

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

**CONSOLIDATED FINANCIAL STATEMENTS AND  
AUDITORS' REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2012**

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

**CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2012**

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**AUDITORS' REPORT TO THE SHAREHOLDERS OF  
SAUDI INTERNATIONAL PETROCHEMICAL COMPANY  
(SAUDI JOINT STOCK COMPANY)**

**Scope of audit:**

We have audited the accompanying consolidated balance sheet of Saudi International Petrochemical Company ("the Company") (Saudi joint stock company) and its subsidiaries (collectively referred to as "the Group") as at 31 December 2012 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended. These consolidated financial statements are the responsibility of the Company and have been prepared by them in accordance with the provisions of Article 123 of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the consolidated financial statements.

**Unqualified opinion:**

In our opinion, the consolidated financial statements taken as a whole:

- i) present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2012 and the consolidated results of its operations and its consolidated cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.
- ii) comply with the requirements of the Regulations for Companies and the Company's by-laws in so far as they affect the preparation and presentation of the consolidated financial statements.

for Ernst & Young

  
Abdulaziz Saud Alshubaibi  
Certified Public Accountant  
Registration No. 339



6 Rabi' II 1434 H  
16 February 2013

Alkhobar

Saudi International Petrochemical Company  
(Saudi Joint Stock Company)

CONSOLIDATED BALANCE SHEET  
As At 31 December 2012

	<i>Note</i>	<i>2012</i> <i>SR</i>	<i>2011</i> <i>SR</i>
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	3	3,053,454,336	3,629,881,391
Accounts receivable, prepayments and other receivables	4	857,219,312	687,908,801
Inventories	5	277,956,178	281,080,962
<b>Total current assets</b>		<b>4,188,629,826</b>	<b>4,598,871,154</b>
<b>Non-current assets</b>			
Property, plant and equipment	6	10,648,927,193	9,807,701,515
Projects' development costs	7	252,576,753	184,868,636
Goodwill	8	29,543,923	33,982,682
Intangible assets	9	69,249,396	39,163,184
<b>Total non-current assets</b>		<b>11,000,297,265</b>	<b>10,065,716,017</b>
<b>TOTAL ASSETS</b>		<b>15,188,927,091</b>	<b>14,664,587,171</b>
<b>LIABILITIES, SHAREHOLDERS' EQUITY AND MINORITY INTEREST</b>			
<b>Current liabilities</b>			
Accounts payable, other payables and provisions	10	746,227,815	774,895,390
Bank overdraft		-	15,784,610
Short term advances from partners	11	93,538,155	54,980,218
Current portion of long term loans	13	489,940,823	423,468,044
Current portion of obligation under capital lease	15	58,864,865	48,162,160
<b>Total current liabilities</b>		<b>1,388,571,658</b>	<b>1,317,290,422</b>
<b>Non-current liabilities</b>			
Long term loans	13	3,976,859,248	3,563,259,856
Sukuk	14	1,800,000,000	1,800,000,000
Obligations under capital lease	15	251,513,515	310,378,380
Long term advances from partners	11	414,324,544	395,257,959
Employees' terminal benefits	16	82,545,023	65,927,288
Fair value of interest rate swaps	17	130,553,193	178,809,773
Other non-current liabilities		9,235,860	12,136,041
<b>Total non-current liabilities</b>		<b>6,665,031,383</b>	<b>6,325,769,297</b>
<b>Total Liabilities</b>		<b>8,053,603,041</b>	<b>7,643,059,719</b>
<b>Shareholders' equity and minority interest</b>			
Share capital	18	3,666,666,660	3,666,666,660
Statutory reserve		1,046,903,069	986,786,071
Reserve for the results of sale of shares in subsidiaries	19	48,893,677	48,893,677
Retained earnings		960,457,541	604,937,894
Proposed dividends		-	458,333,333
Net change in the fair value of interest rate swaps	17	(99,492,806)	(135,398,005)
Translation gain on consolidation		2,402,706	-
<b>Total shareholders' equity</b>		<b>5,625,830,847</b>	<b>5,630,219,630</b>
Minority interests	21	1,509,493,203	1,391,307,822
<b>Total shareholders' equity and minority interest</b>		<b>7,135,324,050</b>	<b>7,021,527,452</b>
<b>TOTAL LIABILITIES, SHAREHOLDERS' EQUITY AND MINORITY INTEREST</b>		<b>15,188,927,091</b>	<b>14,664,587,171</b>

The attached notes 1 to 30 form part of these consolidated financial statements.

Saudi International Petrochemical Company  
(Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF INCOME  
Year Ended 31 December 2012

