

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

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AND AUDITORS' LIMITED REVIEW REPORT**

**FOR THE THREE MONTHS PERIOD AND YEAR
ENDED**

31 DECEMBER 2013

**LIMITED REVIEW REPORT TO THE SHAREHOLDERS
OF SAUDI INTERNATIONAL PETROCHEMICAL COMPANY
(A SAUDI JOINT STOCK COMPANY)**

Scope of limited review:

We have reviewed the accompanying interim consolidated balance sheet of Saudi International Petrochemical Company (a Saudi Joint Stock Company) (the "Company") and its subsidiaries (collectively referred to as the "Group") as at 31 December 2013, and the related interim consolidated statement of income for the three months period and year ended 31 December 2013 and the interim consolidated cash flows for the year ended 31 December 2013. These interim consolidated financial statements are the responsibility of the Group's management and have been prepared by them and submitted to us together with all the information and explanations which we required. Our review was limited and was conducted in accordance with Saudi Organisation of Certified Public Accountants (SOCPA) standard on interim financial information. The limited review consists principally of analytical procedures applied to financial data and inquiries of the Group's personnel responsible for financial and accounting matters. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Conclusion on limited review:

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

for Ernst & Young


Abdulaziz Saud Alrubaihi
Certified Public Accountant
Registration No. 339
13 Rabi'l 1435H
14 January 2014
Alkhobar



Saudi International Petrochemical Company
(a Saudi Joint Stock Company)

INTERIM CONSOLIDATED BALANCE SHEET (UN-AUDITED)

As at 31 December 2013

| | <i>Note</i> | <i>2013</i> SR | <i>2012</i> SR |
|--|-------------|--------------------------|--------------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | | 2,853,682,735 | 3,053,454,336 |
| Accounts receivable, prepayments and other receivables | | 1,332,206,167 | 857,219,312 |
| Inventories | | 307,066,133 | 277,956,178 |
| Total current assets | | 4,492,955,035 | 4,188,629,826 |
| Non-current assets | | | |
| Property, plant and equipment | | 11,554,838,512 | 10,648,927,193 |
| Projects' development cost | | 493,241,667 | 252,576,753 |
| Intangible assets | | 163,765,313 | 69,249,396 |
| Goodwill | | 29,543,923 | 29,543,923 |
| Total non-current assets | | 12,241,389,415 | 11,000,297,265 |
| TOTAL ASSETS | | 16,734,344,450 | 15,188,927,091 |
| LIABILITIES, SHAREHOLDERS' EQUITY AND MINORITY INTEREST | | | |
| Current liabilities | | | |
| Accounts payable, other payables and provisions | | 812,458,273 | 746,227,815 |
| Bank overdraft | | 48,744,532 | - |
| Short term advances from partners | | 75,388,206 | 93,538,155 |
| Short term loan | | 225,000,000 | - |
| Current portion of long term loans | | 328,519,000 | 489,940,823 |
| Current portion of obligations under capital lease | | - | 58,864,865 |
| Total current liabilities | | 1,490,110,011 | 1,388,571,658 |
| Non-current liabilities | | | |
| Long term loans | | 5,217,895,198 | 3,976,859,248 |
| Sukuk | | 1,800,000,000 | 1,800,000,000 |
| Obligations under capital lease | | 255,000,000 | 251,513,515 |
| Long term advances from partners | | 392,077,039 | 414,324,544 |
| Employees' terminal benefits | | 73,915,437 | 82,545,023 |
| Fair value of interest rate swaps | | 71,454,197 | 130,553,193 |
| Other non-current liabilities | | 5,860,886 | 9,235,860 |
| Total non-current liabilities | | 7,816,202,757 | 6,665,031,383 |
| Total liabilities | | 9,306,312,768 | 8,053,603,041 |
| Shareholders' equity and minority interest | | | |
| 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 | | 783,328,357 | 960,457,541 |
| Proposed dividends | 6 | 238,333,333 | - |
| Net change in fair value of interest rate swaps | | (54,776,116) | (99,492,806) |
| Foreign currency translation reserve | | 2,910,131 | 2,402,706 |
| Total shareholders' equity | | 5,794,304,017 | 5,625,830,847 |
| Minority interest | | 1,633,727,665 | 1,509,493,203 |
| TOTAL SHAREHOLDERS' EQUITY AND MINORITY INTEREST | | 7,428,031,682 | 7,135,324,050 |
| TOTAL LIABILITIES, SHAREHOLDERS' EQUITY AND MINORITY INTEREST | | 16,734,344,450 | 15,188,927,091 |

