Kingdom of Saudi Arabia
Ministry of Finance

Saudi Industrial Development Fund

Annual Report

Annual Report for the Fiscal Year 1435 1436 H

2014

IN THE NAME OF

ALLAH,

MOST GRACIOUS,

MOST MERCIFUL

Custodian of the Two Holy Mosques

King Salman bin Abdulaziz Al Saud

His Royal Highness

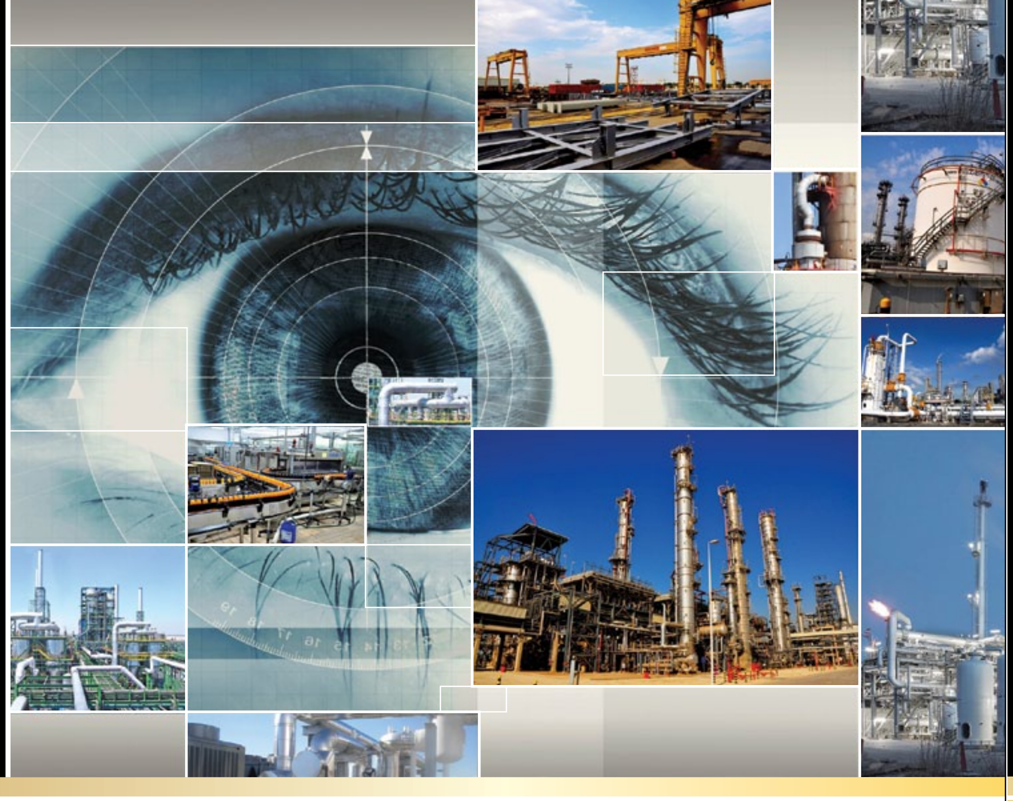
Prince Muqrin bin Abdulaziz Al Saud

Crown Prince, Deputy Prime Minister

His Royal Highness

Prince Muhammad bin Naif bin Abdulaziz Al Saud

Deputy Crown Prince, Second Deputy Premier
Minister of Interior



Vision

To continue as a leading industrial financing institution, supporting economic and human development in the Kingdom of Saudi Arabia to help the Kingdom become a distinguished industrial center.

Mission

Catalyze industrial development in the kingdom by focusing on:

- Industrial lending.
- Supporting and influencing industrial strategies and policies.
- Consultancy services.
- Customer centricity.
- Training, skills and knowledge development.

Contents

Foreword by H.E., The Minister of Finance

I am pleased to introduce the Annual Report of the Saudi Industrial Development Fund (SIDF) for the fiscal year 1435/1436H (2014G). The report brings to a successful conclusion a period of more than forty years of distinguished service in the support of Industrial Development in the Kingdom.

During the year covered by this report, the Saudi economy recorded positive growth despite the challenges facing the global economy. The generous financing extended to development projects continued, and the private sector maintained its strong performance. Thus, the Saudi economy earned praise from many international economic organizations. The Kingdom's budget for the new fiscal year 1436/1437H (2015G) emphasized economic growth by confirming continuation of investment expenditure as per the priorities set out in the development plans.

During the past year, the non-oil manufacturing sector maintained its impressive growth rate, emerging as the second largest economic enterprise in terms of performance, thereby reflecting the strength of the Saudi economy and the impact of those far-sighted economic policies which succeeding in stimulating economic growth by encouraging investors. During the fiscal year 1435/1436H (2014G), SIDF loan approvals increased to 145 loans amounting to SR 5.9 billion. These loans contributed to the establishment of 125 new industrial projects and expansion of 20 existing industrial projects, with investments approximating SR11.7 billion.

Overall, report data revealed a remarkable increase in the number of loans extended to industrial projects in promising regions. This positive development can be attributed to the favourable terms of lending incentives approved by the Council of Ministers a few years ago. Their Resolution increased SIDF's financing to projects in less developed regions and towns to a maximum of 75% of the total cost of the project instead of 50%, with a repayment period of 20 years instead of 15 years. Hence, the share of 'Promising Regions' of SIDF loans increased respectively to 57% and 50% in terms of number and value of loans approved during the fiscal year 1435/1436H (2014G). These positive results are expected to expand balanced development in those regions of the Kingdom underpinned by the public budget. It is worth bearing in mind that the share of SIDF financing to 'Promising Regions' never exceeded 14% of the total number of loans and 15% of the total value of loans before the enforcement of the Resolution referred to above.

The encouraging results of SIDF's augmented loans to industrial projects in promising regions have given rise to increasing optimism about furthering industrial development in them. For this reason, I call upon investors to explore the profitable opportunities presented by the national economy, especially the comparative advantages available in promising regions, and to benefit from the facilities provided by the government. Moreover, they can also utilize the dynamic business environment of the Kingdom in developing new projects and expanding existing ones. This is particularly true in the light of the government's on-going policy of balanced development which is reflected in the annual budgets approved for government agencies . Investors throughout the kingdom may benefit from the same services, infrastructure and financing resources provided to investors in the Kingdom's main cities.

