Custodian of the Two Holy Mosques

King Fahad Bin Abdulaziz Al Saud

His Royal Highness

Crown Prince Abdullah Bin Abdulaziz Al Saud

The Deputy Premier &

Head of the National Guard

His Royal Highness

Prince Sultan Bin Abdulaziz Al Saud

The Second Deputy Premier &

The Minister of Defence & Aviation & Inspector General

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Foreword by H.E. The Minister of Finance and National Economy

I am pleased to introduce the annual report of the Saudi Industrial Development Fund for the fiscal year 1422/1423H. The report clearly reflects local and foreign investors' trust in the solidarity of the Saudi economy and the soundness of the government approach towards the new developments and multiple changes experienced by the domestic as well as the international economy.

Industrial loans committed by the Fund since its inception up to the end of the current year 1422/1423H totaled 2483 loans with financial commitments of SR 42,075 million. These loans assisted in the building of 1818 industrial projects throughout the Kingdom.

In 1422/1423H, the Fund approved 90 loans to erect 40 new projects and expand 50 existing industrial projects. Commitments under these loans totaled SR 1,815 million, which is a 16% increase in commitments over the previous fiscal year.

I am confident that the Fund will continue to contribute major benefits to investors in the domestic industrial sector. The Fund has gained substantial experience and technical capabilities ensuring its efficient dealing with the new developments. Such experience and capabilities are further supported by available high-caliber, well-trained technical national manpower. The Fund's efforts in the field of training and career development led to Saudization of all senior management and technical positions. Such factors positively contributed to maintaining the stability of the Fund's continued outstanding performance, since its inception until the present time.

Finally, I would like to extend my thanks and appreciation to the Fund's Board of Directors, its executive management, and all its employees for their dedication in serving this country under the wise guidance of the government of the Custodian of the Two Holy Mosques, his faithful Crown Prince and the Second Deputy Premier, who render every possible support and care to the Fund.

May Allah guide our actions.

Dr. Ibrahim Bin Abdul Aziz Al-Assaf
Minister of Finance and National Economy

Chairman's Statement

It gives me great pleasure to present the Fund's annual report for the fiscal year 1422/1423H, which witnessed a substantial growth in the size of lending and the diversity of the industrial projects that benefited from the Fund's services, which stands as evidence of the irrelevance of the concerns cast over investment environment in the Kingdom and the region, particularly in the industrial investment sector.

The Fund's approved loans for the year totaled SR 1,815 million, a 16% increase over commitments for the previous year. The above funds were provided through 90 loans that assisted in the erection of 40 new projects and the expansion of 50 existing industrial projects. Expansion projects accounted for 56% of the number of loans committed during the year, reflecting the success of such projects and the continued trust of investors in local industry.

A close look at the history of the Fund shows a steadily growing contribution and flexibility in adapting to domestic and international developments. This current report clearly reflects the ongoing and growing trust in the vitality and solidarity of the national economy on the part of both local and foreign investors.

The Fund's management spare no effort towards the provision of opportunities for the professional training of its manpower in the various fields of its work. This training substantially contributes to the further advancement of its outstanding performance over its active history of serving the domestic industrial sector in terms of the quality and volume of loans.

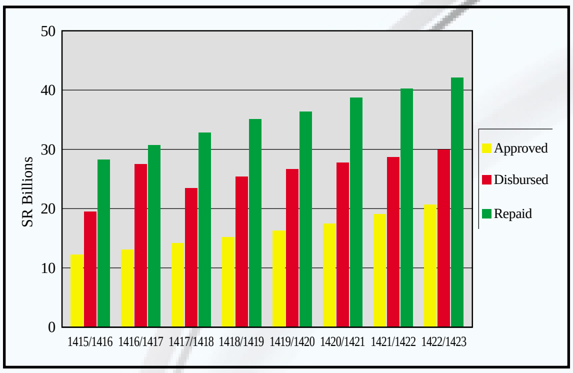
On this occasion, I would like to extend my thanks and appreciation to the Fund's management and all employees for their efforts, which stands throughout the years as a symbol of continued assistance and dedication under the generous support rendered to the Fund by the Custodian of the Two Holy Mosques, his faithful Crown Prince, the Second Deputy Premier and the concern & follow-up by H.E. The Minister of Finance and National Economy. May Allah save them all.

Dr. Jobara Bin Eid Al-Soraisry
Chairman of the Board of Directors

SIDF's report for the year 2002 marks the eclipse of twenty-eight years from the time of its inception. During this period, the Fund contributed substantially to the industrial development of the Kingdom through provision of soft loans and consultative services in the technical, financial, administrative and marketing fields to borrower projects.

Since inception in 1974 up to the end of the fiscal year 2002, SIDF has extended a total of 2,483 loans amounting to SR 42,075 million. These loans assisted in building 1818 industrial projects throughout the Kingdom. Loan disbursements from such commitments totaled SR 29,940 million, while repayments reached SR 20,658 or 69% of disbursements.

Figure (1)
Cumulative Value of SIDF Approved, Disbursed and Repaid Loans (SR Billions)



SIDF Activities During 2002:

SIDF Commitments to industrial projects for the fiscal year 2002 amounted to SR 1,815 million, a 16% increase over the previous year. Moreover, loans disbursed by the Fund over the year aggregated to SR 1,220 million, a 27% increase over disbursements of the previous year; while repayments for the year totaled SR 1,552 million.

During the year 2002, SIDF approved 90 loans committed in support of 40 new industrial projects and 50 expansions of existing industrial plants. This high percentage of loans granted to expansion projects (56%) highlights the success of projects already approved by the Fund, as they continued to enhance their business activities and upgrade their products.

A review of the main industrial sectors breakdown, by the value of loans committed, highlights the following:

Chemical Products Sector

Size of Loans:

This sector still occupies the leading position among the other industrial sectors by amount of loan commitments. Throughout the period, since SIDF inception in 1974 to the end of fiscal year 2002, the cumulative value of the total commitments to the sector reached SR 14,207 million, representing 34% of total loans approved.

