

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

INTERIM CONSOLIDATED FINANCIAL
STATEMENTS (Unaudited)

FOR THE THREE MONTH AND NINE MONTH PERIODS ENDED
30 September 2014

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

INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
Three month and nine month periods ended 30 September 2014

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LIMITED REVIEW REPORT

October 26, 2014

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

Scope of review

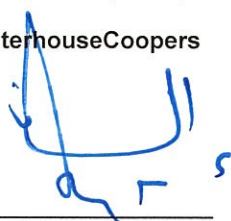
We have reviewed the accompanying interim consolidated balance sheet of Saudi Basic Industries Corporation ("SABIC") and its subsidiaries (collectively referred to as the "Group") as of September 30, 2014 and the interim consolidated statements of income for the three month and nine month periods ended September 30, 2014, and the interim consolidated statements of cash flows and changes in shareholders' equity for the nine month periods ended September 30, 2014, and the notes from (1) to (13) 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 SUBSIDIARIES
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED BALANCE SHEET (Unaudited)

As of 30 September

(Saudi Riyals in '000)

	<i>Note</i>	<i>2014</i>	<i>2013</i>
ASSETS			
Current assets			
Cash and cash equivalents		35,102,495	40,503,572
Short-term investments		31,200,147	21,866,596
Accounts receivable		28,766,652	29,982,792
Inventories		33,018,536	31,919,235
Prepayments and other current assets		3,910,962	3,583,872
Total current assets		131,998,792	127,856,067
Non-current assets			
Investments		15,471,445	13,106,188
Property, plant and equipment		167,295,098	163,087,256
Intangible assets		20,395,123	22,753,326
Other non-current assets		3,004,258	2,759,545
Total non-current assets		206,165,924	201,706,315
TOTAL ASSETS		338,164,716	329,562,382
LIABILITIES AND EQUITY			
Current liabilities			
Short-term bank borrowings		222,662	3,188,255
Current portion of long-term debt	4	9,705,149	9,104,581
Accounts payable		19,675,907	19,184,311
Accruals and other current liabilities		11,278,059	10,933,325
Zakat payable	5	1,727,711	2,537,863
Total current liabilities		42,609,488	44,948,335
Non-current liabilities			
Long-term debt	4	73,781,588	69,268,970
Other non-current liabilities		3,313,555	3,494,640
Employee benefits		11,397,516	10,397,132
Total non-current liabilities		88,492,659	83,160,742
Total liabilities		131,102,147	128,109,077
EQUITY			
Shareholders' equity			
Share capital	6	30,000,000	30,000,000
Statutory reserve		15,000,000	15,000,000
General reserve		104,076,056	93,799,473
Retained earnings		9,581,688	11,017,668
Total shareholders' equity		158,657,744	149,817,141
Non-controlling interests		48,404,825	51,636,164
Total equity		207,062,569	201,453,305
TOTAL LIABILITIES AND EQUITY		338,164,716	329,562,382

CONTINGENCIES

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The accompanying notes 1 to 13 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 (Unaudited)

(Saudi Riyals in '000)

	Note	For the three month period ended 30 September		For the nine month period ended 30 September	
		2014	2013	2014	2013
Sales		48,070,929	48,820,225	145,463,625	140,552,156
Cost of sales		(34,332,492)	(34,391,080)	(104,179,600)	(99,058,485)
GROSS PROFIT		13,738,437	14,429,145	41,284,025	41,493,671
Selling, general and administrative expenses		(3,327,663)	(3,162,185)	(9,932,775)	(9,203,485)
INCOME FROM MAIN OPERATIONS		10,410,774	11,266,960	31,351,250	32,290,186
Share in earnings of equity-accounted investees		218,595	129,544	569,279	127,997
Other income		129,241	282,667	854,676	953,226
Financial charges		(361,928)	(454,531)	(1,149,173)	(1,388,170)
INCOME BEFORE SHARE OF NON- CONTROLLING INTERESTS AND ZAKAT		10,396,682	11,224,640	31,626,032	31,983,239
Share of non-controlling interests		(3,717,897)	(4,209,496)	(10,849,037)	(11,212,508)
INCOME BEFORE ZAKAT		6,678,785	7,015,144	20,776,995	20,770,731
Zakat	5	(500,000)	(550,000)	(1,700,000)	(1,700,000)
NET INCOME		6,178,785	6,465,144	19,076,995	19,070,731
EARNINGS PER SHARE (Saudi Riyals):	7				
Attributable to income from main operations		3.47	3.76	10.45	10.76
Attributable to net income		2.06	2.16	6.36	6.36

