

**SAUDI INTERNATIONAL PETROCHEMICAL
COMPANY**

(A SAUDI JOINT STOCK COMPANY)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)
MARCH 31, 2016



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Lisence No. 46/11/323 issued 11/3/1992

**REVIEW REPORT ON INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

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

Scope of review:

We have reviewed the accompanying interim consolidated balance sheet of Saudi International Petrochemical Company ("the Company") as at March 31, 2016, the related interim consolidated statements of income and cash flows for three-months period then ended and the attached consolidated notes 1 to 9 which form an integral part of these interim consolidated financial statements. These interim consolidated 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 provide a conclusion on these interim consolidated financial statements based on our review.

We conducted our review in accordance with Auditing Standard on Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants (SOCPA). A review consists principally of analytical procedures applied to financial data and information and making inquiries of Company's personnel responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion on the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Review conclusion:

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

For KPMG Al Fozan & Partners
Certified Public Accountants

Ebrahim Oboud Baeshen
License No: 382



Al Khobar, April 18, 2016
Corresponding to: Rajab 11, 1437 H

SAUDI INTERNATIONAL PETROCHEMICAL COMPANY
(A SAUDI JOINT STOCK COMPANY)

INTERIM CONSOLIDATED BALANCE SHEET (UNAUDITED)

AS AT MARCH 31, 2016

(Expressed in Saudi Arabian Riyals)

	2016	2015
ASSETS		
Current Assets:		
Cash and cash equivalents	2,600,153,427	2,258,459,268
Accounts receivable, prepayments and other receivables	940,617,541	1,221,733,390
Inventories	749,728,653	610,929,091
Total Current Assets	4,290,499,621	4,091,121,749
Non-current Assets:		
Property, plant and equipment	13,230,638,223	12,815,917,201
Project development costs	23,905,209	56,689,144
Intangible assets	122,601,986	101,235,882
Goodwill	29,543,923	29,543,923
Total Non-current Assets	13,406,689,341	13,003,386,150
Total Assets	17,697,188,962	17,094,507,899
LIABILITIES, SHAREHOLDERS' EQUITY AND NON-CONTROLLING INTERESTS		
Current Liabilities:		
Short term loans	874,997,980	100,000,000
Current portion of long term loans	726,497,238	618,811,279
Accounts payable, accruals and other liabilities	888,274,708	1,200,412,504
Short term advances from partners	83,268,811	80,574,935
Total Current Liabilities	2,573,038,737	1,999,798,718
Non-current Liabilities:		
Long term loans	5,647,867,967	5,325,170,133
Sukuk	1,800,000,000	1,800,000,000
Long term advances from partners	60,057,318	58,826,590
Employees' benefits payable	174,733,084	146,425,379
Fair value of interest rate swaps	-	10,696,506
Other non-current liabilities	50,602,500	50,602,500
Total Non-current Liabilities	7,733,260,869	7,391,721,108
Total Liabilities	10,306,299,606	9,391,519,826

SAUDI INTERNATIONAL PETROCHEMICAL COMPANY
(A SAUDI JOINT STOCK COMPANY)

INTERIM CONSOLIDATED BALANCE SHEET (UNAUDITED) (continued)
AS AT MARCH 31, 2016
 (Expressed in Saudi Arabian Riyals)

	<u>Note</u>	<u>2016</u>	<u>2015</u>
Shareholders' equity and non-controlling interests			
Share capital	1	3,666,666,660	3,666,666,660
Statutory reserve		1,198,394,633	1,177,632,451
Reserve for the results of sale/purchase of shares in subsidiaries		12,949,042	48,893,677
Retained earnings		954,146,143	938,755,316
Fair value reserve		-	(8,341,434)
Foreign currency translation reserve		(7,083,285)	(11,268,638)
Total shareholders' equity		5,825,073,193	5,812,338,032
Non-controlling interests		1,565,816,163	1,890,650,041
Total shareholders' equity and non-controlling interests		7,390,889,356	7,702,988,073
Total liabilities, shareholders' equity and non-controlling interests		17,697,188,962	17,094,507,899

The interim consolidated financial statements appearing on pages 1 to 15 were approved by the Board of Directors of the Company on April 18, 2016 and have been signed on their behalf by:

Ahmad Al-Ohlai
 CEO

Hussain Al-Saif
 Finance Manager

The accompanying notes 1 through 9 form an integral part of these interim consolidated financial statements.

