Saudi International Petrochemical Company

EXCELLENCE *everywhere*

annual report **2013**

In the Name of Allah the Most Compassionate, the Most Merciful

H.R.H. Crown Prince Salman Bin Abdulaziz Al-Saud
Deputy Premier and Minister of Defence
Kingdom of Saudi Arabia

King Abdullah Bin Abdulaziz Al-Saud
Custodian of the Two Holy Mosques
Kingdom of Saudi Arabia

EXCELLENCE *everywhere*

The launch of our new brand ethos 'Excellence Everywhere' is a reflection of Sipchem performing better; producing better profits; achieving more success; and most of all delivering on its aims. Sipchem has continuously strived to improve the utilisation of its resources whether it's our people, our processes, or technology and to achieve real bottom line improvements. This sustained growth and success is nothing but our commitment to Excellence in all that we do.

OUR *vision* We challenge assumptions every day to discover and develop responsible solutions, enhancing the quality of life for generations to come.

OUR *mission* To grow our capability and reach by constantly pushing the boundaries that inspire, enhance and sustain excellence.

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EXCELLENCE *in nature*

Arabian Horse is known to be the oldest and the first domesticated breed of horse originally bred in the Middle East by the Bedouins. Quick learners, alert and sensitive the Arabians are today considered the breed of excellence in the endurance world because of their stamina and agility.

CHAIRMAN'S *message*

"When Sipchem started in December 1999, our goal was not just to build a great enterprise, but, more importantly, to contribute to the future growth aspiration of our country and provide people the opportunities to fulfill their dreams, shape their own destiny, and the means to realize their true and diverse potential."

May Peace, Mercy and Blessings of Allah be upon you.

In 2013 Sipchem had an excellent year - demonstrating that it can continue to move forward in a climate characterized by economic and monetary uncertainty. While sticking firmly to its long-term strategy, the organization maintained flexibility to adapt and to take the necessary actions to create value and maintain its success. Sipchem accomplished superb financial results in spite of down time due to scheduled maintenance of all the company's plants in 2013. The outcome of the financial results for year 2013 was net profit of SR 620 million compared to SR 601 million in 2012.

When Sipchem started in December 1999, our goal was not just to build a great enterprise, but more importantly, to contribute to the future growth aspirations of our country and provide people the opportunities to fulfill their dreams, shape their own destiny, and the means to realize their true and diverse potential. Our growth ambitions are not limited by borders and we have wasted no time in achieving these goals, working around the clock to meet and exceed the expectations of our shareholders.

The success comes from a relentless focus on innovation, execution and strong leadership. The leadership is convinced that "the impossible" does not exist. But with continuous improvement and building new capabilities, "the impossible" – "is possible". This belief and action creates the competitive edge. Furthermore, by leveraging our core competencies in areas of operational excellence, expansion of product ranges, focus on execution, as well as implementing relevant skill-sets while nurturing its global workforce, Sipchem has retained and strengthened its competitive edge.

The Sipchem growth strategy is focused on enhancing core competencies, building new capabilities, and extending geographically. This strategy is working, and I anticipate that the organization will continue to further improve its overall performance.

In June 2013, Sipchem initiated negotiations for a possible merger with Sahara Petrochemicals Company, and a Non-binding Memorandum of Understanding was signed in December 2013. If the merger is successful, the resulting entity will be a leading player in the petrochemical industry. In April 2013, Sipchem founded a marketing wing in the Republic of Singapore to work alongside Sipchem Europe. This will be a springboard for Asia, which represents a large and attractive market for Sipchem.

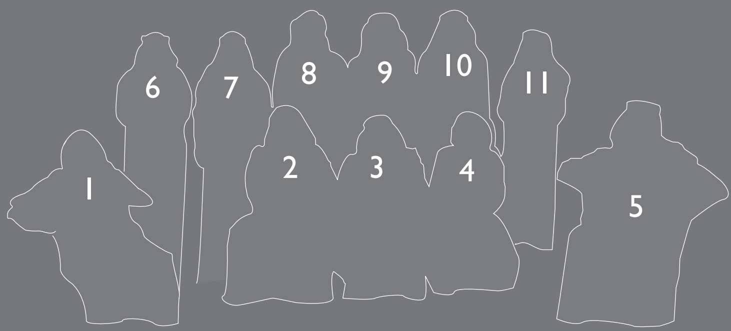
Regarding the company's financial results, the General Assembly meeting held in March 2014, approved the payment of a cash dividend of SR(0.65) so that the total cash dividend paid in 2013 amounted to SR(1.25) per share.

In conclusion, I would like to take this opportunity to extend our sincere thanks and appreciation to all of our Shareholders for their valued trust and support for Sipchem activities, to all supporting governmental entities and banks for their assistance and backing, and to all Sipchem's and its affiliates' employees, contractors and suppliers for their sincere hard work and their commitment.

Abdulaziz A. Al-Zamil
Chairman

THE OUTCOME OF THE FINANCIAL RESULTS FOR YEAR 2013 WAS NET PROFIT OF SR 620 MILLION COMPARED TO SR 601 MILLION IN 2012.

BOARD *of directors*



1 - Dr. Abdulrahman A. Al-Zamil - Member

2 - Mr. Abdulrahman A. Al-Turki - Member

3 - H.E. Eng. Abdulaziz A. Al-Zamil - Chairman

4 - Dr. Abdulaziz A. Al-Gwaiz - Member

5 - Dr. Sami M. Zaidan - Member

6 - Mr. Fahad S. Al-Rajhi - Member

7 - Mr. Abdulaziz A. Al-Khamis - Member

8 - Eng. Reyadh S. Ahmed - Member

9 - Eng. Ahmad A. Al-Ohali - Member & CEO

10 - Eng. Mohammad A. Al-Ghurair - Member

11 - Mr. Ibrahim H. Al-Mazyad - Member

EXCELLENCE *in nature*

Saker Falcon of Saudi Arabia is valued both for its outstanding beauty and its ability to withstand adverse weather conditions. With an amazingly acute vision, this bird can identify prey at a distance of several kilometres. Flying at speeds of over 100 km/hour, approaching 200 km/hour during dives, this bird exemplifies nature's excellent creations.

CEO'S *message*

SR 620 million

2013 NET PROFIT IS UP BY 3% ON LAST YEAR'S RESULT

I am pleased to report to you that Sipchem continued its strong overall performance in the 2013 calendar year. This achievement is highlighted by excellent total shareholder returns, increased profits, operational excellence, and the realization of our sustainability objectives.

Throughout 2013 we continued to focus on planned organic growth through strategic investments and partnerships. We also entered into negotiations for a possible merger with Sahara Petrochemical Company. This merger, if successful, will significantly transform our business by providing us with a stronger platform to expand our activities both within and outside of the Kingdom. Feasibility studies including technical, financial and regulatory are underway and the results of these studies will be shared with the respective boards in due course.

Strong Total Shareholder Return

Creating value and increasing Shareholder returns remains a core strategic objective. Gross margin, revenue growth and earnings per share targets were achieved in 2013. This reflects our dedication to excellence and our unrelenting cost management focus.

Cash from Operations

With the softer-than-expected recovery in the global economy, Sipchem realized a net profit of SR 620 million, up by 3% on last year's results. Strong netback across the product portfolios was achieved due to efficiency in logistics, production, and discounts.

"Throughout 2013 we continued to focus on planned organic growth through strategic investments and partnerships."

Operational Excellence

Operational excellence continues to be the cornerstone of our business and Responsible Care is at its heart. In addition, performance review and optimization programs were undertaken throughout 2013 to ensure that all of our functions are effective, efficient and best in class.

Highlights of our achievements in 2013 include:

- Completing construction of our 100 KTPA(Kilo Tonnes Per Anum) Ethyl Acetate & Butyl Acetate Plant which achieved commercial operation at the beginning of September.
- Securing financing of SAR 257.5 million from the Saudi Industrial Development Fund to support our planned 60 KTPA Polybutylene Terephthalate (PBT) Plant. This Plant located in Jubail Industrial City will use Butanediol as feedstock and will capture more of the value chain for Sipchem. Construction of this Plant is on track and it is expected to commence operations at the end of 2014.
- Refinancing over one billion and thirty five million Saudi Riyals of loans in respect of our Acetic Acid plant, the Vinyl Acetate plant and the Carbon Monoxide plant with competitive variable rates, a six month grace period and an extended repayment period from two to four years.
- Opening our Asia marketing office in Singapore.
- Forming a new joint venture company with Hanwha Chemicals Corporation, Saudi Specialized Products Company, for setting up new downstream conversion projects in Saudi Arabia. The first facility at Hail will produce 4,000 MTPA of EVA films and the second, located at Riyadh, will manufacture steel moulds and dies for plastic converters employing over 180 people.

The platform achieved in 2013 heralds an exciting 2014. During 2014 not only will the new plants mentioned above come on stream but we also expect to achieve commercial operation of our 200 KTPA EVA/LDPE plant. This plant will open an exciting new chapter in Sipchem's history being our first step in the production and marketing of polymers. Commissioning of this plant is already underway.

Sustainability

Our commitment, to our employees, shareholders and the communities and countries where we work, to operate safely and responsibly, remains steadfast.

We recognized early that when we transform our business to deliver what our consumers want, to protect our environment, and by investing in our employees, we achieve sustained value. In fact, these actions fuel our financial returns.

In 2013 we achieved the Royal Commission Award for Environmental Best Performer through continuous improvement in environmental protection as part of the Responsible Care (RC) initiative.

In 2014 we will continue to focus on:

- Providing a safe and inclusive work place for all of our employees so as to attract and retain the best talent.
- Expanding the scope and number of development and training programs for employees focusing on core competencies, skills required to deliver value, and SAP enhancement/awareness.
- Executing succession plans and achieving a Saudization target of 75% or more.
- Completing our Saudi national housing program providing secure and affordable housing for our employees working in Jubail Industrial City.

In 2013 we launched our unified brand slogan "Excellence Everywhere" and initiated a program to improve our transparency to the investment community. These initiatives will transform our business by ensuring that our key stakeholders know what they can expect of us and more importantly what they can rely on us to deliver.

2013 was as predicted a challenging year and it certainly proved to be so. I am proud to report that we met the challenge and that our business is now more robust and well placed to continue to thrive in 2014 and beyond.

I wish to thank all our employees, suppliers, Government of the Custodian of the Two Holy Mosques and HRH the Crown Prince, for their efforts and unwavering commitment without which our progress in 2013 would not have been possible.

I look forward to working with every one of you to deliver even better results in 2014.

Ahmad A. Al-Ohali
Chief Executive Officer

BOARD OF DIRECTORS'
annual report for the year 2013

EXCELLENCE *in nature*

The Arabian Oryx are considered the most specialised of the species as they can trap body heat in their thick undercoats to keep warm while their legs darken in the winter to absorb more heat. What takes this nature's marvel to another level of excellence is its uncanny ability to detect water from miles away.

DESCRIPTION *of the company's activities*

Saudi International Petrochemical Company (Sipchem) is one of the Saudi public shareholding companies listed on the Tadawul (Saudi Capital Market). Sipchem was established on December 22nd, 1999 with a current capital worth SR 3.6 billion. Sipchem is actively investing in basic and intermediary petrochemical and chemical materials that can be utilized as feedstock for manufacturing of a vast array of products that provide prosperity and welfare for the mankind. Sipchem is committed to implementing its activities in compliance with the highest quality standards whether in its products or maintaining the integrity of the surrounding environment or the safety of its employees.

Sipchem selected Jubail Industrial City to establish its industrial complex for the production of various petrochemical and chemical materials because of the availability of the entire required basic infrastructure, the abundance of raw materials and necessary petrochemical products in the Eastern Province and the ease of export operations via King Fahd Industrial Port. The gross production of all existing plants is up to 2.3 million metric tons in 2013, while it was 2.4 million metric tons in 2012. That reduction is a result of the periodical maintenance conducted by Sipchem plants in the first quarter of 2013.

The Sipchem plants cover an area of one million square meters in the basic industries zone of Jubail Industrial City in the Eastern Province of the Kingdom of Saudi Arabia. Sipchem's strategy is aimed at the integration of present and future chemical products to establish a diverse range of value-added products that will not only contribute to the integration and success of the industrial zone at Jubail but most importantly increase Gross Domestic Product (GDP). This strategy will support industrial development in line with the Kingdom's comprehensive development and increase revenues and profits for Sipchem's shareholders.

Sipchem has become a regionally and globally recognized petrochemical leader. Due to its administrative, professional and technical capabilities which push it to the top of global companies operating in this area.

DESCRIPTION *of sipchem's affiliates*

Sipchem Affiliates (Existing Plants):

1- International Methanol Company

International Methanol Company (IMC) is a Saudi limited liability company, established in the year 2002 with a capital of SR 360,970,000 of which Sipchem owns 65%. IMC is operating a plant for the production of Methanol with a designed production capacity of 970 thousand metric tons per annum (mtpa). The plant is currently working at its full designed production capacity. IMC production is partially utilized as a feedstock for the International Acetyl Company (IAC) plant, whereas the remaining quantity is shipped to the company's customers regionally and internationally. IMC's site is in Jubail Industrial City, Kingdom of Saudi Arabia.

In July 2013, IMC signed with Riyad Bank an Islamic Refunding Agreement of SR 325 million.

The finance process which is consistent with the Islamic Law will grant IMC the right to an additional finance of SR 200 million to support the company projects and goals.

The company has scheduled regular maintenance to its plant in January for four weeks and was a positive influence on performance in production and operational efficiency. The company has taken all the precautions necessary to mitigate this impact on their obligations towards clients and reduce the financial impact on the financial results for the year 2013.

2- International Diol Company

International Diol Company (IDC) is a limited liability Company established in the year 2002, with a capital of SR 431,250,000 of which Sipchem owns 53.91%. The company is operating a plant producing Butanediol (BDO) and its derivatives such as Maleic Anhydride (MAn) and Tetrahydrofuran (THF) with a designed production capacity of 75 thousand mtpa. The plant produces high quality Butanediol (BDO) which is shipped to the customers regionally and internationally. IDC's site is in Jubail Industrial City, Kingdom of Saudi Arabia.

In March 2013, IDC signed a new Funding Agreement to refund the remaining loans from domestic commercial banks. These loans were to finance the establishment of the Diol plants and facilities belonging to the IDC. As well as an additional funding to finance expansion of some units in the company for improved performance, as the cost of construction and permissions for the project is about SR 393 million and to finance public purposes for the company by SR 91 million. It is scheduled to complete the expansion of the production unit entrances in the company by the end of 2014. Under this new agreement, the new funding will be through Islamic facilitations compatible with the Islamic law through the financing lease.

IDC has signed an international agreement in July 2013 to improve the Butanediol plant operations with the South Korean Company (eTEC), which include expansion of the entrances of the production units, and to improve and increase the reliability and efficiency of the Butanediol plant facilities. The cost of construction and licensing were SR 393 million. Construction was started on 14th January 2013 in order to be completed during the fourth quarter of 2014.

