Board of Directors Report

2012

Rabigh Refining & Petrochemical Company (Petro Rabigh)

Contents of 2011 Board of Directors' Report (Petro Rabigh)

1. Company

Rabigh Refining and Petrochemical Company (Petro Rabigh) was established as a Saudi limited liability Company under Commercial Registration No. 4602002161 on 15-08-1426H (corresponding to September 19, 2005). The Company was converted into a joint stock Company pursuant to the Minister of Commerce and Industry's Resolution No 262/Q dated 22/10/1428H (corresponding to November 3, 2007). The objectives of the Company are the development, construction and operation of an integrated petroleum refining and petrochemical complex. The complex will manufacture refined petroleum products, petrochemical products and other hydrocarbon products including; gasoline, naphtha, jet fuel, diesel, fuel oil, polyethylene (PE), mono ethylene glycol (MEG), polypropylene (PP) and propylene oxide (PO).

2. Company's Business

Petro Rabigh's business is composed of two main activities; namely refining and petrochemical production. The two activities are fully integrated to maximize profit and minimize cost by converting low value products to higher margin products.

Refining:

The Company can process up to 400,000 barrels per day of Arabian Light crude oil and produce 134 million barrels of gasoline, naphtha, jet fuel, diesel and fuel oil annually.

Petrochemical Production:

The Company produces up to 2.4 million tons per annum of polyethylene, mono ethylene glycol, polypropylene and propylene oxide from crude oil, ethane and butane feedstock supplied by Saudi Aramco.

The following table indicates each of the two activities contribution to Petro Rabigh business in the year 2012 (Expressed in Thousand Saudi Arabian Riyals):

	2012 Sales	Contribution to Sales (%)
Refining	**52,541,909**	**85%**
Petrochemical Production	**9,468,968**	**15%**
Total	**62,010,877**	**100%**

3. Products Sales and Marketing

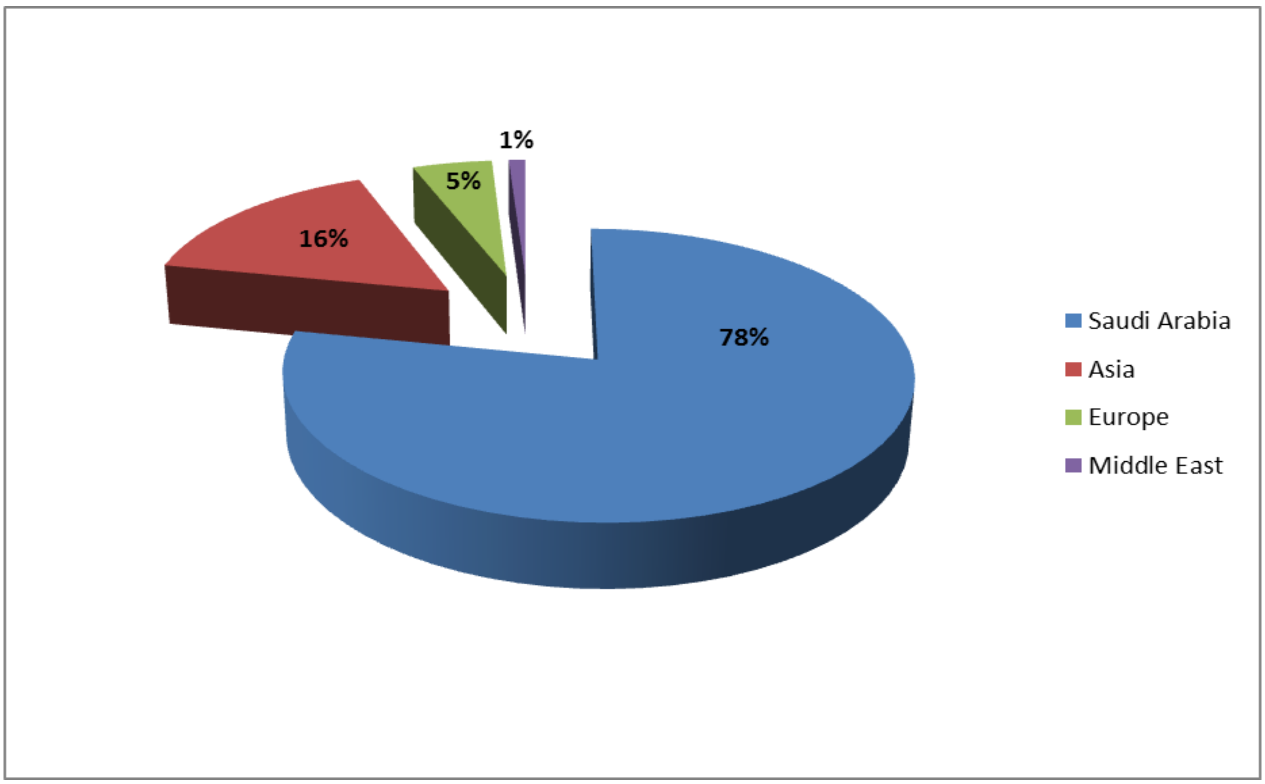
The marketing agreements between the Company and the two founding shareholders, namely Saudi Aramco and Sumitomo Chemical, are the key documents to govern the relationship between the Company and its marketers. Saudi Aramco is the sole marketer of the Company's refined products while Sumitomo Chemical is responsible for marketing a major portion of the petrochemical products. The remaining portions of the petrochemical products are marketed directly by the Company within the GCC and the Middle East. The Company is benefitting from the well-established marketing and distribution networks of both founding shareholders.

4. 2012 Geographical Sales Analysis

Refined Products

Refined Products Destinations	Volume (Bbl.)	%
Saudi Arabia	94,658,352	78%
Asia	19,341,945	16%
Europe	5,798,078	5%
Middle East	1,209,129	1%
Total	121,007,504	100%