On the other hand, the SIDF-managed Small and Medium Enterprises Loan Guarantee Program (Kafalah) continued to achieve remarkable results as confirmed by the increase in the number of guarantees issued during the fiscal year 1435/1436H (2014): 3,612 guarantees were disbursed, totaling SR1.7 billion in favor of 1497 small and medium enterprises engaged in various activities kingdom-wide. Accordingly, the cumulative guarantees issued by the Program since its establishment up to the end of the fiscal year 1435/1436H (2014) totaled 10,892 in terms of number and SR 5.3 billion in terms of value. These guarantees were issued against cumulative bank's financing of SR 10.6 billion in favor of 5,579 small and medium enterprises.

Finally, I would like to express my sincere appreciation and gratitude to the Custodian of the Two Holy Mosques, his faithful Crown Prince and his Deputy Crown Prince for their unwavering support for industrial development in the Kingdom in addition to their patronage and unstinting support for SIDF and other Development Funds.

I would also like to extend my thanks and appreciation to the Chairman and members of the Board of Directors of SIDF together with its executive management and all employees for their dedicated efforts which have culminated in such prodigious accomplishments, besides anticipating even greater progress to come in SIDF's many and varied enterprises.

May Allah guide all of us!

Ibrahim Bin Abdulaziz Al-Assaf

Minister of Finance

Board of Directors

Dr. Abdulrahman Abdullah Al-Hamidy
Chairman of the Board, SIDF

Mr. Abdullah Ebrahim AL-Ayadhi
Assistant Secretary General,
Public Investment Fund

Eng. Saleh Ibrahim AL-Rasheed
Director General of the
Saudi Industrial Property Authority

Dr. Osama Hussain Mansouri
Advisor to H.E. The Minister of
Economy and Planning

Dr. Aabed Abdullah AL-Saadoun
Deputy Minister for Companies Affairs
Ministry of Petroleum and Mineral Resources

Chairman's Statement

I am delighted to introduce the SIDF annual report for the fiscal year 1435/1436H (2014G), a year that presented many economic challenges especially in global terms.

Despite these challenges, the Saudi Industrial Development Fund maintained its developmental role in support of sustainable industrial growth in the Kingdom. During the fiscal year 1435/1436H (2014), the Fund approved 145 loans totaling SR 5,892 million to set up 125 new industrial projects and expand 20 existing ones, with a total investment of SR11.7 billion. During the same period SR 5,685 billion was disbursed while SR 4,460 billion was repaid. Thus, the number of approved loans, since SIDF's inception in 1394H (1974) to the end of the fiscal year 1435/1436H (2014), increased to 3,769 loans totaling SR 118 billion. These loans helped establish 2717 industrial projects all over the Kingdom, signifying the pivotal role of the Fund in encouraging industrial investment in the Kingdom and consolidating the industrial base of the Saudi economy.

As regards balanced development throughout the Kingdom's regions, those 'Promising Regions', in accordance with the new regulations approved by SIDF's Board of Directors regarding increase of financing limit for projects in less developed regions, the total number and value of loans approved for such projects increased considerably: by 57% and 50% respectively in the fiscal year 1435/1436H (2014). These projects are expected to contribute to extensive development, not only in the industrial sector but also in others by attracting supporting investment.

Moreover, the Fund effectively kept pace with the Kingdom's government support for small-scale industrial projects as the total number of such loans (up to SR 15 million) amounted to 58% of total approved loans.

Furthermore, pursuant to the state policy of supporting small and medium projects to enhance their role in the national economy and create job opportunities for Saudis, the Fund-administered Small and Medium Enterprises Loan Guarantee Program (Kafalah), in cooperation with Saudi commercial banks, achieved impressive results during the fiscal year 1435/1436H (2014G). The Program approved 3,612 new guarantees, an increase of 44% over the previous year's figure, with a total value of SR 1.7 billion, an increase of 31% on the previous year. In addition, finance value provided by Saudi commercial banks amounted to SR 3,462 million, an increase of 47% on the previous year's provision.

In spite of current serious challenges facing the global economy, the Fund achieved an outstanding level of performance, thanks to ALLAH, and the continuous support of the wise leadership to the Fund.

In conclusion, I extend my sincere thanks to the Custodian of the Two Holy Mosques, HRH the Crown Prince and HRH the Deputy Crown Prince for their unwavering patronage of the Fund. I also thank my colleagues on the Fund's Board of Directors, SIDF management and staff for their efforts, which have all contributed to such notable results, and I urge them to strive for even better results in the years that lie ahead.

May Allah bless all of us!

Abdulrahman Bin Abdullah Al-Hamidy

Chairman of the Board of Directors

Preface: Trends and Indicators in the Domestic Economy

KSA Economic Review for the Year 2014G:

The Saudi economy continued to achieve remarkable results in 2014, despite the global economy's weak and unbalanced growth as a result of the oil price plunge in the second half of 2014. This favourable state of affairs is attributable to the Kingdom's wise policy in dealing with fluctuating oil market cycles. This effective strategy underpins the sustainable economic growth of the Saudi economy. According to the Ministry of Finance's statement accompanying the state budget declaration, the Kingdom's gross domestic product (GDP) is estimated to reach SR 2,821 billion in 2014G, reflecting a growth of about 1.09% at current prices. In terms of constant prices (base year 2010), overall GDP is estimated to grow by 3.59%. In addition, the public debt volume is expected to decline to about SR 44.2 billion at the end of the fiscal year 2014G, representing less than 1.6% of GDP.

In 2014G, the private sector achieved the strongest growth rates among the GDP's component sectors; it is estimated to grow by 9.11% at current prices and by 5.7% at constant prices. Furthermore, all economic activities comprising the non-oil GDP sector recorded positive growth in 2014G. The Building and Construction sector is estimated to grow by 6.7%; the Non-oil Manufacturing sector by 6.54%; Communications, Transportation, and Storage sector by 6.13%; Wholesale, Retail, Restaurants and Hotels sector by 5.97%, and Finance, Insurance and Real Estate, Business Services sector by 4.46%.

With regard to inflation and price levels, the Consumer Price Index (CPI), according to the Central Department of Statistics & Information (CDSI), is estimated to increase by 2.7% in 2014G, in contrast with 3.5% in 2013, calculated with reference to 2007 as base year. The non-oil GDP deflator, a key economic indicator for calculating inflation for the whole economy, is expected to increase by 2.99% in 2014G.