The company scheduled regular maintenance of its plant in January 2013 for two weeks which had a positive influence on performance in terms of production and operational efficiency. The company has taken all the precautions necessary to mitigate this impact on their obligations towards clients and reduce the financial impact on the financial results for the year 2013.

3- International Gases Company

International Gases Company (IGC) is a limited liability company established in the year 2006 with a capital of SR 425,400,000 of which Sipchem owns 72%. The International Gases Company (IGC) operates a plant for the production of Carbon Monoxide (CO) with a designed production capacity of 340 thousand mtpa. This plant is considered to be the largest CO plant of its kind in the world. Carbon Monoxide (CO) is used as a feedstock for the production of Acetic Acid by IAC. IGC's site is in Jubail Industrial City, Kingdom of Saudi Arabia.

In February 2013, the IGC signed a loan refunding agreement with commercial banks, which were obtained in 2008 from a number of local and international banks in order to finance its industry. Under the agreement, IGC will be able to convert existing commercial bank loans to long-term facilities in Saudi Riyal with Riyad Bank for the amount of SR 61,428,024.

The company scheduled regular maintenance to its plant in February 2013 for four weeks which had a positive influence on performance in terms of production and operational efficiency. The company has taken all the precautions necessary to mitigate this impact on their obligations towards clients and reduce the financial impact on the financial results for the year 2013.

4- International Acetyl Company

International Acetyl Company (IAC) is a limited liability company established in 2006 with a capital of SR 1,003,000,000 of which Sipchem owns 76%. The International Acetyl Company (IAC) operates a plant for producing Acetic Acid (AA) and Acetic Anhydride (AAn) with a designed production capacity of 460 thousand mtpa. IAC production is partially used as a feedstock by IVC (International Vinyl Acetate Company) to produce Vinyl Acetate Monomer while the rest of the production is shipped to customers regionally and internationally. IAC's site is in Jubail Industrial City, Kingdom of Saudi Arabia.

In February 2013, IAC signed a loan refunding agreement with commercial banks, which were obtained in 2008 from a number of local and international banks in order to finance its industry. Under the agreement, the IAC will be able to convert existing commercial bank loans to long-term facilities in Saudi Riyal with Riyad Bank for the amount of SR 617,767,338.

The Company scheduled regular maintenance to its plant in February 2013 for four weeks which had a positive influence on performance in terms of production and operational efficiency. The company has taken all the precautions necessary to mitigate this impact on their obligations towards clients and reduce the financial impact on the financial results for the year 2013.

5- International Vinyl Acetate Company

International Vinyl Acetate Company (IVC) is a Saudi limited liability company established in the year 2006 with a capital of SR 676,000,000 of which Sipchem owns 76%. operates a plant for the production of Vinyl Acetate Monomer with a designed production capacity of 330 thousand mtpa. The IVC plant is performing its work at full designed production capacity producing high quality Vinyl Acetate Monomer which is shipped to customers regionally and internationally. IVC's site is in Jubail Industrial City, Kingdom of Saudi Arabia.

In February 2013, IVC signed a loan refunding agreement with the commercial banks, which were obtained in 2008 from a number of local and international banks in order to finance its industry. Under the agreement, the IVC will be able to convert existing commercial bank loans to long-term facilities in Saudi Riyal with Riyad Bank for the amount of SR 355,569,527.

6- Sipchem Chemicals Company

Sipchem Chemicals Company (SCC) is a Saudi limited liability company established in the year 2011 with a capital of SR 266,000,000 of which Sipchem owns 95% and 5% by Sipchem Marketing & Services Company (SMSC), an affiliate of Sipchem. The plant is designed to produce 100,000 mtpa of Ethyl Acetate / Butyl Acetate and 63,000 mtpa of Polybutylene Terephthalate annually. SCC's site is in Jubail Industrial City, Kingdom of Saudi Arabia.

The commercial operation of the Ethyl Acetate and Butyl Acetate plants started in September 2013. These specialist products are in line with the company's strategy to implement integrated transformative projects with the current products in order to meet the local needs of this product, in addition to meeting the demand of international markets. The raw materials needed for the production of Ethyl Acetate are Acetic Acid which is provided by the IAC (Sipchem affiliate) and Ethanol which is imported from the international markets. This product is used as a solvent in manufacturing inks, industrial fluids and granules used in the packaging of surfaces and coatings.

SCC has signed a funding agreement of SR 257.5 million with the Saudi Industrial Development Fund. The purpose of this agreement is financing the construction operations of a plant that produces 63,000 mtpa of Polybutylene Terephthalate annually. The project will add value to Sipchem with the integration of Butanediol, the feedstock of the project. Note that the product will be wholly marketed by Sipchem. The total cost amount of the project is SR 600 million. It is scheduled to be operational by the end of 2014.

In June 2013, the SCC signed an EPC contract with German ThyssenKrupp Audi Ltd. for the construction of a Polybutylene Terephthalate (PBT) plant. This project will be financed by the Saudi Industrial Development Fund, partners and commercial funding. The PBT is a polymer with high thermal theme used in the automotive industry and in the production of electrical devices and electronics and also in the production of materials used in information technology. Announcing this contract is an important step towards achieving the expansion and transformative industries development program. The new PBT project will allow Sipchem to be seen as an international player in manufacturing polymers and plastics engineering. Also using Butanediol produced by the IDC (Sipchem Affiliate) as a basic material for producing the PBT will allow Sipchem to get benefit from its integrated package of products and will strengthen the added value chain.

7- International Utilities Company

International Utilities Company (IUC) is a Saudi limited liability company, established in the year 2009, with a capital of SR 2,000,000 owned equally by all Sipchem operating affiliates, namely: International Methanol Company (IMC); International Diol Company (IDC); International Gases Company (IGC); International Acetyl Company (IAC); and International Vinyl Acetate Company (IVC). Sipchem's actual ownership is 68.58% of the IUC capital. The purpose of the company is to manage, operate and maintain utilities, facilities and services for Sipchem's affiliates. IUC site is in Jubail Industrial City, Kingdom of Saudi Arabia.

8- Sipchem Marketing Company (SMC)

Sipchem Marketing Company (SMC) is a Saudi limited liability company, established in the year 2007 with capital of SR 2,000,000 fully owned by Sipchem. The company's location is in Al-Khobar in the Eastern Province, Kingdom of Saudi Arabia. Sipchem Marketing Company (SMC) works independently in the marketing and sales of the entire range of Sipchem's products in addition to other products. The company has a highly competent and experienced sales force with diverse backgrounds.

Currently SMC sells and markets a number of products including Methanol, Butanediol (BDO), Maleic Anhydride (MAn), Tetrahydrofuran (THF), Acetic Acid (AA) and Vinyl Acetate Monomer (VAM). SMC has marketed 722,000 metric tons of aforementioned products in 2012 - an increase of 21% over 2011 which was at 597,000 metric tons.

A) Sipchem Europe Cooperative UA and its Affiliates

Sipchem Europe (Cooperative UA) Company was established in 2011, with capital of Swiss Franc 1,000,000 totally owned by Sipchem and located in Amsterdam, the Netherlands. Its major activity is to provide managerial support in marketing and logistics fields. Aectra SA is an affiliate of Sipchem Europe Cooperative UA which is headquartered in Geneva, Switzerland. The main activities of Acetra SA are marketing, logistics services and commercial experience in European markets. Aectra has become a major support to market Sipchem products in Europe as it marketed and sold 159 thousand mtpa of Sipchem's products and 330 thousand mtpa of other companies' products during 2013.

B) Sipchem Asia Pte Ltd

In April 2013, the Sipchem Marketing Company (SMC) founded Sipchem Asia Pte Ltd which is fully owned by Sipchem and based in Singapore. This has given more strategic direction to the marketing aspect allowing the company to provide optimal services to its customers in Asia by connecting them directly to SMC. This achievement, in context of the geographical organization of the company as it exists in the strategic markets, reflects positively on the company's performance and facilitates more growth. Singapore is a well-established and important logistics and trading hub for the petrochemical industry and an ideal gateway for delivering excellent service to customers throughout Asia. The foundation of Sipchem Asia in Singapore shows the extent of SMC's commitment to providing its services at an international level. This symbolizes a clear breakthrough in meeting the needs of the customers directly and clearly demonstrates SMC's interest in meeting the needs of its customers. To emphasize transparency and to focus on building customer relations, Sipchem Asia will limit the selling and marketing of Sipchem products through other specialist marketing companies.

AFFILIATES *projects under construction*

1- International Polymers Company

International Polymers Company (IPC) is a limited liability company established in the year 2009 with a capital of SR 703,200,000 of which Sipchem owns 75%. The company's main activity is to produce Ethylene Vinyl Acetate (EVA) and Low-Density Polyethylene (LDPE) with a planned production capacity of 200 thousand mtpa. This plant is considered the first of its kind in the Middle East to produce Ethylene Vinyl Acetate (EVA). The project location is in Jubail Industrial City, Kingdom of Saudi Arabia.

The total cost of the project is SR 3 billion which will be financed by a number of loans and banking facilities in accordance with Islamic Shariah law and also by shares from shareholders and government loans provided by SIDF (Saudi Industrial Development Fund) and PIF (Public Investment Fund). IPC signed, in June 2013, a long-term funding contract with the PIF at value of SR 704,000,000 million.

Vinyl Acetate Monomer (VAM) will be provided as a second feedstock by IVC (Sipchem affiliate), and Ethane gas from Aramco to be treated by Jubail United Petrochemical Company (Sabic Affiliate), to be converted into Ethylene as main feedstock for the project. Ethylene Vinyl Acetate (EVA) is used as feedstock to produce heat soluble adhesives, resin products and high-quality sports bandages. Low Density Polyethylene (LDPE) is used as a feedstock in the production of various types of containers, bottles and medical detergents. Sipchem has also obtained a funding loan at value of SR 600 million from the SIDF and a commercial funding in accordance with the Shariah law including a short-term loan at value of SR 1.4 billion from a group of Saudi banks.

The plant is being constructed by Korean company GS Engineering & Construction (GSEC) company. The rate of implementation of the project has reached to 99.7% till end of 2013 and it is expected to be operational during the first quarter of 2014.

2- Gulf Advanced Cable Insulation Company (GACI)

Gulf Advanced Cable Insulation Company (GACI) is a limited liability company established in the year 2012 with a capital of SR 57,240,000. As part of Sipchem's enhancement of its capabilities for integration of its projects and its search of new products needed by local and international markets, the company had founded GACI as a joint venture owned equally by Sipchem and Hanwha Chemicals Company. The total cost of the plant is SR 230 million and it produces electrical cable insulation materials. The basic feedstock will be obtained from IPC (Sipchem affiliate). The rate of implementation of the project had reached 96% till end of 2013 and it is expected to be operational during the first quarter of 2014. GACI's site is in Jubail Industrial City, Kingdom of Saudi Arabia.

3- Saudi Specialized Products Company (Wahaj)

The Saudi Specialized Products Company (Wahaj) is a limited liability company established in the year 2013 with a capital of SR 56,320,000 for which Sipchem Chemicals (Sipchem Affiliate) owns 75% and Hanwha Chemicals Company owns 25%. SSPC's site is in Riyadh City, Kingdom of Saudi Arabia. SSPC is responsible for the establishing and operation of the downstream projects in both Riyadh and Hail. The total amount of the investment value is about SR 225 million. Below is a description of the two projects:

A) Ethylene Vinyl Acetate (EVA) Film Project (Hail)

The total cost of the project is estimated at about SR 150 million, with a 4 thousands mtpa annual production capacity of Ethylene Vinyl Acetate films. It is located on 40 thousand square meters. The product will be distributed through Sipchem Company which is one of the Sipchem companies and the project will be funded by the company in addition to loans from local financial quarters. This is considered to be the first project in the Gulf region which showcases Sipchem's commitment towards the developmental objectives of the Kingdom which seeks to be one of the driving forces in the field of renewable energy. The Ethylene Vinyl Acetate films are used to make the panels of solar cells used for generating electricity from the solar energy. The company has got the necessary manufacturing technology from the Japanese firm Mitsui Chemicals Tohcello, Inc.
The establishment of this project in the city is considered to be a supportive initiative to help create investment opportunities for new projects that can use this product. The project will also create many job opportunities for the people of this region. The factory is expected to be at the phase of empirical implementation during the third quarter of 2014.

B) Tool Manufacturing Facility (TMF) Project (Riyadh)

The total cost of the project is estimated at about 105 million riyals, with a one thousand mtpa annual production capacity of metal molds specialized for manufacturing plastic products. The company has got the necessary manufacturing technology from German company Kiefer Rkzajabu. The product will be distributed by the same firm and will be funded by the company in addition to loans from local financial quarters. The metal molds are used for manufacturing and forming multiple types of molds and alloys used in plastic and packaging factories. These provide and create the necessary infrastructure for designing any industrial or commercial product. The prototypes and the products are produced by designing templates or alloys according to the necessary criteria. The industry manufacturing the molds will support the transferred industries including polymers and metal panels and aluminum to procure the tools and alloys as per precise requirements. Not only is the institution manufacturing the molds and new equipment, but it will also support the maintenance service of existing molds and alloys, as high technical experience is available through the German company which is a provider of technology in the field of manufacturing tools and alloys.

4- Sipchem Technology & Creativity Exchange (STCE)

Sipchem invests SR 225 million to establish Sipchem Technology & Creativity Exchange (STCE) at Dhahran Techno Valley of King Fahd University of Petroleum and Minerals (KFUPM). Sipchem signed an MOU with the Ministry of Petroleum & Minerals and King Fahd University of Petroleum and Minerals (KFUPM) to establish this center on a 15,000 square meters site at Dhahran Techno Valley. In line with this MOU, Sipchem will manage and operate this center which will include 37 laboratories to cover all fields of research, technical services and development of products, their applications, analysis and testing.

The Center site construction has already started, and is being designed to be modern and as per the latest world-class standards for buildings, laboratories and equipment. It is aimed at developing the use of polymer products for serving and developing the transformative industries in the Kingdom, where more than 860 plants are currently in operation.

It is scheduled that the Center will focus its researches on the main uses of the products, i.e. films used in manufacturing solar cells and thin sheets for agricultural uses, flexible pipes, adhesives for timber, paper and paints industry, electrical cables, optical fiber cables, and other products that will support the national program for the development of industrial clusters. The Center will also promote cooperation in research using laboratory devices and exchange of experiences between the University, other research centers in the Kingdom, and Sipchem. Construction is scheduled to come to an end during the fourth quarter of 2014.