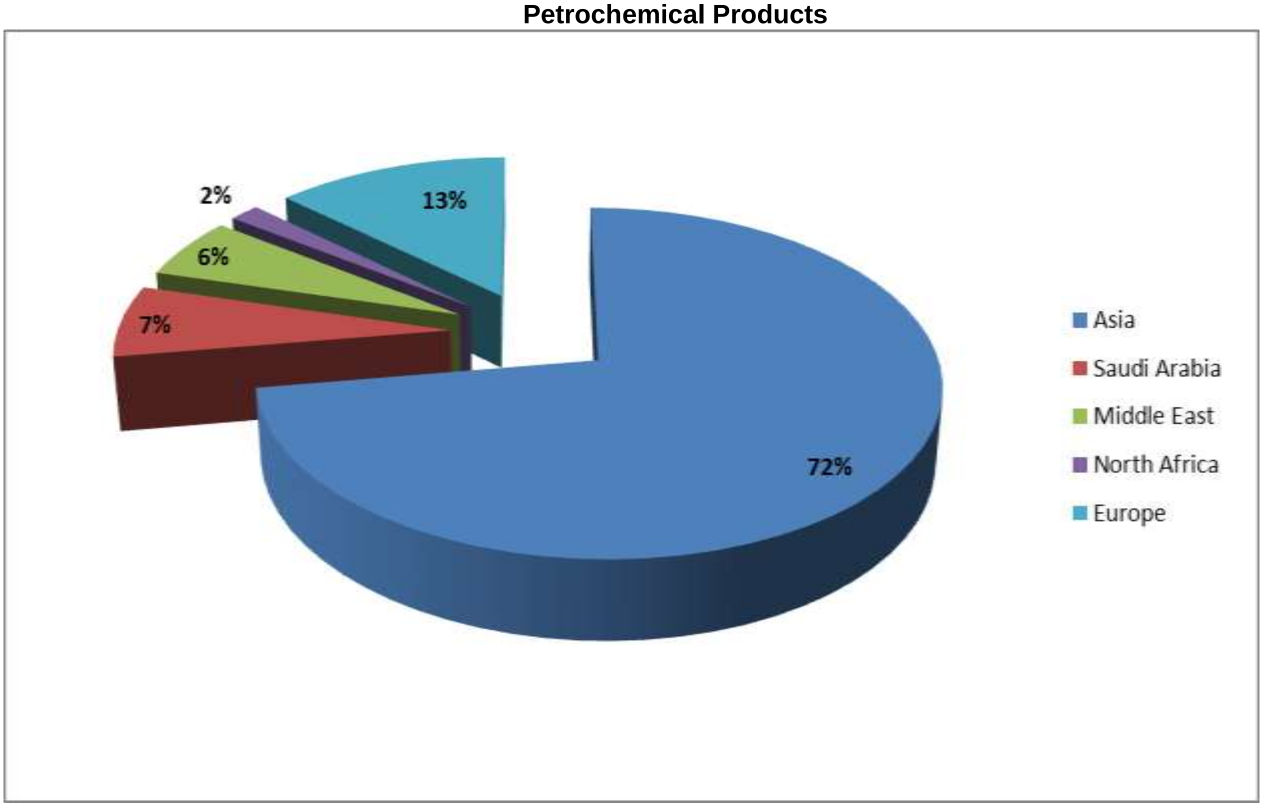
2012 Geographical Sales Analysis
Refined Products



Petrochemical Products

Petrochemical Destinations	Volume (MT)	%
Asia	1,593,505	72%
Saudi Arabia	150,912	7%
Middle East	129,464	6%
North Africa	37,436	2%
Europe	286,944	13%
Total	2,198,260	100%

2012 Geographical Sales Analysis
Petrochemical Products



5. 2012 Achievements

The following are the major achievements of Petro Rabigh during 2012:

1. Petro Rabigh successfully passed the financial completion test. This test determines the Company's ability to meet its financial obligations using revenues generated from its own operations, which supports the Company's financial position.

2. Production of refined products Increased in 2012 by 10% compared to 2011, while petrochemical production increased in 2012 by 20% compared to 2011.

3. Petro Rabigh received an award for developing a new technical system to test ships through the (SAP) system during the workshop which was held in the King Fahd Industrial Port in Yanbu in May. This invention enhances the quality and standards in the port of Rabigh. Petro Rabigh is considered as one of the first petrochemical companies to use this system, which gives added value to the Company in terms of reducing operational costs and improving the work environment and teamwork performance.

4. Petro Rabigh received an award for its commitment to hiring qualified Saudi talents by the Chairman of the Royal Commission for Yanbu and Jubail, in May 1, 2012.

6. Future Operating Plans

Petro Rabigh continues adhering to its strategy of capitalizing on its existing assets as well as exploring and researching for significant development opportunities to further maximize values to all stakeholders. The Company remains committed to announcing developments that could occur during 2013 through the official website of the Saudi Stock Exchange “Tadawul” and through its official website.

7. Potential Risks & Risk Management

The business of Petro Rabigh relies on oil refining and petrochemical production which is exposed to the following potential risks:

- Risks related to Credit, Liquidity and Trade:

Credit Risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. It mainly comprises of cash and cash equivalents, trade and other receivables and term loan. Cash and cash equivalents are placed with national and international banks with sound credit ratings.

Trade and other receivables are mainly due from founding shareholders, managed by agreed credit terms. Further during the year ended 31 December, 2011, the Company has entered into a Credit Insurance Policy with the Islamic Corporation for the Insurance of Export Credits and Investment, which will cover the Company’s revenue and related receivables from the Middle East . It is not the practice of the Company to obtain collateral over receivables. As at 31 December 2012, there were minimal overdue debts equivalent to 3.28% (2011: 0.62%) of the trade receivables balance of Company’s allowed credit periods.

Fair Value and Cash Flow Interest Rate Risks are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Company’s financial position and cash flows. The Company’s interest rate risk arises mainly from long-term debts, which are at floating rates of interest. All debts are subject to re-pricing on a regular basis. Management monitors the changes in interest rates and believes that the fair value and cash flow interest rate risks to the Company are not significant.

Liquidity Risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risks may result from the inability to realise a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available to meet the Company's future commitments. The Company aims to maintain the level of its cash and cash equivalents in excess of expected cash outflows of financial liabilities. The Company has contractual commitments of cash outflows related to its financial liabilities, mainly related to trade and other payables, finance lease obligations and long-term loans.

Currency Risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign currency exchange rates. The Company's transactions are principally in United States Dollars and Saudi Arabian Riyals.

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. As the Company's financial statements are prepared under the historical cost method, differences may arise between the book values and the fair value estimates. Management believes that the fair values of the Company's financial assets and liabilities are not materially different from their carrying.

- Risks Related to the Economic Situation:

The Company realizes that it operates in a competitive market and the demand of Petro Rabigh products is influenced by global as well as local economic conditions. The major influential factor on demand of Petro Rabigh products is anticipated to be major economic recessions or stagnant local economic conditions. The downturn of both international and local economic conditions will likely initiate a decline in demand for both refined and petrochemical products and that would impact Petro Rabigh's planned sales and targeted revenues, and if coupled with upward inflationary risks it can further apply pressure on the demand of the Company's products as well as anticipated feedstock cost. therefore the company continuously and closely monitors market condition, supply and demand conditions, interest and exchange rates to forecast and plan for any potential downturns.