The current account of the balance of payments, according to the preliminary estimates of the Saudi Arabian Monetary Agency (SAMA), is estimated to record a surplus of SR 399 billion in 2014G in contrast with a surplus of SR 497 billion in 2013G, reflecting a decrease of 19.8%. In the same context, the trade balance in 2014G is expected to achieve a surplus of SR 789 billion, a reduction of 5.6% on last year's figure, the result of commodity exports declining by 4.4%. The total value of commodity exports is estimated to reach SR1,348 billion in 2014G. The value of non-oil commodity exports is estimated to reach SR208 billion in 2014G, an increase of 3.1% and representing 15.4% of total commodity exports. On the other hand, the total value of imported goods is expected to reach SR 564 billion in 2014G, a decrease of 2.6% on last year's figure.

In the case of financial and monetary developments, and in light of developments in local and global economies, the Kingdom's fiscal and monetary policies continued to provide the necessary measures and appropriate tools to ensure provision of adequate liquidity in the banking system to satisfy the national economy's requirements of liquidity and maintain an appropriate level of prices. The money supply, in its broad definition, achieved a growth rate of 10.4% in the first ten months of the fiscal year 2014G in contrast to a growth rate of 6.6% in the same period in the previous fiscal year.

With regard to the banking sector, commercial banks continued to strengthen their financial position. During the first ten months of 2014G, capital and reserves of the commercial banks rose by 11.1% to SR 251 billion, while their total claims on public and private sectors increased by 13.8%. During the same period, bank deposits grew by 11% reaching a figure of SR 1,550 billion. Moreover, commercial banks continued their vital role in supporting and expanding the economic activities of the private sector. Total value of credit extended by banks to the various economic activities in the private sector amounted to more than SR 1,239 billion during the first nine months of 2014G. However, commercial banks' performance in providing credit to various economic activities was relatively uneven during the same period. For example, credit extended to the Communications and Transportation sector increased by 22.1%; Mining and Quarrying sector by 16.9%; Manufacturing and Processing sector by 14.3%; Financing sector 11.4%; Building and Construction sector by 10.9%; Commercial sector by 9.4%; Water, Electricity, Gas and Health Services sectors by 8.1%; and Agriculture and Fishing sector by 3.6%. In contrast, credit extended to the Services' sector declined by 3.9%.

The Saudi Industrial Development Fund has continued its commitment to the support of local industry in all spheres of industrial activities. SIDF's loan approvals in the fiscal year 2014G amounted to 145 Loans, valued at SR 5.9 billion. The promising regions' share of these loans was approximately 57%. Furthermore, the Small and Medium Enterprises Loan Guarantee Program (Kafalah) administered by the Fund, approved 3,612 guarantee documents in 2014G, with a total value of SR 1,688 million, to guarantee financing of SR 3,462 million extended by local commercial banks to 1,497 small and medium enterprises.

The Saudi Tadawul All Share Index (TASI) declined by 2.4% at the end of 2014, registering 8,333 points as against 8,535 points at the end of 2013G. The Capital Market Authority (CMA) has embarked on a move to expand the market base by increasing corporate financing and growth opportunities and creating more channels for investment. CMA approved public offering for a portion of the shares of 6 companies for public subscription, bringing the number of listed companies to 163. In addition, CMA approved Islamic "sukuks" offerings for one company and licensing for 16 new investment funds, bringing the total number of licensed funds to 263. During the fiscal year, 2014, CMA implemented a number of regulations governing the issuance of securities. In addition, it developed their markets further while applying a policy of fairness and transparency to protect investors and instil confidence in the market. The CMA board has issued the credit ratings' agencies regulations; the guidelines relating to public consultations towards executive regulation of CMA's legal procedures, and approved amendments to the glossary of defined terms used in CMA rules and regulations. Furthermore, the Council of Ministers issued a Resolution (No.388) dated 24/9/1435H to allow qualified foreign financial institutions to trade in listed shares in accordance with CMA's regulations.

Additional structural and regulatory reforms have been implemented to support and streamline the Saudi economy. Those regulations approved during 2014G, included Fraud and Terrorism prevention laws; a Jobless Insurance Scheme "SANED System" Gulf Cooperation Council Trademark Law; Municipal Councils Law; A Healthcare System; Regulation of Residential Support; Regulation of Medical Cities and Specialized Hospitals affiliated to the Ministry of Health; Saudi Association for Tourist Guides; Saudi Association for Travel and Tourism, and the reorganization of the Consumer Protection Association.

The sustainability and soundness of the Saudi economy have been commended by many global economic agencies. The International Monetary Fund (IMF), for instance, in its latest 2014 Article IV Consultation report has praised the consistently strong performance of the Saudi economy. It stated that the Kingdom has been one of the best performing G-20 economies in recent years, and has supported the global economy through its stabilizing role in the global oil market. The IMF's Executive Directors welcomed Saudi Arabia's robust economic performance underpinned by strong fundamentals. They welcomed efforts to strengthen public spending efficiency and the plan to establish a macro-fiscal unit. They agreed that the current monetary and macro-prudential policy stance are appropriate despite declining credit. They stated that the Saudi economy has not been affected by global financial market volatility, and the banking system is well-capitalized and profitable. Moreover, Standard and Poor's has changed the outlook for Saudi Arabia to "stable" from "positive" but sovereign rating remained unchanged at "AA-". Although the agency actually lowered the outlook for Saudi Arabia, it states that real economic growth remains relatively strong.

Finally, the Saudi economy performed satisfactorily in 2014G despite declining oil prices and the slow pace of global economic growth. According to current indicators, the Saudi economy is expected to continue its strong growth especially the non-oil sector, as a result of its encouragement of development projects, which will help to diversify the economy and increase its competitiveness.

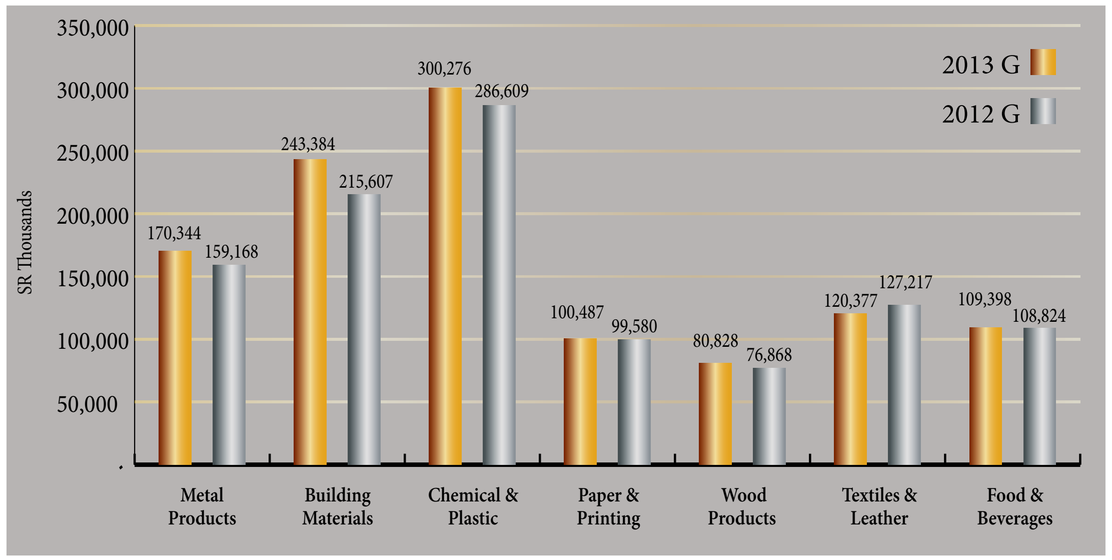
Local Industrial Sector's Performance Indicators