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

Saudi International Petrochemical Company
(a Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF INCOME (UN-AUDITED)

For the three months period and year ended 31 December 2013

| | Note | For the three months period ended 31 December | | For the year ended 31 December | |
|---|------|--|--------------------|-----------------------------------|----------------------|
| | | 2013 SR | 2012 SR | 2013 SR | 2012 SR |
| Sales | 7 | 1,190,457,106 | 1,044,965,642 | 3,959,101,949 | 3,921,878,521 |
| Cost of sales | | (788,609,227) | (741,213,328) | (2,662,286,290) | (2,654,333,208) |
| Gross profit | 7 | 401,847,879 | 303,752,314 | 1,296,815,659 | 1,267,545,313 |
| General and administrative expenses | | (41,163,973) | (42,403,137) | (128,488,686) | (131,668,476) |
| INCOME FROM MAIN OPERATIONS | | 360,683,906 | 261,349,177 | 1,168,326,973 | 1,135,876,837 |
| Investment income | | 5,296,535 | 6,511,813 | 17,091,938 | 22,730,187 |
| Financial charges | | (40,583,110) | (45,330,436) | (173,454,473) | (183,381,198) |
| Other income /(expenses), net | | (19,252,627) | 24,797,445 | (20,516,343) | 11,958,088 |
| INCOME BEFORE MINORITY INTEREST AND ZAKAT FOREIGN INCOME TAX | | 306,144,704 | 247,327,999 | 991,448,095 | 987,183,914 |
| Minority interest | | (97,117,247) | (67,032,396) | (315,729,488) | (314,496,588) |
| INCOME BEFORE ZAKAT AND FOREIGN INCOME TAX | | 209,027,457 | 180,295,603 | 675,718,607 | 672,687,326 |
| Zakat and foreign income taxes | | (12,236,510) | (22,647,776) | (55,269,552) | (71,517,348) |
| NET INCOME FOR THE PERIOD/YEAR | | 196,790,947 | 157,647,827 | 620,449,055 | 601,169,978 |
| EARNINGS PER SHARE (From net income) | | 0.54 | 0.43 | 1.69 | 1.64 |
| EARNINGS PER SHARE (From main operations) | | 0.98 | 0.71 | 3.19 | 3.10 |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING | 1 | 366,666,666 | 366,666,666 | 366,666,666 | 366,666,666 |

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

Saudi International Petrochemical Company
(a Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (UN-AUDITED) - Continued
Year ended 31 December 2013

| | <i>For the year ended 31 December</i> | |
|--|---------------------------------------|------------------------|
| | <i>2013</i> | <i>2012</i> |
| | <i>SR</i> | <i>SR</i> |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Income before zakat and foreign income taxes | 675,718,607 | 672,687,326 |
| Adjustments for: | | |
| Depreciation and amortization | 538,714,769 | 514,391,992 |
| Employees' terminal benefits, net | (8,629,586) | 16,617,735 |
| Financial charges | 173,454,473 | 183,381,198 |
| Minority interest | 315,729,488 | 314,496,588 |
| Loss on disposal of property, plant and equipment | - | 17,104 |
| Write-off of property, plant and equipment | 24,273,468 | - |
| Interest income | (17,091,938) | (22,730,187) |
| | <u>1,702,169,281</u> | <u>1,678,861,756</u> |
| Changes in operating assets and liabilities: | | |
| Receivables | (474,986,855) | (169,310,511) |
| Inventories | (29,109,955) | 3,124,784 |
| Payables | 46,175,849 | 17,405,201 |
| Cash from operations | 1,244,248,320 | 1,530,081,230 |
| Financial charges paid | (173,454,473) | (183,381,198) |
| Zakat and foreign income tax paid | (38,589,917) | (54,225,402) |
| | <u>1,032,203,930</u> | <u>1,292,474,630</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest income | 17,091,938 | 22,730,187 |
| Additions to property, plant and equipment | (1,381,206,829) | (1,306,292,929) |
| Additions to intangible assets | (183,125,438) | (54,556,806) |
| Projects' development cost, net | (239,748,120) | (88,360,609) |
| Proceeds from disposals of property, plant and equipment | - | 220,000 |
| | <u>(1,786,988,449)</u> | <u>(1,426,260,157)</u> |

