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OUR COMMITMENT TO SUSTAINABILITY

سبكيم
Sipchem

Saudi International Petrochemical Company

VALUE & GROWTH

ANNUAL REPORT **2012**

"In the name of Allah the most compassionate, the most merciful"

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

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

VALUE & GROWTH

In addition to manufacturing basic chemicals, Sipchem is now exploring possibilities that lie further down the conversion chain. **As Saudi Arabia ushers in the manufacturing era, Sipchem is expanding its scope to include value-added products that serve a larger market, increase profitability and even serve a higher purpose which involves a more sustainable and responsible growth for all.**

Contents

فَانْهَضْ تُصِبْ عَنْ قَرِيبٍ غَايَةَ الأَمَلِ

(Fruits of labor are the products of earnest efforts while deprivation is the outcome of laziness. So get up and strive to achieve the most difficult of ambitions each day.)

A Legacy of Classical Arabic Poetry

This verse is by the poet Al Taghraie'e born in the year 445 Hijri and reputed for his vast knowledge and skill in writing poetry. He has been regarded as one of the most talented literary figures and is the author of the book entitled "Keys of Compassion and Torches of Wisdom". This verse is written in Jali Diwani calligraphic style.

CHAIRMAN`S MESSAGE

“Sipchem continues to develop and grow its reputation as not only a high quality producer of petrochemicals but also as an innovator and creator of new products and processes through its investments in research and development. ”

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

Sipchem has continued to expand into new areas and grow its existing projects through 2012 in line with global demands for chemicals and petrochemicals and the general direction of the Kingdom of Saudi Arabia. Despite tough market conditions affecting the prices of some of our products, the costs of our feedstocks rising, and the increase of our Zakat allocations, we have achieved a good profit of SR 601 million in 2012; this profit is commendable considering the market conditions. In addition to our new projects and partnerships we have also increased production performance by 4% at our existing plants and reduced operating costs across our organization.

Reviewing Sipchem`s financial results the Board of Directors has recommended to distribute cash dividends for shareholders for the second half of 2012 at a rate of SR (0.75) per share. This recommendation will be raised for approval in the meeting of the General Assembly to be held in March 2013. The cash dividends for the first half of 2012 were at a rate of SR (0.5) per share.

It is through our continued efforts to develop and efficiently utilize our human capital that Sipchem has achieved positive levels of progress and growth; this combined with our focus on teamwork and our efficiency drives has resulted in Sipchem being truly recognized as a major international company with a solid future. Sipchem continues to be recognized as a leader in Human Resources management and as a 'best place to work' company with consistently high rankings in the list of reputed Saudi companies.

Sipchem continues to grow and develop in the global petrochemical industry as it prepares to implement phase three projects, such as International Polymers Company (IPC), Sipchem Chemicals Company (SCC) and Gulf Advanced Cable Insulation Company (GACI) with the nameplate (designed production) capacity of these projects being up to 325 metric tons per annum (mtpa) at total cost of SR 3.2 billion. These projects will be producing, for the first time in the Middle East, a number of unique products and since they are considered downstream industries - wherein their final end-products depend on products produced by Sipchem - they will enable us to achieve integration that further enhances the stability of Sipchem.

In addition to our progress with third phase projects, in November 2012 we broke ground with our Ethylene Vinyl Acetate (EVA) films plant in Hail Industrial City under the auspices of H.R.H. Prince Saud Bin Abdulmohsen Bin Abdul-Aziz Al-Saud, Governor of Hail Province and of the High Commission for Development of Hail Region, at a cost of SR 120 million and with a designed production capacity of 4,000 metric tons / annum.

Sipchem continues to develop and grow its reputation as not only a high quality producer of petrochemicals but also as an innovator and creator of new products and processes through its investments in research and development.

Through Sipchem Marketing Company (SMC) we have also been able to improve our marketing and acquisition of new clients - most recently through Aectra, a Swiss petrochemical trading and marketing company - which was acquired by Sipchem in 2011 with a target volume of sales in Europe of 25% as part of a strategic 5 year plan. Currently, SMC is in the process of establishing an office in Singapore so as to build a base for further expanding and developing our markets in Asia.

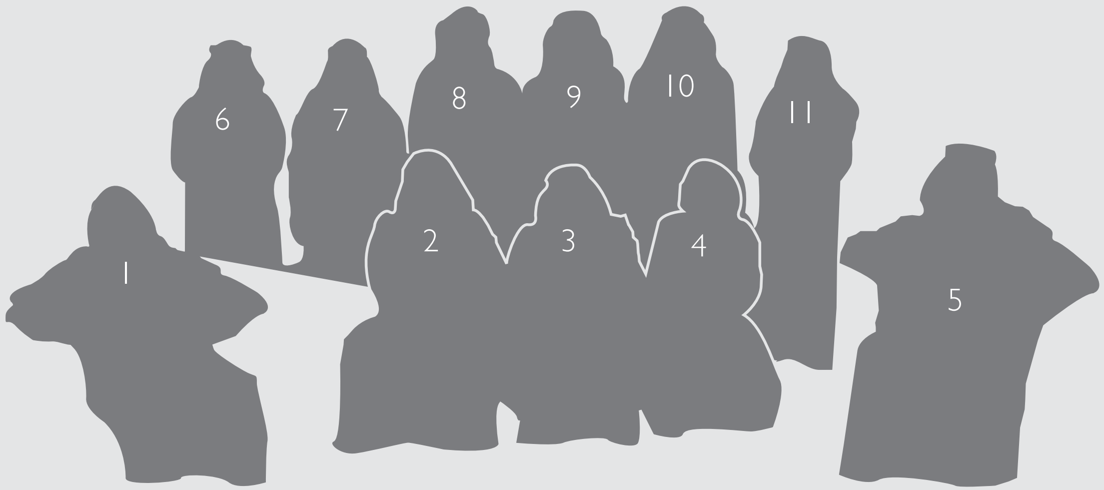
Sipchem continues to be a regional innovator in Corporate Social Responsibility; in addition to supporting the development of our employees, Sipchem continues to allocate 1% of its net total annual profits towards social responsibility programs.

In conclusion, I would like to take this opportunity to extend our sincere thanks and appreciation to the Custodian of the Two Holy Mosques and H.R.H. the Crown Prince, express our sincere thanks to all our esteemed shareholders for their valuable trust and to the Board Directors, and especially to all Sipchem's and its affiliates' employees for their sincere hard work which has helped us to achieve outstanding results.

Abdulaziz A. Al-Zamil

Chairman

BOARD OF DIRECTORS



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

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

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

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

5 - Dr. Sami M. Zaidan - Member

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

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

8 - Eng. Reyadh S. Ahmed - Member

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

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

11 - Dr. Saleh H. Al-Humaidan - Member

فَكُلُّ الَّذِي يَلْقَاهُ فِيهَا مُحَبَّبُ

(Those seeking glory and pursuing it with focused endeavor will surely be rewarded with gains that are in his favor.)

A Legacy of Classical Arabic Poetry

Named Abu Al Tayeb Ahmed bin Al Husain at birth (born in Kufa in 915 Hijri), Al Mutanabi is indeed one of the most prominent Arab poets. He was famous for his bravery, ambitious nature and love of adventure. His best works deal with wisdom, philosophy of life and descriptions of warfare. His poetry has a distinctive quality of being highly rhetorical, expressive with precise phraseology. This verse is written in Persian calligraphy.

