



Saudi International Petrochemical Company
(Saudi Joint Stock Company)

Board of Directors Annual Report -Fiscal Year 2013



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In the name of Allah the most Compassionate, the most Merciful

Dear Shareholders,

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

When Sipchem started in December 1999, our goal was clearly set to be a leading global company in the field of petrochemicals. Our ambitions are not limited by borders and we have wasted no time in achieving these goals working around the clock to meet the expectations of our shareholders.

With the recovery of the world economy, driven by the improved economic conditions in developed markets such as Europe and the emerging markets of China and India, and as a result of the continuous development of Sipchem, we have achieved excellent financial results, these have been achieved 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 620 million compared to 601 million in 2012.

Sipchem has been keen to create new projects, expand existing projects and build projects that support the development of transformative industries in the Kingdom, and encourage private sector investment in these industries. To achieve the objective of the company in growth and operation expansion, in June 2013 Sipchem reached an agreement with Sahara Petrochemicals Company for a merger between the two companies, 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 company in the State of Singapore to work alongside Sipchem Europe focusing in the areas of marketing and logistics for petrochemical products globally. This will be a launch pad for Asia, which represent a large market for the Sipchem.

Regarding the company's financial results, the Board has recommended a cash dividend to shareholders for the second half of 2013 at rate of SR (0.65) per share. Sipchem will raise this recommendation for approval during a General Assembly meeting to be held in March 2014, having been paid cash dividends to shareholders at rate of SR (0.6) per share for the first half of 2013 so that the total will distract from 2013 SR (1.25) per share.



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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 thanks and appreciation also to all Sipchem's and its affiliates' employees, contractors and suppliers for their sincere hard work and their commitment to help Sipchem's endeavors for growth in the face of many challenges.

Abdulaziz A. Al-Zamil
Chairman



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First: 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 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 humans. 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 for the integration of present and future chemical products to establish a diverse range of added value 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. This achievement is due to Sipchem's administrative, professional and technical capabilities which push it to the top of global companies operating in this area.



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Second: DESCRIPTION OF SIPCHEM'S AFFILIATES:

Sipchem Affiliates (Existing Plants):

1- International Methanol Company (IMC):

The 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, The International Methanol Company signed with Riyadh 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. Under this Agreement, the funding will be in Saudi Riyal though Islamic facilitations that are in conformity with the Islamic Law according the cost plus funding. The company has provided bonds as a guarantee of funding. Note that there are no guarantees provided by Sipchem or other partners of the IMC against this funding.

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 (IDC):

The 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 company's customers regionally and internationally. IDC's site is in Jubail Industrial City, Kingdom of Saudi Arabia.



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The International Diol Company in March 2013 signed a new Funding Agreement to refund the remaining loans from domestic commercial banks (US dollar loan signed on October 30th, 2004 of US \$ 47 million and the remaining amount of US \$ 9.5 million), Saudi Industrial Development Fund (Saudi riyal loan signed on July 5th, 2004 of SR 400 million and the remaining amount is SR 300 million) and the Public Investment Fund (US dollar loan signed on January 1st, 2005 of 115 million dollars and the amount the remaining is US \$ 38.5 million). 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 394 million and to finance public purposes for the company by SR 91 million. It is scheduled to complete the expansion of the production unite 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 where there will be two funding categories; the first includes converting the current loans to long-term loans as it will be repaid in 10 years until 31 December 2023. The second category include funding expansion operations for some of the production unites in order to increase the efficiency of the Company Performance as scheduled, as it will be repaid in 1 year until 31 March 2025. Note that the second category has a grace period for the first installment until 30 September 2015. The funding process will be done in USD and a variable and competitive interest rate with the Saudi Hollandi Bank and the Saudi British Bank, for a total amount of SR 1 billion and eight million (SR 524 million for the first category and SR 484 million-for the second category). The funding includes provision of bonds signed by the IDC because there are no guarantees provided by Sipchem or any partner of the IDC against such funding.

The 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 14 July 2013 in order to be completed during the fourth quarter of 2014. The IDC has conducted financing arrangements for the project through the second category of funding process with the Saudi Hollandi Bank and the Saudi British Bank.



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The company has scheduled regular maintenance to its plant in January 2013 for two 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.

3- International Gases Company

The 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.

The IGC, in February 2013, signed a loan refunding agreement with the commercial banks, which were obtained in 2008 from a number of local and international banks in US dollar in order to finance its industry. Under the agreement, the IGC will be able to convert existing commercial bank loans to long-term facilities in Saudi riyal with Riyadh Bank (the main bank for banking transactions) which arranged, covered and supervised the refinancing process for the amount of SR 61,428,024 with a competitive variable interest rate and grace period of six months. The IGC has begun to repay the loan in December 2013, in addition to the extension of the repayment period ranges from two to four years until 2022.