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

Saudi International Petrochemical Company
(a Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (UN-AUDITED) - Continued
Year ended 31 December 2013

CASH FLOWS FROM FINANCING ACTIVITIES

| | | |
|---|----------------------|----------------------|
| Net change in bank overdraft | 48,744,532 | (15,784,610) |
| Short term loan, net | 225,000,000 | - |
| Long term loans, net | 1,079,614,127 | 480,072,171 |
| Repayment of obligations under capital lease | (55,378,380) | (48,162,160) |
| Advances from partners | (40,397,454) | 57,624,522 |
| Change in minority interest | (205,877,332) | (274,927,491) |
| Dividends paid | (495,000,000) | (641,666,666) |
| Board of Directors' remuneration paid | (2,200,000) | (2,200,000) |
| | <hr/> | <hr/> |
| Net cash from/(used in) financing activities | 554,505,493 | (445,044,234) |
| | <hr/> | <hr/> |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (200,279,026) | (578,829,761) |
| | <hr/> | <hr/> |
| Cash and cash equivalents at the beginning of the year | 3,053,454,336 | 3,629,881,391 |
| Foreign currency translation reserve | 507,425 | 2,402,706 |
| | <hr/> | <hr/> |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | 2,853,682,735 | 3,053,454,336 |
| | <hr/> | <hr/> |

Supplementary information on cash flows:

The following represents the major non-cash transactions:

| | <i>For the year ended 31 December</i> | |
|--|---------------------------------------|-------------|
| | <i>2013</i> | <i>2012</i> |
| | <i>SR</i> | <i>SR</i> |
| Proposed dividends | 238,333,333 | - |
| Net changes in fair value of interest rate swaps | 14,382,306 | 35,905,199 |
| Transfer from property, plant and equipment to intangibles | 1,158,336 | 6,527,938 |
| Transfer from property, plant and equipment to projects' development costs | 916,794 | - |
| Transfer from goodwill to intangible assets | - | 4,438,759 |
| Transfer from projects' development costs to intangible assets | - | 20,652,492 |
| | <hr/> | <hr/> |

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

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 1420H (corresponding to 22 December 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 1420H (corresponding to 6 February 2000), and a branch in Jubail Industrial City which is registered under commercial registration number 2055007570 dated 4 Jumada I 1427H (corresponding to 1 June 2006).

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

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

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

| <u>Subsidiaries</u> | <u>Effective percentage of shareholding</u> | |
|--|---|-------------|
| | <u>2013</u> | <u>2012</u> |
| 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 and Services Company ("SMSC") | 100% | 100% |
| International Utility Company ("IUC") | 68.58% | 68.58% |
| International Polymers Company ("IPC") | 75% | 75% |
| Sipchem Chemical Company ("SCC") | 100% | 100% |
| Sipchem Europe Cooperatief U.A and its subsidiaries | 100% | 100% |
| Gulf Advanced Cable Insulation Company ("GACI") (note 1) | 50% | 50% |
| Saudi Specialized Products Company ("SSPC") (note 2) | 75% | - |

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

During 2011, pursuant to board resolutions of the group, Sipchem European Operations were formed where Sipchem Marketing and Services Company acquired 100% of the voting shares of Aectra SA (a subsidiary of Sipchem Europe Cooperatief U.A) on 31 December 2011, an unlisted company registered in Switzerland. Accordingly, Aectra SA has been consolidated in these interim consolidated financial statements.

The acquisition of Aectra SA 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 at 31 December 2011. During 2012, the Company completed purchase price allocation exercise on acquisition of Aectra SA. In accordance with the exercise, the Company identified and reclassified SR 4.4 million to intangible assets related to customers relationship and this amount is being amortised over the life of 3 years. The excess amount over the net book value of SR 29.5 million is reflected as goodwill as shown in the interim consolidated balance sheet and is subject to impairment testing.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UN-AUDITED) - Continued
At 31 December 2013

2. SIGNIFICANT ACCOUNTING POLICIES

The interim consolidated financial statements have been prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia. The significant accounting policies adopted by the group are as follows:

Accounting convention

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

Basis of interim consolidated financial statements

The interim consolidated 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 interim 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 minority interest in these interim consolidated financial statements. All significant inter-group transactions and balances between the Group companies have been eliminated in preparing the interim 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, 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 product.

