

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

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

**FOR THE THREE MONTH PERIOD ENDED**  
**31 March 2013**

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

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INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three month period ended 31 March 2013

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## LIMITED REVIEW REPORT

April 20, 2013

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") and its subsidiaries (collectively referred to as the "Group") as of March 31, 2013 and the interim consolidated statements of income, cash flows and changes in shareholders' equity for the three-month period then ended, and the related notes which form an integral part of these interim consolidated financial statements. 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.

We conducted our limited review in accordance with the standard of 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 information and making inquiries of persons responsible for financial and accounting matters. The scope of such limited review is substantially less than an audit conducted in accordance with auditing standards generally accepted in Saudi Arabia, 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.

### Review 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 Saudi Arabia.

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

INTERIM CONSOLIDATED BALANCE SHEET (Unaudited)

As of 31 March

(Saudi Riyals in '000)

	<i>Note</i>	<i>2013</i>	<i>2012</i> <i>(restated)</i>
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		65,987,169	59,598,952
Short-term investments		11,477,165	17,725,966
Accounts receivable		28,720,477	33,159,049
Inventories		31,466,947	30,595,338
Prepayments and other current assets		3,723,547	4,288,762
<b>Total current assets</b>		<b>141,375,305</b>	<b>145,368,067</b>
<b>Non-current assets</b>			
Investments	4	12,739,725	9,738,402
Property, plant and equipment		160,980,452	165,727,173
Intangible assets	5	22,139,357	22,446,419
Other non-current assets		2,512,522	2,336,558
<b>Total non-current assets</b>		<b>198,372,056</b>	<b>200,248,552</b>
<b>TOTAL ASSETS</b>		<b>339,747,361</b>	<b>345,616,619</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Accounts payable		17,128,439	17,614,138
Short-term bank borrowings		95,061	1,783,759
Current portion of long-term debt	6	15,062,424	13,018,507
Accruals and other current liabilities		10,424,077	12,581,639
Zakat payable		3,806,830	3,782,737
<b>Total current liabilities</b>		<b>46,516,831</b>	<b>48,780,780</b>
<b>Non-current liabilities</b>			
Long-term debt	6	77,159,208	90,492,419
Employee benefits		10,168,275	9,353,857
Other non-current liabilities		3,311,671	3,885,778
<b>Total non-current liabilities</b>		<b>90,639,154</b>	<b>103,732,054</b>
<b>Total liabilities</b>		<b>137,155,985</b>	<b>152,512,834</b>
<b>EQUITY</b>			
<b>Shareholders' equity</b>			
Share capital	7	30,000,000	30,000,000
Statutory reserve		15,000,000	15,000,000
General reserve		84,021,011	69,780,661
Retained earnings		22,957,447	28,893,017
<b>Total shareholders' equity</b>		<b>151,978,458</b>	<b>143,673,678</b>
<b>Minority interest</b>		<b>50,612,918</b>	<b>49,430,107</b>
<b>Total equity</b>		<b>202,591,376</b>	<b>193,103,785</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>339,747,361</b>	<b>345,616,619</b>

The accompanying notes 1 to 15 form an integral part of these interim consolidated financial statements.

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

INTERIM CONSOLIDATED STATEMENT OF INCOME (Unaudited)

For the three month period ended 31 March

(Saudi Riyals in '000)

	Note	2013	2012
Sales		46,738,919	48,345,538
Cost of sales		(32,723,539)	(34,023,769)
<b>GROSS PROFIT</b>		<b>14,015,380</b>	<b>14,321,769</b>
Selling, general and administrative expenses		(2,963,393)	(2,848,913)
<b>INCOME FROM MAIN OPERATIONS</b>		<b>11,051,987</b>	<b>11,472,856</b>
Investments and other income		476,897	699,670
Financial charges		(473,346)	(676,523)
<b>INCOME BEFORE MINORITY INTEREST AND ZAKAT</b>		<b>11,055,538</b>	<b>11,496,003</b>
Minority interest share in the net results of subsidiaries		(3,892,095)	(3,524,989)
<b>INCOME BEFORE ZAKAT</b>		<b>7,163,443</b>	<b>7,971,014</b>
Zakat	8	(600,000)	(700,000)
<b>NET INCOME FOR THE PERIOD</b>		<b>6,563,443</b>	<b>7,271,014</b>
<b>EARNINGS PER SHARE (Saudi Riyals):</b>			
Attributable to income from main operations	9	3.68	3.82
Attributable to net income for the period	9	2.19	2.42