	<i>Note</i>	<i>2012</i> <i>SR</i>	<i>2011</i> <i>SR</i>
Sales	28	3,921,878,521	3,324,385,052
Cost of sales		<u>(2,654,333,208)</u>	<u>(1,897,618,513)</u>
<b>GROSS PROFIT</b>	28	<b>1,267,545,313</b>	<b>1,426,766,539</b>
General and administrative expenses	23	<u>(130,595,715)</u>	<u>(124,790,715)</u>
<b>INCOME FROM MAIN OPERATIONS</b>		<b>1,136,949,598</b>	<b>1,301,975,824</b>
Investment income		20,105,605	12,092,062
Financial charges		(183,381,198)	(181,491,866)
Net income of pre-operating activities		1,551,821	104,424
Other income / (expenses)		<u>11,958,088</u>	<u>(1,228,249)</u>
<b>INCOME BEFORE MINORITY INTEREST AND ZAKAT</b>		<b>987,183,914</b>	<b>1,131,452,195</b>
Minority interests		<u>(314,496,588)</u>	<u>(399,756,005)</u>
<b>INCOME BEFORE ZAKAT</b>		<b>672,687,326</b>	<b>731,696,190</b>
Zakat and foreign taxes	24	<u>(71,517,348)</u>	<u>(25,798,432)</u>
<b>NET INCOME</b>		<u><b>601,169,978</b></u>	<u><b>705,897,758</b></u>
<b>Earnings per share (from net income)</b>		<u><b>1.64</b></u>	<u><b>1.93</b></u>
<b>Earnings per share (from main operations)</b>		<u><b>3.10</b></u>	<u><b>3.55</b></u>
<b>Weighted average number of outstanding shares</b>		<u><b>366,666,666</b></u>	<u><b>366,666,666</b></u>

The attached notes 1 to 30 form part of these consolidated financial statements.

Saudi International Petrochemical Company  
(Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended 31 December 2012

	<i>Note</i>	<i>2012</i>	<i>2011</i>
		<i>SR</i>	<i>SR</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before zakat and foreign taxes		672,687,326	731,696,190
Adjustments for:			
Depreciation and amortization		514,391,992	465,949,658
Employees' terminal benefits, net		16,617,735	13,315,844
Financial charges		183,381,198	181,491,866
Minority interest		314,496,588	399,756,002
Loss on disposal of property, plant and equipment		17,104	3,604,403
Net income of pre-operating activities		<u>(1,551,821)</u>	<u>(104,424)</u>
		1,700,040,122	1,795,709,539
Changes in operating assets and liabilities:			
Receivables		(169,310,511)	(35,177,486)
Inventories		3,124,784	(43,876,874)
Payables		<u>17,405,201</u>	<u>262,887,351</u>
Cash from operations		1,551,259,596	1,979,542,530
Financial charges paid		(183,381,198)	(181,491,866)
Zakat and foreign taxes paid		<u>(54,225,402)</u>	<u>(32,633,653)</u>
<b>Net cash from operating activities</b>		<u><b>1,313,652,996</b></u>	<u><b>1,765,417,011</b></u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Net income of pre-operating activities		1,551,821	104,424
Additions to property, plant and equipment		(1,306,292,929)	(703,429,982)
Additions to intangible assets		(54,556,806)	(13,894,990)
Additions to projects' development costs		(88,360,609)	(182,958,655)
Proceeds from disposals of property, plant and equipment		220,000	-
Purchase of investment in a subsidiary		-	(94,621,481)
<b>Net cash used in investing activities</b>		<u><b>(1,447,438,523)</b></u>	<u><b>(994,800,684)</b></u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net change in bank overdraft		(15,784,610)	-
Long term loans, net		480,072,171	(579,137,504)
Sukuk		-	1,800,000,000
Repayment of obligations under capital lease		(48,162,160)	(42,810,811)
Advances from partners		57,624,522	91,367,060
Change in minority interest		(274,927,491)	(104,440,459)
Dividends paid	20	(641,666,666)	-
Board of Directors' remuneration paid		<u>(2,200,000)</u>	<u>(2,200,000)</u>
<b>Net cash (used in) / from financing activities</b>		<u><b>(445,044,234)</b></u>	<u><b>1,162,778,286</b></u>
<b>Net change in cash and cash equivalents</b>		<b>(578,829,761)</b>	1,933,394,613
Cash and cash equivalents acquired during the year		-	75,842,931
Cash and cash equivalents at the beginning of the year		3,629,881,391	1,620,643,847
Translation gain, net		<u>2,402,706</u>	<u>-</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	3	<u><b>3,053,454,336</b></u>	<u><b>3,629,881,391</b></u>

The attached notes 1 to 30 form part of these consolidated financial statements.

Saudi International Petrochemical Company  
(Saudi Joint Stock Company)

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CONSOLIDATED STATEMENT OF CASH FLOWS (continued)  
Year Ended 31 December 2012

**SUPPLEMENTARY CASH FLOWS INFORMATION:**

Non-cash transactions are as follows:

	<i>2012</i>	<i>2011</i>
	<i>SR</i>	<i>SR</i>
Net change in fair value of interest rate swaps	<b>35,905,199</b>	5,035,501
Transfer from property, plant and equipment to intangibles	<b>6,527,938</b>	10,298,253
Transfer from goodwill to intangible assets	<b>4,438,759</b>	-
Transfer from projects' development costs to intangible assets	<b>20,652,492</b>	-
Transfer from projects' development costs to property, plant and equipment	-	60,714,505
Transfer from general reserve to retained earnings	-	275,000,000
Increase in share capital (note 18)	-	<b>333,333,330</b>

Saudi International Petrochemical Company  
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CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY  
Year Ended 31 December 2012

EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

	Share capital SR	Statutory reserve SR	General reserve SR	Reserve for the results of sale of shares in subsidiaries SR	Retained earnings SR	Proposed dividends	Net change in the fair value of interest rate swaps SR	Translation gain on consolidation SR	Total SR
Balance at 1 January 2011	3,333,333,330	916,196,295	275,000,000	48,893,677	488,496,575	-	(140,433,506)	-	4,921,486,371
Net income	-	-	-	-	705,897,758	-	-	-	705,897,758
Transfer from general reserve to retained earnings	-	-	(275,000,000)	-	275,000,000	-	-	-	-
Net change in fair value of interest rate swaps	-	-	-	-	-	-	5,035,501	-	5,035,501
Increase in share capital (note 18)	333,333,330	-	-	-	(333,333,330)	-	-	-	-
Transfer to statutory reserve	-	70,589,776	-	-	(70,589,776)	-	-	-	-
Board of Directors' remuneration	-	-	-	-	(2,200,000)	-	-	-	(2,200,000)
Proposed dividends (note 20)	-	-	-	-	(458,333,333)	458,333,333	-	-	-
Balance at 31 December 2011	<u>3,666,666,660</u>	<u>986,786,071</u>	<u>-</u>	<u>48,893,677</u>	<u>604,937,894</u>	<u>458,333,333</u>	<u>(135,398,005)</u>	<u>-</u>	<u>5,630,219,630</u>
Balance at 1 January 2012	3,666,666,660	986,786,071	-	48,893,677	604,937,894	458,333,333	(135,398,005)	-	5,630,219,630
Net income	-	-	-	-	601,169,978	-	-	-	601,169,978
Net change in fair value of interest rate swaps	-	-	-	-	-	-	35,905,199	-	35,905,199
Net change in translation gain on consolidation	-	-	-	-	-	-	-	2,402,706	2,402,706
Transfer to statutory reserve	-	60,116,998	-	-	(60,116,998)	-	-	-	-
Board of Directors' remuneration	-	-	-	-	(2,200,000)	-	-	-	(2,200,000)
Dividends paid (note 20)	-	-	-	-	(183,333,333)	(458,333,333)	-	-	(641,666,666)
Balance at 31 December 2012	<u>3,666,666,660</u>	<u>1,046,903,069</u>	<u>-</u>	<u>48,893,677</u>	<u>960,457,541</u>	<u>-</u>	<u>(99,492,806)</u>	<u>2,402,706</u>	<u>5,625,830,847</u>

The attached notes 1 to 30 form part of these consolidated financial statements.



Saudi International Petrochemical Company  
(Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

**1. ORGANIZATION AND ACTIVITIES**

Saudi International Petrochemical Company (“the Company” or “Sipchem”) is a Saudi joint stock company, registered in the Kingdom of Saudi Arabia under commercial registration No. 1010156910 dated 14 Ramadan 1420 H (corresponding to 22 December 1999). The Company’s head office is in the city of Riyadh with one branch in Al-Khobar, where the head quarters for the executive management is located, which is registered under commercial registration number 2051023922 dated 30 Shawwal 1420H (corresponding to 6 February 2000), and a branch in Jubail Industrial City which is registered under commercial registration number 2055007570 dated 4 Jumada I 1427H (corresponding to 1 June 2006).

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

The Company has the following subsidiaries (the Company and its subsidiaries hereinafter referred to as “the Group”):

<b>Subsidiaries</b>	<b>Effective percentage of shareholding</b>	
	<b>2012</b>	<b>2011</b>
International Methanol Company (“IMC”)	65%	65%
International Diol Company (“IDC”)	53.91%	53.91%
International Acetyl Company (“IAC”)	76%	76%
International Vinyl Acetate Company (“IVC”)	76%	76%
International Gases Company (“IGC”)	72%	72%
Sipchem Marketing and Services Company (“SMSC”)	100%	100%
International Utility Company (“IUC”)	68.58%	68.58%
International Polymers Company (“IPC”)	75%	75%
Sipchem Chemical Company (“SCC”)	100%	-
Sipchem Europe Cooperatief U.A and its subsidiaries	100%	-
Gulf Advanced Cable Insulation Company (GACI) (see below)	50%	-

Although the company has only 50% share in the investee company, the operations of Gulf Advances Cable Insulation Company are controlled by the Group effectively from the date of its commercial registration. Accordingly, the investee company is treated as a subsidiary of the Group.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying consolidated financial statements have been prepared in compliance with the standards and regulations promulgated by the Saudi Organization for Certified Public Accountants. The following is a summary of significant accounting policies applied by the Group:

**Accounting convention**

The consolidated financial statements have been prepared using the historical cost convention modified to include the measurement at fair value for the interest rate swaps.

**Use of estimates**

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

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

***Basis of consolidation of the financial statements***

The consolidated financial statements incorporate the financial statements of the Company and financial statements of subsidiaries controlled by the Company, either directly or indirectly, prepared for the same year using consistent accounting policies. Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise, either directly or indirectly, so as to obtain benefits from its activities. The consolidation of the subsidiaries' financial statements in these consolidated financial statements start from the date control is obtained by the Company until the date this control is ended. The acquisition of subsidiaries is accounted for using the purchase method. The ownership shares related to other parties in subsidiaries are classified under minority interest in these consolidated financial statements. All significant inter-Group transactions and balances between the Group entities have been eliminated in preparing the consolidated financial statements.

***Revenue recognition***

The Group markets its products through marketers. Sales are made directly to final customers and also to the marketers' distribution platforms. The sales through the distribution platforms are recorded at provisional prices at the time of shipments, which are later adjusted based on actual selling prices received by the marketers from their final customers, after deducting the cost of shipping, distribution and marketing. Adjustments are made as they become known to the Group. Local and export sales are recognized at the time of delivery of the product at the loading terminals located at the plant and at the King Fahd Industrial Port in Jubail Industrial City.

***Expenses***

All the year expenses other than cost of sales, financial charges and other expenses are classified as general and administrative expenses.