Projects Approved During the Year:

During the fiscal year 2002, SIDF approved 28 loans to this sector with a total commitment of approximately SR 330 million representing 18% of all loan approvals during the year. This places the chemical sector third in terms of the value of approved loans but first in terms of the number of granted loans. These loans were made to support the establishment of 17 new industrial projects and the expansion of 11 existing projects.

Among the loans approved to this sector, a loan amounting to SR 95 was approved for installing a plant in Jubail for the production of thermal carbon black. This plant is considered the first of its kind in the Middle East and Africa. Another loan amounting to SR 61 million was approved for building a chlorine and caustic soda producing factory in Dammam. A third loan totaling SR 30 million was approved for establishing a HDPE & PP Pipes producing plant in Jeddah. Expansion loans extended to projects in this sector included a loan of approximately SR 33 million for an expansion of a Jubail-based plant producing formaldehyde liquid, urea formaldehyde and melamine resins, and another for the sum of SR 7 million to expand a plant in Jeddah producing plastic bottles and barrels and their caps.

Projects That Started Production During the Year:

This sector came in the first place in terms of the number of projects that started production during the year with a total of 21 projects in Riyadh, Jeddah, Makkah, Dammam, Jubail, Hofuf, Kharj, Yanbu, and Tabuk. These projects manufacture a wide variety of different products including pharmaceuticals, perfumes, cosmetics, Clorox, chlorine, calcium phosphate, formaldehyde, polyester resins, detergents, printing inks, adhesives, plastic caps, antioxidants, polyethylene pipes, plastic films, plastic containers for various industries, printing and lamination of polypropylene sheets, plastic bags, acrylic kitchenware and plastic packaging materials. These projects consist of 10 new plants and 11 expansion projects for some existing factories. Expansion projects accounted for 52% of total projects that started production in this sector during the year.

Size of Loans:

This sector fell to third position in terms of the value of lending approvals. By the end of 2002, approvals totaled SR 8,916 million representing 21% of SIDF cumulative commitments since inception up to the end of the fiscal year.

Projects Approved During the Year:

During the year 2002, SIDF approved 25 loans to this sector in the total amount of SR 408 million or approximately 22% of the total lending value. The sector ranked second in terms of the number and value of loans approved in the year. These loans were made to finance the establishment of 13 new industrial projects and the expansion of 12 existing ones.

Among the new loans committed to this sector during the year, a loan in the amount of SR 103 million was made to establish a second of its type factory in the Kingdom in Bahra, Jeddah for the conversion of scrap into iron lumps and reinforcement steel. Another loan in the amount of SR 90 million was committed to support building a plant in Bahra, also for the production of reinforcement bars. A third loan of SR 22 million was extended to assist installing a factory in Dammam for the production of spirally welded steel pipes. The expansion loans included a loan in the amount of SR 44 million to expand a factory in Dammam producing extruded aluminum sections. Another loan amounting to SR 32 million was also extended to expand a plant in Kharj producing hot-drawn steel sections and cold drawn steel reinforcement bars and steel sheets.

Projects That Started Production During the Year:

This sector comes in third place in terms of the number of projects that commenced production during the year 1422/1423H with a total of 11 projects in Riyadh, Jeddah, and Dammam. These projects produce electric power and telephone line poles, scrap steel billets, flanges, pipe fittings, suspended ceilings, steel scaffoldings, freon air-conditioning units, central air-conditioning systems, mechanical spare parts, digital consoles, water desalination units, and fiber optics. These projects consist of 8 new plants and 3 expansions of existing factories.

Consumer Products Sector

Size of loans:

This sector occupies second place in terms of lending volume made by SIDF since its inception. By the end of 2002, cumulative commitments extended to this sector totaled SR 9,047 million representing 22% of all loans made by SIDF during the period.

Projects Approved During the Year:

During the fiscal year 2002, SIDF approved 23 loans to this sector totaling SR 838 million, representing 46% of all loan approvals during the year. This places the consumer products sector first in terms of value of loans. These loans assisted in financing 7 new industrial projects and expanding 16 existing ones.

Among the new loans approved to this sector, a loan for the sum of SR 200 million was extended for the building of a plant in Yanbu to produce Soya oil, oil cakes and seed husk. Another loan of SR 150 million was committed for the installation of a factory in Riyadh for the production of duplex cardboard. Additionally, a loan amounting to SR 66 million was approved towards establishment of a Jeddah-based seawater desalination plant. As for expansion loans, it included a SR 100 million loan for the expansion of a diary products plant in Kharj, and another in the amount of SR 84 million for expanding a carton paper rolls processing plant.

Projects That Started Production During the Year:

This sector occupied second place in terms of the number of projects that started production over the year 1422/1423H with a total of 12 projects in Riyadh, Jeddah, Dammam, Hofuf, Kharj and Skaka. These projects manufacture a variety of products including dairy products, juice, olive oil, ready-made garments, non-woven fabrics, cotton yarns, animal feed, self-adhesive forms, phenol impregnated paper, formica and other sheets, and craft paper. Expansion programs accounted for 58% of these projects.

Cement Sector

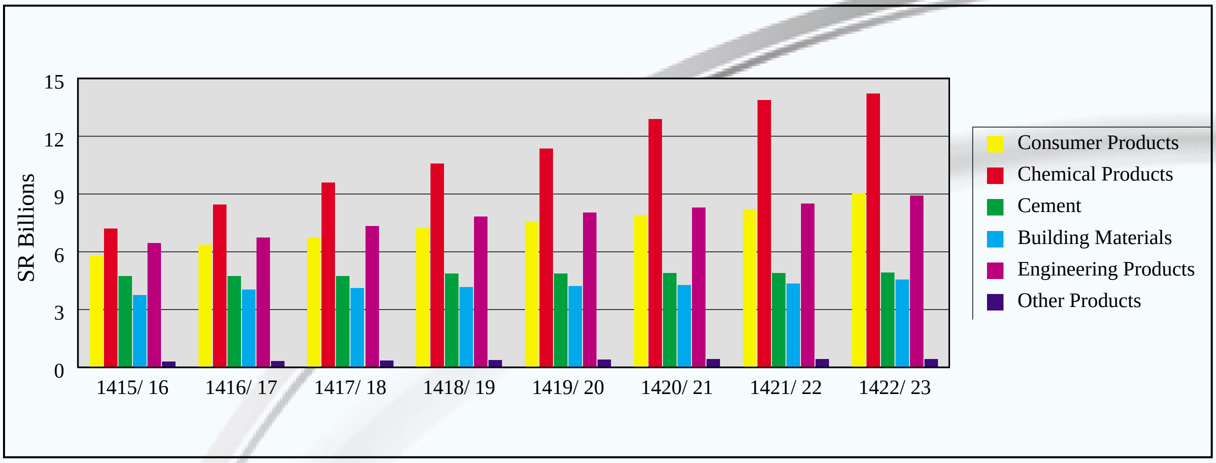
Size of loans:

By the end of 1422/1423H, cumulative commitments to this sector totaled SR 4,915 million or 12% of all commitments made until the end of the year, placing the sector fourth in terms of the size of loans granted. The Kingdom has not only reached self-sufficiency in this product, but is now exporting part of local factories output to neighboring countries.

Projects Approved During the Year:

For many years SIDF's financing of this sector has been limited to expansion, modernization and development of existing projects only. During the fiscal year 1422/1423H, SIDF approved a single loan to this sector in the amount of approximately SR 11 million for the modernization and upgrading of the control system of the Southern Province Cement Company.

Figure (2)
Cumulative Value of Approved SIDF Industrial Loans by Major Sectors



Other Building Materials

Size of loans:

By the end of 1422/1423H, SIDF committed a total sum of SR 4,554 million, which represents 11% of the cumulative loans approved to all industrial projects. This places the sector fifth in terms of loan volume.

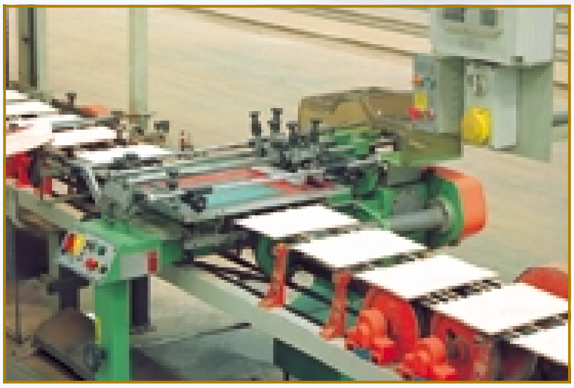
Projects Approved During the Year:

During the year 1422/1423H, SIDF approved 12 loans to this sector totaling SR 216 million in support of establishing two new projects and expanding ten existing ones.

Among the projects approved in this sector during the year, a loan of SR 80 million was extended to set up a factory in Bahra to produce red bricks. Another loan of SR 29 million was given for the support of establishing a factory in Khumra area, Jeddah for the production of reinforced fiberglass pipes. Expansion loans included two loans, with the amount of SR 23 million for expanding a Riyadh-based plant producing granite slabs and tiles and onother loan in the amount of SR 12 million for expanding a factory in Yanbu producing gypsum powder.

Projects That Started Production During the Year:

Two projects commenced production during the year in Riyadh and Jeddah comprising a new plant and an expansion of an existing factory. These two projects produce ceramic sanitary ware and fiber-glass pipes.



Industrial Joint-Venture Projects

Foreign investments are considered an effective means for transfer of modern technology and professional administrative expertise for emerging projects until they mature and augment industrial development in the Kingdom. Foreign partners bring in capital and contributed to the opening of international markets to national products contributing to the upgrading of the production efficiency of the industrial sector. In fact, some joint-venture projects are currently leading Saudi industry. The well organized training programs adopted by these projects, as well as the Saudi partner's endeavor to actively participate have all contributed to filling many of the key positions within these projects with high caliber Saudi professionals. The Fund has a positive role in making these projects successful, through the provision of soft-term loans and additional technical advice.

The number of joint-venture projects approved by the Fund since its inception up to the end of the fiscal year 1422/1423H increased to 522 projects, or 29% of total projects approved. Loans committed to these joint-venture projects amounted to SR 16,181 million or 38% of total SIDF loans. Foreign partners share in these projects accounted for 34% of their capital.

The Chemical Products sector headed all other industrial sectors in terms of loan commitments to joint-venture projects with a share of 38%. The Engineered Products sector comes second with a share of approximately 29%. The United States of America leads the group of countries sharing in these projects with a share of approximately 17% of total joint-venture projects, 20% of the amount of loans committed, and 43% of the capital of such projects.

Joint-Venture Projects Approved During The Year:
During the fiscal year 1422/1423H, SIDF approved 14 loans for the erection of 7 new joint-venture projects and the expansion of 7 existing ones. Commitments to these projects totaled SR 412 million, or 23% of SIDF's commitments for the year. The new-project loans include four loan commitments to projects in the Engineered Products sector and three to the Chemical Products sector.