The accompanying notes 1 to 15 form an integral part of these interim consolidated financial statements.

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

INTERIM CONSOLIDATED STATEMENT OF CASH FLOW (Unaudited)

For the three month period ended 31 March  
(Saudi Riyals in '000)

	2013	2012
<b>OPERATING ACTIVITIES</b>		
Income before zakat	7,163,443	7,971,014
<i>Adjustments for:</i>		
Depreciation and amortization	3,270,740	3,106,123
Share in results of associated companies, net	(76,986)	(248,792)
Minority interest share in the net results of subsidiaries	3,892,095	3,524,989
<i>Changes in operating assets and liabilities:</i>		
Short-term investments	2,913,891	(1,950,416)
Accounts receivable	2,821,599	(1,732,603)
Inventories	3,031,701	868,631
Prepayments and other current assets	709,287	(942,624)
Accounts payable	(2,475,907)	1,226,039
Accruals and other current liabilities	815,832	3,395,659
Employee benefits	(367,653)	(17,820)
Other non-current liabilities	(39,172)	(160,251)
Zakat paid	(940)	(57,659)
<b>Net cash from operating activities</b>	<b>21,657,930</b>	<b>14,982,290</b>
<b>INVESTING ACTIVITIES</b>		
Property, plant and equipment, net	1,711,009	(2,678,796)
Investments, net	(2,281,000)	211,470
Intangible assets	360,138	(463,295)
Other non-current assets, net	54,738	(340,450)
<b>Net cash used in investing activities</b>	<b>(155,115)</b>	<b>(3,271,071)</b>
<b>FINANCING ACTIVITIES</b>		
Short-term bank borrowings, net	(779,126)	450,336
Long-term debt, net	(2,432,748)	2,339,486
Dividends paid	(19,036)	(13,355)
Minority interest, net	(3,715,487)	(5,278,106)
<b>Net cash used in financing activities</b>	<b>(6,946,397)</b>	<b>(2,501,639)</b>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>14,556,418</b>	<b>9,209,580</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD</b>	<b>51,430,751</b>	<b>50,389,372</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>	<b>65,987,169</b>	<b>59,598,952</b>

The accompanying notes 1 to 15 form an integral part of these interim consolidated financial statements.

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

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN  
SHAREHOLDERS' EQUITY (Unaudited)  
For the three month period ended 31 March  
(Saudi Riyals in '000)

	<i>Note</i>	<i>Share capital</i>	<i>Statutory reserve</i>	<i>General reserve</i>	<i>Retained earnings</i>	<i>Total</i>
<b><u>31 March 2013</u></b>						
Balance as of 31 December 2012		30,000,000	15,000,000	84,021,011	18,780,262	147,801,273
Impact of revision of IAS 19 "Employee Benefits"	3	--	--	--	(2,386,258)	(2,386,258)
Balance as of 1 January 2013 as restated		30,000,000	15,000,000	84,021,011	16,394,004	145,415,015
Net income for the period		--	--	--	6,563,443	6,563,443
Balance as of 31 March 2013		<u>30,000,000</u>	<u>15,000,000</u>	<u>84,021,011</u>	<u>22,957,447</u>	<u>151,978,458</u>
<b><u>31 March 2012</u></b>						
Balance as of 31 December 2011		30,000,000	15,000,000	69,780,661	23,241,750	138,022,411
Impact of revision of IAS 19 "Employee Benefits"	3	--	--	--	(1,364,246)	(1,364,246)
Balance as of 1 January 2012 as restated		30,000,000	15,000,000	69,780,661	21,877,504	136,658,165
Net income for the period		--	--	--	7,271,014	7,271,014
Impact of revision of IAS 19 "Employee Benefits"	3	--	--	--	(255,501)	(255,501)
Balance as of 31 March 2012		<u>30,000,000</u>	<u>15,000,000</u>	<u>69,780,661</u>	<u>28,893,017</u>	<u>143,673,678</u>

The accompanying notes 1 to 15 form an integral part of these interim consolidated financial statements.