SAUDI INTERNATIONAL PETROCHEMICAL COMPANY
(A SAUDI JOINT STOCK COMPANY)

INTERIM CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)
FOR THREE MONTHS PERIOD ENDED MARCH 31, 2016
(Expressed in Saudi Arabian Riyals)

	<u>Note</u>	Period from January 1 to	
		March 31	
		2016	2015
Sales	7	892,148,029	802,033,008
Cost of Sales		(662,897,173)	(567,954,088)
Gross Profit	7	229,250,856	234,078,920
Selling, general and administration expenses		(69,966,000)	(57,460,818)
Operating income		159,284,856	176,618,102
Investment income		9,713,063	1,591,786
Finance charges		(56,009,531)	(37,042,416)
Other expenses, net		(28,182,026)	(30,727,976)
Income before zakat, foreign income tax and non-controlling interests		84,806,362	110,439,496
Zakat and foreign income tax		(15,929,093)	(2,789,106)
Income before non – controlling interests		68,877,269	107,650,390
Non-controlling interests		(18,146,076)	(27,031,186)
Net Income		50,731,193	80,619,204
Earnings per share			
Net income		0.14	0.22
Operating income		0.43	0.48

The accompanying notes 1 through 9 form an integral part of these interim consolidated financial statements.

SAUDI INTERNATIONAL PETROCHEMICAL COMPANY
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INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THREE MONTHS PERIOD ENDED MARCH 31, 2016
(Expressed in Saudi Arabian Riyals)

	Period from January 1, 2016 to March 31, 2016	Period from January 1, 2015 to March 31, 2015
Cash flow from operating activities:		
Net income before non-controlling interest, zakat and income tax	84,806,362	110,439,496
<i>Adjustment to reconcile net income to net cash provided by operating activities:</i>		
Depreciation and amortisation	200,855,264	152,583,649
Provision of loss on disposal of assets	32,999,948	-
Finance charges	56,009,531	37,042,416
Provision for employees' benefits	12,289,210	13,147,221
Investment income	(9,713,063)	(1,591,786)
	<u>377,247,252</u>	<u>311,620,996</u>
Changes in operating assets and liabilities:		
Accounts receivable, prepayments and other receivables	(187,074,626)	(152,282,530)
Inventories	(51,383,818)	(78,920,682)
Accounts payable, accrued and other liabilities	142,923,300	158,393,893
Cash from operations	<u>281,712,108</u>	<u>238,811,677</u>
Finance charges paid	(30,156,842)	(41,804,066)
Employees' benefits paid	(3,374,841)	(3,450,291)
Net cash provided by operating activities	<u>248,180,425</u>	<u>193,557,320</u>
Cash flow from investing activities:		
Purchase of property, plant and equipment	(87,340,303)	(58,323,740)
Additions to intangible assets	-	(5,674,987)
Project development cost	(68,343,695)	(97,612,708)
Investment income received	8,655,945	1,591,786
Purchases of additional shares in subsidiaries	(375,332,604)	-
Net cash used in investing activities	<u>(522,360,657)</u>	<u>(160,019,649)</u>
Cash flow from financing activities:		
Proceeds from short term loans	574,997,980	100,000,000
Proceeds from long term loans	350,000,000	172,787,000
Repayments of long term loans	(176,230,037)	(384,863,367)
Advances from partners	895,532	132,084
Dividend paid to minority shareholders	-	(117,026,889)
Net cash provided by / (used in) financing activities	<u>749,663,475</u>	<u>(228,971,172)</u>
Net increase / (decrease) in cash and cash equivalents	<u>475,483,243</u>	<u>(195,433,501)</u>
Cash and cash equivalents at the beginning of the period	2,124,558,823	2,458,750,403
Foreign currency translation reserve	111,361	(4,857,634)
Cash and cash equivalent at the end of the period	<u>2,600,153,427</u>	<u>2,258,459,268</u>
Non cash transactions:		
Transfers from project development cost to property, plant and equipment	73,903,179	103,083,782
Net changes in fair value of interest rate swaps	-	(2,644,642)
Board of Directors' remuneration	2,200,000	-

The accompanying notes 1 through 9 form an integral part of these interim consolidated financial statements

SAUDI INTERNATIONAL PETROCHEMICAL COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THREE MONTHS PERIOD ENDED MARCH 31, 2016
(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 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.