The company has scheduled regular maintenance to its plant in February 2013 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.



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4- International Acetyl Company (IAC):

The 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 (AA_n) 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.

The IAC, in February 2013, signed a loan refunding agreement with the commercial banks, which were obtained in 2008 from a number of local and international banks in US dollar 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 Riyadh Bank (the main bank for banking transactions) which arranged and covered the refinancing process for the amount of SR 617,767,338 with a competitive variable interest rate and grace period of six months. The IAC has begun to repay the loan in December 2013, in addition to the extension of the repayment period ranges from two to four years until 2024. This step will indeed promote the financial and competitive ability of the Company.

The company has scheduled regular maintenance to its plant in February 2013 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.

5- International Vinyl Acetate Company (IVC):

The 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%. The International Vinyl Acetate Company (IVC) 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.



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The IVC , in February 2013, signed a loan refunding agreement with the commercial banks, which were obtained in 2008 from a number of local and international banks in US dollar 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 (the main bank for banking transactions) which arranged and covered the refinancing process for the amount of SR 355,569,527 with a competitive variable interest rate and grace period of six months. The IVC has begun to repay the loan in December 2013, in addition to the extension of the repayment period ranges from two to four years until 2024. This step will indeed promote the financial and competitive ability of the Company.

6- SIPCHEM CHEMICALS COMPANY (SCC):

The 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 started in September 2013. These specialist products are of the company strategies 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 are imported from the international markets. This product is used as a solvent in manufacturing inks, industrial fluids, granules used in the packaging of surfaces and coatings.

The 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 operated by the end of 2014.



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In June 2013, the SCC signed an EPC contract with German Thyssenkrupp Audi Ltd for the construction of a polybutylene plant. This project will be financed by the Saudi Industrial Development Fund, partners and commercial funding. The Polybutylene Terephthalate is of polymers with high thermal theme used in the automotive industry and 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 to achieve the expansion and transformative industries development program. The new PBT project will allow Sipchem to play an internationally basic role in manufacturing polymers and plastics engineering. As well, 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 (IUC):

The 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.



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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 products at 722,000 metric tons of aforementioned products in 2012– an increase of 12% 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 Aectra 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. Sipchem Asia site is Singapore. It added a more strategic depth in marketing area allowing the company to provide services for its customers in Asia optimally by making a link between the customers and SMC. This achievement completes the geographical organization of the company as it exists in the strategic markets in a manner that reflect positively on the company's performance and facilitate the movement towards 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 commitment to provide its service at an international level, symbolizes a clear breakthrough in meeting the needs of the customers directly and clearly demonstrates the interest given by SMC for customers. To emphasize the transparency and support of customer relations, Sipchem Asia will limit selling and marketing Sipchem products through other specialist marketing companies.



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Third – Affiliates (Project Under Construction):

1– Ethylene Vinyl Acetate Project (International Polymers Company):

The International Gases Company (IGC) 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. The funding duration begins on 10/06/2013 to 30/06/2027. IPC has obtained the fund by guarantee bond provided by the International Polymers Company.

The Vinyl Acetate Monomer (VAM) will be provided as a second feedstock from IVC, a Sipchem affiliate, and Ethane gas from Aramco to be treated by United Company, a 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 also has obtain 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). The rate of implementing 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.



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2- Gulf Advanced Cable Insulation Company (GACI) (Wire and Cable Compounds project):

The International Gases Company (IGC) 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 finding new products needed by local and international market, Sipchem 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. It produces electrical cable insulation materials. The basic feedstock will be obtained from IPC, a Sipchem affiliate. The rate of implementing of the project has reached to 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 (SSPC):

The Saudi Specialized Products Company (SSPC) 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. The SSPC aims at establishing and operation of transformative project 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, and 4 thousands mtpa for annual production capacity of ethylene vinyl acetate films. It is located on 40 thousand square meters. The product will be distributed through the Sipchem Company which is one of the SIPCHEM companies. The project will be funded by the company and loans from local financial quarters. It is considered the first project in the Gulf region which shows the commitment of Sipchem to the objectives of the Kingdom that 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 technology for manufacturing from the Japanese firm Mitsui Chemicals Tohcello, Inc. The establishment of this project in the city is considered a supportive



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opportunity to create investment opportunities for new projects that 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) Metal Models Production Project (Riyadh):