SR 225 million

INVESTED BY SIPCHEM TO ESTABLISH THIS CENTER WHICH WILL INCLUDE 37 LABORATORIES TO COVER ALL FIELDS OF RESEARCH AND DEVELOPMENT

SIPCHEM'S *strategies*

Sipchem studies available investment opportunities in order to maximize profits of the company and shareholders in accordance with the strategic plans adopted by the company and Board of Directors since the establishment of the company. This is done within the framework of a clear strategy for the Kingdom of Saudi Arabia which has placed great importance on industrial development to further the enhancement of Saudi industries on par with high quality global standards prevalent among industrial nations. In order to achieve these plans, the Board of Directors adopted a number of long and short term programs and projects that will lead the company to achieve excellent performance that pushes it to the top of global companies operating in this area.

A) Sipchem's strategy depends on the following elements:

- Increase of production capacity and to optimize operational capability for affiliates' plants.
- To develop long-term relations with vendors and clients to decrease operational costs.
- Continuous development in quality of products through research and development operations and application of best international standards.
- To reduce costs to enhance competitiveness among companies.
- Long-term investment in Saudi manpower which reflects positively on company's performance.
- Expansion in the variety of the company's products via investment in downstream projects and other projects associated with the industry.

B) Sipchem's Project Strategy

Sipchem has adopted the development and implementation of the best scientific global practices and standards across all departments in order to ensure that a project is implemented easily and smoothly. To achieve optimal development of its projects, Sipchem has chosen a unique approach in the implementation of these projects with quality and effectiveness. This approach, for the development of large projects ensures that at each stage of implementation, every aspect is accurately detailed out and it uses the best sources of investment and finance to achieve the goals of each phase with risk reduction. This approach helps to expand the industry and increase the work opportunities with better allocation and development of capital resources and prioritization of distribution, and also seeks to reduce the risk to a minimum.

SIPCHEM'S FUTURE PLANS AND EXPECTATIONS

1- Operation of Sipchem Projects

Sipchem is currently implementing several projects with a total investment of SR five billion, in addition to Sipchem Creativity & Technology Center, and the staff housing project, which has cost about SR 800 million.

The commercial operations of Ethyl Acetate and Butyl Acetate plants saw successful execution in 2013. Sipchem continues to address many other challenges in 2014 with respect to the operation and implementation of several industrial projects as follows:

1- Ethylene Vinyl Acetate and Low Density Polyethylene project of the International Polymers Company which is expected to be operational during the first quarter of 2014.

2- Wire and Cable Compounds project of the Gulf Advanced Cable Insulation Company which is expected to be operational during the first quarter of 2014.

3- Ethylene Vinyl Acetate (EVA) Film project of the Saudi Specialized Products Company (Sipchem Affiliate) which is expected to be operational during the third quarter of 2014.

4- Metal Molds Production project of the Saudi Specialized Products Company (Sipchem Affiliate) which is expected to be operational during the second quarter of 2014.

5- Polybutylene Terephthalate (PBT) project of Sipchem Chemicals which is expected to be operational during the fourth quarter of 2014.

6- Expansion of Butanediol plant which is expected to be operational during the fourth quarter of 2014.

Concerning the prices in 2014, Sipchem expects better price stability compared to that in 2013. Sipchem's development plan focuses basically on the company embarking into new markets in Europe and Asia through SMC developing detailed plans that use the best methods of operation and acquiring of abilities to achieve the best returns for shareholders of Sipchem. Sipchem is also currently studying feasibility of many new industrial projects and studying new investment opportunities to purchase existing shares or projects inside and outside KSA, as well as expanding some of the existing plants to increase overall operational efficiency; the results of which are expected to be announced during 2014.

2- Merger with Sahara Petrochemicals Company

In June 2013, Sipchem announced an initial understanding with Sahara Petrochemicals Company for a feasibility study to be conducted regarding the merger and integration of the two companies. Sipchem signed a Non-binding Memorandum of Understanding with the company about their proposed merger in December 2013 in order to initiate studies and conduct a confirmatory survey to help complete negotiations on the proposed merger between the two companies based on commercial principles of equal integration.

The signing took place because of the fact that the initial results of the studies and negotiations on the proposed merger indicated that it would provide a positive breakthrough to the company's business, provided that some conditions are agreed upon. It is expected that the proposed merger will contribute towards enhancing the status of leading local and global companies in the field of petrochemicals, which is expected to lead to even more important partnerships that will enhance operational efficiency. After the proposed merger, the two companies will become a platform for continued long term growth.

With respect to the proposed merger, Sipchem has appointed HSBC Saudi Arabia Limited as its financial advisor, Office of Ziad Samir Khoshim as legal advisor, Allen Overy Firm as an international legal advisor, Jacobs Consultancy as technical advisor, Nexant as an advisor for market study. Sahara Petrochemicals also appointed Morgan Stanley Company as a financial advisor, Jadaan and Associates Attorneys and Legal Consultants as Saudi legal advisor, Clifford Chance as an international legal advisor, and IHS Inc as technical advisor and for market study.

If the proposed merger is accomplished, it is expected to be a positive move in the best interest of the shareholders of both companies and their employees, and would have tangible benefits for both companies. The proposed merger supports the shared commitment to achieving an equitable result and value for shareholders of both companies based on principles of equity to the merger. This is an important precedent

in the petrochemical sector in Saudi Arabia that will result in more competitive and stronger capabilities that will be able to increase their investment in new projects in the Kingdom and at the global level. This would also provide further growth opportunities for both management and staff and would reflect as an added value for shareholders.

The two companies have agreed that if the proposed merger is accomplished, it will be based on the exchange of shares of the companies whereby Sahara Petrochemicals Company will become, after the completion of the proposed merger, a Sipchem affiliate. The company will be issued, under the terms of the proposed merger, an equivalent of 0.685 new shares in the company in exchange for each issued share in the Sahara Company. Therefore, in accordance with the agreed exchange rate, the companies agreed if the proposed merger is completed, the company will issue 300,574,575 new shares for the shareholders of the Sahara Company against all issued shares from Sahara Company. The total number of issued shares in the company after the completion of the proposed merger will be 667,241,241 and a capital of SR 6,672,412,410 noting that the current number of shares is 366,666,666 with a capital of SR 3,666,666,660.

The memorandum does not constitute an offer, declaration or intention to make an offer by Sipchem to the shareholders of the company or its board of directors. But Sipchem and the Sahara Company agreed under the memorandum on further cooperation in completing the verification, survey, financial, technical, commercial, and legal studies. The two companies also agreed upon the approval of the plan of merger studies, corporate governance and business plan of the group after the merger, and the preparation of documents necessary for the implementation of the proposed merger. The two companies intend to, in the event of subsequent proposed merger agreement, sign a merger agreement that specifies possible offer to the shareholders of the company and its board of directors (the merger). The two companies will continue their work and to trade as usual until the completion of the proposed merger.

The two companies currently intend to complete the studies related to the proposed merger. They also intend to sign a merger agreement during the first half of 2014. The memorandum comes to an end with the signing of the merger agreement by the two companies or by providing a notice by any one of the two companies to the other wishing to terminate studies, whatever the case may be.

Signing the MOU does not mean that an agreement has been made for the proposed merger between the two companies, but that an offer will be submitted regarding the proposed merger or that it confirms to terms or other dates for submitting another offer. Even if the two companies later agreed to the proposed merger, it is expected that the proposed merger is subject to several conditions and endorsements, including but not limited to gain approval of the Capital Market Authority, the extraordinary general assemblies of the two companies and the approval of the competent governmental authorities in Saudi Arabia.

RISKS RELATED TO SIPCHEM AND ITS AFFILIATES' BUSINESS

RISK OF PRICES FLUCTUATION:

- Risk of chemical, petrochemical products and shipping prices fluctuations
- International market competition which could affect both supply and demand
- Change of the price of raw materials on which the company relies for production

RISKS OF FINANCING:

- Including the availability of financing, the fluctuation of currency prices and the financial situation of the affiliated companies which are mostly dependent on financing

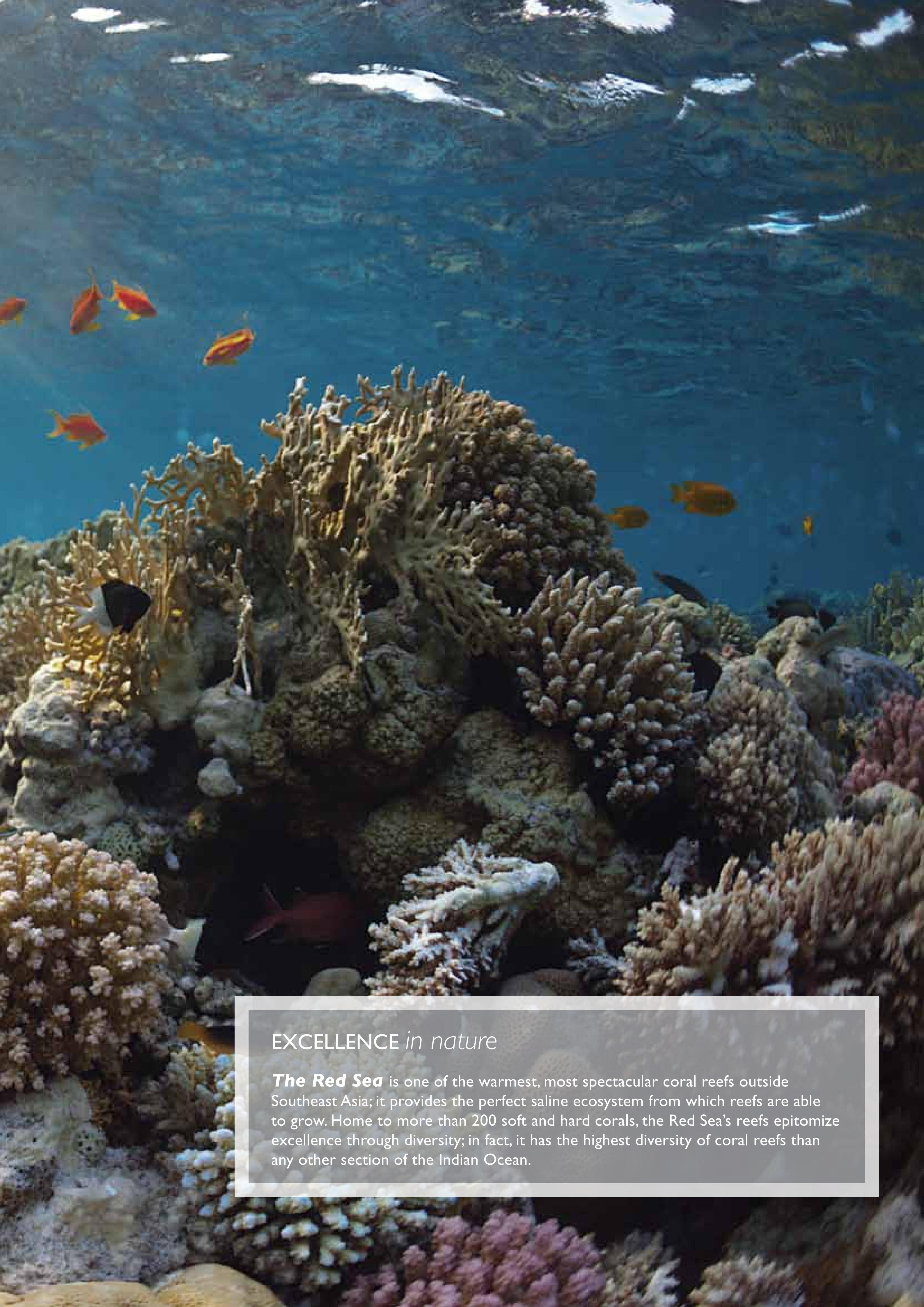
OPERATION RISKS:

- General operation risks
- Risks of the non availability of the basic supply items (feedstock) and prices fluctuations
- Prices fluctuation

ENVIRONMENTAL RISKS:

- The possibility of imposing more aggressive environmental regulations or any other general regulations


CAUTION



EXCELLENCE *in nature*

The Red Sea is one of the warmest, most spectacular coral reefs outside Southeast Asia; it provides the perfect saline ecosystem from which reefs are able to grow. Home to more than 200 soft and hard corals, the Red Sea's reefs epitomize excellence through diversity; in fact, it has the highest diversity of coral reefs than any other section of the Indian Ocean.

FINANCIAL *highlights*

Sipchem achieved a net profit of SR 620 million in 2013 compared to SR 601 million in 2012. Despite the reduction of produced quantities due to the ceasing of operations during the first quarter of 2013 for scheduled regular maintenance, this year witnessed a slight increase in net profit with a rate of 3% compared to the previous year. The reason of this increase is the improvement in prices of some products, particularly Methanol, in addition to the reduction in financial costs.

SR 620 million

IS THE NET PROFIT FOR THE YEAR 2013

Below are the financial indicators of the year 2013 compared with the previous year 2012:

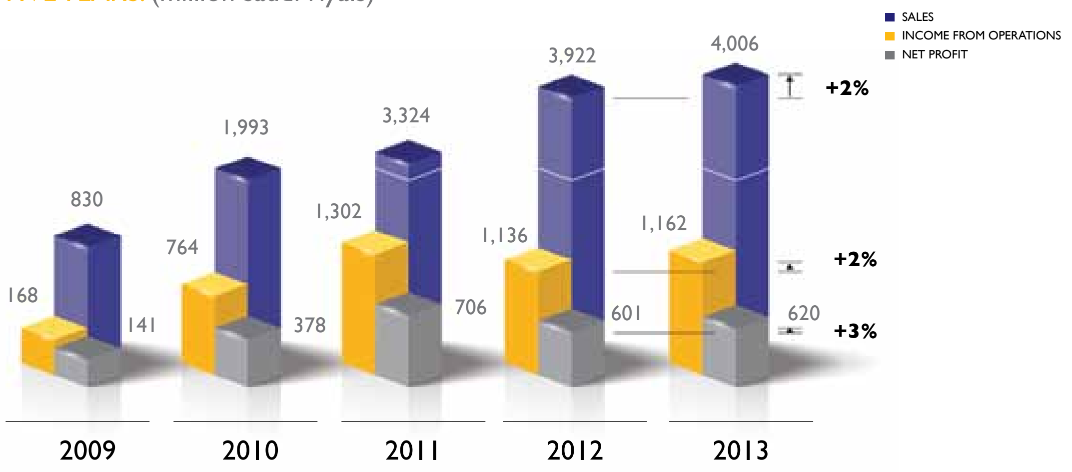
1- The total profit for the year 2013 was SR 1,299 million compared with SR 1,268 million for the previous year; an increase of 2.4%
2- The operational profit for the year 2013 was SR 1,162 million compared with SR 1,136 million for the previous year; an increase of 2.3%
3- The net profit for the year 2013 was SR 620 million compared with SR 601 million for the previous year; an increase of 3.2%
4- The Earnings Per Share (EPS) was SR 1.69 for 2013 and SR 1.64 for the previous year

A) SUMMARY OF THE BUSINESS RESULTS FOR THE PREVIOUS FIVE YEARS:

(million saudi riyals)

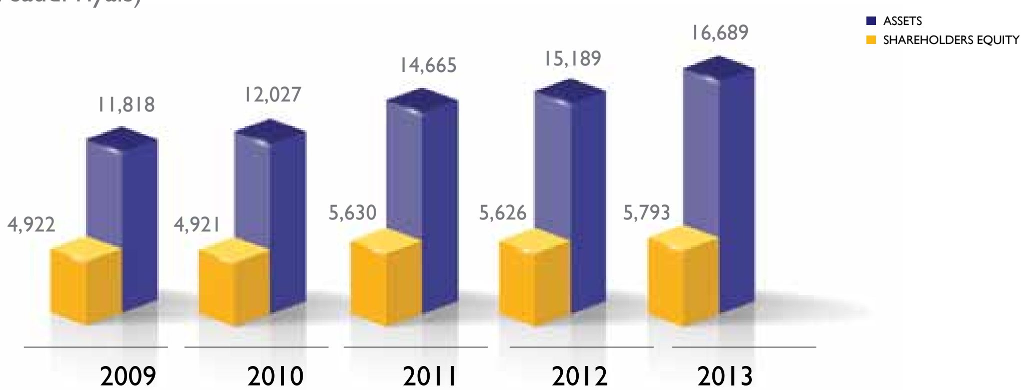
Details	2009	2010	2011	2012	2013
Total current assets	2,218	2,426	4,559	4,189	4,475
Total non-current assets	9,600	9,601	10,066	11,000	12,214
Total assets	11,818	12,027	14,665	15,189	16,689
Total current liabilities	903	857	1,317	1,389	1,288
Total non-current liabilities	5,083	5,156	6,326	6,665	7,980
Total shareholders' equity and minority interest	5,832	6,014	7,022	7,135	7,421
Total liabilities, shareholders' equity and minority interest	11,818	12,027	14,665	15,189	16,689
Net profits	141	378	706	601	620
Earnings Per Share (EPS) Saudi Riyal	0.38	1.03	1.93	1.64	1.69

B) DEVELOPMENT OF SALES, INCOME FROM OPERATIONS AND NET PROFIT FOR THE PAST FIVE YEARS: (million saudi riyals)



C) DEVELOPMENT OF ASSETS AND SHAREHOLDERS EQUITY FOR THE PAST FIVE YEARS:

(million saudi riyals)



D) SIGNIFICANT DIFFERENCES IN OPERATIONAL RESULTS FROM PREVIOUS YEAR:

(million saudi riyals)

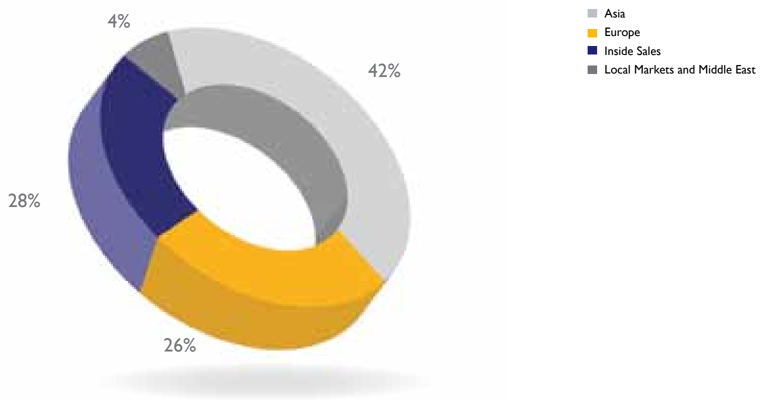
The main reason for the increase of the financial results for the year 2013 compared with the year 2012 was mainly due to the improvement of prices of some products, particularly Methanol, despite the reduction of produced quantities due to the ceasing of operations during the first quarter of 2013 for scheduled regular maintenance.

Details	2013	2012	Changes +/-	Change %
Total Profit	1,299	1,268	+31	2.4%
Operational Profit	1,162	1,136	+26	2.3%
Net profit	620	601	+19	3.2%

E) THE GEOGRAPHICAL ANALYSIS OF SIPCHEM'S SALES:

(million saudi riyals)

The marketing and sales of company products take place in the local markets, the Middle East and the International Markets. The graph here shows the geographical distribution of the company sales during 2013:



F) TOTAL DEBTS FOR SIPCHEM AND ITS AFFILIATES:

(million saudi riyals)

Saudi International Petrochemical Company:

Lending Entity	Loan Term	Value of Loan	Balance at 2013 start	Withdrawing during 2013	Total repayments during 2013	Balance at 2013 end
Islamic Sukuk	5 years	1,800	1,800	-	-	1,800

International Methanol Company:

Lending Entity	Loan Term	Value of Loan	Balance at 2013 start	Withdrawing during 2013	Total repayments during 2013	Balance at 2013 end
Commercial Banks (note 1)	9.6 years	535	310	-	(310)	-
Commercial Banks	10.6 years	325	-	255	-	255

Note 1: During 2013, the loan was re-scheduled by the commercial banks.

International Diol Company:

Lending Entity	Loan Term	Value of Loan	Balance at 2013 start	Withdrawing during 2013	Total repayments during 2013	Balance at 2013 end
Commercial Banks (note 2)	8 years	146	42	-	(42)	-
Commercial Banks	10.6 years	484	-	484	(18)	466
Commercial Banks	12.6 years	524	-	140	-	140
SIDF	8.3 years	400	300	-	(300)	-
PIF	8.6 years	431	145	-	(145)	-
Partners	undefined	undefined	187	-	(160)	27

Note 2: During 2013, the loan was re-scheduled by the commercial banks.

International Acetyl Company:

Lending Entity	Loan Term	Value of Loan	Balance at 2013 start	Withdrawing during 2013	Total repayments during 2013	Balance at 2013 end
Commercial Banks (note 3)	9.6 years	810	618	-	(618)	-
Commercial Banks	12.5 years	618	-	618	(3)	615
SIDF	9.8 years	400	350	-	(40)	310
PIF	11.4 years	769	577	-	(77)	500
Partners	undefined	undefined	698	75	-	773

Note 3: During 2013, the loan was re-scheduled by the commercial banks.

International Vinyl Acetate Company:

Lending Entity	Loan Term	Value of Loan	Balance at 2013 start	Withdrawing during 2013	Total repayments during 2013	Balance at 2013 end
Commercial Banks (note 4)	9.6 years	466	355	-	(355)	-
Commercial Banks	12.5 years	355	-	355	(2)	353
SIDF	9.8 years	400	350	-	(40)	310
PIF	11.4 years	439	329	-	(44)	285
Partners	undefined	undefined	536	-	-	536

Note 4: During 2013, the loan was re-scheduled by the commercial banks.

International Gases Company:

Lending Entity	Loan Term	Value of Loan	Balance at 2013 start	Withdrawing during 2013	Total repayments during 2013	Balance at 2013 end
Commercial Banks (note 5)	9.6 years	80	61.4	-	(61.4)	-
+Commercial Banks	8.5 years	61.4	-	61.4	(0.3)	61.1
SIDF	9.8 years	400	330	-	(50)	280
PIF	11.4 years	143	107	-	(14)	93
Partners	undefined	undefined	369	-	-	369
Partners (short term)	undefined	undefined	13	-	-	13

Note 5: During 2013, the loan was re-scheduled by the commercial banks.

Sipchem Marketing Company:

Lending Entity	Loan Term	Value of Loan	Balance at 2013 start	Withdrawing during 2013	Total repayments during 2013	Balance at 2013 end
Partners	undefined	undefined	95	4	-	99

International Polymers Company:

Lending Entity	Loan Term	Value of Loan	Balance at 2013 start	Withdrawing during 2013	Total repayments during 2013	Balance at 2013 end
+Commercial banks	14.6 years	704	531	173	-	704
SIDF	11 years	600	300	180	-	480
PIF	14 years	704	-	704	-	704
Partners	undefined	undefined	162	3	-	165
Partners (short term)	undefined	undefined	209	-	(48)	161

Sipchem Chemicals Company:

Lending Entity	Loan Term	Value of Loan	Balance at 2013 start	Withdrawing during 2013	Total repayments during 2013	Balance at 2013 end
SIDF	9.6 years	165	72	-	-	72
SIDF	9.9 years	257	-	98	-	98
+Commercial banks	3 years	300	-	300	-	300
Partners	undefined	undefined	47	238	-	285

Gulf Advanced Cables Insulation Company:

Lending Entity	Loan Term	Value of Loan	Balance at 2013 start	Withdrawing during 2013	Total repayments during 2013	Balance at 2013 end
Partners	undefined	undefined	37	38	-	75
Partners (short term)	undefined	undefined	76	-	(12)	64

G) GOVERNMENTAL DUE PAYMENTS:
(million saudi riyals)

Entity	Government payments up to 31/12/2013
Zakat & Income Department	116
General Organization for Social Insurance (GOSI)	21

INTERNAL AUDIT

The Internal Audit department monitors all controls and risk management activities of the company and its activities. The audit committee continuously supervises the works of the Internal Audit Committee and regularly reviews its reports.

The scope of the internal audit department includes the following:

1- Prepare the annual strategic plan for the work of Internal Audit Committee.

2- Auditing and periodic examinations of all administrative and operational departments and notifying their officials of the results.

3- Evaluating the procedures and the solutions provided by the departments to ensure suitability and effectiveness of the proposed procedures.

4- Submit reports on the auditing results and recommendations in addition to following up on these recommendations to ensure their application by the concerned departments.

The Internal Audit Department developed in 2013 an internal control system and notified all employees of the importance of its role through awareness newsletters.

In addition to the above, the company's external auditor, as part of its responsibility in auditing the company's annual statement, takes an overall review of the company's internal audit system and its electronic and computer systems to ensure the availability of suitable separation among functions, control systems and strict control on company operations.

The Internal Audit Committee has not discovered during 2013 any violation or any integral weakness in the company's internal audit system or different operations.

BOARD *of directors*

1- The Composition of the Board of Directors:

Sipchem has the privilege of having a highly experienced Board of Directors with full relevant knowledge to explore the appropriate opportunities that help develop the company's core business activities. The Board is composed of eleven members elected by the General Assembly Meeting on 03/12/2013 and its term will last for 3 years. The business of the current session started on 10/12/2013 and will last until 09/12/2016. The members are classified according to the definition as contained in article two of the companies governance code issued by the Capital Market Authority in the Kingdom of Saudi Arabia as follows:

No.	Name	Responsibilities	Membership type	Notes
1	H.E. Eng. Abdulaziz A. Al-Zamil Representative of Al-Zamil Holding Group	Board Chairman	Non-executive	
2	Eng. Ahmad A. Al-Ohali	Managing Director and CEO	Executive	-
3	Eng. Reyadh S. Ahmed Representative of Ikarus Petrochemical Holding Company	Member	Non-executive	
4	Mr. Abdulaziz A. Al-Khamis Representative of Public Pension Agency	Member	Non-executive	
5	Dr. Sami M. Zaidan Representative of Olayan Financing Company	Member	Non-executive	
6	Dr. Abdulaziz A. Al-Gwaiz	Member	Non-executive	
7	Mr. Fahd S. Al-Rajhi	Member	Non-executive	
8	Mr. Ibrahim H. Al-Mazyad Representative of The Arab Investment Company	Member	Independent	Membership begins on 10/12/2013
9	Dr. Saleh H. Al-Humaidan Representative of The Arab Investment Company	Member	Independent	Membership ends on 09/12/2013
10	Dr. Abdulrahman A. Al-Zamil	Member	Independent	-
11	Mr. Abdulrahman A. Al-Turki	Member	Independent	-
12	Eng. Mohammed A. Al-Ghurair	Member	Independent	-

2- Participation of the Board Members in the other joint stock companies:

The table below shows board members who participate in other joint stock companies:

No.	Name	Membership in other joint stock companies
1	H.E. Eng. Abdulaziz A. Al-Zamil	Sahara Petrochemicals Co. (Public Joint Stock-KSA) Alinma Bank (Joint Stock-KSA) Al Zamil Group Holding Co. (Closed Joint Stock-KSA)
2	Eng. Ahmad A. Al-Ohali	Al Bilad Bank (Public Joint Stock-KSA)
3	Dr. Abdulaziz A. Al-Gwaiz	Al Khaleeg Training & Education Co. (Public Joint Stock-KSA)
4	Mr. Abdulrahman A. Al-Turki	Al-Saqr Cooperative Insurance Co. (Public Joint Stock-KSA) Investcorp Co. (Public Joint Stock-Bahrain) Golden Pyramids Plaza Co. (Public Joint Stock-Egypt) Zara Investment Holding Co. for hotels (Public Joint Stock-Jordan. Dhahran International Exhibitions Co. (Closed Joint Stock-KSA)
5	Dr. Abdulrahman A. Al-Zamil	Sahara Petrochemicals Co. (Public Joint Stock-KSA) Taqa National Company (Closed Joint Stock-KSA)
6	Mr. Abdulaziz A. Al-Khamis	Saudi Investment Bank (Public Joint Stock-KSA) National Petrochemical Co. (Closed Joint Stock-KSA)
7	Eng. Reyadh S. Ahmed	Privatization Holding Co. (Closed Joint Stock-Kuwait) Noor Financial Investment Co. (Closed Joint Stock-Kuwait) Ikarus Petroleum Industries Co. (Closed Joint Stock-Kuwait) Middle East Complex for Industrial, Engineering, Electronic and Heavy Industries (Closed Joint Stock-Jordan)
8	Eng. Mohammed A. Al-Ghurair	National Cement Co. (Public Joint Stock-UAE) Al-Ghurair Group (Closed Joint Stock-UAE) Dubai Aluminium (DUBAL) (Closed Joint Stock-UAE)
9	Mr. Ibrahim H. Al-Mazyad	Arab Jordan Investment Bank (Public Joint Stock-Jordan)
10	Mr. Fahd S. Al-Rajhi	National Industries Co. (Closed Joint Stock-KSA) Al Rajhi Brothers Group Co.(Closed Joint Stock-KSA)
11	Dr. Sami M. Zaidan	N/A
12	Dr. Saleh H. Al-Humaidan	N/A

3- Board meeting attendance registers:

The Sipchem Board held four meetings during the 2013 which ends on 09/12/2013 and one meeting was held by the current board of directors which begins on 10/12/2013. It is worth noting that the members who did not attend any board meetings authorized other board members to represent them. The below schedule shows the attendance register for every board member:

No.	Name	Board meetings in 2013 First 16/3/2013	Second 04/6/2013	Third 24/9/2013	Fourth 03/12/2013	Fifth 11/12/2013	Total attendance
1	H.E. Eng. Abdulaziz A. Al-Zamil	✓	✓	✓	✓	✓	5
2	Eng. Ahmad A. Al-Ohali	✓	✓	✓	✓	✓	5
3	Dr. Abdulaziz A. Al-Gwaiz	✓	✓	✓	✓	✓	5
4	Eng. Mohammed A. Al-Ghurair	✓	✓	✓	✓	✓	5
5	Dr. Abdulrahman A. Al-Zamil	✓	✓	✓	✓	✓	5
6	Mr. Fahd S. Al-Rajhi	✓	✓	✓	✓	✓	5
7	Dr. Sami M. Zaidan	✓	✓	✓	✓	✓	5
8	Mr. Abdulaziz A. Al-Khamis	✓	✓	✓	✓	✓	5
9	Mr. Abdulrahman A. Al-Turki	✓	×	✓	✓	✓	4
10	Dr. Saleh H. Al-Humaidan	✓	✓	✓	✓		4
11	Eng. Reyadh S. Ahmed	✓	×	×	✓	✓	3
12	Mr. Ibrahim H. Al-Mazyad					✓	1

- Membership of Dr. Saleh H. Al-Humaidan (Representative of The Arab Investment Company) ended by the end of board session on 09/12/2013.
- Membership of Mr. Ibrahim H. Al-Mazyad (Representative of the Arab Investment Company) began with the board session on 10/12/2013.