- Risks Related to Operations:

The company sources of revenue rely on the operation of plants and facilities that are influenced by performance and plant capacity utilization, as well as strong engineering support and reliable information technology infrastructure.

The safe operation of the plant is what influences the plant performances and capacity utilization, and to control any foreseen risk from unfavorable plant safety, the company has outsourced a third-party who is well known and have the reputation in the industry of their proven methods in process safety management. The third-party company will continue to monitor practices used in the integrated facility and will report its observations and recommendations in a timely manner and that will be followed by corrective actions by management, also, Petro Rabigh relies on internal departments as well as third parties to continually survey the safety practices and methods applied in the course of operation ensuring that it meets at least the minimum of best industry practices and international industry standards. The company relies on Information technology for plant operation, and to mitigate any risk of IT failure the company's IT Department takes the initiative to limit the risk associated with IT service disruptions from cyber threats like computer hacking/malicious codes and viruses. IT Infrastructure Security perimeter protections comprises of Firewalls, Intrusion Prevention Systems, Web, System & Email protection systems which are geared up to meet the perceived threat. In addition well established internal control mechanism is governed by robust IT processes benchmarked on global standards like ITIL & ISO27001.

- Risks Related to Governance:

The Board of Directors among its other responsibilities performs the role and responsibility of setting the company's strategic direction, and the implied risk on practicing this role is the delivery of ineffective or wrong information by the management to the Board of Directors which could lead to ineffective guideline setting which will produce an ineffective and inefficient strategy that will likely impact profitability and desired return on investment, hence, to manage and to mitigate this risk, the Company's Board of Directors is continuously overseeing and reviewing the Company's compliance to corporate governance rules and regulations through different approaches such as but not limited to:

a- Establishing Board and Executive Management committees which will meet periodically as well as prior to Board meetings with the purpose of continuous evaluation and review of various annual corporate plans such as Sales, Marketing, Compensation plans, Audit Reviews, etc.

b- The Company's established policies are not fixed over the entire life of the organization, and to avoid breaching of preset controls due to the dynamics of the business the company operates in, policies and procedures are reviewed by the Board on "as needed" basis, however, it is a mandate by the Board that all policies and procedures are subject to full review every three years from instatement day.

c- To ensure that the strategy plan as set by the Board is implemented effectively and to avoid the risk of the management diverting from the plan, each organization within Petro Rabigh takes the responsibility of setting key performance indicators (KPI's) which are directly aligned to key strategic objectives. The results of the KPI's are then aligned and are reviewed annually against the strategic plan.

- Risks Related to Regulations:

The company is operating in a dynamic environment and its business operation is governed by local as well as international regulations. To control the risk of immediate regulation impact on the company's operations, the company has established a Public and Government Affairs Department which is an organization that carries the responsibilities and is accountable for following up on the development of local and international regulations pertaining to the petrochemical and refining industry and is in charge of taking steps necessary to communicate to concerned management within a reasonable timeframe any change to regulations that is assessed to have direct or implied restrain on the company's operation as well as communicating the need to comply to certain regulations and suggesting the appropriate steps to do so, this includes local governmental regulations such as regulations and laws by the Ministry of Petroleum, Ministry of Commerce and Industry, The Capital Market Authority, etc. and International regulations such as trade and anti-dumping laws and regulations and environmental regulations, etc.

8. <u>2012 Financial Summary</u>

Following is a brief description of the 2012 financial outcome in comparison to the previous year:

• Net profit for the twelve months was SR 488.9 million compared to a net profit of SR 65.9 million for the same period in 2011 which is equivalent to an increase of 641.9% .

• Earnings per share during the twelve months are SR 0.56 compared to earnings of SR 0.08 per share for the same period in 2011.

• The gross profit during the twelve months was SR 1,529.2 million compared to a gross profit of SR 984.2 million for the same period in 2011 which is equivalent to an increase of 55.4%.

• Operating profit during the twelve months was SR 654.0 million compared to a profit of SR 102.8 million for the same period during the previous year which is equivalent to an increase of 536.2%.

The reason for the increase in net profit for the year versus last year is due to improved gross profit as a result of increased production capacity in 2012 compared to 2011 when plant shutdown was experienced due to periodical Test and Inspection (T&I)

Balance Sheet:

(Expressed in Thousand Saudi Arabian Riyals)

	31 December 2012	31 December 2011	31 December 2010	31 December 2009	31 December 2008
Current Assets	16,486,444	16,264,531	12,212,302	8,947,680	5,055,939
Non-Current Assets	31,289,105	33,587,166	35,030,684	43,198,730	42,855,000
Total Assets	47,775,549	49,851,697	47,242,986	52,146,410	47,910,939
Current Liability	16,802,333	17,759,702	13,639,248	11,337,665	7,199,074
Long-Term Loans & other Liabilities	22,412,274	24,006,297	25,593,941	32,977,927	31,448,024
Equity	8,560,942	8,085,698	8,009,797	7,830,818	9,263,841
Total Liabilities & Equity	47,775,549	49,851,697	47,242,986	52,146,410	47,910,939

Income Statement:

(Expressed in Thousand Saudi Arabian Riyals)

	31 December 2012	31 December 2011	31 December 2010	31 December 2009	31 December 2008
Income	62,010,877	53,376,836	46,837,888	29,422,706	6,543,342
Refined Products	52,541,909	45,265,312	39,057,796	27,897,120**	6,543,342*
Petrochemical Products	9,468,968	8,111,524	7,780,092	1,525,586**	--
Cost of Goods Sold	(60,481,712)	(52,392,648)	(46,109,234)	(29,878,063)	(7,165,236)
Gross Profit (Loss)	1,529,165	984,188	728,654	(455,357)	(621,894)
General & Administrative Expenses	(875,201)	(881,397)	(841,452)	(753,630)	(679,664)
Other Income (losses) - Net	(165,106)	(36,898)	321,488	(224,069)	45,315
Net Profit (Loss)	488,858	65,893	208,690	(1,433,056)	(1,256,243)

* This only pertains to 4th Qtr, where the existing refinery was procured on October 1
** This only pertains to commercial sales, where pre-commercial sales were deducted from the Construction in Progress account

The financial statements of the Company have been prepared and kept in accordance with the Generally Accepted Accounting Principles applied in the Kingdom of Saudi Arabia under the supervision of the

Saudi Organization for Certified Public Accountants (SOCPA). These principles are constantly applied in the Company. There is no deviation from the accounting standards issued by SOCPA.

9. Loans

The Company has utilized all of the loans available to it from third-party lenders totaling SR 21,900 million. It has also drawn down a total of SR 2,287.5 million from each of its founding shareholders during 2008 and 2009.

