



SUSTAINABILITY & PROSPERITY

Annual Report 2016

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Sipchem is

Committed to the vision of the Kingdom 2030

"Since the announcement of our wise government, under the leadership of the Custodian of the Two Holy Mosques, King Salman bin Abdulaziz and His Highness the Crown Prince HRH Prince Mohammed bin Naif the Crown Prince HRH Prince Mohammad bin Salman, of the National Transition Program 2020 and the vision of the Kingdom of Saudi Arabia 2030. Sipchem has been working in a fast pace to keep abreast of the Kingdom's economic development and its direction of promoting sustainable economic resources in the interests of the nation, which resulted in diversification of its investments and the excellence of its products supported by the studies of its scientific research centre"



Custodian of the Two Holy Mosques
King Salman Bin Abdulaziz Al-Saud



His Royal Highness
**Prince Mohammed Bin
Salman Bin Abdulaziz Al-Saud**

Deputy Crown Prince, Second Deputy
Prime Minister and Minister of Defense



His Royal Highness
**Prince Mohammed Bin
Naif Bin Abdulaziz Al-Saud**

Crown Prince, Deputy Prime
Minister and Minister of Interior

Company Profile

Sipchem is one of the largest companies in the petrochemical sector in the Kingdom of Saudi Arabia and is characterized by its progress and technological development with its commitment to preserve the environment in essence. Sipchem was recognized as the best business environment in the Kingdom in 2010. Since its modest roots began in 1999, Sipchem is now a globally recognized chemical company with more than 1,000 employees from around the world.

WHO WE ARE

Sipchem's plants occupy one million square meters in the basic industries area in Jubail Industrial City. The company's strategy, planned to be implemented in gradual stages, aims at achieving integration of the current and future chemical products to create a chain of value products. Such strategy will precipitate in increasing the domestic production and support the industrial development within the frame of the comprehensive development plans implemented by the Kingdom, which at the end will help maximizing the shareholders' profitability.

Sipchem has the highest standards of safety and environmental protection in all its operations and pays great attention to social responsibility.

As Sipchem has faced previous challenges, the foreseeable future confirms that it is capable of overcoming any challenges, thanks to God and then thanks to Saudi human resources. These human resources are our future, which will contribute to the economic and social development of the country.

Sipchem's commitment to its employees, shareholders and the communities in which it operates is our constant motivation to operate

Sipchem's commitment to its employees, shareholders and the communities in which it operates is our constant motivation to operate.

Our Identity

Sipchem's Brand "Excellence Everywhere" is based on three main concepts that are in harmony with its growth strategy. Sipchem's brand is being activated through highlighting its success stories through three channels: sustainability, growth, and building capabilities.

Sipchem strives to achieve 'Excellence Everywhere'

Scientists believe that Logic lies behind results. To achieve progressive results, there should be some kind of logic challenging. From this point, Sipchem launched its new internal brand along with its associated values, namely passion, courage, higher efficiency, and momentum. Thus, Sipchem adopted its new brand promise, "Excellence Everywhere" aimed at improving its capabilities and geographical spread, especially as its products are used in more than 100 countries and contribute to the creation of new value chains.

Vision

At Sipchem, we believe in challenging assumptions every day to discover and develop responsible solutions, enhancing the quality of life for generations to come.

Mission

To make this vision a reality, we are actively growing our capability and reach by constantly pushing the boundaries that inspire, enhance, and sustain excellence.

Sipchem's Brand

Sipchem launched its brand "Excellence Everywhere" to enhance its capabilities and geographical existence; especially its products are used in more than 100 countries and participate in the creation of new value chains.

We take excellence in our work and emphasize on our commitment to develop our capabilities and achieving maximum efficiency



Our Principles

Sipchem's Principles

- Adhering to highest ethical standards, embracing integrity, trust, and taking responsibility for Sipchem's actions.
- Striving for operation excellence in delivering products and services.
- Embracing innovation and adapting to changing conditions.
- Caring for the well-being of Sipchem's employees, community and environment.

Our Values

Passion: What we do effects the world in thousands of positive ways, making every day enormous. This focuses our curiosity to contribute.

Courage: Standing up to be counted makes us feel alive as it brings us closer to new dimensions in logic and new parameters of possibility.

Higher Efficiencies: We value assets by applying them resourcefully: our energy, our finances, our acquired knowledge and the wisdom we generate together.

Momentum: Our size and strength enables reinvestments in our capabilities, in our learning and by constantly growing our goals we see originality emerge.

Financial Highlights

During the year 2016, the company achieved profits of SR 70 million. The decline in profits is mainly due to the sharp decline in average selling prices for all of the company's products.

Net profit

70

Million Saudi Riyal

Income from operations

417

Million Saudi Riyal

Gross profit

690

Million Saudi Riyal

Earnings per share

0,19

Saudi Riyal

Operational Highlights

2016 was a difficult year for Sipchem in particular and for the petrochemical industry in general. However, the strategic investments we have achieved throughout the year proves that Sipchem has the right fundamentals to stand up to all circumstances and continue to focus on implementing its strategic initiatives and building a sustainable growth platform.

- The company successively completed the second Sukuk issuance amounting to SR 1.0 billion which reflects its solid financial position and explains the confidence of its shareholders, banks, governmental authorities or private entities.
- Sipchem completed all the legal procedures with the governmental authorities and the related parties to finalize the acquisition of Ikarus' equity in the International Vinyl Acetate Company (IVC), (11%). Accordingly, Sipchem's equity in the International Vinyl Acetate Company (IVC) has increased from 76% to 87%.
- During the year, Sipchem focused on enhancing the efficiency of its operational and administrative performance; reduce the costs; increase the production to standard levels; raise the reliability of the plants in order to compensate the sharp decline in the products.
- Sipchem launched its first sustainability report during 2016. It included separate reports on the company's performance in many fields, including operations, environment and safety, in addition to its efforts on the social level and its management to its human resources. The company exerts its efforts to develop the sustainability field and achieve the highest rate of disclosure and commitment.
- Sipchem announced the official operation of Technology and Innovation Center (Manar) which will be a benchmark in the search and development of the applications of the products.
- Sipchem continued effectively to fulfill its obligations towards the community by allocating 1% of its total annual profits along with its subsidiaries to support various social responsibility programs in this beloved country.

Chairman's Message

Sipchem focused primarily on increasing efficiency in its operational and administrative operations, reducing costs and increasing production volumes.

With over 17 years of excellence and growth, the company will seek, through its new strategy, to create positive values that will benefit the company and its shareholders and enhance the company's presence in competitive sectors and markets.

Asia	36%
Europe	26%
Local	30%
Middle East & North Africa	4%
GCC	3%
USA	1%



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

In continuation of Sipchem's journey of achievements, the company announced the official operation of Technology and Innovation Center (Manar) which will be a benchmark in the search and development of the applications of the products, God willing. Furthermore, the company continues its effective commitment to its society by allocating 1% of its total net profit and the profits of its affiliates to support different social responsibility programs within our county.

Furthermore, during 2016 the company successively completed the second Sukuk issuance amounting to SR 1.0 billion which reflects its solid financial position and explains the confidence of the shareholders whether banks, governmental authorities or private entities.

Dear Shareholders of Saudi International Petrochemical Company,

Greetings,

On behalf of the Board of Directors of Saudi International Petrochemical Company (Sipchem), it gives me immense pleasure to present the company's annual report for the fiscal year 2016.

The year 2016 has represented a significant milestone for the manufacturers of petrochemical and chemical products. It has imposed many challenges associated with the dramatic drop of the petrochemical products' prices ; slow down of the economy of some countries and the increase in the production costs associated with the increase in the prices of feedstock, energy and fuel, which directly led to the decline in the prices of all the petrochemical products. Despite of all these difficult economic circumstances which we have experienced and are still facing its impact, Sipchem shows flexibility in adapting itself with such circumstances and the fluctuations of the global market. Sipchem has worked hard to review all its works by the implementation of many initiatives which contribute to attenuate the effects of the said changes.

The Company focuses, in the first place, on enhancing the efficiency of its operational and administrative performance; reduce the costs; increase the quantities of the production to standard levels; raise the reliability of the plants in order to compensate the sharp decline in the products' prices. All of this is coupled with the company's persistent pursue towards adding competitive values to its products through conducting comprehensive studies and developing strategies that assure growth to the company's operations in the future, God willing.

Furthermore, during 2016 the company successively

completed the second Sukuk issuance amounting to SR 1.0 billion which reflects its solid financial position and explains the confidence of the shareholders whether banks, governmental authorities or private entities.

In addition, the company completed the acquisition of Ikarus share in the International Acetyl Company, Sipchem's equity in Acytel companies raised from 76% to 87%.

In continuation of Sipchem's journey of achievements, the company announced the official operation of Technology and Innovation Center (Manar) which will be a benchmark in the search and development of the applications of the products, God willing. Furthermore, the company continues its effective commitment to its society by allocating 1% of its total net profit and the profits of its affiliates to support different social responsibility programs within our county.

Further to the Sustainability Initiative launched by the company, the first sustainability report was issued in 2016. It included separate reports on the company's performance in many fields, including operations, environment and safety, in addition to its efforts on the social level and its management to its human resources. The company exerts its efforts to develop the sustainability field and achieve the highest rate of disclosure and commitment.

Finally, in continuation to Sipchem's journey over 17 years of excellence and growth, the company seeks, through its new strategy, to create positive values that would benefit the company and its shareholders and strengthen the company's presence in competitive sectors and markets.

I would like to present my thanks and gratitude to my colleagues, the members of the Board of Directors, to the employees and to all those who have supported the company during its successful journey so far.

Board of Directors



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1. H.E. Eng. Abdulaziz A. Al-Zamil - Chairman
2. Dr. Abdulaziz A. Al-Gwaiz
3. Eng. Ahmad A. Al-Ohali - Managing Director & CEO
4. Mr. Fahad S. Al-Rajhi
5. Eng. Reyadh S. Ahmed
6. Dr. Abdulrahman A. Al-Zamil

Board of Directors



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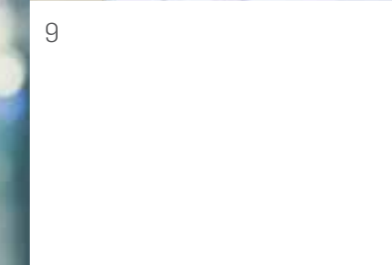
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7. Mr. Abdulaziz A. Al-Khamis
8. Eng. Mohammed A. Al-Ghurair
9. Dr. Sami M. Zaidan
10. Mr. Ibrahim H. Al-Mazyad
11. Mr. Ziyad A. Al-Turki

CEO's Message

Towards more sustainable and prosperous business

During 2016, the global economy continued its slowdown, which is significantly reflected in the decline of the economies of the major and emerging countries. Such slowdown was driven by a number of factors, which, in return, have affected all the global markets. Factors like decrease of growth rate in the Chinese economy, abundance in unconventional and shale oil production, the associated pressures on price level and the increase in interest rate in USA are all weighting heavily on the economy and clearly affects energy and petrochemical sector.

Being one of the leading players in the petrochemical industry in the Middle East- the most significant region in such industry- Sipchem witnessed the sharp decrease in the prices of the petrochemical products, specially liquids, reaching unprecedented levels, which in turn has affected the company's financial performance. Although our business has been impacted by all these conditions, investment based on a strategy of sustainability and efficiency enhancement has significantly reduced these impacts. Production levels in all our plants have reached 2.7 million metric tons compared to 2.2 million in 2105; achieving unprecedented record.



Ahmad A. Al-Ohali
CEO

The company has also continued to invest in one of the most important projects that will enhance sustainability. It officially opened the Technology And Innovation Center (Manar), which we rely on to enhance Sipchem's portfolio of products. TIC is a beacon for research and development in the field of petrochemicals (Polymers or plastic) to be in line with the vision of this ambitious country.

Sipchem announced the acquisition of additional shares in the International Acetyl Company and the International Vinyl Acetate Company (IVC) by (11%) for each with an approximate amount of US \$ 100 million. Both companies produce Acetic Acid (AA), Acetic Anhydride (AAn) and Vinyl Acetate Monomer which are widely used in the manufacture of building materials

In line with the plenty of production quantities, Sipchem has adopted a number of initiatives including increasing plant efficiency as well as expenditure rationalization initiatives. I would like to refer to plant reliability improvement programs, which will enhance our investments and will enable us to operate an entity characterized by spending efficiency and effectiveness in the coming years.

In addition, the year 2016 witnessed the operation of the specialized metal mold production project of the Saudi Specialized Products Company (Wahaj), one of Sipchem's subsidiaries. The project, which is located in Riyadh, produces and manufactures various types of metal molds and alloys. This project is expected to contribute in achieving the Saudi Kingdom's vision to nationalize the military industries through specialized production lines operated by native workforce.

In addition, during the past year, Sipchem announced the acquisition of additional shares in the International Acetyl Company and the International Vinyl Acetate Company (IVC) by (11%) for each with an approximate amount of US \$ 100 million. Both companies produce Acetic Acid (AA), Acetic Anhydride (AAn) and Vinyl Acetate Monomer which are widely used in the manufacture of building materials, inks, paints and solvents, which are complementary to Sipchem's portfolio. The decision to increase ownership in these two companies, which have strategic importance, comes as a leading approach to build Sipchem's position in the high-value product markets.

The company has also continued to invest in one of the most important projects that will enhance sustainability. It officially opened the Technology And Innovation Center (Manar), which we rely on to enhance Sipchem's portfolio of products. TIC is a beacon for research and development in the field of petrochemicals (Polymers or plastic) to be in line with the vision of this ambitious country.

In view of the company's expansions and in order to increase the efficiency of the company and its subsidiaries to enhance distinction in performance, the company has started implementing its strategy for the next phase, following the Board's adoption of its components. This strategy is based on a number of pillars that enhance the value chain products, the efficiency and profitability of current business. In addition to evaluating growth opportunities in new projects, mergers or acquisitions of competitive advantage, Sipchem also evaluates those opportunities in other sectors and moves forward to achieve regional and global sustainability.

While we hope that the prices of all petrochemical products to recover, we are committed to our role of enhancing Sipchem's presence in global markets, optimizing all available resources and investing in innovation to achieve sustainable growth and build more prosperous future.

First: Description of Sipchem's Affiliates



Establishment Date	1999
Company Type	Joint Stock Company
Headquarter	Riyadh- Saudi Arabia
Capital	SAR 3,666,666,660
Company Activity	Petrochemical and chemical Industries, Basic and Intermediate
Number of shares	366,666,666

Sipchem's plants occupy one million square meters in the basic industries area in Jubail Industrial City. The company's strategy, planned to be implemented in gradual stages, aims at achieving integration of the current and future chemical products to create a chain of value products.

Saudi International Petrochemical Company (Sipchem) is one of the Saudi public shareholding companies listed on the Tadawul (Saudi Capital Market). Sipchem is actively investing in petrochemical and chemical materials that can be utilized for manufacturing of a vast array of products that are used in different daily life activities. 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 in general.

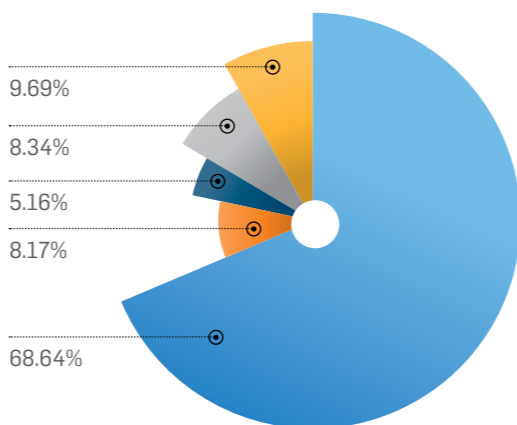
Sipchem selected Jubail Industrial City, Eastern the Kingdom, to establish its industrial complex for the production of various petrochemical and chemical materials because of the availability of all required basic infrastructure, the abundance of raw materials and necessary petrochemical products in the Eastern Province and the ease of export operations via King Fahd Industrial Port and Jubail Commercial Port.

In 2016, the overall production of the company's manufacturing facilities reached standard ratios amounting to 2.7 Million Metric tonnes compared with 2.2 Million Metric tonnes in 2015. Such increase in production volume is attributed to the improvement in polymers plant reliability and the commercial operation of the methanol plant at its full designated capacity.

It is worth mentioning that Sipchem's plants occupy one million square meters in the basic industries area in Jubail Industrial City. The company's strategy, planned to be implemented in gradual stages, aims at achieving integration of the current and future chemical products to create a chain of value products. Such strategy will precipitate in increasing the domestic production and support the industrial development within the frame of the comprehensive development plans implemented by the Kingdom, which at the end will help maximizing the shareholders' profitability.

Sipchem has become a regionally and globally recognized petrochemical leader. This achievement is due to Sipchem's administrative, professional and technical capabilities, which push it to the top of global companies operating in this area.

Ownership Percentage		
68.64%	Other Investors	
9.69%	Zamil Holding Co.	
8.34%	Public Pension Agency	
5.16%	Olyan F.Co.	
8.17%	Ikarus Petrochemical Co.	



SR 3.6 billion

Saudi International Petrochemical Company (Sipchem) is a Saudi joint stock company listed on the Saudi Stock Exchange. Established on 22/12/1999 with a capital of 3.6 billion riyals. Sipchem invests actively in the petrochemical and chemical industries in both its basic and intermediate products for the production of materials used in the manufacture of many products to achieve human well-being. Sipchem is committed to carrying out its activities with the highest standards of quality in production, with a commitment to preserving the environment and the safety of its employees, especially the society in general.



Sipchem has become a leader in the petrochemical industry locally, regionally and internationally. This qualitative achievement is due to the company's wise management, professional and technical capabilities that have made it one of the world's leading companies in this field.

2.7 million metric tons

In 2016, the company's total production reached to record levels of 2.7 million metric tons compared to 2.2 million metric tons in 2015. The main reasons for the increase in production are the improved reliability of the polymer plant as well as the full operational capacity of the methanol plant.



The factories of Saudi International Petrochemical Company (Sipchem) are located in the basic industries area of Jubail Industrial City, spanning over an area of one million square meters.



Second: Description of Sipchem's Affiliates:

Sipchem and successful global partnerships

Sipchem has become one of the world's largest producers of petrochemicals and chemicals, which are vital to the manufacture of thousands of consumer and industrial products. Sipchem is proud to have a strong reputation for excellence in the company's organization and approach through its advanced community-related programs, successful global partnerships, outstanding staff, dynamic research and development, As well as Sipchem's contribution to the world of petrochemical industries, all of which benefit everyone in humanity.



1. International Methanol Company (IMC)



Establishment Date	2002
Company Type	Limited Liability Company
Headquarter	Jubail Industrial City- Saudi Arabia
Capital	SAR 360,970,000
Company Activity	Production of Methanol
Production Capacity	970 thousand 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 globally.

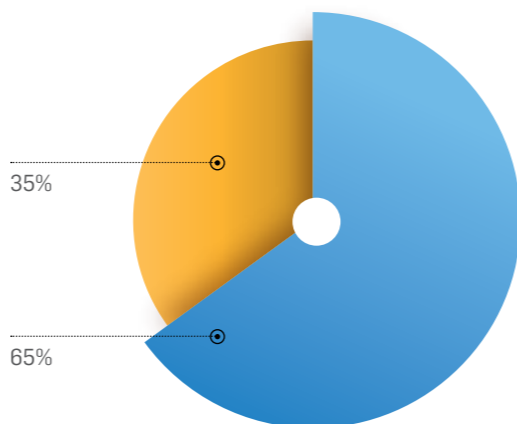
The International Methanol Company (IMC) represents the first joint venture between Sipchem and Japan-Arabia Methanol Company Limited (JAMC), which is owned by a consortium of Japanese companies including Mitsui and Mitsubishi.

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 globally.

In December 2016, The International Methanol Company announced signing an engineering, procurement and construction contract with South Korea's e TEC to increase the efficiency and enhance the performance of Methanol plant with approximate total cost of SAR 542, 602, 500. The project is expected to be completed in the fourth quarter of 2018. The main target of the project is to fulfill the requirements of the Saudi Efficiency Center. The new improvement process will not affect the current performance of the methanol plant.