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

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) For the three month period ended 31 March 2013

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### 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% owned by the Government of the Kingdom of Saudi Arabia and 30% by the private sector.

SABIC and its subsidiaries (the "Group") are engaged in the manufacturing, marketing and distribution of chemical, fertilizer and metal products in global markets.

### 2. BASIS OF PREPARATION

The 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).

#### **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 these estimates.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted by SABIC in preparing its interim consolidated financial statements which are in conformity with those described in the annual audited consolidated financial statements for the year ended 31 December 2012 except for accounting treatment of interest in joint venture and employee benefits as described in subsequent paragraphs.

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 2012.

#### **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% 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 effective management control.



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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited, (continued))  
For the three month period ended 31 March 2013

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>2013</i>	<i>2012</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
SABIC Asia Pacific Pte. Ltd. (SAPPL) and its subsidiaries	--	100.00
Arabian Petrochemical Company and its subsidiary (Petrokemya)	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 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	--
Arabian Industrial Fiber Company (Ibn Rushd)	47.26	47.26
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, and SAPPL which are incorporated in Luxembourg and the Republic of Singapore, respectively. Yansab, Safco, and Saudi Kayan are listed Saudi Joint Stock Companies.

Effective 1 April 2012, the direct ownership of SAPPL, was transferred from SABIC to SABIC International Holdings B.V., a wholly owned subsidiary of SLUX.

During the year 2012, Saudi Japanese Acrylonitrile Company (Shrouq) was incorporated (currently in the development stage). The Company is located in Jubail Industrial City and will be engaged in the production of Acrylonitrile and Sodium Cyanide.

SINOPEC/SABIC Tianjin Petrochemical Co. Ltd. (SSTPC) is a jointly controlled entity equally owned by SIIC and China Petroleum & Chemical Corporation (SINOPEC). In May 2011, the International Accounting Standard Board (IASB) issued International Financial Reporting Standards 11: Joint Arrangements (IFRS 11). Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor rather than the legal structure of the joint arrangement. IFRS 11 removes the option of proportionate consolidation set out in International Accounting Standard (IAS 31), Interest in Joint Ventures, which had been adopted by Saudi Organization for Certified Public Accountants ("SOCPA") and applied by the Group in 2012 and prior years. IFRS 11 requires entities to account for joint ventures using the equity method. The application of IFRS 11 is effective for the annual periods starting on or after 1 January 2013. Accordingly, effective 1 January 2013, the Group started recording the results of SSTPC using the equity method. The effect of the above mentioned change in accounting policy is not considered to be significant and, therefore, comparative figures are not restated.

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (continued)  
For the three month period ended 31 March 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**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 investments with original maturities of more than three months but less than a year are included under current assets. Income from these investments is recognized on an accrual basis.

**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 as incurred.

**Inventories**

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

**Investments**

*Associated companies and interests in a joint venture*

An investment in associated companies represents investments of 20% or more in the share capital of investees, other than subsidiary companies, and over which the Group exercises significant influence. 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 associated companies and joint ventures are accounted for using the equity method, whereby the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the associated companies and joint ventures. The Group's share in the financial results of these investees is recognized in the interim consolidated statement of income.

*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 the fair value and the 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 on the basis of the most recent financial statements. Otherwise, cost is considered to be the fair value.