***Cash and cash equivalents***

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

***Accounts receivable***

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

***Inventories***

Inventories comprise of spare parts and finished goods and are stated at the lower of cost or market value. Costs of manufactured goods include raw materials, direct labor and manufacturing overheads. The cost of spare parts and finished goods are arrived at using the weighted average cost method. Appropriate provisions are made for slow moving and redundant inventories.

***Projects' development cost***

Projects' development cost represent mainly legal and feasibility related costs incurred by the Group in respect of developing new projects. Upon successful development of the projects, costs associated with the projects are transferred to the respective company subsequently established for each project. Projects development costs relating to the projects determined to be non-viable are written off immediately.

Saudi International Petrochemical Company  
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2012

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

***Property, plant and equipment***

Property, plant and equipment are initially recorded at cost and are stated at cost less accumulated depreciation and any impairment in value. Freehold land and construction work in progress is not depreciated. Expenditure on maintenance and repairs is expensed, while expenditure for betterment is capitalized. Depreciation is provided over the estimated useful lives of the applicable assets using the straight line method. The estimated useful lives of the principal classes of assets are as follows:

	<i>Years</i>
Plant and machinery	10 – 25
Buildings	2 – 33.3
Vehicles	4
Catalyst & tools	1 – 10
Computer, furniture, fixtures and office equipment	1 – 10

***Intangible assets***

Intangible assets mainly represent turnaround maintenance costs and other deferred charges. The planned turnaround costs are deferred and amortized over the year until the date of the next planned turnaround. Should an unexpected turnaround occur prior to the previously envisaged date of planned turnaround, then the previously unamortized deferred costs are immediately expensed and the new turnaround costs are amortized over the period likely to benefit from such costs. Other deferred charges are amortized over the period likely to benefit from such costs.

***Business combination and goodwill***

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

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

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

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

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

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

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

***Permanent impairment of non-current assets***

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

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

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

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

***Derivative financial instruments***

Derivative financial instruments are initially recorded at cost and are re-measured to fair value at subsequent reporting dates. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in the consolidated statement of income as they arise.

A fair value hedge is a hedge of the exposure to changes in fair value of an asset or liability that is already recognized in the consolidated balance sheet. The gain or loss from the change in the fair value of the hedging instrument is recognized immediately in the consolidated statement of income. At the same time, the carrying amount of the hedged item is adjusted for the corresponding gain or loss since the inception of the hedge, which is also immediately recognized in the consolidated statement of income.

A cash flow hedge is a hedge of the exposure to variability in cash flows relating to a recognized asset or liability, an unrecognized firm commitment or a forecasted transaction. To the extent that the hedge is effective, the portion of the gain or loss on the hedging instrument is recognized initially directly in equity. Subsequently, the amount is included in the consolidated statement of income in the same year or years during which the hedged item affects net profit or loss. For hedges of forecasted transactions, the gain or loss on the hedging instrument will adjust the recorded carrying amount of the acquired asset or liability.

***Foreign currency transactions***

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

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

Saudi International Petrochemical Company  
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2012

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

***Employee's terminal benefits***

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

***Provision for obligations***

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

***Zakat***

The Group is subject to zakat and income tax regulations in the Kingdom of Saudi Arabia. Income tax is also provided for in accordance with foreign fiscal authorities in which the Group's foreign subsidiaries operate. Zakat and income tax are provided on an accrual basis. Any difference between the estimated zakat and income tax for the year and the zakat provision that is calculated based on the detailed zakat base at year end are accounted for at the end of the year. The zakat and income tax charge in the consolidated financial statements represents the zakat for the Company, the Company's share of zakat in subsidiaries and income tax for foreign subsidiaries. The zakat charge and income tax, assessable on the minority shareholders, is included in minority interest.

***Statutory reserve***

In accordance with Saudi Arabian Regulations for Companies, the Company must set aside 10% of its net income in each year until it has built up a reserve equal to one half of the capital. The reserve is not available for distribution.

***Reserve for the results of sale of shares in subsidiaries***

The gains or losses resulting from sale of shares in subsidiaries, when the Group continues to exercise control over the respective subsidiary, are booked in the reserve for the results of sale of shares in subsidiaries.

***Leasing***

Leases are classified as capital leases whenever the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee. 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 leasing commitments and the lower of the present value of the minimum lease payments or the fair market value of the assets at the inception of the lease, are charged to the consolidated statement of income over the term of the relevant lease in order to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Rentals payable under operating leases are charged to the consolidated statement of income on a straight line basis over the term of the operating lease.

***Segmental Analysis***

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

***Earnings per share***

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

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

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At 31 December 2012

**3. CASH AND CASH EQUIVALENTS**

	<i>2012</i>	<i>2011</i>
	<i>SR</i>	<i>SR</i>
Bank balances and cash	<b>1,054,557,928</b>	530,864,473
Murabaha deposits	<b>1,998,896,408</b>	3,099,016,918
	<b><u>3,053,454,336</u></b>	<b><u>3,629,881,391</u></b>

**4. ACCOUNTS RECEIVABLE, PREPAYMENTS AND OTHER RECEIVABLES**

	<i>2012</i>	<i>2011</i>
	<i>SR</i>	<i>SR</i>
Trade account receivables	<b>670,711,272</b>	575,554,976
Accrued investment income	<b>4,119,426</b>	4,913,240
Deposits, prepayments and other receivables	<b>182,388,614</b>	107,440,585
	<b><u>857,219,312</u></b>	<b><u>687,908,801</u></b>

**5. INVENTORIES**

	<i>2012</i>	<i>2011</i>
	<i>SR</i>	<i>SR</i>
Finished products	<b>133,336,058</b>	146,105,984
Spare parts and others	<b>144,620,120</b>	134,974,978
	<b><u>277,956,178</u></b>	<b><u>281,080,962</u></b>

The spare parts inventory primarily relates to plant and machinery and, accordingly, this inventory is expected to be utilized over a period exceeding one year.