Despite the slowdown in both the global economy and global manufacturing during the second half of the year 2014, which is reflected negatively in demand for manufactured products, the non-oil manufacturing sector in the Kingdom recorded real growth, approximately 6.5% in 2014G as opposed to 6.2% in 2013G, based on 2010 constant prices. In addition, the relative contribution of this sector to the country's overall GDP had increased to 11.3% by the end of 2014G as against 10.9% in 2013, which represented the major share among all the non-oil producing sectors. Furthermore, the industrial sector has contributed to a great extent to the growth of Saudi non-oil exports to international markets, with an increase of 3.1% over the 2013G figure (total value: SR 208 billion).

In the context of the general state of the industrial sector, it is worthwhile analyzing briefly some of the performance indicators of the sector. As data for the year 2014G has not yet become available, we will refer to the available data for the period 2012-2013G. Performance indicators for this period show continued satisfactory growth for most of the industrial branches in the Kingdom. Figures (1,2,3) show performance features and trends by major manufacturing sectors for the period 2012-2013G. As for the industrial productivity indicator, figure (1) shows the average value added per worker in the main industrial sectors for the years 2012-2013G. During the year 2013G, the Chemical Products Sector ranked first in terms of average value added per worker. The Building Materials Sector is next, followed by the Metal Products, Textile & leather, Food Products, Paper and printing sectors. Lastly, the Wooden Products Sector had the lowest average value added per worker.

Regarding performance trends for the average value added during 2012-2013G, figure (1) shows a variable pattern within major industrial sectors. The Building Materials and Metal Products sectors recorded relatively higher growth rates of 13% and 7%, respectively, while the Chemical and Wooden Products sectors increased at relatively moderate rate of 5.0% each. Then follows the Food Products & Paper & Printing sectors: each recorded a minor increase of only 1% in the value added per worker in 2013G. However, the Textile & Leather sector recorded a decline of 5% in the same period.

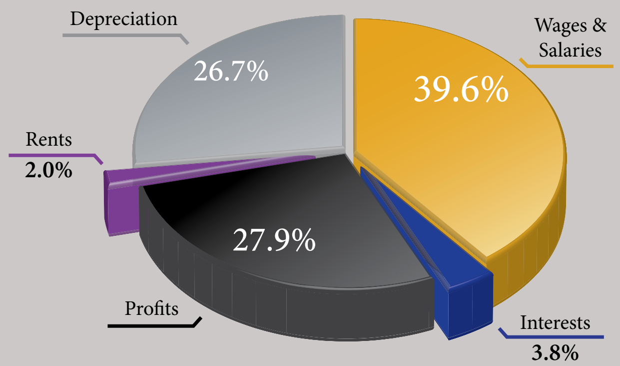
Figure (1): Value Added Per Worker in Major Industrial Sectors
(SR Thousands)



Source: SIDF Manufacturing Database (2014G)

With reference to the distribution of the components of the manufacturing value added in the year 2013, figure (2) shows that Wages & Salaries accounted for 39.6% of the total manufacturing value added, Profits accounted for about 27.9%, Depreciation 26.7 %, Interest rates 3.8 % and, finally Rents accounted for about 2.0%. This distribution pattern, with a high share of profits in the components of value added, highlights the attractiveness of investments in the Saudi manufacturing sector. Accordingly, the sector is expected to attract more investments in future, contributing to good growth in the overall country's GDP.

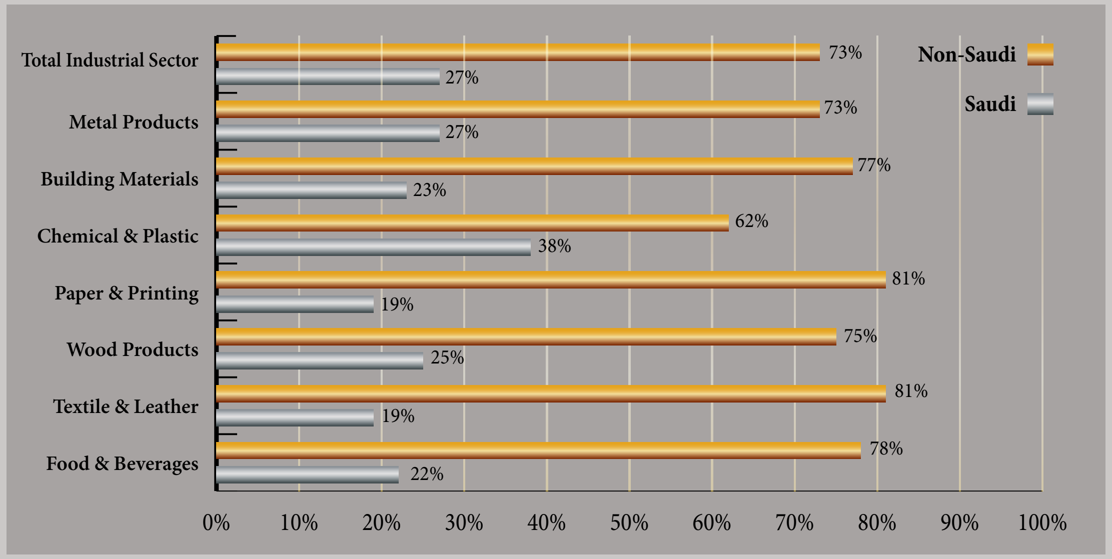
Figure (2) : Distribution of the Components of the Manufacturing Value Added (2013G)



Source: SIDF Manufacturing Database (2014G)

The Saudi labor ratio to total manufacturing labor is a factor that is currently gaining increasing importance at the national level. Figure (3) shows the ratio of Saudi employment to total employment for the major industrial sectors in 2013G. A review of the ratio shows that the Chemical Products sector led the other sectors with 38% Saudi employment ratio. The Metal & Wooden Products sectors follow with 27% and 25% Saudi employment ratios, respectively. Then followed the Building Materials and Food Products sectors with 23% and 22% Saudi employment ratios, respectively. Finally, Textile & Leather and Paper & Printing sectors each had a Saudi employment ratio of 19%. As for the whole Manufacturing Sector, the Saudi labor ratio of 27% is considered moderate as foreign labor still accounts for the bulk of the labor force. Thus, major efforts should be made to restructure the manufacturing sector to enable it to create more attractive jobs for the national workforce.