Ownership Percentage

65%	Sipchem	■
35%	Japan Arabia Methanol Company	■



2. International Diol Company (IDC)



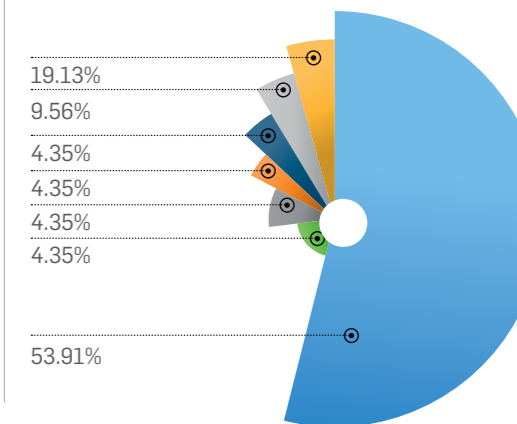
Establishment Date	2002
Company Type	Limited Liability Company
Headquarter	Jubail Industrial City- Saudi Arabia
Capital	SAR 431,250,000
Company Activity	Production of Butanediol (BDO) and its derivatives such as, Maleic Anhydride (MAn), Tetrahydrofuran (THF) and Gama Butyroladone
Production Capacity	76 thousand mtpa

The Plant is working at its full designed capacity. It produces high quality Butanediol (BDO), Tetrahydrofuran (THF) and Gama Butyroladone which are shipped to the company's customers regionally and globally.

The International Diol Company (IDC) is a partnership between Sipchem, the Public Pension Agency, General Organization for Social Insurance, Abdullatif Al-Babtain & Associates, Arab Supply & Trading Co., Huntsman Corporation and Davy Process Technology. Both Huntsman Corporation and Davy Process Technology provided the company technology. The Plant is working at its full designed capacity. It produces high quality Butanediol (BDO), Tetrahydrofuran (THF) and Gama Butyroladone which are shipped to the company's customers regionally and globally.

Ownership Percentage

53.91%	Sipchem	■
19.13%	Public Pension Agency	■
9.56%	GOSI	■
4.35%	Abdullatif Al-Babtain & Partners	■
4.35%	Arab Supply & Trading	■
4.35%	Davi Process Technology	■
4.35%	Astr Huntsman	■



3. International Gases Company (IGC):



Establishment Date	2006
Company Type	Limited Liability Company
Headquarter	Jubail Industrial City- Saudi Arabia
Capital	SAR 425,400,000
Company Activity	Production of Carbon Monoxide and Hydrogen
Production Capacity	345 thousand mtpa in addition to 65 Thousand mtpa of Hydrogen

IGC operates one of the biggest carbon monoxide plants in the world with a nameplate capacity of 340 thousand mtpa.

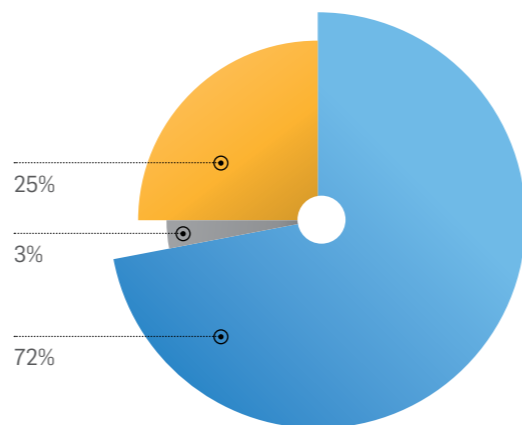
The International Gases Company (IGC) is owned by Sipchem, the National Power Company and the Supreme Council of Endowments. The Germany's Luy and France's Air Liquide have provided the company technology. This plant is considered the largest of its kind in the world. Carbon Monoxide is mainly used as a feedstock for the production of Acetic Acid by IAC. The plant is regarded as an additional source of hydrogen for the International Diol Company (IDC).

IGC operates one of the biggest carbon monoxide plants in the world with a nameplate capacity of 340 thousand mtpa.

In April 2016, IGS conducted a scheduled periodic maintenance to the plant which lasted for 15 days approximately. Such periodic maintenance works were conducted in conformity with the applied standards of periodic and preventive maintenance required. These maintenance works contributed in raising the level of safety, reliability and production efficiency of the plant.

Sipchem announced, on 14 August 2016, that a technical issue happened in at the Carbon Monoxide plant of its International Gases Company (IGC), which led to reduce operating capacity of the following plants; Acetic Acid of the International Acetate Company (IAC), and Ethyl Acetate of Sipchem Chemicals Company. On 22 August 2016, the company announced that the production in that plant had returned to its normal levels.

Ownership Percentage		
72%	Sipchem	
25%	National Power Company	
3%	Supreme Council of Endowments	



4. International Acetyl Company (IAC):



Establishment Date	2006
Company Type	Limited Liability Company
Headquarter	Jubail Industrial City- Saudi Arabia
Capital	SAR 1,003,000,000
Company Activity	Production of Acetic Acid (AA) and Acetic Anhydride (AAAn)
Production Capacity	460 thousand mtpa

The company has conducted scheduled periodic maintenance to its plant in April 2016 for about 15 days in line with the applied standard periodic and preventive maintenance criteria. These maintenance works contributed in raising the level of safety, reliability and production efficiency of the plant.

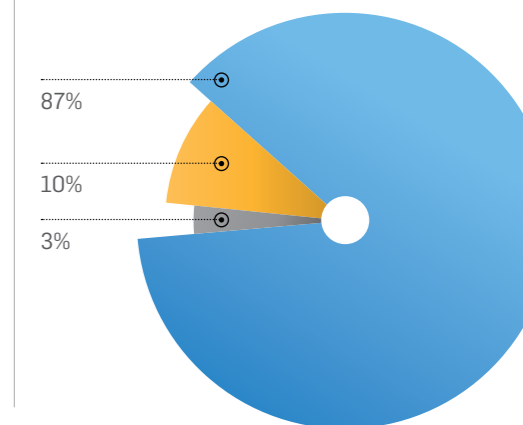
The International Acetyl Company (IAC) is a partnership between Sipchem, Helm (German Company) and the Supreme Council of Endowments. Eastman (US Company) provided the company technology. The IAC plants operate at maximum production capacity.

IAC production is partially used as a feedstock by IVC (International Vinyl Acetate Company) to produce Vinyl Acetate Monomer and Sipchem Chemicals Company (SCC) to produce Ethyl Acetate while the rest of the production is shipped to customers regionally and globally.

Sipchem completed all the legal procedures with the governmental authorities and the related parties to finalize the acquisition of Ikarus' equity in the International Acetyl Company (11%). Accordingly, Sipchem's equity in the International Acetyl Company increased from 76% to 87%.

The company has conducted scheduled periodic maintenance to its plant in April 2016 for about 15 days in line with the applied standard periodic and preventive maintenance criteria. These maintenance works contributed in raising the level of safety, reliability and production efficiency of the plant.

Ownership Percentage		
87%	Sipchem	
10%	Helm of Germany	
3%	Supreme Council of Endowments	



5. International Vinyl Acetate Company (IVC):



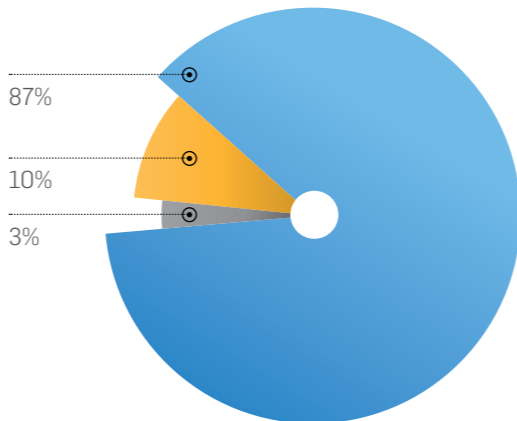
The International Vinyl Acetate Company (IVC) is a partnership among Sipchem, Helm (German Company), the Supreme Council of Endowments. The US DuPont company provided the company technology. The International Vinyl Acetate Company (IVC) operates a plant for the production of Vinyl Acetate Monomer. The 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.

Sipchem completed all the legal procedures with the governmental authorities and the related parties to finalize the acquisition of Ikarus' equity in the International Vinyl Acetate Company (IVC), (11%). Accordingly, Sipchem's equity in the International Vinyl Acetate Company (IVC) increased from 76% to 87%.

Establishment Date	2006
Company Type	Limited Liability Company
Headquarter	Jubail Industrial City- Saudi Arabia
Capital	SAR 676,000,000
Company Activity	Production of Vinyl Acetate Monomer
Production Capacity	330 thousand mtpa

The International Vinyl Acetate Company (IVC) operates a plant for the production of Vinyl Acetate Monomer. 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.

Ownership Percentage		
87%	Sipchem	
10%	Helm of Germany	
3%	Supreme Council of Endowments	



6. International Polymers Company (IPC):



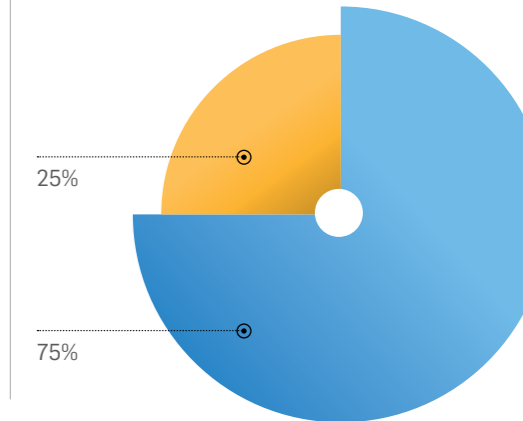
The International Polymers Company (IPC) is a partnership between Sipchem and Hanwha Chemical of South Korea. ExxonMobil provided the company technology. The company's main activity is to produce Ethylene Vinyl Acetate (EVA) and Low-Density Polyethylene (LDPE). This plant is considered the first of its kind in the Middle East to produce Ethylene Vinyl Acetate (EVA).

The polymers are necessary feedstock to go for further downstream industries. The main feedstock to produce Ethylene Vinyl Acetate (EVA) and Low-Density Polyethylene (LDPE) is Ethylene and Vinyl Acetate Monomer (VAM). The Vinyl Acetate Monomer (VAM) will be provided as a second feedstock from IVC (Sipchem affiliate), whereas Ethylene will be supplied by Jubail United Petrochemical Company (Sabic Affiliate). These specialty products are targeted within Sipchem's strategy to raise the added value of its products by moving to integrated downstream conversion industries to meet the increasing local and international demand.

Establishment Date	2009
Company Type	Limited Liability Company
Headquarter	Jubail Industrial City- Saudi Arabia
Capital	SAR 703,200,000
Company Activity	Production of Ethylene Vinyl Acetate (EVA) and Low-Density Polyethylene (LDPE)
Production Capacity	200 thousand mtpa

The company's main activity is to produce Ethylene Vinyl Acetate (EVA) and Low-Density Polyethylene (LDPE). This plant is considered the first of its kind in the Middle East to produce Ethylene Vinyl Acetate (EVA).

Ownership Percentage		
75%	Sipchem	
25%	Hanwa of Korea	



7. Sipchem Chemicals Company (SCC):



Establishment Date	2011
Company Type	Limited Liability Company
Headquarter	Jubail Industrial City- Saudi Arabia
Capital	SAR 266,000,000
Company Activity	Production of Production of Ethyl Acetate / Butyl Acetate / Polybutylene Terephthalate/ Tetrahydrofuran
Production Capacity	217 thousand mtpa

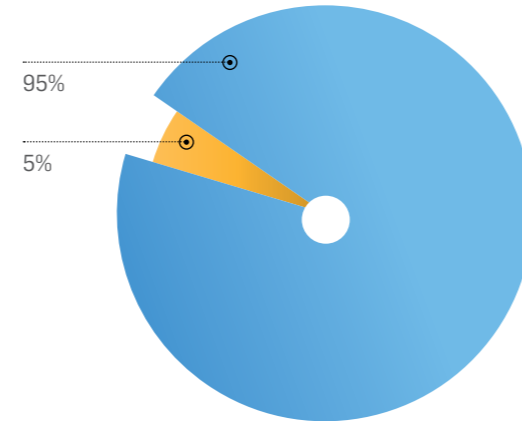
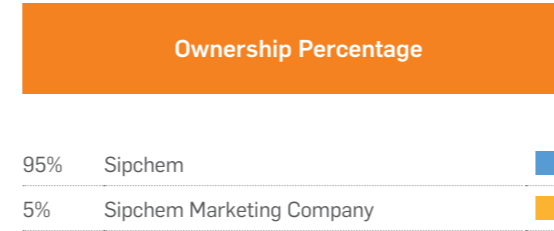
These specialized products are part of the company strategy to implement integrated transformative projects with the current products in order to meet the local needs of this product, in addition to meeting the demand of international markets.

The Sipchem Chemicals Company (SCC) is a partnership between Sipchem and Sipchem marketing Company (SMC), a Sipchem's affiliate. Rhodia provided the company technology. These specialized products are part of the company strategy to implement integrated transformative projects with the current products in order to meet the local needs of this product, in addition to meeting the demand of international markets.

A. Ethyl Acetate / Butyl Acetate Plant

The feedstock needed for the production of Ethyl Acetate are acetic acid which is provided by the IAC, Sipchem Affiliate, and ethanol which is imported from the international markets. The plant production capacity is 150 thousand mtpa. Its product is used in many various and important industries.

Ethyl and Butyl Acetate plants both carried out a regular scheduled maintenance in April 2016 and for about 15 days, in line with the standards of routine maintenance and preventive maintenance necessary, which contributed to increase the level of safety and reliability as well as production efficiency.



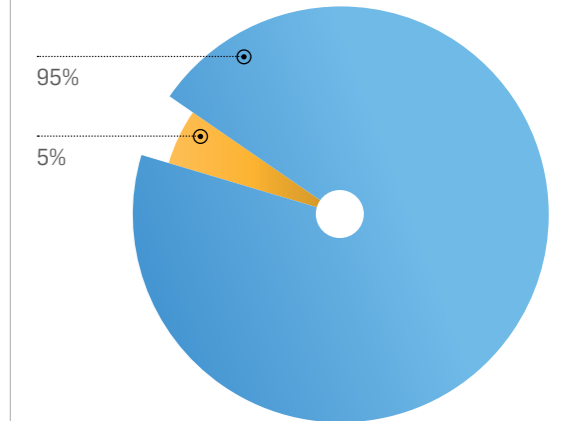
B. Polybutylene Terephthalate Project: under construction project



Establishment Date	2011
Company Type	Limited Liability Company
Headquarter	Jubail Industrial City- Saudi Arabia
Capital	SAR 266,000,000
Company Activity	Production of Production of Ethyl Acetate / Butyl Acetate / Polybutylene Terephthalate/ Tetrahydrofuran
Production Capacity	217 thousand mtpa

Polybutylene Terephthalate Project is first of its kind in the Middle East with a total cost of 600 million Saudi Riyals, funded by the shareholders, SIDF, and other banks. The company will produce 63,000 mtpa of Polybutylene Terephthalate annually and 4,000 mtpa of Tetrahydrofuran annually.

Polybutylene Terephthalate Project is first of its kind in the Middle East with a total cost of 600 million Saudi Riyals, funded by the shareholders, SIDF, and other banks. The company will produce 63,000 mtpa of Polybutylene Terephthalate annually and 4,000 mtpa of Tetrahydrofuran annually. SCC announced in April 2015 successful trial operation of the Polybutylene Terephthalate plant. SCC successfully examined the key equipment and confirmed their efficiency and production capacity. Polybutylene Terephthalate is a high specialty thermal engineering polymer which is used in many industries. As well, using Butanediol produced by the IDC (Sipchem Affiliate) as a basic material for producing the PBT will allow Sipchem to get benefit from its integrated package of products and will strengthen the added value chain. The company is still working hard to complete the qualification procedures of the product.



Sipchem and Excellence Everywhere

Sipchem strives to excel in building a high reputation, encouraging thinking, learning, challenging, driving innovation and using wisdom and knowledge. Through responsible innovation, we are more beneficial to humanity around us.

Sipchem's diverse products reach millions of consumers every day in more than 100 countries around the world, and we are proud of our reputation and operational excellence in delivering our products and services.



8. Gulf Advanced Cable Insulation Company (GACI):



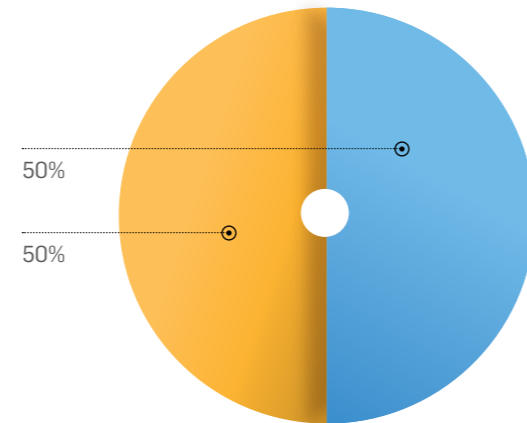
The Gulf Advanced Cable Insulation Company (GACI) is a joint venture owned by Sipchem and Hanwha Chemical of South Korea. The company technology is provided also by Hanwha.

The production of electric cable insulation polymers is a downstream industry which uses feedstock produced by Sipchem, an integration which supports the sustainability and strength of the company. These specialized products are a part of the GACI strategy in implementing integrated transformative projects together with the current products of the company through the use of Low-Density Polyethylene (LDPE) and Ethylene Vinyl Acetate (EVA) which are produced by the International Polymers Company.

This plant will meet the local and regional needs of cable insulations, in addition to meeting the needs of international markets.

Establishment Date	2012
Company Type	Limited Liability Company
Headquarter	Jubail Industrial City- Saudi Arabia
Capital	SAR 57,240,000
Company Activity	Production of cable insulation polymers
Production Capacity	25 thousand mtpa

The production of electric cable insulation polymers is a downstream industry which uses feedstock produced by Sipchem, an integration which supports the sustainability and strength of the company.



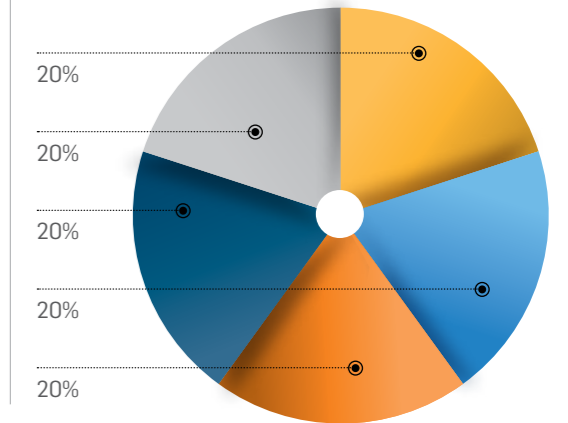
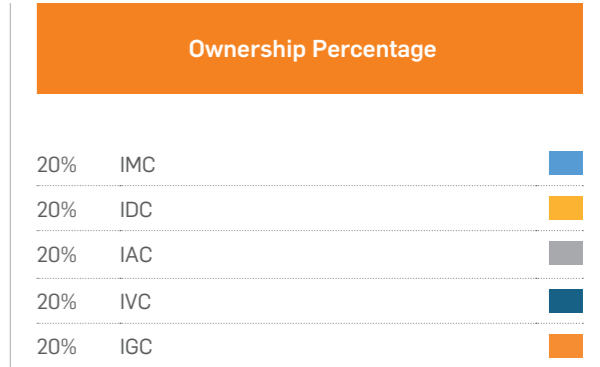
9. International Utilities Company:



The International Utilities Company (IUC) is owned equally by 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%. The purpose of the company is to manage, operate and maintain utilities, facilities and services for Sipchem's affiliates.

Establishment Date	2009
Company Type	Limited Liability Company
Headquarter	Jubail Industrial City- Saudi Arabia
Capital	SAR 2,000,000
Company Activity	Manage, operate and maintain utilities, facilities and services for Sipchem's affiliates

Sipchem's actual ownership is 68.58%. The purpose of the company is to manage, operate and maintain utilities, facilities and services for Sipchem's affiliates.



10. Sipchem Marketing Company:

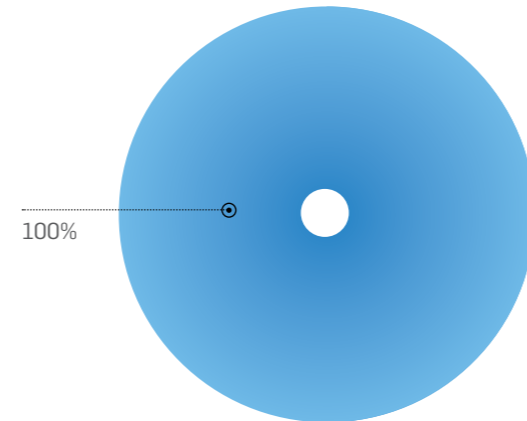
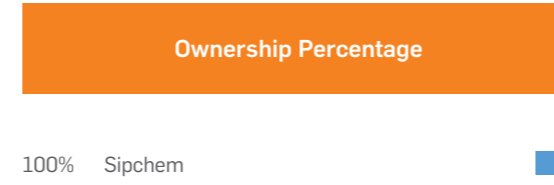


The main activity of Sipchem Marketing Company (SMC) is in the marketing and sales of the petrochemical and plastic products by a highly competent and experienced marketing experts with diverse backgrounds.