*Held to maturity*

This represents investments that are acquired with the intention of being held to maturity, and these 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 ITS SUBSIDIARIES  
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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (continued)  
For the three month period ended 31 March 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Property, plant and equipment**

Property, plant and equipment are stated at cost net of accumulated depreciation except for freehold land and construction work in progress which are stated at cost. Expenditure on maintenance and repairs is expensed, while expenditure on improvements is capitalized. Borrowing cost related to qualifying assets are capitalised during the period of construction as part of the qualifying assets. Borrowing costs are capitalised up to the date the qualifying asset is ready for its intended use.

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 that the assets are completed and reach for its 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 estimated useful lives of current and comparative period of the principal classes of assets are as follows:

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

**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 lessee. All 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 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 operating lease.

**Intangible assets**

Intangible asset is defined as an identifiable non-monetary asset without physical substance which is controlled by the Group as a result of past events and from which future economic benefits are expected to flow to the Group. Intangible asset (other than goodwill) are measured initially at cost and subsequently, amortized using the straight-line method over their estimated useful lives of relevant assets.

**Goodwill**

The excess of consideration paid over the fair value of net assets acquired is recorded as goodwill. Goodwill is periodically re-measured and reported in the interim consolidated financial statements at carrying value after being adjusted for impairment, if any. The carrying amount of negative goodwill, if any, is netted off against the fair value of non-current assets.

**Pre-operating expenses**

Expenses incurred during the development of new projects and their start-up periods, and which are expected to provide benefits in future periods, are deferred or capitalized. The deferred pre-operating expenses are amortized starting from the commencement of the commercial operations using a straight-line method over the shorter of the estimated period of benefit or seven years.

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (continued)  
For the three month period ended 31 March 2013

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

**Impairment**

At each balance sheet date, the Group reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the Cash Generating Unit (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 recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the assets' or CGU's recoverable amount. A previously recognized 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 recognized. 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 recognized for the asset in prior years. Such reversal is recognized in the interim consolidated statement of income.

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

**Accounts payable and accruals**

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the suppliers and service providers or not.

**Dividends**

Final dividends are recognized 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 an 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 minority interest 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 taxation authorities.

**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 assets are recognized for all 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. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (continued)  
For the three month period ended 31 March 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Long-term debt**

Borrowings are initially recognized at cost, being the fair value of the proceeds received, net of transactions costs. Financial charges are accrued and recorded in the interim consolidated statement of income for each period.

**Employee benefits**

Employee end of service benefits are provided for in accordance with the requirements of the Saudi Arabian Labor 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 labor and social security laws of the countries where the subsidiaries are incorporated.

In June 2011, the IASB announced revisions to International Accounting Standard 19: Employee Benefits (IAS 19) impacting the measurement and presentation of employee benefits in respect of post-employment plans. The Group adopted the revisions of IAS 19, related to its pension plans for its employees in overseas jurisdictions, which became effective 1 January 2013. The most significant change of IAS 19 relates to the accounting for changes and measurement of defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and fair value of plan assets when they occur, and eliminate the 'corridor approach' permitted under IAS 19 as applied by the Group up to 31 December 2012. In addition, IAS 19 accelerates the recognition of past service costs and requires all actuarial gains and losses to be recognized in the retained earnings.

Due to the amendments in IAS 19, the presentation of changes in defined benefit obligations and plan assets are split into three components:

- *Service costs* – are recognized in the interim consolidated statement of income and include current and past service cost as well as gains or losses on settlements.
- *Net interest* – is recognized in the interim consolidated statement of income and calculated by applying the discount rate at the beginning of the reporting period to the net defined benefit liability or asset at the beginning of each reporting period.
- *Re-measurement* – is recognized directly in the retained earnings and comprises actuarial gains and losses on the defined benefits obligation, i.e. the excess of the actual return on plan assets over the change in plan assets due to the passage of time and the changes, if any, due to the impact of the asset ceiling.

The revision of IAS 19 has been accounted for with effect from 1 January 2013 retrospectively, and the comparative figures for the earliest period presented i.e. period ended 31 March 2012 have been restated.