Figure (3): Percentage of Saudi Workers to Total Workers by Major Sectors 2013G



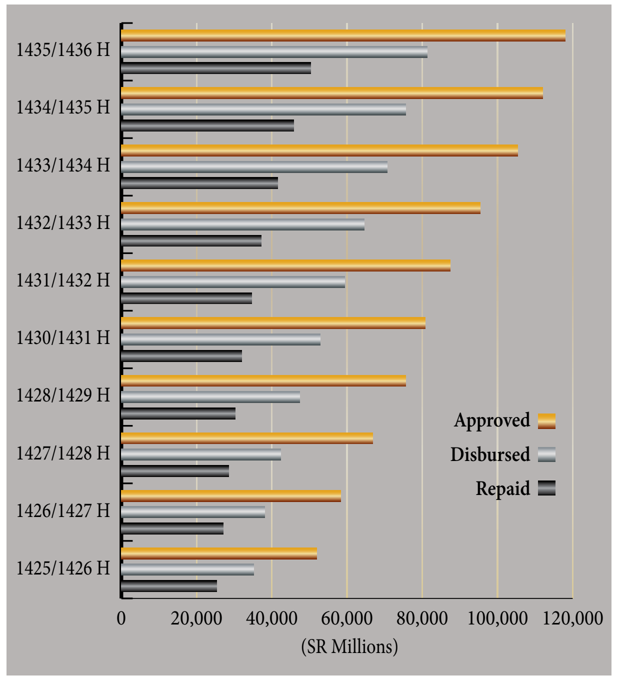
Source: SIDF Manufacturing Database (2014G)

SIDF Performance Review:

Lending Activity for the Fiscal Year 1435/1436 H (2014G):

The fiscal year 1435/1436H (2014G) witnessed outstanding performance by SIDF. This is made manifest in the Fund's achievements, particularly in terms of number and value of loans approved for projects in promising rural and urban regions, as well as those committed to small-scale industrial projects. These achievements are compatible with the State's judicious policy of accelerating the pace of development and growth in promising regions and maintaining balanced development among the regions of the Kingdom, as well as creating employment opportunities in these areas. Furthermore, these achievements are, typically, a natural outcome of SIDF's practice of encouraging incentives for industrial investment in these areas. Such incentives can achieve their objectives when the ceiling set for individual loans committed to the financing of a project in these areas is raised and the loan repayment period is extended.

Figure (4) : Cumulative value of SIDF Approved, Disbursed and Repaid Loans
(SR Millions)



During the fiscal year 1435/1436H (2014G), the Fund's activities featured high percentages of loans approved for industrial projects in promising regions. Percentages amounted to 57% and 50% in terms of number and value of loans approved during the year. However, prior to application of the new rules which increased

SIDF's financing of projects in less-developed rural and urban areas to a maximum of 75% of the total cost of the project instead of 50% with a repayment period of 20 years instead of 15 years, loans granted to projects in promising rural and urban areas did not exceed, respectively, 14% and 15% of number and value of loans approved by the Fund. This remarkable increase gives a clear indication of SIDF's success in pursuing the State's objective of achieving balanced development among the different regions of the Kingdom. Furthermore, the forum on industrial development in promising regions organized by the Fund in Riyadh during 22 & 23 of Rabi'1, 1436H is expected to be decisive in encouraging local and foreign investors to invest in these areas. This development should increase the promising regions' share of SIDF loans. Because of the significance of this forum, we have allocated it a special place in this report.

During the fiscal year 1435/1436H (2014G), the Fund's achievements highlighted the special attention given to the small-scale industrial projects sector. Industrial loans extended to this sector (amounting to SR 15 million per individual project) represented 58% of the total number of loans extended by the Fund during the fiscal year 1435/1436H (2014G); the share of new industrial projects accounts for 93%. These figures attest to the healthy economic environment in which small-scale industrial projects operate and the spread of investment awareness among minor industrial investors as well. Needless to say that such awareness is, typically, a natural outcome of the support rendered to minor industrial investors by SIDF's assigned Division for studying and evaluating small-scale industrial projects.

During the fiscal year 1435/1436H (2014G), the Fund's commitments provided definitive indicators of the increasing share of the new industrial projects vis-à-vis the expansion of existing industrial plants. The number of loans approved for new projects amounted to 125 loans with commitments totaling SR 5,053 million, thus representing 86% of the total number and value of loans approved during the year.

During the fiscal year 1435/1436H (2014G), the Fund approved 145 industrial loans, i.e., a slight increase over the number of loans approved in the previous fiscal year. These loans were extended to assist the establishment of 125 new industrial projects and the expansion of 20 existing ones. Investments in these projects totaled SR 11.7 billion; their loan commitments amounted to SR 5,892 million. During the report year, disbursements made amounted to SR 5,685 million, and SR 4,460 million was received in repayment of outstanding loans – the highest in one year since SIDF's inception.

Overall, since its establishment in 1394H up to the end of the fiscal year 1435/1436H (2014G), the Fund has approved a total of 3,769 loans amounting to SR 117,987 million, thereby assisting in the setting up of 2717 industrial project Kingdom-wide. Under the terms of these commitments, a total of SR 81,276 million has been disbursed and SR 50,346 million repaid by the end of the fiscal year 1435/1436H (2014G). These figures testify to the success of these projects which benefited from the loans and advisory support provided by the Fund, particularly in the technical, managerial, financial, and marketing areas.