Manpower and Training

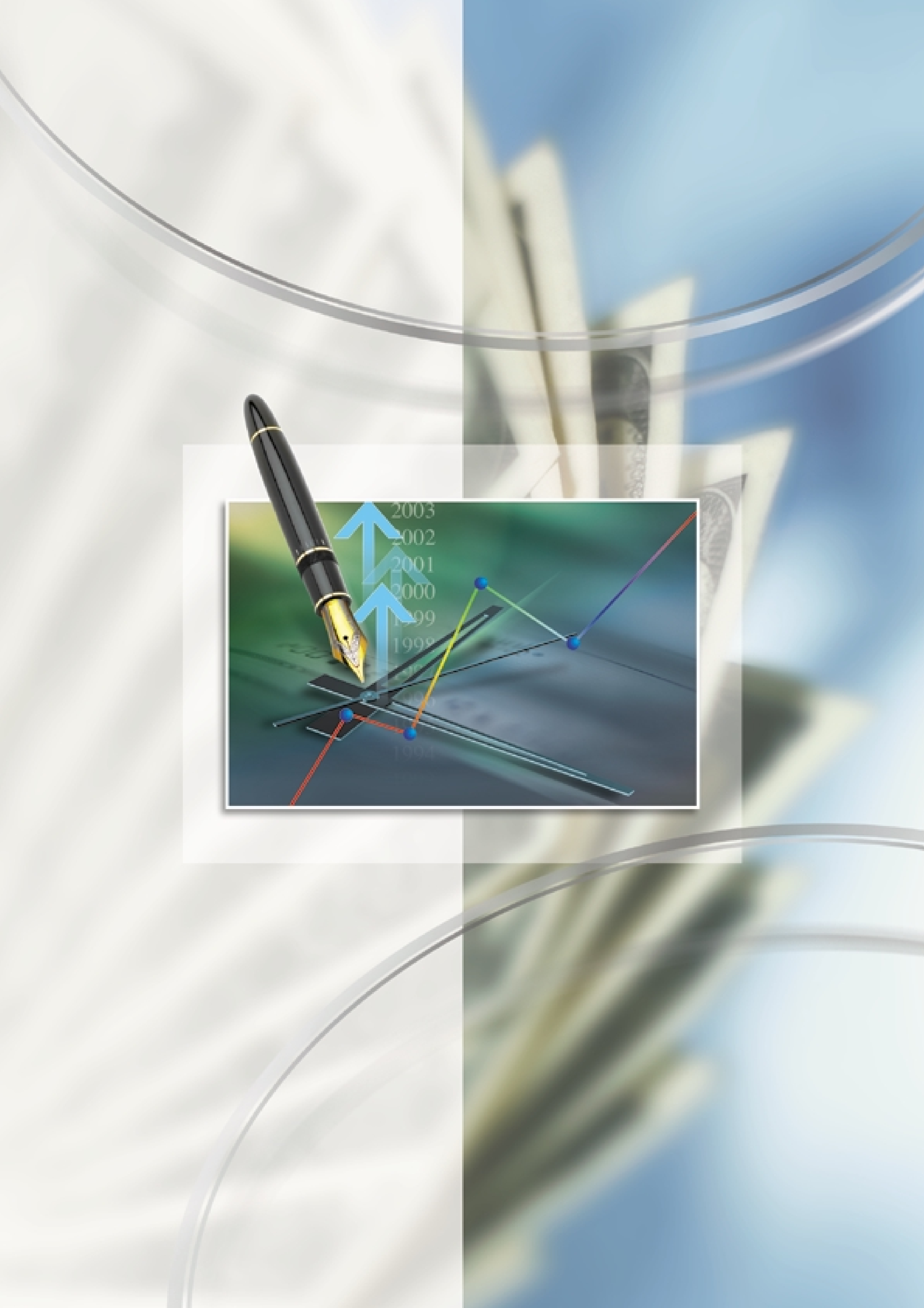
The Fund's management has designed strategic programs to attract and employ qualified Saudis in various professions and specializations related to SIDF activities. The recruitment process is linked to career promotion, qualification and efficiency upgrading programs. These programs cover the fields of financial analysis, auditing, information technology, statistical and economic studies, marketing, accounting and finance, management, technical studies and consultations, information analysis, legal studies and others.

During the fiscal year, 403 training programs were implemented for Saudi employees, both domestically and abroad. These included specialized basic courses, short-term courses, symposia, professional conferences and in-house training courses. A total of 245 Saudi employees, representing 74% of SIDF Saudi employees, whose number is estimated at 329, received training courses commensurate with work requirements both domestically and abroad. Out of this number 15, employees joined specialized core courses.

Management provided initial on-the-job training to 25 Saudi graduate employees who were appointed as new hires during the fiscal year 2002, in addition to 3 Saudi employees appointed in assistant and secretary positions.

The Fund benefits from its good relations with many similar local and international financial institutions in the upgrading and development of its professional Saudi employees capabilities. This is achieved through active participation in specialized professional conferences, symposia and scientific seminars in which these organizations have a role. This participation ensures the exchange of professional know-how and the scientific expertise of these organizations. Reciprocation of such expertise and know-how positively enhances the capabilities of Saudi professionals, which has a positive impact on the Fund's overall performance. The Fund was able to implement the approved programs to meet the work requirements in its various departments and divisions.

Saleh Bin Abdullah Al-Naim
Director General


2003
2002
2001
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Trends and Indicators of the International and Domestic Economy in 2002

Review of International Economy:

The momentum and expectations for global economic recovery looked quite strong at the beginning of 2002, with trade and industrial production picking up across the globe. This trend, however, was significantly shaken after the first quarter of the year. Concurrent negative developments included: marked weakening of global financial markets (especially industrial countries' equity markets), depreciation of the U.S. dollar, deteriorating finance conditions for emerging market economies, and persisting security risks in many regions. Under these conditions, global growth, especially in the U.S. and the Euro area proved to be much weaker than earlier expected. Overall, world output growth is expected to be about 2.8% in 2002, and rising slightly to about 3.7% in 2003. However, these expectations, more so than in recent years, are confounded with many risks and uncertainties.

With the exception of some emerging market economies in Asia, recovery is slowing down across all regions in the world. Demand growth remained weak outside North America and the United Kingdom. As such for the advanced economies' group, output growth is expected to decline to about 1.7% in 2002, and edging slightly to 2.5% in 2003. As for the developing countries group, average growth picked up to about 4.2% in 2002 and is expected to increase slightly to about 5.2% in 2003. Growth prospects in the Middle East countries are being shaped by many factors, notable among these are: the general global economic slowdown, international oil market developments, the difficult regional security situation, the repercussions of the Iraqi crisis in addition to country-specific factors. Owing to increased oil prices since August 2002, average growth in the Middle East region is expected to be around 3.6% in 2002, and to strengthen to about 4.7% in 2003.

World Trade, expanding more than world output, has recovered from its severe downturn of 2001, growing at about 2.1% in 2002, and is expected to expand substantially by about 6.1% in 2003. Behind the trend are improving growth in imports and exports of developed countries. Commodity prices have also improved from their severely depressed level in 2001; with oil prices increasing by 0.5% in 2002, and non-fuel commodities improving by 4.2% in the year.