The interim results of the operations for the three months period ended March 31, 2016 may not represent a proper indication for the annual results of operations. These interim consolidated financial statements and notes should be read in conjunction with the annual audited consolidated financial statements and the related notes for the year ended December 31, 2015.

As of March 31, 2016 and 2015, share capital of the Company amounted to SR 3,666,666,660 divided into 366,666,666 shares of SR 10 each.

As of March 31, 2016 and 2015, the Company has the following subsidiaries (the Company and its subsidiaries hereinafter referred to as "the Group"):

	Effective ownership (%)	
	2016	2015
International Methanol Company ("IMC")	65%	65%
International Diol Company ("IDC")	53.91%	53.91%
International Acetyl Company ("IAC")	87%	76%
International Vinyl Acetate Company ("IVC")	87%	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") (1.1)	50%	50%
Saudi Specialized Products Company ("SSPC")	75%	75%
Sipchem Asia PTE. Ltd. (1.2)	100%	100%

In February 2016, the Company acquired an additional 11% shares from a minority shareholder (Ikarus Petroleum Industries Company) in each of IAC and IVC, increasing its ownership from 76% to 87% for a consideration of SR 375.3 million. The Group recognized a reduction in non-controlling interest of SR 339.4 million and a reduction of SR 35.9 million in the equity attributable to the shareholders.

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(Expressed in Saudi Arabian Riyals)

1. ORGANIZATION AND ACTIVITIES (continued)

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 operations in 2006.

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 petrochemical products. Other services provided by Sipchem, SMC and SMC's affiliates include purchasing and trading of petrochemical products with Sipchem affiliates and third party entities.

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

The principal activity of IPC is to manufacture and sell low density polyethylene (LDPE), polyvinyl acetate (PVAC) and polyvinyl alcohol (PVA). IPC commenced its commercial operations 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 ethyl acetate, butyl acetate and polybutylene terephthalate. The ethyl acetate plant commenced its commercial operations in 2013 while polybutylene terephthalate plant is under trial production and is expected to commence its commercial production in 2016.

The principal activity of GACI is the manufacture and sale of cross linked polyethylene and electrical connecting wire products. GACI commenced its commercial operations 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 moulds and dyes and related services as well as production of EVA films. SSPC is under development stage and expects to commence its commercial production in the third quarter of 2016.

1.1: Although the Company has only 50% share in GACI, the operations of Gulf Advanced 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.

1.2: The investee company was incorporated during 2013 in Singapore, its Article of Association is dated 13 Jumada I, 1434, corresponding to March 25, 2013.

SAUDI INTERNATIONAL PETROCHEMICAL COMPANY
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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THREE MONTHS PERIOD ENDED MARCH 31, 2016

(Expressed in Saudi Arabian Riyals)

2. SIGNIFICANT ACCOUNTING POLICIES:

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

a) Accounting convention

These interim consolidated 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 derivatives and the going concern concept.

b) Use of estimates and judgements

The preparation of the Group’s interim consolidated 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 interim consolidated 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.

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 interim consolidated 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 property, plant and equipment

Note 2(k) – Impairment

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

Note 2 (s) –Provisional price

c) Basis of consolidation

The interim consolidated financial statements comprise the interim financial statements of the Company and its subsidiaries as at March 31, 2016. The interim financial statements of the subsidiaries are prepared for the same reporting period as the parent Company, and using consistent accounting policies.

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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THREE MONTHS PERIOD ENDED MARCH 31, 2016
(Expressed in Saudi Arabian Riyals)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Basis of consolidation (continued)

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.

