

SAUDI BASIC INDUSTRIES CORPORATION (SABIC)
AND SUBSIDIARIES
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

FOR THE THREE MONTH PERIOD AND YEAR ENDED
31 DECEMBER 2015

SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND SUBSIDIARIES
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Three month period and year ended 31 December 2015

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LIMITED REVIEW REPORT

To the shareholders of Saudi Basic Industries Corporation (SABIC)
(A Saudi Joint Stock Company)

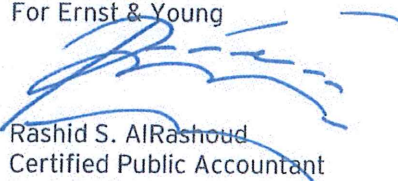
Scope of review

We have reviewed the accompanying interim consolidated balance sheet of Saudi Basic Industries Corporation ("SABIC") - A Saudi Joint Stock Company - and its subsidiaries (collectively referred to as the "Group") as of 31 December 2015 and the related interim consolidated statement of income for the three month period and year ended 31 December 2015 and the related interim consolidated statements of cash flows and changes in shareholders' equity for the year then ended. These interim consolidated financial statements are the responsibility of the Group's management and have been prepared by them and submitted to us with all the information and explanations which we required. We conducted our limited review in accordance with the Standard on Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants. A limited review consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, 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

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 them to be in conformity with accounting standards generally accepted in the Kingdom of Saudi Arabia.

For Ernst & Young


Rashid S. AlRashoud
Certified Public Accountant
Registration No. 366



Riyadh: 8 Rabi Thani 1437H
(18 January 2016)

SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND SUBSIDIARIES
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED BALANCE SHEET

As of 31 December

(Saudi Riyals in '000)

	<i>Note</i>	2015 (Unaudited)	2014 (Audited)
ASSETS			
Current assets			
Cash and cash equivalents		38,484,148	33,626,216
Short-term investments		29,909,811	38,987,375
Accounts receivable		19,377,886	25,999,624
Inventories		24,635,411	31,674,920
Prepayments and other current assets		4,479,146	4,129,065
Total current assets		116,886,402	134,417,200
Non-current assets			
Investments		16,725,780	15,477,714
Property, plant and equipment		173,215,113	168,871,048
Intangible assets		16,325,484	17,757,309
Other non-current assets		4,774,770	3,517,808
Total non-current assets		211,041,147	205,623,879
TOTAL ASSETS		327,927,549	340,041,079
LIABILITIES AND EQUITY			
Current liabilities			
Current portion of long-term debt	4	13,348,550	13,906,668
Accounts payable		16,298,576	17,617,155
Accruals and other current liabilities		10,860,686	10,929,892
Zakat payable	5	1,750,727	2,201,651
Total current liabilities		42,258,539	44,655,366
Non-current liabilities			
Long-term debt	4	59,293,134	69,176,059
Other non-current liabilities		3,754,264	4,118,759
Employee benefits		12,742,042	11,865,168
Total non-current liabilities		75,789,440	85,159,986
Total liabilities		118,047,979	129,815,352
EQUITY			
Shareholders' equity			
Share capital	6	30,000,000	30,000,000
Statutory reserve		15,000,000	15,000,000
General reserve		110,889,032	104,076,056
Other reserves		(3,922,174)	(2,323,131)
Retained earnings		10,056,235	14,586,791
Total shareholders' equity		162,023,093	161,339,716
Non-controlling interests		47,856,477	48,886,011
Total equity		209,879,570	210,225,727
TOTAL LIABILITIES AND EQUITY		327,927,549	340,041,079
CONTINGENCIES AND COMMITMENTS	11		

The accompanying notes 1 to 14 form an integral part of these interim consolidated financial statements.

SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND SUBSIDIARIES
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF INCOME

(Saudi Riyals in '000)

		<i>For the three month period ended 31 December</i>		<i>For the year ended 31 December</i>	
		<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>Note</i>	<i>2015</i>	<i>2014</i>	<i>2015</i>	<i>2014</i>
Sales		34,156,590	43,741,903	149,167,376	188,988,645
Cost of sales		(25,081,660)	(32,642,654)	(106,161,59)	(137,511,488)
GROSS PROFIT		9,074,930	11,099,249	43,005,786	51,477,157
Selling, general and administrative expenses		(3,939,011)	(3,694,382)	(13,787,918)	(13,745,888)
Impairment of plant and equipment of a subsidiary	7	(780,615)	-	(780,615)	-
INCOME FROM MAIN OPERATIONS		4,355,304	7,404,867	28,437,253	37,731,269
Share in results of equity-accounted investees		189,176	364,093	1,201,842	920,494
Financial charges		(353,701)	(461,871)	(1,492,737)	(1,613,681)
Other income, net		451,576	515,543	1,371,657	1,608,012
INCOME BEFORE SHARE OF NON- CONTROLLING INTERESTS AND ZAKAT		4,642,355	7,822,632	29,518,015	38,646,094
Share of non-controlling interests		(1,067,083)	(3,066,318)	(8,633,795)	(13,198,980)
INCOME BEFORE ZAKAT		3,575,272	4,756,314	20,884,220	25,447,114
Zakat	5	(500,000)	(400,000)	(2,100,000)	(2,100,000)
NET INCOME		3,075,272	4,356,314	18,784,220	23,347,114
EARNINGS PER SHARE (Saudi Riyals):	8				
Attributable to income from main operations		1.45	2.47	9.48	12.58
Attributable to net income		1.03	1.45	6.26	7.78

The accompanying notes 1 to 14 form an integral part of these interim consolidated financial statements.

SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND SUBSIDIARIES
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December

(Saudi Riyals in '000)

	2015 (Unaudited)	2014 (Audited)
OPERATING ACTIVITIES		
Income before zakat	20,884,220	25,447,114
<i>Adjustments for:</i>		
Depreciation, amortization and impairment	15,371,828	14,761,578
Share in results of equity-accounted investees	(1,201,842)	(920,494)
Share of non-controlling interests	8,633,795	13,198,980
<i>Changes in operating assets and liabilities:</i>		
Accounts receivable	6,621,738	4,116,721
Inventories	7,039,509	767,032
Prepayments and other current assets	(350,081)	(63,249)
Accounts payable	(1,318,579)	(1,886,672)
Accruals and other current liabilities	(679,693)	(1,234,284)
Other non-current liabilities	(364,495)	609,330
Employee benefits	1,183,189	2,046,612
Zakat paid	(2,550,924)	(2,948,146)
Net cash from operating activities	53,268,665	53,894,522
INVESTING ACTIVITIES		
Short-term investments, net	9,077,564	(8,306,120)
Investments, net	(46,224)	(712,631)
Property, plant and equipment, net	(18,029,046)	(15,161,409)
Intangible assets, net	(87,442)	799,429
Other non-current assets, net	(3,306,787)	(2,169,807)
Net cash used in investing activities	(12,391,935)	(25,550,538)
FINANCING ACTIVITIES		
Short-term bank borrowings, net	211,250	(293,591)
Long-term debt, net	(10,095,949)	3,409,761
Non-controlling interests	(9,663,329)	(14,697,635)
Dividends paid	(16,470,770)	(18,502,401)
Net cash used in financing activities	(36,018,798)	(30,083,866)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,857,932	(1,739,882)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	33,626,216	35,366,098
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	38,484,148	33,626,216

The accompanying notes 1 to 14 form an integral part of these interim consolidated financial statements.

SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND SUBSIDIARIES
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2015

(Saudi Riyals in '000)

	<i>Note</i>	<i>Share capital</i>	<i>Statutory reserve</i>	<i>General reserve</i>	<i>Other reserves</i>	<i>Retained earnings</i>	<i>Total</i>
Balance as of 31 December 2014 (audited)		30,000,000	15,000,000	104,076,056	(2,323,131)	14,586,791	161,339,716
Annual dividends for 2014	13	-	-	-	-	(9,000,000)	(9,000,000)
Board of Directors' remuneration	13	-	-	-	-	(1,800)	(1,800)
Transfer to general reserve	13	-	-	6,812,976	-	(6,812,976)	-
Interim dividends 2015	13	-	-	-	-	(7,500,000)	(7,500,000)
Net income		-	-	-	-	18,784,220	18,784,220
Net change on currency translation of foreign operations		-	-	-	(1,791,016)	-	(1,791,016)
Re-measurement impact of "Employee Benefits"		-	-	-	301,389	-	301,389
Net change on revaluation of available for sale investments and others		-	-	-	(109,416)	-	(109,416)
Balance as of 31 December 2015 (unaudited)		<u>30,000,000</u>	<u>15,000,000</u>	<u>110,889,032</u>	<u>(3,922,174)</u>	<u>10,056,235</u>	<u>162,023,093</u>

The accompanying notes 1 to 14 form an integral part of these interim consolidated financial statements.

SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND SUBSIDIARIES
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (continued)

For the year ended 31 December 2015

(Saudi Riyals in '000)

	<i>Share capital</i>	<i>Statutory reserve</i>	<i>General reserve</i>	<i>Other reserves</i>	<i>Retained earnings</i>	<i>Total</i>
Balance as of 31 December 2013 (audited)	30,000,000	15,000,000	93,799,473	(1,080,188)	19,278,383	156,997,668
Annual dividends for 2013	-	-	-	-	(9,000,000)	(9,000,000)
Board of Directors' remuneration	-	-	-	-	(1,800)	(1,800)
Transfer to general reserve	-	-	10,276,583	-	(10,276,583)	-
Interim dividends 2014	-	-	-	-	(7,500,000)	(7,500,000)
Net income	-	-	-	-	23,347,114	23,347,114
Net change on currency translation of foreign operations	-	-	-	(1,896,649)	-	(1,896,649)
Re-measurement impact of "Employee Benefits" and settlement of pension plan, net	-	-	-	676,162	(1,260,323)	(584,161)
Net change on revaluation of available for sale investments and others	-	-	-	(22,456)	-	(22,456)
Balance as of 31 December 2014 (audited)	<u>30,000,000</u>	<u>15,000,000</u>	<u>104,076,056</u>	<u>(2,323,131)</u>	<u>14,586,791</u>	<u>161,339,716</u>

The accompanying notes 1 to 14 form an integral part of these interim consolidated financial statements.

SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND SUBSIDIARIES (A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

For the three month and year ended 31 December 2015

1. ORGANIZATION AND ACTIVITIES

Saudi Basic Industries Corporation (SABIC) is a Saudi Joint Stock Company established pursuant to Royal Decree Number M/66 dated 13 Ramadan 1396H (corresponding to 6 September 1976) and registered in Riyadh under commercial registration No. 1010010813 dated 14 Muharram 1397H (corresponding to 4 January 1977). SABIC is 70% directly owned by the Public Investment Fund (the "PIF"), which is wholly owned by the Government of the Kingdom of Saudi Arabia.

SABIC and its subsidiaries (the "Group") are engaged in the manufacturing, marketing and distribution of chemical, fertilizer and metal products in global markets. The Group's head office is located in Riyadh, Kingdom of Saudi Arabia.

2. BASIS OF PREPARATION

The interim consolidated financial statements have been prepared in accordance with the standard of Interim Financial Reporting and other accounting standards generally accepted in the Kingdom of Saudi Arabia issued by the Saudi Organization for Certified Public Accountants (SOCPA).

Accounting convention

The interim consolidated financial statements are prepared under the historical cost convention, except for the measurement at fair value of available for sale investments and derivative financial instruments, using the accrual basis of accounting and the going concern concept. For employee and other post-employment benefits related to foreign entities, actuarial present value calculations are used.

Use of estimates, assumptions and judgments

The preparation of the interim consolidated financial statements in conformity with generally accepted accounting standards requires management to make estimates, assumptions and judgments that affect the reported amounts of revenues, expenses, assets and liabilities. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The actual results ultimately may differ from such estimates.

The accounting estimates and assumptions involving a higher degree of uncertainty include impairment of non-current assets and certain employee benefits related to foreign entities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted by SABIC in preparing its interim consolidated financial statements are in conformity with those described in the annual audited consolidated financial statements for the year ended 31 December 2014.

Basis of consolidation

The interim consolidated financial statements comprise the financial statements of the Group, as adjusted for the elimination of significant inter-company balances and transactions.

A subsidiary is an entity in which SABIC has a direct or indirect equity investment of more than 50% and/or over which it exerts effective management control. The financial statements of the subsidiaries are prepared, using accounting policies, which are consistent with those of SABIC. The subsidiaries are consolidated from the date on which SABIC is able to exercise effective management control, and deconsolidated from the date SABIC loses its effective management control.

The non-controlling interests have been calculated and presented as a separate line item in the interim consolidated balance sheet and interim consolidated income statement.

SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND SUBSIDIARIES
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (continued)
For the three month period and year ended 31 December 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

The subsidiaries consolidated in these interim consolidated financial statements are as follows:

	<i>Direct and indirect shareholding %</i>	
	<i>2015</i>	<i>2014</i>
SABIC Industrial Investments Company (SIIC) and its subsidiaries	100.00	100.00
SABIC Luxembourg S.a.r.l. (SLUX) and its subsidiaries	100.00	100.00
Arabian Petrochemical Company (Petrokemya) and its subsidiaries	100.00	100.00
Saudi Iron and Steel Company (Hadeed)	100.00	100.00
SABIC Sukuk Company (Sukuk)	100.00	100.00
SABIC Industrial Catalyst Company (Sabcat)	100.00	100.00
Saudi Arabia Carbon Fiber Company (SCFC)	100.00	100.00
Saudi European Petrochemical Company (Ibn-Zahr)	80.00	80.00
Jubail United Petrochemical Company (United)	75.00	75.00
National Chemical Fertilizer Company (Ibn Al-Baytar)	71.50	71.50
National Industrial Gases Company (Gas)	70.00	70.00
Yanbu National Petrochemical Company (Yansab)	51.95	51.95
Saudi Methanol Company (Ar-Razi)	50.00	50.00
Al-Jubail Fertilizer Company (Al-Bayroni)	50.00	50.00
Saudi Yanbu Petrochemical Company (Yanpet)	50.00	50.00
National Methanol Company (Ibn-Sina)	50.00	50.00
Saudi Petrochemical Company (Sadaf)	50.00	50.00
Eastern Petrochemical Company (Sharq)	50.00	50.00
Al-Jubail Petrochemical Company (Kemya)	50.00	50.00
Saudi Japanese Acrylonitrile Company (Shrouq)	50.00	50.00
Saudi Methacrylates Company (Samac)	50.00	50.00
Arabian Industrial Fibers Company (Ibn-Rushd)	48.07	48.07
Saudi Arabian Fertilizer Company (Safco)	42.99	42.99
Saudi Kayan Petrochemical Company (Saudi Kayan)	35.00	35.00

All directly owned subsidiaries are incorporated in the Kingdom of Saudi Arabia except for SLUX, which is incorporated in Luxembourg. Yansab, Safco, and Saudi Kayan are listed Saudi Joint Stock Companies.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank balances short-term deposits, demand deposits, and highly liquid investments with original maturities of three months or less.

Short-term investments

Short-term deposits

Short-term deposits with original maturities of more than three months but less than twelve months are classified as short-term investments and included under current assets. Income from these deposits is recognised on accruals basis.

Held to maturity – current portion

Held to maturity investments are reclassified as short-term investments under current assets when their remaining maturities are less than twelve months.

SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND SUBSIDIARIES
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (continued)
For the three month period and year ended 31 December 2015

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Accounts receivable

Accounts receivable are stated at the original invoice amount less any provision for doubtful debts. An estimate for doubtful debts is made when the collection of the receivable amount is considered doubtful. Bad debts are written off in the interim consolidated statement of income as incurred.

Inventories

Inventories are stated at the lower of cost or net realizable value and net of provision for slow moving items and obsolescence. Cost of raw materials, consumables, spare parts and finished goods is principally determined on weighted average cost basis. Inventories of work in progress and finished goods include cost of materials, labour and an appropriate proportion of direct overheads.

Investments

Equity-accounted investees

Associated companies

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

Joint venture

A joint venture is a contractual arrangement whereby an entity and other parties undertake an economic activity that is subject to joint control. The agreement requires unanimous agreement for financial and operating decisions among the parties involved.

In the interim consolidated financial statements, the investments in equity-accounted investees are initially recognised at cost and adjusted thereafter for the post-acquisition/incorporation change in the Group's share of net assets of such investees. The Group's share in the financial results of these investees is recognised in the interim consolidated statement of income. Material changes in equity items of these investees are reported in the interim consolidation statements of changes in shareholders' equity.

Available for sale

This represents investments in financial assets neither acquired for trading purposes nor held to maturity. These are stated at fair value. Differences between fair value and cost, if material, are reported separately in the interim consolidated statement of changes in shareholders' equity. Any decline other than temporary in the value of these investments is charged to the interim consolidated statement of income.