During the year 2016, SMC marketed and sold 62% of the company's products. SMC's affiliates are as follows:

Establishment Date	2007
Company Type	Limited Liability Company
Headquarter	Al Khobar City- Saudi Arabia
Capital	SAR 2,000,000
Company Activity	Marketing and sales of chemical and plastics products

During the year 2016, Sipchem Marketing Company (SMC) marketed and sold 62% of the company's products



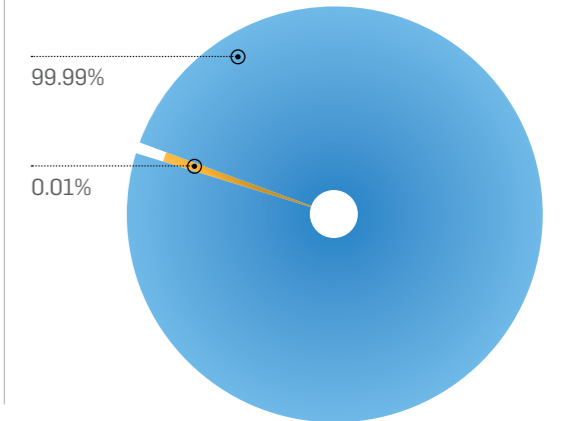
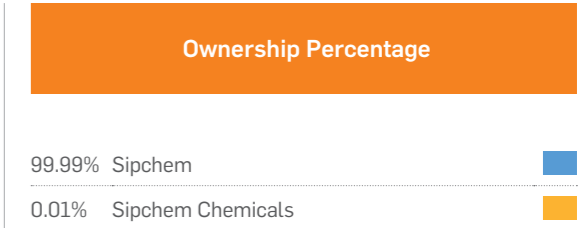
A. Sipchem Europe Cooperative UA and its Affiliates:



Sipchem Europe (Cooperative UA) Company's major activity is to provide administrative support in marketing and logistics fields. Aectra SA is an affiliate of Sipchem Europe Cooperative UA which is headquartered in Lutry, Switzerland. The main activities of Aectra SA are marketing, logistics services and commercial experience in European markets. Aectra has become a major support to market Sipchem products in Europe.

Establishment Date	2011
Company Type	Limited Liability Company
Headquarter	Amsterdam – The Netherlands
Capital	SF 1,000,000
Company Activity	Provides administrative support in marketing and logistics activities

The main activities of Aectra SA are marketing, logistics services and commercial experience in European markets. Aectra has become a major support to market Sipchem products in Europe.



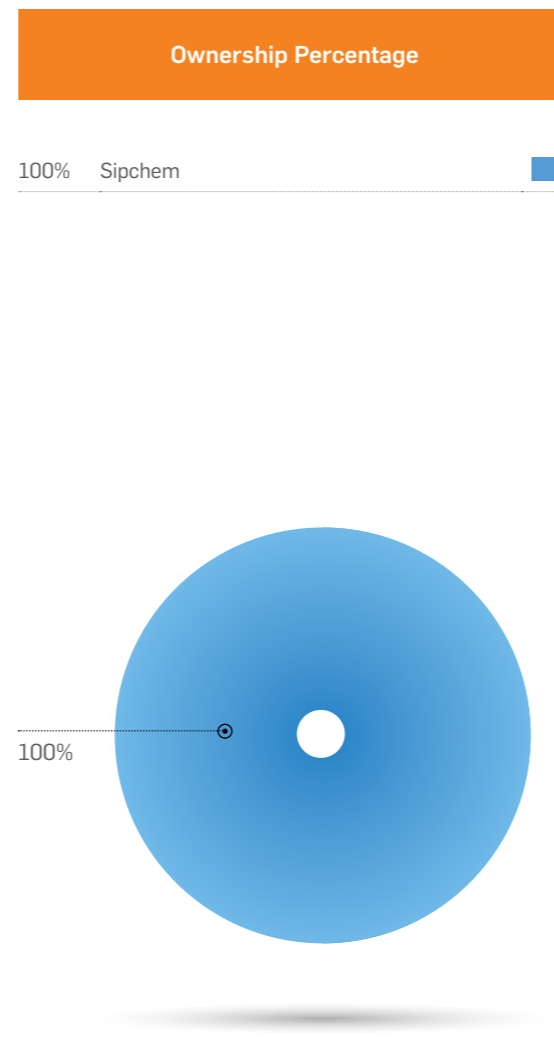
B. Sipchem Asia Pte Ltd



Establishment Date	2013
Company Type	Limited Liability Company
Headquarter	Singapore
Capital	SAR 752,970
Company Activity	Marketing the company products in Asia

This achievement completes the geographical organization of the company as it exists in the strategic markets in a manner that reflects positively on the company's performance and facilitates the movement towards more growth.

Sipchem Asia Pte Ltd, which is fully owned by Sipchem Marketing Company, added a strategic depth in marketing area allowing the company to provide services for its customers in Asia optimally by making a link between the customers and SMC. This achievement completes the geographical organization of the company as it exists in the strategic markets in a manner that reflects positively on the company's performance and facilitates the movement towards more growth. Singapore is a well-established and important logistics and trading hub for the petrochemical industry and an ideal gateway for delivering excellent service to customers throughout Asia.



11. Saudi Specialized Products Company (Wahaj):



Establishment Date	2013
Company Type	Limited Liability Company
Headquarter	Riyadh – Saudi Arabia
Capital	SAR 56,320,000
Company Activity	Establishment and operation of downstream industries in Riyadh and Hail
Production Capacity	5,000 mtpa

The Saudi Specialized Products Company (SSPC) is a partnership between Sipchem and Hanwha Chemicals of South Korea. The SSPC aims at establishing and operation of transformative project in both Riyadh and Hail. The total amount of the investment value is about SR 260 million. Below is a description of the two projects:

A. Tool Manufacturing Facility (Riyadh)

Tool Manufacturing Facility, which is located in the second industrial City in Riyadh, produces various types of specialized metal molds in addition to spare parts and different industrial equipments. The company got the necessary technology from

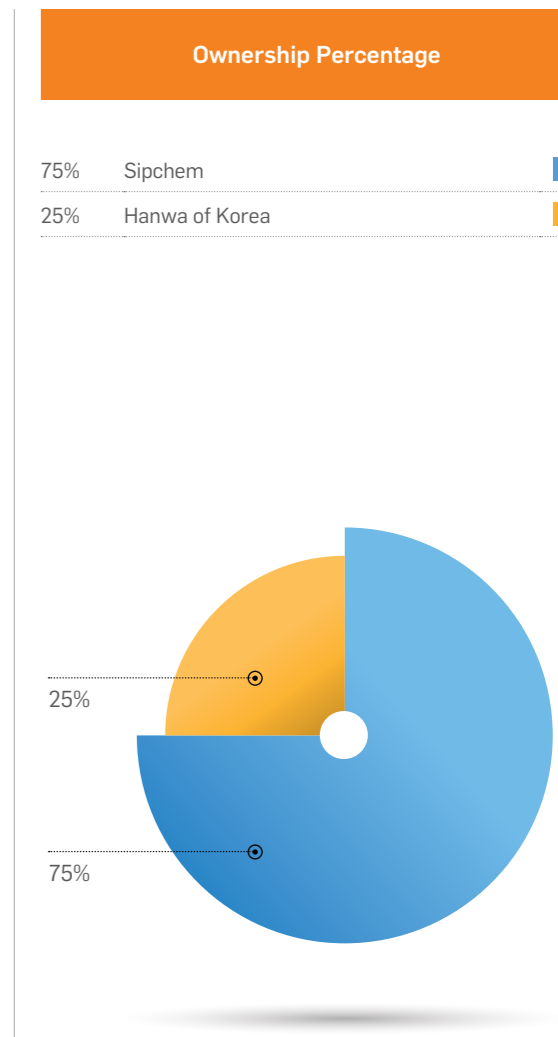
the German company Kiefer GmbH. The metal molds are used in the manufacture and formation of multiple types of molds and alloys used in factories of plastic and packaging in addition to metal and military industries. It has been provided and created the necessary infrastructure for the establishment for designing any industrial or commercial product in compliance with the required standards. 60% of the plant's production is designated for civil works and the remaining 40% of its production is designated for manufacturing military spare parts. The plant was awarded many quality certifications in health and occupational safety management systems, environmental management system and quality management. The SSPC announced the official operation of TMF in November 2016.

B. Ethylene Vinyl Acetate (EVA) Film Project (Hail) - under construction

This project is considered the first of its kind in the Gulf region. The total cost of the project is estimated at about SR 150 million with 4,000 mtpa of annual production capacity of ethylene vinyl acetate films. Mitsui Chemicals Tohcello, Inc. provides the company technology. It is located on 40 thousand square meters. The product will be distributed through the Sipchem Company.

The ethylene vinyl acetate films are used to make the panels of solar cells used for generating electricity from the solar energy. This project reflects Sipchem's commitment to the Kingdom's target of being one of the leading countries in using renewable energy. The establishment of this project in the city is considered a supportive opportunity to create investment opportunities for new projects that use this product. The project will also create many job opportunities for the people of this region.

At the end of 2014, the SSPC announced the trial run of EVA Film plant. The trial run will continue until the end of examinations conducted over the plant equipment to ensure their efficiency.





Third: Sipchem Technology And Innovation Center (Manar):

Sipchem Technology & Innovation Center (Manar) has contributed in enhancing the company's technical competency through the experienced manpower specialized in product development and associated applications. The official operation of this Center in 2016 will support the economic vision of the Kingdom, which promotes industrial and commercial diversification through the development of the downstream industry. The Center starts to contribute in improving the global competitiveness of Sipchem and its affiliates through technical support and optimal development of the production.

The Center mainly focuses on the development of applications that support "Sipchem" plan and add value to its products and customers. Other aspects of innovation include the development of the simulation capacities of the manufacturing processes in the company's plants to improve quality and reduce costs. In another aspect, studies on the localization of raw and primary materials through the value chain of chemicals and polymers are conducted.

The Center follows the principles of open innovation with a focus to take advantage of internal and external competencies, expertise and capabilities to deliver innovative solutions. This approach is supported by a range of technical exchange forums to discuss the challenges and the available opportunities; to enhance productivity and the focus on creating added value. Sipchem Technology & Innovation Center (Manar) intends to create more added value through cooperation with local and international universities. The Center is constantly supporting local initiatives through technology, innovation and entrepreneurship transfer program in addition to taking advantage of the motivational nature of King Fahd University of Petroleum and Minerals. Furthermore, the Center is an active participant in the Industrial Cooperation Program at King Abdullah University of Science and Technology.

MANAR focuses in its researches on the main uses of the products, i.e. films used in manufacturing the solar cells and thin sheets for agricultural uses, flexible pipe, adhesives for timber, papers and paints industry, electric cables, optical fiber cables, and other products that will support the national program for the development of industrial clusters.

Forth: Sipchem's Strategies

Sipchem focuses mainly on the development of its activities. Due to the completion of its investment expansions and in order to improve the efficiency of the company and its affiliates performance, in 2016 Sipchem's Board of Directors have approved the company's new corporate strategy, which depends on the following targets:

- 1- Focus on C1 and light olefin value chains.
- 2- Enhance the efficiency and profitability of the current business
- 3- Assess the growth opportunities in new projects, mergers and acquisitions to gain competitive advantage.
- 4- Continuous to pursue leadership in sustainability on both regional and global levels.
- 5- Evaluate the potential growth opportunities in different sectors.

These goals were achieved through the implementation of a work plan involving the Board members, the executive management and employees of different departments, under the direct supervision of the Department of Strategy and Business Development with the help of an external consultant.

Sipchem plans to launch and complete the second phase of this strategy in 2017 which requires the development of detailed strategies for each department in the company.

The difficult conditions currently facing the market are clear evidence that geographical considerations and product diversity should be included in Sipchem's strategy as well as integrating manufacturing with existing or new value to minimize potentially volatile financial results that will have a positive impact on shareholder returns.





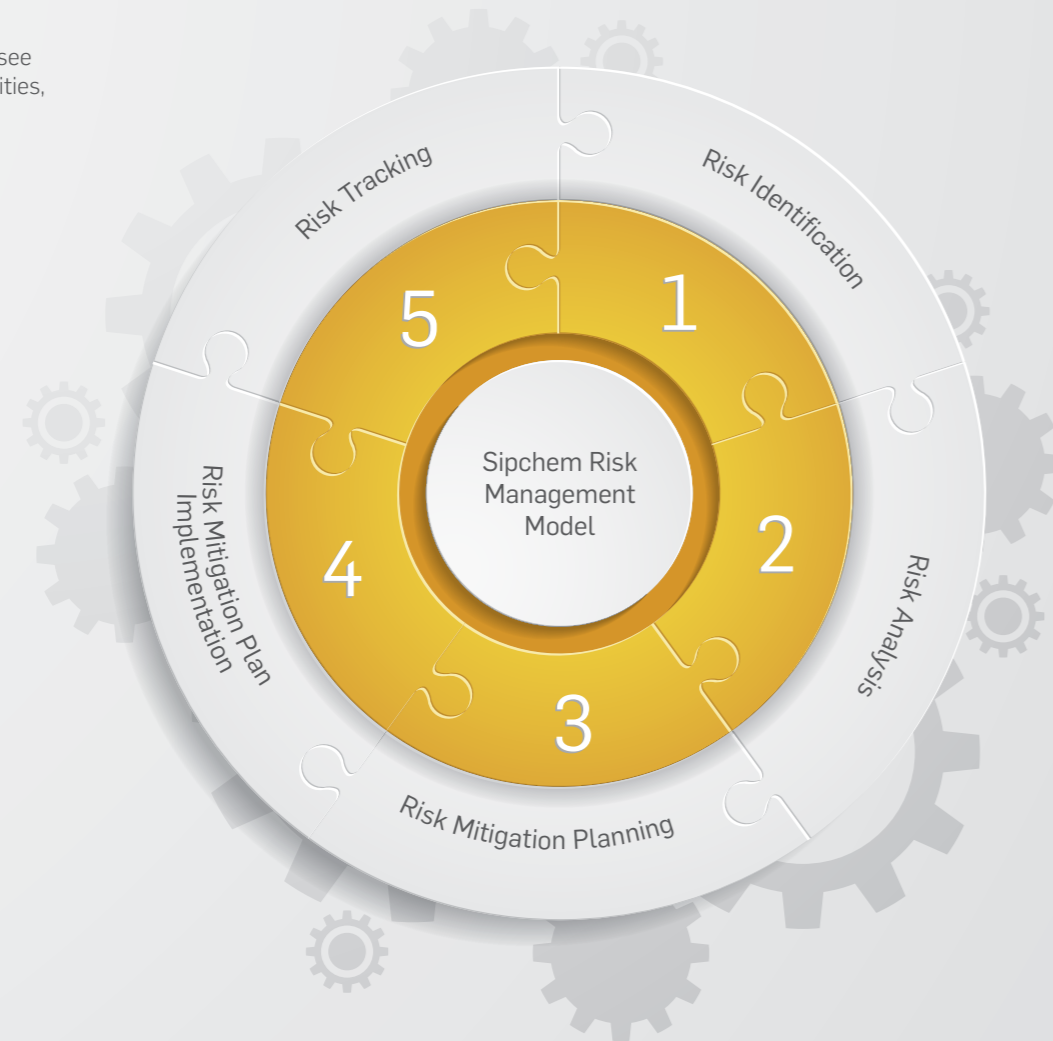
Fifth: Sipchem Plans And Business Expectations:

Sipchem works to raise the value of its shares and generate returns to investors in accordance with the strategic plans adopted by the company. Therefore, Sipchem continues searching for the available growth opportunities, either by increasing the production capacity of the existing plants, developing new plants or through mergers and acquisitions. In addition, the company also continue to improve the operating efficiency, the production and marketing in order to maximize the returns. In order to achieve such plans, the company's Board of Directors has adopted a number of programs and projects, on both the long term and the short term, that will contribute to the achievement of the excellent performance so as the company will be one of the leading petrochemical companies in the world.

Sixth: Risks related to Sipchem and affiliates business

The Enterprise Risk Management Process Model:

The risk management process model (see below) includes the following key activities, performed on a continuous basis:



Sixth: Risks related to Sipchem and affiliates business

Enterprise Risk Management (ERM)

ERM is a strategic business discipline that supports the achievement of an organization's objectives by addressing the full spectrum of its risks and managing the combined impact of those risks as an interrelated risk portfolio.

ERM represents a significant evolution beyond previous approaches to risk management in that it:

1. Encompasses all areas of organizational exposure to risk (financial, operational, reporting, compliance, governance, strategic, and reputational, etc.).
2. Prioritizes and manages those exposures as an interrelated risk portfolio rather than as individual "silos".
3. Evaluates the risk portfolio in the context of all significant internal and external environments, systems, circumstances, and stakeholders.
4. Provides a structured process for the management of all risks, whether those risks are primarily quantitative or qualitative in nature.
5. Views the effective management of risk as a competitive advantage.
6. Seeks to embed risk management as a component in all critical decisions throughout the organization.

Development and Implementation of Enterprise Risk Management

The main objective of Enterprise Risk Management is risk reduction and avoidance in addition to identification of risks faced by the business and optimization of risk management strategies. The company has also adopted COSO, a well-defined Risk Management framework.

The company has constituted a Risk Management Committee which will assist the Board in developing, implementing, monitoring and reviewing the Risk Management Plan.

Sipchem Enterprise Risk Management Process

Enterprise risk management is a continuous process that is accomplished throughout the life cycle of a system. It is an organized methodology for continuously identifying and measuring the unknowns; developing mitigation options; selecting, planning, and implementing appropriate risk mitigations; and tracking the implementation to ensure successful risk reduction.

Effective risk management depends on risk management planning; early identification and analyses of risks; early implementation of corrective actions; continuous monitoring and reassessment; and communication, documentation, and coordination.

The Enterprise Risk Management Process Model

The risk management process model (see below) includes the following key activities, performed on a continuous basis:

Risks related to Sipchem and its affiliates:

1. Labor risk

Due to the large number of petrochemical projects in Saudi Arabia and GCC states, Sipchem and its affiliates may not be able to keep their current employees or recruit new experienced and talented ones. As a result, there will be lack in trained labour or inability to keep the required human resources.

2. Commodity prices risk

Sipchem operates in international commodity markets in which it sells or intends to sell its products whose prices changes due mainly to global demand and supply and are significantly affected by the fluctuation in oil and gas global prices. Accordingly, any material change in the market conditions and prices of oil and gas will have an impact on the company's future prospects. Oil and gas prices have been characterized by historical fluctuation. Currently, oil prices are less than its historical levels.

3. Financing risks

In order to finance its current and potential projects which need huge capital investments or to contribute in funding such projects, Sipchem depends mainly on its ability to obtain trade loans from commercial banks or non-commercial authorities as per appropriate conditions from the Board's point of view. However, if the company or its affiliates become unable to obtain such financing or fulfill its current financing obligations (including compliance to covenants and the applicable ratios), the company's financial performance or its ability to expand its business will be adversely affected.

Sipchem and Sustainable Development

Sipchem has adopted a sustainability project that focuses not only on the path of growth but also has a greater responsibility in reducing the damage to society and the environment and maximizing the positive aspects of the company's performance.

Seventh: Sustainability:



Sipchem adopted the sustainability project; it does not focus only on the growth path but has a greater responsibility in reducing the impact of the damages that may affect the society and environment as well and maximize the positive aspects of the company.

On 21 July 2016, Sipchem published its Sustainability Report entitled "Sustainable Excellence". This report highlights Sipchem's ambitious efforts in sustainability as one of the main corners in the company's principles and values. It drives the company's business growth efficiently and continuously in addition to achieving the environmental and social balance. This report complies with the fourth generation of GRI's Sustainability Reporting Standards to provide an insight into the recent contributions in sustainability. Meanwhile, it will be the starting point for performance monitoring and recording process according to the relevant approved standards. The report includes core topics such as the economical, environmental and social excellence in addition to many other topics which cover the financial performance, security, safety, energy management, social initiatives in addition to human capital improvement initiatives.

Sipchem has set key performance indicators in order to measure the company's performance in economical, environmental and social sustainability. The publication of such indicators in sustainability report comes in line with the company's commitment to the principle of integrity towards shareholders.

The positive impact that Sipchem aspires to create is not limited to the production and marketing of petrochemical products only, it extends to the localization of the advanced technologies, providing the best training opportunities for the national labor and adding value to the national economy by enabling the national companies to supply materials and services necessary for the company's business.

The Company recognizes that compliance with the environmental standards and conservation of the natural resources are vital to assure work continuousness. In this regard, the company managed to reduce its consumption of fresh water for industrial purposes by half million cubic meter per year. The company was awarded the Sustainability Award by ME Oil and Gas Magazine for this achievement.



The company is keen on effective and regular communication with all the stakeholders in order to know their recommendations and deal with their concerns to maximize the positive impact of the company's business.