Changes in the parent's ownership interest after the control is obtained that do not result in a change in control of the subsidiary are accounted for as equity transactions and the carrying amount of non-controlling interest is adjusted to reflect the change in the non-controlling interest's ownership interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognized in shareholders' equity.

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.

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 net realisable 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.

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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THREE MONTHS PERIOD ENDED MARCH 31, 2016

(Expressed in Saudi Arabian Riyals)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Property, plant and equipment

Property, plant and equipment are initially recorded at cost less accumulated depreciation and any impairment in value. Construction work in progress are not depreciated. Depreciation is provided over the estimated useful lives of the relevant assets using the straight line method. Expenditure on maintenance and repairs is expensed while expenditure for improvement is capitalized.

Plant and machinery include planned turnaround costs which are depreciated 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 net book value of planned turnaround costs are immediately expensed and the new turnaround costs are depreciated over the period likely to benefit from such costs.

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	2-10
Computer, furniture, fixtures and office equipment	2-10

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 ERP costs and deferred expenses which include upfront fee paid for sukuk issuance and a long term off take agreement. Intangible assets are amortized over the following useful life:

	<u>Years</u>
ERP costs	5
Deferred expenses	5-10

j) Goodwill

Goodwill arising on 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

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FOR THREE MONTHS PERIOD ENDED MARCH 31, 2016

(Expressed in Saudi Arabian Riyals)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Goodwill (continued)

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 interim consolidated statement of income. An impairment loss recognized for goodwill is not reversed in subsequent periods.

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

k) Impairment

At each balance sheet date, the Group reviews the carrying amounts of its non-financial 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 such 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 income immediately.

l) Provision

A provision is recognized when the Group has a present legal or constructive obligation as a result of a past event, and an outflow of resources carrying economic benefits is probable and can be measured reliably.

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 interim consolidated statement of income represents the zakat for the Company and the Company's share of zakat in subsidiaries and the foreign income tax on foreign shareholders' income.

The zakat and income tax assessable on the non-controlling shareholders are included in non-controlling interests. Foreign income tax is provided for in accordance with foreign fiscal regulations in which the Group's foreign subsidiaries operate.

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(Expressed in Saudi Arabian Riyals)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Long term loans

Loans are recognized at the proceeds received net of transactions cost incurred. Loans are subsequently carried at amortised cost. Any differences between the proceeds (net of transactions costs) and the redemption value is recognized in the interim consolidated statement of income over the period using straight line method. Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalized as part of those assets until such time as the assets are ready for their intended use. Other borrowing costs are charged to the interim consolidated statement of income.

o) End-of-service indemnities

Employees' end-of-service indemnities, calculated in accordance with Saudi Arabian labour regulations, are accrued and charged to the interim consolidated 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.

p) 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 distribution to shareholders.

q) Employees' saving plan

The Group maintains an employee's savings plan for Saudi employees. The contribution from the participants are deposited in separate bank account. The Company's contribution under the savings plan is charged to the interim consolidated statement of income.

r) 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.

s) Revenue recognition

Revenue is recognized upon delivery or shipment of products, depending upon the contractually agreed terms, by which the significant risks and rewards of ownership of the goods have been transferred to the buyer and the Group has no effective control or continuing managerial involvement to the degree usually associated with ownership over the goods. The Group markets their products through marketers. Sales are made directly to final customers and also to the marketers' distribution platforms. Sipchem, SMC and SMC affiliates provide trading activities of petrochemical products for Sipchem affiliates and third party entities. The portion of sales made through the Group distribution platforms are recorded at provisional prices agreed with such marketers 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 costs of shipping and distribution (settlement price). The Group estimates the final settlement price at the reporting date based on the available market data and records any likely adjustment. Whereas the Group makes adjustments to provisional pricing to support the reporting period, the final settlement pricing outstanding can only be determined upon final settlement of the sales in subsequent reporting periods.

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(Expressed in Saudi Arabian Riyals)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

t) Expenses

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

u) Dividends

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

v) 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 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 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.

w) Foreign currency transactions

These interim consolidated financial statements are presented in Saudi Arabian Riyals, which is the functional and presentation currency of the Group. 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.

