

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

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
AND AUDITORS' LIMITED REVIEW REPORT**

**FOR THE PERIOD ENDED  
30 JUNE 2012**

**LIMITED REVIEW REPORT TO THE SHAREHOLDERS  
OF SAUDI INTERNATIONAL PETROCHEMICAL COMPANY  
(A SAUDI JOINT STOCK COMPANY)**



**Scope of limited review:**

We have reviewed the accompanying interim consolidated balance sheet of Saudi International Petrochemical Company (a Saudi Joint Stock Company) ("the company") and its subsidiaries (collectively referred to as "the group") as at 30 June 2012, and the related interim consolidated statement of income for the six months period ended 30 June 2012 and the interim consolidated cash flows for the six months period ended 30 June 2012. 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. Our review was limited and was conducted in accordance with Saudi Organisation of Certified Public Accountants (SOCPA) standard on interim financial information. The limited review consists principally of analytical procedures applied to financial data and inquiries of the group's personnel responsible for financial and accounting matters. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

**Conclusion on limited review:**

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

for Ernst & Young



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20 Sha'ban 1433H  
10 July 2012

Alkhobar

Saudi International Petrochemical Company  
(a Saudi Joint Stock Company)

INTERIM CONSOLIDATED BALANCE SHEET (UN-AUDITED)

As At 30 June 2012

	<i>Note</i>	<b>2012 SR</b>	<b>2011 SR</b>
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		3,269,811,932	1,827,601,668
Accounts receivable, prepayments and other receivables		616,701,557	567,826,194
Inventories		275,969,021	233,348,095
<b>Total current assets</b>		<b>4,162,482,510</b>	<b>2,628,775,957</b>
<b>Non-current assets</b>			
Property, plant and equipment		10,265,911,897	9,562,904,043
Projects' development cost		208,945,548	136,510,494
Intangible assets		68,412,332	38,174,732
Goodwill		33,982,682	-
<b>Total non-current assets</b>		<b>10,577,252,459</b>	<b>9,737,589,269</b>
<b>TOTAL ASSETS</b>		<b>14,739,734,969</b>	<b>12,366,365,226</b>
<b>LIABILITIES, SHAREHOLDERS' EQUITY AND MINORITY INTEREST</b>			
<b>Current liabilities</b>			
Accounts payable, other payables and provisions		962,213,275	607,638,994
Bank overdraft		20,123,371	-
Short term advances from partners		113,239,050	3,275,921
Current portion of long term loans		461,596,090	393,792,644
Current portion of obligations under capital lease		53,513,511	42,810,811
<b>Total current liabilities</b>		<b>1,610,685,297</b>	<b>1,047,518,370</b>
<b>Non-current liabilities</b>			
Long term loans		3,549,289,638	3,995,122,309
Sukuk		1,800,000,000	-
Obligations under capital lease		283,621,623	337,135,135
Long term advances from partners		395,654,879	355,595,196
Employees' terminal benefits		74,614,663	57,363,379
Fair value of interest rate swaps		157,061,170	180,865,559
Other non-current liabilities		11,109,150	-
<b>Total non-current liabilities</b>		<b>6,271,351,123</b>	<b>4,926,081,578</b>
<b>Total liabilities</b>		<b>7,882,036,420</b>	<b>5,973,599,948</b>
<b>Shareholders' equity and minority interest</b>			
Share capital	1	3,666,666,660	3,666,666,660
Statutory reserve		986,786,071	916,196,295
Reserve for the results of sale of shares in subsidiaries		48,893,677	48,893,677
Retained earnings		892,616,105	714,235,081
Net change in fair value of interest rate swaps		(119,352,904)	(135,931,631)
Translation loss on consolidation		(759,691)	-
<b>Total shareholders' equity</b>		<b>5,474,849,918</b>	<b>5,210,060,082</b>
<b>Minority interest</b>		<b>1,382,848,631</b>	<b>1,182,705,196</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND MINORITY INTEREST</b>		<b>6,857,698,549</b>	<b>6,392,765,278</b>
<b>TOTAL LIABILITIES, SHAREHOLDERS' EQUITY AND MINORITY INTEREST</b>		<b>14,739,734,969</b>	<b>12,366,365,226</b>

The attached notes form an integral part of these interim consolidated financial statements.