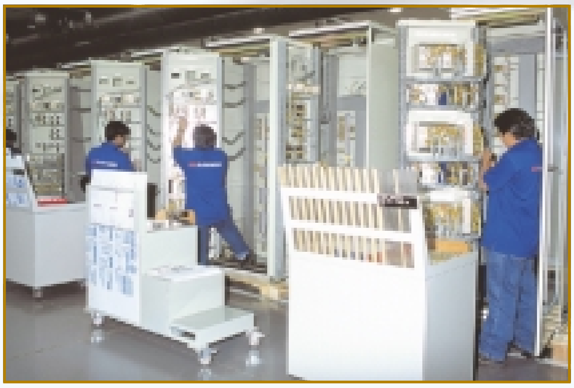
At the international financial markets level, markets have in general weakened considerably during 2002. Equity markets of industrial countries have declined sharply during the year, amid concern about the sluggish economic recovery, accounting and auditing problems in some major companies, and global security concerns. At a parallel level, there has also been substantial turbulence and decline in stock markets of many emerging economies in the second half of 2002. Foreign financing opportunities and costs for most of the emerging economies remained difficult and high. At another level, the world currency markets have witnessed marked depreciation of the U.S. dollar against the Euro and the Yen.

KSA Economic Review for the year 2002:

Despite the negative impacts of the September 11 events, and the increased political tension in the Middle East, the Saudi economy benefiting from the relatively good international oil prices and increase of the activities of the national private sector, and recorded positive results in 2002. The outstanding efforts of the Kingdom in cooperation with OPEC Organization, resulted in reasonable oil prices and achievement of reasonable growth rates in all economic sectors with oil revenues representing 76% to 80% of total government revenue.

Although detailed economic statistics are not available yet, current information clearly indicates a relatively positive performance of the Kingdom's economy last year. The statement of the Ministry of Finance and national Economy on the budget indicates that the Kingdom's GDP is projected to reach SR 694.6 billion, representing a positive growth rate of (2.3%) in current prices or (0.74%) in constant prices in 2002. The private sector is expected to witness a real growth rate of (4.2%) or (3.7%) in current prices. Other sectors which are expected to achieve reasonable growth rates during 2002 are as follow: Manufacturing sector other than oil-refinery (5.7%), communication, transport and storage sector (7.1%), electricity & gas and water (4.5%) and building and construction sector (3%).

Inflation rates in the Kingdom continue to be among the lowest internationally recorded rates. Estimates of the Cost of Living show a decline of (0.4%) in 2002 compared to 2001. The GNP deflation coefficient of the non-oil sector, an important inflation indicator for the whole economy, declined by (0.22%) in 2002.



Among the important indicators of the improving economic performance in the previous year (2002) is the good performance of the current account of the balance of payments, which is expected to achieve a surplus of SR 35.1 billion as a result of the increase of the prices and quantities of oil and non-oil exports. Non-oil exports are expected to achieve a growth rate of (1.2%) or SR 31 billion in 2002. These exports represent 12% of the total exported goods. On the other hand, non-petrochemical exports are expected to grow by 30% in 2002. On the financial developments side, the banking sector continued its growth in 2002. Supply of money increased by 15.2% and bank deposits by 16.8%. Commercial banks solidified their capital base, focused on high returns and low risk assets and recorded a high solvency rate of 21.3% compared to the international rate of Bazel's Committee (8%). The capital and reserves of these banks increased by 8% and their profits by 7.1% during the year 2002 compared to the year 2001. The stock market continued its remarkable performance for the third consecutive year, a matter which reflects optimism generated by the positive investment environment. The stock index reached (2518) points in 2002 compared to (2430) points in 2001, i.e., an increase of 3.6%.

Bank loans to the private sector show that commercial credit to economic activities increased by 12.3% in 2002 over the previous year. Financing of branch sectors increased by the following rates: agriculture & fishing 18.3%, building and construction 25.3%, commerce 5% and transportation and communication 36.7%. Another indicator, related to private industrial sector activity, is SIDF loan commitments, which amounted to SR 1815 million in 2002.

In brief, the Saudi economy continued in the year 2002 its trend of maintaining good growth despite the unfavorable regional & international conditions. The government also continued its efforts towards encouragement of economic reform programs. To that effect a privatization strategy was approved and 30% of the shares of Saudi Telecommunication Company were placed for public subscription in 2002.

Industrial Performance Indicators:

As already mentioned, the non-oil manufacturing sector experienced real growth of approximately 5.7% over the year 2002G. For a closer look, some of the performance indicators constructed from recent data from the SIDF industrial database show continued healthy growth within most of the industrial sectors in the Kingdom. Figures (3, 4 and 5) highlight features and trends of performance by major industrial sector over the period 1999-2001G.

As for industrial productivity indicators, Figure (3) shows averages of value added per worker in the main industrial sectors for the years 1999-2001G. During the year 2001G, the Chemical Products Sector ranks first in terms of average value added per worker. The Engineered Products Sector is next, followed by the Consumer Products Sector. Lastly, the Building Materials Sector, excluding cement, has the lower average value added per worker. With respect to performance trends for the average value added during 1999-2001, Figure (3) shows an increase in average value added per worker within major industrial sectors (other than Building Materials Sector which remained stable for the period). In the Engineered Products Sector, average value added per worker recorded a slight increase of 1% in 2000G before rising by 23% in 2001G. With regard to the Consumer Products Sector this average rose by 2% respectively in 2000G and 2001G. Moreover, the Chemical Products Sector showed a growing trend as average value added per worker increased by 7% during the year 2000G and by 15% during the year 2001G.