The total cost of the project is estimated at about 105 million riyals, and one thousand metric tons for annual production capacity of mental molds specialized for manufacturing the plastic products. Take note that the company has got the necessary technology form the German company Kiefer Rkzajabu for manufacturing equipment. The product will be distributed by the same firm will be funded by the company and loans from local financial quarters. The metal molds are used for manufacturing and forming multiple types of molds and alloys used in factories of plastic and packaging. It had been provided and created the necessary infrastructure of the establishment for designing any industrial or commercial product. The prototypes and the product are produced completely by designing templates or alloys according to the necessary criteria. The institution of manufacturing of molds will support the transferred industries including polymers and metal panels and aluminum to get the tools and alloys in accordance with precise requirements. Not only is the institution manufacturing the molds and new equipment, but also it will support the maintenance service of existing molds and alloys, as the high technical experience is available for the German company as a provider of technology in the field of manufacturing tools and alloys.

4- Sipchem Creativity & Technology Center Project:

Sipchem invests SR 225 million to establish Sipchem Creativity & Technology Center 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 m² site at Dhahran Techno Valley. n 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 been started, which has been designed to the latest world-class in terms of buildings, laboratories and equipment and modern equipment, with the aim of developing the use of polymer products for serving and developing the transformative



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industries in the Kingdom, where more than 860 plants within the Kingdom are operating therein.

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

Forth – SIPCHEM'S STRATEGIES:

Sipchem studies the available investment opportunities in order to maximize the 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, within the framework of a clear strategy for the KSA which has paid great importance to industry and helped the development and enhancement of KSA industry according to high quality global standards, in order to be among the industrial countries. 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 an excellent performance that pushes it to the top of global companies operating in this area.

(A) Sipchem`s strategy depends on following elements:

- 1- Increase of production 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 application of 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 of the variety of company`s products via investment in downstream projects and other projects associated to industry.



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(B) Sipchem's Project Strategy:

Sipchem has adopted the development and implementation of the best scientific and global practices and standards in all departments in order to ensure the proper choice of project that should be implemented easily and smoothly. To reach the optimal development of its projects, Sipchem has chosen a unique approach in the implementation of these projects with quality and effectiveness. This approach is the development of large projects and stages of implementation accurately and using and managing 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 work opportunities with better allocation and development of capital resources and prioritization of distribution, and also seek to reduce the risk to a minimum.

Fifth- Sipchem Future Plans and Expectations:

1- Operation of Sipchem Projects:

Sipchem is currently implementing several projects with total investments of SR five billion, in addition to Sipchem Centre project for creativity, technology, and staff housing project, which has cost about SR 800 million.

The commercial operation of Ethyl Acetate and Butyl Acetate plants, Sipchem Affiliates, were successful in 2013. Sipchem is facing great challenges in 2014 in order to operate several industrial projects as follows:

- 1- Ethylene Vinyl Acetate and Low Density Polyethylene project of the International Polymers Company which is expected to be operated during the first quarter of 2014.
- 2- Wire and Cable Compounds project of the Gulf Advanced Cable Insulation Company which is expected to be operated 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 operated during the third quarter of 2014.
- 4- Metal Molds Production project of the Saudi Specialized Products Company (Sipchem Affiliate) which is expected to be operated during the second quarter of 2014.



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- 5- Polybutylene project of Sipchem Chemicals which is expected to be operated during the fourth quarter of 2014.
- 6- Expansion of IDC plant which is expected to be operated during the fourth quarter of 2014.

Concerning the prices in 2014, Sipchem expects price stability rather than 2013. Sipchem development plan focuses basically on joining new markets in Europe and Asia through SMC with developing detailed plans that use the best methods of operation and needed abilities to achieve the best returns for shareholders of Sipchem.

Sipchem also is currently studying feasibility for many new industrial projects and studying the investment opportunities to purchase existing shares or projects inside and outside the KSA, as well as expanding some of the existing plants to increase the operational efficiency. It is expected to be announced during 2014.

2- Merger with Sahara Petrochemicals Company:

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

The signing came as a result of the fact that the initial results of the studies and negotiations on the proposed merger indicates that the proposed merger would lead to a positive breakthrough to the company business, provided that some conditions are agreed upon. It is expected that the proposed merger will contribute to enhancing the status of local and global leading company in the field of petrochemicals, which is expected to lead to important partnerships that enhance operational efficiency. The two companies after the proposed merger will become a platform for continued growth in the long term.

