



Saudi International Petrochemical Company
(Saudi Joint Stock Company)

Board of Directors Annual Report -Fiscal Year 2012



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Dear Shareholders,

May Peace, Mercy and blessing of Allah be upon you,

At the outset, Sipchem was keen to involve in new projects and expansion of its existing projects to coincide with world progress in chemicals, petrochemicals industries and in line with public direction of Kingdom of Saudi Arabia. Sipchem has achieved net profits worth SR 601 million in 2012 against SR 706 million in 2011. Mainly this decline is due to reduction of prices of some products with rise of prices of (butane & ethylene) which led to decline of profit margin besides increase of Zakat allocations. Despite hard decline of most of Sipchem`s products, year 2012 has witnessed improvement in operational performance of existing plants which led to rise of production by 4% comparing to year 2011. Year 2012 also has witnessed reduction of costs relating operations in which contributed relatively to decrease of Sipchem`s setback results.

Reviewing Sipchem`s financial results the Board of Directors has recommended to distribute cash dividends for stakeholders of second half for year 2012 at rate of SR (0.75) per each share. This recommendation will be raised for approval in meeting of general assembly that will be held in March 2013 informing that cash dividends had been distributed to shareholders at rate of SR (0.5) per each share for first half of 2012.

Sipchem has achieved its progress and growth thru its real human resources which occupy all concerns along with arduous efforts of teamwork and continuous interest to develop efficiencies which push Sipchem to be one of major international companies. Sipchem has got second place in lists of Team One and Al-Ektisadiyah as best Saudi working environment for 2011 also has been awarded first place in 2010 for the same award. Sipchem`s HR team has won first place in the aforementioned award in Kingdom of Saudi Arabia.

As Sipchem`s looking forward world approach in petrochemicals industry, it undergoes to implement third phase of its projects IPC (International Polymers Company), SCC (Sipchem Chemicals Company) and GACI (Gulf Advanced Cables Insulation Company) whereas the nameplate capacity of these projects up to 325 mtpa at total cost of SR 3.2 billion in which these project release new products all over Middle East. IPC, SCC and



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GACI are considered downstream industries in which their products depend on products produced by Sipchem which will achieve integration that enhances stability of Sipchem.

In November 2012 the groundbreaking of EVA films had been set in Hail industrial city under sponsorship of HRH Prince Saud bin Abdulmohsen bin Abdul-Aziz Al-Saud Governor of Hail and of the High Commission for Development of Hail Region, at cost worth SR 120 million and In Nameplate of 4 kta.

Sipchem, since its inception, was known as international eminent company manages integrated system closer to clients in marketing. As Sipchem's abide to keep its outstanding position in chemicals and petrochemicals industries through investment in research and development to provide products designed to meet all needs of the society. SMSC (Sipchem Marketing & Services Company) exerting its best to market Sipchem's products through Aectra, a Swiss petrochemical trading and marketing company which it had been acquired by Sipchem in 2011 to raise volume of sales in Europe to 25% as strategic plan set out for five years .Currently, SMSC (Sipchem Marketing & Services Company) is about establishing office in Singapore to be as a base to release products in Asia.

Sipchem is adhered to its responsibility toward society by supporting social activities generously whereas Sipchem allocated 1% of its net total annual profits for social responsibility programs.

In conclusion, I would like to take this opportunity to extend our sincere thanks and appreciation to Custodian of the Two Holy Mosques and HRH the Crown Prince, express all sincere thanks to all our esteemed shareholders for their valuable trust and to board directors, all Sipchem's and its affiliates employees for their sincere efforts toward their work which has achieved outstanding results.

Abdul-Aziz A. Al-Zamil

Chairman



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First: Description of Company Activities

Saudi International Petrochemical Company (Sipchem) one of Saudi joint companies listed in Tadawul (Saudi Capital Market) and started its successful procession in December 22, 1999 with a 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 plenty of products that provide prosperity and welfare for humans. Sipchem is committed to implement its activities in compliance with high quality standards whether in its products or maintaining the integrity of the surrounding environment or the safety of its employees.

Sipchem has selected Jubail Industrial City to establish its industrial complex to produce various petrochemical and chemical materials because of availability of all required basic infrastructure such greater projects. In addition to the forgoing, Sipchem also has selected Jubail for abundance of raw materials in eastern province besides existence of plenty of various petrochemicals products and also facility of export operations via KFIP (King Fahd Industrial Port). The gross production of all existing plants is up to 2.2 mtpa in 2012.

Sipchem uses area of up to one million square meters at basic industries zone at Jubail Industrial city in eastern province in kingdom of Saudi Arabia. Sipchem`s strategy aims at integration of present and future chemical products to establish series of products of final value to contribute integration of great castle of industries at Jubail and in order to increase of Growth Domestic Production (GDP) and to support industrial development in line with plans of mass development implemented by kingdom to increase revenues and profits of shareholders.

Sipchem has become one of major petrochemicals companies despite its existence that not exceeding 13 years .This achievements are due to Sipchem`s administrative ,professional and technical capabilities which enabled Sipchem to be one of top international petrochemicals companies.



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Second: Description of Sipchem's Affiliates

1- The International Methanol Company (IMC):

The International Methanol Company (IMC) is a Saudi limited liability company, established in the year 2002 with capital of SR 360,970,000 which Sipchem has 65%. IMC is operating a plant for the production of Methanol at nameplate of 970 mtpa. The plant is currently working at its full nameplate.

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.

2- The International Diol Company (IDC)

The International Diol Company (IDC) is a limited liability Company established in the year 2002, with capital of SR 431.250,000 that Sipchem has 53.91%. The company is operating a plant producing Butanediol (BDO) and its derivatives such as Maleic Anhydride (MAN) and Tetrahydrofuran (THF) at nameplate of 75 MTPA. The plant is currently working at its full nameplate. The plant produces high quality Butanediol (BDO) which is shipped to the company's customers regionally and internationally. IDC's site is in Jubail Industrial City, Kingdom of Saudi Arabia.

3- International Gases Company:

The International Gases Company (IGC) is a limited liability company established in the year 2006 with capital of 425,400,000 that Sipchem has 72%. An IGC production is represented in production of first Carbon Monoxide (CO) at nameplate of 340 MTPA. This plant is considered to be the largest CO plant of its kind in the World. First Carbon Monoxide (CO) is used as a feedstock for the production of Acetic Acid by IAC. The plant is considered as an extra source to provide the International Diol Company (IDC) with hydrogen. The company's site is in Jubail Industrial City, Kingdom of Saudi Arabia.



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4- International Acetyl Company (IAC)

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

5- International Vinyl Acetate Company (IVC)

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

6- International Utilities Company (IUC)

The International Utilities Company (IUC) is a Saudi limited liability company, established in the year 2009, with 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.