Another indicator of vital importance in the Kingdom, especially in recent years, is the indicator of average industrial exports. The government's plans attach major importance to consolidating and increasing non-oil industrial exports as a strategic objective for the national economy to minimize dependence on oil exports. Figure (4) shows average export ratios as a percentage of total sales for the period 1999-2001G. A review of the ratio for the year 2001G shows that the Chemical Products Sector ranked first with a ratio of 19%, followed with a substantial difference by the Engineered Products Sector, Consumer Products Sector, and lastly, Building Materials Sector with the ratio of 12.7%, 6.6% and 5.4% respectively. The performance indicators show an increase in average exports to total sales ratio in 2000G for the Engineered Products and Consumer Products sectors by 26% and 25% respectively. However, the Chemical Products and Building Materials sectors showed a decline by 17% and 8% consecutively. In 2001G, with regard to the industrial exports indicator, the Engineered Products Sector, Chemical Products and Building Materials sectors respectively increased by 15%, 28% and 23% while the industrial exports indicator for Consumer Products showed a decline & 12%.

Figure (3)
Value-Added Per Worker

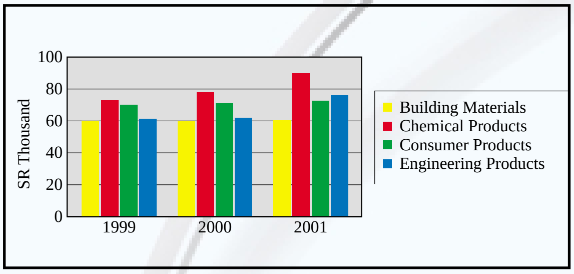
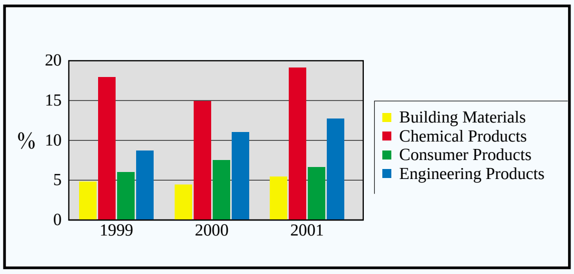
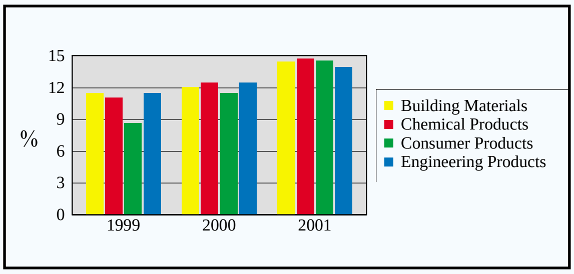


Figure (4)
Percentage of Exports to Total Sales



The Saudi labor ratio to total industry labor is a factor that is currently gaining an increasing importance at the national level. Figure (5) shows the ratio of Saudi employment to total employment for the major industrial sectors during 1999-2001. By 2001G levels, the Chemical Products Sector leads the other sectors with a 14.8% Saudi employment ratio. The Consumer Products Sector is next, with a 14.6% Saudi employment ratio. The Building Materials Sector follows with a 14.5% Saudi employment ratio. Lastly comes the Engineered Products Sector, with a 14% Saudi employment ratio. Although the Saudi employment ratios remain conservative at about 14% to 15% on average, the ratios, as indicated in Figure (5), clearly show rising trends of Saudi employment especially in 2001. In 2001, Saudi employment increased in the Consumer Products Sector by 27%, in the Building Materials Sector by 20%, in the Chemical Products Sector by 18%, and lastly, in the Engineered Products Sector by 12%. This latter Saudization trend points to the success of the private sector's efforts and its continued cooperation with the government in achieving the objectives of increased Saudi employment levels in industry.

Figure (5)
Percentage of Saudi Workers to Total Workers



The Steel Industry in the Kingdom

Introduction:

During 1422/1423 SIDF conducted in-depth industrial studies in two principal sectors of the steel industry in the Kingdom. The purpose of these studies was to ascertain the current status of the industries, their future potential, the influence of worldwide economic and political trends and to determine SIDF's future role in further development of the sector.

These studies covered two sectors, namely:

1. Steel Pressure Pipe Industry
2. Industrial Steel Construction Industry

The development of the industry has been a major success, providing support to the continuing development of the Kingdom's infrastructure and industrial and agricultural industries. This has been achieved at a time where there are reports of closures of old established steel plants in other parts of the world. The success of the industry can be attributed to a combination of factors including:

1. Investment in modern technology.
2. Integrated steel manufacturing with down stream processing.
3. Scale of operations and economies of scale.
4. High plant operational capacity.

To date the Fund has financed 42 projects in the above two sectors with a total net commitment of SR 988 million.

Steel Pressure Pipe Sector:

This study addressed the manufacture of all types of steel pressure pipes (low, medium and high pressure).

Figure (6)
SIDF Loans To The Steel Industry By Sector

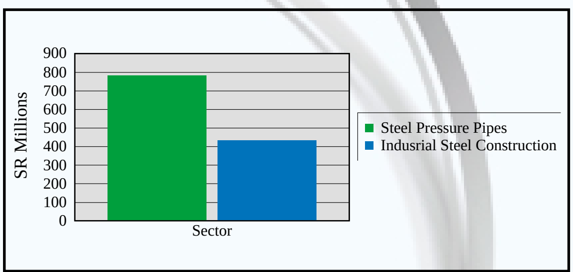
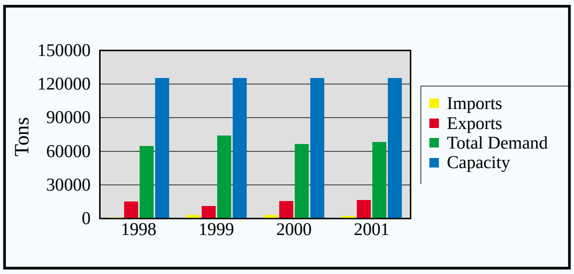


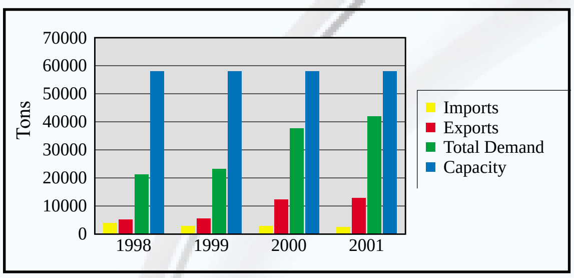
Figure (7)
Low Pressure Pipes



Demand for low-pressure pipes is influenced by activity in the construction industry (commercial, industrial and residential). In recent years, demand for low-pressure pipes has been volatile and has also been influenced by demand for plastic piping used as a replacement. Four local factories and many workshops supply the market. KSA demand in 2001 was 66,234 tons. Annual growth of 4% is projected for the next five years. There is more than adequate installed capacity of 125,145 tons to meet foreseeable local demand.