CEO`S MESSAGE

“2012 also saw a positive growth in our European markets as a result of our 2011 acquisition of Aectra. This expanded market reach is enabling us to build stronger relationships with our clients and reduce margin loss; a model we will shortly be replicating in Asia in our planned Singapore overseas office.”

Sipchem has had yet another outstanding year in 2012 building on our record year last year, and we have continued to focus on sustainable growth and adding value to our product portfolio.

I am proud to report that although the continued volatility of the global economy has impacted the margins for the petrochemical industry, Sipchem has significantly reduced the impact on its own margins through its continuous optimization and strategic diversification approach.

I would like to thank all our stakeholders for their continued effort and support with which we have grown our output by an average of 4% above designed plant capacities, reduced our energy usage and waste and most importantly developed our markets. This supreme effort has helped us maintain a 12.5% dividend despite the market price for our products dropping on average by 15-20%.

2012 saw the completion of three core initiatives central to our continued growth and profitability. Working with international business specialists from IBM, we completed and launched our Sipchem Total Optimization Project (STOP) and saw immediate sustainable results across the organization from plant to office to logistics and marketing. We also completed an image and brand improvement initiative that will help our marketing and sales team take full advantage of their growing markets and add further value to the Sipchem brand. Thirdly and key to our continued sustainable growth we worked with Booze and Company to formalize and agree our 10 year growth strategy up to 2022.

Our growth and strategic diversification is fundamental to our continued success and we contributed greatly to this in 2012 through leveraging not only our operational abilities but our financial acumen with the agreement of financing for new projects and favorable re-financing of existing projects, in particular the agreement with SIDF to finance construction of our Ethyl Acetate and Butyl Acetate plant in Jubail (part of our phase 3 expansion plans).

Our diversification into more specialised chemicals also continued with the establishment of an Ethylene Vinyl Acetate (EVA) Film Project, in partnership with Hanwha, located in Hail, North of Saudi Arabia. EVA film is a key component of advanced solar energy cells and although the markets are currently outside of Saudi Arabia we anticipate our production will become an integral part of the future Saudi solar energy industry.

Conversion projects also progressed during 2012, focusing on producing finished products and capturing more of the value chain, in particular a plastic mould production plant near Riyadh and the Gulf Advanced Cable Insulation Company (GACI) which was established in 2012 and is planned to go into operation in Q3 2013 using feedstock from a Sipchem affiliate; a valuable example of vertical integration.

2012 also saw a positive growth in our European markets as a result of our 2011 acquisition of Aectra. This expanded market reach is enabling us to build stronger relationships with our clients and reduce margin loss; a model we will shortly be replicating in Asia in our planned Singapore overseas office.

We have continued to build our company with a culture of sustainability at its heart, not only through our successful completion of a second 'Responsible Care' audit but with our local communities as well where we have continued to invest in community projects, education and technology including the Sipchem Technology and Creativity Exchange and our employee welfare and share ownership scheme.

2013 will be a challenging year and one in which our strategy will continue to prevail, delivering continued growth and value to our stakeholders thanks largely due to the unwavering commitment of the executive management, plant operations, marketing, logistics, sales and support teams and the support of the Government of the Custodian of the Two Holy Mosques and H.R.H. the Crown Prince.

Ahmad A. Al-Ohali
Chief Executive Officer

(Those who are fearful of climbing and ascending mountains will always be doomed to live in pitiful holes.)

BOARD OF DIRECTORS' ANNUAL REPORT FOR THE YEAR 2012

A Legacy of Classical Arabic Poetry

This is a verse by a renowned Tunisian poet and innovative writer Abi Al Qassim Al Shabi (born in 1909 CE). He was educated in Arabic and religious studies and one can see that influence in his work. The verse seen here is written in the Thuluth calligraphic style.

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 3.66 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 all the 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 2.2 million metric tons in 2012.

The Sipchem plants cover an area of over 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.

Despite being a relative newcomer to the petrochemical industry with only 13 years in operation, Sipchem has become a regionally and globally recognized petrochemical leader. This achievement is due to Sipchem`s administrative, professional and technical capabilities combined with the team spirit and dedication of our people.

SR 3.66 billion

CURRENT CAPITAL WORTH OF SIPCHEM

DESCRIPTION OF SIPCHEM'S AFFILIATES

The 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.

The 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 is currently working at its full designed production capacity. 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.

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. 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.

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 (AAn) with a designed production capacity of 460 thousand mtpa. IAC production is partially used as a feedstock by IVC (International Vinyl Acetate Company) to produce Vinyl Acetate Monomer while the rest of the production is shipped to customers regionally and internationally. The company's site is in Jubail Industrial City, Kingdom of Saudi Arabia.

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. The company's site is in Jubail Industrial City, Kingdom of Saudi Arabia.

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.

Sipchem Marketing Company (SMC)

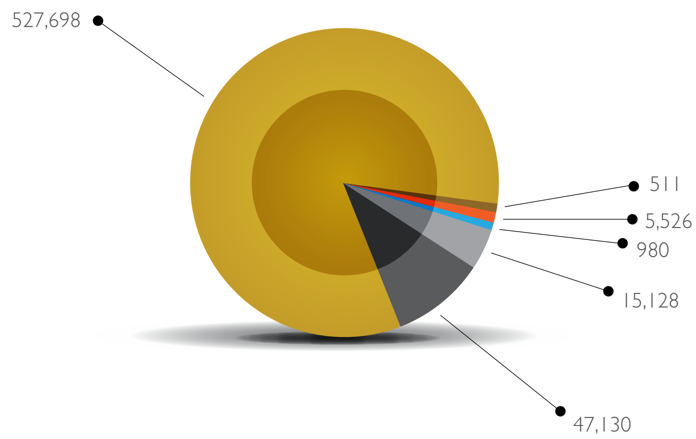
Sipchem Marketing Company (SMC) is a Saudi limited liability company, established in the year 2007 with capital of SR 2,000,000 fully owned by Sipchem. The company's location is in Al-Khobar in the Eastern Province, Kingdom of Saudi Arabia.

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.

Following SMC`s successful acquisition of Swiss Acetra on December 30, 2011, it is now focusing its efforts on establishing a representation office in Singapore to add strategic depth in logistics, services, and marketing to cover clients in Asia. With this extended geographical reach SMC is strategically set up to achieve year-on-year growth.

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 597,000 metric tons of aforementioned products in 2012- an increase of 12% over 2011 which was at 531,000 metric tons.

SMC sales (Metric Tons)



Methanol · Vinyl Acetate Monomer · Acetic Acid · Tetrahydrofuran · Maleic Anhydride · Butanediol

Sipchem Europe Cooperative UA and its Affiliates

Sipchem Europe (Cooperative UA) Company was established in 2011, with capital of Swiss Franc 1,000,000 totally owned by Sipchem and located in Amsterdam, the Netherlands. Its major activity is to provide managerial support in marketing and logistics fields. Aectra SA is an affiliate of Sipchem Europe Cooperative UA which is headquartered in Geneva, Switzerland. The main activities of Acetra SA are marketing, logistics services and commercial experience in European markets. In 2012, the company sold 233 thousand metric tons of Methanol. In addition to this, the company also marketed and sold around 80 thousand metric tons of petrochemicals products of other companies. Aectra has become a major support to market Sipchem products in Europe and contributed to the expanded volume of sales and to opening new markets in Europe by 25% in comparison to year 2011.