The loan period for third party loans is 11 years starting 2011 and ending 2021. The Company started the repayment of these loans in June 2011 and will continue until 2021.

There is no set period for the founding shareholders loan as it will be repaid on demand after the first payment and after achieving the financial completion and meeting the criteria set by the financial institutions according to the Credit Facility Agreement which is mentioned in paragraph 12 (Related Party Transactions) in this report.

Loans from Commercial, Islamic and Governmental Financial Institutions:

The following table shows Petro Rabigh loans from commercial banks, Islamic banks and government agencies:

(Expressed in Thousand Saudi Arabian Riyals)

Lender	Repayments During 2012	31 December 2012	31 December 2011	31 December 2010	31 December 2009	31 December 2008
Japan Bank For International Cooperation	651,316	8,180,921	8,832,237	9,375,000	9,375,000	9,375,000
Commercial Banks	516,490	5,622,863	6,139,353	6,525,000	6,525,000	6,525,000
Public Investment Fund	260,526	3,272,368	3,532,894	3,750,000	3,750,000	3,750,000
Islamic Financial Institutions	178,100	1,938,918	2,117,018	2,250,000	2,250,000	2,250,000
Total	**1,606,432**	**19,015,070**	**20,621,502**	**21,900,000**	**21,900,000**	**21,900,000**

Loans from Founding Shareholders:

The following table lists Petro Rabigh loans from the founding shareholders:

(Expressed in Thousand Saudi Arabian Riyals)

Lender	Repayments During 2012	31 December 2012	31 December 2011	31 December 2010	31 December 2009	31 December 2008
Saudi Aramco	-	2,287,500	2,287,500	2,287,500	2,287,500	1,500,000
Sumitomo Chemical	-	2,287,500	2,287,500	2,287,500	2,287,500	1,500,000
Total	**-**	**4,575,000**	**4,575,000**	**4,575,000**	**4,575,000**	**3,000,000**

10. Accruals for Government Institutions and Zakat Assessment

The Department of Zakat and Income Tax (DZIT) has issued assessments for the years 2006 and 2008 by raising an aggregate Zakat liability of SR 32 million. The Company has filed an objection which was rejected by the DZIT and on the request of the Company the assessments were transferred to Preliminary Appeal Committee (PAC) for adjudication. Management believes its position regarding the DZIT adjustment is robust in the area of interpretation, and that it is too soon to be able to estimate a probable settlement amount. Any settlement amount eventually agreed with DZIT will not impact the future earnings of the Company, as it will be recoverable from the founding shareholder - Saudi Arabian Oil Company (SAUDI ARAMCO)
The DZIT has also issued queries for 2009 and 2010 financial years requiring certain information pertaining to various elements of financial statements. The declaration for 2011 financial year was already filed and the Company has obtained a certificate valid until April 30, 2013.

Following are accrued liabilities which consist of accrued, withholding taxes and the Company contribution to General Organization for Social Insurance:

(Expressed in Thousand Saudi Arabian Riyals)

	31 December 2012	31 December 2011	31 December 2010	31 December 2009	31 December 2008
Department of Zakat & Income	**45,655**	**27,538**	**87,222**	**17,378**	**32,145**
General Organization for Social Insurance	**5,343**	**4,785**	**3,904**	**2,156**	**1,759**
Total	**50,998**	**32,323**	**91,126**	**19,534**	**33,904**

11. Dividends Distribution Policy

The Company's annual profits shall be allocated, after deducting all general expenses and other costs including taxes and Zakat, as follows:

- 10% of the annual net profit shall be set aside to form a statutory reserve. Such setting aside may be discontinued by the Ordinary General Assembly when statutory reserve equals half of the Company's equity capital.
- The Ordinary General Assembly may, upon a request of the Board of Directors, set aside a percentage of the annual net profit to form an additional reserve to be allocated for purposes decided by the Ordinary General Assembly.
- All the remaining amounts of the annual net profits shall be distributed to shareholders as dividends unless the Ordinary General Assembly decides otherwise.

Also, there are no arrangements or agreements whereby any of the shareholders gives up his/her rights to the profits until December 31, 2012

12. Related Party Agreements and Transactions

As disclosed in the Company's prospectus and in the audited annual financial statements, the company entered into various agreements with Founding Shareholders including, among others:

Ethane Feedstock Supply Agreement:

On 28 January 2006, the Company entered into a Ethane Feedstock Supply Agreement with Saudi Aramco for the supply to the Company of all its requirements of ethane feedstock (not to exceed ninety-five million standard cubic feet per day of ethane feedstock) solely for use in the Rabigh project. The Company pay Saudi Aramco 0.75 USD/BTU from the effective date through 31 December 2015. There after the price shall be the price commonly applied by Saudi Aramco to all industrial customers in the Kingdom. This agreement is valid for 20 years and the term is renewable for another 10 years subject to agreement of both parties.

Butane Feedstock Supply Agreement:

On 28 January 2006, the Company entered into a Butane Feedstock Supply Agreement with Saudi Aramco for the supply to the Company of all its requirements of butane feedstock (not to exceed 12000 bpd of butane feedstock) solely for use in the Rabigh project. The Company pay Saudi Aramco the price commonly applied by Saudi Aramco to all industrial customers in the Kingdom. There after the price shall be the price commonly applied by Saudi Aramco to all industrial customers in the Kingdom. This agreement is valid for 20 years and the term is renewable for another 10 years subject to agreement of both parties.

Crude Oil Feedstock Supply Agreement:

On 28 January 2006, the Company entered into a Crude Oil Feedstock Supply Agreement with Saudi Aramco for the supply to the Company of its crude oil feedstock requirements, up to a maximum supply of 400,000 bpd, solely for use in the Rabigh Project. The price at which Saudi Aramco sells the crude feedstock to the Company is based, amongst other variable market factors, on the international crude oil prices. The COSA is valid for 30 years commencing from 1 October 2008.

Refined Products Lifting and Marketing Agreement:

On 2 March 2006, the Company signed a Refined Products Lifting & Marketing Agreement (RPLMA) with Saudi Aramco as sole "Marketer" of refined products from the Rabigh Refinery. The RPLMA is valid for 10 years from 1 October 2008, and is further extendable for another 5 years. Pursuant to this agreement, Saudi Aramco will lift and market globally, on behalf of the Company as "Seller", the refined products from the Rabigh Complex.

Petrochemical Products Lifting and Marketing Agreement:

On 11 March 2006, the Company signed a Petrochemical Products Lifting & Marketing Agreement (PPLMA) with Sumitomo Chemical as "Marketer" of petrochemical products from the Rabigh Refinery. The PPLMA is valid for 10 years from accumulated production date, and is further extendable for another 5 years. Pursuant to this agreement, Sumitomo Chemical will lift and market globally, on behalf of the Company as "Seller", the petrochemical products from the Rabigh Complex. An Assignment and Assumption Agreement dated February 23, 2009 assigns Sumitomo Chemical Asia as the "Marketer".