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7- Sipchem Marketing and Services Company (SMSC)

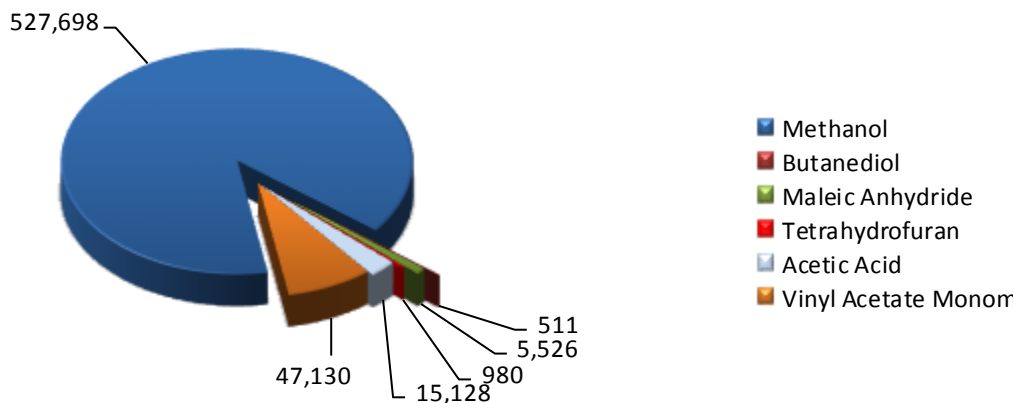
Sipchem Marketing and Services Company (SMSC) is a Saudi limited liability company, established in the year 2007 with capital of SR 2,000,000, fully owned by Sipchem. The company's location is in Al-Khobar at Eastern Province, Kingdom of Saudi Arabia.

Sipchem Marketing and Services Company (SMSC) works independently in the marketing and sales of the entire range of Sipchem's products in addition to other products. The company has a competent sales force team with diverse high backgrounds and experience.

As SMSC's success to acquire Swiss Acetra on December 30, 2011, it is seeking for focusing its efforts to establish representation office in Singapore to add strategic depth in logistics services and marketing which enable SMSC to cover the clients in Asia. With these achievements, the geographic plan of SMSC of existence of its offices in strategic markets will be reflected positively on SMSC and to facilitate its move toward further growth.

Currently SMSC sells and markets a number of products including Methanol Butanediol (BDO), Maleic Anhydride (MAN), Tetrahydrofuran (THF), Acetic Acid (AA) and Vinyl Acetate Monomer (VAM). SMSC has marketed products at 597 mtpa of aforementioned products in 2012 at increase of 12% than 2011% which was at 531 MTPA.

- **SMSC Sales**





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8- Sipchem Europe Cooperative UA and its Affiliates:

Sipchem Europe (Cooperative UA) Company was established in 2011, with capital of SR 1,000,000, totally owned by Sipchem and located at Amsterdam, Netherland. Its major activity is to provide managerial support in marketing and logistics fields. Aectra SA is an affiliate of Sipchem Europe Cooperative UA which its headquarter located in Geneva, Switzerland. The main activities of Aectra SA are marketing, logistics services and commercial experience in European markets. In addition to the foregoing, the company also marketed and sold around 80 mtpa of petrochemicals products to other companies. Aectra has become major support to market Sipchem products in Europe and contributed to expand volume of sales and to open new markets in Europe by 25% in comparison to year 2011.

Third- Sipchem`s Strategies:

Sipchem since its inception has achieved a big record of remarkable achievements to serve national economy. Sipchem`s Board is adopting since smooth beginning of Sipchem strategies are in line with Kingdom strategy that give top priority to industrial fields which helped upgrade of kingdom and its development to be one of industrial countries according to high-quality standards .To achieve such these strategic plans the board of directors has approved various of long-term programs and projects in order to reaching outstanding level of performance to be one of international companies.

Sipchem has begun strategic studies to determine objectives and goals to maintain entity depends on excellence and optimism in order to ensure continuous growth to achieve satisfactory revenues for shareholders and investors.



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Sipchem`s strategy depends on following elements:

- 1- Increase of nameplate capacity and to optimize operational capability for affiliates` plants.
- 2- To develop long-term relations with vendors and clients to decrease operational costs.
- 3- Continuous development in quality of products through research and development operations and to apply best international standards.
- 4- To reduce costs to enhance competitiveness among companies.
- 5- long-term investment in Saudi manpower which reflects positively on company`s performance.
- 6- expansion and variety in company`s products via investment in downstream projects and other projects associated to industry.

Sipchem`s Total Optimization Project Initiative:

Sipchem has initiated (STOP) program in 2012 to improve performance to achieve its vision in line with its approved strategy to be capable to adapt and continue in optimization and development in accordance to development plans. This initiative includes optimization of performance of all company`s departments via auditing of its employees performance, operations and regulations to coincide with best practices approved internationally. International Specialized team of experts and consultants has documented business procedures and policies which are practiced currently at shared services department and Sipchem`s affiliates and to be in competitive with best international approved criteria in petrochemical companies. Such these supports have been enhanced by SAP system along with training of employees.



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Fourth - Plans and future Growth:

Sipchem has completed its long-term strategy in 2012 including redetermination of its strategic goals and appointment of growth and future opportunities which will help company to achieve profitable growth. Sipchem`s new plan has been designed to strength its position. The plan has focused on growth that leads to achieve maximum interest based on structuring of continuous support for its businesses. Sipchem`s objective is to grow and increase cash prospects brought via operations in order to enable Sipchem to invest that leading to future growth and increase of distributed dividends for shareholders . The plan has concentrated upon safety of operations and their reliability .Sipchem now stands stable to develop its businesses sustainably of which it is capable to achieve excellent revenues and development of cash flows.

Sipchem strives to continue its current projects despite it will face great challenges in year 2013 regarding various industrial projects such as Ethyl Acetate (EA) and Butyl Acetate (BA) related to Sipchem Chemicals Company (SCC) expected to be operated in second quarter of 2013 and Ethylene Vinyl Acetate (EVA), low-density polyethylene related to IPC (International Polymers Company) expected to be operated in middle of year 2013 , cables insulation related Gulf Advanced Cables Insulation Company (GACI) expected to be operated in end of third quarter of 2013 and project of Sipchem Technology & Creativity center expected to be operated in end of year 2013 .

Regarding prices in 2013 Sipchem expects stability of prices relatively as 2012; Sipchem also excludes return of year 2011 price rate to be in year 2013. Sipchem development plan concentrated upon mainly new marketing areas with determining detailed plans use best ways of commissioning and required capabilities in order to achieve best revenues for Sipchem`s Shareholders. Sipchem is currently carrying out feasibility studies for several new industrial projects inside, outside Kingdom and expansion of existing plants to increase their nameplate and operational efficiency, which are expected to be announced in 2013.