SIPCHEM`S STRATEGIES:

Sipchem initiated the Sipchem Total Optimization Project (STOP) initiative in 2012 to improve performance and achieve its vision in line with its approved strategy to be capable to adapt and continue to optimize and develop in accordance to development plans.

Sipchem, since its inception, has achieved a record number of remarkable achievements and so served the national economy. Sipchem`s Board has adopted, since the beginning, strategies that are in line with the Kingdom's strategy; giving top priority to industrial fields which have helped its development into a leading industrial nation.To achieve these strategic plans the Board of Directors has approved various long-term programs and projects in order to reach outstanding levels of performance and become a leading international company.

Sipchem continues to determine objectives and goals in line with delivering excellence, continuous growth and revenue generation for its shareholders and investors.

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.

Sipchem`s Total Optimization Project Initiative:

Sipchem initiated the Sipchem Total Optimization Project (STOP) in 2012 to improve performance and achieve its vision in line with its approved strategy to be capable to adapt and continue to optimize and develop 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 internationally approved practices. International specialized team of experts and consultants have documented business procedures and policies which are practiced currently at Shared Services department and Sipchem`s affiliates and where necessary brought them in line with best internationally approved criteria in the petrochemical industry. These steps have also been enhanced by bringing processes where applicable onto a SAP system along with relevant training of employees.

PLANS AND FUTURE GROWTH

Sipchem completed its long-term strategy in 2012 including redetermination of its strategic goals and appointment of growth and future opportunities which will help the company to achieve profitable growth. Sipchem`s new plan has been designed to strengthen its position. The plan has focused on growth that focuses on continuous structural development to support its businesses. Sipchem`s objective is to grow and increase profit through optimized operations in order to enable Sipchem to invest in future growth and increase distributed dividends for shareholders. The plan has concentrated upon safety of operations and their reliability. Sipchem is in an enviable stable position in which to develop its businesses sustainably and achieve excellent revenues and profit.

Sipchem has a number of industrial and research project milestones in 2013 including the Ethyl Acetate (EA) and Butyl Acetate (BA) plants within Sipchem Chemicals Company (SCC) expected to be operational in the second quarter of 2013 and the Ethylene Vinyl Acetate (EVA), low-density Polyethylene plant within the International Polymers Company (IPC) expected to be operational in mid 2013. The cables insulation plant part of Gulf Advanced Cable Insulation Company (GACI) is expected to be operational by end of third quarter of 2013 and the Sipchem Technology & Creativity Exchange center (STCE) is expected to be opened at the end of 2013. In terms of market prices in 2013 Sipchem expects stability of prices relative to 2012; the market is not expected to return to the prices achieved in 2011 during 2013.

Sipchem development plan concentrates mainly upon new marketing areas with detailed plans on best ways of commissioning the 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 and outside the Kingdom of Saudi Arabia and the expansion of existing plants to increase their production capacity and operational efficiency, which are expected to be announced in 2013.

PROJECTS UNDER CONSTRUCTION AND DEVELOPMENT:

1. Ethylene Vinyl Acetate Project (International Polymers Company)

Sipchem continuing its own and that of the Kingdom of Saudi Arabia's Industrial and Economic development founded International Polymers Company (IPC), a Saudi limited liability Company, in 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) whereby the required value of financing will be reduced by 50% upon signing of financing agreement with PIF.

IPC signed in May 2012 an Islamic short-term loan at value of SR 1.4 billion with four Saudi banks: 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 at mid-annual premiums.

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.

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

2- Ethyl and Butyl Acetate Project (Sipchem Chemicals Company - SCC)

Sipchem had founded Sipchem Chemicals Company (SCC) a Saudi limited liability company in 2011 with a capital of SR 240,000,000 of which Sipchem owns 95% and SMC, a Sipchem affiliate, owns 5%. SCC's main activity is to produce Ethyl Acetate (EA) and Butyl Acetate (BA) with a production capacity of 100 thousand mtpa. The project location is in Jubail Industrial City, Kingdom of Saudi Arabia.

SCC had signed a financing agreement with SIDF in 2012 at a 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 will be responsible for commissioning and management for all projects 100% owned by Sipchem. SCC will contribute by its various projects to support downstream industries which will add great value to chemicals and petrochemicals materials. The total cost of the project is SR 350 million. The SCC plant is expected to provide local needs for Ethyl Acetate (EA) and Butyl Acetate (BA) in addition to meeting demands of international markets.

Acetic acid (AA) will be provided by IAC (International Acetyl Company), a Sipchem Affiliate; to produce Ethyl Acetate (EA) whereas 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 etc. SCC implementation rate reached around 97% in 2012 .The Ethyl Acetate (EA) plant is expected to begin production in the second quarter of 2013.

3- Gulf Advanced Cable Insulation Company (GACI)

Gulf Advanced Cable Insulation Company (GACI) is a Saudi 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. Sipchem and Hanwha Chemicals Company signed the partnership agreement at the end of April 2011. Sipchem awarded the engineering, design and construction (LSTK) contract

to Korean POSCO Engineering Company. The total cost of the plant is SR 230 million. The basic feedstock will be obtained from IPC, a Sipchem affiliate. The implementation rate has risen to 52% in 2012 and the start up of the plant is expected to be in the third quarter 2013. The project location is in Jubail Industrial City, Kingdom of Saudi Arabia.

4- Sipchem Technology & Creativity Exchange (STCE)

Sipchem`s current and future success is the result of deliberate strategic and scientific plan and investments in research and development. Sipchem invested SR 175 million to establish a center for Technology & Creativity at Dhahran Techno Valley of King Fahd University of Petroleum and Minerals (KFUPM), in the Eastern Province of Saudi Arabia. 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 m^2 site at Dhahran Techno Valley. In line with this MOU, Sipchem will manage and operate this center which will include 37 laboratories to cover all fields of research, technical services and development of products, their applications, analysis and testing.

Sipchem also signed a cooperation agreement for a term of three years with King Abdullah University for Science & Technology (KAUST) for the KAUST Industry Collaboration Program (KICP) as a strategic partner including economic development programs at the university. Sipchem strives to maintain its major position in petrochemical industries through joining this university's cooperative program. Sipchem`s membership in such programs helps to maintain its leading position among the petrochemical industries through research and development, innovation and competition. KICP program enables its members to recognize latest technologies in the petrochemical industry as well as the enhancement of active industrial cooperation regionally and internationally through working with major partners who have innovative and productive capabilities and release scientific, technological, as well as cultural advances with an interest to translate these discoveries and knowledge to help economic growth and to provide job opportunities.

Construction is already well underway on 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 in which 860 plants are currently operating.

The center will 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 will also enhance cooperation in research through the use of laboratories, equipment and the exchange of experiences between the university and Sipchem. Construction works should be completed by the end of 2013.

5- Ethylene Vinyl Acetate (EVA) Film Project

As the petrochemical industry is core to the development of the Kingdom, Sipchem's contribution to forming a strong industrial sector - one that is able to compete locally and internationally - includes the EVA Film project. Sipchem has established the Ethylene Vinyl Acetate Project, 75% owned by SCC (Sipchem Chemicals Company) with 25% owned by Korean Hanwha. EVA`s total project value of SR 120 million with a designed production capacity of 4,000 mtpa over an area of 40,000 m^2, will be marketed by SMC, a 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 the production of electricity from solar energy. The construction work is expected to start in the second quarter of 2013. The EVA project, located in Hail, is a big investment opportunity and will help the Kingdom use solar energy to produce electricity, as well as will provide various job opportunities for the people of Hail.