The sustainability of excellence in performance requires the optimal direction of the company's resources towards goals of great benefit to make sustainability a key objective in the strategy of the company.

In this regard, the company's management focuses on the development of smart objectives that combine the aspirations of stakeholders and business requirements to develop the company's performance in sustainability and become one of the leading companies on both regional and global levels.



Eighth: Financial Highlights:

Sipchem achieved a net profit of SR 70 million in 2016 compared to SR 288 million in 2015. Decrease of profits is mainly attributed to the significantly drop of all the company products prices mainly Methanol, BDO and Acetyls in addition to the increase in NG, Power, and additional ethylene purchases at market rates for IPC.

Below are the financial indicators of the year 2016 compared with the previous year 2015.

- The total gross profit for the year 2016 was SR 690 million compared with SR 833 million for the previous year 2015; a decrease of 17%.
- The operational profit for the year 2016 was SR 417 million compared with SR 573 million for the previous year 2015; a decrease of 27%.
- The net profit for the year 2016 was SR 70 million compared with SR 288 million for the previous year 2015; a decrease of 76% .
- The Earnings per Share (EPS) was SR 0.19 for 2016 and SR 0.79 for the previous year.

Assets, liabilities and business results:

1. Financial Position Statement

(Million Saudi Riyals):

Details	2016	2015	2014	2013	2012
Total current assets	3,306	3,575	4,060	4,475	4,189
Total non-current assets	13,164	13,484	13,116	12,214	11,000
Total assets	16,479	17,059	17,176	16,689	15,189
Total current liabilities	2,090	1,790	1,562	1,288	1,389
Total non-current liabilities	6,910	7,564	7,660	7,979	6,665
Total shareholders' equity and minority interest	7,470	7,705	7,954	7,421	7,135
Total liabilities, shareholders' equity and minority interest	16,470	17,059	17,176	16,689	15,189

Eighth: Financial Highlights:

2. Income Statement

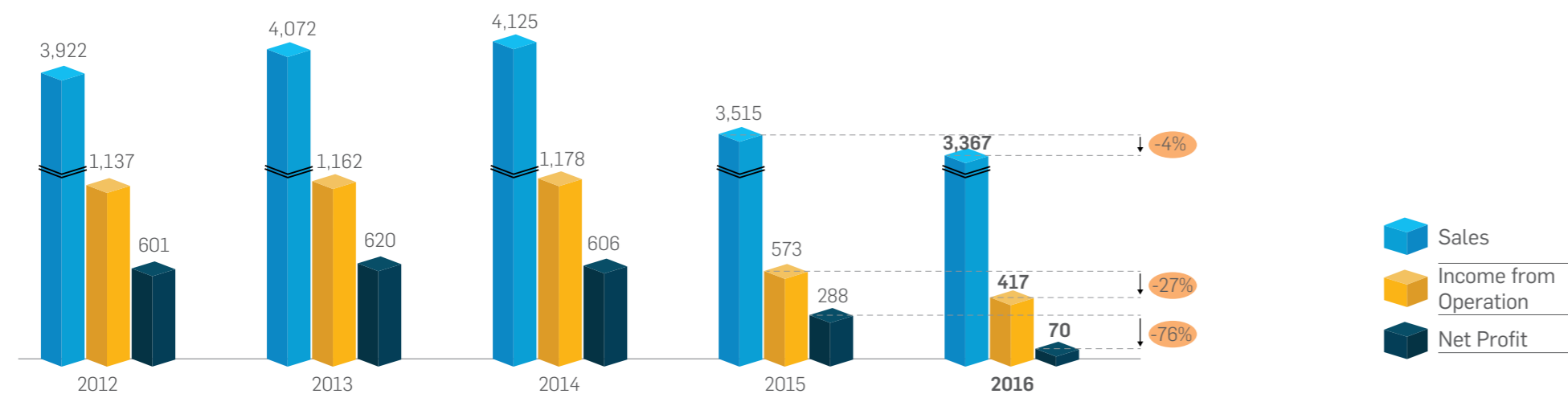
(Million Saudi Riyals except EPS):

Description	2016	2015	2014	2013	2012
Sales	3,367	3,515	4,125	4,072	3,922
Cost of sales	(2,677)	(2,682)	(2,726)	(2,707)	(2,654)
Total profit	690	833	1,397	1,365	1,268
Administrative and public expenses	(273)	(260)	(219)	(203)	(131)
Income from operations	417	573	1,178	1,162	1,137
Investment earnings	38	10	9	17	20
Financial expenses	(246)	(174)	(156)	(172)	(183)
Net revenues of operations before run	-	-	-	-	2
Net (expenses) of other revenues	9	(40)	(93)	(22)	12
Write-off of property, plant & equipment	(31)	-	-	-	-
Income before minority interest, zakat allocation and income tax	187	369	938	985	988
Minority equity	(61)	(51)	(245)	(310)	(315)
Zakat and income tax	(56)	(30)	(87)	(55)	(72)
Net income	70	288	606	620	601
Earnings Per Share (EPS) Saudi Riyal	0,19	0,79	1,65	1,69	1,64

Eighth: Financial Highlights:

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

(Million Saudi Riyals):



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

(Million Saudi Riyals):

Details	Year 2016	Year 2015	Changes +/-	Change percentage
Total Gross Profit	690	833	(143)	-17%
Operational Profit	417	573	(156)	-27%
Net profit	70	288	(218)	-76%

The main reason for the decrease of the net profit of the year 2016 was mainly due to the decrease of profits is mainly attributed to the significantly drop of all the company products prices mainly Methanol, BDO and Acetyls. Marginal decrease in production cost mainly due to lower specific consumptions and lower fixed costs.

Eighth: Financial Highlights:

5. Description of each sector's participation in the company's activities and results:

Sector Analysis:

- It includes the group's activities in the following sectors:
- Petrochemicals: It includes activities related to the manufacturing operations.

Marketing: It includes marketing and commercial activities risks management in line with the approved sales and off-take agreements, swap transactions, and products hedging.

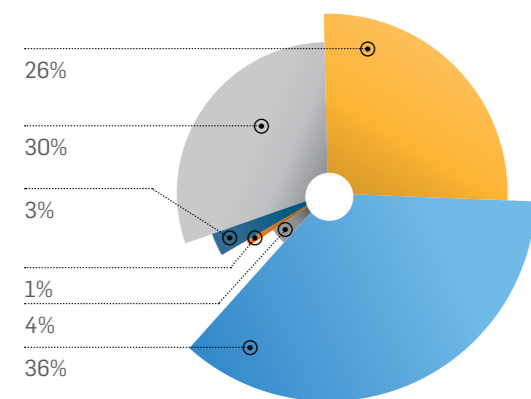
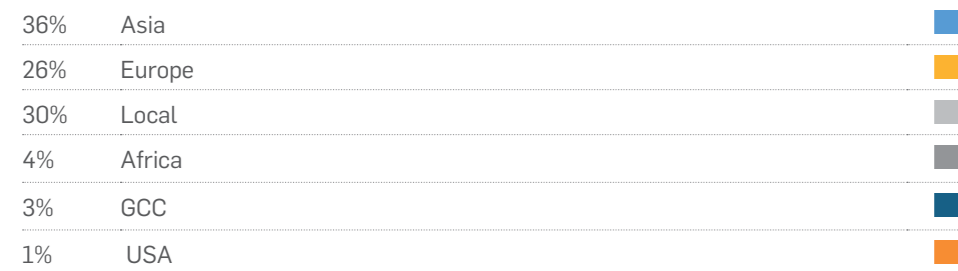
(Million Saudi Riyals):

	Petrochemicals	Marketing	Total
31 December 2016:			
Sales	3,189	178	3,367
Gross Profit	686	4	690
Net Assets	7,411	59	7,470
31 December 2015:			
Sales	3,012	502	3,514
Gross Profit	653	180	833
Net Assets	7,680	25	7,705

Eighth: Financial Highlights:

6. The Geographical Analysis of Sipchem's Sales:

The marketing and sales of company products take place in the local markets, the Middle East and the International Markets. The graph here shows the geographical distribution of the company sales during 2016:



7. The Second issuance of Shariah- compliant ("Sukuk")

The Saudi International Petrochemical Company (Sipchem) issued Sharia-compliant Sukuk. Sipchem announced the successful completion of the second issuance of Sharia-compliant Sukuk in June 2016 for a total amount of SR one billion. The Sukuk was priced at 235 bps over six (6)-month SAIBOR for tenure of five (5) years maturing on June 16, 2021.

8. Early redemption of the first issuance of Mudarabah

The company announced the early redemption of 18,000 Mudarabah Sukuk on 15 June 2016. Mudarabah Sukuk for a total of SR 1.8 Billion which were due on 6 July 2016. Full redemption was executed on 15 June 2016.

9. Energy prices

On 5/1/2016, the company announced on Tadawul that the financial impact of the increase of energy prices and electricity consumption rate is expected to be about SR 120 million. The company also highlighted that it would continue the implementation of its strategic plans to enhance the efficiency of its plants production in addition to rationalizing the expenses and accessing the largest segment of customers in the global markets.

Eighth: Financial Highlights:

10. Total Debts for Sipchem and its Affiliates:

The following schedule shows the loans and debts of the company and its affiliates during 2016.

Saudi International Petrochemical Company:

(Million Saudi Riyals)

Lending Entity	Loan Term	Value of Loan	Balance at start	Withdrawing during the year	Total repayments during the year	Balance at end
Islamic Sukuk	5 years	-	1,800	1,000	(1,800)	1,000
Long-term loans	5 years	-	600	1,074	(50)	1,624
Short-term loans	6 months	-	200	200	(200)	200

International Methanol Company:

(Million Saudi Riyals)

Lending Entity	Loan Term	Value of Loan	Balance at start	Withdrawing during the year	Total repayments during the year	Balance at end
Islamic facilitations	10.6 years	325	299	-	(26)	273

International Diol Company:

(Million Saudi Riyals)

Lending Entity	Loan Term	Value of Loan	Balance at start	Withdrawing during the year	Total repayments during the year	Balance at end
Islamic facilitations	10.6 year	484	388	-	(42)	346
Islamic facilitations	12.6 years	524	444	-	(37)	407

Eighth: **Financial Highlights:****10. Total Debts for Sipchem and its Affiliates** (Continued)**International Acetyl Company:**

(Million Saudi Riyals)

Lending Entity	Loan Term	Value of Loan	Balance at start	Withdrawing during the year	Total repayments during the year	Transferred to capital	Balance at end
Commercial Banks	11.5 years	618	594	-	(27)	-	567
SIDF	9.8 years	400	180	-	(40)	-	140
PIF	11.4 years	769	346	-	(77)	-	269
Partners	undefined	undefined	112	-	(112)	-	-

International Vinyl Acetate Company:

(Million Saudi Riyals)

Lending Entity	Loan Term	Value of Loan	Balance at start	Withdrawing during the year	Total repayments during the year	Transferred to capital	Balance at end
Commercial Banks	11.5 years	355	340	-	(16)	-	324
SIDF	9.8 years	400	180	-	(40)	-	140
PIF	11.4 years	439	197	-	(43)	-	154

International Gases Company:

(Million Saudi Riyals)

Lending Entity	Loan Term	Value of Loan	Balance at start	Withdrawing during the year	Total repayments during the year	Transferred to capital	Balance at end
Commercial Banks	7.5 years	61	59	-	(2)	-	57
SIDF	9.8 years	400	160	-	(40)	-	120
PIF	11.4 years	143	64	-	(14)	-	50

Eighth: **Financial Highlights:****10. Total Debts for Sipchem and its Affiliates** (Continued)**Sipchem Marketing Company:**

(Million Saudi Riyals)

Lending Entity	Loan Term	Value of Loan	Balance at start	Withdrawing during the year	Total repayments during the year	Balance at end
Partners	Undefined	Undefined	106	-	-	106

International Polymers Company

(Million Saudi Riyals)

Lending Entity	Loan Term	Value of Loan	Balance at start	Withdrawing during the year	Total repayments during the year	Transferred to capital	Balance at end
Islamic facilitations	14.6 years	704	643	-	(44)	-	599
SIDF	11 years	600	580	-	(60)	-	520
PIF	14 years	704	622	-	(54)	-	568
Partners (short term)	undefined	undefined	125	-	-	-	129

Sipchem Chemicals Company:

(Million Saudi Riyals)

Lending Entity	Loan Term	Value of Loan	Balance at start	Withdrawing during the year	Total repayments during the year	Balance at end
SIDF	9.6 years	165	155	5	(15)	140
SIDF	9.9 years	257	231	-	-	231
Islamic facilitations	3 months	300	-	-	-	-
Partners	6 Months	undefined	784	136	-	920

Eighth: **Financial Highlights:****10. Total Debts for Sipchem and its Affiliates** (Continued)**Gulf Advanced Cable Insulation Company:**

(Million Saudi Riyals)

Lending Entity	Loan Term	Value of Loan	Balance at start	Withdrawing during the year	Total repayments during the year	Balance at end
SIDF	8.5 years	99	94	-	(11)	83
Partners	undefined	undefined	78	1	-	79
Partners	undefined	undefined	68	2	-	70

Saudi Specialized Products Company (SSPC):

(Million Saudi Riyals)

Lending Entity	Loan Term	Value of Loan	Balance at start	Withdrawing during the year	Total repayments during the year	Balance at end
Partners	undefined	undefined	85	37	-	122
Partners (short term)	undefined	undefined	70	-	(70)	-
SIDF	9.5 years	65	52	9	-	61

11. Description of Debt Instruments Activities:

There is no any debt instruments convertible into shares or any subscribing right memorandums or similar rights issued or granted by the Company during the year 2016. Also, there is not any a conversion or subscription right under the debt instruments convertible into shares or option rights or subscribing right memorandums or similar rights issued or granted by the Company during the year 2016. In addition, there is not any redemption, purchase, or cancellation by the Company of any irrevocable debt instruments.

12. Governmental Statutory Due Payments:

(Million Saudi Riyals)

Entity	Government payments up to 31/12/2016
Zakat & Income Tax Department	76
General Organization for Social Insurance (GOSI)	34

Eighth: **Financial Highlights:****13. International Financial Reporting Standards (IFRS) Implementation Plan**

In compliance with the requirements of the Saudi Organization for Certified Public Accountants (SOCPA) for the implementation of the International Financial Reporting Standards, which was approved by the Capital Market Authority as of 1 January 2017, the company will analyze the impact of implementing such standards for the first time on its financial statements for the current and previous year and will include the required settlements in its financial statements prepared according to such standards.

In 2016, the company disclosed the stages of its plan to transfer to the international accounting standards and its availability, which was as follows:

• **Status of IFRS Conversion Plan**

We have already started to apply the plan started from 2016 and reached to stage of implementation phase and review with auditors.

Activity	January 2016 to June 2016	July 2016 to Sept 2016	October 2016 to December 2016	January 2017 to February 2017	March 2017 to April 2017
Planning and Project Launch	Completed				
Gap Analysis Report submitted by E&Y	Completed				
Finalization of Accounting Manual as per IFRS and Tadawel Announcement			Completed		
Quantification for 2015 & 2016 based on Gap Analysis Report				Completed	
System Configuration by IBM based on Gap Analysis Assess the effect on the work systems, reports and adopt necessary changes accordingly.					In Progress
Prepared 2016 financial opening balances as per IFRS			Completed		
Prepared 2016 Financials Statements based on IFRS			Completed		
Review of Opening Balance Sheet and 2016 Financials Statements by KPMG					In Progress

Ninth: Description of any transactions between Sipchem and interested related parties:

Interested related parties are the shareholders of the company and its affiliates, board members and the establishments that are controlling or jointly controlled and significantly influenced by such interests. Below are the interested related parties during the year 2016:

Name	Transaction	Relation
Japan Arabia Methanol Company Ltd.	Sales	Minority Partner
Helm Arabia Gmbh & Co (Helm Arabia Co.)	Sales	Minority Partner
Hanwha Chemical Malaysia Sdn. Bhd	Sales	Minority Partner
Johnson Matthey Davy Technologies Limited (JM Davy)	Sale of fixed assets	Affiliate of a shareholder of a subsidiary

- Foreign partners of the Company marketed part of the Group's products. Total sales made through those foreign partners amounted to SR 1,442 million in 2016 compared to SR 1,518 million in 2015.
- One of Sipchem's Affiliates has purchased some fixed assets from one of its foreign partners during 2016 for SR 20 million compared to SR 19 million in 2015.
- The company and the minority partners have granted advances to the group companies in order to support their operations and comply with the lender terms. Some of the long-term advances do not have finance costs and no dates are determined for payment thereof, while other long and short-term advances have finance costs as per the ordinary commercial prices.
- The prices of these deals and the conditions relating thereto are adopted by the Boards of Directors of the group companies.

As of 31 December 2016, the balances pertaining to the deals referred to above are as follows:

• Amounts required from related parties:

(Million SAR)

	2016	2015
Japan Arabia Methanol Company Ltd	36	6
Helm Arabia Gmbh & Co (Helm Arabia Co.)	172	210
Hanwha Chemical Malaysia Sdn. Bhd	84	79
Total	292	295

• Amounts Due to related parties:

(Million SAR)

	2016	2015
Johnson Matthey Davy Technologies Limited (JM Davy)	1	3

Tenth: Internal Audit:

The Internal Audit department verifies the effectiveness of the Internal Audit system to face the main risks that are challenging the company. These risks include financial, operational, legal, and work risks in addition to monitoring all controls and risk management activities of the company and its activities. The Audit Committee, a Board of Directors' sub-committee, continuously supervises the works of the Internal Audit Committee and regularly reviews its reports. It follows up all the corrective actions decided by the company in regards with the audit's remarks and manage them in a way that assures not repeating them to enhance the Audit Committee's belief in the effectiveness of the Internal Audit procedures. The committee chair reports the major matters, if any, to the Board of Directors to take necessary action. The scope of the Internal Audit department includes the following:

- Prepare the annual strategic plan for the work of Internal Audit Committee.
- Auditing and periodic examinations of all administrative and operational departments and notifying their officials of the results and discussing such results before the end of the auditing and examination procedure.
- Evaluating the procedures and the solutions provided by the departments to ensure suitability and effectiveness of the proposed procedures.
- Submit reports on the auditing results and recommendations in addition to following up on these recommendations to ensure their application by the concerned departments.
- Participate in the development of the Internal Audit system and advise all employees of its importance and the departments' roles in its development through delivering lectures.

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 conducted various periodic auditing activities during the year 2016, which were aimed at ensuring the accuracy and efficiency of the performance. The committee has not discovered any weakness or violation; the company's Internal Audit system is performing properly and effectively.

Eleventh: 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 in petrochemical industries. The Board is composed of eleven members elected by the General Assembly Meeting on 07/12/2016 and it will last for 3 years. The business of the current session started on 10/12/2016 and will last for 09/12/2019. The new Board of Directors issued resolutions of appointing the Board's chairman, CEO and secretary on 12/12/2016.

The Board members shall act in good faith with due diligence for the purpose of achieving the interests of the company and its shareholders. The main functions of the board of directors are as followed:

- Adopt, review and direct the company's full strategy, main work plans and risk management policy.
- Determine the ideal capital structure, the company's strategies, financial targets and approve the annual budget.
- manage the company's main capital expenditures, assets acquisition and disposal thereof.
- Put the performance targets and monitor the implementation of such targets and the company's overall performance.
- Approve the annual unaudited financial statements.
- conduct periodical review to the organizational and occupational structures in the company and approve the same.