4- Description of any benefits for Board members, their wives and children below eighteen years in shares or debt instrument in Sipchem:

Name	Shares on 1 January 2013 No.	Shares on 1 January 2013 %	Shares on 31 December 2013 No.	Shares on 31 December 2013 %	Net Change	Change %	First class relative ownership and changes
H.E. Eng. Abdulaziz A. Al-Zamil	150,000	0.041%	186,600	0.051%	36,600	24%	N/A
Eng. Mohammed A. Al-Ghurair	1,000,000	0.273%	700,000	0.191%	- 300,000	- 30%	N/A
Dr. Abdulrahman A. Al-Zamil	1,101,000	0.300%	1,001,000	0.273%	- 100.000	- 9.1%	N/A
Eng. Ahmad A. Al-Ohali	289,000	0.079%	289,525	0.079%	525	0.2%	N/A
Dr. Abdulaziz A. Al-Gwaiz	30,000	0.008%	30,000	0.008%	0	0%	N/A
Dr. Saleh H. Al-Humaidan	50,000	0.014%	50,000	0.014%	0	0%	N/A
Mr. Abdulrahman A. Al-Turki	8,305,000	2.265%	8,305,000	2.265%	0	0%	N/A
Mr. Fahd S. Al-Rajhi	6,111,342	1.667%	6,111,342	1.667%	0	0%	N/A
Mr. Ibrahim H. Al-Mazyad	48	0%	48	0%	0	0%	N/A
Eng. Reyadh S. Ahmed	0	0%	0	0%	0	0%	N/A
Mr. Abdulaziz A. Al-Khamis	0	0%	0	0%	0	0%	N/A
Dr. Sami M. Zaidan	0	0%	0	0%	0	0%	N/A

5- Description of any benefits to senior executive management and children below 18 years in shares or debt instruments in Sipchem:

Name	Shares on 1 January 2013 No.	Shares on 1 January 2013 %	Shares on 31 December 2013 No.	Shares on 31 December 2013 %	Net Change	Change %	First class relative ownership and changes
Eng. Abdulrahman A. Al-Saif	11,000	0.003%	11,000	0.003%	0	0%	N/A
Eng. Abdullah S. Al-Saadoon	11,000	0.003%	0	0%	- 11,000	- 100%	N/A
Mr. Hussain S. Al Saif	7,949	0.0021%	0	0%	- 7,949	- 100%	N/A
Mr. Rashid M. Al Dossari	50	0%	50	0%	0	0%	N/A
Mr. Kevin J. Hayes	0	0%	0	0%	0	0%	N/A
Mr. Abdullah N. Al-Jaber	28,152	0.0076%	28,152	0.0076%	0	0%	N/A

6- Description of any benefit related to shares ownership percentage of major shareholders:

Below is a list of major shareholders (who own 5% and above) and number of their shares during the year 2013 as follows:

Name	Shares on 1 January 2013		Shares on 31 December 2013		Net Change	Change %
	No.	%	No.	%		
Al-Zamil Holding Group Company	35,549,375	9.70%	35,549,375	9.70 %	0	0%
Ikarus Petrochemical Holding Company	30,520,910	8.32%	30,295,377	8.26 %	- 225,533	- 0.74%
Public Pension Agency	28,405,514	7.75%	28,405,514	7.75 %	0	0%
Olayan Financing Ltd Company	19,250,000	5.25%	19,250,000	5.25 %	0	0%

7- Description of any benefit related to shares ownership percentage of shareholders who notified the company of these rights:

No shareholders notified the company of any benefit related to shares rights to vote except (board members, senior executives, their wives and children under eighteen) during 2013.

8- Rewards and compensations for the board members and senior executives:

The below table shows the rewards and compensations paid to the board members and senior executives who have received the highest rewards and compensations from the company including the CEO and the General Manager of Finance during the year 2013:
(Saudi Riyal)

Details	Executive board members	Non-executive board members/ independent	Five of the senior executives including the CEO and the General Manager
Salaries and compensations	-	-	8,388,356
Allowances	19,000	196,749	-
Periodic and annual rewards	200,000	2,000,000	2,019,993
Incentive plans	-	-	-
Any other compensations and any other benefits paid monthly or annually	-	-	-

BOARD *committees*

1- The Audit Committee

The Audit Committee is composed of three members. One of the members is a board member while the other two members who are experienced and specialized in the financial affairs are nominated from outside the Board of Directors.

The Audit Committee supervises the management of the Internal Audit Department and recommends to the Board of the Directors the assignment of the chartered accountants and determines their responsibilities, proposes their annual fees and follows up the audit plan. The committee also regularly reviews the financial systems and the risks in the company, compliance with legal requirements, statutory, accounting rules on the basis of the regulations of the Capital Market Authority (CMA) and its executive regulations. The responsibilities of the committee include the review of the preliminary and annual financial statements of the company before submission to the Board of Directors and study of the accounting policies and making recommendations thereof to the board. The committee has held three meetings during the year 2013. The Audit Committee of the board's new session which began on 10/12/2013 was constituted as per the following table:

Audit Committee members:

Name	Identity	
Mr. Fahd S. Al-Rajhi	Committee chairman - Board member	-
Mr. Adib A. Al-Zamil	Committee member - Al Zamil Group Holding Company	-
Mr. Fahd A. Sawai	Committee member - Public Pension Agency	Membership begins on 10/12/2013
Mr. Saud S. Al-Juhani	Committee member - Public Pension Agency	Membership ends on 09/12/2013

Date of meetings:

No.	Meeting	Date of Meeting
1	First	12/02/2013
2	Second	09/10/2013

2- The Nominations and Remunerations Committee

The committee is composed of five board members of the company. The committee recommends the nomination for board membership according to the approved standards and the annual review of the capabilities required for board membership and the review of its organization chart and submits recommendations regarding the changes to be effected. The committee also deals with the determination of the strengths and weaknesses of the board and how to deal with that in a way that serves the interests of the company. The committee also lays the company policies for the compensations and remunerations of the board members and the senior executives. The committee held two meetings during the year 2013. The table below shows the names of the Nominations and Remunerations Committee members started on 10/12/2013:

The Nominations and Remunerations Committee Members:

Name	Identity	
H.E. Eng. Abdulaziz A. Al-Zamil	Committee chairman	-
Dr. Sami M. Zaidan	Committee member	-
Mr. Fahd S. Al-Rajhi	Committee member	-
Eng. Mohammed A. Al-Ghurair	Committee member	Membership begins on 10/12/2013
Mr. Ibrahim H. Al-Mazyad	Committee member	Membership begins on 10/12/2013
Dr. Abdulaziz A. Al-Gwaiz	Committee member	Membership ends on 09/12/2013
Dr. Saleh H. Al-Humaidan	Committee member	Membership ends on 09/12/2013

Date of meetings:

No.	Meeting	Date of Meeting
1	First	07/11/2013
2	Second	19/12/2013

3- The Executive Committee:

The executive committee is composed of six members; all of them are board members. The committee submits recommendations to the board of directors on various subjects such as the management and direction of the activities and business affairs of the company, recommendations regarding the new projects and the company investments. Also, the committee is in charge of adopting the strategic resolutions related to the operational priorities of the company. The committee held three meetings during the year 2013. The Executive Committee of the board new session which began on 10/12/2013 was constituted as per the following table:

The Executive Committee Members:

Name	Identity	
H.E. Eng. Abdulaziz A. Al-Zamil	Committee chairman	-
Eng. Ahmad A. Al-Ohali	Committee member	-
Eng. Reyadh S. Ahmed	Committee member	-
Dr. Abdulaziz A. Al-Gwaiz	Committee member	-
Dr. Sami M. Zaidan	Committee member	Membership begins on 10/12/2013
Mr. Abdulaziz A. Al-Khamis	Committee member	Membership begins on 10/12/2013
Eng. Mohammed A. Al-Ghurair	Committee member	Membership ends on 09/12/2013
Mr. Fahd S. Al-Rajhi	Committee member	Membership ends on 09/12/2013

Date of meetings:

No.	Meeting	Date of Meeting
1	First	17/04/2013
2	Second	28/05/2013
3	Third	10/06/2013

BOARD OF DIRECTORS' DECLARATIONS

The Board of Directors confirms the following:

1. That the accounts register has been prepared in the correct format.
2. That the internal control system has been prepared on sound basis and is being implemented effectively.
3. That there are no doubts about the company's ability to go ahead with the performance of its activities.
4. That the consolidated financial statements have been prepared according to the standards and the accounting systems issued by the Saudi Committee for Saudi Chartered Accountants and according to the related requirements of the Companies regulations and statute of the company with regard to the preparation and publication of financial details.
5. That the company has not issued any bonds and debt instruments except what is mentioned in the "Debt Instrument issued by the Company" and consequently has not recovered or purchased or canceled any recoverable debt instruments.
6. That the company does not have any transfer rights or any subscriptions based on debt transferable instruments to shares or selection rights or subscription rights memoranda or similar rights issued or given by the company during the year 2013.
7. That there is no contract to which the company is a party and that there is or has been any substantial benefit in it to any board member or the Chief Executive Officer or the General Manager of Finance or to any person related to any one of them.
8. That there are no arrangements or agreements through which any of the board members or any of the senior executive waives any salary or any compensation.
9. That there are no arrangements or agreements through which any of the company's shareholders waives any profit rights.

PENALTIES

There are no penalties or disciplinary actions imposed on the company by the Capital Market Authority (CMA) or any other supervisory, regulatory or jurisdictional entity. Sipchem has entered into dispute with the construction contractor of Sipchem Technology & Creative Exchange (STCE) building at Al Dhahran after abrogation of construction contract. This dispute has been referred to Saudi judgment; also despite progress of litigation Sipchem and the contractor are reviewing and negotiating to settle this dispute but in vain. Recently, the arbitration body assigned an engineering company to inspect the site and estimate the amount of operations achieved by the Contractor. Sipchem expects that it will not be obliged to fulfill any payment with the except for the payments due for the operations accomplished by the Contractor.

SHAREHOLDERS' *general assembly*

Sipchem held its extraordinary general assembly meeting during the year 2013. The company advertised the date of the meeting including its place and agenda more than 25 days before the meeting on the Capital Market Authority (Tadawul) website, on the company website and in the official newspaper and the local newspapers. The company also gave the shareholders the chance to effectively participate and vote on the issues included in the agenda and informed them of the regulations that govern the meeting, the voting procedures through calling the General Assembly, the distribution of well-prepared files containing enough information that enabled the shareholders to make any decisions. The company also notified Tadawul about the results of the meeting immediately after its conclusion. The shareholders were also able to view the minutes of the meetings at the company offices or through the company website. Sipchem continues to develop communication channels with shareholders and facilitates all procedures to help shareholders who are unable to attend the General Assembly meeting, to vote remotely for assembly agenda via Tadawulati. Below are the adopted resolutions:

No.	Assembly meeting date	Attendance %	Resolution adopted
1	16/03/2013 Extraordinary General Assembly	63%	1- Approval of the Board`s report for the year 2012. 2- Approval of auditor's report for financial year ended 31/12/2012. 3- Approval of the financial statement and profit/losses statements on 31/12/2012. 4- Discharge of the board members from liability for the previous year 2012. 5- Approval of board of directors' recommendation to distribute cash dividends for shareholders for the year 2012 at total amount of SR (275,000,000) at SR (0.75) per each share representing (7.5%) of company`s capital provided that the eligible shareholders are listed at end of assembly meeting. 6- Approval to appoint Ernst & Young (E&Y) as nominated by the audit committee as an auditor for the company`s accounts for the fiscal year 2013. 7- Approval to amend Article (20) and Article (41) of the Articles of Association.
2	03/12/2013 Ordinary General Assembly	62%	1- Election of Sipchem Board of Director Members for the next session (3 years) as of 07/02/1435 corresponding to 10/12/2013.

DIVIDENDS DISTRIBUTION POLICY

The net annual profits of the company are distributed according to article (41) of the company by-laws after the deduction of all the general expenses and other costs as follows:

1- Set aside (10%) of the net profits as a legal reserve. The normal General Assembly may stop setting aside of such amount once these reserves reach 50% of the capital.

2- The General Assembly may, based on a proposal by the Board of Directors, set aside a certain percentage of the net profits, to establish an agreed reserve and allocate it for a special purpose or purposes.

3- From the remaining amount and after a first payment to the shareholder equivalent to 5% of the paid-up capital.

4- After the above, an amount not exceeding (10%) of the remaining amount shall be assigned as a compensation to the Board members with taking into consideration the regulation and instructions issued by Ministry of Commerce in this regard. The remaining amount after that shall be distributed to the shareholders as an additional portion of the profit.

5- The company may carry out the distribution of profits to its shareholders on a regular quarterly if the financial abilities permit, provided that the company is committed to follow conditions, regulations and circulars issued by the Ministry of Commerce and Industry.

Cash dividends were distributed to shareholders for second half of 2012 at the rate of SR 0.75 per each share which represents 7.5% of nominal value per each share at total of SR 275,000,000, noting that SR 0.5 had been distributed per each share in first half of 2012. Therefore the total amount of distribution for 2012 is SR (1.25) per share.

Cash dividends were distributed to shareholders for the first half of 2013 at rate of SR 0.6 per each share which represents 6% of nominal value per each share at total of SR 220,000,000 per share. Also the Board of Directors has submitted recommendation to General Assembly to distribute cash dividends to shareholders for second half of 2013 at the rate of SR 0.65 per each share which represents 6.5% of nominal value per each share at total of SR 238,333,333 provided that eligibility of these dividends will be for the listed shareholders at Tadawul, at end of meeting of General Assembly to be held on 16/03/2014 noting that SR 1.25 had been distributed per each share in first half of 2013.