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

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

فلا تقنع بما دون النجوم

(If you are ambitious to reach for the lofty heights, you will not be satisfied with anything less than the stars.)

A Legacy of Classical Arabic Poetry

A capable and serious poet who was not interested in light hearted activities, Al Mutanabi remained true to his Arabian roots often advocating Arabism and supporting it in his works of poetry. His style is characterized by his skillful expression, precise meanings and thoughtful ideas. This famous verse is written in the style of Kufi Mashreqi calligraphy.

FINANCIAL HIGHLIGHTS

Sipchem achieved a net profit of SR 601 million in 2012 compared to SR 706 million in 2011. The reduction in profit for 2012 is mostly due to a reduction in product prices.

Despite the hard decline of most of company products' prices in 2012, this year witnessed optimization of operational performance of Sipchem`s plants and production has been raised by 4% consequently leading to a rise of sales volume in comparison to last year. Sipchem has done its best to reduce operational costs and raise operational efficiency which has resulted in a decrease in the decline in Sipchem`s results.

Below are the financial indicators of the year 2012 compared with the 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; a decrease of 11.2% .

2- The operational profit for the year 2012 was SR 1,136.9 million compared with SR 1,301.9 million for the year 2011; a decrease of 12.7% .

3- The net profit for the year 2012 was SR 601.2 million compared with SR 705.9 million for the previous year; a decrease of 14.8%.

4- The Earnings Per Share (EPS) was SR 1.64 for 2012 and SR 1.93 for the previous year.

SR 1.3 billion

IS THE TOTAL PROFIT FOR THE YEAR 2012

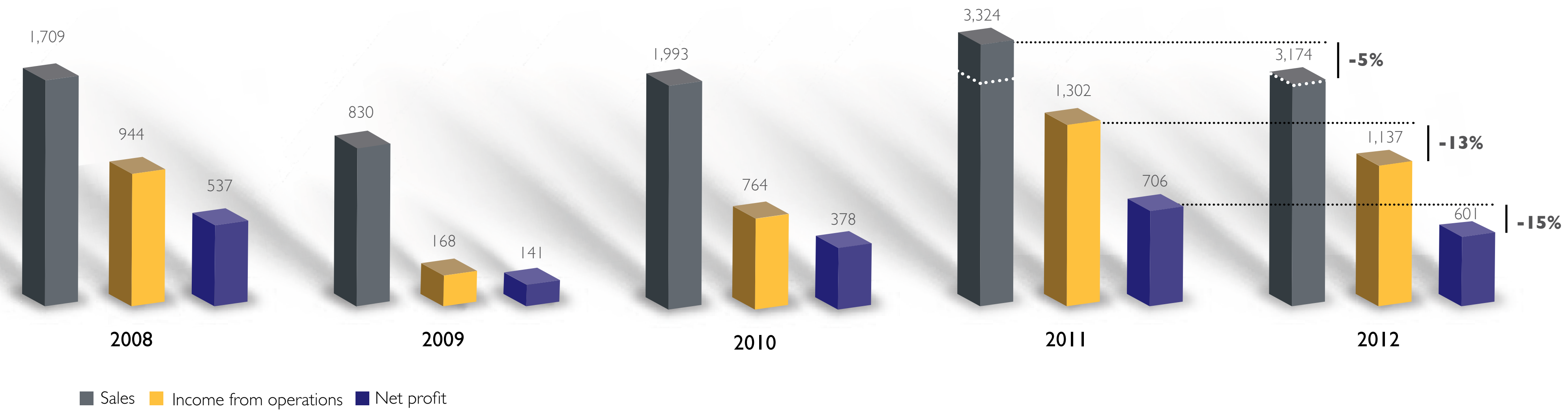
SR 1.1 billion

IS THE TOTAL OPERATIONAL PROFIT FOR THE YEAR 2012

1- Summary of the business results for the previous five years (Million Saudi Riyals)

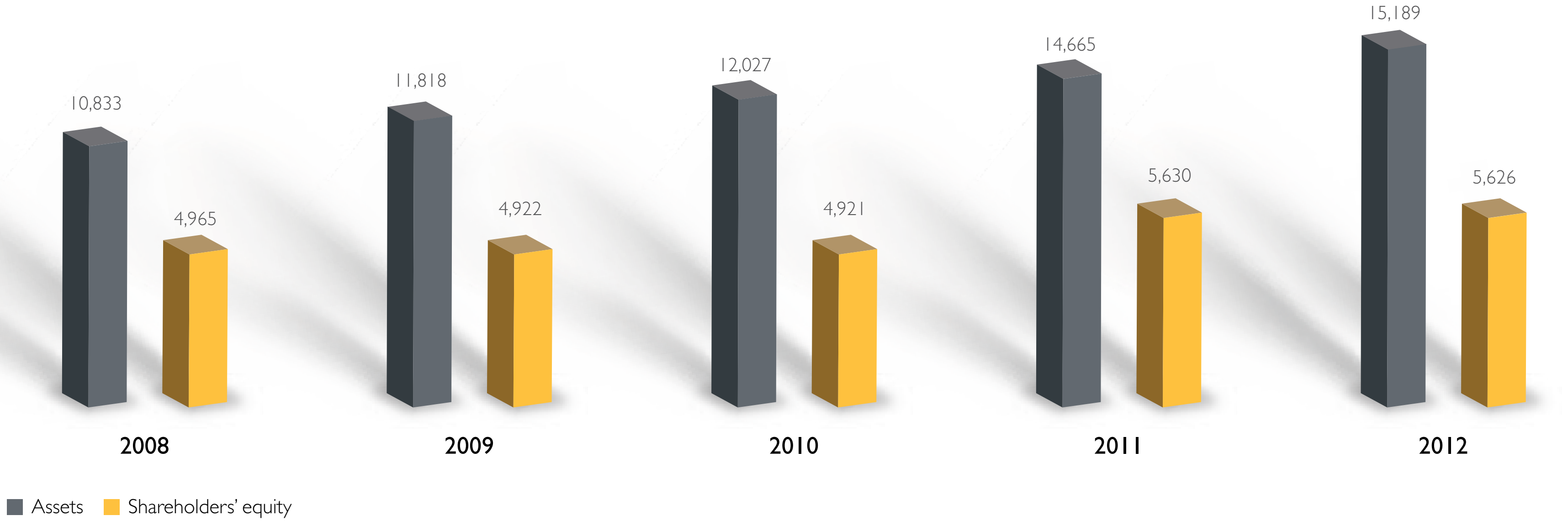
Details	2008	2009	2010	2011	2012
Total current assets	2,842	2,218	2,426	4,599	4,189
Total non-current assets	7,991	9,600	9,601	10,066	11,000
Total assets	10,833	11,818	12,027	14,665	15,189
Total current liabilities	979	903	857	1,317	1,389
Total non-current liabilities	3,996	5.083	5,156	6,326	6,665
Total shareholders' equity and minority interest	5,858	5,832	6,014	7,022	7,135
Total liabilities, shareholders' equity and minority interest	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

2- Development of sales, income from operations and net profit for the past five years (Million Saudi Riyals)



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 Dec 31, 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 (Million Saudi Riyals)