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Fifth: Projects under construction and development:

1. The International Polymers Company (IPC):

As Industrial development is part from economic development of Kingdom, Sipchem had founded International Polymers Company (IPC), Saudi limited liability Company, established in the year 2009 with capital of SR 703,200,000 that Sipchem has 75%. The company's main activity is to produce Ethylene Vinyl Acetate (EVA) and Low-Density Polyethylene (LDPE) at nameplate of 200 mtpa. This plant is considered its first kind in 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 will be financed by number of loans and banking facilities in accordance to Islamic Shariah and also by shares from shareholders and government loans provided by SIDF (Saudi Industrial development Fund) and PIF (Public Investment Fund) informing that value of financing will be reduced by 50% at finishing of signing of financing agreement with PIF.

IPC had signed in May 2012 Islamic short-term loan at value of SR 1.4 billion with four Saudi banks as follows: Riyad Bank, NCB (National Commercial Bank), SHB (Saudi Hollandi Bank) and SABB (Saudi British Bank). The value of the loan will be repaid after thirty months as mid-annual premiums.

The Vinyl Acetate Monomer (VAM) will be provided as a second feedstock from IVC, Sipchem affiliate, and Ethan from Aramco and to be treated by United 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.

The plant is being constructed by Korean GSEC (GS Engineering & Construction). The rate of implementing of the project has been reached to 87% till end of 2012 and it is expected to be operated in middle of 2013.



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2- Sipchem Chemicals Company (SCC)

The kingdom has set obvious strategy, various incentives and higher balance to activate industrial sector so, Sipchem had founded Sipchem Chemicals Company (SCC) Saudi limited liability Company founded in 2011 with capital of SR 240,000,000 that Sipchem owns 95% and SMSC, Sipchem affiliate, owns 5 %. SCC mainly activity is to produce Ethyl Acetate (EA) and Butyl Acetate (BA) at nameplate of 100 mtpa. The project location is in Jubail Industrial City, Kingdom of Saudi Arabia.

SCC (Sipchem Chemicals Company) had signed in year 2012 financing agreement with SIDF at value of SR 164 million to finance construction of the plant.

SCC is considered part of 3rd phase expansion program. It is decided that SCC to be responsible for commissioning and management for all projects 100% owned by Sipchem. SCC (Sipchem Chemicals Company) will contribute by its various projects to support downstream industries and industrial Variety which will add great value to chemicals and petrochemicals materials. The total cost of the project at SR 350 million. SCC plant is expected to provide local needs of Ethyl Acetate (EA) and Butyl Acetate (BA) in addition to meet demands of international markets.

Acetic acid (AA) will be provided by IAC (International Acetyl Company), Sipchem Affiliate; to produce Ethyl Acetate (EA) but Ethanol will be imported from international markets. The product will be used as solvent in inks. Industrial liquids and pallets used to coat surfaces, paints and etc. SCC implementation rate reached around 97% in 2012 .The Ethyl Acetate (EA) plant expected to begin its production in second quarter of 2013.



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3- Gulf Advanced Insulation Cables Company project (GACI)

Gulf Advanced Insulation Cables Company project (GACI) is Saudi limited liability Company, established in the year 2012 with capital of SR 57,240,000. As Sipchem` s seeking to enhance its capabilities for integration of its projects and finding new products needed by local and international market, Sipchem had founded Gulf Advanced Insulation Cables Company joint venture owned equally by Sipchem and Hanwha Chemicals Company . Sipchem and Hanwha Chemicals Company had signed partnership agreement at the end of April .Sipchem has awarded engineering, design and construction (LSTK) contract for Korean POSCO Engineering Company .The total cost of plant is SR 230 million. The basic feedstock will be obtained from IPC, Sipchem affiliate. The implementation rate has risen to 52% in 2012 and the start up of plant is expected to be in third quarter in 2013. The project location is in Jubail Industrial City, Kingdom of Saudi Arabia.

4- Sipchem Technology & Creativity exchange project (STCE)

As Sipchem` s current and future success is output of deliberate strategic and scientific results and investments in research and development. Sipchem invests SR 175 million to establish center for Technology& Creativity at Dhahran Techno Valley of King Fahd University of Petroleum and Minerals (KFUPM), in the eastern province. Sipchem has signed MOU with ministry of Petroleum & minerals and King Fahd University of Petroleum and Minerals (KFUPM) to establish this center on area of 15000 m² at Dhahran Techno Valley related to KFUPM. In line with this MOU Sipchem will manage and operate this center. The center will include 37 laboratories cover all fields of research, technical services and development of products, its applications, analysis and tests.

Sipchem also signed cooperation agreement for term of three years with King Abdullah University for science & Technology for University program of industrial cooperation (KICP) as strategic partner including economic development programs in university.



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Sipchem strives to maintain its major position in petrochemicals industries via joining university cooperative program. Sipchem`s membership in such these programs is to maintain industry of petrochemicals through research and development innovative and competitive. KICP program enables its members to recognize latest technologies in petrochemical industries besides, enhancement of active industrial cooperation regionally and internationally via working with major partners who have innovative and productive capabilities to release scientific, technological culture and their interest to translate these sciences and knowledge in order to help economic growth and to provide job opportunities.

Constructions phase activities have already started to execute the center which has been designed according to the latest advanced design techniques in terms of buildings, laboratories and modern equipment. This technical center will be a new focus of polymer technology in the Kingdom; it is mandated to develop the downstream polymer converting industry in the Kingdom where 860 plants are operating.

The center shall also enhance cooperation in research with special emphasis on the main products, namely the films used in manufacturing solar cells and the thin films used in agriculture, flexible pipes, adhesives for wood, paper and paints, power and communication cables including fiber optics and any other products that support the national program for the development of industrial complexes. The center shall also enhance cooperation in research through the use of laboratories, equipment and the exchange of experiences between the university and Sipchem. It is decided that the construction works will be ended in 2013.

5- Ethylene Vinyl Acetate (EVA) Film Project:

As the industry is core of development in kingdom, Sipchem aims at contribution to form strong industrial sector capable to compete locally and internationally. Sipchem has established Ethylene Vinyl Acetate Project, 75% owned by SCC (Sipchem Chemicals Company) while 25% owned by Korean Hanwaha. EVA`s total cost worth SR 120 million with nameplate of 4 kta on area of 40,000 m² and it will be marketed by SMSC,



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Sipchem Affiliate. EVA will be financed by Sipchem and loans from local financing entities. EVA is used in manufacturing of solar cell plates used in production of electricity from solar energy. The construction works are expected to be started in second quarter of 2013. EVA project in Hail is a big investment opportunity will help kingdom to use solar energy to produce electricity, also it will provide various job opportunities for people of Hail.

Sixth: Risks Related to Sipchem and Its Affiliates Business:

Risk of prices fluctuation:

- Risk of chemical, petrochemical products and shipping prices fluctuations.
- International competitive markets which the company affected from supply and demand.

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.