With respect to the proposed merger, Sipchem has appointed HSBC Saudi Arabia limited as a financial advisor, Office of Ziad Samir Khoshim as legal adviser, Allen Overy Firm as an international legal adviser, Jacobs consultancy as a technical adviser, Nexant as an adviser for market study. Sahara Petrochemicals also appointed Morgan Stanley Company as a



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financial advisor, Jadaan and Associates Attorneys and Legal Consultants as a Saudi legal adviser, Clifford Chance as an international legal adviser, and IHS Inc as a technical adviser and for market study.

If the proposed merger is accomplished, that is expected to be in the best interest of the shareholders of both companies and their employees, as it is expected that the proposed merger is positive move for both companies and would have tangible benefits for both companies. The proposed merger supports the shared commitment to achieve 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. That would provide growth opportunities for both management and staff to reflect 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 companies where Saharah Petrochemicals Company will become, after the completion of the proposed merger, Sipchem affiliate. The company will be issue under the terms of the proposed merger equivalent to 0.685 new shares in the company in exchange for each issued share in the Saharah 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 Saharah 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 the company to the shareholders of the company or its board of directors. But the company and the Saharah Company agreed under the memorandum on further cooperation in completing the verification, survey, financial, technical, commercial, and legal studies. They also agreed for 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



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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 into an end with signing the merger agreement by the two companies or by providing a notice by one of the two companies to the other wishing to terminate studies, whatever close.

Signing the MOU does not mean that an agreement shall be agreed for the proposed merger between the two companies, that an offer will be submitted regarding the proposed merger or that it is confirmed to terms or other date 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.

Sixth- 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.



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ENVIRONMENTAL RISKS:

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

Seventh – 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 cease of operation during the first quarter of 2013 for scheduled regular maintenance, this year witnessed slight increase in net profit with a rate of 3% compared to the previous year. The reason of such increase is the improvement of prices of some products, particularly Methanol, in addition to the reduction of financial costs.

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; a decrease 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; a decrease of 2.3% .
3. The net profit for the year 2013 was SR 620 million compared with SR 601 million for the previous year; a decrease of 3.2% .
4. The Earnings Per Share (EPS) was SR 1.69 for 2013 and SR 1.64 for the previous year.

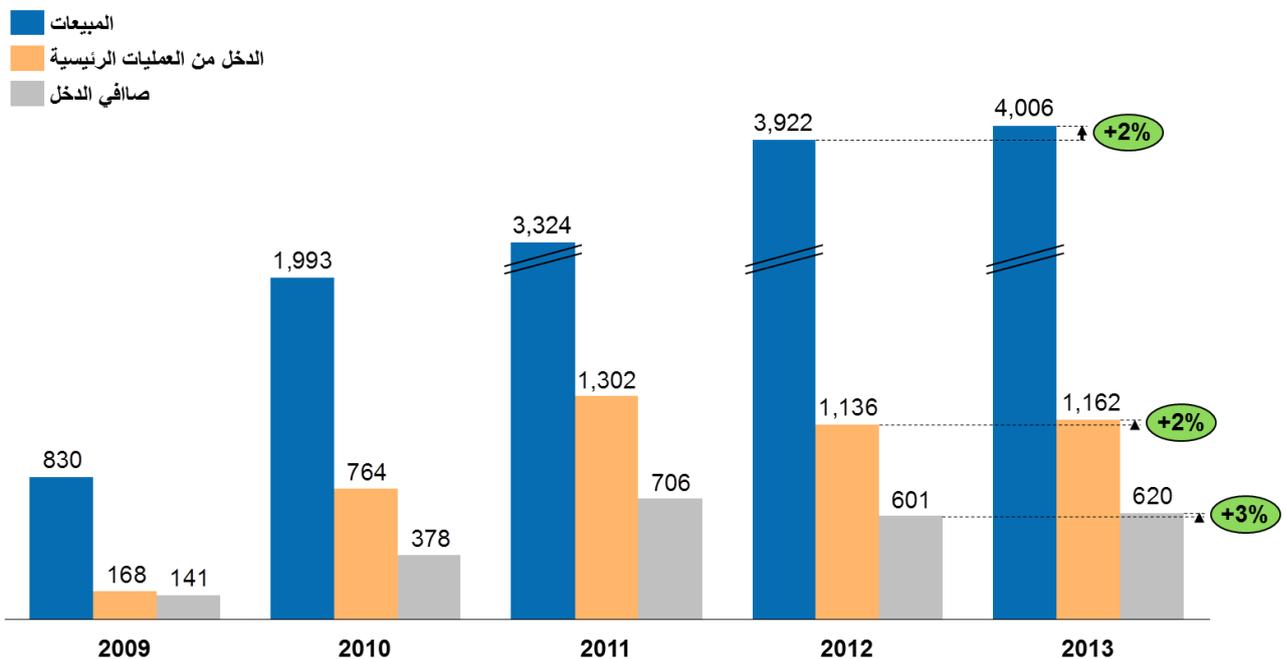
A) Summary of the business results for the previous five years:

(Million Saudi Riyals except EPS)

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

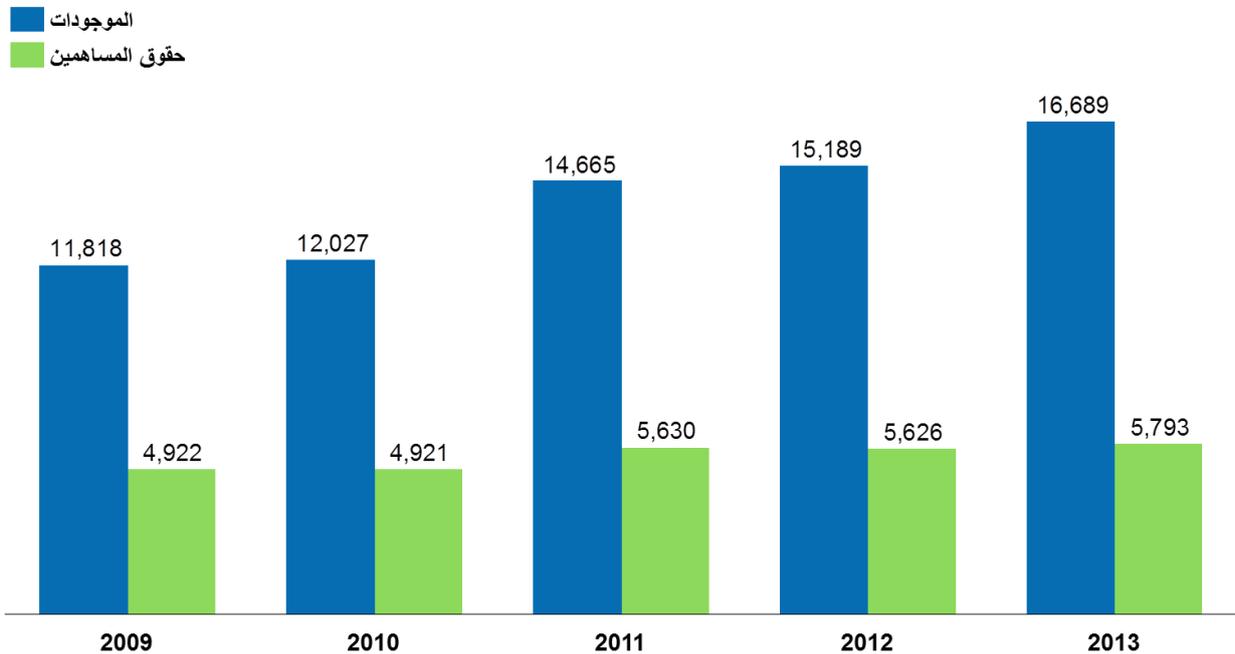
B) Development of sales, income from operations and net profit for the past five years:

(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:

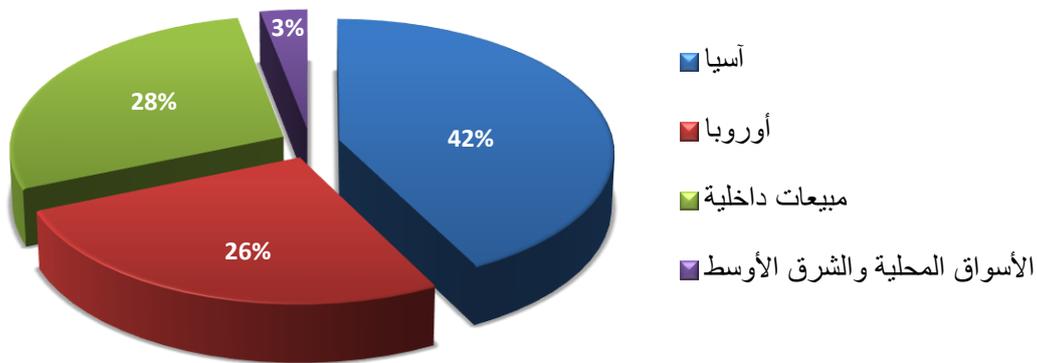
The main reason for the increase of the financial results for the year 2013 compared with the year 2012 was mainly due to the the improvement of prices of some products, particularly Methanol, despite the reduction of produced quantities due to the cease of operation during the first quarter of 2013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

(Million Saudi Riyals)

Details	Year 2013	Year 2012	Changes +/-	Change percentage
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:

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:

Saudi International Petrochemical Company:

(Million Saudi Riyals)

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



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International Methanol Company:

(Million Saudi Riyals)

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:

(Million Saudi Riyals)

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	3.8 years	400	300	-	(300)	-
PIF	6.8 years	431	145	-	(145)	-
Partners	undefined	undefined	187	-	(160)	27

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



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International Acetyl Company:

(Million Saudi Riyals)

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:

(Million Saudi Riyals)

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.