Fair value is determined by reference to the market value if an open market exists, or by the use of other alternative valuation methods. Otherwise, cost is considered to be the fair value.

Held to maturity

This represents investments that are acquired with the intention and ability of being held to maturity, which are carried at cost (adjusted for any premium or discount), less any decline in value, which is other than temporary. Such investments are classified as non-current assets with the exception of investments maturing in the following twelve months.

SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND SUBSIDIARIES
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (continued)
For the three month period and year ended 31 December 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment, except for freehold land and construction work in progress which are stated at cost.

Items of property, plant and equipment are depreciated from the date they are available for use or in respect of self-constructed assets, from the date such assets are completed and ready for the intended use. Depreciation is provided over the estimated useful lives of the applicable assets using the straight-line method. Leasehold improvements are depreciated over the shorter of the estimated useful life or the remaining term of the lease. The capitalised leased assets are depreciated over the shorter of the estimated useful lives or the lease term. The estimated useful lives of the principal asset classes are as follows:

Buildings	33-40 years
Plant and equipment	20 years
Furniture, fixtures and vehicles	4-10 years

Expenditure on maintenance and repairs is expensed, while expenditure on improvements is capitalised. Financing costs related to qualifying assets are capitalised until they are ready for their intended use. Costs, which are directly attributable to turnarounds and major inspections and eligible for capitalisation, are recognised under property, plant and equipment. Such costs once capitalized are depreciated over the period to the occurrence of next such turnaround or major inspection.

Leases

Leases are classified as capital leases whenever the terms of the lease transfer substantially all of the risks and rewards of ownership to the Group. All other leases are classified as operating leases.

Assets held under capital leases are recognised 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 lease 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 return on the remaining balance of the obligations for each accounting period.

Rental payments under operating leases are charged to the interim consolidated statement of income on a straight-line basis over the term of the relevant operating leases.

Intangible assets

Intangible assets acquired separately are measured at cost upon initial recognition. Intangible assets acquired in a business combination are measured at fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortization and impairment, if any.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite useful lives are amortized using the straight-line method over the estimated useful lives of relevant assets and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The amortization periods for intangible assets with finite useful lives are as follows:

Trademarks	22 years
Customer lists	18 years
Patented and unpatented technologies	10 years
IT development costs and technology and innovation assets	3-15 years

Goodwill and other intangible assets with indefinite useful lives are tested for impairment annually or earlier when circumstances indicate that the carrying value may be impaired.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

Goodwill

The excess of consideration paid over the fair value of net assets acquired is recorded as goodwill. Goodwill is annually re-measured and reported in the interim consolidated financial statements at carrying value after adjustment for impairment, if any.

Pre-operating expenses, deferred costs and other intangible assets

Expenses incurred during the development of new projects, which are expected to provide benefits in future periods, are deferred and are amortized from the commencement of the commercial operations using a straight-line method over the shorter of the estimated period of economic benefits or seven years.

Impairment of non-current assets

At each balance sheet date, the Group reviews the carrying amount of its tangible and intangible non-current assets to determine whether there is any indication that those assets have suffered an impairment loss. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of an asset's fair value less costs to sell or value-in-use. 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 (CGU) to which the asset belongs.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. Impairment losses are charged to interim consolidated statement of income.

For assets other than goodwill, an assessment is made periodically as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. This reversal is limited so that the carrying amount of the asset does not exceed the amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the interim consolidated statement of income.

Accounts payable and accruals

Liabilities are recognised for amounts to be paid in the future for goods or services received at the balance sheet date.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Dividends

Final dividends are recognised as a liability at the time of their approval by the General Assembly. Interim dividends are recorded as and when approved by the Board of Directors.

Zakat and income tax

Zakat is provided in accordance with the Regulations of the Department of Zakat and Income Tax (DZIT) in the Kingdom of Saudi Arabia and on accrual basis. The provision is charged to the interim consolidated statement of income. Differences, if any, resulting from the final assessments are adjusted in the year of their finalization. Foreign shareholders in subsidiaries are subject to income tax in the Kingdom of Saudi Arabia, which is included in non-controlling interests in the interim consolidated financial statements.

For subsidiaries outside the Kingdom of Saudi Arabia, provision for tax is computed in accordance with tax regulations of the respective countries. Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the relevant tax authorities.

SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND SUBSIDIARIES
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (continued)
For the three month period and year ended 31 December 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognised for taxable temporary differences. Deferred income tax assets are recognised for deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Long-term debt

Borrowings are recognised at cost, being the fair value of the proceeds received, net of transactions' costs. Financial charges are recorded in the interim consolidated statement of income.

Employee benefits

Employee end of service benefits are provided for in accordance with the requirements of the Saudi Arabian Labour Law and Group's policies. Employee early retirement plan costs are provided for in accordance with the Group's policies and are charged to the interim consolidated statement of income in the year the employee retires.

The Group has pension plans for its employees in overseas jurisdictions. The eligible employees participate in either defined contribution or defined benefit plans. The pension plans take into consideration the legal framework of labour and social security laws of the countries where the subsidiaries are incorporated.

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The net pension asset or liability recognised in the interim consolidated balance sheet in respect of defined benefit postemployment plans is the fair value of plan assets less the present value of the projected defined benefit obligation (DBO) at the balance sheet date. Recognised assets are limited to the present value of any reductions in future contributions or any future refunds. The projected defined benefit obligation is calculated annually by qualified actuaries using the projected unit credit method.

Pension costs for an interim period are calculated on a year-to-date basis using the actuarially determined pension cost rate at the end of the prior year, adjusted for significant market fluctuations and for significant one-off event, such as plan amendments, curtailments and settlements. In the absence of such significant market fluctuations and one-off event, the actuarial liabilities are rolled forward in the scheme based on the assumptions as at the beginning of the year. If there are significant changes to the pension assumptions or arrangements during the interim period, consideration is given to obtaining an actuarial valuation of the scheme liabilities.

Employee home ownership program

Unsold housing units constructed for eventual sale to eligible employees are included under land and buildings and are depreciated over 33 years. Upon signing the sale contract with the eligible employees, the relevant housing units are classified under other non-current assets.

Revenue recognition

Revenues represent the invoiced value of goods shipped and services rendered by the Group during the period, net of any trade and quantity discounts. Generally, sales are reported net of marketing and distribution expenses incurred in accordance with executed marketing and off-take agreements.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Selling, general and administrative expenses

Production costs and direct expenses are classified as cost of sales. All other expenses, including selling and distribution expenses not deducted from sales are classified as selling, general and administrative expenses.

Technology and innovation expenses

Technology and innovation expenses are charged to the interim consolidated statement of income when incurred. Development expenses, which are expected to generate measurable economic benefits to the Group, are capitalized as intangibles and amortized over their expected useful lives.

Foreign currency translation

Transactions in foreign currencies are translated into Saudi Riyals at the rates of exchange prevailing at the time of such transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the exchange rates prevailing at the balance sheet date. Gains and losses from settlement and translation of foreign currency transactions are included in the interim consolidated statement of income.

The financial statements of foreign entities are translated into Saudi Riyals using the exchange rate at each balance sheet date, for assets and liabilities, and the average exchange rates for revenues and expenses. Components of equity, other than retained earnings, are translated at the rates prevailing at the date of their occurrence. Translation adjustments, if material, are recorded in the interim consolidated statement of changes in shareholders' equity.

Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to certain portions of its interest rate risks arising from financing activities. The Group generally designates these as cash flow hedges. The use of financial derivatives is governed by the Group's policies, which provide principles on the use of financial derivatives consistent with the Group's risk management strategy. The Group does not use derivative financial instruments for speculative purposes. Derivative financial instruments are initially measured at fair value on the contract date and are re-measured to fair value at subsequent reporting dates.

Current versus non-current classification

An asset or liability is classified as current when it is expected to be realized or paid within twelve months after the balance sheet date, except for derivatives designated as a hedge, which are classified consistent with the underlying hedged item.

Financial assets and liabilities

A financial asset and liability is offset and the net amount is reported in the interim consolidated financial statements, when the Group has a legally enforceable right to offset the recognised amounts and intends either to settle on a net basis, or to realize the asset and liability simultaneously.

Interim consolidated statement of cash flows

The Group uses the indirect method to prepare the interim consolidated statement of cash flows. Cash flows in foreign currencies are translated at average exchange rates.