Environmental Risks

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

Risks related to the market:

- Risks of competitiveness and prices related to products produced by Sipchem.
- Change of feedstock materials prices which depend on company in production.



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Financial Statements:

Sipchem has achieved net profits of SAR 601 million in 2012 compared by SR 706 million in 2011. The reduction of 2012 financial results returns to mainly reduction in products prices .Despite the hard decline of most of company products prices in 2012 this year witnessed optimization of operational performance of Sipchem`s plants while the production has been raised by 4% consequently rise of sales volume in comparison to last year . Sipchem has exerted its best to reduce operational costs and raising of operational efficiency which contributed relatively to reduce decline in Sipchem`s results.

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

- 1- The total profit for the year 2012 was SR 1,267,5 million compared with SR 1,426,8 million for the previous year with 11,2% decrease.
- 2- The operational profit for the year 2012 was SR 1,163,9 million compared with SR 1,301,9 million for the year 2011 with 12,7% decrease.
- 3- The net profit for the year 2012 was SR 601,2 million compared with SR 705,9 million for the previous year with 14,8% decrease.
- 4- The Earnings per Share (EPS) was SR 1, 64 with SR 1.93 for the previous year.



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1) Summary of the business results for the previous five years:

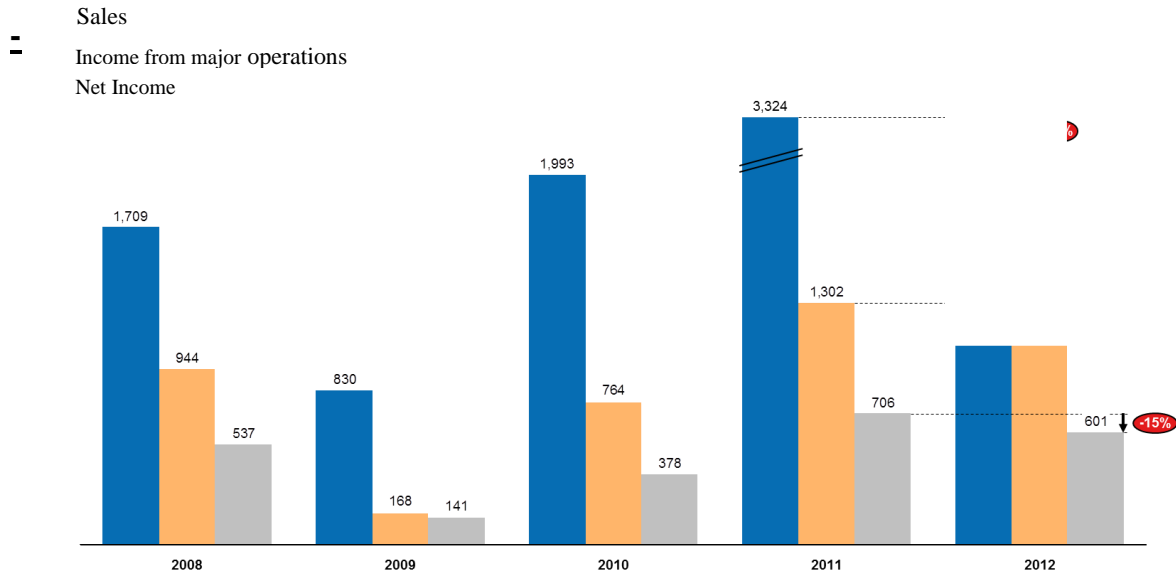
(Million Saudi Riyals)

Details	2008	2009	2010	2011	2012
Total Current assets	2,842	2,218	2,426	4,599	4,189
Total non-current assets	7,991	9,600	9,601	10,066	11,000
Total assets	10,833	11,818	12,027	14,665	15,189
Total current required amount	979	903	857	1,317	1,389
Total required non-current amounts	3,996	8,083	5,156	6,326	6,665
Total shareholders' rights and minority rights	5,858	5,832	6,014	7,022	7,135
Total required amounts, shareholders rights and minority rights	10,833	11,818	12,027	14,665	15,189
Net Profits	537	141	378	706	601
Earnings Per Share (EPS)	1,46	0,38	1,03	1,96	1,64

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2) - Development of sales, income from operations and net profit for the past five years:

(Million Saudi Riyals)

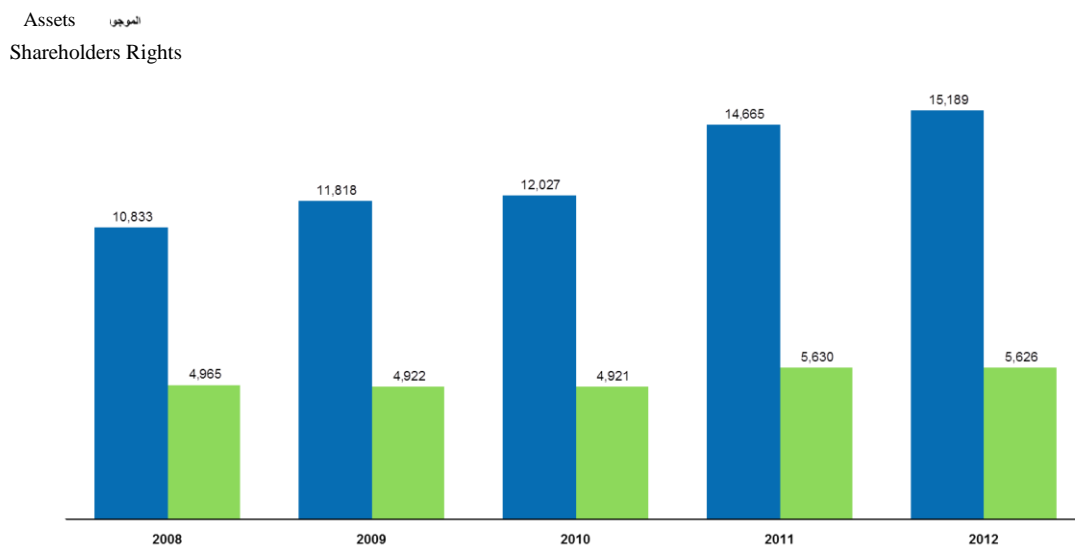


Note:

For purposes of comparison, sales for year 2012 include output sales of petrochemicals operations and not include marketing activities concerning Sipchem`s after acquiring of Aectra on Dec31, 2011.