COMMUNICATION *with shareholders*

Based on our core values which emphasize commitment to the highest ethical standards, ensures full impartiality and trust-based work and responsibility. As justice is an essential axis in building communities, and a strong motivation for building, advancement and progress, Sipchem has committed itself to the principle of fairness in the financial market through the availability of company information to all market parties, individuals and companies without discrimination. Also all are subject to the rules and regulations without distinction. To this end, Sipchem Governance Regulation supports the content of the principle of disclosure and transparency in accordance with the concept of corporate governance and financial market authority regulations and in accordance with the companies law and the Statute of the company.

Sipchem is fully committed to achieve the principle of 'justice' in regards to providing the appropriate information to enable shareholders and investors to take their investment decisions depending on adequate and correct information. Sipchem has taken many measures to guarantee the shareholders' rights to obtain information through the CMA 'Tadawul' website and the company website www.sipchem.com
Sipchem also provides comprehensive information about company activities and business through the Annual Report, periodic financial statements and dividends distribution procedures.

The company is also keen to communicate with its shareholders, answer all their queries and provide them the requested information in a timely manner. Sipchem has also provided remote-vote technology to give the opportunity to shareholders who were unable to attend the meeting of the General Assembly to vote on assembly agenda sections.

CORPORATE *governance*

Corporate governance protects shareholder rights and mitigates the risk of bankruptcy. Sipchem has applied all the mandatory regulations as included in the Corporate Governance list issued by the Capital Market Authority (CMA), particularly the commitment to best practices that protect the shareholders' rights and reinforce the company's commitment to declaration and transparent standards including the establishment of a company database through its electronic site that enables its eligible shareholders, who have not received their dividends for the previous year.

Sipchem has prepared its governance code according to the requirements of Article (10) paragraph (C) of the corporate governance regulation issued by the Capital Market Authority and in compliance with the listing and inclusion regulations and the company by-laws.

Sipchem has adopted the conflicts of interest policy according to the requirements of Article (10) paragraph (B) of the corporate governance regulation issued by the Capital Market Authority and in compliance with provisions of the Capital Market Authority Regulations. Sipchem has applied all articles of corporate governance with the exception of the article below:

Article	Paragraph	Action	Reasons and details
(6) Voting Rights	B	Do the by-laws of the company indicate that the voting method in the item for the selection of the board member in the General Assembly shall be by the cumulative voting?	The by-laws of the company do not include the cumulative voting. The company is currently applying the normal voting system according to the company's regulations.
	D	Were all persons with legal entity that have the right to appoint representatives in the board of directors as per the company's by-laws, committed not to vote in the selection of other members in the Board of Directors?	N/A
(12) Composition of the Board of Directors	I	Do all persons with legal capacity – who have the right to assign representatives according the by-law of the company on the Board not to vote on the selection of other members of the Board of Directors?	N/A

- To know the details of dividends:, go to http://www.sipchem.com/ar/shares.asp
- For more information about the current company governance code, please visit http://www.sipchem.com/ar/Government.htm

DESCRIPTION OF ANY DEAL *between Sipchem and interested parties*

Interested parties are the major shareholders of the group, the board of directors' members, major officials and controlling or controlled establishments thereby. Below are the most important deals with the interested parties during the year:

The foreign partners (Arabic Japanese Methanol Company Ltd. and Helm Arabic and Partners Ltd.) have marketed a portion of the Group's products for the company. The total sale of foreign partners was SR 1,710 million (2012: SR 1,796 million).

International Diol Company, one of Sipchem's Affiliates, has purchased some fixed assets from Devy Process, one of its foreign partners. The total purchase of fixed assets was SR 20.7 million (2012: SR 12.2 million).

The company and the minority partners (Public Pension Agency, General Organization for Social Insurance, Abdul Latif Al Babtain Co., Arabian Company for Supply & Trading, Arabian Helm and Partners Ltd, IKARUS Petroleum Industries, the Ministry of Islamic Affairs, Endowments, Call and Guidance, the National Energy Company and Hanwha Chemical Corporation) have granted advances to the group companies in order to support their operations and comply with the lender terms. Some of the long-term advances don't have finance costs and no dates are determined for payment thereof, while other long and short term advances have finance costs as per the ordinary commercial prices.

HUMAN *resources*

Sipchem aims to develop the rights of shareholders through the recruitment of human resources. It is also working on the development of the level of staff in both theoretical and applied areas. Since the beginning the company, the training and development programs were intensified as per specialties and administrative steps to ensure the progress of work with highest competence standards based on newly updated training and development administration systems.

The table below shows the number and percentage of employees in Sipchem and its affiliates as of the end of 2013 compared to 2012:

Employees	2012		2013	
	No.	%	No.	%
Saudi	612	72%	627	71%
Non-Saudi	242	28%	255	29%
Total	854		882	

SIPCHEM IMPLEMENTED A DISTINGUISHED AND INTENSIFIED PROGRAM FOR LEADERSHIP DEVELOPMENT. THIS PROGRAM FOCUSED ON THE MODERN THEORIES IN ADMINISTRATION AND LEADERSHIP, AND TENDED TO IMPLEMENT THESE THEORIES IN A MANNER THAT BENEFIT THE COMPANY EMPLOYEES AND ENHANCE THE WORK FLOW.

Decline of Saudization percentage about 71% in 2013 is due to recruitment of non-Saudi specialized personnel to operate new plants with advanced techniques applied for first time in the Kingdom of Saudi Arabia.
In 2013 Sipchem implemented 379 training programs in collaboration with internal and external entities with the aim of increasing employees' efficiency and capabilities. 2005 employees have benefited from these programs.

Sipchem has applied via-internet training system that includes more than 350 training programs in various technical and administrative fields, business, security and safety skills, in addition to computer courses. The content of such training materials is prepared by Harvard Business School.

Believing in the importance of management and leadership in its affiliates, Sipchem has implemented a distinguished and intensified program for leadership development. This program focused on the modern theories in administration and leadership, and tended to implement these theories in a manner that benefit the company employees and enhances the work flow. The total number of employees in this program was 45 employees from various sectors and administrative levels. The training plan for 2014 has been prepared with 350 training programs in various technical and administrative fields. Sipchem held its annual ceremony to honor its employees who completed five or ten years in continuous service in January 2014 wherein more than 102 employees were honored.

EMPLOYEES' *incentive programs*

1- Sipchem Home Ownership Program (SHOP):

The company is currently implementing a Home Ownership Program for company employees. The program is aimed at giving a chance to the company's Saudi employees, who meet the program conditions, to own housing units thereby supporting our policy of assuring comfort and stability for our employees and motivating them to continue their services with the company. The company is currently proceeding with the program as per the set schedule.

The residential units are built using prefabricated units produced by Al Rashid for Housing Units Co. with high standards and costs that do not exceed the amounts provided for the project. The contractor has completed its work and handed Sipchem over 42 Villas-(a) for finishing works. Sipchem has completed receiving commercial and technical bids for finishing works. In January 2014, Al Rashid Co. began to produce the prefabricated concrete elements for Villa-(b).

2- Sipchem Employee Incentive Program:

Sipchem implemented an Employee Incentive Program aimed at encouraging the company's and affiliates' employees to maintain and improve their work performance and put up their utmost efforts to serve the company's interests and achieve its established objectives. The program serves as an attraction for highly qualified personnel in the field of petrochemicals to join the company.

The program is currently managed by Al Bilad Securities and Investment Co., through a special portfolio opened for the program in 2010. A total of 102,526 shares have been transferred from the program portfolio to the eligible employees who completed the subscription period during the year 2013. Total number of the program shares reached 1,265,425 as of December 31, 2013.

3- Savings Program:

Sipchem initiated an Islamic Shariah-compliant savings program to motivate its employees and enhance their loyalty to the company hence improving the work performance, and serve as an attraction for well-qualified Saudi employees to motivate them to continue their services. The program is aimed at helping Saudi employees to accumulate their savings to be utilized upon retirement or end of services. The company takes a part of the subscribed employee's salary and may invest these savings according to its desire and it has the right to manage this investment in the way which it believes to be beneficial for the program subscriber in accordance with the best available Islamic Shariah-compliant investment portfolio. Also, the company has the right to invest the subscriber's savings in investment activities in cooperation with specialized companies and banks in accordance with the criteria of Islamic investment in a manner that can attain benefits for the subscribers provided that such investments are in low-risk Islamic portfolios.

The savings program was initiated in 2011. Sipchem had made it compliant with Islamic Shariah so that it attracted the biggest numbers of employees. Al-Jazeera Bank is in charge of managing the savings program which was reviewed and approved by the bank's Shariah Committee.

EMPLOYEES' *benefits allocations*

The following table shows the allocations and compensation of Sipchem's employees for the year 2013 compared to 2012:

Details	2012	2013
End of Services Benefits (ESB)	82.5	99.8
Savings Program	1.4	3.2

CORPORATE *social responsibility (CSR)*

Social responsibility has always been a concern for Sipchem in fulfilment of its obligations towards the community. As a company, Sipchem believes in the importance of investing in its community and considers social programs as part of its national duty.

SR 6 million
SPENT ON CSR ACTIVITIES

Serving and meeting the needs of society is regarded as one of the most important priorities at Sipchem and the company endeavors to have a distinctive presence in strategic areas that would enrich human/social values and benefit the citizen in the medium and long term.

Spurred by its interest to invest in the community and based on its social responsibility objectives of enhancing community development, Sipchem continues to play its due role in this area by way of supporting associations and charities, whether through annual fixed material support or active participation in their activities.

Sipchem takes great pride in serving its community and has even established a dedicated team of volunteers to continue spreading their good work. It regularly invests in training and development of human potential so as to further the overall development of the community through coordination with the beneficiaries in accordance with specific and approved mechanisms. In providing volunteer services at both local and national levels, working to promote and develop the spirit of sacrifice, and in directing the powers of youth to community service, the vision and objectives of the company are realized.

Since its foundation, Sipchem has successfully participated in several social activities throughout the Kingdom particularly in the Eastern region. In recognition of its efforts and contributions, the company received a number of awards and shields from several bodies; SR 6 million were cashed in 2013. The Board of Directors of Sipchem was allocated 1% of net annual profits of affiliates for charity and community service.

Mr. Ahmad Ohali honors a student - May 19, 2013

Sipchem sponsors KFUPM's 50th anniversary celebrations - October 2, 2013

Sipchem CEO Mr Al-Ohali recognizes Football team for 2nd position win at the Royal Commission Football Championship - May 25, 2013

Sipchem organizes the 6th Honorary Reception for outstanding orphan students - May 19, 2013

Sipchem Volunteers team distributes school bags to orphans & needy students - September 2, 2013

Sipchem open day - March 28, 2013

Go-Green campaign by Sipchem Volunteers team - June 11, 2013

Sipchem Volunteers team makes friendly visits to patients in Almana Hospital - April 30, 2013

Sipchem Volunteers team distributes Ramadan food baskets to needy families - July 7, 2013

Sipchem Volunteers team visits patients at the Handicapped Care Centre - December 5, 2013

Sipchem sponsors the 'Eastern Province Summer Festival-34' - June 15, 2013

Sipchem raises awareness of drug a buse by sponsoring Al Amal 6th Forum for Youth as exclusive sponsor - February 18-24, 2013

Sipchem conducts a week long anti-smoking awareness campaign for the benefit of employees - January 12, 2013

Sipchem organizes the Umrah trip for its sponsored orphans during Ramadan - July 25, 2013

Sipchem Volunteers team distributes gifts and chocolates to patients at hospitals in Dammam and Qatif - November 2, 2013

Sipchem Volunteers team organizes entertainment and gifts for patients at the Elderly Care Center in Dammam - December 8, 2013

Closing ceremony of Sipchem Ramadan Football Championship gets underway in Jubail Club - July 26, 2013

Sipchem Volunteers team makes friendly visits to patients at the King Fahad Medical University Hospital, Khobar - June 19, 2013

Sipchem Volunteers team undertake the task of re-painting walls with graffiti - May 29, 2013

Sipchem sponsors Forum for people with special needs - June 4, 2013

Sipchem sponsors the 'Toxins around us' campaign - January 24-25, 2013

Sipchem organizes Safety Awareness Lecture in Al-Ahsa High School, Jubail Industrial City - December 1, 2013

Sipchem organises an open day for Saudi Cancer Foundation's patients and their families - February 7, 2013

Sipchem Volunteers team distributes water, juice and caps to workers as part of the 'Beat the Heat' campaign - June 27, 2013

Sipchem organizes a winter clothing distribution campaign for the needy families of Onizah - December 7, 2013

Sipchem supports World Environment Day Forum and Exhibition as Gold sponsor - June 5, 2013

Sipchem spends half a million SR in donations towards winter clothing campaign to cover 2034 individuals - January 2-3, 2013

Sipchem sponsors 'We Care' forum held at Scitech, Al-Khobar benefiting families - March 5-7, 2013

RESPONSIBLE *care*

Sipchem adheres to the regulations, laws and requirements of professional health and safety and follows best practices relating to the company's activities. It is worth to note that Sipchem was the First Petrochemical Industrial Company in the KSA to receive the Responsible Care Certificate (RC14001).

Sipchem produces and markets several petrochemical and chemical products, and in the framework of its efforts to achieve continuous development that meets the customers' and shareholder's prospects, in addition to providing safety and comfort to its staff, Sipchem and its affiliates are committed to the following:

1- Achieving excellence in Responsible Care Performance through implementation of the Responsible Care
2- Guiding Principles and promoting transparency with stakeholders
3- Producing the highest quality products in an efficient and environmentally safe manner
4- Measuring progress to ensure this policy
5- Continually implementing improvement measures in our Responsible Care and Quality Management Systems
6- Complying with applicable Governance requirements

The company promotes and enhances professional health and security related risk awareness, and strives to decrease such risks to a practically acceptable extent through the application of relevant technologies. It regularly holds lectures and runs campaigns throughout the year directed at all employees about safety and preservation of the environment with an aim to raise awareness about the same and to make Sipchem a safe working environment. The outcome was accomplishment of 12 million work hours without any work based complex injury. The under construction projects of the company also accomplished 9,990 million work hours without any work based complex injury, Praise be to Allah. The staff training courses in the areas of security, safety and environment have reached a thousand hours; these prepare, qualify and develop the staff to operate and maintain the company plants in safe and secure manner.

Since it was founded, Sipchem has produced petrochemical materials in the most sustainable manner with an aim to decreasing greenhouse gas emissions, rationalizing the use of water and energy, and reducing waste materials. Sipchem's Management adopts the change method which positively impacts and is reflected in the company's work and overall environment. It seeks to promote and enhance the priorities of sustainability for the staff in order to achieve an effective participation towards a sustainable future. Besides this, Sipchem also posts the safety data bulletins on its website under the subject of 'environment without wastes' in order to educate all people about the nature of its products and activities.