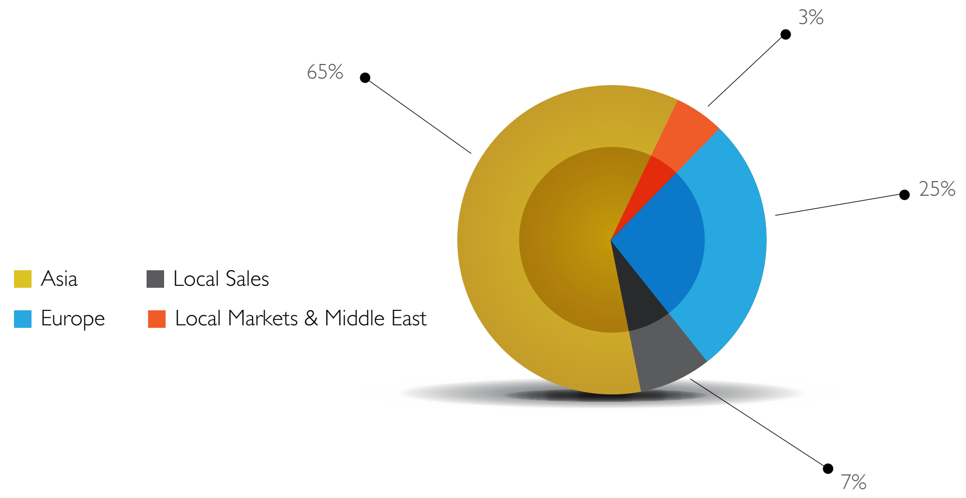
The main reason for the decline of the financial results for the year 2012 compared with the year 2011 was mainly due to the decrease of the profit margins because of the sharp decline of products` prices.

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 graph here shows the geographical distribution of the company sales:



6- Total Debts for Sipchem and its Affiliates

a- Saudi International Petrochemical Company (Million Saudi Riyals)

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

b- International Methanol Company (Million Saudi Riyals)

Lending Entity	Loan Term	Value of Loan	Balance at 2012 start	Withdrawing during 2012	Total repayments during 2012	Balance at 2012 end
Commercial Banks (Liabilities as per Capital Lease)	9.6 years	535	359	-	(48)	311

c- International Diol Company (Million Saudi Riyals)

Lending Entity	Loan Term	Value of Loan	Balance at 2012 start	Withdrawing during 2012	Total repayments during 2012	Balance at 2012 end
Commercial Banks	8 years	146	47	-	(5)	42
SIDF	8.6 years	400	340	-	(40)	300
PIF	8.3 years	431	159	-	(14)	145
Partners	undefined	187	187	-	-	187

d- International Acetyl Company (Million Saudi Riyals)

Lending Entity	Loan Term	Value of Loan	Balance at 2012 start	Withdrawing during 2012	Total repayments during 2012	Balance at 2012 end
Commercial Banks	9.6 years	810	695	-	(77)	618
SIDF	9.6 years	400	380	-	(30)	350
PIF	6.4 years	769	654	-	(77)	577
Partners	undefined	679	679	19	-	698

e- International Vinyl Acetate Company (Million Saudi Riyals)

Lending Entity	Loan Term	Value of Loan	Balance at 2012 start	Withdrawing during 2012	Total repayments during 2012	Balance at 2012 end
Commercial Banks	9.6 years	466	400	-	(44)	356
SIDF	9.6 years	400	380	-	(30)	350
PIF	6.4 years	439	373	-	(44)	329
Partners	undefined	536	536	-	-	536

f- International Gases Company (Million Saudi Riyals)

Lending Entity	Loan Term	Value of Loan	Balance at 2012 start	Withdrawing during 2012	Total repayments during 2012	Balance at 2012 end
Commercial Banks	9.6 years	81	69	-	(8)	61
SIDF	9.6 years	400	370	-	(40)	330
PIF	6.4 years	143	121	-	(14)	107
Partners	undefined	389	389	-	(19)	370
Partners (short-term)	-	13	13	-	-	13

g- International Polymers Company (Million Saudi Riyals)

Lending Entity	Loan Term	Value of Loan	Balance at 2012 start	Withdrawing during 2012	Total repayments during 2012	Balance at 2012 end
Commercial Banks	12 years	704	-	531	-	531
SIDF	6.4 years	600	-	300	-	300
Partners	undefined	159	159	3	-	162
Partners (short-term)	-	207	207	2	-	209

h- Sipchem Chemicals Company (Million Saudi Riyals)

Lending Entity	Loan Term	Value of Loan	Balance at 2012 start	Withdrawing during 2012	Total repayments during 2012	Balance at 2012 end
SIDF	5.9 years	165	-	73	-	73
Partners	undefined	47	-	47	-	47

i- Gulf Advanced Cables Insulation Company (Million Saudi Riyals)

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

j- 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

INTERNAL AUDIT

Sipchem`s progress is measured and quantified in various ways. One is through the company's Internal Audit Committee which 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 of 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 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 has developed an internal control system and has 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 any violation or any integral weakness in the company`s internal audit system or different operations in the year 2012 except some notifications which have been discovered and solved in cooperation with the directors.

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 and its current term lasts until 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:

No.	Name	Responsibilities	Membership type
1	H.E. Eng. Abdulaziz A. Al-Zamil	Board Chairman	Non-executive
2	Eng. Ahmad A. Al-Ohali	CEO	Executive
3	Dr. Abdulaziz A. Al-Gwaiz	Member	Non-executive
4	Mr. Fahd S. Al-Rajhi	Member	Non-executive
5	Dr. Sami M.Zaidan	Member	Non-executive
6	Mr. Abdulaziz A.Al-Khamis	Member	Non-executive
7	Eng. Reyadh S. Ahmed	Member	Non-executive
8	Dr. Saleh H.Al-Humaidan	Member	Independent
9	Dr. Abdurrahman A. Al-Zamil	Member	Independent
10	Mr. Abdurrahman A. Al-Turki	Member	Independent
11	Eng. Mohammed A. Al-Ghurair	Member	Independent

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

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

No.	Name	Membership in other joint stock companies
1	H.E. Eng. Abdulaziz A. Al-Zamil	Sahara Petrochemicals Company (Public Shareholding-KSA) Alinma Bank (Joint Stock-KSA) Al Zamil Group Holding Company (Closed Joint Stock-KSA)
2	Eng. Ahmad A. Al-Ohali	N/A
3	Dr. Abdulaziz A. Al-Gwaiz	Al Khaleeg Training & Education Co. (Public Shareholding-KSA)
4	Mr. Abdurrahman A. Al-Turki	Al-Saqr Cooperative Insurance Company Investcorp Co.(Public Shareholding-Bahrain) Golden Pyramids Plaza Co.(Public Shareholding-Egypt)
5	Dr. Abdurrahman A. Al-Zamil	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)
6	Mr. Abdulaziz A. Al-Khamis	Saudi Investment Bank (Public Shareholding-KSA) National Petrochemical Company (Closed Joint Stock-KSA)
7	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)
8	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)
9	Dr. Saleh H. Al-Humaidan	N/A
10	Mr. Fahd S. Al-Rajhi	N/A
11	Dr. Sami M. Zaidan	N/A

3- Board meeting attendance registers

The Sipchem Board held four meetings during the 2012. 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:

Board meetings in 2012

No.	Name	First 20/3/12	Second 5/6/12	Third 25/9/12	Fourth 2/12/12	**Total attendance**
1	H.E. Eng. Abdulaziz A. Al-Zamil	✓	✓	✓	✓	4
2	Eng. Ahmad A. Al-Ohali	✓	✓	✓	✓	4
3	Dr. Abdulaziz A. Al-Gwaiz	✓	✓	✓	✓	4
4	Eng. Mohammed A. Al-Ghurair	✓	✓	✓	✓	4
5	Eng. Reyadh S. Ahmed	✓	✓	✓	✓	4
6	Dr. Saleh H.Al-Humaidan	✓	✓	✓	✓	4
7	Mr. Fahd S. Al-Rajhi	✓	✓	✓	✓	4
8	Dr. Sami M.Zaidan	✓	✓	✓	✓	4
9	Mr. Abdulaziz A.Al-Khamis	✓	✓	✓	✓	4
10	Dr. Abdurrahman A. Al-Zamil	✓	✓	✓	✓	4
11	Mr. Abdurrahman A. Al-Turki	✓	×	✓	✓	3

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 01 Jan 2012		Shares on 31 Dec 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	40,000	0.011%	50,000	0.014%	10,000	25%	N/A
Eng. Ahmad A. Al-Ohali	278,000	0.076%	289,000	0.079%	11,000	3.96%	N/A
Eng. Reyadh S. Ahmed	0	0%	0	0%	0	0%	N/A
Mr. Abdulaziz A. Al-Khamis	0	0%	0	0%	0	0%	N/A
Dr. Sami M.Zaidan	0	0%	0	0%	0	0%	N/A

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

Name	Shares on 01 Jan 2012		Shares on 31 Dec 2012		Net Change	Change %	First class relative ownership and changes
	No.	%	No.	%			
Eng. Abdulrahman A. Al Saif	0	0%	11,000	0.003%	11,000*	100%	N/A
Eng. Abdullah S. Al-Saadoon	0	0%	11,000	0.003%	11,000*	100%	N/A
Mr. Kevin J.Hayes	0	0%	0	0%	0	0%	N/A
Mr. Khaled S. Al-Dossary	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 who aquired shares through their subscription in the Sipchem Employees Incentive Program (SEIP).

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:

Name	Shares on 01 Jan 2012		Shares on 31 Dec 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)

Detail	Executive board members	Non - executive board members/ independent	Five of the senior executives including the CEO and the General Manager
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	-	-	-

BOARD COMMITTEES

1- The Audit Committee

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

The Audit Committee supervises the management of the Internal Audit Department and recommends to the Board of the Directors the assignment of the chartered accountants and determines their responsibilities, proposes their annual fees and follows up the audit plan. The committee also regularly reviews the financial systems and the risks in the company, compliance with legal requirements, statutory, accounting rules on the basis of the regulations of the Capital Market Authority (CMA) and its executive regulations.

The responsibilities of the committee include the review of the preliminary and annual financial statements of the company before submission to the Board of Directors and study the accounting policies and make recommendations thereof to the board. The committee has held three meetings during the year 2012.

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.No.	Meeting	Date of Meeting
1	First	31/01/2012
2	Second	10/09/2012
3	Third	03/12/2012

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 one meeting during the year 2012.

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. Zaidan	Committee member

Date of meetings:

S.No	Meeting	Date of Meeting
1	First	18/12/2012

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 two meetings during the year 2012.

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

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

Date of meetings:

S.No	Meeting	Date of Meeting
1	First	25/02/2012
2	Second	05/06/2012

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 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.

PENALTIES

There are no penalties or disciplinary actions imposed on the company by the Capital Market Authority (CMA) or any other supervisory, regulatory or jurisdictional entity. Sipchem has entered into dispute with the construction contractor of Sipchem Technology & Creative Exchange (STCE) building at Al Dhahran after abrogation of construction contract. This dispute has been referred to Saudi judgment, also despite progress of litigation Sipchem and the contractor are reviewing and negotiating to settle this dispute.

SHAREHOLDERS GENERAL ASSEMBLY

Sipchem held its 15th ordinary general assembly meeting during the year 2012. 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 (CMA) 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 CMA 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.

S.No.	Assembly meeting date	Attendance %	Resolution adopted
1	20/03/2012	60%	1- Approval of the Board`s report for the year 2011. 2- Approval of auditor's report for financial year ended 31/12/2011. 3- Approval of the financial statement and profit/losses statements for the year 2011. 4- Discharge of the board members from liability for the previous year 2011. 5- Approval of board of directors' recommendation to distribute cash dividends for shareholders for the year 2011 at total amount of SR (458,333,333) at SR (1.25) per each share representing (12.5%) of company`s capital provided that the eligible shareholders are listed at end of assembly meeting. 6- Approval to appoint Ernst & Young (E&Y) as nominated by the audit committee as an auditor for the company`s accounts for the fiscal year 2012, the quarterly financial statement and determine their fees.

DIVIDENDS DISTRIBUTION POLICY

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

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

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

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

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

The board recommended in its meeting in April 2012 the distribution of dividends to company shareholders for the year 2011, 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 dividends 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 provided that eligibility of these dividends will be for the listed shareholders, 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.

COMMUNICATION WITH SHAREHOLDERS

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 which was held in March 2012.

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. 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 shareholders and their dividends details please visit www.sipchem.com/ar/shares.asp**
- **For more information about the current company governance code, please visit www.sipchem.com/ar/Government.htm**

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.

In accordance to corporate governance code issued by Capital Market Authority, the Board has acknowledged a policy for 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 by-laws, committed not to vote in the selection of other members in the Board of Directors.	N/A

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 its foreign partners. The total purchase of fixed assets was SR 12.7 million in 2012 and it was SR 12.7 million in 2011.

HUMAN RESOURCES

There is no doubt that human resources are the core of the success of any company and intelligence and knowledge are the real sources of fortune and welfare. Sipchem believes in the importance of its Human Resources and maintains it through recruitment of well-trained Saudi cadres in all positions especially leadership and administrative positions. Sipchem, since its inception, has invested in training and development programs according to qualifications and administrative classes to ensure the progress of the business.

Sipchem`s approach to develop and support human resources has been recognized nationally and it was awarded second place on Team One and Al-Ektisadiah for Best Saudi Working Environment for 2011, and first place in 2010. Sipchem`s HR team won the first place for the same award.

The table below shows 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	75%	612	73%
Non-Saudi	203	25%	242	27%
Total	818		854	

Decline of Saudization percentage about 73% 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 2012 Sipchem implemented 438 training programs in collaboration with internal and external entities with the aim of increasing employees` efficiency and capabilities. 2,559 employees have benefited from these programs. The training plan for 2013 has been prepared with 330 training programs 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 held its third annual ceremony to honor its employees who completed a five or ten years in the continuous services in November 2012 with more than 103 employees being honored.

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.

In 2011, Sipchem signed a 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 shopping mall and will be built on a total area of 285,440 square meters. Implementation of this project is envisaged to be completed within 35 months. This step is considered a clear proof of Sipchem's commitment to achieve its vision and realize its mission and values towards its employees in the 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 construction work started in December 2012. The building of housing units is expected to be completed and delivered in phases starting from middle of 2014.

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 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.

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 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 January 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.

EMPLOYEES` BENEFITS ALLOCATIONS

The following table shows the allocations and compensation of Sipchem`s employees for the year 2012 compared to 2011: (Saudi Riyals)

Item	2011	2012
End of Services Benefits(ESB)	65,927,288	82,511,418
Savings Program	337,265	7,735,130

CORPORATE SOCIAL RESPONSIBILITY (CSR)

As our Islamic religious principles urge cooperation, participation and interactivity with social issues, Sipchem has participated in mid and long-term strategic projects to enrich social and human values from which Saudi citizens will gain all benefits. Sipchem's continuous participation in serving and meeting the needs of society is met through fixed annual financial support and active participation in charitable activities.