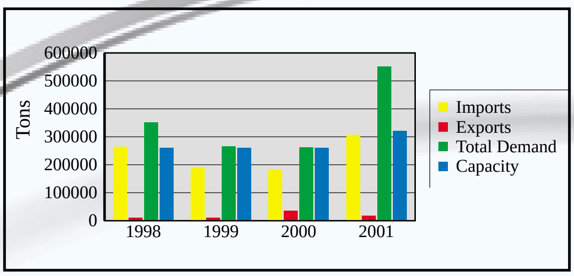
Demand for medium pressure pipes principally arises from the agricultural sector. Demand has fluctuated widely in the past due to changes in government policy i.e. crop subsidies etc. There have been periods of little or no growth. However, in 2000/2001 this sector experienced reasonable growth attributable to funding available for the replacement of irrigation equipment, the drilling of new water wells and an increased demand for industrial and domestic water supply. KSA demand in 2001 was 42,000 tons. Limited growth (1%pa) is projected for future years. There is adequate installed capacity of 58,124 tons to meet local demand for the foreseeable future.

Figure (8)
Medium Pressure Pipes



The high-pressure pipe sector plays a major supporting role to industries in the Kingdom, especially the gas and petrochemical sector. A critical success factor for this particular sector is the ability of a manufacturer to adhere to the strict and rigid international standards applicable, in conjunction with the directives laid down by local and international petrochemical companies. There are two subsegments to this sector, the replacement market which has constant annual demand and, secondly, a new project subsegment in which demand is not easily predictable.

Figure (9)
High Pressure Pipes



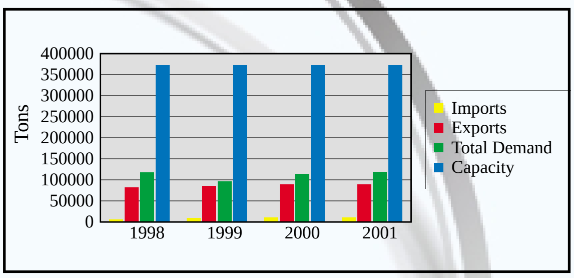
In 2001, KSA demand was 551,000 tons and KSA installed capacity was 321,792 tons. Demand is projected to increase in the coming years due the Kingdom's long term plan to develop natural gas fields and the ongoing development of the Kingdom's infrastructure (expansion of electricity generation and production of desalinated water). Currently, 4 local manufacturers supply this sector.

Industrial Steel Construction Sector:

This sector is comprised of three sub-sectors: Structural Steel, Steel Lattice Towers and Process Vessels.

Demand for structural steel derives from industrial and residential construction growth and the developing petrochemical and associated projects. In recent years growth in production levels has been stimulated by continued development of export markets by local manufacturers. The export markets offer the greatest potential for growth to this sector. Imports of steel structures are negligible due to the cost of transportation. Small workshops with limited technical and financial resources are prevalent in this sector. It is estimated that there are 124 operational manufacturers of which only a few are considered to have top level technical expertise. In

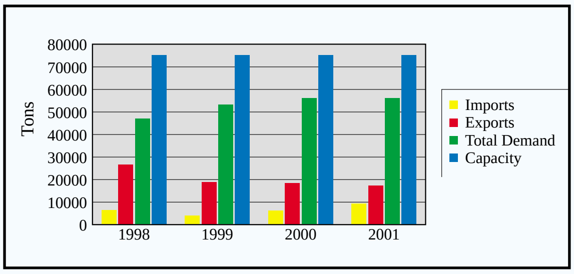
Figure (10)
Structural Steel



2001, KSA demand was 113,800 tons and installed capacity was 372,800 tons.

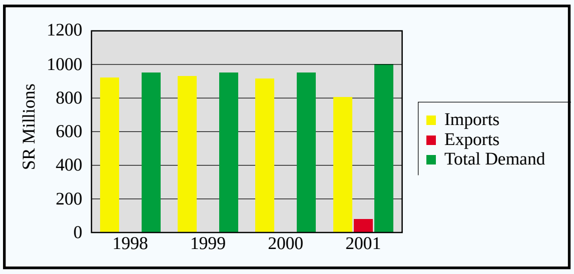
Growth in telecommunications and electricity distribution influence demand for steel lattice towers. Demand has experienced a slow but steady growth in recent years due to the maturing of the electrical and telecommunication national grids. In 2001, KSA demand was 56,000 tons and capacity was 75,000 tons. Limited growth (1% pa) is projected and in the main will derive from the extension of the existing electrical grids. It is estimated that the future growth in demand for electrical power is 5.5%.

Figure (11)
Steel Lattice Towers



The manufacture of process vessels plays a major supporting role to the development of the petro-chemical sector in supplying distillation, fractiona-tion and other high-pressure vessels. To a certain ex-tent new project development is cyclical (every 5 to 7 years). There is an annual replacement market. However, we project strong future growth for this sector arising from the new gas initiatives and expansion of electrical (SCECO) and water networks (SWCC). Installed capacity is 128,750 tons. As in the case of the high pressure pipe sector, a critical factor for success is the ability of a manufacturer to meet the rigid international specifications imposed by the end users.

Figure (12)
Large Process Vessels



Overall the financial position in the Steel Industry is satisfactory, with most sectors profitable. In recent years all sectors have experienced declines in revenues, resulting in lower margins. This decline is attributable to increased competition (local & import) resulting in increased pricing pressure. Furthermore, profitability in the steel industry is strongly sensitive to both raw material cost and volume throughput.