BOARD OF DIRECTORS RECOMMENDATIONS

Sipchem's Board of Directors submitted recommendations to the Extraordinary General Assembly held on March 16, 2014 for the following:

1- Approval of the Board's report for the year 2013.

2- Approval of the financial statement and profit/losses statements on 31/12/2013.

3- Approval of auditor's report for financial year ended 31/12/2013.

4- Discharge of the board members from liability for the previous year 2013.

5- Approval of Board of Directors' recommendation to distribute cash dividends for shareholders for the second half of 2013 at a rate of SR 0.65 per each share representing 6.5% of nominal value of SR 238,333,333 per each share provided that eligibility of these dividends will be for the listed shareholders at Tadawul, at end of meeting of General Assembly noting that SR 0.6 per share was cashed for the first half of the year 2013.

6- Approval to pay the amount of SR (2,200,000) two million and two hundred thousand riyals as remuneration of Sipchem Board of Directors members each Board members SR (200,000) Two hundred thousand riyals for the financial year 2013.

7- Approval of the appointment of the external auditor as nominated by the Audit Committee for the fiscal year 2014 to audit the company's accounts, the quarterly financial statement and determine their fees.

CONCLUSION

This report is a real reflection of the continued hard work and constant unremitting efforts, which on many occasions continued day and night, put in by the Saudi work force in the company. Each employee of the company has performed to the best of their capacities led by the ideas, initiatives, and vision provided by Sipchem, resulting in positive outcome for all.

At the end of 2013, the board members would like to express their thanks and appreciations to the Custodian of the Two Holy Mosques and HRH Crown Prince for their sponsorship and support of the company's activities. Also, the board values all the sincere efforts put in by the governmental institutions, and for their continued support. Thanks and appreciations are due to Sipchem's shareholders and employees for their sincere efforts that help the company achieve its objectives, retain its acquisitions and interests and promote its position and competitiveness on the global platform. Sipchem's board members plead to Allah the Al-Mighty to bless such sincere efforts and hope that the company can continue exceeding its performance and enhancing its capabilities so that it can play a prominent role in supporting the economic and social development structure in Saudi Arabia.

CONSOLIDATED FINANCIAL STATEMENTS
and auditors' report

EXCELLENCE *in nature*

Huernia Saudi-Arabica is a succulent plant of great ecological significance particularly in arid and semi-arid parts of Saudi Arabia or the Arabian Peninsula in general. These plants reflect excellence in the way they store water in their stems, leaves or roots, a characteristic feature adopted by several plants to withstand high temperature and low precipitation.

CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' REPORT
for the year ended 31 december 2013

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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 2013 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 consolidated 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 2013 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

11 Rabi' II 1435H
11 February 2014
Alkhobar

Abdulaziz A. Alsowailim 277 Abdulaziz Alshubaibi 339 Fahad M. Al-Toaimi 354 Ahmed I. Reda 356
Office in the Kingdom: Alkhobar, Jeddah, Riyadh

CONSOLIDATED *balance sheet*

Year Ended 31 December 2013

	Note	2013 SR	2012 SR
ASSETS			
Current assets			
Cash and cash equivalents	3	**2,857,603,807**	3,053,454,336
Accounts receivable, prepayments and other receivables	4	**1,314,330,713**	857,219,312
Inventories	5	**302,726,432**	277,956,178
Total current assets		**4,474,660,952**	4,188,629,826
Non-current assets			
Property, plant and equipment	6	**11,547,456,930**	10,648,927,193
Projects' development costs	7	**473,322,399**	252,576,753
Goodwill	8	**29,543,923**	29,543,923
Intangible assets	9	**163,765,313**	69,249,396
Total non-current assets		**12,214,088,565**	11,000,297,265
TOTAL ASSETS		**16,688,749,517**	15,188,927,091
LIABILITIES, SHAREHOLDERS' EQUITY AND MINORITY INTEREST			
Current liabilities			
Accounts payable, other payables and provisions	10	**747,689,314**	746,227,815
Bank overdrafts	12	**48,744,532**	-
Short term advances from partners	11	**75,388,206**	93,538,155
Current portion of long term loans	13	**416,510,465**	489,940,823
Current portion of obligation under capital lease	15	**-**	58,864,865
Total current liabilities		**1,288,332,517**	1,388,571,658
Non-current liabilities			
Long term loans	13	**5,354,903,733**	3,976,859,248
Sukuk	14	**1,800,000,000**	1,800,000,000
Obligations under capital lease	15	**255,000,000**	251,513,515
Long term advances from partners	11	**392,077,039**	414,324,544
Employees' terminal benefits	16	**99,783,089**	82,545,023
Fair value of interest rate swaps	17	**71,754,197**	130,553,193
Other non-current liabilities		**5,860,886**	9,235,860
Total non-current liabilities		**7,979,378,944**	6,665,031,383
Total liabilities		**9,267,711,461**	8,053,603,041
Shareholders' equity and minority interest			
Share capital	18	**3,666,666,660**	3,666,666,660
Statutory reserve		**1,108,947,975**	1,046,903,069
Reserve for the results of sale of shares in subsidiaries	19	**48,893,677**	48,893,677
Retained earnings		**783,328,357**	960,457,541
Proposed dividends	20	**238,333,333**	-
Net change in the fair value of interest rate swaps	17	**(54,992,116)**	(99,492,806)
Foreign currency translation reserve		**2,045,140**	2,402,706
Total shareholders' equity		**5,793,223,026**	5,625,830,847
Minority interests	21	**1,627,815,030**	1,509,493,203
Total shareholders' equity and minority interest		**7,421,038,056**	7,135,324,050
TOTAL LIABILITIES, SHAREHOLDERS' EQUITY AND MINORITY INTEREST		**16,688,749,517**	15,188,927,091

The attached notes 1 to 31 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT *of income*

Year Ended 31 December 2013

	Note	2013 SR	2012 SR
Sales	22	**4,005,632,539**	3,921,878,521
Cost of sales		**(2,707,052,326)**	(2,654,333,208)
GROSS PROFIT		**1,298,580,213**	1,267,545,313
General and administrative expenses	23	**(136,534,541)**	(131,668,476)
INCOME FROM MAIN OPERATIONS		**1,162,045,672**	1,135,876,837
Investment income		**17,091,938**	22,730,187
Financial charges		**(171,308,067)**	(183,381,198)
Other (expenses)/income		**(22,273,639)**	11,958,088
INCOME BEFORE MINORITY INTEREST, ZAKAT AND FOREIGN INCOME TAX		**985,555,904**	987,183,914
Minority interests		**(309,900,853)**	(314,496,588)
INCOME BEFORE ZAKAT AND FOREIGN INCOME TAX		**675,655,051**	672,687,326
Zakat and foreign income taxes	24	**(55,205,996)**	(71,517,348)
NET INCOME		**620,449,055**	601,169,978
EARNINGS PER SHARE (SR)			
Earnings per share (from net income)		**1.69**	1.64
Earnings per share (from main operations)		**3.17**	3.10
Weighted average number of outstanding shares		**366,666,666**	366,666,666

The attached notes 1 to 31 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT *of cash flows*

Year Ended 31 December 2013

	Note	2013 SR	2012 SR
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before zakat and foreign income taxes		**675,655,051**	672,687,326
Adjustments for:			
Depreciation and amortization		**558,071,107**	514,391,992
Employees' terminal benefits, net		**17,238,066**	16,617,735
Financial charges		**171,308,067**	183,381,198
Minority interest		**309,900,853**	314,496,588
Loss on disposal of property, plant and equipment		**21,043,063**	17,104
Write-off of property, plant and equipment		**3,680,405**	-
Investment income		**(17,091,938)**	(22,730,187)
		1,739,804,674	1,678,861,756
Changes in operating assets and liabilities:			
Receivables		**(453,968,488)**	(169,310,511)
Inventories		**(24,770,254)**	3,124,784
Payables		**(18,529,554)**	17,405,201
Cash from operations		**1,242,536,378**	1,530,081,230
Financial charges paid		**(257,762,488)**	(281,482,815)
Zakat and foreign income taxes paid		**(38,589,917)**	(54,225,402)
Net cash from operating activities		**946,183,973**	1,194,373,013
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment income received		**17,091,938**	22,730,187
Additions to property, plant and equipment		**(1,309,403,283)**	(1,208,191,312)
Additions to intangible assets		**(183,125,438)**	(54,556,806)
Additions to projects' development costs		**(220,745,646)**	(88,360,609)
Proceeds from disposals of property, plant and equipment		**-**	220,000
Net cash used in investing activities		**(1,696,182,429)**	(1,328,158,540)
CASH FLOWS FROM FINANCING ACTIVITIES			
Bank overdrafts		**48,744,532**	(15,784,610)
Long term loans		**1,304,614,127**	480,072,171
Obligations under capital lease		**(55,378,380)**	(48,162,160)
Advances from partners		**(40,397,454)**	57,624,522
Minority interest		**(205,877,332)**	(274,927,491)
Dividends paid		**(495,000,000)**	(641,666,666)
Board of Directors' remuneration paid		**(2,200,000)**	(2,200,000)
Net cash from/(used in) financing activities		**554,505,493**	(445,044,234)
Net change in cash and cash equivalents		**(195,492,963)**	(578,829,761)
Cash and cash equivalents at the beginning of the year		**3,053,454,336**	3,629,881,391
Foreign currency translation reserve		**(357,566)**	2,402,706
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	3	**2,857,603,807**	3,053,454,336

The attached notes 1 to 31 form part of these consolidated financial statements.

SUPPLEMENTARY CASH FLOWS INFORMATION:

Non-cash transactions are as follows:

	Note	**2013 SR**	2012 SR
Proposed dividends		**238,333,333**	-
Borrowing cost capitalized over property, plant and equipment	6	**86,454,421**	98,101,617
Transfer to statutory reserve		**62,044,906**	60,116,998
Net change in fair value of interest rate swaps	17	**14,382,306**	35,905,199
Receivables against disposals of property, plant and equipment		**3,142,913**	-
Transfer from property, plant and equipment to intangible assets	6	**1,158,336**	6,527,938
Transfer from goodwill to intangible assets	8	**-**	4,438,759
Transfer from projects' development costs to intangible assets	7	**-**	20,652,492

The attached notes 1 to 31 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT
of shareholders' equity

Year Ended 31 December 2013

EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

	Share capital SR	Statutory reserve SR	Reserve for the results of sale of shares in subsidiaries SR	Retained earnings SR	Proposed dividends SR	Net change in the fair value of interest rate swaps SR	Foreign currency translation reserve SR	Total SR
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 foreign currency translation reserve	-	-	-	-	-	-	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	3,666,666,660	1,046,903,069	48,893,677	960,457,541	-	(99,492,806)	2,402,706	5,625,830,847
Balance at 1 January 2013	3,666,666,660	1,046,903,069	48,893,677	960,457,541	-	(99,492,806)	2,402,706	5,625,830,847
Net income	-	-	-	620,449,055	-	-	-	620,449,055
Net change in fair value of interest rate swaps	-	-	-	-	-	44,500,690	-	44,500,690
Net change in foreign currency translation reserve	-	-	-	-	-	-	(357,566)	(357,566)
Transfer to statutory reserve	-	62,044,906	-	(62,044,906)	-	-	-	-
Board of Directors' remuneration	-	-	-	(2,200,000)	-	-	-	(2,200,000)
Dividends paid (note 20)	-	-	-	(495,000,000)	-	-	-	(495,000,000)
Proposed dividends (note 20)	-	-	-	(238,333,333)	238,333,333	-	-	-
Balance at 31 December 2013	**3,666,666,660**	**1,108,947,975**	**48,893,677**	**783,328,357**	**238,333,333**	**(54,992,116)**	**2,045,140**	**5,793,223,026**

The attached notes 1 to 31 form part of these consolidated financial statements.

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"):

Subsidiaries	Effective percentage of shareholding	
	2013	2012
International Methanol Company (IMC)	**65%**	65%
International Diol Company (IDC)	**53.91%**	53.91%
International Acetyl Company (IAC) - (note 1)	**76%**	76%
International Vinyl Acetate Company (IVC) - (note 1)	**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%**	100%
Sipchem Europe Cooperatief U.A. and its subsidiaries	**100%**	100%
Gulf Advanced Cable Insulation Company (GACI) - (note 2)	**50%**	50%
Saudi Specialized Products Company (SSPC) - (note 3)	**75%**	-
Sipchem Asia PTE (TPE) – (note 4)	**100%**	-

Note 1 : The percentages of ownership presented above are as per the investee companies' articles of association and represents the Group's ownership percentage from the investee companies' share capital. The Group's effective ownership percentages of the above two companies used to record the Group's share of results are 78.52% for both companies. Such an increase in ownership resulted from having the Group contributing advances exceeding its percentage of ownership to compensate a minority partner deficit in such advances, which resulted in increasing the effective ownership in those two investments. The articles of association of the two companies have not been updated yet (note 11).

Note 2: 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.

Note 3: The investee company has been incorporated during the year in the Kingdom of Saudi Arabia, it's article of association is dated 12 Safar 1435H (corresponding to 15 December 2013). However, the legal formalities of establishing the company has been completed only in the period subsequent to the consolidated balance sheet date, as the commercial register is issued on 4 Rabi'I 1435H (corresponding to 5 January 2014). Accordingly, the investee company did not have any operating activities during the year.

Note 4: The investee company has been incorporated during the year in Singapore, it's article of association is dated 13 Jumada I 1434H (corresponding to 25 March 2013). The company is engaged in marketing, sale and storage of petrochemical products internationally.

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.

Basis of consolidation of the financial statements

The consolidated financial statements incorporate the financial statements of the Company and the 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, raw materials 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 legal, license, feasibility related and other 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 construction work in progress is not depreciated. Expenditure on maintenance and repairs is expensed, while expenditure for betterment including borrowing costs that are directly attributable to the acquisition, construction for long period or production of a qualifying asset 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:

	Years
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, upfront fees paid for existing long term off-take agreement 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 estimated period of the 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 recognized 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combination and goodwill (continued)

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 recognized in the consolidated statement of income.

Impairment of non-current assets

At each balance sheet date, the Group reviews the carrying values of its non-current assets other than goodwill 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.

Goodwill is tested for impairment at least annually, 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 recognized. 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.

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 and foreign taxes

The Group is subject to zakat regulations in the Kingdom of Saudi Arabia. Foreign 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 foreign income tax for the year and the zakat and foreign income tax provision that is calculated based on the detailed zakat basis at year end are accounted for at the end of the year. The zakat and foreign income tax charge in the consolidated financial statements represents the zakat for the Company, the Company's share of zakat in subsidiaries and foreign 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.

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.

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.