Segment reporting

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

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4. LONG-TERM DEBT

Term loans

The Group obtained loans in order to finance its investments, which are repayable in conformity with the applicable loan agreements at varying interest rates. Certain subsidiaries' property, plant and equipment have been pledged against their respective loans.

The Public Investment Fund (PIF) and Saudi Industrial Development Fund (SIDF) term loans are generally repayable in semi-annual instalments. PIF loans carry financing charges at varying rates and SIDF loans have an up front and annual administrative fees charged under their loans agreements.

Bonds

The following bonds were outstanding as of 31 December 2015:

- On 3 October 2013, SABIC Capital II B.V., a subsidiary of SLUX, issued a 5 year \$1 billion bond with a coupon of 2.625%. The proceeds were used to repay external debt.
- On 20 November 2013, SABIC Capital I B.V. issued a 7 year €750 million bond with a coupon of 2.75%. The proceeds were used to redeem Eurobond € 750 million, upon its maturity on 28 November 2013.

In November 2015, SABIC Capital I B.V., a subsidiary of SLUX, repaid a 5 year \$1 billion bond.

SABIC has provided guarantees for bonds and certain term loans for certain subsidiaries which amounted to SR 29.2 billion as of 31 December 2015 (31 December 2014: SR 32.4 billion).

Notes

On 29 December 2009, SABIC entered into an agreement with PIF for a private placement of unsecured Saudi Riyal notes amounting to SR 10 billion with multiple tranches. Such notes are fully drawn and have a bullet maturity after 7 years of their respective issuance.

5. ZAKAT

SABIC has filed its zakat returns with the DZIT, received the zakat certificates, and settled the zakat dues accordingly up to the year ended 31 December 2014. SABIC has cleared its zakat assessment with DZIT up to the year ended 31 December 2014.

6. SHARE CAPITAL

The share capital amounting to SR 30 billion is divided into 3 billion shares of SR 10 each as of 31 December 2015 and 2014.

8. EARNINGS PER SHARE

The earnings per share is calculated based on the weighted average number of outstanding shares at the end of the period.

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8. IMPAIRMENT OF PLANT AND EQUIPMENT OF A SUBSIDIARY

	<i>SR'000</i>
Attributable to SABIC	375,241
Attributable to non-controlling interests	405,374
	<u>780,615</u>

The impairment loss above represents the write-down of certain plant and equipment of Ibn Rushd to its recoverable amount due to oversupply in the market pushing profitability down.

The recoverable amount of SR 7,980 million as at 31 December 2015 was based on "value-in-use" method and was determined at the level of cash generating unit ("CGU") as identified by Ibn Rushd's management and consists of the net operating assets of Ibn Rushd. In determining value in use for the CGU, the cash flows – determined using approved 5-year business plan and budget – were discounted at a rate of 9.5% on a pre-zakat basis and up to the year 2035 in line with the estimated useful life of the concerned plant and equipment. The estimated average growth rate used to extrapolate the cash flows beyond the 5-year period was 0.4% and Ibn Rushd's management believes that such growth rate does not exceed the long-term average growth rate for the market in which it operates. The calculation of value-in-use is most sensitive to the following key assumptions used:

- Future performance improvements
- Discount rate applied to cash flows projections
- Sale prices and quantities

8. EARNINGS PER SHARE

The earnings per share is calculated based on the weighted average number of outstanding shares at the end of the period.

9. SEGMENT INFORMATION

The Group's operations consist of the following business segments:

- **The chemicals segment** includes chemicals, polymers and innovative plastics.
- **The agri-nutrients segment** consists of fertilizer products.
- **The metals segment** consists of steel products.
- **The corporate segment** includes corporate operations, technology and innovation centers, investment activities and SABIC Industrial Investments Company (SIIC).

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9. SEGMENT INFORMATION (continued)