**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**

Sales 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 retranslated 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 as a component of 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 of interest rate risk. 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.

Changes in the fair value of derivative financial instruments that are designated as effective hedges of future cash flows are recognized directly in equity, if material and the ineffective portion is recognized in the interim consolidated statement of income. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognized, the associated gain or loss on the derivative that had previously been recognized is included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognized in interim consolidated statement of income in the same period in which the hedged item affects net income or loss.

Changes in 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. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, for forecast transactions, any cumulative gain or loss on the hedging instrument recognized in equity is retained in equity until the forecasted transactions occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in equity is transferred to interim consolidated statement of income for the year.

**Financial assets and liabilities**

Financial assets and liabilities carried in the interim consolidated balance principally include cash and cash equivalents, short-term investments, accounts receivable and other receivables, accounts and other payables, accrued expenses and borrowings.

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

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**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.

4. INVESTMENTS

Investments include investments in associated companies and interests in joint ventures which are accounted for based on the equity method in these interim consolidated financial statements. As explained in note 3, the Group's interest in SSTPC amounting to SR 2.17 billion as of 31 March 2013 is included in investments. Investments also include available for sale and held to maturity investments.

5. INTANGIBLE ASSETS

Intangible assets include goodwill, patents, trademarks, pre operating costs and other intangibles.

6. LONG-TERM DEBT

**Term loans**

The Group obtained commercial loans from various financial institutions in order to finance its expansions, new projects and acquisitions, which are repayable in installments at varying interest rates in conformity with the applicable loan agreements.

SABIC has issued guarantees to certain commercial banks for the loan facilities amounting to SR 9 billion (31 March 2012: SR 9 billion) for some of its subsidiaries in the Kingdom of Saudi Arabia, for funding their projects and expansions.

The PIF and SIDF term loans are generally repayable in semi-annual installments and financing charges on these loans are at varying rates above LIBOR/SAIBOR. The administration fees related to the SIDF loans paid are capitalized as part of the plant construction costs.

**Notes**

On 29 December 2009, SABIC entered into an agreement with Public Investment Fund (PIF) for a private placement of unsecured Saudi Riyal notes amounting to SR 10 billion with multiple tranches. Such tranches have a bullet maturity after 7 years. As of 31 March 2013, total Saudi Riyal notes drawn under the above mentioned instruments amounted to SR 10 billion (31 March 2012: SR 9 billion).

**Bonds**

In 2008, SABIC Capital I B.V. (a wholly-owned indirect subsidiary of SLUX) executed an exchange offer to replace SABIC Europe B.V. in carrying the liability of the unsecured Euro 750 million Euro-bond which carries a fixed coupon rate of 4.5% and a maturity date due on 28 November 2013. This instrument is classified as current portion of long-term debt. In 2010, SABIC Capital I B.V. issued a 5 year \$ 1 billion bond with a coupon rate of 3.0% and a maturity date due on 2 November 2015.

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**6. LONG-TERM DEBT (continued)**

***Sukuk***

On 15 July 2007, SABIC issued its second Sukuk amounting to SR 8 billion, at par value of SR 10,000 each, without discount or premium, maturing in 2027. On 15 July 2012, SABIC purchased the assets of its second Sukuk amounting to SR 8 billion in accordance with the terms and conditions of the Sukuk.

On 3 May 2008, SABIC issued its third Sukuk amounting to SR 5 billion, at par value of SR 10,000 each, without discount or premium, maturing in 2028. On 13 April 2013, SABIC announced its intention to purchase the assets of its third Sukuk in accordance with the terms and conditions of the Sukuk. Trading in this Sukuk ceased on 15 April 2013 and the full amount due to Sukuk holders will be deposited to the Sukuk holders' accounts on 15 May 2013. As of 31 March 2013, the third Sukuk was classified as 'current portion of long-term debt'.

The Sukuk issuances bear a rate of return based on SAIBOR plus a specified margin payable quarterly in arrears from the net income received under the Sukuk assets held by the Sukuk custodian 'SABIC Sukuk Company', a wholly owned subsidiary of SABIC.