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

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

w) Foreign currency transactions (continued)

Cumulative adjustments resulting from the translation of the financial instruments of the foreign subsidiaries into Saudi Riyals are reported as a separate component of consolidated shareholders' 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 recognized in the interim consolidated statement of income.

x) 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.

y) 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.

z) Earnings per share

Earnings per share are computed by dividing operating income / (loss) and net income / (loss) for the period by the weighted average number of shares outstanding during the period. Weighted average number of outstanding shares as of March 31, 2016 and 2015 were 366,666,666 shares.

3. COMMITMENTS AND CONTINGENCIES

As of March 31, 2016, the Group had capital commitments amounting to SR 302.8 million (March 31, 2015: SR 698.1 million).

As of March 31, 2016, the Group had outstanding letters of guarantees and credits amounting to SR 613.8 million (March 31, 2015: SR 700.1 million).

As of March 31, 2016, the Group had entered into forward contracts for EUR 46.39 million to cover against foreign currency risk due to fluctuations in Euros (March 31, 2015: EUR Nil). The movement during the period in the fair value of the forward contracts is considered to be immaterial.

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4. CONTINGENT LIABILITIES

The Company has received zakat assessments for the years 2007 to 2010 with additional zakat liability of SR 108.5 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

In 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 March 31, 2015, the notional amount of IRS contracts was SR 1,045 million.

The fair value of the interest rate swap as of March 31, 2015 was SR 10.7 million. The Group share as of March 31, 2015 was SR 8.3 million which has been recorded in the consolidated shareholder' equity. This amount represents the amount that would have been payable in case the Groups management decided to cancel the agreements. There are no open interest rate swap contracts as at December 31, 2015 and March 31, 2016.

6. DIVIDENDS

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 shareholders in the General assembly meeting held on March 31, 2015. The Company distributed such dividends during the quarter ended June 30, 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. The Company distributed such dividends during the quarter ended September 30, 2015. This was approved by the shareholders in the Extraordinary General Meeting held on March 27, 2016.

7. PROPERTY, PLANT AND EQUIPMENT

As of March 31, 2016, construction work-in-progress included in property, plant and equipment is stated at cost and is comprised of construction costs of plants and others under various agreements and directly attributable costs to bring the assets for its intended use which also includes costs of testing to ensure the assets is functioning properly, and after deducting net proceeds from the sale of production generated during the testing phase. Directly, attributable costs includes employee benefits, site preparation costs, and installation costs, licensing fees, professional fees and borrowing costs. The Group construction work in process as at March 31, 2016 is SR 2,320 million and comprise mainly of construction costs related to employee's houses, Sipchem Research and Development Center, Polybutylene terephthalate plant, Ethylene-vinyl acetate (EVA) Film plant, Tool Manufacturing plant and costs related to several projects for improvements and enhancements of operating plants

During the quarter, the group completed turnaround of IMC plant. During the turnaround assets with net book value of SR 33 million were replaced. Management has booked a provision for the expected loss on disposal of the assets replaced during the turnaround. Sipchem's share of expected loss on disposal is SR 21 million.

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8. **SEGMENTAL ANALYSIS**

The Group's operations consist of the following segments:

- a) **Petrochemical operations** include the activities for products manufactured.
- b) **Marketing operations** include risk managed marketing and trading activities for products under agreed upon buy-sell arrangements, feedstock and swap transactions, product swaps, and product hedging.

	<u>Petrochemical</u> <u>operations</u>	<u>Marketing</u> <u>operations</u>	<u>Total</u>
March 31, 2016 (un-audited)			
Sales	855,619,474	36,528,555	892,148,029
Gross profit	229,834,556	(583,700)	229,250,856
Net assets	7,357,031,298	33,858,058	7,390,889,356
March 31, 2015 (un-audited)			
Sales	742,529,933	59,503,075	802,033,008
Gross profit	236,303,038	(2,224,118)	234,078,920
Net assets	7,666,455,066	36,533,007	7,702,988,073

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

9. **COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to comply with the current period presentation of the interim financial statements.