	Chemicals SR'000	Agri-Nutrients SR'000	Metals SR'000	Corporate SR'000	Consolidation adjustments & eliminations SR'000	Total SR'000
31 December 2015 (Unaudited)						
Sales	170,581,507	5,965,509	10,668,468	8,186,012	(46,234,120)	149,167,376
Gross profit	33,190,209	2,711,582	(763,357)	3,529,416	4,337,936	43,005,786
Net income	20,739,790	2,543,976	(1,457,644)	20,581,634	(23,623,536)	18,784,220
Total assets	229,485,169	13,797,172	21,032,990	214,808,716	(151,196,498)	327,927,549
Total liabilities	152,272,910	2,350,017	4,647,439	50,578,599	(91,800,986)	118,047,979
31 December 2014 (Audited)						
Sales	216,916,933	7,247,615	13,506,993	12,086,170	(60,769,066)	188,988,645
Gross profit	39,901,289	4,153,633	1,983,169	4,542,165	896,901	51,477,157
Net income	27,654,455	4,169,170	1,354,093	23,880,214	(33,710,818)	23,347,114
Total assets	246,020,197	13,559,798	24,559,855	229,420,814	(173,519,585)	340,041,079
Total liabilities	161,309,303	1,770,095	5,916,661	61,731,464	(100,912,171)	129,815,352

The total net results of the above segments include share in the results of the subsidiaries and the associated companies. Also, the total assets balances in these segments include investment balances with respect to subsidiaries.

Substantial portions of the Group's operating assets are located in the Kingdom of Saudi Arabia. The principal markets for the Group's chemical products are Europe, USA, the Middle East, and Asia Pacific. The principal markets for the Group's agri-nutrients segment are mainly in South East Asia, Australia, New Zealand, South America, Africa and the Middle East. The metals segment sales are mainly in the Kingdom of Saudi Arabia and other Gulf Cooperative Council (GCC) Countries. The corporate activities are primarily based in the Kingdom of Saudi Arabia.

10. INTERIM RESULTS

The results of operations for the interim periods may not be an accurate indication of the results of the full year's operations. The interim consolidated financial statements and the accompanying notes should be read in conjunction with the annual audited consolidated financial statements and the related notes for the year ended 31 December 2014.

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11. CONTINGENCIES AND COMMITMENTS

The Group is involved in litigation matters in the ordinary course of business, which are being defended. While the ultimate results of these matters cannot be determined with certainty, the Group's management does not expect that they will have a material adverse effect on the interim consolidated financial statements of the Group.

The Group's bankers have issued, on its behalf, bank guarantees amounting to SR 2.3 billion as of 31 December 2015 (31 December 2014: SR 3 billion) in the normal course of business.

SABIC has an equity contribution commitment towards its 15% interest in Ma'adan Wa'ad Al Shamal Phosphate Company (MWSP). As of 31 December 2015, the outstanding commitment towards this investment amounts to SR 440 million (31 December 2014: SR 946 million). Pursuant to the terms of the agreements with the other shareholders of MWSP and its external lenders, SABIC has agreed to contribute additional funds to MWSP, under certain circumstances and to the extent required, in the event of cost over-runs.

SABIC has also an equity contribution commitment towards its 25% interest in Saudi Arabian Industrial Investments Company (SAIIC). As of 31 December 2015, the outstanding commitment towards this investment amounts to SR 375 million (31 December 2014: NIL).

12. DERIVATIVE FINANCIAL INSTRUMENTS

The Group has executed derivative financial instruments transactions including commission rate swaps. The remaining notional amount outstanding as of 31 December 2015 under such transactions was SR 3.9 billion (31 December 2014: SR 4.4 billion).

13. APPROPRIATION OF NET INCOME

The Annual General Assembly, in its meeting held on 23 Jumada Al-Thani 1436H (corresponding to 12 April 2015), approved the appropriation of the net income for the year ended 31 December 2014 as follows:

- distribution of cash dividends of SR 16.5 billion (SR 5.5 per share), this includes the interim cash dividends amounting to SR 7.5 billion (SR 2.5 per share) for the first half of 2014;
- payment of SR 1.8 million as Board of Directors' remuneration; and
- transfer of the remaining balance to the general reserve.

On 9 Shawwal 1436H (corresponding to 25 July 2015), SABIC's Board of Directors approved to distribute interim cash dividend for the first half of 2015 amounting to SR 7.5 billion (SR 2.5 per share).

On 5 Rabi Awal 1437H (corresponding to 16 December 2015), the Board of Directors proposed a distribution of cash dividends for the second half of the year ended 31 December 2015 amounting to SR 9 billion (SR 3 per share). The proposed dividends are subject to the approval of the shareholders at their General Assembly Meeting. The total proposed cash dividends for the year ended 31 December 2015 would amount to SR 16.5 billion (SR 5.5 per share).

14. COMPARATIVE FIGURES

Certain prior period figures have been re-classified to conform with the presentation in the current period.