1. Distribution of Loans by Sector:

A review of major industrial sectors, classified according to the value of loans approved, reveals the following salient features:

Chemical Industries:

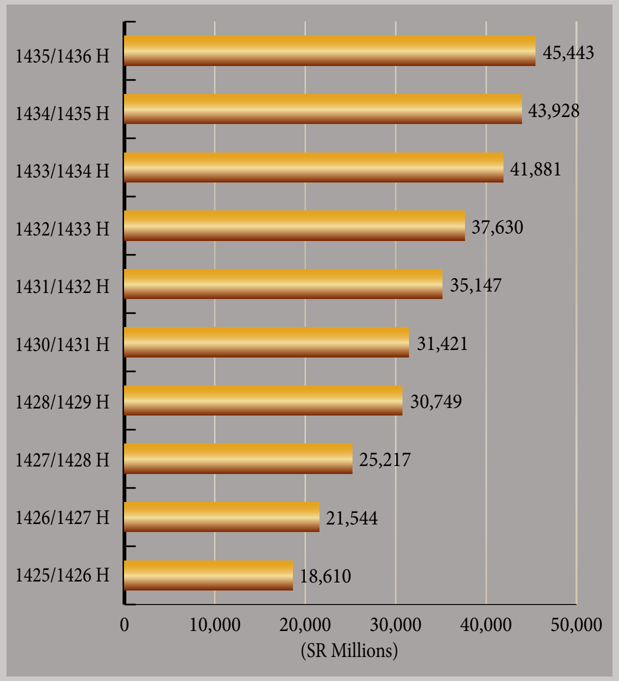
Cumulative Amount of Loans:

This sector still leads all other sectors in terms of amount of loan commitments since SIDF's inception up to the end of the fiscal year 1435/1436H (2014G). Cumulative commitments extended to the sector totaled SR 45,443 million, representing 38% of the total value of loans approved by the Fund during the period.

Projects Approved During 1435/1436H (2014G):

During the fiscal year 1435/1436H (2014G), SIDF approved 41 loans to this sector representing 28% of the total number of loans approved during the year. Total commitment to this sector amounted to SR 1,515 million, representing approximately 26% of the value of all loans approved during the year. Hence, this sector ranked second in terms of value of approved loans and first in terms of number of approved loans. These loans supported the establishment of 39 new industrial projects and the expansion of two existing projects.

Figure (5) : Cumulative value of Approved SIDF Industrial Loans for Chemical Industries Sector (SR Millions)



Among the loans approved to this sector in 1434/1435H (2014G), was one of SR 865 million in support of the construction of a plant, in Jubail, for the production of Butanol, which is used in the production of paints and inks. Another loan of SR 100 million was approved for construction of a factory, in Yanbu, for the production of non-inflammable polypropylene compounds containing metal powder reinforced by glass. A third loan of SR 65 million was approved for a factory, in Hail, for the production of ethylene vinyl acetates. A fourth loan of SR 61 million was approved for a plant, in Rabegh, for the production of extendable film rolls used for packing. Two loans totaling SR32 million were approved for the setting up of two plants, in Jizan: one for the production of water plastic tanks, the other for the production of various sized water bottles. A seventh loan of SR 25 million was approved for a factory, in Sudair Industrial City, for the production of plastic containers of various sizes.

Commitments to expansion projects included a loan of SR 20 million extended for the expansion of a Jeddah-based factory producing polypropylene sacks; another loan of SR 17 million was granted for the expansion of a Riyadh-based plant producing flex-foam sheets from polyethylene.

Engineering Industries:

Cumulative Amount of Loans:

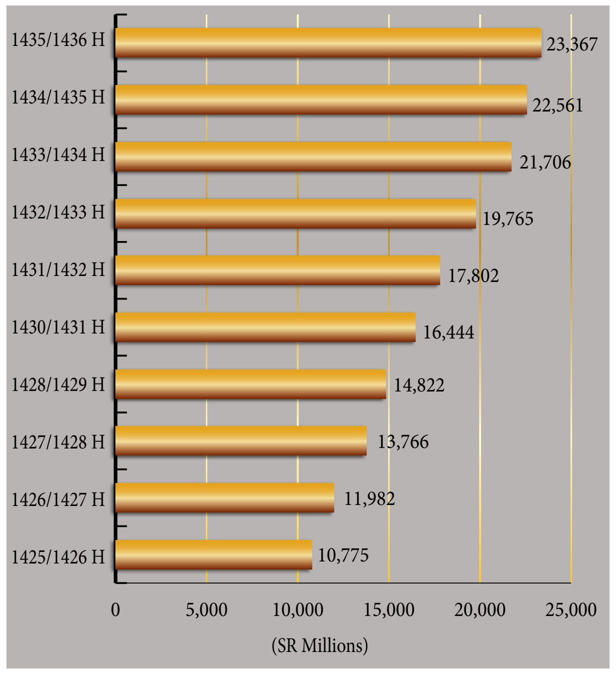
This sector came second in terms of value of approved loans since inception of the Fund up to the end of the fiscal year 1435/1436H (2014G). Cumulative commitments extended to the sector totaled SR 23,367 million representing 20% of total value of loans approved by SIDF.

Projects Approved During 1435/1436H (2014G):

In the fiscal year 1435/1436H (2014G), SIDF approved 33 loans to this sector amounting to SR 806 million, or 23% of the total number of loans approved during the said fiscal year and 14% of the value of these loans. Thus, the sector came second in terms of number of loans and fourth in terms of value of loans approved during the year. These loans financed the building of 29 new industrial projects and the expansion of 4 existing plants.

Among the loans approved to this sector in 1435/1436H (2014G) was a loan of SR 139 million in support of the construction of a plant, in Dammam, for the production of longitudinal-welded steel pipes. Two loans totaling SR141 million were approved for setting up two plants, in Rabegh: one for the production of reinforced steel, the other for the production of steel billets. A fourth loan of SR 50 million was approved for the construction of a plant, in Jizan, for the production of steel bars formed by cutting and bending; metal mesh, and epoxy-coated steel bars. A fifth loan of SR 23 million was approved for a factory, in Shaqra, for the production of hot drawn steel sections. An additional two loans, each amounting to SR 11 million were approved for the establishment of two plants: one, in Sudair Industrial City, for the production of insulated steel doors and steel cupboards and racks, the other, in Al-Kharj, for the production of electrical cables.

Figure (6) : Cumulative value of Approved SIDF Industrial Loans for Engineering Industries Sector (SR Millions)



Moreover, expansion loans included a loan of SR 32 million extended for the expansion of a Riyadh-based factory producing electric water heaters. Another loan of SR 16 million was granted for the expansion of a Dammam-based plant producing iron sheets, vacuum sections, pipes and steel bars. In addition, a third loan amounting to SR 8 million was extended for the expansion of a Jubail-based factory producing epoxy-coated reinforced steel.