3. CASH AND CASH EQUIVALENTS

	2013 SR	2012 SR
Murabaha deposits	**1,971,037,113**	1,998,896,408
Bank balances and cash	**886,566,694**	1,054,557,928
	2,857,603,807	3,053,454,336

4. ACCOUNTS RECEIVABLE, PREPAYMENTS AND OTHER RECEIVABLES

	2013 SR	2012 SR
Trade account receivables	**1,087,813,095**	670,711,272
Deposits, prepayments and other receivables	**226,517,618**	186,508,040
	1,314,330,713	857,219,312

5. INVENTORIES

	2013 SR	2012 SR
Spare parts	**146,209,300**	137,683,476
Finished goods	**118,714,576**	133,336,058
Raw materials	**37,802,556**	6,936,644
	302,726,432	277,956,178

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.

6. PROPERTY, PLANT AND EQUIPMENT

	Plant & equipment SR	Land & buildings SR	Catalyst & tools SR	Vehicles, computer, furniture, fixtures & office equipment SR	Construction work in progress SR	**Total 2013 SR**	Total 2012 SR
Cost:							
At the beginning of the year	9,809,297,211	174,005,185	238,089,226	73,688,094	2,346,712,825	**12,641,792,541**	11,362,289,007
Additions	155,659,220	2,017,328	44,906,276	957,473	1,192,317,407	**1,395,857,704**	1,306,292,929
Transfers	259,033,876	15,599,638	25,622,659	391,601	(300,647,774)	**-**	-
Transfer to intangible assets (note 9)	-	-	-	-	(1,158,336)	**(1,158,336)**	(6,527,938)
Disposals	(31,452,903)	-	-	-	-	**(31,452,903)**	(20,261,457)
Write-off	-	-	(7,649,148)	-	-	**(7,649,148)**	-
At the end of the year	10,192,537,404	191,622,151	300,969,013	75,037,168	3,237,224,122	**13,997,389,858**	12,641,792,541
Depreciation:							
At the beginning of the year	1,686,406,707	19,992,983	234,957,636	51,508,022	-	**1,992,865,348**	1,554,587,492
Charge for the year	393,245,421	5,165,423	63,485,168	6,407,238	-	**468,303,250**	458,302,209
Disposals	(7,266,927)	-	-	-	-	**(7,266,927)**	(20,024,353)
Write-off	-	-	(3,968,743)	-	-	**(3,968,743)**	-
At the end of the year	2,072,385,201	25,158,406	294,474,061	57,915,260	-	**2,449,932,928**	1,992,865,348
Net book value:							
At 31 December 2013	**8,120,152,203**	**166,463,745**	**6,494,952**	**17,121,908**	**3,237,224,122**	**11,547,456,930**	
At 31 December 2012	8,122,890,504	154,012,202	3,131,590	22,180,072	2,346,712,825		10,648,927,193

As at 31 December 2013, property, plant and equipment include plant and equipment held under capital lease obligations which have a cost of SR 535.1 million (2012: SR 535.1 million) and accumulated depreciation of SR 216 million (2012: SR 195.9 million).

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 two parties agreement.

Some of the Group's property, plant and equipment which has a net book value of SR 6,433 thousands (2012: SR 7,312 thousands) 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.

Borrowing costs relating to IDC, IPC, SCC and GACI projects were capitalized during the year with an amount of SR 86.5 million (2012: SR 98.1 million).

7. PROJECTS' DEVELOPMENT COSTS

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

	2013 SR	2012 SR
At the beginning of the year	**252,576,753**	184,868,636
Additions during the year	**220,745,646**	88,360,609
Transfer to intangible assets (note 9)	**-**	(20,652,492)
	473,322,399	252,576,753

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 2012, 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 is subject to impairment testing.

9. INTANGIBLE ASSETS

Cost:	2013 SR	2012 SR
At the beginning of the year	**168,088,414**	81,912,419
Additions	**183,125,438**	54,556,806
Transfers (notes 6, 7 & 8)	**1,158,336**	31,619,189
At the end of the year	**352,372,188**	168,088,414
Amortization:		
At the beginning of the year	**98,839,018**	42,749,235
Charge for the year	**89,767,857**	56,089,783
Transfers	**-**	-
At the end of the year	**188,606,875**	98,839,018
Net book value:		
At the end of the year	**163,765,313**	69,249,396

The Group paid an amount of SR 37.5 million during the year, as upfront fees to an existing long term off-take agreement. The amount is amortized over the remaining useful life of the agreement.

10. ACCOUNTS PAYABLE, OTHER PAYABLES AND PROVISIONS

	2013 SR	2012 SR
Accrued expenses	**380,798,815**	402,881,721
Trade accounts payable	**168,937,676**	115,204,925
Zakat provision	**90,916,032**	74,299,953
Retentions	**36,156,156**	86,275,606
Other payables	**70,880,635**	67,565,610
	747,689,314	746,227,815

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.

During the year partial settlement was made by IDC to the partners. At 31 December 2013, the Company and the minority partners had long term advances of SR 1,897 million and SR 392 million, respectively (2012: SR 1,715.1 million and SR 414.3 million, respectively). The Company and the minority partners have also made short term advances of SR 591.5 million and SR 75.4 million, respectively (2012: SR 204.8 and SR 93.5 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.

The minority partners in both IAC and IVC made contributions lesser than their prorated ownership percentage which lead in diluting their share from these two investments' share of results. The articles of association of the two companies have not been updated yet.

12. BANK FACILITIES

The Group has short term facilities with local commercial banks including bank overdrafts, guarantees, letters of credit, and other facilities. The facilities are secured by corporate guarantees.

13. LONG TERM LOANS

	2013 SR	2012 SR
Saudi Industrial Development Fund loans (note a)	**1,550,540,000**	1,702,540,000
Syndicated bank loans (note b)	**2,639,374,198**	1,607,385,071
Public Investment Fund loans (note c)	**1,581,500,000**	1,156,875,000
	5,771,414,198	4,466,800,071
Less: current portion of long term loans	**(416,510,465)**	(489,940,823)
	5,354,903,733	3,976,859,248

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.

13. LONG TERM LOANS (CONTD.)

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. During the year, there were several refinancings which provided for reduced scheduled repayments via an extension of loan tenor. IAC, IVC, and IGC restructured its commercial loan facility providing an additional 5 year loan tenor, conversion of LIBOR to SIBOR, and the reduction in loan margin. IDC refinanced its commercial bank providing for an additional 6 years loan repayments, conversion of LIBOR to SIBOR, reduction in loan margin, and the ability to borrow for expansion purposes with a 10 year loan tenor in the amount of SR 525 million. The above amount includes a balance of SR 300 million of revolving loan with a local commercial bank.

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. During the current year, PIF granted a new loan to IPC with an amount of SR 704 million. The loan is repayable on 26 equal semi-annual installments, and carries financial charges at SIBOR plus a fixed margin.

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

	2013 **SR**	2012 SR
2013	**-**	489,940,823
2014	**416,510,465**	564,125,379
2015	**526,325,855**	659,800,104
2016	**653,710,698**	703,007,423
2017	**725,021,389**	695,823,936
After	**3,449,845,791**	1,354,102,406
	5,771,414,198	4,466,800,071

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 an 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

	2013 SR	2012 SR
Minimum lease payments (fixed and variable rental payments)	**356,250,599**	418,048,350
Less: variable rental payments	**(45,872,219)**	(59,507,810)
	310,378,380	358,540,540
Less: payments made during the year	**(55,378,380)**	(48,162,160)
Present value of minimum lease payments	**255,000,000**	310,378,380
Less: current portion of obligations under capital lease	**-**	(58,864,865)
	255,000,000	251,513,515
Future minimum lease payments:		
Within a year	**-**	58,864,865
More than one year and less than five years	**109,650,000**	251,513,515
More than five years	**145,350,000**	-
	255,000,000	310,378,380

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.

During the year, the Group refinanced its capital lease obligation with a new Islamic loan facility providing an extension of loan tenor for an additional 6 years, conversion from LIBOR to SIBOR, reduction in loan margin.

16. EMPLOYEES' TERMINAL BENEFITS

	2013 SR	2012 SR
At the beginning of the year	**82,545,023**	65,927,288
Provision made during the year	**23,200,489**	27,604,211
Payments made during the year	**(5,962,423)**	(10,986,476)
At the end of the year	**99,783,089**	82,545,023

17. INTEREST RATE SWAP AGREEMENTS

As at 31 December 2013, IDC, IAC, IVC and IGC (collectively the "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 2013, the notional amount of IRS contracts was SR 1,333 million (31 December 2012: SR 1,599 million).

The fair value of the interest rate swap has declined as of 31 December 2013 compared to the contract date by SR 71.5 million (31 December 2012: SR 130.6 million). The Group share amounted to SR 55 million (31 December 2012: SR 99.4 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 (2012: SR 3,666,666,660) is divided into 366,666,666 shares of SR 10 each (2012: 366,666,666 shares of SR 10 each).

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

This reserve represents 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 certain subsidiaries without the Group losing its control over it.

20. DIVIDENDS

The General Assembly of the Company, in its meeting held on 16 March 2013, approved the distribution of cash dividends amounting to SR 458.3 million, i.e. SR 1.25 per share, equivalent to 12.5% of the share capital for shareholders in records at the date of the General Assembly. Out of the approved dividends of SR 458.3 million, interim dividends of SR 183.3 million have already been distributed during 2012 and the remaining dividends of SR 275 million was distributed during the first quarter of 2013.

On 14 July 2013, the board of directors proposed to distribute interim cash dividends for the first half of the year 2013 amounting to SR 220 million i.e. SR 0.6 per share, equivalent to 6% of the share capital. These dividends have been distributed during August 2013.

The board of directors in their meeting held on 3 December 2013 proposed to distribute cash dividends amounting to SR 238.3 million i.e. SR 0.65 per share, equivalent to 6.5% of the share capital for the approval of the General Assembly in their next meeting which is expected to be held on March 2014. Distributions will be made to the shareholders registered on the closing of the General Assembly meeting day.

21. MINORITY INTERESTS

	2013 **SR**	2012 SR
International Methanol Company	**497,265,637**	438,565,401
International Diol Company	**386,470,742**	361,339,690
International Acetyl Company	**225,091,878**	216,084,552
International Polymers Company	**176,781,663**	176,102,691
International Vinyl Acetate Company	**155,099,740**	153,854,658
International Gases Company	**144,262,739**	134,871,173
Gulf Advanced Cables Insulation Company	**28,842,631**	28,675,038
Saudi Specialized Products Company	**14,000,000**	-
	1,627,815,030	1,509,493,203

22. RELATED PARTY TRANSACTIONS

Related parties represent major shareholders, directors and key management personnel of the Group, and entities controlled or significantly influenced by such parties. Material related party transactions occurred during the year were as follows:

- Foreign partners to the Company marketed part of the Group's products. Total sales made through those foreign partners amounted to SR 1,710 million (2012: SR 1,796 million).

- One of the subsidiaries bought certain fixed assets from one of the foreign partners. Total purchases of fixed assets from the foreign partner during the year amounted to SR 20.7 million (2012: SR 12.2 million).

- The Company and the minority partners granted 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 dates, while other long term advances and the short term advances carry financial charges at normal commercial rates (note 11).

The prices and terms of the above transactions were approved by the Board of Directors of the companies of the Group.

23. GENERAL AND ADMINISTRATIVE EXPENSES

	2013 SR	2012 SR
Employee costs	**88,275,948**	90,863,834
Depreciation	**14,737,019**	9,316,422
Expenses of board of directors and board meetings for the Group	**2,042,077**	1,819,208
Others	**31,479,497**	29,669,012
	136,534,541	131,668,476

24. ZAKAT

Zakat charge:

The zakat charge consists of:

	2013 SR	2012 SR
Current year provision	**55,205,996**	71,517,348
The zakat charge for the Group was as follows:		
Current year zakat charge of the Company	**34,000,000**	53,684,650
Company's share in the zakat and income taxes of foreign subsidiaries	**21,205,996**	17,832,698
Charge in consolidated statement of income	**55,205,996**	71,517,348
Movement in zakat provision		
The movement in the zakat provision was as follows:		
At the beginning of the year	**74,299,953**	57,008,007
Provision for the year	**55,205,996**	71,517,348
Payments made during the year	**(38,589,917)**	(54,225,402)
At the end of the year	**90,916,032**	74,299,953

24. ZAKAT (CONTD.)

Status of zakat assessments

The Company received zakat assessments for the years 2007 to 2010 with additional zakat liability of SR 118.3 million including additional assessments for the years 2007 and 2008. The Company does not agree with the additional liability and has filed appeals against these assessments and additional assessments for the years 2007 and 2008. The PAC ruled in favor of DZIT in respect Company's appeal against the DZIT's additional assessments for the years 2007 and 2008. The Company does not agree with the PAC decision and intends to file an appeal with HAC.

The IGC has received zakat assessments for the years 2008 to 2010 with additional zakat liability of SR 3.4 million including additional assessments for the years 2008 to 2010. The company has accepted the assessments and the additional liability will be settled shortly.

The IMC received withholding tax assessment for the years 2007 to 2012 for the delay fines of SR 17.7 million. The company does not agree with the delay fines and has filed an appeal against these assessments.

All of the other companies within the Group submitted their tax and zakat declarations up to 2012 which is still subject to the DZIT review.

25. OPERATING LEASE ARRANGEMENTS

	2013 SR	2012 SR
Payments under operating leases recognized as an expense during the year	**2,165,207**	2,165,207

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:

	2013 SR	2012 SR
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	**28,505,523**	30,670,730
Net minimum lease payments	**39,331,558**	41,496,765

26. CAPITAL COMMITMENTS

As at 31 December 2013, the Group had capital commitments amounting to SR 1,047 million (31 December 2012: SR 2,106 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 current Saudi Arabian Arbitration Regulation. While this arbitration is going on, Sipchem and the construction contractor have conducted series of negotiations for settling the dispute but without reaching any substantive results. The Arbitration Panel has recently appointed an Engineering firm to inspect the site and assess the extent of work which has been completed by the contractor. 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.

28. SEGMENTAL ANALYSIS

	Petrochemical operations SR 000	Marketing activities SR 000	Total SR 000
	For the year ended 31 December 2013		
Sales	**3,208,188**	**797,445**	**4,005,633**
Gross profit	**1,273,403**	**25,177**	**1,298,580**
Net assets	**5,700,751**	**92,472**	**5,793,223**
	For the year ended 31 December 2012		
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

Marketing activities include the marketing activities of Sipchem. These marketing activities support the customer development activities to enhance the Petrochemical operations.

No geographical segment disclosure has been prepared as 97% (2012: 97%) of sales are export sales.

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 and marketers. 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 short term loans, long term loans, sukuk, and 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.

There are transactional currency exposures also. Such exposures arise mainly from the sales or purchases made by foreign subsidiaries in currencies of their respective countries, which are not pegged with the functional currency of the Company.

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, bank overdrafts, term loans, sukuk, 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.

31. COMPARATIVE FIGURES

Certain of the prior year figures have been reclassified to conform with the presentation in the current year.

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