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At 31 December 2012

6. PROPERTY, PLANT AND EQUIPMENT

	<i>Plant &amp; equipment</i> SR	<i>Land &amp; buildings</i> SR	<i>Catalyst &amp; tools</i> SR	<i>Vehicles, computer, furniture, fixtures &amp; office equipment</i> SR	<i>Construction work in progress</i> SR	<b>Total 2012</b> SR	<b>Total 2011</b> SR
Cost:							
At the beginning of the year	9,791,912,989	172,552,803	239,303,539	67,057,734	1,091,461,942	11,362,289,007	10,638,087,633
Additions	2,758,865	47,779	404,300	1,533,422	1,301,548,563	1,306,292,929	703,457,278
Transfers	19,239,741	1,404,603	13,443,460	5,681,938	(39,769,742 )	-	49,869,550
Transfer to intangible assets (note 9)	-	-	-	-	(6,527,938 )	(6,527,938 )	-
Reclassification	(4,614,384 )	-	4,614,384	-	-	-	-
Disposals	-	-	(19,676,457 )	(585,000 )	-	(20,261,457 )	(29,125,454)
At the end of the year	<u>9,809,297,211</u>	<u>174,005,185</u>	<u>238,089,226</u>	<u>73,688,094</u>	<u>2,346,712,825</u>	<u>12,641,792,541</u>	<u>11,362,289,007</u>
Depreciation:							
At the beginning of the year	1,301,960,837	15,042,649	190,945,764	46,638,242	-	1,554,587,492	1,132,528,831
Charge for the year	384,445,870	4,950,334	63,688,329	5,217,676	-	458,302,209	448,126,414
Transfers	-	-	-	-	-	-	(546,702)
Disposals	-	-	(19,676,457 )	(347,896 )	-	(20,024,353 )	(25,521,051)
At the end of the year	<u>1,686,406,707</u>	<u>19,992,983</u>	<u>234,957,636</u>	<u>51,508,022</u>	<u>-</u>	<u>1,992,865,348</u>	<u>1,554,587,492</u>
Net book value:							
At 31 December 2012	<u>8,122,890,504</u>	<u>154,012,202</u>	<u>3,131,590</u>	<u>22,180,072</u>	<u>2,346,712,825</u>	<u>10,648,927,193</u>	
At 31 December 2011	<u>8,489,952,152</u>	<u>157,510,154</u>	<u>48,357,775</u>	<u>20,419,492</u>	<u>1,091,461,942</u>		<u>9,807,701,515</u>

As at 31 December 2012, property, plant and equipment include plant and equipment held under capital lease obligations which have a cost of SR 535.1 million (2011: SR 535.1 million) and accumulated depreciation of SR 195.9 million (2011: SR 175.9 million).

Construction work in progress mainly comprises of costs related to IPC's, SCC's and GACI's plant along with projects for improvement of the Groups' plants.

The property, plant and equipment are constructed over a land in Jubail Industrial City leased from the Royal Commission for Jubail and Yanbu' for 30 years commencing on 16 Muharram 1423H corresponding to 30 March 2002. The lease agreements are renewable upon the agreement between the two parties.

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**6. PROPERTY, PLANT AND EQUIPMENT (continued)**

Some of the Group's property, plant and equipment are pledged as security against Saudi Industrial Development Fund loans, Public Investment Fund loans and commercial loans (note 13).

Construction work in progress is stated at cost and is comprised of construction costs under various agreements and directly attributable costs to bring the asset for its intended use which also includes costs of testing to ensure the asset is functioning properly, and after deducting net proceeds from the sale of production generated during the testing phase. Directly attributable costs includes employee benefits, site preparation costs, installation costs, licensing fees, professional fees and borrowing costs.

Financing costs related to IPC project were capitalized during the year ended 31 December 2012 in construction work in progress amounted to SR 71.9 million (2011: SR 16 million).

**7. PROJECTS' DEVELOPMENT COSTS**

The movement in the projects' development costs was as follows:

	<i>2012</i>	<i>2011</i>
	<i>SR</i>	<i>SR</i>
At the beginning of the year	<b>184,868,636</b>	62,624,486
Additions during the year	<b>88,360,609</b>	182,958,655
Transferred to intangible assets (note 9)	<b>(20,652,492)</b>	-
Transferred to construction work in progress	<u>-</u>	<u>(60,714,505)</u>
	<u><b>252,576,753</b></u>	<u>184,868,636</u>

**8. GOODWILL**

Pursuant to board resolutions of the Group, Sipchem European Operations was formed where Sipchem Marketing and Servicers Company acquired 100% of the voting shares of Aectra SA (a subsidiary of Sipchem Europe Cooperatief U.A) on 31 December 2011, an unlisted company registered in Switzerland. Accordingly, the balance sheet of Aectra SA has been consolidated in these consolidated financial statements.

The acquisition amount of SR 105.7 million is inclusive of SR 75.8 million cash and SR (4) million of other working capital and also an amount of SR 33.9 million for valuation premium including contingent consideration reflected as goodwill on the acquisition date.