3) Development of Assets and Shareholders Equity for the past five years:

(Million Saudi Riyals)



4) - Significant differences in operational results from previous year:

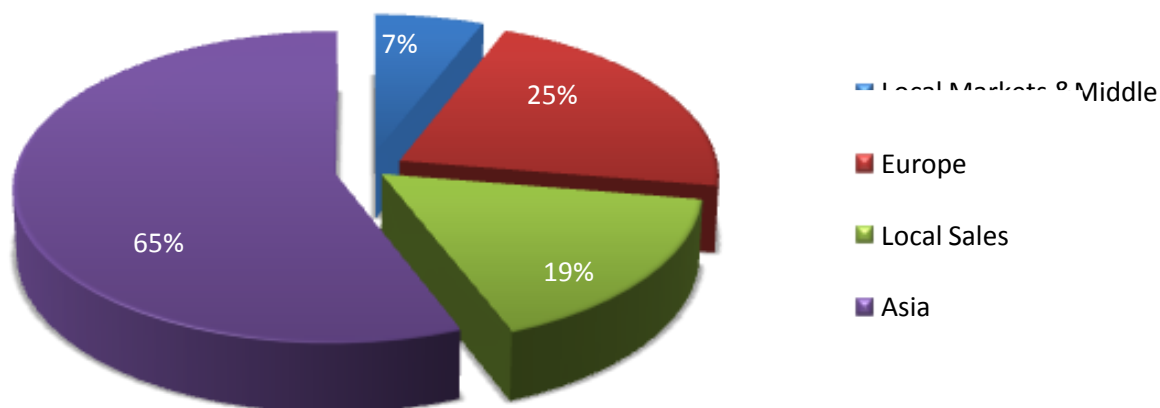
The main reason for the decline of the financial results for the year 2012 compared with the year 2011 was mainly due to the backward of the profit margins because of the sharp decline of products` prices .

(Million Saudi Riyals)

Details	2012	2011	Changes+/-	Change percentage
Total Profit	1,267,5	1,426,8	-159,3	11,2%
Operational Profit	1,136,9	1,301,9	-165	12,7%
Net Profit	601,2	705,9	-104,7	14,8%

5) The Geographical Analysis of Sipchem’s Sales:

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





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6) - Total Debts for Sipchem and its Affiliates:

Saudi International Petrochemicals Company

(Million Saudi Riyals)

Lending Entity	Loan Term	Value of Loan	Balance of 2012 start	Withdrawing during the 2012	Total repayments during 2012	Balance of 2012 end
Islamic Sukuks	5 years	1,800	1,800	-	-	1,800

International Methanol Company:

Lending Entity	Loan Term	Value of Loan	Balance of 2012 start	Withdrawing during the 2012	Total repayments during 2012	Balance of 2012 end
Commercial Banks (liabilities as per Capital Lease)	6-9 years	535	359	-	(48)	311

International Diol Company:

Lending Entity	Loan Term	Value of Loan	Balance of 2012 start	Withdrawing during the 2012	Total repayments during 2012	Balance of 2012 end
Commercial Banks	8 years	146	47	-	(5)	42
SIDF	6-8 years	400	340	-	(40)	300
PIF	3-8 years	431	159	-	(14)	145
Partners	undefined	187	187	-	-	187

International Acetyl Company:

Lending Entity	Loan Term	Value of Loan	Balance of 2012 start	Withdrawing during the 2012	Total repayments during 2012	Balance of 2012 end
Commercial Banks	6-9 years	810	695	-	(77)	618
SIDF	6-9 years	400	380	-	(30)	350
PIF	4-6 years	769	654	-	(77)	577
partners	undefined	679	679	19	-	698

International Vinyl Acetate Company:

Lending Entity	Loan Term	Value of Loan	Balance of 2012 start	Withdrawing during the 2012	Total repayments during 2012	Balance of 2012 end
Commercial Banks	6-9 years	466	400	-	(44)	356
SIDF	6-9 years	400	380	-	(30)	350
PIF	4-6 years	439	373	-	(44)	329
partners	undefined	536	536	-	-	536



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International Gases Companies:

Lending Entity	Loan Term	Value of Loan	Balance of 2012 start	Withdrawing during the 2012	Total repayments during 2012	Balance of 2012 end
Commercial Banks	6-9 years	81	69	-	(8)	61
SIDF	6-9 years	400	370	-	(40)	330
PIF	4-6 years	143	121	-	(14)	107
partners	undefined	389	389	-	(19)	370
Partners (short-term)	-	13	13	-	-	13

International Polymers Company:

Lending Entity	Loan Term	Value of Loan	Balance of 2012 start	Withdrawing during the 2012	Total repayments during 2012	Balance of 2012 end
Commercial Banks	12 years	704	-	531	-	531
SIDF	4-6 years	600	-	300	-	300
partners	undefined	159	159	3	-	162
Partners (short-term)	-	207	207	2	-	209

Sipchem Chemicals Company:

Lending Entity	Loan Term	Value of Loan	Balance of 2012 start	Withdrawing during the 2012	Total repayments during 2012	Balance of 2012 end
SIDF	5-9 years	165	-	73	-	73
partners	undefined	47	-	47	-	47

Gulf Advanced Cables Insulation Company:

Lending Entity	Loan Term	Value of Loan	Balance of 2012 start	Withdrawing during the 2012	Total repayments during 2012	Balance of 2012 end
partners	undefined	37	-	37	-	37
Partners (short partner)	-	76	-	76	-	76

7) Governmental Due Payments:

(Saudi Riyals)

Entity	Government payments up to 31/12/2012
Zakat & Income Department	142,123,285
General Organization for Social Insurance (GOSI)	20,733,957



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Eighth: Internal Audit:

As Sipchem`s progress which obligated it to coincide with growth which paid it to find ways to control and evaluate this progress and growth ,the company internal audit committee periodically and regularly reviews the internal audit system for the different departments of the company . This audit is based on annual plans approved by the audit committee so as to make sure of the effectiveness this system and its capability of protecting company assets and ensure the competence and integrity of procedures, financial, and non-financial operations and commitment of company employees with the regulations issued by the different government agencies and related regularity bodies in addition to the company`s approved internal policies and systems. 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 on all administrative and operational departments and notifying their officials of the result.
3. Evaluating the procedures and the solutions provided by the departments to ensure suitability and effectively of the proposed procedures.
4. Submit reports on the auditing results and recommendations in addition to the later follow up of these results to ensure their application by the concerned departments.

The Internal Audit department has developed internal control system and has notified all employees the importance of its role through awareness newsletters.

In addition to the above, the company`s external auditor, as part of his 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 any violation or any integral weakness in the company`s internal audit system or different operations in the years 2012 except some notifications have been discovered and solved in cooperation with directors.



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Ninth: - 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 developing the company's core business activities. The Board is composed of eleven members elected by the General Assembly Meeting and its current term last to 09/12/2013.