Credit Facility Agreement:

On 18 March 2006, the Company entered into a Credit Facility Agreement (CFA) with both of its Founding Shareholders. Under the provisions of this agreement, the Founding Shareholders agreed to grant to the Company a loan facility up to a maximum aggregate amount of SR 6.2 Billion for the development, design, construction and operation of the integrated petroleum refining and petrochemical project. The expiry of the commitment of the founding shareholders in respect of this facility was extended from July 1, 2011 to July 1, 2013

Terminal Lease Agreement:

The Company entered into a Terminal Lease Agreement with Saudi Aramco on 2 March 2006 in respect of the existing Rabigh Marine Terminal. Under this agreement, the Company has been granted certain exclusive rights by Saudi Aramco to use and operate the Rabigh Terminal Facilities and the Rabigh Terminal Site for a term of 30 years effective from 1 October 2008.

Secondment Agreements:

The Company has entered into Secondment Agreements with each of its Founding Shareholders (with Saudi Aramco dated 12 June 2006, and with Sumitomo Chemical dated 1 July 2006). Each of these agreements has a continuous term to apply until the date on which a Founding Shareholder ceases to be a shareholder of the Company. These agreements cover the requirement of the Company from time to time for the secondment of certain personnel to assist in the conduct of business and operations.

Services Agreements:

The Company has entered into Services Agreements with Founding Shareholders with effect from 1 August 2005 covering various operational and logistics support services. Each of these agreements has an initial term of 5 years and are renewable thereafter for consecutive additional periods of one year each.

These agreements cover the provision of various support services to the Company during the plant construction and initial operations phase of the Rabigh Project – such as Accounting & Finance, Human Resources, Engineering, Procurement and Construction, Legal, Information Technology, General Management, Technical Support and Pre-marketing Support. These agreements also cover the ongoing technical support needed for continuous operations and ongoing enhancements such as refining and petrochemical process know-how provided by Saudi Aramco and Sumitomo Chemical respectively and marketing technical services, engineering and safety best practices and training provided by both Founding Shareholders. The Company shall pay for these services at prices specified in each service authorization for the services to be provided.

Rabigh Refinery Complex Lease Agreement:

The Company has entered into Rabigh Refinery Complex Lease Agreement with Saudi Aramco dated November 1, 2005 for the lease of approximately 11.8 million square meters for a period of 99 years, with effect from November 1, 2005, and may be renewed thereafter for consecutive additional periods as agreed. The Company shall pay to Saudi Aramco rent in an amount equal to SR1 per square meter per annum starting from 1 October 2008.

Rabigh Community Lease Agreement:

The Company has entered into Rabigh Community Lease Agreement with Saudi Aramco dated 1 October 2008. This agreement has an initial term of 5 years with effect from 1 October 2008, and may be renewed thereafter for consecutive additional periods as agreed. The Company shall pay to Saudi Aramco rent of SR28.5 million per annum starting from 1 October 2008.

the above mentioned agreements and transactions result in receivables and payables balances with the related parties as set out in the balance sheet in trade and non-trade receivables, trade and other payables and accrued expenses and other current liabilities amounting to SR7,510 million (2011: 8,765 million), SR14,091 million (2011: 14,884 million) and SR454 million (2011: 438 million) respectively. These transactions are summarized as follows:

(Expressed in Thousand Saudi Arabian Riyals):

Nature of transaction	Amount of transaction	
	31 December 2012	31 December 2011
Saudi Arabian Oil Company		
Purchase of feedstock	55,628,479	49,139,340
Sale of refined products	52,541,909	45,265,312
Asset purchases	---	1,321
Interest expense	51,383	41,585
Secondees' and service costs	105,286	214,939
Sumitomo Chemical & its associates		
Purchase of stocks	96,868	121,936
Sale of petrochemical products	7,518,347	6,823,240
Interest expense	51,383	41,585
Secondees' and service costs	43,086	119,851

13. Results of the annual Audit of the effectiveness of the Internal Control System

Internal Auditing in Petro Rabigh is an independent, objective and consulting activity designed to monitor and improve the effectiveness of the system of internal controls in order to add value to the Company's operations. It helps the Company achieve its goals through the application of a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. Additionally, Internal Auditing provides an incentive to improve the effectiveness and efficiency of the Company operations by providing recommendations based on analysis and assessments of data and business processes.

The Internal Auditing Office of the Company has audited the internal control procedures in major activities in 2012, in accordance to the annual audit plan approved by the Board Audit Committee. The results and recommendations were regularly and periodically communicated to the Board Audit Committee by the General Auditor. Executive management of the Company have agreed to implement Internal Auditing recommendations in a reasonable time frame in order to improve the internal control procedures.

There were no critical results found during the 2012 audit of the effectiveness of the internal control system.

14. Penalties and Prohibitions

The Company did not receive any penalties or preventive restrictions by an authority or any other supervisory or regulatory or judiciary body during 2012

15. Board of Directors & Senior Management

The Board of Directors was composed of eight members in its first term since establishment date and until November 2, 2012. On October 10, 2012 The Company's General Assembly elected the Company's Board of Directors for its second term which commences on November 3, 2012 and continues until November 2, 2015. The Board in its second term is composed of 9 members.

Also on September 8, The Board accepted the resignation of Board member and President & Chief Executive Officer of the Company Ziad S. Al-Labban and appointed Abdullah S. Al-Suwailem as a Board member and President & Chief Executive Officer effective September 9, 2012.

The following table shows the composition of the company's Board of Directors including the director's names, titles and their board membership classifications as well as Board meetings attendance during the period January 1 to November 2, 2012:

Name & Title	**1st Meeting February 18, 2012**	**2nd Meeting April 19, 2012**	**3rd Meeting September 8, 2012**	**Total Meetings Attended**
Abdulaziz F. Al-Khayyal Chairman Non-Executive	√	√	√	3
Hiromasa Yonekura Deputy Chairman Non-Executive	Proxy (Osamu Ishitobi)	√	√	2
Ziad S. Al-Labban* President & CEO Executive Director	√	√	√	3
Noriaki Takeshita Executive Director	√	√	√	3
Motassim A. Al-Ma'ashouq Non-Executive Director	√	√	√	3
Osamu Ishitobi Non-Executive Director	√	√	√	3
Saud A. Al-Ashgar Independent Director	√	√	√	3
Ahmed S. Al-Humaid Independent Director	√	√	√	3

*Resigned on September 8, 2012.