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



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**9. INTANGIBLE ASSETS**

	<i>2012</i>	<i>2011</i>
	<i>SR</i>	<i>SR</i>
Cost:		
At the beginning of the year	<b>81,912,419</b>	57,172,474
Additions	<b>54,556,806</b>	13,894,990
Transfers (notes 6, 7 & 8)	<b>31,619,189</b>	10,844,955
At the end of the year	<b>168,088,414</b>	81,912,419
Amortization:		
At the beginning of the year	<b>42,749,235</b>	24,379,289
Charge for the year	<b>56,089,783</b>	17,823,244
Transfers	<b>-</b>	546,702
At the end of the year	<b>98,839,018</b>	42,749,235
<b>Net book value:</b>		
At the end of the year	<b>69,249,396</b>	39,163,184

**10. ACCOUNTS PAYABLE, OTHER PAYABLES AND PROVISIONS**

	<i>2012</i>	<i>2011</i>
	<i>SR</i>	<i>SR</i>
Trade accounts payable	<b>115,204,925</b>	144,375,726
Retentions	<b>86,275,606</b>	17,395,363
Accrued expenses	<b>402,881,721</b>	402,699,375
Other payables	<b>70,768,649</b>	156,619,958
Zakat provision	<b>71,096,914</b>	53,804,968
	<b>746,227,815</b>	774,895,390

**11. ADVANCES FROM PARTNERS**

The partners of IDC, IAC, IVC, IGC, IPC, SCC and GACI have agreed to contribute long term advances to finance certain percentage of their projects' costs as per the joint venture agreements. As per the joint venture agreements, long term partners' advances shall be repaid after the repayment of external indebtedness and funding of reserve accounts. At 31 December 2012, the Company and the minority partners had long term advances of SR 1,715.1 million and SR 414.3 million, respectively (2011: SR 1,503.1 million and SR 395.2 million, respectively). The Company and the minority partners have also made short term advances of SR 204.8 million and SR 93.5 million, respectively (2011: SR 193.1 and SR 54.9 million, respectively). The long term advances do not carry any financial charges except IPC whereas the short term advances carry financial charges at normal commercial rates.

**12. BANK FACILITIES**

The Group has short term facilities with local commercial banks including short term revolving loans, guarantees, letters of credit, and other facilities. The revolving loans facilities carry financial charges at SIBOR/LIBOR plus a margin and are secured by promissory notes equivalent to the total facilities.

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13. LONG TERM LOANS

	<i>2012</i> <i>SR</i>	<i>2011</i> <i>SR</i>
Saudi Industrial Development Fund loans (note a)	<b>1,702,540,000</b>	1,470,000,000
Syndicated bank loans (note b)	<b>1,607,385,071</b>	1,210,509,185
Public Investment Fund loans (note c)	<b>1,156,875,000</b>	<u>1,306,218,715</u>
	<b>4,466,800,071</b>	3,986,727,900
Less: current portion of long term loans	<b>(489,940,823)</b>	<u>(423,468,044)</u>
	<b><u>3,976,859,248</u></b>	<b><u>3,563,259,856</u></b>

- a) The Saudi Industrial Development Fund (SIDF) granted loans to IDC, IAC, IVC, IGC, IPC and SCC. These loans are secured by partners' guarantees proportionate to their shareholding and a first priority mortgage on all present and future assets. The loans are repayable in unequal semi-annual installments. The loan agreements include covenants to maintain financial ratios during the loans period. Management and follow up fees are charged to the loans as stated in the loan agreements.
- b) The Group entered into credit facility agreements with syndicates of financial institutions. The loans are secured by partners' guarantees and a second priority mortgage on the assets already mortgaged to SIDF. Under a partner support agreement for the projects financing, the partners are obligated following completion of a project to provide a letter of credit for support of operations during the life of the loans. The loans are repayable in unequal semi-annual installments. The agreements include covenants to maintain certain financial ratios and also require maintenance of certain restricted bank accounts. The loans carry financial charges at LIBOR plus a variable margin.
- c) The Public Investment Fund (PIF) granted loans to IDC, IAC, IVC and IGC to finance the construction of the plants of these companies. The obligation under this loan agreement at all times ranks at pari passu with all other creditors. The loans are repayable in unequal semi-annual installments other than that of IDC loan which is repayable in equal semi-annual installments. The agreements include covenants to maintain certain financial ratios. The loans carry financial charges at LIBOR plus a fixed margin. The loan agreements require the companies to enter into an interest rate swap contract to cap the financial charges associated with the PIF loans.

The combined repayment schedule for the long term loans is as follow:

	<i>2012</i> <i>SR</i>	<i>2011</i> <i>SR</i>
2012	-	423,468,044
2013	<b>489,940,823</b>	489,940,823
2014	<b>564,125,379</b>	544,368,427
2015	<b>659,800,104</b>	588,796,032
2016	<b>703,007,423</b>	584,442,437
After	<b>2,049,926,342</b>	<u>1,355,712,137</u>
	<b><u>4,466,800,071</u></b>	<b><u>3,986,727,900</u></b>

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14. SUKUK

On 27 November 2010, the Extraordinary General Assembly has approved the issue of Islamic Modaraba Bonds (Sukuk) so as to be in compliance with Shari'a Laws, for the purpose of financing the capital expansions of the new projects. The Company obtained the approval of the Capital Market Authority for Sukuk issuance during the second quarter of 2011 and the first issuance completed at 29 June 2011 for an amount of SR 1,800 million which will be for five years and carry a interest rate equal to SIBOR plus a profit margin of 1.75% per annum payable at the end of each quarter.

