48,893,677	48,893,677
Retained earnings	6	836,881,924	843,060,556
Fair value reserve		-	(36,041,216)
Foreign currency translation reserve		<u>(6,018,889)</u>	512,314
<b>Total shareholders' equity</b>		<b>5,715,993,907</b>	<b>5,663,365,807</b>
Non-controlling interests		<u>1,931,792,542</u>	<u>1,575,911,557</u>
<b>Total shareholders' equity and non-controlling interests</b>		<b>7,647,786,449</b>	<b>7,239,277,364</b>
<b>TOTAL LIABILITIES, SHAREHOLDERS' EQUITY AND NON-CONTROLLING INTERESTS</b>		<b><u>17,056,410,420</u></b>	<b><u>17,203,800,135</u></b>

The consolidated interim financial statements appearing on pages 1 to 15 were approved by the management on behalf of Board of Directors of the Company on July 16, 2015, and have been signed on their behalf by:

\_\_\_\_\_  
**Ahmad Al-Ohlai**  
 CEO

\_\_\_\_\_  
**Hussain Al-Saif**  
 Finance Manager

The accompanying notes 1 through 8 form an integral part of these consolidated interim financial statements.

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

**CONSOLIDATED INTERIM STATEMENT OF INCOME (UNAUDITED)**  
**FOR THREE AND SIX MONTHS PERIOD ENDED JUNE 30, 2015**  
(Expressed in Saudi Arabian Riyals)

	Note	Period from April 1 to June 30		Period from January 1 to June 30	
		2015	2014	2015	2014
Sales	7	<b>1,006,950,323</b>	1,177,630,385	<b>1,833,132,676</b>	2,105,083,015
Cost of Sales		<b>(719,552,478)</b>	(655,177,351)	<b>(1,311,655,911)</b>	(1,349,271,976)
<b>Gross Profit</b>	7	<b>287,397,845</b>	522,453,034	<b>521,476,765</b>	755,811,039
Selling, general and administration expenses		<b>(59,924,997)</b>	(62,674,856)	<b>(117,385,815)</b>	(108,872,063)
<b>Operating income</b>		<b>227,472,848</b>	459,778,178	<b>404,090,950</b>	646,938,976
Investment income		<b>1,561,689</b>	2,169,370	<b>3,153,474</b>	5,603,542
Finance charges		<b>(48,770,085)</b>	(41,650,219)	<b>(85,812,501)</b>	(81,877,164)
Other expenses, net	1	<b>(7,386,296)</b>	(19,572,323)	<b>(38,114,272)</b>	(36,351,862)
<b>Income before non-controlling interests, zakat and income tax</b>		<b>172,878,156</b>	400,725,006	<b>283,317,651</b>	534,313,492
Non-controlling interests		<b>(50,070,279)</b>	(121,614,605)	<b>(77,101,465)</b>	(169,733,419)
<b>Income before zakat and income tax</b>		<b>122,807,877</b>	279,110,401	<b>206,216,186</b>	364,580,073
Zakat and income tax		<b>(12,742,835)</b>	(34,508,372)	<b>(15,531,941)</b>	(51,321,682)
<b>Net Income</b>		<b>110,065,042</b>	244,602,029	<b>190,684,245</b>	313,258,391
<b>Earnings per share</b>		<b>0.30</b>	0.67	<b>0.52</b>	0.85
<b>Weighted average number of shares</b>		<b>366,666,666</b>	366,666,666	<b>366,666,666</b>	366,666,666

The accompanying notes 1 through 8 form an integral part of these consolidated interim financial statements.

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

**CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)**  
**FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2015**  
(Expressed in Saudi Arabian Riyals)