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:

s	Name	Responsibilities	Membership type
1	H.E. Eng. Abdulaziz A. Al-Zamil	Board Chairman	Non- Executive
2	Dr. Abdulaziz A. Al-Gwaiz	Member	Non- Executive
3	Mr. Fahd S. Al-Rajhi	Member	Non- Executive
4	Dr.Sami M.Zidan	Member	Non- Executive
5	Mr.Abdul Aziz Al-Khamis	Member	Non- Executive
6	Eng. Reyadh S. Ahmed	Member	Non- Executive
7	Dr.Saleh H.Al-Humaidan	Member	Independent
8	Dr. Abdurrahman A. Al-Zamil	Member	Independent
9	Mr. Abdurrahman A. Al-Turki	Member	Independent
10	Eng. Mohammed A. Al-Ghurair	Member	Independent
11	Eng. Ahmad A. Al-Ohali	CEO & MD	Executive



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

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

No.	name	<u>Membership in the other joint stock companies</u>
1	H.E. Eng. Abdulaziz A. Al-Zamil	<ul style="list-style-type: none"> - Sahara Petrochemicals Company (public shareholding KSA) - Alinma Bank (JOInt Stock-KSA) - Al Zamil Group Holding Company (Closed Joint Stock-KSA)
2	Dr. Abdulaziz A. Al-Gwaiz	<ul style="list-style-type: none"> - Al Khaleeg Training & Education Co. (Public Shareholding-KSA)
3	Mr. Abdurrahman A. Al-Turki	<ul style="list-style-type: none"> - Al-Saqr Cooperative Insurance Company - Investcorp Co.(Public Shareholding –Bahrain) - Golden Pyramids Plaza Co.(Public Shareholding- Egypt)
4	Dr. Abdurrahman A. Al-Zamil	<ul style="list-style-type: none"> - Sahara Petrochemicals Company (public shareholding KSA) - Al Zamil Industrial Investment Company (public shareholding KSA) - Al Zamil Group Holding Company (Closed Joint Stock-KSA) - Taqa National Company (Closed Joint Stock-KSA)
5	Mr.Abdul Aziz Al-Khamis	<ul style="list-style-type: none"> - Saudi Investment Bank (public shareholding KSA) - National Petrochemical Company (Closed Joint Stock-KSA)
6	Eng. Reyadh S. Ahmed	<ul style="list-style-type: none"> - Privatization Holding Company (closed joint Stock –Kuwait) - Noor Financial Investment Co. (closed joint Stock –Kuwait) - Ikarus Petroleum Industries Company (closed joint Stock –Kuwait) - Middle East Complex for Industrial ,Engineering ,Electronic and heavy Industries (closed joint Stock –Jordan)
7	Eng. Mohammed A. Al-Ghurair	<ul style="list-style-type: none"> - National cement Company (Public shareholding-UAE) - Al-Ghurair Group (closed joint Stock –UAE) - Dubai Aluminium (DUBAL) (closed joint Stock –UAE)
8	Dr.Saleh H.Al-Humaidan	N/A
9	Mr. Fahd S. Al-Rajhi	N/A
10	Dr.Sami M.Zidan	N/A
11	Eng. Ahmad A. Al-Ohali	N/A



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- Board meeting attendance registers:

Sipchem Board held four meetings during the year 2012. It is worth noting that the members who did not attend any board meetings have authorized other board members to represent them. The below schedule shows the attendance register for every board member:

No.	Name	Board meetings in 2012				Total Attendees
		first 20/03/2012	second 05/06/2012	third 25/09/2012	fourth 02/12/2012	
1	Abdulaziz A. Al-Zamil	√	√	√	√	4
2	Dr. Abdulaziz A. Al-Gwaiz	√	√	√	√	4
3	Eng. Mohammed A. Al-Ghurair	√	√	√	√	4
4	Eng. Reyadh S. Ahmed	√	√	√	√	4
5	Dr. Saleh H. Al-Humaidan	√	√	√	√	4
6	Eng. Ahmad A. Al-Ohali	√	√	√	√	4
7	Mr. Fahd S. Al-Rajhi	√	√	√	√	4
8	Dr. Sami M. Zidan	√	√	√	√	4
9	Mr. Abdul Aziz Al-Khamis	√	√	√	√	4
10	Dr. Abdurrahman A. Al-Zamil	√	√	√	√	4
11	Mr. Abdurrahman A. Al-Turki	√	×	√	√	3



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

Name	Shares Jan 1,2012		Shares Dec 31,2012		Net change	Change %	First class relative ownership and changes
	No.	%	No.	%			
H.E. Eng. Abdulaziz A. Al-Zamil	0	0%	150.000	0.041%	150.000	100%	N/A
Mr. Abdurrahman 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
Eng. Mohammed A. Al-Ghurair	3.066.800	0.836%	1.000.000	0.273%	- 2.066.800	-67.4%	N/A
Dr. Abdulaziz A. Al-Gwaiz	30.000	0.008%	30.000	0.008%	0	0%	N/A
Dr. Abdurrahman A. Al-Zamil	1.000.000	0.273%	1.101.000	0.300%	101.000	10.1%	N/A
Dr.Saleh H.Al-Humaidan	40	0.011%	50.000	0.014%	10.000	25%	N/A
Eng. Ahmad A. Al-Ohali	278.000	0.076%	289000	0.079%	11.000	3.96%	N/A
Eng. Reyadh S. Ahmed	0	0%	0	0%	0	0%	N/A
Mr.Abdul Aziz Al-Khamis	0	0%	0	0%	0	0%	N/A
Dr.Sami M.Zidan	0	0%	0	0%	0	0%	N/A

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

Name	Shares 01 jan.2012		Shares 31Dec.2012		Net change	Change %	First class relative ownership and changes
	No.	%	No.	%			
Eng.Abdul Rahamn Al Saif	0	0%	11	0.003%	11,000*	100%	N/A
Eng. Abdullallah Al Saadon	0	0%	11	0.003%	11,000*	100%	N/A
Mr. Kevin J. Hayes	0	0%	0	0%	0	0%	N/A
Mr. Khaled S. Al Dossari	0	0%	0	0%	0	0%	N/A
Mr. Rashid M. Al Dossari	50	0%	50	0%	0	0%	N/A
Mr. Hussain S. Al Saif	0	0%	7,949	0,0021	7.949*	100%	N/A

- Senior Executives had been owned shares through their subscription in Sipchem Employees incentive program (SEIP).



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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 2012 as follows:

(Saudi Riyals)

Name	Shares 01 Jan.2012		Shares 31Dec.2012		Net change	Change %
	No.	%	No.	%		
Zamil Group Holding Company (KSA)	35,549,375	9.70%	35,549,375	9.70%	0	0%
Ikarus Petrochemical Holding Company(Kuwait)	30,520,910	8.32%	30,520,910	8.32%	0	0%
Public Pension Agency	28,405,514	7.75%	28,405,514	7.75%	0	0%
Olyan Financing Company LTD.	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 2012.

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 2012:

(Saudi Riyals)

Details	Executive board members	Non-executive board member/ independent	Five of the senior executives including the CEO and the General Manage
Salaries and compensations	-	-	9,157,649
Allowances	14,300	174,602	-
Periodic and annual rewards	200,000	2,000,000	1,624,809
Incentive plans	-	-	-
Any other compensations and any other benefits paid monthly or annually	-	-	-



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Tenth - 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, propose their annual fees and follow 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 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 the accounting policies and make recommendations thereof to the board. The committee has held two meetings during the year 202.