15. OBLIGATIONS UNDER CAPITAL LEASE

	2012 SR	2011 SR
Minimum lease payments (fixed and variable rental payments)	418,048,350	489,968,443
Less: variable rental payments	<u>(59,507,810)</u>	<u>(88,617,092)</u>
	358,540,540	401,351,351
Less: Payments made during the year	<u>(48,162,160)</u>	<u>(42,810,811)</u>
Present value of minimum lease payments	310,378,380	358,540,540
Less: current portion of obligations under capital lease	<u>(58,864,865)</u>	<u>(48,162,160)</u>
	<u>251,513,515</u>	<u>310,378,380</u>
<b>Future minimum lease payments:</b>		
Within a year	58,864,865	48,162,160
More than one year and less than five years	251,513,515	272,918,919
More than five years	<u>-</u>	<u>37,459,461</u>
	<u>310,378,380</u>	<u>358,540,540</u>

IMC entered into an Islamic lease agreement with a syndicate of financial institutions for the purpose of converting a commercial loan into an Islamic mode of financing. IMC has the right to purchase property and equipment leased for a nominal fee at the end of the leasing agreement. The company's commitment under the lease is secured by the lessor's ownership of the leased assets.

16. EMPLOYEES' TERMINAL BENEFITS

	2012 SR	2011 SR
At the beginning of the year	65,927,288	52,611,444
Provision made during the year	27,604,211	19,406,379
Payments made during the year	<u>(10,986,476)</u>	<u>(6,090,535)</u>
At the end of the year	<u>82,545,023</u>	<u>65,927,288</u>

17. INTEREST RATE SWAP AGREEMENTS

As at 31 December 2012, IDC, IAC, IVC and IGC ("subsidiaries") had interest rate swap ("IRS") contracts with local commercial banks in relation to the loans obtained from Public Investment Fund and syndicated commercial loans as required by the loan agreements. At 31 December 2012, the notional amount of IRS contracts was SR 1,599 million (31 December 2011: SR 1,872 million).

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At 31 December 2012

**17. INTEREST RATE SWAP AGREEMENTS (continued)**

The fair value of the interest rate swap has declined as of 31 December 2012 compared to the contract date by SR 130.6 million (31 December 2011: SR 178.8 million). The Group share amounted to SR 99.4 million (31 December 2011: SR 135.4 million), which has been recorded in shareholders' equity. This amount represents what has to be paid in case the Groups' management decides to cancel the agreements. However, the Group's management has no intention to cancel the agreements. In case of the increase in the interest rates, this difference will be eliminated and may become positive during the agreement term.

**18. SHARE CAPITAL**

Share capital of the Company amounted to SR 3,666,666,660 (2011: SR 3,666,666,660) is divided into 366,666,666 shares of SR 10 each (2011: 366,666,666 shares of SR 10 each).

**19. RESERVE FOR THE RESULTS OF SALE OF SHARES IN SUBSIDIARIES**

On 30 June 2010, the Saudi Organization for Certified Public Accountants issued its opinion regarding the treatment of the difference between the fair value of the consideration received and the amount of the change in minority interests upon the sale of shares in a subsidiary without the Group losing its control on it. Accordingly, the Group changed its presentation in this regard so that such differences are presented in the reserve for the results of sale of shares in subsidiaries transactions instead of presenting them in the statutory reserve. The change has been applied retrospectively.

**20. DIVIDENDS**

During the year, the board of directors resolved to distribute cash dividends amounted to SR 183.3 million i.e. SR 0.5 per share, equivalent to 5% of the share capital. These dividends have been distributed during August 2012.

During April 2012, the Company distributed cash dividends amounting to SR 458.3 million, i.e. SR 1.25/ share, equivalent to 12.5% of the share capital for shareholders in records at the date of the general assembly.

**21. MINORITY INTERESTS**

	2012 SR	2011 SR
International Methanol Company	438,565,401	418,557,168
International Diol Company	361,339,690	316,785,832
International Acetyl Company	216,084,552	212,737,178
International Vinyl Acetate Company	153,854,658	147,854,387
International Gases Company	134,871,173	119,618,209
International Polymers Company	176,102,691	175,755,048
Gulf Advanced Cables Insulation Company	28,675,038	-
	<u>1,509,493,203</u>	<u>1,391,307,822</u>

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**22. RELATED PARTY TRANSACTIONS**

Related parties represent major shareholders, directors and key management personnel of the Group, and entities controlled or significantly influences by such parties.

Material related party transactions during the year were as follows:

- Certain foreign partners market part of the Group's products. Total sales made to foreign partners amounted to SR 1,796 million (2011: SR 1,833 million).
- One of the subsidiaries has bought certain fixed assets from one of the foreign partner. Total purchases of fixed assets from the foreign partner during the year amounted to SR 12.2 million (2011: SR 12.7 million).
- The company and the foreign partners of the Group grant advances to the companies of the group to support their operations and comply with debt covenants. Some of the long term advances do not carry any financial charges and have no specific maturity date. Short term advances carry financial charges at normal commercial rates.

The prices and terms of the above transactions are approved by the board of directors of the companies of the Group.