	<b>Period from January 1, 2015 to 30 June 2015</b>	<b>Period from January 1, 2014 to 30 June 2014</b>
<b>Cash flow from operating activities:</b>		
Net income before zakat and income tax	206,216,186	364,580,073
<i>Adjustment to reconcile net income to net cash provided by operating activities:</i>		
Depreciation and amortisation	327,484,747	267,031,762
Finance charges	85,812,501	81,877,164
Employees' end of service indemnities, net	17,435,375	17,804,366
Non-controlling interests	77,101,465	169,733,419
Investment income	(3,153,474)	(5,603,542)
	<b>710,896,800</b>	<b>895,423,242</b>
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable, prepayments and other receivables	(137,841,787)	24,141,049
Inventories	(112,659,722)	(114,843,905)
Accounts payable, accrued and other liabilities	(94,623,921)	168,120,669
Finance charges paid	(105,420,054)	(74,991,558)
Zakat and income tax paid	(47,673,321)	(49,942,550)
<b>Net cash provided by operating activities</b>	<b>212,677,995</b>	<b>847,906,947</b>
<b>Cash flow from investing activities:</b>		
Purchase of property, plant and equipment	(281,673,039)	(721,793,640)
Additions to intangible assets	(37,498,786)	(16,267,015)
Project development cost	6,473,265	47,329,717
Investment income received	3,813,988	5,603,542
<b>Net cash used in investing activities</b>	<b>(308,884,572)</b>	<b>(685,127,396)</b>
<b>Cash flow from financing activities:</b>		
Net movement in bank overdraft	-	(48,744,532)
Proceeds from short term loans	250,000,000	138,000,000
Proceeds from long term loans	173,617,000	593,263,319
Repayments of long term loans	(397,229,367)	(405,846,000)
Additions to capital lease obligations	70,000,000	-
Repayment of capital lease obligations	(13,000,000)	-
Advances from partners	-	21,833,647
Changes in non-controlling interests	(134,781,364)	(221,636,892)
Dividend paid	(238,333,333)	(238,333,333)
Board of Directors' remuneration paid	(2,200,000)	(2,200,000)
<b>Net cash used in financing activities</b>	<b>(291,927,064)</b>	<b>(163,663,791)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(388,133,641)</b>	<b>(884,240)</b>
Cash and cash equivalents at the beginning of the period	2,458,750,403	2,857,603,807
Foreign currency translation reserve	392,115	1,532,826
<b>Cash and cash equivalent at the end of the period</b>	<b>2,071,008,877</b>	<b>2,858,252,393</b>
<b>Non cash transactions:</b>		
Net changes in fair value of interest rate swaps	21,952,554	24,917,488

The accompanying notes 1 through 8 form an integral part of these consolidated interim financial statements

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

**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THREE AND SIX MONTHS PERIOD ENDED JUNE 30, 2015**  
(Expressed in Saudi Arabian Riyals)

**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 I, 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 June 30, 2015 and 2014, share capital of the Company amounted to SR 3,666,666,660 divided into 366,666,666 shares of SR 10 each.

As of June 30, the Company has the following subsidiaries (the Company and its subsidiaries hereinafter referred to as "the Group"):

	<b>Effective ownership (%)</b>	
	<b>2015</b>	<b>2014</b>
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")	75%	75%
Sipchem Asia PTE. Ltd. (note 2)	100%	100%

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

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

**SAUDI INTERNATIONAL PETROCHEMICAL COMPANY**  
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**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THREE AND SIX MONTHS PERIOD ENDED JUNE 30, 2015**

(Expressed in Saudi Arabian Riyals)

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**1. ORGANIZATION AND ACTIVITIES (continued)**

The principal activities of IAC and IVC are the manufacturing 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 manufacturing and sale of carbon monoxide. IGC commenced its commercial operations in 2009.

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). IPC commenced its commercial operation from April 1, 2015 after successful commissioning, testing and completion of acceptance formalities with the main contractors.

The principal activity of SCC is the manufacture and sale of ethylacetate, butylacetate and polybutylene terephthalate. Ethyl acetate plant commenced its commercial operations in 2013 while polybutylene terephthalate plant is under trial production 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. GACI commenced its commercial operation from June 1, 2015 after the successful commissioning, testing and completion of acceptance formalities with the main contractors.

The principal activities of SSPC which was established in 2014, 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: 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").



**SAUDI INTERNATIONAL PETROCHEMICAL COMPANY**  
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**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THREE AND SIX MONTHS PERIOD ENDED JUNE 30, 2015**  
(Expressed in Saudi Arabian Riyals)

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**1. ORGANIZATION AND ACTIVITIES (continued)**

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 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 during the second quarter of 2014.

**2. SIGNIFICANT ACCOUNTING POLICIES:**

These 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:

**a) Accounting convention:**

These consolidated interim financial statements are prepared under the historical cost convention using the accrual basis of accounting modified to include the measurement at fair value for the interest rate swaps and the going concern concept.

**b) Use of estimates and judgements:**

The preparation of the Group's consolidated interim financial statements in conformity with generally accepted principles requires the use of estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated interim financial statements and the reported amount of the revenues and expenses during the reported period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

**SAUDI INTERNATIONAL PETROCHEMICAL COMPANY**  
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**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THREE AND SIX MONTHS PERIOD ENDED JUNE 30, 2015**  
(Expressed in Saudi Arabian Riyals)

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**b) Use of estimates and judgements (continued)**

The estimates and underlying assumptions are reviewed regularly. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimated uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are reflected in the following notes:

Note 2(e) – Provision for doubtful debts

Note 2(f) – Provision for inventory

Note 2(g) – Useful life of fixed assets

Note 2(k) – Impairment

Note 2(u) – Fair value of derivative financial instruments

**c) Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at June 30, 2015. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, and using consistent accounting policies.

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases.

Non controlling interests

The Company measures any non-controlling interests at its proportionate interest in the identifiable net assets of the acquiree.

Transactions eliminated on consolidation

All intra-Group balances, transactions, income and expenses and profits and losses resulting from intra-Group/Company transactions that are recognized in assets, are eliminated in full. Also, any unrealized gains and losses arising from intra-group transactions are eliminated on consolidation.