TABLES


SECTOR
Cosumer Products
1422/1423
Food
Beverages
Textiles
Leather & subtitutes
Carpentry products
Wooden furniture
Paper products
Printing

Table 1

Table showing number of newly-approved SIDF industrial projects by minor sector

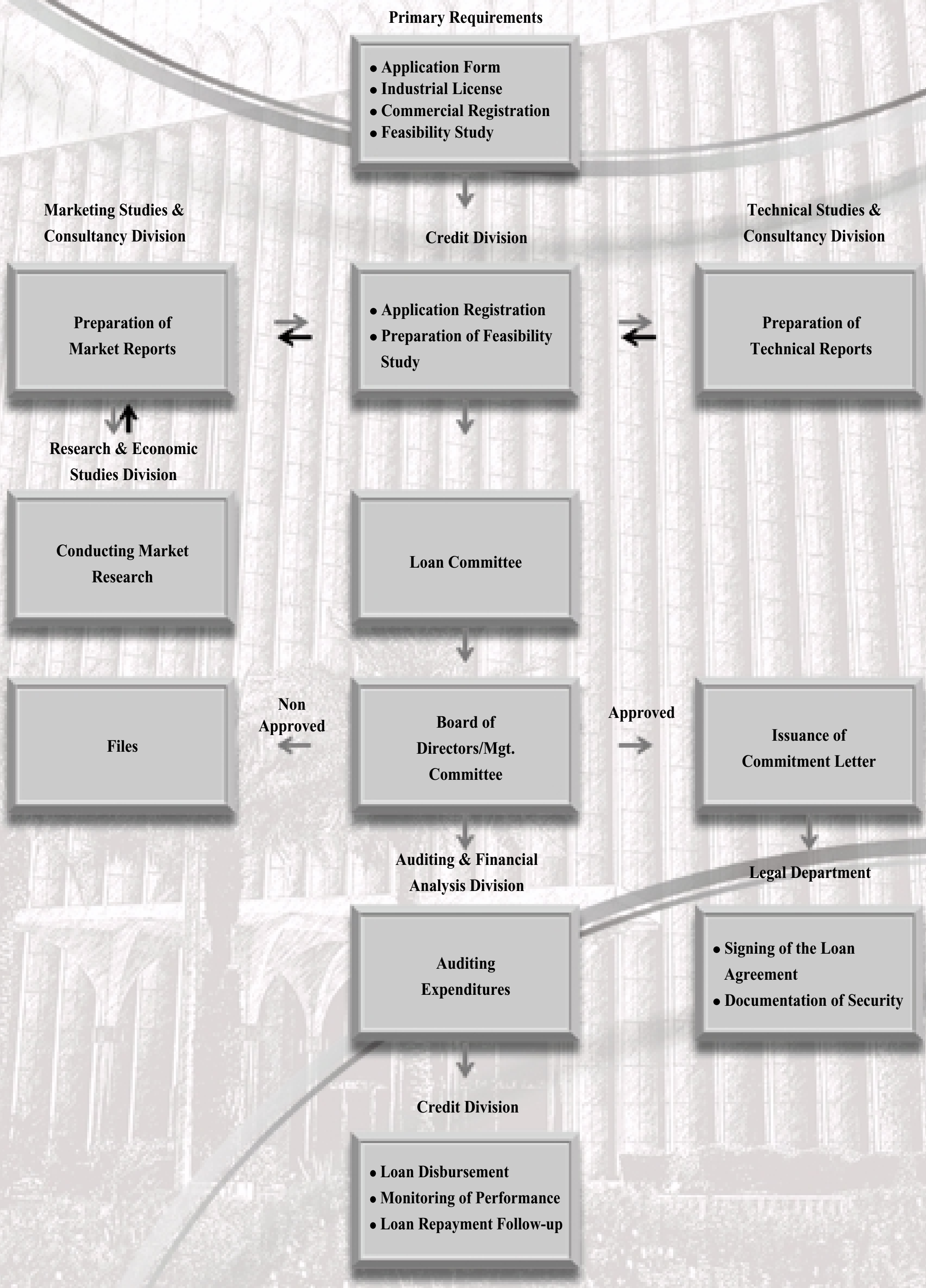
Sector	1422/1423H	Cumulative Total
Consumer Products	**7**	**517**
Food	3	236
Beverages	1	39
Textiles	1	56
Leather & substitutes	-	22
Carpentry products	-	10
Wooden furniture	1	45
Paper products	1	73
Printing	-	36
Chemical Products	**17**	**431**
Chemicals	9	199
Oil & gas products	1	23
Rubber Products	-	11
Plastic products	7	198
Building Materials	**2**	**289**
Ceramic products	-	8
Glass products	1	49
Other building material	1	232
Cement	**1**	**19**
Engineered Products	**13**	**527**
Metal products	7	305
Machinery	1	78
Electrical Equipment	4	97
Transport Equipment	1	47
Other Manufacturing	**-**	**35**
Total	**40**	**1818**

Table 2

Table showing value of approved industrial loans by minor sector (SR millions)

Sector	1422/1423H	Cumulative Total
Consumer Products	**838**	**9,047**
Food	441	4,081
Beverages	66	819
Textiles	51	1,734
Leather & substitutes	-	106
Carpentry products	12	137
Wooden furniture	3	318
Paper products	265	1,637
Printing	-	215
Chemical Products	**330**	**14,206**
Chemicals	242	10,326
Oil & gas products	8	1,187
Rubber Products	-	69
Plastic products	80	2,624
Building Materials	**216**	**4,554**
Ceramic products	21	446
Glass products	72	1,358
Other building material	123	2,750
Cement	**11**	**4,915**
Engineered Products	**408**	**8,916**
Metal products	360	5,932
Machinery	4	746
Electrical Equipment	38	1,417
Transport Equipment	6	821
Other Manufacturing	**12**	**437**
Total	**1,815**	**42,075**

Loan's Application Processing Flow Chart



Notes:

1. The length of the evaluation period depends on the applicant s cooperation and the timely submission of the required information.

2. For expansion projects, the foregoing stages apply with some stages being likely to be omitted.

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