Saudi International Petrochemical Company

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International Gases Company:

(Million Saudi Riyals)

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:

(Million Saudi Riyals)

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

(Million Saudi Riyals)

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



Saudi International Petrochemical Company
(Saudi Joint Stock Company)

Sipchem Chemicals Company:

(Million Saudi Riyals)

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:

(Million Saudi Riyals)

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

J) – 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



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Eighth – 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.



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Ninth – 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 it will last for 3 years. The business of the current session started on 10/12/2013 and will last for 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. Reyadh S. Ahmed Representative of Ikarus Petrochemical Holding Company	Member	Non-executive	–
3	Mr. Abdulaziz A. Al-Khamis Representative of Public Pension Agency	Member	Non-executive	–
4	Dr. Sami M.Zaidan Representative of Olayan Financing Company	Member	Non-executive	–
5	Dr. Abdulaziz A. Al-Gwaiz	Member	Non-executive	–
6	Mr. Fahd S. Al-Rajhi	Member	Non-executive	–
7	Mr. Ibrahim H. Mazid Representative of The Arab Investment Company	Member	Independant	Member as of beginning of board session on 10/12/2013
8	Dr. Saleh H.Al-Humaidan Representative of The Arab Investment Company	Member	Independant	Membership end as of end of board session on 09/12/2013
9	Dr. Abdurrahman A. Al-Zamil	Member	Independant	–
10	Mr. Abdurrahman A. Al-Turki	Member	Independant	–
11	Eng. Mohammed A. Al-Ghurair	Member	Independant	–
12	Eng. Ahmad A. Al-Ohali	Managing Director and CEO	Executive	–

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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 Company (Public Shareholding-KSA) Alinma Bank (Joint Stock-KSA) Al Zamil Group Holding Company (Closed Joint Stock-KSA)
2	Dr. Abdulaziz A. Al-Gwaiz	Al Khaleeg Training & Education Co. (Public Shareholding-KSA)
3	Mr. Abdurrahman A. Al-Turki	Al-Saqr Cooperative Insurance Company (Public Shareholding-KSA) Investcorp Co.(Public Shareholding-Bahrain) Golden Pyramids Plaza Co.(Public Shareholding-Egypt) Zara Investment Holding Co. for hotels (Public Shareholding-Jordan. Dhahran International Exhibitions Co (Closed Joint Stock-KSA)
4	Dr. Abdurrahman A. Al-Zamil	Sahara Petrochemicals Company (Public Shareholding-KSA) International Energy Co (Closed Joint Stock-KSA)
5	Mr. Abdulaziz A. Al-Khamis	Saudi Investment Bank (Public Shareholding-KSA) National Petrochemical Company (Closed Joint Stock-KSA)
6	Eng. Reyadh S. Ahmed	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	National Cement Company (Public Shareholding-UAE) Al-Ghurair Group (Closed Joint Stock-UAE) Dubai Aluminium (DUBAL) (Closed Joint Stock-UAE)
8	Mr. Ibrahim H. Mazid	- Arab Jordan Investment bank (Public Joint Stock, Jordan)
9	Mr. Fahd S. Al-Rajhi	National Industries Company (Closed Joint Stock-KSA) Al Rajhi Brothers Group Co.(Closed Joint Stock-KSA)
10	Eng. Ahmad A. Al-Ohali	Al Bilad Bank (Public Joint Stock-KSA)
11	Dr. Sami M.Zaidan	N/A
12	Dr. Saleh H.Al-Humaidan	N/A



Saudi International Petrochemical Company

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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					Total attendance
		First 16/3/2013	Second 04/6/2013	Third 24/9/2013	Forth 03/12/2013	Fifth 11/12/2013	
1	H.E. Eng. Abdulaziz A. Al-Zamil	✓	✓	✓	✓	✓	5
2	Dr. Abdulaziz A. Al-Gwaiz	✓	✓	✓	✓	✓	5
3	Eng. Mohammed A. Al-Ghurair	✓	✓	✓	✓	✓	5
4	Eng. Ahmad A. Al-Ohali	✓	✓	✓	✓	✓	5
5	Dr. Abdurrahman 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. Abdurrahman A. Al-Turki	✓	✗	✓	✓	✓	4
10	Dr. Saleh H.Al-Humaidan	✓	✓	✓	✓		4
11	Eng. Reyadh S. Ahmed	✓	✗	✗	✓	✓	3
12	Mr. Ibrahim H. Mazid					✓	1