The table below shows the names of 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. Saud S. Al-Juhani	Committee member-public pension agency

Date of meetings:

S.N	Meeting	Date of Meeting
1	First	31/01/2012G
2	second	10/09/2012G
3	third	03/12/2012G



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2) The Nominations and Remuneration 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 the 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 table below shows the names of the Nominations and Remunerations Committee members:

Name	Identity
H.E. Eng. Abdulaziz A. Al-Zamil	Committee chairman
Dr. Abdulaziz A. Al-Gwaiz	Committee member
Dr.Saleh H.Al-Humaidan	Committee member
Mr. Fahd S. Al-Rajhi	Committee member
Dr.Sami M.Zidan	Committee member

Date of meeting:

S.N	Meeting	Date of Meeting
1	First	18/12/2012G



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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 operation priorities of the company. The committee held one meeting during the year 2012.

The below table shows the names of the executive committee members:

Name	Identity
H.E. Eng. Abdulaziz A. Al-Zamil	Committee chairman
Dr. Abdulaziz A. Al-Gwaiz	Committee member
Mr. Fahd S. Al-Rajhi	Committee member
Eng. Ahmad A. Al-Ohali	Committee member
Eng. Mohammed A. Al-Ghurair	Committee member
Eng. Reyadh S. Ahmed	Committee member

Date of meetings:

S.N	Meeting	Date of Meeting
1	First	25/02/2012G
2	second	05/06/2012G



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Eleventh: 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 7th item 6-A titled "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 2012.
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.

Twelfth: - 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 construction contractor of Sipchem's research & development center at Al Dhahran after abrogation of construction contract. This Dispute has been referred to Saudi judgment, also despite progress of litigation Sipchem and contractor review and negotiates to settle this dispute.



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Thirteenth: shareholders general assembly:

Sipchem held its 15th ordinary general assembly meeting during the year 2012. The company has advertised the date of the meeting including its place and agenda before at least 25 days in the capital market authority (CMA) website, company website, 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 enables the shareholders to take up their decisions. The company also notified CMA about the results of the meeting immediately after its conclusion. The shareholders were also enabled to view the minutes of the meetings at the company offices or through the company website. As Sipchem's awareness to develop communication ways with shareholders and to facilitate all procedures, it helps shareholders unable to attend general assembly meeting to vote remotely for assembly agenda via tadawulaty.

No.	Assembly Meeting date	Attendance %	Resolutions adopted
1	20/03/2012	60%	<ol style="list-style-type: none"> 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 for the year 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 (458, 333,333) as SR (1.25) per each share representing (12.5%) of company's capital provided that the eligible shareholders are the 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 2102, the quarterly financial statement and determine their fees.



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Fourteenth: 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. Put 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 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.

The board recommended in its meeting in April 2012 distributing of cash profits to company shareholders for the year 2012 which totaled SR 458,333,333 at the rate of SR 1.25 per each share which represents 12.5% of the company capital which will be distributed to company shareholders who are registered in the official register of the shareholders at the end of the General assembly meeting to be held on 20/03/2012.

Also the board of directors has submitted recommendation to general assembly to distribute cash profits to shareholders for second half of 2012 at rate of SR 0.75 per each share which representing 7.5% of nominal value per each share at total of SR 275, 000,000 provided that eligibility of these dividends will be for the listed shareholders will be at end of meeting of general assembly to be held in march 2013 noting that SR 0.5 had been distributed per each share in first half of 2012.



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Fifteenth: Communication with shareholders:

Sipchem is fully committed to achieve the principle of Justice in regards to provide the appropriate information to enable shareholders and investors to take their investment decisions depending on adequate right information. Sipchem gives its shareholders a special concern as it has taken many measures to guarantee the shareholders rights to obtain information through the CMA “Tadawul” website and the company site www.sipchem.com. Sipchem 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 also has provided remote-vote technology to give opportunity to shareholders who have been defaulted to attend meeting of general assembly to vote on assembly agenda sections which held in march 2012.

Sixteenth: Corporate Governance:

As Corporate governance protecting right of shareholders and prevent corporate from 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 the best practices that protect the shareholders rights and reinforce the company`s commitment to declaration and transparence standards including the establishment of a company database through its electronic site that enable its eligible shareholders who have not received their dividends for the previous year to know the details of their dividends . For more information about the shareholders and their dividends details please visit <http://www.sipchem.com/ar/shares.asp>.

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. For more information about the current company governance code, please visit the following link: <http://www.sipchem.com/ar/Government.htm>.



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In accordance to corporate governance code issued by Capital Market Authority, The Board has acknowledged policy of conflict of interest in 2012 under CMA 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 bylaws, committed not to vote in the selection of other members in the board of directors?	Not applicable.

Seventeenth: Description of any deal between Sipchem and interested parties:

International Diol Company, one of Sipchem's Affiliates, has purchased some fixed assets from Devy Process, one of foreign partners,. The total purchase of fixed assets was SR 12.7 million in 2012 while it was SR 12.7 million in 2011.



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Eighteenth: Human Resources

It is no doubt that human resources is the core of failure or success of the society and as human mind and knowledge are real sources of fortune and welfare, Sipchem believes the importance of Human Resources and maintains them via recruitment of well-trained Saudi cadres in all positions especially leadership and administrative positions . Sipchem, since its inception, intensifies training and development programs according to qualifications and administrative classes to ensure progress of business at highly grade of efficiency based on latest systems of training and development management.

As Sipchem`s approach to enhance and support human resources ,it has been awarded second place of Team One and Al –Ektisadiyah lists as best Saudi working environment for 2011 and first place in 2010 . Also, Sipchem`s HR team has won first place of the same award.

Below is a table showing the number and percentage of employees in Sipchem and its affiliates as of the end of 2012 compared to 2011:

Employees	2011		2012	
	Number	%	Number	%
Saudi	615	70 %	612	75 %
Non-Saudi	203	30 %	242	25 %
Total	818		854	

Decline of Saudization percentage about 73% is due to recruitment of non-Saudi specialized cadres to operate new plants with high techniques applied for first time in Kingdom of Saudi Arabia. In 2012, Sipchem has implemented 438 training programs in collaboration with internal and external entities aim at raising and enhancement of employees` efficiency and capabilities. The employees who have benefited from these programs are 2559 employee. The training plan for 2013 has been prepared of 330 training program in various technical and administrative fields. It is expected that the actual training programs may be increased to 400 to meet emergent development and training needs.

Sipchem has held its third annual ceremony to honor its employees who complete five or ten years in the continuous services in November 2012 while more than 103 employees had been honored.