Consumer Industries:

Cumulative Amount of Loans:

This sector ranked third in terms of the value of approved loans. Since inception of the Fund up to the end of the fiscal year 1435/1436H (2014G), cumulative commitments extended to this sector totaled SR 20,129 million representing about 17% of the total value of loans approved by SIDF.

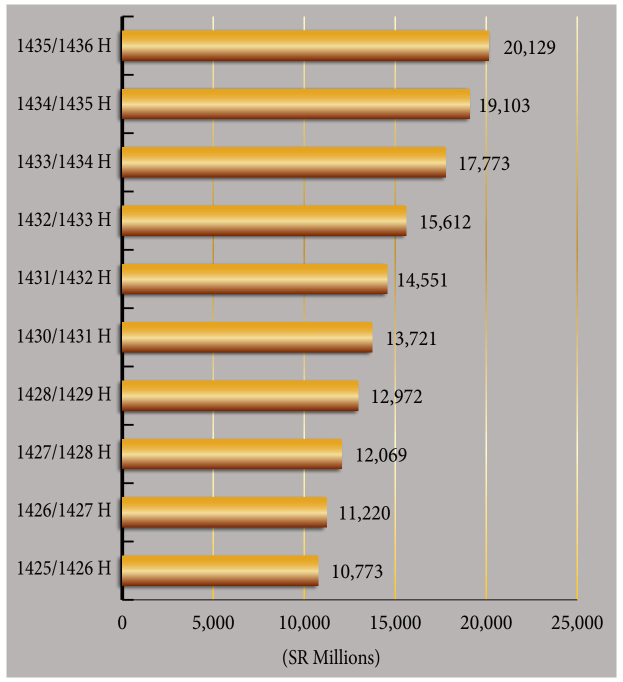
Projects Approved During 1435/1436H (2014G):

During the year 1435/1436H (2014G), SIDF approved 32 loans to this sector amounting to SR 1,026 million or 22% and 17%, respectively, of the total number and value of loans approved during the year. Thus, the sector came third in terms of number and value of loans approved during the year. Loans committed to this sector financed the construction of 24 new industrial projects and the expansion of 8 existing plants.

Among the new loans committed to this sector during the report year, a loan of SR 105 million was approved for setting up a factory, in Rabegh, for the production of dry starch; glucose; wet corn glutene fodder; corn glutene feed, and raw corn oil. Another three loans amounting to SR 107 million were approved for the construction of three plants: in Al-Madinah Al-Munawarah, Sabia and Tabouk, for the production of drinking water in bottles of various sizes. A fifth loan of SR 15 million was approved for the building of a factory, in Sudair Industrial City, for the production of wooden furniture. A sixth loan of SR 12 million was approved for the construction of a factory, in Al-Kharj, for the production of animal and poultry fodder. A seventh loan of SR 6 million was approved for the establishment of a plant, in Al-Jouf, for the production of olive oil, tomato paste, juice concentrates and jam.

Moreover, expansion loans included a SR 239 million loan for the expansion of a factory, in Hail, producing fresh chicken (chilled); frozen chicken; marinated chicken, and chicken fats. An additional loan totaling SR 178 million was approved for the expansion of a plant, in Riyadh, producing aluminized carton containers used to preserve long-life consumer products.

Figure (7) : Cumulative value of Approved SIDF Industrial Loans for Consumer Industries Sector (SR Millions)



Cement Industry:
Cumulative Amount of Loans:

Since inception of the Fund up to the end of the fiscal year 1435/1436H (2014G), the cumulative amount of loans committed to this sector totaled SR 11,603 million or approximately 10% of total loans approved, thereby ranking the sector fifth in terms of the value of loans committed.

Projects Approved During 1435/1436H (2014G):

During the year 1435/1436H (2014G), the Fund approved a loan amounting to SR 88 million (i.e. 1.5% of approvals during the year) for the construction of a factory, in Al-Khurasaniyah, for the production of oil drilling cement.

Other Building Materials Industries:
Cumulative Amount of Loans:

Up to the end of the year 1435/1436H (2014G), the cumulative amount of loans extended to the “other building materials” sector, since SIDF’s inception, totaled SR 12,599 million or 11% of total value of loans approved, thereby ranking the sector fourth in terms of the value of committed loans.

Projects Approved During 1435/1436H (2014G):

During the year 1435/1436H (2014G), SIDF approved 27 loans to this sector, amounting to SR 422 million or 19% and 7%, respectively, of the total number and value of loans approved during the year. Thus, the sector ranked fourth and fifth, respectively, in terms of number and value of loans approved during the year. These loans supported the establishment of 23 new industrial projects and the expansion of four existing projects.

Among the loans approved to this sector during the year 1435/1436H (2014G), a loan of SR33 million was extended for the construction of a plant, in Al-Ruwaidhah, near Thadiq Province, for the production of wall sheets, ceilings and cold stores. An additional two loans totaling SR 34 million were approved for the building of two projects in Sudair Industrial City: one for the production of gypsum and glass sections, the other for the production of regular insulated cement blocks; cement curbstones; flooring tiles; interlock tiles, and cement pipes. A fourth loan of SR 22 million was granted for the establishment of a plant, in Al-Kharj, for the production of insulating plastering material; tile-glue and gypsum walls. A fifth loan of SR 20 million was extended for the construction of a factory, in Ar’ar, for the production of granite panels. A sixth loan of SR 15 million was approved for the implementation of a plant, in Buraida, for the production of cellular concrete blocks. A seventh loan of SR 7 million was granted for the building of a factory, in Bisha, for the production of ready-mixed concrete.

Expansion loans extended included one of SR 17 million for the expansion of a Riyadh-based plant producing ceramic tiles. Two additional loans, each amounting to SR 16 million were approved for the expansion of two factories: one, in Dammam, producing white bricks, the other, in Rabegh, producing reinforced concrete pipes.