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- 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. Mazid (Representative of the Arab Investment Company) began with the of 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		Shares on 31 December 2013		Net Change	Change percenta ge	First class relative ownersh ip and changes
	No.	%	No.	%			
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. Abdurrahman 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. 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
Mr. Ibrahim H. Mazid	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



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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		Shares on 31 December 2013		Net Change	Change percentage	First class relative ownership and changes
	No.	%	No.	%			
Eng. Abdulrahman Abdulkarim Al-Saif	11,000	0.003%	11,000	0.003%	0	0%	N/A
Eng. Abdullah Saif Al- Sa'dun	11,000	0.003%	0	0%	- 11,000	- 100%	N/A
Mr. Hussein Saeed Al Saif	7,949	0.0021%	0	0%	- 7,949	- 100%	N/A
Mr. Rashid Mohammed Al Dossari	50	0%	50	0%	0	0%	N/A
Mr. Kevin John Hayes	0	0%	0	0%	0	0%	N/A
Mr. Abdullah Nasser 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:

(Saudi Riyal)

Name	Shares on 1 January 2013		Shares on 31 December 2013		Net Change	Change percentage
	No.	%	No.	%		
Al-Zamil Holding Group Co.	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 %



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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	-	-	-

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.



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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 the accounting policies and make recommendations thereof to the board. The committee has held three meetings during the year 2013. The Audit Committee of the board 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	Member as of beginning of board session on 10/12/2013
Mr. Saud S. Al-Juhani	Committee member – Public Pension Agency	Membership end as of end of board session on 09/12/2013

Date of meetings:

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



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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	Member as of beginning of board session on 10/12/2013
Mr. Ibrahim H. Mazid	Committee member	Member as of beginning of board session on 10/12/2013
Dr. Abdulaziz A. Al-Gwaiz	Committee member	Membership end as of end of board session on 09/12/2013
Dr. Saleh H.Al-Humaidan	Committee member	Membership end as of end of board session on 09/12/2013

Date of meetings:

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



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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 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. Reyadh S. Ahmed	Committee member	-
Eng. Ahmad A. Al-Ohali	Committee member	-
Dr. Abdulaziz A. Al-Gwaiz	Committee member	-
Dr. Sami M.Zaidan	Committee member	Member as of beginning of board session on 10/12/2013
Mr. Abdulaziz A. Al-Khamis	Committee member	Member as of beginning of board session on 10/12/2013
Eng. Mohammed A. Al-Ghurair	Committee member	Membership end as of end of board session on 09/12/2013
Mr. Fahd S. Al-Rajhi	Committee member	Membership end as of end of board session 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



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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 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.

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 the construction contractor of Sipchem Technology & Creative Exchange (STCE) building at Al Dhahran after abrogation of construction contract. This dispute



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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.

Thirteenth – SHAREHOLDERS GENERAL ASSEMBLY:

Sipchem held its an 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. As 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



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			<p>previous year 2012.</p> <p>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.</p> <p>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.</p> <p>7- Approval to amend Article (20) and Article (41) of the Articles of Association.</p>
2	<p>03/12/2013</p> <p>Ordinary General Assembly</p>	62%	<p>1- Election of Sipchem Board of Director Members for the next session (3 years) as of 07/02/1435 corresponding to 10/12/2013.</p>

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. 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



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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.

(Date is missing)

Cash dividends were distributed to shareholders for second half of 2012 at 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.

(Date is missing)

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 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.

Fifteenth: COMMUNICATION WITH SHAREHOLDERS:

Based on our core values which emphasize the commitment to the highest ethical standards, ensure full impartiality and trust-based work and responsibility. As justice is an essential axis in building communities, and strong motivation for building, advancement and progress, Sipchem has committed itself to the principle of fairness in the financial market though the availability of Sipchem information for all market parties, individuals and companies without discrimination. Also all shall subject to the rules and regulations without distinction. To this end, Sipchem Governance Regulation that 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.



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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 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 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.

Sixteenth: 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 enable its eligible shareholders who have not received their dividends for the previous year to know the details of their dividends:

<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 <http://www.sipchem.com/ar/Government.htm>



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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

Seventeenth: Description of any Deal Between Sipchem and Intersted 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:



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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 Babbain 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 not dates are determined for payment thereof, while other long and short term advances have finance costs as per the ordinary commercial prices.