Saudi International Petrochemical Company  
(a Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF INCOME (UN-AUDITED)  
Period ended 30 June 2012

	Note	Interim period from 1 April to 30 June		Interim period from the beginning of the year to 30 June	
		2012 SR	2011 SR	2012 SR	2011 SR
Sales	7	904,474,838	831,649,125	1,962,518,993	1,524,692,393
Cost of sales		(590,249,855)	(515,164,442)	(1,313,569,720)	(940,944,523)
<b>Gross profit</b>	7	<b>314,224,983</b>	<b>316,484,683</b>	<b>648,949,273</b>	<b>583,747,870</b>
General and administrative expenses		(30,773,612)	(28,469,229)	(61,579,208)	(55,501,373)
<b>INCOME FROM MAIN OPERATIONS</b>		<b>283,451,371</b>	<b>288,015,454</b>	<b>587,370,065</b>	<b>528,246,497</b>
Investment income		4,331,938	945,003	10,852,151	2,483,714
Financial charges		(47,132,172)	(41,083,374)	(92,481,775)	(82,270,335)
Net income / (expenses) of pre-operating activities		71,792	(4,534)	331,385	(107,085)
Other (expenses) / revenues, net		(2,253,893)	6,332,677	(10,292,175)	6,524,656
<b>INCOME BEFORE MINORITY INTEREST AND ZAKAT</b>		<b>238,469,036</b>	<b>254,205,226</b>	<b>495,779,651</b>	<b>454,877,447</b>
Minority interest		(89,203,200)	(85,708,556)	(179,155,647)	(157,203,434)
<b>INCOME BEFORE ZAKAT</b>		<b>149,265,836</b>	<b>168,496,670</b>	<b>316,624,004</b>	<b>297,674,013</b>
Zakat and foreign taxes		(13,199,752)	(3,120,487)	(28,945,793)	(11,402,177)
<b>NET INCOME FOR THE PERIOD</b>		<b>136,066,084</b>	<b>165,376,183</b>	<b>287,678,211</b>	<b>286,271,836</b>
<b>EARNINGS PER SHARE (From net income)</b>		<b>0.37</b>	<b>0.45</b>	<b>0.78</b>	<b>0.78</b>
<b>EARNINGS PER SHARE (From main operations)</b>		<b>0.77</b>	<b>0.79</b>	<b>1.60</b>	<b>1.44</b>
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING</b>	1	<b>366,666,666</b>	<b>366,666,666</b>	<b>366,666,666</b>	<b>366,666,666</b>

The attached notes form an integral part of these interim consolidated financial statements.

Saudi International Petrochemical Company  
(a Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (UN-AUDITED)  
Period ended 30 June 2012