Eleventh: Board of Directors:

2. Board of Directors' members Classification:

The Board members are classified according to the definition as contained in Article two of the Companies Governance Code issued by the Capital Market Authority in the Kingdom of Saudi Arabia as follows:

No.	Name	Responsibilities	Membership type	Notes
1	H.E. Eng. Abdulaziz A. Al-Zamil (Representative of Al-Zamil Holding Group)	Chairman	Non-executive	-
2	Eng. Ahmad A. Al-Ohali	Managing Director and CEO	Executive	-
3	Eng. Reyadh S. Ahmed (Representative of Ikarus Petrochemical Holding Company)	Member	Non-executive	-
4	Mr. Fahad S. Al-Rajhi	Member	Non-executive	-
5	Dr. Sami M. Zaidan (Representative of Olayan Financing Company)	Member	Non-executive	-
6	Dr. Abdulrahman A. Al-Zamil	Member	Independent	-
7	Dr. Abdulrahman A. Al-Jaafari	Member	Independent	His membership started on 10/12/2016
8	Mr. Ibrahim H. Al-Mazyad (Representative of The Arab Investment Company)	Member	Independent	-
9	Mr. Ziyad A. Al-Turki	Member	Independent	His membership started on 1/10/2016
10	Mr. Ayedh M. Al- Qarni (Representative of Public Pension Agency)	Member	Non-executive	His membership started with the start of the Board's tenure on 10/12/2016
11	Mr. Bander A. Masaudi (Representative of GOSI)	Member	Independent	His membership started with the start of the Board's tenure on 10/12/2016
12	Eng. Mohammed A. Al-Ghurair	Member	Independent	His membership ended with the end of the Board's tenure on 9/12/2016
13	Dr. Abdulaziz A. Al-Gwaiz	Member	Non-executive	His membership ended with the end of the Board's tenure on 9/12/2016
14	Mr. Abdulaziz A. Al-Khamis (Representative of Public Pension Agency)	Member	Non-executive	His membership ended with the end of the Board's tenure on 9/12/2016
15	Mr. Abdulrahman A. Al-Turki (God bless his soul)	Member	Independent	His membership ended on 30/9/2016

Eleventh: Board of Directors:

3. Participation of the Board Members in other joint stock companies

The following table shows the Board members who are participating in the management of other joint stock companies:

No.	Name	Membership in other joint stock companies/ inside or outside the Kingdom
1	H.E. Eng. Abdulaziz A. Al-Zamil (Representative of Al-Zamil Holding Group)	- 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	None
3	Eng. Reyadh S. Ahmed	- Privatization Holding Company (Public Joint stock company- Kuwait) - Ikarus Petrochemical Holding Company (Public Joint stock company- Kuwait) - Noor Financial Investment Company (Public Joint stock company- Kuwait) - The Meezan Bank (Public Joint stock company- Pakistan) - Middle East Complex for Engineering and Electronic and heavy Industries (Closed joint stock company- Jordan)
4	Dr. Abdulrahman A. Al-Zamil	- National Energy Company (Closed Joint Stock-KSA)
5	Mr. Ibrahim H. Al-Mazyad	- Arab Jordan Investment bank (Public Joint Stock, Jordan) - Arab Jordan Investment bank (Public Joint Stock, Qatar) - Sudatel Communication Group (Public joint stock- Sudan) - Kenana Sugar Company (Closed Joint Stock, Sudan)
6	Mr. Fahad S. Al-Rajhi	- National Industries Company (Closed Joint Stock-KSA) - Al Rajhi Brothers Group Co. (Closed Joint Stock-KSA)
7	Dr. Sami M. Zaidan	- International Acetyl Company (IAC) and International Vinyl Acetate Company - Sipchem's affiliates
8	Dr. Abdulrahman A. Al-Jaafari	None
9	Mr. Ziyad A. Al-Turki	None
10	Mr. Ayedh M. Al-Qarni	None
11	Mr. Bander A. Masaudi	None

Eleventh: **Board of Directors:****4. Board meeting attendance registers**

The Sipchem Board held four meetings during the 2016, which witnessed discussions of the most important issues related to the company's works and projects. It is worth noting that the members who did not attend any board meetings authorized other board members to represent them. The below schedule shows the attendance register for every board member:

No.	Name	Board Meetings in 2016				Total Attendance
		First 27/03/2016	Second 15/06/2016	Third 28/09/2016	Fourth 07/12/2016	
1	Eng. Abdulaziz A. Al-Zamil	✓	✓	✓	✓	4
2	Eng. Ahmad A. Al-Ohali	✓	✓	✓	✓	4
3	Dr. Abdulaziz A. Al-Gwaiz	✓	✓	✓	✓	4
4	Dr. Sami M. Zaidan	✓	✓	✓	✓	4
5	Mr. Abdulaziz A. Al-Khamis	✓	✓	✓	✓	4
6	Mr. Fahad S. Al-Rajhi	✓	✓	✓	✓	4
7	Mr. Ibrahim H. Al-Mazyad	✓	✓	✓	✓	4
8	Eng. Reyadh S. Ahmed	✓	✗	✓	✓	3
9	Dr. Abdulrahman A. Al-Zamil	✗	✓	✓	✓	3
10	Eng. Mohammed A. Al-Ghurair	✓	✓	✗	✓	3
11	Mr. Abdulrahman A. Al-Turki (God bless his soul)	✓	✗	✗	His membership ended on 30/9/2016	1
12	Mr. Ziyad A. Al-Turki	His appointment date 1/10/2016			✓	1

Eleventh: **Board of Directors:****5. Description of any benefits for Board members, their wives and minors in shares or debt instruments in Sipchem**

Name	Shares on 1 January 2016		Shares on 31 December 2016		Net change	Change %	First class relative ownership and changes
	Ownership %	No.	Ownership %	No.			
H.E. Eng. Abdulaziz A. Al-Zamil	0.051%	186,600	0.051%	186,600	-	-	-
Eng. Ahmad A. Al-Ohali	0.083%	304,525	0.038%	140,525	164,000	-53.854%	-
Eng. Mohammed A. Al-Ghurair	0.191%	700,000	0.191%	700,000	-	-	-
Dr. Abdulrahman A. Al-Zamil	0.241%	883,892	0.241%	883,892	-	-	-
Dr. Abdulaziz A. Al-Gwaiz	0.008%	30,000	0.008%	30,000	-	-	-
Mr. Abdulrahman A. Al-Turki	2.265%	8,305,000	2.279%	8,358,380	53,380	+0.643%	-
Mr. Fahad S. Al-Rajhi	1.691%	6,200,000	1.691%	6,200,000	-	-	-
Mr. Ibrahim H. Al-Mazyad	0.000%	48	0.000%	48	-	-	-
Eng. Reyadh S. Ahmed	-	-	-	-	-	-	-
Mr. Abdulaziz A. Al-Khamis	-	-	-	-	-	-	-
Dr. Sami M. Zaidan	-	-	0.000%	1,164	1,164	+100%	-
Dr. Abdulrahman A. Al-Jaafari	-	-	0.000%	2,000	2,000	+100%	-
Mr. Ziyad A. Al-Turki	-	-	0.000%	1,000	1,000	+100%	-
Mr. Ayedh M. Al-Qarni	-	-	-	-	-	-	-
Mr. Bander A. Masaudi	-	-	-	-	-	-	-

Eleventh: **Board of Directors:****6. Description of any benefits for senior executives, their wives and minors in shares or debt instruments in Sipchem**

Name	Shares on 1 January 2016		Shares on 31 December 2016		Net change	Change %	First class relative ownership and changes
	Ownership %	No.	Ownership %	No.			
Eng. Abdulrahman A. Al-Saif	0.004%	15,000	-	-	15,000-	%100 -	-
Eng. Abdullah S. Al-Saadoon	-	-	-	-	-	-	-
Mr. Kevin J. Hayes	-	-	-	-	-	-	-
Mr. Abdullah G. Al-Hariri	-	-	-	-	-	-	-

7. Description of any benefit related to the shares of major shareholders

Below is a list of major shareholders, who own at least 5%, the number of their shares and their ownership percentage during the year 2016:

Name	Shares on 1 January 2016		Shares on 31 December 2016		Net change	Change %
	No.	Ownership %	No.	Ownership %		
Al-Zamil Holding Group Company	35,549,375	9.695%	35,549,375	9.695%	-	-
Public Pension Agency	28,405,514	7.747%	30,585,363	8.341%	2,179,849	0.071%
Ikarus Petrochemical Holding Company	29,925,478	8.161%	29,962,478	8.172%	37,000	0.123%
Olayan Financing Ltd Company	18,940,000	5.165%	18,940,000	5.165%	-	-

8. Description of any benefit related to shares owned by individuals notified the company of these rights

None notified the company about any benefit related to voting shares owned to individuals during the years 2016 other than the Board of Directors' members, senior executives, their wives, and minors.

Eleventh: **Board of Directors:****9. Rewards and compensations for the board members and senior executives**

The below table shows the highest rewards and compensations paid to the Board members and senior executives including the CEO and the General Manager of Finance during the year 2016 (Saudi Riyals)

Details	Executive Board members	Non-executive /independent Board members	Five of senior executives who received the highest rewards & compensations including CEO and Financial manager
Salaries and compensations	-	-	8,041,938
Allowances	18,000	301,691	-
Periodic and annual rewards	-	-	639,829
Incentive Plans	-	-	-
Any other compensations or in- kind benefits paid annually or monthly	-	-	-

Twelfth: Board Committees:

1. The Audit Committee

The Audit Committee is composed of three members; one of them is a board member while the other two members are nominated from outside the Board of Directors. These two members have the experience that qualifies them to participate in the audit committee's tasks. The General ordinary Assembly, in its meeting dated 7/12/2016, has approved the formation of the audit committee as per the new companies Law according to the following:

- **Article 1: General Introduction**

1. The regulations of the Audit Committee of the Saudi Petrochemical Company "Sipchem", a joint stock company, as per the requirements of the Companies Law issued by The Ministry of Commerce and Investment, CGR issued by the Capital Market Authority and the company's by-laws.
2. These regulations determine the authorities and powers of the Audit Committee (the Committee), the method of selecting its members, the method of ending their service, the tasks and rules of its work, the members' rewards and the procedures of the Committee's meetings.
3. The articles of these regulations may be amended upon a proposal of the Board of Directors and after approval by the company's General Assembly. All proposals made by the Committee are considered as recommendations to the Board of Directors not binding upon it.

- **Article 2: Audit Committee's composition and membership rules**

1. The Audit Committee shall be formed by virtue of a General Assembly's Resolution. The members of the Audit Committee, whether from the shareholders or not, shall include at least one independent member. The Audit Committee's members, whose number range from 3 to 5 members, may not be from the Board's executives. One of the members shall be an expert in the financial and accounting affairs.
2. The Company's General Assembly shall determine, in the composition resolution according to a proposal by the Board of Directors, the rules of nominating the Audit Committee members ; the period of their membership; the committee's tasks, responsibilities, working method and regulations and the rewards of its members.
3. Membership of a board member in the Audit Committee ends with the end of his membership in the Board of Directors. If an Audit member position becomes vacant during the term of the committee, a new member shall be appointed in order to complete the term of the former member provided to discuss such appointment in the first meeting of the General Assembly.

4. A person who worked with the auditor within the past two years may not be a member in the Audit Committee.
5. The CEO or any of the executive directors may not be a member in the Audit Committee.

- **Article 3: Audit Committee's working method and rules**

1. The committee shall nominate, from its members, a chairman and a secretary who shall prepare the minutes of its meetings and perform its administrative tasks.
2. In case that the Board of Directors discuss a subject matter that falls within the responsibilities of the Audit Committee, the Committee shall be convened to discuss such matter, prepare its report and submit it to the Board before its meeting.
3. The company may not neither offer any cash loan of any type to the members of the audit committee nor guarantee any loans they may obtain from third parties.
4. Members of the audit committee shall fulfill all the commitments of the Board members such as maintaining the confidentiality of the company's secrets.
5. The Committee's members shall inform the Board members of any developments that may affect their independence or any conflict of interests event relating to the decisions of the committee. The Audit Committee's performance shall be under the permanent supervision of the Board of Directors.

- **Article 4: The Committee's competencies, authorities and responsibilities:**

The Audit Committee supervises the company's activities, verifies the integrity and fairness of the reports, financial statements and internal audit systems. The Committee has the right to review the company's records and documents; ask the Board members of the executive management for any clarification or statement or request from the Board of Directors to invite the General Assembly Meeting to convene. The tasks and responsibilities of the Audit Committee include the following:

First: Financial reports

1. To review the company's financial statements and its announcements with regard to the company's financial position before submission to the Board of Directors in order to assure its integrity and fairness and to give its opinion.
2. To give its technical opinion, upon the request of the Board, whether the Board's report and the company's financial statements are fair, balanced, understandable and include the information which enable the shareholders and investors to evaluate the company's financial position, performance, work scheme and strategy or not.

Twelfth: Board Committees:

3. To examine any important or unusual matters included in the financial reports and accounts. To investigate precisely any matters raised by the company's financial manager or his deputy; compliance officer or the auditor.
4. To examine the accounting estimations with regard to the mater matters stated in the financial reports.
5. To study the accounting policies applicable in the company, give opinion and issue recommendations to the Board .

Second: Internal Audit

- a- To examine and review the company's internal audit, financial and risk management systems. To prepare written report stating the committee's opinion and recommendations concerning the adequacy of such systems and the work performed within its competency. The Board of Directors shall submit sufficient copies of this report in the company's headquarter ten days at least before the General Assembly date in order to provide a copy thereof to any of the shareholders upon its request. The report shall be recited in the General Assembly's meeting.
- b- To study the internal audit report and follow up the execution of the corrective measures with regard to the observations contained in it.
- c- To control and supervise the performance and activities of the internal auditor and internal audit department, if any, to ensure the availability of the required materials and its effectiveness in performing the tasks and duties assigned to it. If the company does not appoint an internal auditor, the committee has to submit its recommendations to the board about the necessity of appointing an internal audit. If not, the committee has to clarify the reasons for non-recommendation in its annual report.

Third: The Auditor

- a- To make its recommendation to the Board of Directors to appoint auditors, terminate, determine their remuneration and assess their performance after assuring their independency, reviewing their scope of work and terms of contracting with them.
- b- To assure the independency and subjectivity of the auditor; the effectiveness of the auditing activities taking into consideration the relevant rules and standards.
- c- To review the plan and activities of the auditor. To make sure that such auditor does not provide any technical or administrative works beyond the scope of auditing and give its opinion.
- d- To reply to the company's auditor enquiries.

- e- To study auditor's accounting reports and his remarks on the financial statements.

Fourth: Commitment Assurance

- a- To review the results of the supervisory authorities' reports and ensure that the company has taken the necessary measures with regard to such reports.
- b- To check the company's compliance with the related laws, regulations, policies and instructions.
- c- To review the potential contracts and transactions to be executed by the company with related parties and submit its recommendations to the Board of Directors.
- d- To report to the Board of Directors on any actions that it deems necessary to be taken concerning any matters and present its recommendations with this regard.

Fifth: Comment Presentation Arrangements

The Audit Committee shall review the arrangements which enable the employees to provide their remarks concerning any violation in the financial reports or any other documents on confidential basis. The Committee shall ensure the implementation of such arrangements by making an independent investigation appropriate to the degree of the violation and adopt the appropriate follow up measures.

Sixth: Audit Committee's Authorities

For the purpose of conducting its tasks, the Audit Committee shall have the power to:

- a- Review the company's records and documents.
- b- Ask for any explanation or statement from the Board members of the executive managers.
- c- Request from the Board Members to invite the company's General Assembly meeting to convene if it encounters any obstacles or if the company incurs material damage or loss.

Seventh: Meetings of the Audit Committee

1. The Audit Committee shall held its meeting on quarterly basis at least, or when it is necessary. Minutes of such meetings shall be prepared including the discussions and the committee's recommendations.
2. The Audit Committee shall hold meetings with the company's auditor and internal auditor on a regular basis.
3. The internal auditor and the company's auditor may request a meeting with the Audit Committee when necessary.

Twelfth: Board Committees:

- The Audit Committee shall convene upon an invitation by its chairman, upon the request of two of its members, the internal audit committee of the company's auditor.
- The Audit Committee's meeting shall only be valid if at least half of its members are present. No audit committee's member may delegate any other person to attend the audit committee's meetings. Resolutions shall be adopted only by majority vote of the members present. In case of equal votes, the chairman shall have the casting vote.

Eighth: Conflict between the Board of Directors and the Audit Committee

- Should there any controversy between the recommendation of the Audit Committee and the decisions of the Board of Directors, or if the Board refuses to abide by the recommendation of the Audit Committee with regard to appointing or dismissing the company's auditor; determine its remunerations; estimating its performance or appointing an internal auditor, the Board's report shall state the recommendation of the audit committee, its justifications and the reasons for rejecting such recommendation.

A. Members of Audit Committee for the previous tenure from 10/12/2013 to 9/12/2016:

S	Name	Position
1	Mr. Fahad S. Al- Rajhi	Committee chairman
2	Mr. Adib A. Al-Zamil	Committee member
3	Mr. Abdel Salam Abaoud	Committee member

B. Members of Audit Committee for the new tenure from 10/12/2016 to 9/12/2019:

S	Name	Position
1	Mr. Ibrahim H. Al-Mazyad	Committee chairman
2	Mr. Abdel Salam Abaoud	Committee member
3	Mr. Mohamed F. Al-Nader	Committee member

C. Dates of Meetings

The Audit Committee Meeting was held three times during the year 2016.

S	Name	Position
1	First	9/2/2016
2	Second	5/6/2016
3	Third	9/9/2016

During the year 2016, the Audit Committee examined the annual unaudited financial statements and adopted related decision by circulation and made its recommendation to the Board of Directors.

2. The Nominations and Remunerations Committee

The Nominations and Remunerations Committee consists of five Board members:

- The members of the nominations and remunerations committee for the previous tenure from 10/12/2013 to 9/12/2016:

S.N.	Name	Title
1	H.E. Eng. Abdulaziz A. Al-Zamil	Committee chairman
2	Mr. Fahad S. Al-Rajhi	Committee member
3	Dr. Sami M. Zaidan	Committee member
4	Eng. Mohammed A. Al-Ghurair	Committee member
5	Mr. Ibrahim H. Al-Mazyad	Committee member

- Date of the meeting:

The committee held one meeting in 2016

The meeting 3/10/2016

- Sipchem's Board of Directors forms the nomination and remuneration committee for the new tenure starting from 10/12/2016 to 9/12/2019. The following are the names of the committee's members:

Twelfth: Board Committees:

S.N.	Name	Title
1	H.E. Eng. Abdulaziz A. Al-Zamil	Committee chairman
2	Mr. Fahad S. Al-Rajhi	Committee member
3	Dr. Abdulrahman A. Al-Jaafari	Committee member
4	Dr. Sami M. Zaidan	Committee member
5	Mr. Ziyad A. Al-Turki	Committee member

d. Duties of the Nominations and Compensations Committee:

- To nominate candidates for the membership of the Board of Directors according to the approved standards and policies taking into account not to nominate any candidate who was previously convicted of crime involving breach of honor or trust.
- To conduct annual review of the capabilities required for Board Membership and the review of its organization chart and submits recommendations regarding the time to be dedicated by the board member for the company's Board of Directors' works.
- To review the company or its affiliates' Board of Directors organization and make recommendations in regards with proposed changes.
- To determine the strengths and weaknesses of the Board of Directors and proposing certain treatment in a way that serves the interests of the company.
- To annually verify the independency of the independent Board Members and the absence of any conflict of interest if the board member is occupying a Board Membership in another company.
- The committee also lays clear policies for the compensations and remunerations of the Board Members and the senior executives taking into account performance related criteria.
- To review and approve the company's employee compensation & remuneration policy.
- To make recommendations to the Board of Directors regarding the proposed nominations of the Board Membership of the company's affiliates or any proposed changes to the company's organizational.

3. The Executive Committee

The Executive Committee is composed of six Board Members. The table below shows the names of the Executive Committee members:

A- Members of the Executive Committee for the previous tenure starting from 10/12/2013 to 9/12/2016:

S.N.	Name	Title
1	H.E. Eng. Abdulaziz A. Al-Zamil	Committee chairman
2	Eng. Ahmad A. Al-Ohali	Committee member
3	Eng. Reyadh S. Ahmed	Committee member
4	Dr. Abdulaziz A. Al-Gwaiz	Committee member
5	Dr. Sami M. Zaidan	Committee member
6	Mr. Abdulaziz A. Al-Khamis	Committee member

Sipchem's Board of Directors forms the Board Executive Committee for the new tenure starting from 10/12/2016 to 9/12/2019. The following are the names of the committee's members:

S.N.	Name	Title
1	H.E. Eng. Abdulaziz A. Al-Zamil	Committee chairman
2	Eng. Ahmad A. Al-Ohali	Committee member
3	Mr. Fahad S. Al-Rajhi	Committee member
4	Eng. Reyadh S. Ahmed	Committee member
5	Mr. Ayedh M. Al-Qarni	Committee member
6	Mr. Bander A. Masaudi	Committee member

Twelfth: Board Committees:

B. Committee's Duties & Specialties

1. To study the issues referred to the committee by the Board of Directors and act according to given authorities.
2. The committee shall exercise the Board's authorities as per the authorities schedule included in the regulation with regard to the management and direction of the work activities and affairs in the company. This is excluding the matters that have to be delegated to other Board's committees or that cannot be delegated by the Board pursuant to the applicable laws, regulations and the company's by-laws.
3. Submit recommendations regarding the new projects and the company investments to the Board of Directors.
4. Recommendations related to strategic resolutions on the operational priorities of the company.
5. To act on behalf of the company and exercise all the Board of Directors' authorities in taking the appropriate decisions, which cannot be delayed, to the coming session or difficult to be approved by circulation.
6. To provide the Board of Directors with the meeting minutes that includes a description of all the decisions and recommendations adopted by the committee.

C. Date of the Meeting

The committee held two meetings during the year 2016.