The following table shows the composition of the company's new Board of Directors in its second term (starting November 3, 2012 and continues until November 2, 2015) including the Director's names, titles and their Board membership classifications. The Board had its first meeting on December 22 which was the only meeting during the period November 3 to December 31, 2012:

Name & Title	**1st Meeting December 22, 2012**	**Total Meetings Attended**
Khalid G. Al Buainain Chairman Non-Executive Director	√	1

Hiromasa Yonekura Deputy Chairman Non-Executive Director	Proxy (Osamu Ishitobi)	0
Abdullah S. Al-Suwailem* President & CEO Executive Director	√	1
Osamu Ishitobi Non-Executive Director	√	1
Noriaki Takeshita** Non-Executive Director	√	1
Motaz A. Al-Mashouk Non-Executive Director	√	1
Abdulsalam Al-Mazro Independent Director	√	1
Saud A. Al-Ashgar Independent Director	√	1
Soliman A. Al-Hosain Independent Director	√	1

*Assumed the Role of President & CEO & Executive Director Effective September 9, 2012.
**In November 2012 Noriyaki Takeshita resigned from his executive position as Chief Financial Officer while he remained in his position in the Board as a Non- Executive Director

Board Directors' Membership on the Boards of other Joint Stock Companies

The following table shows the membership of Board Directors on the Boards of other Joint Stock Companies during the period January 1 to November 2, 2012:

Name	Company	Title
Abdulaziz F. Al-Khayyal	-	-
Hiromasa Yonekura	Sumitomo Chemical & Its Various Subsidiaries	Chairman of the Board
Ziad S. Al-Labban	-	-
Noriaki Takeshita	-	-
Motassim A. Al-Ma'ashouq	-	-
Osamu Ishitobi	Sumitomo Chemical & Its Various Subsidiaries	Vice Chairman of the Board
	AOC Holding Inc.	Director

Saud A. Al-Ashgar	S-Oil Corporation	Independent Director
Ahmed S. Al-Humaid	-	-

The following table shows the membership of Board Directors on the Boards of other Joint Stock Companies during the period November 3rd to December 31, 2012:-

Name	Company	Title
Khalid G. Al Buainain	S-Oil Corporation	Non-Executive Director
Hiromasa Yonekura	Sumitomo Chemical & Its Various Subsidiaries	Chairman of the Board
Abdullah S. Al-Suwailem	-	-
Osamu Ishitobi	Sumitomo Chemical & Its Various Subsidiaries	Vice Chairman of the Board
	AOC Holding Inc.	Director
Noriaki Takeshita	-	-
Motaz A. Al-Mashouk	-	-
Abdulsalam Al-Mazro	-	-
Saud A. Al-Ashgar	S-Oil Corporation	Independent Director
Soliman A. Al-Hosain	Arabian Industrial Fibers Co. (Ibn Rushd)	Non-Executive Director

Description of Board Directors & their Direct Relatives Interest in Company Stocks and/or Debt Instruments for the Period January 1 to November 2, 2012

No.	Name	Position	Period Start		Period End		Net Change	Change %
			Stocks	Debt Instruments	Stocks	Debt Instruments		
1	Abdulaziz F. Al-Khayyal	Chairman (Non-Executive Director)	126	-	126	-	-	-
2	Hiromasa Yonekura**	Deputy Chairman (Non-Executive Director	-	-	-	-	-	-
3	Ziad S. Al-Labban*	President & CEO (Executive Director)	350	-	350	-	-	-
6	Osamu Ishitobi**	Non-Executive Director	-	-	-	-	-	-
4	Noriaki Takeshita**	CFO (Executive Director)	-	-	-	-	-	-
5	Motassim A. Al-Ma'ashouq*	Non-Executive Director	168	-	168	-	-	-
7	Saud A. Al-Ashgar	Independent Director	85,400	-	85,400	-	-	-
8	Ahmed S. Al-Humaid	Independent Director	4,210	-	4,210	-	-	-

*Founding shareholder Saudi Aramco deposited 1000 shares for Board Membership Qualification on behalf of this member.
**Founding shareholder Sumitomo Chemical deposited 1000 shares for Board Membership Qualification on behalf of this member

Description of Board Directors & their Direct Relatives Interest in Company Stocks and/or Debt Instruments for the Period November 2 to December 31, 2012

No.	Name	Position	Period Start		Period End		Net Change	Change %
			Stocks	Debt Instruments	Stocks	Debt Instruments		
1	Khalid G. Al-Buainain*	Chairman (Non-Executive)	62,000	-	62,000	-	-	-
2	Hiromasa Yonekura**	Deputy Chairman (Non-Executive)	-	-	-	-	-	-
3	Abdullah S. Al-Suwailem*	President & CEO (Executive Director)	-	-	-	-	-	-
4	Osamu Ishitobi**	Non-Executive Director	-	-	-	-	-	-
5	Noriaki Takeshita**	Non-Executive Director	-	-	-	-	-	-
6	Motaz A. Al-Mashouk*	Non-Executive Director	-	-	-	-	-	-
7	Abdulsalam Al-Mazro	Independent Director	1,000	-	1,000	-	-	-
8	Saud A. Al-Ashgar	Independent Director	85,400	-	85,400	-	-	-
9	Soliman A. Al-Hosain	Independent Director	1000	-	1000	-	-	-

*Founding shareholder Saudi Aramco deposited 1000 shares for Board Membership Qualification on behalf of this member.
**Founding shareholder Sumitomo Chemical deposited 1000 shares for Board Membership Qualification on behalf of this member

Description of Senior Executives & their Direct Relatives Interest in Company Stocks and/or Debt Instruments

The following table shows the details of Senior Executives & their Direct Relatives during 2012:

No.	Name	Position	Year Start		Year End		Net Change	Change %
			Stocks	Debt Instruments	Stocks	Debt Instruments		
1	Abdullah M. Al-Qahtani	Vice President of Engineering & Support	-	-	-	-	-	-
2	Bassam A. Bokhari	Vice President of Human Resources & Corporate Affairs & Secretary of Nomination, Remuneration and Compensation Committee	252	-	252	-	-	-

3	Eyad M. Ajaj	Public & Government Affairs Manager & Corporate Manager	1,250	-	1,250	-	-	-
4	Omar H. Alauddin	Vice President of General Administration & Industrial Security	168	-	168	-	-	-
5	Anwar J. Al-Mudahki	General Auditor & Secretary of Audit Committee	-	-	-	-	-	-
6	Satoshi Takazawa	CFO	-	-	-	-	-	-
7	Tadaki Matsuo	Senior Vice President of Manufacturing	-	-	-	-	-	-
8	Takashi Shigemori	Vice President of Market Development	-	-	-	-	-	-