	2012 SR	2011 SR
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before zakat and foreign taxes	316,624,004	297,674,013
Adjustments for:		
Depreciation and amortization	232,003,506	225,892,287
Employees' terminal benefits, net	8,687,375	4,751,935
Financial charges	92,481,775	82,270,335
Minority interest	179,155,647	157,203,434
Net (income) / expenses of pre-operating activities	<u>(331,385)</u>	<u>107,085</u>
	828,620,922	767,899,089
Changes in operating assets and liabilities:		
Receivables	71,207,244	28,568,931
Inventories	5,111,941	(24,817,696)
Payables	<u>185,919,094</u>	<u>222,884,178</u>
Cash from operations	1,090,859,201	994,534,502
Financial charges paid	(92,481,775)	(82,270,335)
Zakat and income tax paid	<u>(28,573,893)</u>	<u>(61,767,788)</u>
Net cash from operating activities	<u>969,803,533</u>	<u>850,496,379</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net income / (expenses) of pre-operating activities	331,385	(107,085)
Additions to property, plant and equipment	(672,573,592)	(285,820,644)
Additions to intangible assets	(46,889,444)	(2,798,431)
Projects' development cost incurred	<u>(24,076,912)</u>	<u>(73,886,008)</u>
Net cash used in investing activities	<u>(743,208,563)</u>	<u>(362,612,168)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net change in bank overdraft	4,338,761	-
Long term loans, net	24,157,828	(176,950,451)
Repayment of obligations under capital lease	(21,405,406)	(21,405,405)
Advances from partners	58,655,752	-
Change in minority interest	(193,318,340)	(80,370,534)
Dividends paid	(458,333,333)	-
Board of Directors' remuneration paid	<u>-</u>	<u>(2,200,000)</u>
Net cash used in financing activities	<u>(585,904,738)</u>	<u>(280,926,390)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(359,309,768)</b>	<b>206,957,821</b>
Cash and cash equivalents at the beginning of the period	3,629,881,391	1,620,643,847
Translation loss on consolidation, net	<u>(759,691)</u>	<u>-</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b><u>3,269,811,932</u></b>	<b><u>1,827,601,668</u></b>

The attached notes form an integral part of these interim consolidated financial statements.

Saudi International Petrochemical Company  
(a Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (UN-AUDITED) - Continued  
Period ended 30 June 2012

**Supplementary information on cash flows:**

The following represents non-cash transactions:

	<i>2012</i> <i>SR</i>	<i>2011</i> <i>SR</i>
Net changes in fair value of interest rate swaps	<b>5,703,502</b>	4,501,875
Transfer from property, plant and equipment to intangible assets	-	9,222,671
Dividends declared	-	-
Transfer from general reserve to retained earnings	-	275,000,000
Increase of the Company's capital through capitalizing a part of its retained earnings	-	333,333,330

The attached notes form an integral part of these interim consolidated financial statements.

Saudi International Petrochemical Company  
(a Saudi Joint Stock Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS – (UN-AUDITED)  
At 30 June 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 1420H (corresponding to 22 December 1999). The company’s head office is in the city of Riyadh with one branch in Al-Khobar, where the headquarters for the executive management is located, which is registered under commercial registration number 2051023922 dated 30 Shawwal 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.

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).

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

<u>Subsidiaries</u>	<u>Effective percentage of shareholding</u>	
	<u>2012</u>	<u>2011</u>
International Methanol Company (IMC)	65%	65%
International Diol Company (IDC)	53.91%	53.91%
International Acetyl Company Ltd. (IAC)	76%	76%
International Vinyl Acetate Company Ltd. (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 company effectively from the date of its commercial registration. Accordingly, the investee company is treated as a subsidiary of the company.

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 interest rate equal to SIBOR plus a profit margin of 1.75% per annum payable at the end of each quarter.

During 2011, pursuant to board resolutions of the group, Sipchem European Operations were formed where Sipchem Marketing and Services 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, Aectra SA has been consolidated in these interim consolidated financial statements.

The acquisition amount of SAR 105.7 million is inclusive of SAR 75.8 million cash and SAR (4) million of other working capital and also an amount of SAR 33.9 million for valuation premium including contingent consideration reflected as goodwill on the balance sheet date. The group management is in the process of allocating the excess consideration paid to the respective assets. The allocation will be completed during 2012.



## 2. SIGNIFICANT ACCOUNTING POLICIES

The interim consolidated financial statements have been prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia. The significant accounting policies adopted by the group are as follows:

### *Accounting convention*

The interim consolidated financial statements are prepared under the historical cost convention modified to include the measurement at fair value for the interest rate swaps.

### *Use of estimates*

The preparation of the interim 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 interim consolidated financial statements and the reported amounts of revenues and expenses during the reporting period.