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Nineteenth: Special Incentive Employees Programs:

1) Home Ownership Program:

The company is currently implementing a Home Ownership Program for the company employees. The program is aimed at granting the chance to the company's Saudi employees who meet the program conditions to own housing units within the approved policies to assure comfort and stability for its employees and motivate them to continue their services with the company. The company is currently proceeding with the program as per the set schedule.

In 2011, Sipchem signed contract with Saudi STX construction Co.Ltd., to build 354 housing units for its employees in the district of Jalmoudah ,Jubail Industrial City . The project site features a community center, a mosque and marketing mall and will be built on a total area 285,440 square meters. Implementation of this project is envisaged to be completed within 35 months. This step is considered a clear proof that of Sipchem's commitment to achieve its vision and realize its mission and values towards its employees in continuation of the benefits offered by the company to provide the proper environment for its employees in its endeavor to sustain their job stability and professional careers.

The constructions works had been started in December 2012. The building of housing units is expected to be ended and delivered on phases starting from middle of 2014.

2) Sipchem Employee Incentive Program:

Sipchem is implementing an employee incentive program which aims at encouraging the company 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 persons in the field of petrochemicals to join the company.

The program is currently managed by Al Bilad Securities and investment Co. through special portfolio opened for the program in 2010. A total of 458,403 shares have been transferred from the program portfolio to the eligible employees who completed the subscription period during the year 2012. Total number of the program shares reached 1,367,951 as of December 31, 2012.



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3) Saving Program

Sipchem initiated an Islamic Shariah-compliant saving program to motivate its employees and enhance their loyalty to the company hence improving the work performance, serve as an attraction for the well-qualified Saudi employees and motivate them to continue their services. The program helps the Saudi employee to accumulate his savings to be utilized upon retirement or end of services. The company cuts a part of the subscribed employee`s salary and may invest his savings according to his desire and it shall have right to manage this investment in the way which it believes to be at the good for the program subscriber in accordance with the best available Islamic Shariah-compliant investment portfolio. Also, the company shall have 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 to be in low risk Islamic portfolios.

The saving program was initiated in January 2011 .Sipchem had the interest to make it in compliance with Islamic Shariah so that it can attract the biggest numbers of employees to subscribe in the program. Al –Jazeera bank is in charge of managing the saving program which was reviewed and approved by the bank Shariah Committee.

Twentieth: Employees` Benefits Allocations:

The following table shows the allocations and compensation of Sipchem`s employees for the year 2012 compared to 2011.

item	2011	2012
End of S ervices Benefits(ESB)	65,927,288	82,927,288
Saving Program	337,265	7,735,130



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Twentieth one: Social Responsibility

As our Islamic religion principles which urge cooperation, participation and interactivity with social issues, Sipchem has intended to participate in strategic fields to enrich social and human values in middle and long terms in which the Saudi citizen will gain all interest. As Sipchem's awareness to enhance its participation to serve and meet all needs of society it is keen to support charitable entities whether by fixed annual financial support or active participation in charitable activities.

All these contributions and participations are supervised by a committee composed of representatives of Sipchem`s departments called (community service committee) .In recognition to Sipchem`s efforts, it has won a number of prizes and plaques from various entities in appreciation to its contributions. Total amount of SAR 7 million has been spent for charitable activities at increase of 100% rather than 2011 AD .Sipchem's `s board had allocated 1% of its net annual profits of affiliates for charitable activities and service of community in eastern province in general and Jubail city in particular.

Sipchem has adopted and applied idea to form team specialized in volunteering activities from its employees to release and determine culture of volunteering activities and to invest human powers to serve mass development of community through coordination with the benefited entities as per approved mechanism. Sipchem`s volunteering team goals and vision lie in presenting volunteering services locally to release, enhance and develop spirit of contribution and culture of donation and to direct power of the young toward service of community.



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Twentieth Two: Responsible Care

After passing of one year of Sipchem obtaining responsible care certificate of (RC14001) as first petrochemicals company in Kingdom of Saudi Arabia and has succeeded to pass procedures of annual external audit done by Det Norske Veritas (DNV) in November 2012. DNV has recommended continuity of responsible care registration for Sipchem. Sipchem's Passing this audit successfully is considered as continuity for arduous efforts exerted by all Sipchem departments to apply standards of responsible care.

Responsible care certification is a key millstone in Sipchem's journey to fully implement responsible care initiative and demonstrates significant progress toward sustainability. The responsible care program is viewed as a key strategic initiative aims at supporting company purpose and values that will have a positive reflection on the stakeholders, employees, clients, business partners and the community.

Sipchem has significant approach in gulf region as one of GPCA members to apply responsible care program in way which led more companies in the region to visit it and review success of Sipchem's in this industry. Sipchem has participated in quarterly meetings of GPCA and also participated in preparation and organization of two conferences in Dubai in May and September 2012 which deal with safety of petrochemicals distribution and successful experience of companies to pay responsible care forward in the region.

Sipchem is adhered to apply EHS policy to protect environment and health, safety of employees, contractors via utilizing applicable and standards internationally to decrease pollution and industrial wastes. Sipchem has trained and full-equipped team to deal with emergent cases in addition to integrated unit for extinguishing and response to emergencies. Sipchem also provides lectures and regular awareness campaigns around year for EHS to raise awareness level of safety principles in which contributed to pay Sipchem toward safe work environment, as a result Sipchem achieved six million working hours without incident rate and also the undergoing projects had been taken 7 million hours without incident rate. The training of Sipchem's employees for EHS principles has taken up to 5 000 hours in to prepare and qualify them to operate and maintain all plants safely thru setting regulations, rules to take care their health and provide all safety requirements during their work and to learn them best ways to perform their work and to make regular required medical examinations.



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Twentieth Three: Board of Directors Recommendations

Sipchem's Board of Directors submitted recommendations to the Extraordinary General Assembly scheduled to be held on March 20, 2012 for the following:

1. Approval of the Board's report for the year 2012.
2. Approval of the financial statement and profit/losses statements for the year 2012.
3. Approval of auditor's report for financial year ended 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 year 2012 at total amount of (SR 275, 000,000) for the second half of 2012 at rate of SR (0.75) per each share representing (7.5%) of nominal value per each share provided that the eligibility of these dividends for the listed shareholders at end of assembly meeting noting that it has been distributed SR 0.5 per each share for first half of 2012.
6. Approval of the appointment of the external auditor as nominated by the Audit Committee for the fiscal year 2013 to audit the company's accounts, the quarterly financial statement and determine their fees.
7. Approval to amend article 20 and 41 of Sipchem's by-laws.

Conclusion:-

At the end the Board members would like to express their thanks and appreciations to HRH 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 exerted by the governmental institutions for their continued support. Thanks and appreciations to be presented to Sipchem's shareholders and employees for the usual sincere efforts and do hope that the company can continue developing its performance and enhance its capabilities in the coming years.

Board of Directors



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