**d) Cash and cash equivalents:**

For the purpose of the statement of cash flows, cash and cash equivalents 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.

**SAUDI INTERNATIONAL PETROCHEMICAL COMPANY**  
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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**e) 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.

**f) 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 labour 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.

**g) Property, plant and equipment**

Property, plant and equipment are initially recorded 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	2-33.3
Vehicles	4
Catalyst and tools	1-10
Computer, furniture, fixtures and office equipment	1-10

**h) 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.

**i) 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.

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**FOR THREE AND SIX MONTHS ENDED JUNE 30, 2015**  
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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**j) 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 prorata 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.

**k) Impairment**

At each consolidated interim balance sheet date, the Group reviews the carrying amounts of its non-current assets excluding goodwill to determine whether there is any indication that those assets have suffered an impairment loss. Goodwill is tested for impairment annually. 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.

**l) Provision**

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.

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

**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THREE AND SIX MONTHS ENDED JUNE 30, 2015**  
(Expressed in Saudi Arabian Riyals)

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**m) 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 accrual 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 interim 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.

**n) End-of-service indemnities**

Employees' end-of-service indemnities, calculated in accordance with Saudi Arabian labour regulations, are accrued and charged to the interim Statement of Income. The liability is calculated at the current value of the vested benefits to which the employee is entitled, should his services be terminated at the balance sheet date.

**o) 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.

**p) Employees' saving 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 Company's contribution under the saving plan is charged to the consolidated interim statement of income.

**q) 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.

**r) 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.

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**s) 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.

**t) Dividends**

Dividends are recorded in the consolidated interim 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.

**u) Derivative financial Instruments**

Derivative financial instruments are recorded at fair value. 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 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 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.

**v) Foreign currency transactions**

These consolidated financial statements are presented in Saudi Arabian Riyals, which is the functional and reporting currency of the Company. 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.

The results and financial position of 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;

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**v) Foreign currency transactions (continued)**

(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 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.

**w) 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.

**x) 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.

**y) Earnings per share**

Earnings per share are computed by dividing net income for the period by the weighted average number of shares outstanding during the period. Weighted average number of outstanding shares as of June 30, 2015 and 2014 were 366,666,666 shares.

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**3. COMMITMENTS AND CONTINGENCIES**

As of June 30, 2015, the Group had capital commitments amounting to SR 521.17 million (June 30, 2014: SR 945.9 million).

As of June 30, 2015, the Group had outstanding letters of guarantees and credits amounting to SR 762.9 million (June 30, 2014: SR 733.6 million).

As of June 30, 2015, the Group had entered into forward contracts for EUR 42.5 million to cover against foreign currency risk due to fluctuations in Euros (June 30, 2014: EUR Nil).

**4. CONTINGENT LIABILITIES**

On the 14th of March 2015 the arbitrators handed down their decision in the dispute between Sipchem and the Contractor in relation to the construction of Sipchem's Research and Development Centre in Dhahran Technology Valley (DTV), Saudi Arabia. However the decision of the review and arbitration panel is currently waiting ratification from the Appeal Court which is expected in the 3rd quarter of this year

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 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 June 30, 2015, the IDC, IAC, IVC and IGC 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 lapsed and all payment obligations were met. As of June 30, 2014, the notional amount of IRS contracts was SR 1,203 million.

The fair value of the interest rate swap as of June 30, 2014 was SR 46.8 million. The Group share as of June 30, 2014 was SR 36 million which has been recorded in the consolidated shareholder' equity. This amount represents what had to be paid in case the Groups management decided to cancel the agreements.



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**6. DIVIDENDS**

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.

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 that was approved by the stockholders in the General assembly meeting held on March 31, 2015. The Company distributed such dividends during the second quarter of 2015.

On June 29, 2015, the Board of directors approved to distribute interim cash dividends for the first half of the year 2015 amounting to SR 220 million i.e. SR 0.6 per share, equivalent to 6% of the share capital and it has been recorded as a liability as of June 30, 2015. The Company distributed such dividends during the third quarter of 2015.

**7. SEGMENTAL ANALYSIS**

	<u>Petrochemical</u> <u>operations</u>	<u>Marketing</u> <u>activities</u>	<u>Total</u>
<b>June 30, 2015 (un-audited)</b>			
Sales	1,674,225,077	158,907,599	1,833,132,676
Gross profit	516,869,214	4,607,551	521,476,765
Net assets	5,671,693,876	44,300,031	5,715,993,907
<b>June 30, 2014 (un-audited)</b>			
Sales	1,735,976,262	369,106,753	2,105,083,015
Gross profit	746,489,419	9,321,620	755,811,039
Net assets	5,616,260,557	47,105,250	5,663,365,807

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. COMPARATIVE FIGURES**

Certain figures for 2014 have been reclassified to conform to the presentation in 2015.