All these contributions and participations are supervised by a committee composed of representatives of Sipchem`s departments called the Community Service Committee. Sipchem has won a number of prizes and plaques from various entities in appreciation and recognition of its contributions and efforts. SR 7 million has been spent for charitable activities during 2012, an increase of 100% on 2011. Sipchem's board allocated 1% of its net annual profits and of its affiliates for charitable activities and service of community in the Eastern Province in general and Jubail city in particular.

Sipchem has also encouraged the formation of volunteer teams of employees to foster a culture of volunteering activities and to invest human talents to serve the development of community through coordination with local charitable organizations. Sipchem`s volunteering team goals and vision lie in presenting volunteering services locally to release, enhance and develop a spirit of contribution and a culture of donation and to direct the power of the young towards service of the community.

SR 7 MILLION

SPENT FOR CSR ACTIVITIES IN 2012

RESPONSIBLE CARE

After successfully obtaining Responsible Care Certification RC14001 and being the first petrochemical manufacturing company in the Kingdom of Saudi Arabia to do so, Sipchem has succeeded in passing the annual external audit carried out by Det Norske Veritas (DNV) in November 2012. Passing this audit successfully is considered as a strong evidence of the continued efforts exerted by all Sipchem departments to apply the highest standards of Responsible Care.

Responsible Care Certification is a key milestone in Sipchem`s journey to fully implement Responsible Care initiatives and demonstrates significant progress toward sustainability. The Responsible Care program is viewed as a key strategic initiative aimed at supporting company purpose and values that will have a positive reflection in the stakeholders, employees, clients, business partners and the community.

Sipchem has earned a high degree of industry recognition in the region as one of the first Gulf Petrochemicals & Chemicals Association (GPCA) members to apply Responsible Care program in a way which has led more companies in the region to investigate and take on its sustainable approach. 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 dealt with safety of petrochemicals distribution and successful experience of companies to take responsible care forward in the region.

Sipchem has rigorously applied an Environment, Health and Safety (EHS) policy to protect the environment, and health & safety of employees and contractors via utilizing applicable international standards to decrease pollution and industrial waste. Sipchem has a trained and fully-equipped team to deal with emergency cases in addition to integrated units for fire fighting and emergency response. Sipchem also provides lectures and regular awareness campaigns throughout the year for EHS to raise awareness level of safety principles which has contributed to a safe work environment and as a result Sipchem has achieved 6 million man hours without incident rate and also has projects undergoing with 7 million man hours without incident rate. Sipchem`s employees have received over 5000 hours of training in EHS principles in order to prepare and qualify them to operate and maintain all plants safely whilst maintaining good personal health.

BOARD OF DIRECTORS RECOMMENDATIONS

Sipchem's Board of Directors submitted recommendations to the Extraordinary General Assembly held on March 20, 2013 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 the year 2012 at total amount of SR 275,000,000 for the second half of 2012 at a 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 at 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

The Board members would like to express their thanks and appreciation towards the Custodian of the Two Holy Mosques and H.R.H. Crown Prince for their sponsorship and support of the company's activities. The board values all the sincere efforts exerted by the governmental institutions and for their continued support. Thanks and appreciation to be presented to Sipchem's shareholders and employees for their sincere efforts and hope that the company can continue developing its performance and enhance its capabilities in the coming years.

وَتَأْتِي عَلَى قَدْرِ الكِرَامِ المَكَارِمُ

(Those who are willing and determined are capable of achieving their ambitions. Those with high aspirations are worthy of their honors.)

CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' REPORT

A Legacy of Classical Arabic Poetry

Born to a poor family in Kufa, Al Mutanabi soon became famous for his wit and ability to memorize verses of poems, in addition to his talent for writing poetry. His close affinity to the Bedouins in Eastern Samawa enabled him to have a perfect command over the Arabic rhetoric. Famous for his praise poems, he has written a book of poetry which was edited and interpreted by a group of prominent poets.
This verse by him is written in Ta'aleeq calligraphy.

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

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

Scope of audit:

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

Unqualified opinion:

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

i) present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2012 and the consolidated results of its operations and its consolidated cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.

ii) comply with the requirements of the Regulations for Companies and the Parent Company's by-laws in so far as they affect the preparation and presentation of the consolidated financial statements.

for Ernst & Young

Abdulaziz Saud Alshubaibi
Certified Public Accountant
Registration No. 339

6 Rabi' II 1434 H
16 February 2013
Alkhobar

Abdulaziz A. Alsowailim 277   Abdulaziz Alshubaibi 339   Fahad M. Al-Toaimi 354   Ahmed I. Reda 356

Office in the Kingdom: Alkhobar, Jeddah, Riyadh

CONSOLIDATED BALANCE SHEET as at 31 December 2012

	Note	2012 SR	2011 SR
ASSETS			
Current assets			
Cash and cash equivalents	3	**3,053,454,336**	3,629,881,391
Accounts receivable, prepayments and other receivables	4	**857,219,312**	687,908,801
Inventories	5	**277,956,178**	281,080,962
Total current assets		**4,188,629,826**	4,598,871,154
Non-current assets			
Property, plant and equipment	6	**10,648,927,193**	9,807,701,515
Projects' development costs	7	**252,576,753**	184,868,636
Goodwill	8	**29,543,923**	33,982,682
Intangible assets	9	**69,249,396**	39,163,184
Total non-current assets		**11,000,297,265**	10,065,716,017
TOTAL ASSETS		**15,188,927,091**	14,664,587,171
LIABILITIES, SHAREHOLDERS' EQUITY AND MINORITY INTEREST			
Current liabilities			
Accounts payable, other payables and provisions	10	**746,227,815**	774,895,390
Bank overdraft		**-**	15,784,610
Short term advances from partners	11	**93,538,155**	54,980,218
Current portion of long term loans	13	**489,940,823**	423,468,044
Current portion of obligation under capital lease	15	**58,864,865**	48,162,160
Total current liabilities		**1,388,571,658**	1,317,290,422

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

	Note	2012 SR	2011 SR
Non-current liabilities			
Long term loans	13	**3,976,859,248**	3,563,259,856
Sukuk	14	**1,800,000,000**	1,800,000,000
Obligations under capital lease	15	**251,513,515**	310,378,380
Long term advances from partners	11	**414,324,544**	395,257,959
Employees' terminal benefits	16	**82,545,023**	65,927,288
Fair value of interest rate swaps	17	**130,553,193**	178,809,773
Other non-current liabilities		**9,235,860**	12,136,041
Total non-current liabilities		**6,665,031,383**	6,325,769,297
Total Liabilities		**8,053,603,041**	7,643,059,719
Shareholders' equity and minority interest			
Share capital	18	**3,666,666,660**	3,666,666,660
Statutory reserve		**1,046,903,069**	986,786,071
Reserve for the results of sale of shares in subsidiaries	19	**48,893,677**	48,893,677
Retained earnings		**960,457,541**	604,937,894
Proposed dividends		**-**	458,333,333
Net change in the fair value of interest rate swaps	17	**(99,492,806)**	(135,398,005)
Translation gain on consolidation		**2,402,706**	-
Total shareholders' equity		**5,625,830,847**	5,630,219,630
Minority interests	21	**1,509,493,203**	1,391,307,822
Total shareholders' equity and minority interest		**7,135,324,050**	7,021,527,452
TOTAL LIABILITIES, SHAREHOLDERS' EQUITY AND MINORITY INTEREST		**15,188,927,091**	14,664,587,171