The following table shows the details of Senior Executives whose services ended during 2012. The column "Period End" indicates the last working day of the Executive as specified below the table:

No.	Name	Position	Period Start		Period End		Net Change	Change %
			Stocks	Debt Instruments	Stocks	Debt Instruments		
1	Abdulaziz H. Mutwalli*	Vice President of Engineering & Support	5,000	-	5,000	-	-	-
2	Osama O. Fakieh**	Vice President of Human Resources & Corporate Affairs	2,000	-	2,000	-	-	-

* Abdulaziz H. Mutwalli service ended on January 17th, 2012
** Osama O. Fakieh service ended on November 1st, 2012

Fees & Remuneration

The details of the Board meeting expenses, remuneration and Company executives' salaries are shown in the below table:

(Expressed in Thousand Saudi Arabian Riyals)

	Executives Board Members	Non-Executives Board Members	Independent Board Members	Five Senior Executive (Including CEO & CFO)
Salaries & Compensation	2,563	-	-	6,068

Allowances	-	-	78	-
Periodic Annual Remunerations	-	-	-	-
Incentives Plans	-	-	-	-
Other Compensations or Benefits	-	-	325*	-

***Independent Board members receive an annual bonus of SAR 150,000 each against their service on the Board.

Executive and Non-Executive Board members do not receive compensation nor remuneration against their services on the Board.

16. Board Audit Committee

The Board Audit Committee oversees financial, risk management and internal control aspects of the Company's operations. Its responsibilities include the review and discussion of the Company's interim and annual financial statements. The Board Audit Committee oversees the Company's external auditor and reviews the effectiveness of external and internal audit and has the authority to engage such external experts, as it deems necessary to fulfill its obligations of stewardship on the financial affairs of the Company.

The Board Audit Committee has responsibility for reviewing effectiveness of the Company's system of internal controls, accounting information systems and finance department competencies and capabilities in light of compliance with generally accepted accounting standards.

The Committee had 5 meetings during the period January 1 to November 2, 2012, the following table shows the composition of the company's Board Audit Committee (BAC) including the director's names, titles as well as committee meetings attendance during the said period:

Name	Title	Meeting Attended
Motassim A. Al-Ma'ashouq	Chairman of Board Audit Committee	5
Osamu Ishitobi	Member	4 + 1 Proxy (Ahmed S. Al-Humaid)
Saud A. Al-Ashgar	Member	5
Ahmed S. Al-Humaid	Member	5
Anwar J. Al-Mudahki	Secretary of the Committee (Non-Member)	5

The following table shows the composition of the company's Board Audit Committee (BAC) during the Board's second term (starting November 3rd, 2012 and continues until November 2nd, 2015) including the director's names, titles. The committee did not have any meetings during the period November 3rd to December 31st, 2012:

Name	Title
Saud A. Al-Ashgar	Chairman of Board Audit Committee
Noriaki Takeshita	Member
Motaz A. Al-Mashouk	Member
Sulaiman Al-Hossain	Member
Anwar J. Al-Mudahki	General Auditor & Secretary of the Committee (Non-Member)

Based on the comprehensive review conducted by the Board Audit Committee, the committee reports that the Company is applying an effective internal auditing system and that all its financial practices are in line with accepted accounting standards followed in the Kingdom of Saudi Arabia.

17. Nomination, Remuneration and Compensation Committee

The Committee, which has duration of three years, decides on how the Board's performance is to be evaluated and proposes objective performance criteria, subject to the approval of the Board. The main duties of the Committee include, but are not limited, to the following:

- Recommending nomination of the independent Directors to the Board.
- Annually reviewing the required skills of the independent Directors of the Board and the time that a Director should dedicate to the Board's functions.
- Verifying annually the independence of the independent Directors and the absence of any conflict of interests if the Directors serve as directors on the Board of any other Company.
- Recommending to the Board clear policies for the remuneration for the Directors and senior executive officers using the performance criteria.

The Committee had 4 meetings during the period January 1 to November 2, 2012. The following table shows the composition of the company's Board Nomination, Remuneration & Compensation Committee (NRCC) including the director's names, titles as well as committee meetings attendance during the said period:

Name	Title	Meeting Attended
Motassim A. Al-Ma'ashouq	Chairman of Nomination, Remuneration and Compensation Committee	4
Ahmed S. Al-Humaid	Member	4
Ziad S. Al-Labban	Member	4
Osamu Ishitobi	Member	4
Osama O. Fakieh	Vice President of Human Resources & Corporate Affairs & Secretary of the Committee (Non-Member)	4

The following table shows the composition of the company's Board Nomination, Remuneration & Compensation Committee (NRCC) during the Board's second term (starting November 3, 2012 and continues until November 2, 2015) including the director's names, The committee did not have any meetings during the period November 3 to December 31, 2012:

Name	Title
Motaz A. Al-Mashouk	Chairman of Nomination, Remuneration and Compensation Committee
Saud A. Al-Ashgar	Member
Noriaki Takeshita	Member
Abdulsalam Al-Mazro	Member
Bassam A. Bokhari	Vice President of Human Resources & Corporate Affairs & Secretary of the Committee (Non-Member)

18. Human Resources

As of the end of December 2012, Petro Rabigh manpower totaled 2,769, including 115 participants in the Company's Apprenticeship and College Degree programs, with a Saudization level of 85%. Petro Rabigh has achieved significant progress towards the recruitment and development of a skilled workforce. The Company has established in-house and Out-Of-Company (OOC) training programs in collaboration with specialized institutes, especially in the operation and maintenance aspects of the plants. Special focus has been put on safety, certification training, and professional & leadership training. During 2012, a total number of 981 employees were enrolled in 47 in-house training programs, while 307 employees attended OOC programs.

As part of the Company's effort to qualify national manpower, four training programs were established: the Apprenticeship Program, the Professional Development Program, the College Degree Program for Non-Employees, and the College Continuation Program for Non-Employees. Since commencement of the Apprenticeship Program, a total of 876 trainees have enrolled.

19. Incentive Programs for Staff

Shares Ownership Incentive Program for Employees:

The Board of Directors has approved implementation of an employee share ownership plan (ESOP) which provides 800 shares to eligible employees at the end of a 5-year maturity period. To implement this, the Company arranged with a commercial bank to subscribe for 1.5 million shares during the IPO period at the offer price of SR21 per share. These ESOP shares are managed by Riyadh Capital under an open ended mutual fund which has offered to subscribe and hold such shares "on trust" for the employees as part of an Administrative Service Agreement. These shares, as service awards to employees, are amortized evenly over a period of five years and allocated to eligible employees until the vesting period has been fully met.