Eighteenth: 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	



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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 include 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 are 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 enhance the work smooth. 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 a five or ten years in the continuous services in January 2014 with more than 102 employees being honored.

Ninth: Employees` Special Incentive Programs:

1) Home Ownership Program:

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 policies 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.



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The residential units are built using prefabricated units produced by Al Rashid for Housing Units Co. with high standards and costs do not exceed the amounts provided for the project. The contractor has completed its work and handed Sipchem over 42 Villa-(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 from Villa (b).

2) Sipchem Employee Incentive Program:

Sipchem implemented an Employee Incentive Program aimed 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 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, serve as an attraction for well-qualified Saudi employees and 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



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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 saving program which was reviewed and approved by the bank's Shariah Committee.

Twentieth: EMPLOYEES` BENEFITS ALLOCATIONS:

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

(Million Saudi Riyals)

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

Twenty First: CORPORATE SOCIAL RESPONSIBILITY (CSR):

As Sipchem believes in the importance and interest of investing in its community, believes in that social programs are a national duty, social responsibility has been a concern for Sipchem in fulfilment of their obligations towards their home and community.

Sipchem tended to have a distinctive presence in the strategic areas that would enrich human and social value in the medium and long term, and for the benefit of the citizen. Serving and meeting the needs of society is one of the most important priorities that are is always sought by Sipchem.



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Due to its desire to invest in its community and based on its social responsibility aimed at enhancing its contributions in service programs and community development, Sipchem continues to play its due role in this area. It keeps on supporting associations and charities, whether through annual fixed material support or active participation in their activities.

Based on its pride in the province leadership position serving its community, Sipchem has established a dedicated team of volunteer actions based for spreading and culturizing volunteering and investing in human powers of volunteers from Sipchem to help overall development of the community through coordination with the beneficiaries in accordance with the specific and approved mechanisms. The vision and objectives of the team is concluded in providing volunteer services at the local and national levels, working to promote and develop the spirit and culture of sacrifices and directing the powers of youth to community service.

In recognition of its efforts, Sipchem received a number of awards and shields from several bodies in recognition of its contributions. SR 6 six 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. Sipchem also succeeded since its foundation to participate in many social activities throughout the Kingdom particularly in the Eastern region.

Twenty Second: Responsible Care

Sipchem adheres to the regulations, laws and requirements of the professional health and safety and follows the best practices relating to the company activities. It is worthy to be noted that Sipchem has received the Responsible Care Certificate (RC14001) as the First Petrochemical Industrial Company in KSA. As well, Sipchem produces and markets several petrochemical and chemical products. In the framework of its continuous and strive efforts to achieve the continuous development that fulfill the customers and shareholder prospects, in addition to provide 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 Guiding Principles and promoting transparency with stakeholders.
- 2- Producing the highest quality products in an efficiency and environmentally safe manner.



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- 3- Measuring progress to ensure with this policy.
- 4- Continually implementing improvement opportunities in our Responsible Care and Quality Management Systems.
- 5- Complying with applicable Governance requirements.

The Company promotes and enhances the work and professional health and security relating risk awareness, with application of technologies necessary to decrease such risks to an practically acceptable extent. It holds lectures and campaigns throughout the year to all employees about safety and preservation of the environment to raise awareness of safety which contribute 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 accomplished also 9,990 million work hours without any work based complex injury, Praise be to Allah. The staff training courses have reached thousand hours in security, safety and environment areas in order to prepare, qualify and develop the staff to operate and maintain the Company plants in safe and security manner.

Since founded, Sipchem produces petrochemical materials in a sustainable manner that aims at decreasing the greenhouse gas emissions, rationalizing the use of water and energy and reducing waste materials. Sipchem Management adopts change method which positive impacts are reflected on the company works and environment generally. It seeks to promote and enhance the priorities of sustainability for the staff in order to achieve an effective participation towards a sustainable future. Also, over its website, Sipchem posts the safety data bulletins under the guise of (environment without wastes) in order to educate all people with the nature of its products.

Twenty Third: 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.



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- 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 continued hard work and constant unremitting efforts which, on many occasions, continued day and night and at the same time reflects the efforts exerted by the Saudi cadres within the company. All the company staff have contributed by extinguished effort reflected by the new ideas, initiatives, and visions provided by Sipchem and led to positive outcomes.

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 the usual sincere efforts that help the company achieve its objectives, retain its acquisitions and interests and promote its position and competitiveness. 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.

Board of Directors