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

CONSOLIDATED STATEMENT OF INCOME year ended 31 December 2012

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS year ended 31 December 2012

	Note	2012 SR	2011 SR
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before zakat and foreign taxes		672,687,326	731,696,190
Adjustments for:			
Depreciation and amortization		514,391,992	465,949,658
Employees' terminal benefits, net		16,617,735	13,315,844
Financial charges		183,381,198	181,491,866
Minority interest		314,496,588	399,756,002
Loss on disposal of property, plant and equipment		17,104	3,604,403
Net income of pre-operating activities		(1,551,821)	(104,424)
		1,700,040,122	1,795,709,539
Changes in operating assets and liabilities:			
Receivables		(169,310,511)	(35,177,486)
Inventories		3,124,784	(43,876,874)
Payables		17,405,201	262,887,351
Cash from operations		1,551,259,596	1,979,542,530
Financial charges paid		(183,381,198)	(181,491,866)
Zakat and foreign taxes paid		(54,225,402)	(32,633,653)
Net cash from operating activities		1,313,652,996	1,765,417,011
CASH FLOWS FROM INVESTING ACTIVITIES			
Net income of pre-operating activities		1,551,821	104,424
Additions to property, plant and equipment		(1,306,292,929)	(703,429,982)
Additions to intangible assets		(54,556,806)	(13,894,990)
Additions to projects' development costs		(88,360,609)	(182,958,655)
Proceeds from disposals of property, plant and equipment		220,000	-
Purchase of investment in a subsidiary		-	(94,621,481)
Net cash used in investing activities		(1,447,438,523)	(994,800,684)

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

CONSOLIDATED STATEMENT OF CASH FLOWS year ended 31 December 2012 (continued)

	Note	2012 SR	2011 SR
CASH FLOWS FROM FINANCING ACTIVITIES			
Net change in bank overdraft		**(15,784,610)**	-
Long term loans, net		**480,072,171**	(579,137,504)
Sukuk		**-**	1,800,000,000
Repayment of obligations under capital lease		**(48,162,160)**	(42,810,811)
Advances from partners		**57,624,522**	91,367,060
Change in minority interest		**(274,927,491)**	(104,440,459)
Dividends paid	20	**(641,666,666)**	-
Board of Directors' remuneration paid		**(2,200,000)**	(2,200,000)
Net cash from / (used in) from financing activities		**(445,044,234)**	1,162,778,286
Net change in cash and cash equivalents		**(578,829,761)**	1,933,394,613
Cash and cash equivalents acquired during the year		**-**	75,842,931
Cash and cash equivalents at the beginning of the year		**3,629,881,391**	1,620,643,847
Translation gain, net		**2,402,706**	-
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	3	**3,053,454,336**	3,629,881,391
SUPPLEMENTARY CASH FLOWS INFORMATION:			
Non-cash transactions are as follows:			
Net change in fair value of interest rate swaps		**35,905,199**	5,035,501
Transfer from property, plant and equipment to intangibles		**6,527,938**	10,298,253
Transfer from goodwill to intangible assets		**4,438,759**	-
Transfer from projects' development costs to intangible assets		**20,652,492**	-
Transfer from projects' development costs to property, plant and equipment		**-**	60,714,505
Transfer from general reserve to retained earnings		**-**	275,000,000
Increase in share capital (note 18)		**-**	333,333,330

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

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY *year ended 31 December 2012*

EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

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

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

1. ORGANIZATION AND ACTIVITIES

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements have been prepared in compliance with the standards and regulations promulgated by the Saudi Organization for Certified Public Accountants.

The following is a summary of significant accounting policies applied by the Group:

Accounting convention

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

Use of estimates

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

Basis of consolidation of the financial statements

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

Revenue recognition

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

Expenses

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

Cash and cash equivalents

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

Accounts receivable

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

Inventories

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

Projects' development cost

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

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

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

Intangible assets

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

Business combination and goodwill

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

Earnings per share

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

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

3. CASH AND CASH EQUIVALENTS

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

4. ACCOUNTS RECEIVABLE, PREPAYMENTS AND OTHER RECEIVABLES

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

5. INVENTORIES

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

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

6. PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

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

7. PROJECTS' DEVELOPMENT COSTS

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

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

8. GOODWILL

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

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

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

9. INTANGIBLE ASSETS

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

10. ACCOUNTS PAYABLE, OTHER PAYABLES AND PROVISIONS

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

11. ADVANCES FROM PARTNERS

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

12. BANK FACILITIES

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

13. LONG TERM LOANS

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

a) The Saudi Industrial Development Fund (SIDF) granted loans to IDC, IAC, IVC, IGC, IPC and SCC. These loans are secured by partners' guarantees proportionate to their shareholding and a first priority mortgage on all present and future assets. The loans are repayable in unequal semi-annual installments. The loan agreements include covenants to maintain financial ratios during the loans period. Management and follow up fees are charged to the loans as stated in the loan agreements.

b) The Group entered into credit facility agreements with syndicates of financial institutions. The loans are secured by partners' guarantees and a second priority mortgage on the assets already mortgaged to SIDF. Under a partner support agreement for the projects financing, the partners are obligated following completion of a project to provide a letter of credit for support of operations during the life of the loans. The loans are repayable in unequal semi-annual installments. The agreements include covenants to maintain certain financial ratios and also require maintenance of certain restricted bank accounts. The loans carry financial charges at LIBOR plus a variable margin.

c) The Public Investment Fund (PIF) granted loans to IDC, IAC, IVC and IGC to finance the construction of the plants of these companies. The obligation under this loan agreement at all times ranks at pari passu with all other creditors. The loans are repayable in unequal semi-annual installments other than that of IDC loan which is repayable in equal semi-annual installments. The agreements include covenants to maintain certain financial ratios. The loans carry financial charges at LIBOR plus a fixed margin. The loan agreements require the companies to enter into an interest rate swap contract to cap the financial charges associated with the PIF loans.

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

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

14. SUKUK

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

15. OBLIGATIONS UNDER CAPITAL LEASE

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

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

16. EMPLOYEES' TERMINAL BENEFITS

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

17. INTEREST RATE SWAP AGREEMENTS

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

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

18. SHARE CAPITAL

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

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

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

20. DIVIDENDS

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

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

21. MINORITY INTERESTS

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

22. RELATED PARTY TRANSACTIONS

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

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

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

23. GENERAL AND ADMINISTRATIVE EXPENSES

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

24. ZAKAT

Zakat charge:

The zakat charge consists of:

	2012 SR	2011 SR
Current year provision	**71,517,348**	25,798,432

The zakat charge for the Group was as follows:

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

Movement in zakat provision

The movement in the zakat provision was as follows:

	2011 SR	2010 SR
At the beginning of the year	**53,804,968**	60,640,189
Provision for the year	**71,517,348**	25,798,432
Payments made during the year	**(54,225,402)**	(32,633,653)
At the end of the year	**71,096,914**	53,804,968

Status of zakat assessments

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

25. OPERATING LEASE ARRANGEMENTS

	2012 SR	2011 SR
Payments under operating leases recognized as an expense during the year	**2,165,207**	2,165,207

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

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

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

26. CAPITAL COMMITMENTS

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

27. CONTINGENCIES

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

28. SEGMENTAL ANALYSIS

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

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

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

29. RISK MANAGEMENT

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

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

29. RISK MANAGEMENT (continued)

Liquidity risk

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

Currency risk

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

30. FAIR VALUES

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

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

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