**23. GENERAL AND ADMINISTRATIVE EXPENSES**

	<i>2012</i>	<i>2011</i>
	<i>SR</i>	<i>SR</i>
Employee costs	<b>90,863,834</b>	84,506,258
Expenses of board of directors and board meetings for the Group	<b>1,819,208</b>	2,016,994
Depreciation	<b>9,316,422</b>	9,270,449
Others	<b>28,596,251</b>	28,997,014
	<b><u>130,595,715</u></b>	<u>124,790,715</u>

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**24. ZAKAT**

**Zakat charge:**

The zakat charge consists of:

	<i>2012</i>	<i>2011</i>
	<i>SR</i>	<i>SR</i>
Current year provision	<u>71,517,348</u>	<u>25,798,432</u>

The zakat charge for the Group was as follows:

	<i>2012</i>	<i>2011</i>
	<i>SR</i>	<i>SR</i>
Current year zakat charge of the Company	53,684,650	9,961,706
Company's share in the zakat and foreign taxes of subsidiaries	<u>17,832,698</u>	<u>15,836,726</u>
Charge in consolidated statement of income	<u>71,517,348</u>	<u>25,798,432</u>

**Movement in zakat provision**

The movement in the zakat provision was as follows:

	<i>2012</i>	<i>2011</i>
	<i>SR</i>	<i>SR</i>
At the beginning of the year	53,804,968	60,640,189
Provision for the year	71,517,348	25,798,432
Payments made during the year	<u>(54,225,402)</u>	<u>(32,633,653)</u>
At the end of the year	<u>71,096,914</u>	<u>53,804,968</u>

**Status of zakat assessments**

The Company has received zakat assessments for the years 2004 to 2010 with additional zakat liability of SR 127.7 million including revised assessments for the years 2007 and 2008. The Company does not agree with the additional liability and has filed appeals against these assessments and revised assessments. The assessment for the year 2011 has not yet been raised by the DZIT. In regard of subsidiaries, the zakat assessments for IGC have been agreed with the DZIT up to 2007 and for SMSC up to 2010. The assessments of the other subsidiaries for all years have not been raised by the DZIT yet.

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**25. OPERATING LEASE ARRANGEMENTS**

	<i>2012</i>	<i>2011</i>
	<i>SR</i>	<i>SR</i>
Payments under operating leases recognized as an expense during the year	<u>2,165,207</u>	<u>2,165,207</u>

The main leases are with the Royal Commission and the Port Authority. The lease with the Royal Commission is for an initial term of 30 Hijra years and is renewable upon the agreement of the two parties.

The minimum lease payments under non-cancellable operating leases are as follows:

	<i>2012</i>	<i>2011</i>
	<i>SR</i>	<i>SR</i>
Less than one year	2,165,207	2,165,207
Year two	2,165,207	2,165,207
Year three	2,165,207	2,165,207
Year four	2,165,207	2,165,207
Year five	2,165,207	2,165,207
More than five years	<u>30,670,730</u>	<u>32,835,937</u>
Net minimum lease payments	<u>41,496,765</u>	<u>43,661,972</u>

**26. CAPITAL COMMITMENTS**

As at 31 December 2012, the Group had capital commitments amounting to SR 2,106 million (31 December 2011: SR 2,290 million).

**27. CONTINGENCIES**

Sipchem is currently in a dispute with the construction contractor of Sipchem's Research and Development Centre in Dhahran, Saudi Arabia after terminating the construction contract. This dispute has been referred to arbitration under the Saudi Arabian Arbitration regulations. While this arbitration is going on, Sipchem and the construction contractor are in the meantime conducting a thorough review and negotiations for settling the dispute. Sipchem believes that it will not be liable to any payments other than what has already been accrued by Sipchem for the work completed by the contractor.

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**28. SEGMENTAL ANALYSIS**

	Petrochemical operations SR 000	Marketing activities SR 000	Total SR 000
<i>For the year ended 31 December 2012</i>			
Sales	3,174,194	747,685	3,921,879
Gross profit	1,248,034	19,511	1,267,545
Net assets	5,550,220	75,611	5,625,831
<i>For the year ended 31 December 2011</i>			
Sales	3,324,385	-	3,324,385
Gross profit	1,426,767	-	1,426,767
Net assets	5,630,220	-	5,630,220

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

Significant portion of sales are export sales. Accordingly, there are no geographical segments.

**29. RISK MANAGEMENT**

**Credit risk**

Credit risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. In general most of the Group's sales are made to reputable customers. Cash is placed with local banks with sound credit rating.

**Commission rate risk**

Commission rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market commission rates. The Group is subject to commission rate risk on its commission bearing assets including bank deposits and its commission bearing liabilities including the obligations under capital lease. The Group has an interest rate swap contract to hedge against the variability of the commission on term loans.

**Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Group controls its liquidity risk by ensuring that bank facilities are available. The Group's sales invoices are usually settled within 45 to 120 days of the date of the invoices. Payables are normally settled within 45 to 120 days of the date of the invoices.

**Currency risk**

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Group is subject to fluctuations in foreign exchange rates in the normal course of its business. The Group did not undertake significant transactions in currencies other than Saudi Riyals, US Dollars and Euros during the year.



Saudi International Petrochemical Company  
(Saudi Joint Stock Company)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2012

**30. FAIR VALUES**

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. The Group's financial assets consist of cash and cash equivalents and accounts receivable; its financial liabilities consist of accounts payable, short and long term advances from partners, term loans, obligations under capital lease and interest rate swaps.

Management believes that fair values of the Group's financial instruments are not materially different from their carrying values at year end.