S	meeting	Meeting date
1	First meeting	22/3/2016
3	Second meeting	30/10/2016

Thirteenth: Board of Directors' Declarations:

The Board of Directors declares the following:

1. The accounts register has been prepared in the correct format.
2. The internal control system has been prepared on sound basis and is being implemented effectively.
3. There are no doubts about the company's ability to continue the performance of its activities.
4. The consolidated financial statements have been prepared according to the standards and the accounting systems issued by the Saudi Organization for Certified Public Accountants and according to the related requirements of the Companies Law and the company's by- laws with regard to the preparation and publication of financial details.
5. The company did not enter into any contract in which there is or has been any substantial benefit either to a Board member, the Chief Executive Officer, the General Manager of Finance or to any person related to any one of them.
6. No arrangements or agreements are made through which any of the Board Members or the senior executives waive any of his salary or compensation.
7. There are no arrangements or agreements through which any of the Company's shareholders waive any equity rights.

Fourteenth: Shareholders' General Assembly:

Sipchem held its Ordinary General Assembly Meeting on 27 March 2016 an extraordinary general meeting on 7 December 2016. 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 both meetings and the voting procedures in General Assembly's invitation in addition to the distribution of file containing all the information sufficient for enabling the shareholders to adopt any resolution. The company also notified Tadawul about the results of the two meetings immediately after their conclusion. The shareholders were also able to view the minutes of the meetings at the company head office and through the company's website. Due to Sipchem's keenness to develop communication channels with its shareholders and facilitate all procedures, Sipchem enables the shareholders, who are unable to attend the General Assembly meetings, to vote on the items of the assembly's agenda via Tadawulati website. Below are the details of such assemblies and the most important adopted resolutions:

Fourteenth: Shareholders' General Assembly:

S	Assembly meeting's date	Adopted resolutions
1	Extraordinary General Assembly 27/3/2016	<ol style="list-style-type: none"> 1. Approval of the Board of Directors' report for the fiscal year 2015. 2. Approval of the auditors' report for the fiscal year ended 31/12/2015. 3. Approval of the financial statements and profit/ losses statements on 31/12/2015. 4. Discharge the Board members from liability for the previous year 2015. 5. Voting on the distribution of cash dividends on shareholders for the first half of the year 2015 at SR (0.60) per each share representing (6%) of the share nominal value with total amount of SR (220,000,000). 6. Approval to allocate the amount of two million two hundred thousand (2,200,000) Saudi Riyals rewards for the members of the Board of Directors. Each member shall take the amount of two hundred thousand (200,000) Saudi Riyals for the fiscal year 2015. 7. Approval to appoint the auditor recommended by the Audit Committee in order to audit the company's accounts and the quarterly financial statements for the fiscal year 2016 and determine its remuneration. 8. Voting on the amendments of Article 20 of the company' by-laws.
	<div style="border: 2px solid black; padding: 5px; text-align: center; width: fit-content; margin: 0 auto;"> 68.2% Total attendance </div> <div style="display: flex; justify-content: space-around; margin-top: 10px;"> <div style="border: 2px solid black; padding: 5px; text-align: center; width: 40%;"> 13.3% Attendance or by proxy </div> <div style="border: 2px solid black; padding: 5px; text-align: center; width: 40%;"> 54.9% E-voting </div> </div>	
2	Ordinary General Assembly 7/12/2016	<ol style="list-style-type: none"> 1. Voting on the Board's recommendation to appoint Mr. Ziyad Abdulrahman Al-Turki as a board member on 1/10/2016 in order to complete the board's current tenure which would end on 9 December 2016. 2. Voting on the election of the Board members from the candidates who submit their candidacy applications (cumulative voting) so as the Board starts its activity on 10 December 2016 for three years. 3. Voting on the Board's recommendation to form an auditing committee, determine its duties, work regulations and its members remunerations for the new tenure which starts at 10 December 2016 and lasts for three years.
	<div style="border: 2px solid black; padding: 5px; text-align: center; width: fit-content; margin: 0 auto;"> 70.2% Total attendance </div> <div style="display: flex; justify-content: space-around; margin-top: 10px;"> <div style="border: 2px solid black; padding: 5px; text-align: center; width: 40%;"> 37.5% Attendance or by proxy </div> <div style="border: 2px solid black; padding: 5px; text-align: center; width: 40%;"> 32.7% E-voting </div> </div>	

Fifteenth: 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:

- 10% of the net profits as statutory reserve. The Ordinary General Assembly may stop setting aside of such amount once these reserves reach 50% of the capital.
- 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 special purposes.
- From the remaining amount, a first payment, equivalent to 5% of the paid-up capital, is granted to the shareholders.
- 10% at most of the remaining amount shall be assigned as compensation to the Board Members taking into consideration the regulations and the instructions issued by the Ministry of Commerce in this regard. The remaining amount shall be distributed to the shareholders as an additional portion of the profit.
- The company may, subject to its financial capabilities, distribute the dividends to the shareholders on a quarterly basis provided to abide by the conditions, regulations and circulars issued by the Ministry of Commerce and Industry with this regard.

In the General Assembly meeting, which was held on 27/3/2016, a voting was conducted on The distribution of cash dividends to its shareholders for the first half of the year 2015 at the rate of SR 0.6 per each share which represents 6% of the nominal value per each share, totaling 220,000,000 Saudi Riyals.

Sixteenth: 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.

Seventeenth: Human Resources:

Sipchem's success is mainly attributed to its distinguished ability and constant endeavors to attract qualified personnel. Sipchem has been successful in creating an environment in which employees are proud to work in; a very professional transparent one, which encourages high performance and effective engagement at all levels of management in all the company's affiliates.

Sipchem cares about ensuring its personnel's job satisfaction to help them achieve their career ambition; the company pays attention to the development programs, technical and administrative training to reach the highest standard of efficiency, loyalty and create competitive environment in the company.

The table below shows the number and percentage of employees in Sipchem and its affiliates as of the end of 2016 compared to 2015:

Employees	2016		2015	
	No.	percentage	No.	percentage
Saudi	749	72%	818	74%
Non Saudi	298	28%	294	26%
Total	1,047		1,112	

Find below some of the achievements of HR Department in 2016:

- HR team was able to raise the efficiency of the overtime registration and compensation process by utilizing entry- exit electronic system.
- HR team organized comprehensive awareness campaigns for the employees with regard to the company's policies and regulations.

During the year 2016, Sipchem has carried out 162 training programs of which 54 were implemented in collaboration with qualified and professional training organizations, both internal and external, selected based on applied quality measurements. Sipchem's trainers conducted 108 internal training programs in order to raise the efficiency and enhance the functional capabilities of the employees, administrators and technicians.

The number of employees, form Sipchem and its affiliates, who benefited from such programs reached 1,626 employees.

Sipchem has applied via-internet training system that includes more than 500 training programs in various leadership and administrative fields, business, and security and safety skills, in addition to computer courses.

The number of online trainees reached 748 employees. It is worth noting that the content of such training materials is prepared by international universities and institutions.

Sipchem also paid attention to on-job training (OJT) for its personnel particularly plant operators to benefit from such practical OJT courses. They received 159,664 training hours.

The company provided many training courses which helped its employees to adapt to the company's culture and contribute to achieving its vision and objectives. We offered a package of courses that help rooting the principle of "challenging the logic"; one of the company's main principles which invites the company's employees to replace the traditional way of delivering our products and services with an innovative and inspiring way. This package includes "Brainstorming and drawing ideas Course", "Data Analysis and presentation using Excel", "Mental maps Course", "Six Hats Course" and "Business Analysis Tools". The number of the trainees reached 100 participants.

Besides, Sipchem cooperates with the international Dupont company to provide Process Safety Management Program which mainly aims at changing the traditional prospect and improve the behavior with regard to safety in plants. Such program was attended by more than 35 trainee from different sectors.

Saudi fresh graduates are within the main interest of Sipchem: the company implemented a special development program to help determine the career path of its newly joined fresh graduate personnel. The program duration is two years where participants receive on-job training in addition to other specialist courses involving teamwork concepts, time management, creative thinking, reflective intelligence. The number of participants of these training courses counted 26 trainees. 21 employees completed the course in 2016 whereas 14 employees are still continuing their journey to the highest performance levels.

In support to the company's strategy towards the community service, the training department organized, in cooperation with the community service department, a workshop on improving community service. The workshop was attended by about 20 employees of Sipchem's volunteers team.

Eighteenth: **Employees' Incentive Programs:**

A. Home Ownership Program for Saudi Employees (SHOP)

The program aims at giving a chance to the company's Saudi employees, who meet the program conditions, to own housing units in light of Sipchem policy of assuring comfort and stability for its employees and motivating them to continue their services with the company.

During 2016, the company allocated 354 residential units for employees. The Population Committee was formed to develop the requirements and standards of joining the program. It allocated the residential units according to the eligibility standards. The Committee also arranged for a number of meetings with the qualified employees in order to determine their choices, illustrate the method of calculating the deductions, determine the advanced payments, if any. The committee hosted 446 employees individually to present the housing units and sign a primarily agreement with qualified employees.

B. Employees Shares Ownership Incentive Program

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

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 163,676 shares have been transferred from the program portfolio to the eligible employees who completed the subscription period during the year 2016. Total number of the program shares reached 759,900 as of December 31, 2016.

C. Savings Program

Sipchem initiated to put an Islamic Shariah-compliant savings program to motivate its employees and enhance their loyalty to the company hence improving the work performance, and attracting well-qualified Saudi employees and motivating 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 his desire. The company has the right to manage this investment in the way which it believes to be beneficial for the program subscriber in accordance with the best available Islamic Shariah-compliant investment portfolio. Also, the company has the right to invest the subscriber's savings in investment activities in cooperation with specialized companies and banks in accordance with the criteria of Islamic investment in a manner that can attain benefits for the subscribers provided that such investments are in low-risk Islamic portfolios.

The savings program was initiated in 2011, managed by Al-Jazeera Bank and was reviewed and approved by the bank's Shariah Committee.

Nineteenth: **Employees' Benefits Allocations:**

The following table shows the allocations and compensation of Sipchem's employees for the 2016 compared to the year 2015

(Million SAR)

Item	2016	2015
End of services reward	165	155
Savings program	21	11

Twentieth: **Investor Relations:**

Investor Relations Department

The Investor Relations Department plays a crucial part in the development of the company and enhancement of communication with its shareholders, investors, the Capital Market Authority and Tadawul. It will also help the company to implement the governance and disclosure policies in line with compliance to Capital Market Authority's regulations and Tadawul to ensure effective communication between the company and its investors and other interested parties.

The Investor Relations Department is the most important factor that helps to reach a fair assessment of the company's share through communication with the investors and analysts providing them with all the related information that may help them make a fair assessment of the company taking into account the declaration governing regulations and CMA policies.

In 2016, Investors Relations Department when it was awarded the Most Improved IR Corporate Large Cap at the 2016 Middle East Investor Relations Association (MEIRA) Conference, which was held in Dubai.

Twenty First: Corporate Governance:

Sipchem, being a public stock company, is applying strictly all corporate governance criteria through its corporate governance policy and the professional behavior guide to comply with the Capital Market Authority governing rules.

Based on its belief in the importance of governance, Sipchem has applied all the mandatory regulations as included in the Corporate Governance list issued by the Capital Market Authority (CMA) that protect the shareholders' rights and reinforce the company's commitment to declaration and transparent standards.

During the year 2016, The Nomination and Remunerations Committee, reviewed the independency in the Board of Directors to ensure the members independency and the absence of any conflict of interest to comply with Article (2) of the Corporate Governance Policy issued by the Capital Market Authority (CMA).

Article	paragraph	Action	Reasons and Details
(6) Voting Rights	B	Does the company's Bylaws stipulate that the accumulative voting method shall be used to vote on the selection of the Board Members in General Assembly Meeting?	The company Bylaws do not stipulate the accumulative voting method. Sipchem is currently working on amending the company's Bylaws to start using the accumulative voting method in the coming General Assembly Meetings.
	D	Shall Investors who are judicial persons and who act on behalf of others - e.g. investment funds- disclose in their annual reports their voting policies and actual voting?	Not Applicable
(12) Formation of the Board	i	Judicial person who is entitled under the company's Articles of Association to appoint representatives in the Board of Directors, is not entitled to nomination vote of other members of the Board of Directors.	Not Applicable

Twenty Second: Corporate Social Responsibility:

Sipchem seeks to develop a sustainable relationship between the company and the society by creating a culture of social responsibility and enhancement throughout the company's activities. We believe that community service is both individual and collective responsibility to be promoted by all the departments and employees of the company. In addition, we keen on spreading our business throughout the Saudi Kingdom taking into account the diversity of the programs.

Our areas of interest in the field of social responsibility:

- 1- Health and environment
- 2- Social and sport
- 3- Local economies and rehabilitation and training programs
- 4- Development of education and the cultural programs
- 5- Endowments
- 6- Volunteering activities

Although 2016 was a difficult and challenging year for the global economy in general and petrochemical sector in particular, Sipchem fulfilled its commitment towards the community as it allocated about SR 7 million for community service activities plan for the year 2016.

Due to our strong belief that our employees are a key component in the society and in order to encourage them to adopt ideas about community service and spread this culture, Sipchem established a fund where contributions are deducted directly from the employees' salaries and are used in charitable participations.

Sipchem's Volunteer Team

Sipchem 's volunteer team is composed of 130 employees and is considered one of the secrets of success and sustainability of social activities in Sipchem. Sipchem's Volunteer team executed more than 180 volunteering program within six years (from 2010 to 2016) which took about 6000 working hours and executed by more than 130 employee and few members of their families. It is the first volunteering team established among the major industrial companies in the Kingdom.

Twenty Second: Corporate Social Responsibility:

Our Volunteer Team

Sipchem's Volunteer Team Achievements in 2016



Twenty Third: Board of Directors' Recommendations: Conclusion:

Sipchem's Board of Directors submitted recommendations to the Annual General Assembly to be held in the first quarter of the year 2016, for the following:

1. Voting on the Board's report for the fiscal year 2016.
2. Voting on the financial statement and profit/losses statements as of 31/12/2016.
3. Voting on auditor's report for financial year ended 31/12/2016.
4. Voting on Discharge of the Board Members from liability for the previous year 2016.
5. Voting on the appointment of the external auditor as nominated by the Audit Committee for the fiscal year 2017 to audit the company's accounts, the quarterly financial statements and determine his fees.
6. Voting on the amendment of the Company's bylaws.

At the end of our report, the Board members would like to express their thanks and appreciations to the Custodian of the Two Holy Mosques and HRH Crown Prince for their sponsorship and support of petrochemical sector in the Saudi Arabia. Also, the board expresses its gratitude to all the governmental departments and institutions for their permanent support and to the shareholders and personnel for their sincere cooperation to achieve the company's goals and for their keenness on maintaining its values, interests and improving its position and competitiveness. We ask Allah the Al-Mighty to grace such efforts hoping that the company continues improving its performance and promoting its capabilities to support the economic and social development in the Saudi Kingdom.

- Social Responsibility
- Activities and Events

“Since its inception, Sipchem has realized the concept of social responsibility and its importance in achieving sustainable development, and believes that it is one of the channels that support the society. Sipchem has been keen to invest in its community and also to be present in all events and events that are related to the concept of social responsibility, On the other hand”.

Sipchem offers the eastern region an aesthetic field under the name of «Sipchem Square»





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Our areas of interest in community responsibility:


Local economies and rehabilitation and training programs 

 Social Care

 Education Development

 Health Care

Endowments 

Volunteer work 

1. Prince of the Eastern Province honors Sipchem for its continuous support to the programs of the Call and Guidance Center (Hidaya) in AlKhubar.
2. Prince of the Eastern Province honors Sipchem for its support to the Orphan Care Society (KANAF) and its contribution to the health insurance program for the treatment of more than 300 orphans.
3. Sipchem participates and sponsors the 16th Forum of the Gulf Society for Disability held in Qassim.
4. Sipchem organizes a workshop to develop voluntarism and spread the culture of volunteering and charitable work throughout the community.
5. Sipchem launches its sustainable environment campaign in Jubail and Al Khobar.
6. Prince of the Eastern Province honors Sipchem for its continuous support to the Banna Association and its sponsorship of orphans.

7. Prince of the Eastern Province honors Sipchem for supporting the programs of the "Tarham" Association, which takes cares of prisoners and released prisoners.
8. As part of its commitment to support emerging projects, Sipchem funds 70 productive families through the Jena Association.
9. Sipchem launches its annual campaign to warm the north (winter cover).
10. Sipchem is hosting a delegation from the University of Dammam and the Saudi Geographical Society at the Sipchem Center for Technology and Innovation (Manar).



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Sipchem & Social Responsibility:

In 2016, despite the difficult conditions in the global economy, especially the petrochemical sector, Sipchem committed to allocating 1% of its net profit to the community.

The total amount spent

**More than
7,000,000
Riyals**

Number of programs implemented in the field of community service

**More than
57
Program**

Disbursed Total

**More than
1,000,000
beneficiaries**

1. Sipchem supports a cycling team to encourage the promotion of sports in general and cycling in particular.
2. Sipchem organizes its Ninth ceremony to honor orphans in the Eastern Province.
3. Sipchem sponsors a group Iftar at Community Call Centers in Jubail, Dammam and Al Khobar for more than 9,000 fasting people from different communities.
4. Sipchem cooperates with the Food Catering Association and provides the Society with 3 vehicles equipped with the latest technology to keep food and transport in a healthy and safe environment.
5. Sipchem organizes its fourth blood donation campaign with more than 250 participating employees.
6. In collaboration with the WUD Charitable Association Sipchem establishes a kitchen for widowed and limited incomes women.
7. Sipchem launches a mobile eye clinic in Jazan.
8. Sipchem launches a series of "Saudi Creators" to stimulate innovation and encourage talented young people.
9. Under the patronage of the Prince of the Eastern Province, Social Responsibility partnership and cooperation agreements have been signed.
10. Sipchem, represented by the Department of Social Responsibility and in partnership with the Prince Sultan Bin Abdulaziz Center for Technology and Science (SCITECH), launched the project «Our Life Our Environment», in a step to spread the healthy environmental culture during spring vacation.
11. Sipchem offers The Eastern Province an Aesthetic Square under the name of Sipchem Square.
12. Sipchem celebrates Earth Hour.



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Events and Occassions

At Sipchem, we strive to achieve outstanding sustainability and growth by challenging the logic everywhere, diversifying our local and global strategy initiatives, our commitment to grow and expand our global marketing capabilities on a sustainable basis, and we have been involved in many local and international exhibitions and conferences, based on our believe to enrich scientific research and development.

1. Sipchem participated in GPCA sustainability Conference, in Dubai.
2. A delegation from Solvay Chemical visited Sipchem.
3. Sipchem recorded another achievement after the company won the Sustainability initiatives top award that has been presented during the Oil & Gas event.
4. Sipchem participated in the Armed Forces Exhibition.
5. Sipchem organized the Annual Ramadan Gathering.
6. In line with such belief, Mr. Ahmad Al-Ohali, Sipchem CEO held town hall meetings at Jubail and Dhahran.
7. Sipchem was awarded the Most Improved IR Corporate Large Cap.
8. Sipchem participated in the exhibition of the Saudi – Egyptian Business Opportunities Exhibition that was held in Egypt.
9. Sipchem hosted the Ambassador of South Korea in Saudi Arabia Mr. Kwon Byung accompanied by a team of Korean diplomats, delegates from various companies, banks and high level business delegates at its Admin Building.



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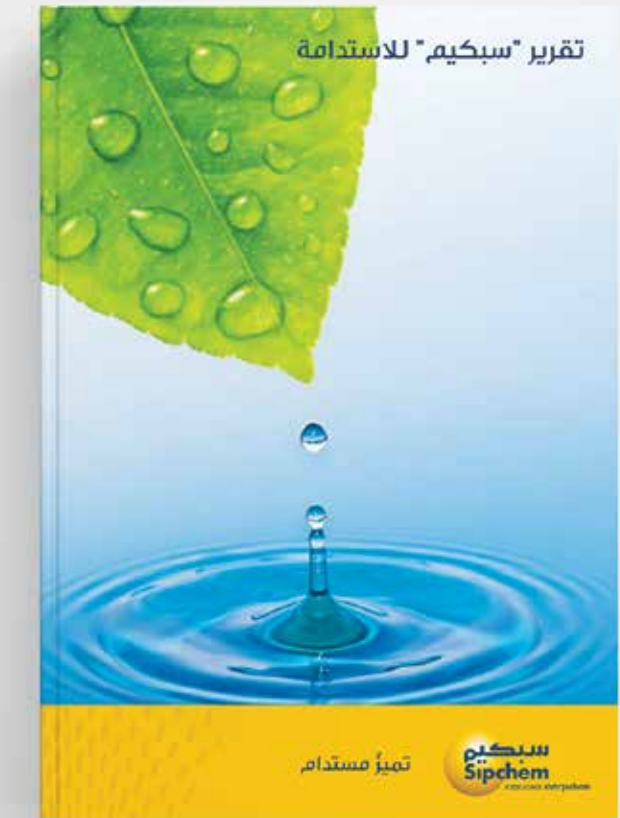


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Events and Occassions

Sipchem is keen to build bridges of communication with our employees, who we consider to be valuable assets to achieve an appropriate working environment to enhance their performance. We work to eliminate all that may impede their effectiveness and affect the efficiency of their performance permanently and continuously through internal and external events, as sometimes we create awareness events and sometimes we offer them everything that concerns them to update and develop their information by updating them with the latest developments happening within the company in general and its projects in particular.