In 2011 the company purchased 25,128 shares at a the price of SR22.75 which were added to the program in order to meet the increase in hiring.

As of the end 2012, a total of 1,819 employees have joined the shares ownership Incentive Program, and a total of 9,493 shares were allocated to 14 terminated employees.

Home Ownership Incentive Program

The Board of Directors of Petro Rabigh approved implementing an incentive program for the Saudi employees from both genders to own housing units. The program aims at providing stability for staff and the convenience of living near the Company's facilities, which should positively reflect on their performance and continued employment with the Company. Per this program, the employee can own or build a housing unit for a single family. The Board of Directors approved 150 loans for 2013.

Employee Lot Allowance

Part of the Home Ownership Program (HOP) the Company provides an amount of SR200,000 as land lot allowance. This amount is considered as a personal loan. The employee will only be required to repay this loan, or a prorated amount, if he/she leaves the Company before completing 5 year of continuous services from the amount receiving date

Employee Savings Plan

The company offers its employees the opportunity to enroll in a savings plan program where the employee contributes a percentage not exceeding 10% of his/her basic salary. The Company then rewards the employee at the rate of 10% for each year of continuous service, up to 100% of the monthly employee's contribution starting with the 10^{th} year of continuous service.

The Balance as of December 31, 2012 for the above mentioned Programs and Funds is as follows:

(Expressed in Thousand Saudi Arabian Riyals):

Description	Balance
Shares Ownership Incentive Program for Employees	31,873
Employee Housing Loan-HOP (10% Fund)	4,055
Employee Lot Allowance (HOP)	21,577
Employer's contribution to ETP	10,800

20. Safety, Health and Environmental Protection

Safety

During 2012, Petro Rabigh received the Gold Award Certificate from the Royal Society for the Prevention of Accidents (RoSPA). This award is a recognition of Petro Rabigh's safety improvement initiatives and health & safety management system activities.

Health and Environmental Protection

In line with applicable Environment & Health regulations, Ambient Air quality was continuously monitored by two Air Quality Monitoring Stations (Fixed & Mobile) and Point Source Emission Testing was conducted twice in 2012. Water discharges and groundwater were periodically monitored and reported in accordance with local and international legal requirements. Marine Environment Survey & Study was carried out annually addressing biodiversity, water quality and bioaccumulation by an authorized third party and no adverse environmental impact was reported due to Petro Rabigh operation activities.

Occupational Health Programs and environmental health assessments were timely performed to protect the health and wellbeing of Petro Rabigh employees and community.

Wastes Generation were minimized through the implementation of (4Rs concept/Resource Conservation; to reduce, reuse, recover and recycle) with the objective of protecting the environment and revenue generation.

Petro Rabigh successfully maintained the integrated management systems (IMS) certifications in ISO 9001:2008 (Quality Management Systems), ISO 14001:2004 (Environmental management systems) and OHSAS 18001:2007 (Occupational Health & Safety Management Systems) for the second consecutive year. Petro Rabigh also supported Responsible Care (RC) initiative in coordination with GPCA by reporting HSE performance metrics to stakeholders.

20. Corporate Social Responsibility

Petro Rabigh performs the following on-going CSR activities:

- **Petro Rabigh School Bus Services:** Launched in October 2008, for both male and female students residing in charity housing in and around Rabigh as they did not have reliable means of transportation.

- **Petro Rabigh Supply of Drinking Water:** Supplied to Rabigh Municipality as well as remote schools and other establishments.

- **Petro Rabigh CSR Irrigation Water for Gardens**: A low pressure network was built to supply an average rate of 350 m^3 of water per day to the Rabigh community. The project has greatly improved the availability of water in demanding periods of the year.

- **Petro Rabigh CSR Bachelor Degree Program for Non-Employees (CDPNE)** Petro Rabigh awards 4 scholarships every year to students from the Rabigh area, to pursue their studies and gain a Bachelor degree.

- **Petro Rabigh CSR Summer Training Programs** Petro Rabigh, since 2008. arranges a 6 week summer training program for 24 high school students from Rabigh and the dependents of Petro Rabigh employees. The program covers English, Computer Skills & Safety Procedures.

21. Communications with Shareholders

Petro Rabigh pays special attention to its shareholders, as it applies several measures to ensure similar access of information through “Tadawul” and the corporate web site; www.petrorabigh.com. The Company also provides comprehensive information on its activities and operations in the quarterly and annual financial statements and reports. Furthermore, the Company is keen on communicating with shareholders, answering their questions and providing them with all the required information in a timely manner and within the disclosure and transparency regulations and rules issued by the Capital Market Authority (CMA).

The company dedicated a Toll-free telephone number for shareholder’s inquiries and/or complaints which is: **800-440-9000.**

22. Compliance to Corporate Governance Regulations

The company complies to all Corporate Governance regulations that are issued by the Capital Market Authority, except for the following regulations:

Corporate Governance Article	Status of Compliance	Justification
Chapter 4 – Article 10 – C: Did the Board of Directors approve an internal Corporate Governance code for the Company?	Not in Compliance	The Company follows the Corporate Governance code issued by the Capital Market Authority while an internal Corporate Governance code is currently under preparation for the Board’s approval during 2013.
Chapter 4 – Article 10 – H-5: Did the Company outline a written policy that regulate the relationship with stakeholders with a view to protecting their respective rights covering the Company’s Social Contributions?	Not in Compliance	Since its establishment, the Company conducted a number of social contributions. These initiatives went through evaluation and approval processes that ensured the protection of stakeholders’ rights, in addition the Company disclosed these initiatives in its annual reports. However, there is no written policy, and it is targeted to develop and approve such a policy during 2013.
Chapter 4 – Article 11 – F: Did Board of ensure that a procedure is laid down for orienting the new board members of the company’s business and, in particular, the financial and legal aspects, in addition to their training, where necessary.	Not in Compliance	There is no documented procedure although the Company conducted an orientation session for all new Board member that covered all aspects of the Company as well providing responses to all their queries as well as providing them with a tour at the company’s complex. However, this orientation process is currently being documented in order to be followed in the future.

23. Declarations of the Board of Directors

The Board of Directors declares the following:

1- There are no businesses or contracts where Petro Rabigh is a party and a Board Member, the CEO or the CFO or any person related to any of them has interest in.

2- That the Accounting records have been properly prepared and in accordance to the Generally Accepted Accounting Principles (GAAP).

3- That the internal control system has been prepared on sound basis and is being implemented effectively.

4- That there are no doubts about the company's ability to pursue its activities.

5- That there are no arrangements or agreements through which any of the company's shareholders waives any profit rights.