The accompanying notes 1 to 13 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 (Unaudited)

For the nine month period ended 30 September

(Saudi Riyals in '000)

	2014	2013
OPERATING ACTIVITIES		
Income before zakat	20,776,995	20,770,731
<i>Adjustments for:</i>		
Depreciation, amortization and impairment	10,866,576	10,231,722
Share in earnings of equity-accounted investees	(569,279)	(127,997)
Share of non-controlling interests	10,849,037	11,212,508
<i>Changes in operating assets and liabilities:</i>		
Accounts receivable	1,349,693	1,559,283
Inventories	(576,584)	2,579,414
Prepayments and other current assets	154,854	848,964
Accounts payable	172,080	(420,036)
Accruals and other current liabilities	(383,038)	1,509,961
Other non-current liabilities	(193,022)	318,744
Employee benefits	902,797	(138,796)
Zakat paid	(3,022,086)	(2,369,907)
Net cash generated from operating activities	40,328,023	45,974,591
INVESTING ACTIVITIES		
Short-term investments	(518,892)	7,118,771
Investments, net	(1,410,787)	(2,596,453)
Property, plant and equipment, net	(10,968,338)	(6,222,337)
Intangible assets, net	782,302	(690,810)
Other non-current assets, net	(1,203,157)	(1,157,919)
Net cash used in investing activities	(13,318,872)	(3,548,748)
FINANCING ACTIVITIES		
Short-term bank borrowings	(140,929)	2,314,067
Long-term debt, net	3,813,771	(16,187,602)
Non-controlling interests	(12,828,878)	(10,012,654)
Dividends paid	(18,469,928)	(14,872,522)
Net cash used in financing activities	(27,625,964)	(38,758,711)
(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	(616,813)	3,667,132
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	35,719,308	36,836,440
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	35,102,495	40,503,572

The accompanying notes 1 to 13 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 nine month period ended 30 September

(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>
30 September 2014						
Balance as of 31 December 2013 (audited)		30,000,000	15,000,000	93,799,473	17,471,944	156,271,417
Annual dividends for 2013	12	-	-	-	(9,000,000)	(9,000,000)
Board of Directors' remuneration	12	-	-	-	(1,800)	(1,800)
Transfer to general reserve	12	-	-	10,276,583	(10,276,583)	-
Interim dividend 2014	12	-	-	-	(7,500,000)	(7,500,000)
Net income		-	-	-	19,076,995	19,076,995
Re-measurement impact of "Employee Benefits"	3	-	-	-	(188,868)	(188,868)
Balance as of 30 September 2014 (unaudited)		<u>30,000,000</u>	<u>15,000,000</u>	<u>104,076,056</u>	<u>9,581,688</u>	<u>158,657,744</u>
30 September 2013						
Balance as of 31 December 2012 (audited)		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
Annual dividends for 2012		-	-	-	(9,000,000)	(9,000,000)
Board of Directors' remuneration		-	-	-	(1,800)	(1,800)
Transfer to general reserve		-	-	9,778,462	(9,778,462)	-
Interim dividends for 2013		-	-	-	(6,000,000)	(6,000,000)
Net income		-	-	-	19,070,731	19,070,731
Re-measurement impact of "Employee Benefits"	3	-	-	-	333,195	333,195
Balance as of 30 September 2013 (unaudited)		<u>30,000,000</u>	<u>15,000,000</u>	<u>93,799,473</u>	<u>11,017,668</u>	<u>149,817,141</u>

The accompanying notes 1 to 13 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 nine month periods ended 30 September 2014

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. 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 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 2013.

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 its effective management control.

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 and nine month periods ended 30 September 2014

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>2014</i>	<i>2013</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	-
Arabian Industrial Fibers Company (Ibn Rushd)	47.99	47.99
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.

During 2014, Saudi Methacrylates Company (SAMAC) was incorporated (currently in the development stage). The Company is located in Jubail Industrial City and will be engaged in the production of Methyl Methacrylate and PolyMethyl Methacrylate.

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 recognized 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost or net realizable value, less 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, labor 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 recognized at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of such investees. 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 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 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 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.

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. Expenditure on maintenance and repairs is expensed, while expenditure on improvements is capitalized. Financing costs related to qualifying assets are capitalised until they are ready for their 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 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 years
Plant and equipment	20 years
Furniture, fixtures and vehicles	4-10 years

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 and nine month periods ended 30 September 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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 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	3-5 years

Goodwill

The excess of consideration paid over the fair value of net assets acquired is recorded as goodwill. Goodwill is tested for impairment annually and more frequently if any indication of impairment exist 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.