1. Sipchem hosted at the Sipchem Center for Technology and Innovation (Manar) a delegation from the University of Dammam and the Saudi Geographical Society.
2. Sipchem honored employees who completed 15, 10 and 5 years of continuous service until the end of 2015.
3. Sipchem published its first Sustainability Report for 2015 entitled Sustainable Excellence.
4. Sipchem participated in the world's first plastic and rubber products exhibition, "K Show-2016", held in the German city of Düsseldorf.
5. Sipchem organized a day titled "Day with Daddy" at the company's headquarters in Jubail Industrial City.
6. Sipchem held a ceremony to greet its employees in both the Headquarters in AlKhobar and at Al Jubail Industrial City in the occasion of Eid al-Fitr and Al-Adha.



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CONSOLIDATED FINANCIAL STATEMENTS With INDEPENDENT AUDITORS' REPORT

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INDEPENDENT AUDITORS' REPORT

To: The Shareholders of Saudi International Petrochemical Company
(A Saudi Joint Stock Company)

We have audited the accompanying consolidated financial statements of **Saudi International Petrochemical Company** ("the Company") and its subsidiaries (collectively referred to as the "Group") which comprise the consolidated balance sheet as at December 31, 2016 and the related consolidated statements of income, cash flows and changes in equity for the year then ended and the attached notes 1 through 29 which form an integral part of the consolidated financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia and in compliance with the Regulations for Companies and the Company's by laws and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. Management has provided us with all the information and explanations that we require relating to our audit of these consolidated financial statements.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in Saudi Arabia. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

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

- 1) present fairly, in all material respects, the financial position of **Saudi International Petrochemical Company and its subsidiaries** as at December 31, 2016, and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia appropriate to the circumstances of the Group ; and
- 2) comply with the requirements of the Regulations for Companies and the Company's by laws with respect to the preparation and presentation of the financial statements.

For KPMG Al Fozan & Partners
Certified Public Accountants



Ebrahim Oboud Baeshen

License No. 382
Al Khobar, March 9, 2017G
Corresponding to: Jumadal-Akhirah 10, 1438H.



CONSOLIDATED BALANCE SHEETAs at December 31, 2016
(Expressed in Saudi Arabian Riyals)

	Note	2016	2015
ASSETS			
Current Assets:			
Cash and cash equivalents	3	1,815,653,353	2,124,558,823
Accounts receivable, prepayments and other receivables	4	708,697,565	752,485,797
Inventories	5	782,232,792	698,344,835
Total Current Assets		3,306,583,710	3,575,389,455
Non-current Assets:			
Property, plant and equipment	6	13,030,616,123	13,293,725,235
Project development costs	7	-	29,464,693
Intangible assets	8	103,733,502	131,134,567
Goodwill	9	29,543,923	29,543,923
Total Non-current Assets		13,163,893,548	13,483,868,418
Total Assets		16,470,477,258	17,059,257,873
LIABILITIES, SHAREHOLDERS' EQUITY AND NON-CONTROLLING INTERESTS			
Current Liabilities:			
Short term loans	10	200,000,000	300,000,000
Current portion of long term loans	13	1,053,110,874	711,319,128
Accounts payable, accruals and other liabilities	11	770,275,041	696,008,855
Short term advances from partners	12	67,120,396	82,476,894
Total Current Liabilities		2,090,506,311	1,789,804,877
Non-current Liabilities:			
Long term loans	13	5,609,122,755	5,488,283,977
Sukuk	14	997,590,797	1,800,000,000
Long term advances from partners	12	68,888,323	59,953,703
Employees' benefits payable	15	182,003,261	165,818,715
Other non-current liabilities	16	52,241,076	50,602,500
Total Non-current Liabilities		6,909,846,212	7,564,658,895
Total Liabilities		9,000,352,523	9,354,463,772

The accompanying notes 1 through 29 form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF INCOMEFor The Year Ended December 31, 2016
(Expressed in Saudi Arabian Riyals)

	Note	2016	2015
Sales		3,367,475,412	3,514,839,542
Cost of sales		(2,677,137,887)	(2,681,846,577)
Gross Profit		690,337,525	832,992,965
Selling and marketing expenses	22	(57,188,792)	(68,321,501)
General and administrative expenses	23	(216,545,718)	(191,302,474)
Operating income		416,603,015	573,368,990
Investment income		38,223,703	10,012,414
Finance charges		(245,657,026)	(173,897,287)
Other income / (expenses)	24	8,853,352	(39,964,883)
Write-off of property, plant and equipment	6	(31,321,937)	-
Income before zakat, income tax and non-controlling interests		186,701,107	369,519,234
Zakat and income tax	17	(55,422,469)	(30,409,934)
Income before non – controlling interests		131,278,638	339,109,300
Non-controlling interest		(61,251,022)	(50,868,280)
Net Income		70,027,616	288,241,020
Earnings per share			
Operating income		1.14	1.56
Net income		0.19	0.79
Weighted average number of shares		366,666,666	366,666,666

The accompanying notes 1 through 29 form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWSFor The Year Ended December 31, 2016
(Expressed in Saudi Arabian Riyals)

	Note	2016	2015
Cash flow from operating activities:			
Net income before non-controlling interest, zakat and foreign income tax		186,701,107	369,519,234
Adjustment to reconcile net income to net cash provided by operating activities:			
Depreciation and amortisation		748,152,552	690,933,494
Finance charges		245,657,026	173,897,287
Provision for employees' benefits		38,848,061	38,072,004
Investment income		(38,223,703)	(10,012,414)
Write-off of property, plant and equipment		31,321,937	-
Loss on disposal of property, plant and equipment		-	1,935,304
Changes in operating assets and liabilities:			
Accounts receivable, prepayments and other receivables		43,742,467	318,422,054
Inventories		(83,887,957)	(166,336,426)
Accounts payable, accrued and other liabilities		44,342,321	(251,162,470)
Finance charges paid		(209,683,205)	(173,005,023)
Zakat and foreign income tax paid		(57,461,580)	(56,522,041)
Employees' benefits paid		(22,663,515)	(8,981,738)
Net cash provided by operating activities		926,845,511	926,759,265
Cash flow from investing activities:			
Purchase of property, plant and equipment	6	(360,723,816)	(711,404,756)
Additions to intangible assets	8	(633,579)	(16,096,079)
Proceeds from disposals of property, plant and equipment		-	143,040
Additions to project development costs	7	(113,923,348)	(307,829,163)
Investment income received		38,269,468	8,555,423
Purchases of additional shares in subsidiaries		(375,332,604)	-
Net cash used in investing activities		(812,343,879)	(1,026,631,535)

The accompanying notes 1 through 29 form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITYFor The Year Ended December 31, 2016
(Expressed in Saudi Arabian Riyals)

	Share capital	Statutory reserve	Reserve for the results of sale / purchase of shares in subsidiaries without losing control	Retained earnings	Propose dividends	Fair value reserve	Foreign currency translation reserve	Total	Non-controlling interest
January 1, 2015	3,666,666,660	1,169,570,531	48,893,677	868,398,032	238,333,333	(16,952,840)	(6,411,004)	5,968,498,389	1,985,745,480
Net income for 2015	-	-	-	288,241,020	-	-	-	288,241,020	50,868,280
Zakat and income tax	-	-	-	-	-	-	-	-	(35,623,986)
Net change in fair value of interest rate swaps	-	-	-	-	-	16,952,840	-	16,952,840	4,999,721
Net change in foreign currency translation reserve	-	-	-	-	-	-	(783,642)	(783,642)	-
Transfer to statutory reserve	-	28,824,102	-	(28,824,102)	-	-	-	-	-
Dividends paid (note 20)	-	-	-	(220,000,000)	(238,333,333)	-	-	(458,333,333)	(113,570,668)
Board of Directors' remuneration	-	-	-	(2,200,000)	-	-	-	(2,200,000)	-
December 31, 2015	3,666,666,660	1,198,394,633	48,893,677	905,614,950	-	-	(7,194,646)	5,812,375,274	1,892,418,827
Net income for 2016	-	-	-	70,027,616	-	-	-	70,027,616	61,251,022
Zakat and income tax	-	-	-	-	-	-	-	-	(17,528,406)
Net change in foreign currency translation reserve	-	-	-	-	-	-	(720,303)	(720,303)	-
Transfer to statutory reserve	-	7,002,762	-	(7,002,762)	-	-	-	-	-
Additional capital contribution	-	-	-	-	-	-	-	-	29,833,309
Purchases of additional shares in subsidiaries	-	-	-	-	-	-	-	-	(339,387,969)
Change in reserves for the results of purchase of shares in subsidiaries without losing control	-	-	(35,944,635)	-	-	-	-	(35,944,635)	-
Board of Directors' remuneration	-	-	-	(2,200,000)	-	-	-	(2,200,000)	-
December 31, 2016	3,666,666,660	1,205,397,395	12,949,042	966,439,804	-	-	(7,914,949)	5,843,537,952	1,626,586,783

The accompanying notes 1 through 29 form an integral part of these consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended December 31, 2016
(Expressed in Saudi Arabian Riyals)

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 number 1010156910 dated 14 Ramadan, 1420, corresponding to December 22, 1999. The Company's head office is in the city of Riyadh with one branch in Al-Khobar, where the office for the executive management is located, which is registered under commercial registration number 2051023922 dated 30 Shawwal, 1420H, corresponding to February 6, 2000G, and a branch in Jubail Industrial City which is registered under commercial registration number 2055007570 dated 4 Jumada I, 1427H, corresponding to June 1, 2006G.

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.

As of December 31, 2016 and 2015, share capital of the Company amounted to SR 3,666,666,660 divided into 366,666,666 shares of SR 10 each.

As of December 31, the Company has the following subsidiaries (the Company and its subsidiaries hereinafter referred to as "the Group"):

	Effective ownership (%)	
	2016	2015
International Methanol Company ("IMC")	65%	65%
International Diol Company ("IDC")	53.91%	53.91%
International Acetyl Company ("IAC") (1.1)	87%	76%
International Vinyl Acetate Company ("IVC") (1.1)	87%	76%
International Gases Company ("IGC")	72%	72%
Sipchem Marketing Company ("SMC")	100%	100%
International Utility Company ("IUC")	68.58%	68.58%
International Polymers Company ("IPC")	75%	75%
Sipchem Chemical Company ("SCC")	100%	100%
Sipchem Europe Cooperative U.A and its subsidiaries	100%	100%
Gulf Advanced Cable Insulation Company ("GACI") (1.2)	50%	50%
Saudi Specialized Products Company ("SSPC")	75%	75%
Sipchem Asia PTE. Ltd. (1.3)	100%	100%

1.1: In February 2016, the Company acquired an additional 11% shares from a minority shareholder (Ikarus Petroleum Industries Company) in each of IAC and IVC, increasing its ownership from 76% to 87% for a consideration of SR 375.3 million. The Group recognized a reduction in non-controlling interests of SR 339.4 million and a reduction of SR 35.9 million in the equity attributable to the shareholders.

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

1.3: The investee company was incorporated during 2013 in Singapore. Its article of association is dated 13 Jumada I, 1434H, corresponding to March 25, 2013G.

The principal activity of IMC is the manufacturing and sale of methanol. IMC commenced its commercial operations in 2004.

The principal activity of IDC is the manufacturing and sale of maleic anhydride, butanediol and tetrahydro furan. IDC commenced its commercial operation in 2006.

The principal activities of IAC and IVC are the manufacturing and sale of acetic acid and vinyl acetate monomer respectively. IAC and IVC commenced their commercial activities in 2010.

The principal activity of IGC is the manufacturing and sale of carbon monoxide. IGC commenced its commercial operations in 2009.

The principal activities of SMC and its subsidiary Sipchem Europe Cooperative U.A are to provide marketing services for the products manufactured by the group companies and other petrochemical products. Other services provided by Sipchem, SMC and SMC's affiliates include purchasing and trading of petrochemical products with Sipchem affiliates and third party entities.

The principal activity of IUC is to provide industrial utilities to the group companies.

The principal activity of IPC is to manufacture and sale of low density polyethylene (LDPE), polyvinyl acetate (PVAC) and polyvinyl alcohol (PVA). IPC commenced its commercial operation from April 1, 2015 after successful commissioning, testing and completion of acceptance formalities with the main contractors.

1. ORGANIZATION AND ACTIVITIES (Continued)

The principal activity of SCC is the manufacture and sale of ethyl acetate, butyl acetate and polybutylene terephthalate. Ethyl acetate plant commenced its commercial operations in 2013 while polybutylene terephthalate plant is under trial production and is expected to commence its commercial production in 2017.

The principal activity of GACI is the manufacture and sale of cross linked polyethylene and electrical connecting wire products. GACI commenced its commercial operation from June 1, 2015 after the successful commissioning, testing and completion of acceptance formalities with the main contractors.

The principal activities of SSPC which was established in 2014, is the manufacture and sale of molds and dies and related services as well as production of EVA films. The Tool Manufacturing Factory ("TMF") plant has started commercial operation from November 1, 2016. The EVA film plant still is under development stage and expects to commence its commercial production in third quarter of 2017.

2. SIGNIFICANT ACCOUNTING POLICIES:

These consolidated financial statements have been prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

The new Regulation for Companies issued through Royal Decree M/3 on 11 November 2015 (hereinafter referred as "The Law") came into force on 25/07/1437H (corresponding to 2 May 2016). The Company has to amend its Articles of Association for any changes to align the Articles to the provisions of The Law. Consequently, the Company shall present the amended Articles of Association to the stockholders in their Extraordinary General Assembly meeting for their ratification. The full compliance with The Law is expected not later than 24/07/1438H (corresponding to 21 April 2017G).

New accounting framework

As required by Saudi Organization for Certified Public Accountants (SOCPA), all listed companies are required to transition to International Financial Reporting Standards ("IFRS") as endorsed by SOCPA effective 1 January 2017 for preparation of their financial statements. In preparing the first set of IFRS financial statements, the Company will analyze the impact of the first time adoption of IFRS on current and prior year financial statements and will accordingly incorporate the necessary adjustments in its first set of IFRS financial statements.

The significant accounting policies adopted by the Group and applied consistently across all reporting periods presented are as follows:

a) Accounting convention:

These consolidated financial statements are prepared under the historical cost convention using the accrual basis of accounting modified to include the measurement at fair value for the derivatives and the going concern concept.

b) Use of estimates and judgements:

The preparation of the Group's consolidated financial statements in conformity with generally accepted principles requires the use of estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

The estimates and underlying assumptions are reviewed regularly. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are reflected in the following notes:

Note 2(e) – Provision for doubtful debts

Note 2(f) – Provision for inventories

Note 2(g) – Useful life of property, plant and equipment

Note 2(k) – Impairment

Note 2(m) – Provision for zakat and income tax

Note 2(s) – Provisional price

c) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at December 31, 2016. The financial statements of the subsidiaries are prepared for the same reporting period as the parent Company, and using consistent accounting policies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended December 31, 2016
(Expressed in Saudi Arabian Riyals)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**Subsidiaries**

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases.

Non-controlling interests

The Company measures any non-controlling interests at its proportionate interest in the identifiable net assets of the acquiree.

Transactions eliminated on consolidation

All intra-Group balances, transactions, income and expenses and profits and losses resulting from intra-Group/Company transactions that are recognized in assets, are eliminated in full. Also, any unrealized gains and losses arising from intra-group transactions are eliminated on consolidation.

d) Cash and cash equivalents:

For the purpose of the statement of cash flows, cash and cash equivalents 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.

e) 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 when identified.

f) Inventories

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

g) Property, plant and equipment

Property, plant and equipment are initially recorded at cost less accumulated depreciation and any impairment in value. Construction work in progress are not depreciated. Depreciation is provided over the estimated useful lives of the relevant assets using the straight line method. Expenditure on maintenance and repairs is expensed while expenditure for improvement is capitalized. Plant and machinery include planned turnaround costs which are depreciated over the period until the date of the next planned turnaround. Should an unexpected turnaround occur prior to the previously envisaged date of planned turnaround, then the net book value of planned turnaround costs are immediately expensed and the new turnaround costs are depreciated over the period likely to benefit from such costs.

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
Buildings on leasehold land	10-33.3
Plant and machinery	10-25
Catalyst and tools	2-10
Vehicles	4
Computer, furniture, fixtures and office equipment	2-10

h) Project development costs

Project development costs represent mainly legal and feasibility related costs incurred by the Company 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.

i) Intangible assets

Intangible assets mainly represent ERP costs and deferred expenses which include upfront fee paid for sukuk issuance and a long term off take agreement. Intangible assets are amortized over the following useful life:

	Years
ERP costs	5
Deferred expenses	5-10

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended December 31, 2016
(Expressed in Saudi Arabian Riyals)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**j) Goodwill**

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any. For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit prorata based on the carrying amount of each asset in the unit.

Any impairment loss for goodwill is recognized directly as loss in the consolidated statement of income. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

k) Impairment

At each balance sheet date, the Group reviews the carrying amounts of its non-financial assets excluding goodwill to determine whether there is any indication that those assets have suffered an impairment loss. Goodwill is tested for impairment annually. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. 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.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but such 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 (or cash generating unit) in prior years. A reversal of an impairment loss is recognized as an income immediately.

l) Provision

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

m) Zakat and income tax

The Group is subject to zakat and income tax in accordance with the regulations of the General Authority of Zakat and Income Tax ("GAZT"). Zakat and income taxes are provided on an accrual basis. The zakat charge is computed on the higher of zakat base or adjusted net income. Any difference in the estimate is recorded when the final assessment is approved, at which time the provision is cleared. The zakat and foreign income tax charge in the consolidated statement of income represents the zakat for the Company and the Company's share of zakat in subsidiaries and the foreign income tax on foreign shareholders' income.

The zakat and income tax assessable on the non-controlling shareholders are included in non-controlling interests.

Foreign income tax is provided for in accordance with foreign fiscal regulations in which the Group's foreign subsidiaries operate.

n) Long term loans

Loans are recognized at the proceeds received net of transactions cost incurred. Loans are subsequently carried at amortised cost. Any differences between the proceeds (net of transactions costs) and the redemption value is recognized in the consolidated statement of income over the period using straight line method. Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalized as part of those assets until such time as the assets are ready for their intended use. Other borrowing costs are charged to the consolidated statement of income.

o) Employees' end of service benefits

Employees' end-of-service indemnities, calculated in accordance with Saudi Arabian labour regulations, are accrued and charged to the consolidated Statement of Income. The liability is calculated at the current value of the vested benefits to which the employee is entitled, should his services be terminated at the balance sheet date.

p) Employees' savings plan

The Group maintains an employee's savings plan for Saudi employees. The contribution from the participants are deposited in separate bank account. The Company's contribution under the savings plan is charged to the consolidated statement of income.

q) Statutory reserve

In accordance with Company's Articles of Association, the Company has established a statutory reserve by the appropriation of 10% of net income until the reserve equals 50% of the share capital. This reserve is not available for dividend distribution.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended December 31, 2016
(Expressed in Saudi Arabian Riyals)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**r) 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.

s) Revenue recognition

Revenue is recognized upon delivery or shipment of products, depending upon the contractually agreed terms, by which the significant risks and rewards of ownership of the goods have been transferred to the buyer and the Group has no effective control or continuing managerial involvement to the degree usually associated with ownership over the goods. The Group markets their products through marketers. Sales are made directly to final customers and to the marketers' distribution platforms. Sipchem, SMC and SMC affiliates provide trading activities of petrochemical products for Sipchem affiliates and third party entities. The portion of sales made through the Group distribution platforms are recorded at provisional prices agreed with such marketers 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 costs of shipping and distribution (settlement price). The Group estimates the final settlement price at the reporting date based on the available market data and records any likely adjustment. Whereas the Group makes adjustments to provisional pricing to support the reporting period, the final settlement pricing outstanding can only be determined upon final settlement of the sales in subsequent reporting periods.

t) Expenses

All period and marketing expenses other than costs of sales, finance charges and other expenses are classified as selling, marketing, general and administrative expenses.

u) Dividends

Dividends are recorded in the consolidated financial statements in the period in which they are approved by the Annual General Assembly. Interim dividends are recorded as and when approved by the Board of Directors.

v) Derivative financial Instruments

Derivative financial instruments are recorded at fair value. 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 period or periods during which the hedged item affects net profit or loss. For hedges of forecasted transactions, the gain or loss on the hedging instrument will adjust the recorded carrying amount of the acquired asset or liability.

w) Foreign currency transactions

These consolidated financial statements are presented in Saudi Arabian Riyals, which is the functional and presentation currency of the Group. 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.