At the end of each five year period, SABIC shall pay an amount equal to 10% of the aggregate face value of the Sukuk as bonus to the Sukuk holders. SABIC has provided an undertaking to the Sukuk holders to purchase the Sukuk from the Sukuk holders on the first, second and third "fifth year date" (the respective periodic distribution date following after fifth, tenth and fifteenth year of issue) at an amount equivalent to 90%, 60% and 30% of the face value respectively.

**7. SHARE CAPITAL**

The share capital amounting to SR 30 billion is divided into 3 billion shares of SR 10 each as of 31 March 2013 and 2012.

**8. ZAKAT**

Zakat is provided for and charged to the interim consolidated statement of income on an estimated basis. Differences resulting from the final zakat calculation are adjusted at the year end.

SABIC has filed its zakat returns with the DZIT up to the year ended 31 December 2011, and settled the zakat dues accordingly. SABIC has cleared its zakat status with DZIT up to the year ended 31 December 2009. SABIC has received the zakat certificates up to the year ended 31 December 2011, however, the zakat assessment for the year ended 31 December 2010 and 2011 are under review by the DZIT.

**9. 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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10. SEGMENT INFORMATION

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

- **The chemicals segment** includes chemicals, polymers, performance chemicals and innovative plastics.
- **The fertilizers 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)

	<i>Chemicals</i>	<i>Fertilizers</i>	<i>Metals</i>	<i>Corporate</i>	<i>Consolidation adjustments &amp; eliminations</i>	<i>Total Group</i>
	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>
<b>31 March 2013</b>						
<b>(Unaudited)</b>						
Sales	53,485,633	2,102,581	3,993,239	2,395,348	(15,237,882)	46,738,919
Gross profit	10,629,059	1,357,865	565,583	1,059,925	402,948	14,015,380
Net income	7,770,187	1,408,948	386,253	7,156,622	(10,158,567)	6,563,443
Total assets	255,600,522	16,035,569	23,234,049	225,884,313	(181,007,092)	339,747,361
Total liabilities	166,370,678	2,757,493	5,626,126	66,770,959	(104,369,271)	137,155,985

31 March 2012  
(Unaudited)

Sales	55,098,173	1,908,480	4,182,355	3,656,394	(16,499,864)	48,345,538
Gross profit	11,176,604	1,139,932	679,837	574,455	750,941	14,321,769
Net income	8,033,284	1,142,411	486,439	7,500,354	(9,891,474)	7,271,014
Total assets	259,745,062	14,006,241	22,311,006	227,638,064	(178,083,754)	345,616,619
Total liabilities	166,479,083	1,812,560	4,720,643	77,786,417	(98,285,869)	152,512,834

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

A substantial portion 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 fertilizers 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.

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**11. 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.

**12. CONTINGENT LIABILITIES**

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 1.5 billion (31 March 2012: SR 1.2 billion) in the normal course of business.

**13. DERIVATIVE FINANCIAL INSTRUMENTS**

The Group has executed derivative financial instruments including commission rate swaps. The remaining notional amount outstanding at 31 March 2013 under such agreements was SR 9.4 billion (31 March 2012: SR 24.5 billion).

**14. SUBSEQUENT EVENTS**

The Annual General Assembly, in its meeting held on 3 Jumada Al-Thaany 1434H corresponding to 13 April 2013, approved the appropriation of the net income for the year ended 31 December 2012 as follows:

- distribution of cash dividends of SR 15 billion (SR 5 per share), this includes the interim cash dividends amounting to SR 6 billion (SR 2 per share) for the first half of 2012;
- payment of SR 1.8 million as Board of Directors' remuneration; and
- transfer of the remaining balance to the general reserve.

The aforementioned appropriations shall be reflected in the interim consolidated financial statements for the period ending 30 June 2013, excluding interim dividend of SR 6 billion for 2012 which has already been accounted for.

**15. COMPARATIVE FIGURES**

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