Expenses incurred during turnaround of production facilities are deferred and amortized over the period to the next turnaround.

SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND SUBSIDIARIES
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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (continued)

For the three month and nine month periods ended 30 September 2014

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. 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 recognized 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 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.

Accounts payable and accruals

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

Provisions

Provisions are recognized 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 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 accruals 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.

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 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, 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.

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 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 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 accordance with International Accounting Standard 19: Employee Benefits (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.

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 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. 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.

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 recognized 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 has obtained loans 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.

Bonds

The following bonds were outstanding as of 30 September 2014:

- On 2 November 2010, SABIC Capital I B.V., a subsidiary of SLUX, issued a 5 year \$1 billion bond with a coupon of 3.0%. The proceeds were used to repay external debt.
- 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.

SABIC has provided guarantees for bonds and certain term loans for certain subsidiaries which amounted to SR 29 billion as of 30 September 2014 (30 September 2013: SR 28 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 issuance.

5. ZAKAT

SABIC has filed its zakat returns, settled the dues and received the related zakat certificates from the DZIT up to the year ended 31 December 2012. SABIC has cleared its zakat status with DZIT up to the year ended 31 December 2010. During the period, zakat assessments for years ended 31 December 2011 and 2012 have been received. The zakat return for 2013 is currently in the process of being filed with DZIT.

6. SHARE CAPITAL

The share capital amounting to SR 30 billion is divided into 3 billion shares of SR 10 each as of 30 September 2014 and 2013.

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7. EARNINGS PER SHARE

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

8. 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 SR'000</i>	<i>Fertilizers SR'000</i>	<i>Metals SR'000</i>	<i>Corporate SR'000</i>	<i>Consolidation adjustments & eliminations SR'000</i>	<i>Total SR'000</i>
30 September 2014 (Unaudited)						
Sales	167,747,839	5,464,023	10,385,403	9,480,969	(47,614,609)	145,463,625
Gross profit	30,932,623	3,199,358	1,406,279	4,191,915	1,553,850	41,284,025
Net income	21,927,387	3,205,494	920,896	19,993,659	(26,970,441)	19,076,995
Total assets	252,794,948	13,142,656	24,035,993	228,655,986	(180,464,867)	338,164,716
Total liabilities	166,454,144	1,818,779	5,825,996	64,328,012	(107,324,784)	131,102,147
30 September 2013 (Unaudited)						
Sales	162,883,507	5,462,559	11,028,526	7,857,328	(46,679,764)	140,552,156
Gross profit	31,692,235	3,240,695	1,840,776	3,414,468	1,305,497	41,493,671
Net income	22,656,352	3,314,004	1,289,020	19,784,305	(27,972,950)	19,070,731
Total assets	257,690,250	12,972,725	23,553,400	216,714,436	(181,368,429)	329,562,382
Total liabilities	165,168,981	1,862,374	5,742,711	62,099,756	(106,764,745)	128,109,077

The total 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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9. 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 2013.

10. CONTINGENCIES

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 3.2 billion as of 30 September 2014 (30 September 2013: SR 2.3 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 ("Wa'ad Al Shamal" or the "project"). As of 30 September 2014, the outstanding commitment toward this investment amounts to SR 834 million. Pursuant to the terms of agreements with the other shareholders and external lenders, SABIC has agreed to contribute additional funds to the project, under certain circumstances and to the extent required, in the event of project cost over-runs.

11. DERIVATIVE FINANCIAL INSTRUMENTS

The Group has executed derivative financial instruments including commission rate swaps. The remaining notional amount outstanding as of 30 September 2014 under such agreements was SR 5.2 billion (30 September 2013: SR 8.5 billion).

12. APPROPRIATION OF NET INCOME

The Annual General Assembly, in its meeting held on 13 Jumada'II 1435H corresponding to 13 April 2014, approved the appropriation of the net income for the year ended 31 December 2013 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 2013;
- payment of SR 1.8 million as Board of Directors' remuneration; and
- transfer of remaining balance to the general reserve. The balance transferred excludes remeasurement impact of employee benefits.

On 6 Ramadan 1435H corresponding to 3 July 2014, SABIC's Board of Directors approved to distribute interim cash dividend for the first half of 2014 amounting to SR 7.5 billion (SR 2.5 per share).

13. COMPARATIVE FIGURES

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