The results and financial position of foreign subsidiaries having reporting currency other than Saudi Riyals are translated into Saudi Riyals as follows:

- (i) Assets and liabilities for the balance sheet are translated at the closing exchange rate at the date of balance sheet;
- (ii) Income and expenses for consolidated statement of income are translated at average exchange rates; and
- (iii) Components of the shareholders' equity accounts are translated at the exchange rates in effect at the dates of the related items originated.

Cumulative adjustments resulting from the translation of the financial instruments of the foreign subsidiaries into Saudi Riyals are reported as a separate component of consolidated statement of changes in equity.

Dividends received from the foreign subsidiary are translated at the exchange rate in effect at the transaction date and related currency translation differences are recognized in the consolidated statement of income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended December 31, 2016
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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**x) Leasing**

Leases are classified as capital leases whenever the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee. Other leases are classified as operating leases. Assets held under capital leases are recognized as assets of the Group at the lower of the present value of the minimum lease payments or the fair market value of the assets at the inception of the lease. Finance costs, which represent the difference between the total leasing commitments and the lower of the present value of the minimum lease payments or the fair market value of the assets at the inception of the lease, are charged to the 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.

y) 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.

z) Earnings per share

Earnings per share are computed by dividing operating income / (loss) and net income / (loss) for the year by the weighted average number of shares outstanding during the year. Weighted average number of outstanding shares as of December 31, 2016 and 2015 were 366,666,666 shares.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash and bank balances, demand deposits, and liquid investments with original maturities of three months or less. As of December 31, cash and cash equivalents comprise the following:

	2016	2015
Cash and bank balances	686,194,870	726,627,641
Murabaha deposits	1,129,458,483	1,397,931,182
	1,815,653,353	2,124,558,823

4. ACCOUNTS RECEIVABLE, PREPAYMENTS AND OTHER RECEIVABLES

	2016	2015
Accounts receivable	623,567,540	556,595,006
Deposits and prepayments	74,375,878	158,774,215
Other receivables	10,754,147	37,116,576
	708,697,565	752,485,797

As at December 31, 2016, accounts receivable include SR 126.8 million (2015: SR 154.9 million) provision in relation to disputed 2014 and 2015 provisional price claims.

5. INVENTORIES

	2016	2015
Spare parts	236,814,964	206,776,154
Finished goods	399,662,463	342,132,021
Raw materials	145,755,365	149,436,660
	782,232,792	698,344,835

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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6. PROPERTY, PLANT AND EQUIPMENT

	Buildings on leasehold land	Plant and machinery	Catalysts and tools	Vehicles, computers, furniture, fixtures and office equipment	Construction work-in-progress	Total
Cost:						
January 1, 2016	354,971,365	13,374,574,336	480,968,945	107,938,316	2,602,368,412	16,920,821,374
Additions	-	-	-	416,935	360,306,881	360,723,816
Transfers, net	177,381,280	616,515,888	46,125,963	173,918,371	(1,013,941,502)	-
Transfers from project development costs (note 7)	-	-	-	-	122,608,322	122,608,322
Write-off / disposals	-	(166,138,675)	(8,033,724)	(349,438)	(3,167,080)	(177,688,917)
December 31, 2016	532,352,645	13,824,951,549	519,061,184	281,924,184	2,068,175,033	17,226,464,595
Accumulated depreciation:						
January 1, 2016	40,058,306	3,181,192,320	332,849,689	72,995,824	-	3,627,096,139
Charge for the year	12,970,926	632,805,314	54,283,866	15,059,207	-	715,119,313
Write-off / disposals	-	(138,599,438)	(7,595,788)	(171,754)	-	(146,366,980)
December 31, 2016	53,029,232	3,675,398,196	379,537,767	87,883,277	-	4,195,848,472
Net book value						
December 31, 2016	479,323,413	10,149,553,353	139,523,417	194,040,907	2,068,175,033	13,030,616,123
December 31, 2015	314,913,059	10,193,382,016	148,119,256	34,942,492	2,602,368,412	13,293,725,235

The property, plant and equipment are constructed on land in Jubail Industrial City leased from the Royal Commission for Jubail and Yanbu for 30 years commencing on 17Muharram, 1423H (corresponding March 30, 2002G). The lease agreement is renewable upon the two parties' agreement.

Certain items of property, plant and equipment having a net book value of SR 8,383 million (2015: SR 8,753 million) are pledged as security against Saudi Industrial Development Fund loans, syndicated bank loans and Public Investment Fund loans (note 13).

As of December 31, 2016, capital work-in-progress is included in property, plant and equipment and is stated at cost. It is comprised of construction cost of plants and assets and any directly attributable costs to bring the assets for their intended use, including costs of testing to ensure the assets are functioning properly, after deducting net proceeds from the sale of production generated during the testing phase. Directly attributable costs include employee benefits, site preparation costs, installation costs, licensing fees, professional fees and borrowing costs.

The Group capital work-in-progress as at December 31, 2016 is SR 2,069 million (2015: 2,602 million) and comprises mainly construction costs related to employees' houses, Polybutylene terephthalate plant, Ethylene-vinyl acetate (EVA) Film plant, Tool Manufacturing plant and costs related to several projects for improvements and enhancements of operating plants.

During the year, the Group completed turnaround of IMC plant in which assets with a carrying amount of SR 31 million were replaced. The management consequently booked a loss on disposal of these assets amounting to SR 31 million.

Certain items of property, plant and equipment having a cost of SR 114 million (2015: SR 114 million) with net book value of SR Nil (2015: SR Nil) were written off during the year as these are no longer in use.

Borrowing costs relating to projects under development in SCC and SSPC have been capitalized during the year amounting to SR 13 million (2015: SR 21 million for projects under development in IPC, SCC, SSPC and GACI).

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7. PROJECT DEVELOPMENT COSTS

	2016	2015
January 1	29,464,693	62,160,218
Additions during the year	113,923,348	307,829,163
Transfers to property, plant and equipment (note 6)	(122,608,322)	(327,002,061)
Transfers to intangible assets (note 8)	(1,718,939)	(13,522,627)
Write-offs	(19,060,780)	-
December 31	-	29,464,693

During the year, SR 19 million of project development costs were written off relating to projects no longer viable by utilizing a provision created for such projects in 2014 and 2015.

8. INTANGIBLE ASSETS

	ERP costs	Deferred expenses	Total
Cost:			
January 1, 2016	108,573,905	100,171,100	208,745,005
Additions	633,579	-	633,579
Transfers from project development costs (note 7)	1,718,939	-	1,718,939
Written off	-	(19,112,414)	(19,112,414)
December 31, 2016	110,926,423	81,058,686	191,985,109

	2016	2015
Accounts payable	108,630,632	52,325,567
Zakat and foreign income tax (note 17)	96,128,946	98,168,057
Accrued expenses	527,301,805	481,022,005
Retentions payable	26,289,149	27,073,502
Others	11,924,509	37,419,724
	770,275,041	696,008,855

	2016	2015
January 1, 2016	23,258,213	54,352,225
Charge for the year	20,323,422	9,430,161
Written off	-	(19,112,414)
December 31, 2016	43,581,635	44,669,972

	2016	2015
December 31, 2016	67,344,788	36,388,714
December 31, 2015	85,315,692	45,818,875
		131,134,567

Certain items of intangible assets having a cost of SR 19 million (2015: SR 19 million) with net book value of SR Nil (2015: SR Nil) were written off during the year as these are fully amortized.

9. GOODWILL

On December 31, 2011 SMC acquired 100% of voting shares of Aectra SA, an unlisted Company registered in Switzerland and subsidiary of Sipchem Europe Cooperative U.A, for a consideration of SR 106 million. SR 30 million of goodwill arose on this transaction. The goodwill is subject to annual impairment testing.

10. BANK FACILITIES

The Group has bank facilities from local banks in the form of bank overdrafts, working capital facilities, letters of credit and guarantee, and other facilities ("the Facilities"). The Facilities carry commission at the prevailing market rates. The Facilities are secured by corporate guarantees. At year-end 2016, the Group had SR 200 million of working capital facilities, which were fully drawn by the Group.

11. ACCOUNTS PAYABLE, ACCRUALS AND OTHER LIABILITIES

	2016	2015
Accounts payable	108,630,632	52,325,567
Zakat and foreign income tax (note 17)	96,128,946	98,168,057
Accrued expenses	527,301,805	481,022,005
Retentions payable	26,289,149	27,073,502
Others	11,924,509	37,419,724
	770,275,041	696,008,855

12. ADVANCES FROM PARTNERS

The partners of IAC, IVC, IGC, IPC, SCC, GACI, and SSPC have agreed to contribute long term advances to finance certain percentage of their projects' costs as per the shareholder agreements. As per the shareholder agreements, long term partners' advances shall be repaid after the repayment of external indebtedness and funding of the reserve accounts.

As of December 31, 2016, the shareholders of the subsidiaries of the Company had granted long term advances of SR 69 million (2015: and SR 60 million). The shareholders have also made short term advances of SR 67 million (2015: SR 83 million). Some of the long term advances do not carry any finance charges and have no specific maturity dates, while other long term advances and the short term advances carry finance charges at normal commercial rates.

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13. LONG TERM LOANS

	2016	2015
Saudi Industrial Development Fund loans	1,438,909,000	1,636,239,003
Shari'a compliant bank loans	3,938,872,183	3,066,983,312
Public Investment Fund loans	1,040,980,000	1,230,188,000
Murahaba facility	273,000,000	299,000,000
	6,691,761,183	6,232,410,315
Less: Unamortized deferred charges	(29,527,554)	(32,807,210)
Total	6,662,233,629	6,199,603,105

Presented in the balance sheet as follows:

Current portion shown under current liabilities	1,053,110,874	711,319,128
Non-current portion shown under non-current liabilities	5,609,122,755	5,488,283,977
	6,662,233,629	6,199,603,105

Movement in unamortized deferred charges during the year are as follows:

	2016	2015
Balance as at January 1	32,807,210	36,807,026
Amortization during the year	(3,279,656)	(3,999,816)
Balance as at December 31	29,527,554	32,807,210

The Saudi Investment Development Fund ("SIDF") granted loans to IAC, IVC, IGC, IPC, SCC, SSPC and GACI. These loans are secured by guarantees from partners of relevant affiliates proportionate to partner shareholdings 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 fees and follow-up fees are charged to the loans as stated in the loan agreements.

The Group entered into Shari'a compliant credit facility agreements with syndicates of financial institutions. The loans are secured by pre-completion guarantees from partners of relevant affiliates proportionate to partner shareholdings and a second priority mortgage on the assets already mortgaged to SIDF. The only pre-completion guarantee outstanding in 2015 and 2016 was for International Polymers Company. Under a partner support agreement for the projects financing, the partners have the right following completion of a project to provide a letter of credit for support of operations during the life of 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 SIBOR plus a fixed margin.

The Public Investment Fund ("PIF") granted loans to IAC, IVC, IGC and IPC to finance the construction of plants of these companies. The obligation under these loan agreements at all times are pari passu with all other creditors. The loans are repayable in equal semi-annual installments. The agreements include covenants to maintain certain financial ratios. The loans carry financial charges at LIBOR / SIBOR plus a fixed margin.

In 2013, IMC entered into a Murabaha facility agreement with a Saudi bank for refinancing its capital lease obligation. The new agreement provided an extension of loan tenure for an additional 6 years, conversion from LIBOR to SIBOR, reduction in loan margin.

Aggregate maturities of the long term loans at December 31 were as follows:

	2016	2015
2017	1,053,110,874	711,319,128
2018	1,076,621,320	795,111,163
2019	994,316,992	608,085,606
2020	954,525,048	666,281,278
2021	827,537,164	626,489,334
2022 and beyond	1,785,649,785	2,825,123,806
	6,691,761,183	6,232,410,315

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14. SUKUK

On November 27, 2010, the Extraordinary General Assembly approved the issue of Islamic Murabaha Bonds ("Sukuk") so as to be in compliance with Shari'a Laws, for the purpose of financing the capital expansion 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 was completed on June 29, 2011 for an amount of SR 1,800 million which will be for five years and carry an interest rate of SIBOR plus a profit margin of 1.75% per annum payable at the end of each quarter.

In June 2016, the Company extinguished its liability related to old Mudaraba Sukuk amounting to SR 1,800 million and issued new Mudaraba/Murabaha Sukuk amounting to SR 1,000 million with a maturity of five years and with commissions payable semi-annually at a rate of SIBOR plus 2.35% per annum, incurring transaction costs of SR 3 million.

15. EMPLOYEES' BENEFITS PAYABLE

	2016	2015
End-of-service indemnities (note a)	167,021,920	154,963,482
Thrift plan (note b)	14,981,341	10,855,233
	182,003,261	165,818,715

a) END-OF-SERVICE INDEMNITIES

	2016	2015
January 1	154,963,482	130,465,812
Provision for the year	33,857,284	33,479,408
Payments during the year	(21,798,846)	(8,981,738)
December 31	167,021,920	154,963,482

b) THRIFT PLAN

The Group maintains an employee's savings plan for Saudi employees. The contribution from the participants are deposited in separate bank account. The Company's contribution under the savings plan is charged to the consolidated statement of income.

16. OTHER NON-CURRENT LIABILITIES

	2016	2015
Product supply advance from customer	50,602,500	50,602,500
Others	1,638,576	-
	52,241,076	50,602,500

In 2014, IGC entered into a Carbon Monoxide ("CO") supply agreement with a customer to process Natural Gas and supply Carbon Monoxide. IGC has received an advance of SR 51 million, which will be adjusted against the supply of CO during the first sixty months from the commencement date of CO supply to the customer.

17. ZAKAT AND INCOME TAX

The principal elements of the zakat base of the Group are as follows:

	2016	2015
Non-current assets	13,163,893,548	13,483,868,418
Non-current liabilities	6,909,846,212	7,564,658,895
Opening shareholders' equity	5,812,375,274	5,968,498,389
Net income before zakat and income tax	186,701,107	369,519,234
Spare parts	236,814,964	206,776,154
Dividends paid	-	458,333,333

Some of these amounts have been adjusted in arriving at the zakat charge for the year.

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17. ZAKAT AND INCOME TAX (Continued)

Zakat for the year is payable at 2.5% of higher of the approximate zakat base and adjusted net income attributable to Saudi shareholders.

The movements in zakat and income tax provisions are as follows:

	2016	2015
January 1	98,168,057	124,280,164
Provision for the year	55,422,469	30,409,934
Payments during the year	(57,461,580)	(56,522,041)
December 31	96,128,946	98,168,057

The zakat charge for the Group was as follows:

	2016	2015
Current year zakat charge for the Company	12,189,139	11,833,331
Company's share in the zakat and income taxes of foreign subsidiaries	43,233,330	18,576,603
December 31	55,422,469	30,409,934

Outstanding assessments

The Company received Zakat assessments for the years 2007 to 2010 with additional zakat liability of SR 109 million. The Company does not agree with the additional liability and has appealed against these assessments, which is currently under Higher Appeal Committee's (HAC) review.

IMC received withholding tax assessment for the years 2007 to 2012 for the delay fines of SR 18 million. IMC does not agree with the delay fines and has filed an appeal against this assessment.

IGC received Zakat assessments for years 2008 to 2010 with additional liability of SR 3 million. IGC has accepted the assessment and settled the due liability.

All of the companies within the Group submitted their zakat and income tax declarations up to the year ended December 31, 2015 within the statutory deadline and still under review of the GAZT.

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18. RELATED PARTIES TRANSACTIONS (Continued)

b) Due to related parties included in accounts payable

	2016	2015
Johnson Matthey Davy Technologies Limited	1,146,605	3,200,114
	1,146,605	3,200,114

19. STATUTORY RESERVE

In accordance with the Company's Articles of Association, the Company has established a statutory reserve by the appropriation of 10% of net income until the reserve equals 50% of the share capital. This reserve is not available for distribution to shareholders.

20. DIVIDENDS

No dividend were declared or paid during the year (2015: dividend paid SR 458 million).

21. NON-CONTROLLING INTERESTS

	2016	2015
International Methanol Company	459,465,316	396,060,070
International Diol Company	213,880,893	275,014,130
International Acetyl Company	169,287,366	348,612,073
International Polymers Company	313,012,398	257,127,171
International Vinyl Acetate Company	138,403,548	313,746,830
International Gases Company	268,157,079	264,183,164
Gulf Advanced Cables Insulation Company	21,986,881	23,878,697
Saudi Specialized Products Company	42,393,302	13,796,692
	1,626,586,783	1,892,418,827

22. SELLING AND MARKETING EXPENSES

Selling and marketing expenses for the year 2016 and 2015 represents commission paid to foreign partners of the Company in its subsidiaries who marketed part of the Group's products in external market.

23. GENERAL AND ADMINISTRATIVE EXPENSES

	2016	2015
Employees' related costs	156,149,822	139,169,924
Depreciation	35,555,208	25,287,987
Expenses of board of directors and board meetings for the Group	3,151,119	3,718,629
Donations	6,915,111	2,000,000
Legal and professional expenses	5,611,915	8,103,244
Others	9,162,543	13,022,690
	216,545,718	191,302,474

24. OTHER INCOME / (EXPENSES)

	2016	2015
Exchange gain / (loss)	5,971,638	(41,551,054)
Other income – net	2,881,714	1,586,171
	8,853,352	(39,964,883)

25. OPERATING LEASE ARRANGEMENTS

The main leases are with the Royal Commission for land in Jubail and with Port Authority for warehouse facility in port. The lease with Royal Commission is for an initial term of 30 Hijri years and is renewal upon the agreement of the two parties.

Commitments for minimum lease payments under non-cancelable operating leases are as follows:

	2016	2015
Not later than one year	2,569,548	2,569,548
Year two	2,569,548	2,569,548
Year three	2,569,548	2,569,548
Year four	2,569,548	2,569,548
Year five	2,569,548	2,569,548
Later than five years	26,623,685	29,193,233
Total net minimum lease payments	39,471,425	42,040,973

	2016	2015
Payments under operating leases recognized as an expense during the year	2,569,548	2,569,548

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26. COMMITMENTS AND CONTINGENCIES

As of December 31, the Group had the following commitments and contingencies:

	2016	2015
Letters of guarantees and credits	502,232,250	594,166,940
Capital commitments	687,072,285	344,138,114

As of December 31, 2016, the Group had entered into forward contracts to swap EUR 24 million for USD to cover against foreign currency risk due to fluctuations in Euros (December 31, 2015: EUR 31 million). The year end mark-to-market impact of the derivative used to swap the Euro is not material.

27. SEGMENTAL ANALYSIS

The Group's operations consist of the following segments:

- a) **Petrochemical operations** include the activities for products manufactured
- b) **Marketing operations** include risk managed marketing and trading activities for products under agreed upon buy-sell arrangements, feedstock and swap transactions, product swaps, and product hedging.

	Petrochemical operations	Marketing operations	Total
2016			
Sales	3,189,351,967	178,123,445	3,367,475,412
Gross profit	686,139,796	4,197,729	690,337,525
Net assets	7,411,041,253	59,083,482	7,470,124,735
2015			
Sales	3,011,945,133	502,894,409	3,514,839,542
Gross profit	653,234,363	179,758,602	832,992,965
Net assets	7,680,301,663	24,492,438	7,704,794,101

No geographical segment disclosure has been prepared as significant portion of sales are export sales.

28. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments carried on the balance sheet principally include cash and cash equivalents, accounts receivable, certain other receivables, accounts payable, short and long term borrowings and certain other payables.

Credit risk

Credit risk is the risk that one party may fail to discharge an obligation and will cause the other party to incur a financial loss. The Group seeks to manage its credit risk with respect to customers by monitoring outstanding receivables.

Adequate allowances are made for debts considered doubtful. The Group maintains its cash with high credit rated local banks.

Currency risk

Currency risk is the risk that the value of financial instruments may fluctuate due to change in foreign exchange rate. The Group is subject to fluctuations in foreign exchange rates for Euros. The currency risk is monitored at the Group level. The Group monitors the fluctuations in Euro exchange rates and enters into forward exchange contracts to hedge the currency risk. At the period end, the Group had receivables of € 22 million included in amounts due from related parties.

Liquidity risk

Liquidity risk is the risk that the Group may encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. The Group manages its liquidity risk by managing the working capital and ensuring that the bank facilities are available.

Commission rate risk

Commission rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market rates. The Group is subject to commission rate risk on its commission bearing assets including bank deposits and its commission bearing liabilities including short term loans, long term loans, sukuk and the obligations under capital lease. Management monitors the changes in the commission rate and believes that the commission rate risk to the Group is not significant.

Fair value

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 fair values of financial instruments are not materially different from their carrying values at the balance sheet date.

29. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to comply with the current period presentation of the financial statements.