Expenses

All period expenses other than costs of sales, financial charges and other expenses are classified as general and administrative expenses.

Cash and cash equivalents

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

Accounts receivable

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

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.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UN-AUDITED) - Continued
At 31 December 2013

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 betterment 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 & 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.

Business combination and goodwill

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

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

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

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

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

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UN-AUDITED) - Continued
At 31 December 2013

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-current assets

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

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

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

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

Employees' terminal benefits

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

Provision for obligations

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

Zakat and foreign income tax

The Company and its subsidiaries are subject to zakat and income tax regulations in the Kingdom of Saudi Arabia, income tax is born and beard by the minority shareholders of the subsidiaries, accordingly only zakat is charged to the consolidated statement of income for the Saudi entities.

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

Additional amount, if any, that may become due on the finalization of an assessment are accounted for in the year in which the assessment is finalized.

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.

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 interim 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 interim consolidated statement of income.

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UN-AUDITED) - Continued
At 31 December 2013

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 interim 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 interim consolidated balance sheet. The gain or loss from the change in the fair value of the hedging instrument is recognized immediately in the interim 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 interim 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 interim 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.

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 interim 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 interim consolidated statement of income on a straight line basis over the term of the operating lease.

Segmental analysis

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

Earnings per share

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

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

Results of interim period

The Group has made all necessary adjustments which are important in order to present fairly in all material respects the interim consolidated financial position and results of operations, however some reclassifications may occur over the annual consolidated financial statements.

3. CAPITAL COMMITMENTS

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UN-AUDITED) - Continued
At 31 December 2013

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 recently appointed an Engineering firm to inspect the site and assess the extent of work which has been completed by the contractor. Sipchem believes that it will not be liable to any payments other than what has already been accrued by Sipchem for the work completed by the contractor.

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.

The IGC has received zakat assessments for the years 2008 to 2010 with additional zakat liability of SR 3.4 million including additional assessments for the years 2008 to 2010. The company is still reviewing the assessments received.

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

5. INTEREST RATE SWAP CONTRACTS

As at 31 December 2013, 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. At 31 December 2013, the notional amount of IRS contracts was SR 1,333 million (31 December 2012: SR 1,599 million).

The fair value of the interest rate swap has declined as of 31 December 2013 compared to the contract date by SR 71.5 million (31 December 2012: SR 130.6 million). The Group share amounted to SR 54.8 million (31 December 2012: SR 99.5 million), which has been recorded in the shareholders' equity. This amount represents what has to be paid in case the Groups' management decides to cancel the agreements. However, the Group's management has no intention to cancel the agreements. In case of the increase in the interest rates, this difference will be eliminated and may become positive during the agreement term.

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/ share, equivalent to 12.5% of the share capital for shareholders in records at the date of the General Assembly. Out of the approved dividends of SR 458.3 million, interim dividends of SR 183.3 million have already been distributed during 2012 and the remaining dividends of SR 275 million was distributed during the first quarter of 2013.

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

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UN-AUDITED) - Continued
At 31 December 2013

7. SEGMENTAL ANALYSIS

| | Petrochemical operations SR 000 | Marketing activities SR 000 | Total SR 000 |
|--|------------------------------------|--------------------------------|-----------------|
| <i>For the year ended 31 December 2013</i> | | | |
| Sales | 3,161,657 | 797,445 | 3,959,102 |
| Gross profit | 1,271,639 | 25,177 | 1,296,816 |
| Net assets | 5,701,832 | 92,472 | 5,794,304 |
| <i>For the year ended 31 December 2012</i> | | | |
| Sales | 3,174,194 | 747,685 | 3,921,879 |
| Gross profit | 1,248,034 | 19,511 | 1,267,545 |
| Net assets | 5,550,220 | 75,611 | 5,625,831 |

Marketing activities include the marketing activities of Sipchem, following the acquisition of its European marketing arm (Aectra SA) on 31 December 2011. These marketing activities support the customer development activities to enhance the Petrochemical operations.

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

8. COMPARATIVE FIGURES

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