### *Basis of interim consolidated financial statements*

The interim consolidated financial statements incorporate the interim financial statements of the company and its subsidiaries which are controlled by the company and are prepared for the same period using unified accounting policies. Control is achieved where the group has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities. The consolidation of the subsidiaries' interim financial statements in these interim consolidated financial statements starts from the date control is obtained by the group 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 the group are classified under minority interest in these interim consolidated financial statements. All significant inter-group transactions and balances between the group companies have been eliminated in preparing the interim consolidated financial statements.

### *Revenue recognition*

The group markets their 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. Both export and local 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 period expenses other than costs of sales, financial charges, net expenses of pre-operating activities 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 items and damaged inventories.



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

***Projects' development cost***

Projects' development cost represents 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.

***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 capital work in progress are 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:

	<u>Years</u>
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 represent turnaround maintenance costs and other deferred expenses. The planned turnaround costs are deferred and amortized over the period until the date of the next planned turnaround. Should an unexpected turnaround occur prior to the previously envisaged date of planned turnaround, then the 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 expenses are amortized over the estimated period of benefits.

***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. 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 interim consolidated statement of income as they arise.

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

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

### *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 interim consolidated balance sheet date are translated at the exchange rates prevailing at that date. Gains and losses from settlement and translation of foreign currency transactions are included in the interim consolidated statement of income.

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.

### *Employees' terminal benefits*

Provision is made for amounts payable under the employment contracts applicable to employee's accumulated periods of service at the interim 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### *Zakat*

The Company and its subsidiaries are 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 interim periods 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 interim 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.

### *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. Other leases are classified as operating leases. Assets held under capital leases are recognized as assets of the group at the lower of the present value of the minimum lease payments or the fair market value of the assets at the inception of the lease. Finance costs, which represent the difference between the total leasing commitments and the lower of the present value of the minimum lease payments or the fair market value of the assets at the inception of the lease, are charged to the interim consolidated statement of income over the term of the relevant lease in order to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Rentals payable under operating leases are charged to the interim consolidated statement of income on a straight line basis over the term of the operating lease.

### *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 period over the weighted average number of shares outstanding during the period.

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

### *Result of the interim period*

The group has made all necessary adjustments which are important in order to present fairly in all material respects the interim consolidated financial position and results of operations. The interim consolidated financial results may not be considered an accurate basis for the actual results for the whole year.

## 3. CAPITAL COMMITMENTS

As at 30 June 2012, the group had capital commitments amounting to SR 1,573 million (30 June 2011: SR 2,130 million).

## 4. CONTINGENT LIABILITIES

The group and Saudi Ethylene and Polyethylene Company (SEPC) have entered into an agreement for the supply of Ethylene to Sipchem. SEPC is claiming compensation for the failure by Sipchem to lift the annual contract quantity during the period from 1 March 2009 up to 31 December 2009, when the related plant was not yet operational. Discussions between the group and Saudi Ethylene and Polyethylene Company (SEPC) regarding this dispute are at a very advanced stage. The group management believes that this dispute will be resolved shortly amicably.

Saudi International Petrochemical Company  
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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UN-AUDITED) - Continued  
At 30 June 2012

**5. INTEREST RATE SWAP CONTRACTS**

As at 30 June 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 30 June 2012, the notional amount of IRS contracts was SR 1,562 million (30 June 2011: SR 2,009 million).

The fair value of the interest rate swap has declined as of 30 June 2012 compared to the contract date by SR 157.1 million (30 June 2011: SR 180.9 million). The group share amounted to SR 119.4 million (30 June 2011: SR 135.9 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.

**6. DIVIDENDS**

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.

**7. SEGMENTAL ANALYSIS**

	Petrochemical operations SR 000	Marketing activities SR 000	Total SR 000
<i>From the beginning of the year to 30 June 2012</i>			
Sales	1,559,608	402,911	1,962,519
Gross profit	638,796	10,153	648,949
Net assets	5,405,163	69,687	5,474,850
<i>From the beginning of the year to 30 June 2011</i>			
Sales	1,524,692	-	1,524,692
Gross profit	583,748	-	583,748
Net assets	5,210,060	-	5,210,060

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.