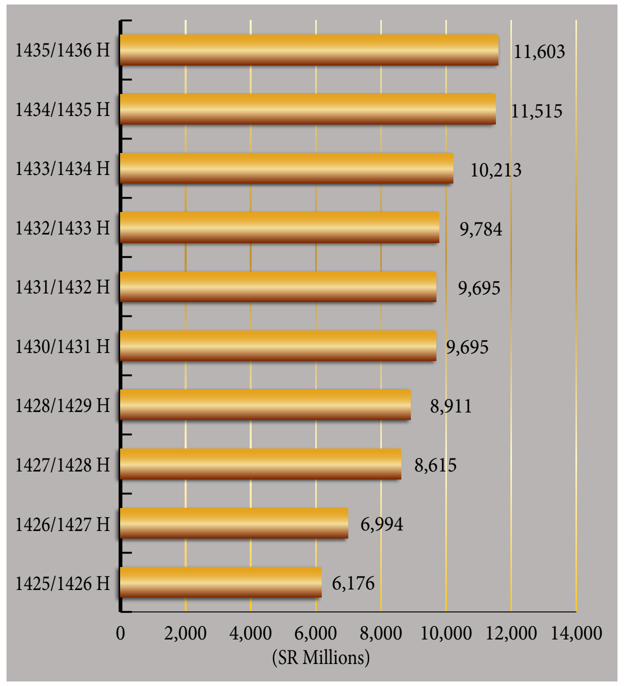
Other Industries:
Cumulative Amount of Loans:

Since inception of the Fund up to the end of the fiscal year 1435/1436H (2014G), the cumulative amount of loans committed to this sector totaled SR 4,846 million or 4% of total value of loans approved, thereby ranking the sector sixth in terms of the value of loans committed.

Projects Approved During 1435/1436H (2014G):

In 1435/1436H (2014G), SIDF approved 11 loans to this sector amounting to SR 2,035 million or 8% and 34.5% respectively of the total number and value of loans approved.

Figure (8) : Cumulative value of Approved SIDF Industrial Loans for the Cement Industry Sector (SR Millions)

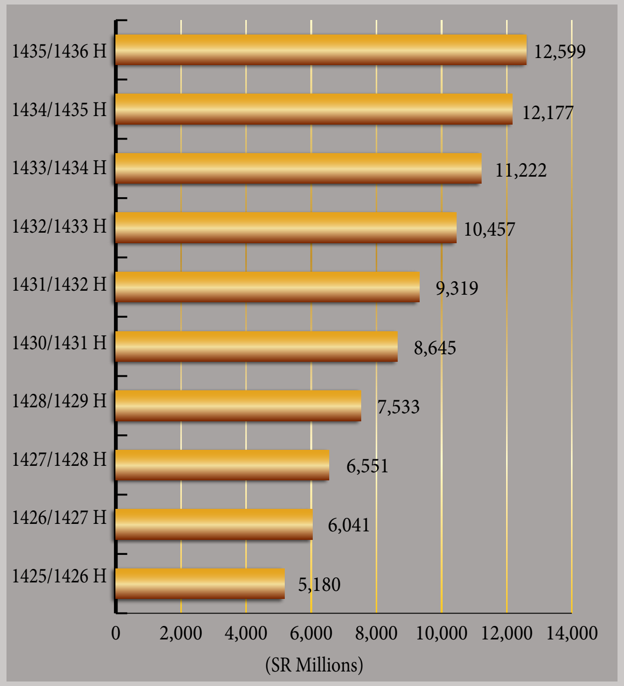


Thus the sector came, respectively, fifth and first in terms of the total number and value of loans approved during the year. For the first time, this sector topped all other sectors in terms of the value of loans committed during the report year. This achievement provides irrefutable evidence of the success of SIDF’s policy of financing projects, providing services and logistic support to the industrial sector. Loans committed to this sector financed the construction of ten new industrial projects, including two relating to the mining industry, and the expansion of one existing project.

Among the new loans approved to this sector, during the report year, two loans of SR 1,379 million were extended to finance the building of two projects in Makkah Al- Mukarramah Region (one in Al- Khurmah Province; the other in the marketplace of Zulm, Taif Province) for the production of unpurified gold bullions. A third loan of SR 366 million was approved for the construction of a factory, in Jubail, for the production of polysilicon alloys and chips . Within the framework of supporting services and logistics projects, SIDF approved 5 loans totaling SR 166 million to assist the building of two hotels and two housing compounds to accommodate manpower in the industrial cities in Riyadh and Dammam, as well as a “supporting services” project. In addition, a loan of SR 17 million was approved for the construction of a factory in Sudous for recycling electrical and electronic waste.

Expansion loans extended to the sector included a loan of SR 48 million, approved for the expansion of a plant in Al-Kharj producing desalinated and treated water for industrial purposes.

Figure (9) : Cumulative value of Approved SIDF IndustrialLoans for the Other Buliding Materials Sector (SR Millions)



Projects Which Commenced Production During the Year 1435/1436H (2014G):

SIDF-financed industrial projects which started production during the year 1435/1436H (2014G) totaled 46, including 33 new projects and 13 expansions, as shown in the table below.

Sector	Number of Projects Started Production during the Report Year	Projected Number of Manpower
Engineering Industries	12	3217
Chemical Industries	12	1291
Other Building Materials Industries	9	1059
Consumer Industries	9	880
Other Industries	3	127
Cement Industry	1	25
Total	**46**	**6599**

2. Distribution of Loans by Region:

Review of the geographical distribution of the total number and value of approved loans by region Kingdom-wide reveals a pattern of distribution as follows:

Riyadh Region:

Cumulative Amount of Loans:

The cumulative number of loans committed by the Fund towards the setting up of industrial projects in Riyadh Region totaled 1,375 loans granted to finance 972 industrial projects, or, approximately, 37% of the total loans approved since SIDF's inception up to the end of the year 1435/1436H (2014G). Therefore, Riyadh region was ranked first in terms of number of approved loans but second in terms of value of committed loans which totaled SR 22,953 million, representing about 19% of SIDF total approved loans.

Loans Approved During 1435/1436H (2014G):

During the fiscal year 1435/1436H (2014G), SIDF approved 53 loans to industrial projects in the Riyadh region, representing approximately 37% of the total number of approved loans. These loans were extended to finance 45 new industrial projects and expansions of 8 existing ones. Riyadh region was ranked first in terms of number of approved loans and third in terms of value of committed loans which totaled SR 893 million, or about 15% of the total value of loans approved during the report year 1435/1436H (2014G).

Makkah Al- Mukarramah Region:

Cumulative Amount of Loans:

The cumulative number of SIDF-committed loans towards the setting up of industrial projects in Makkah Region totaled 934 loans valued at SR 21,863 million granted to finance 643 industrial projects. Thus, Makkah region ranked third in terms of number and value of loans approved since SIDF's inception up to year-end 1435/1436H (2014G), representing, respectively, 25% and 18% in terms of total number and value of loans.

Loans Approved During 1435/1436H (2014G):

During the year 1435/1436H (2014G), the Fund approved 22 loans with a cumulative value of SR 2,071 million for projects located in the Makkah region, representing, respectively, 15% and 35% of the total number and value of SIDF-committed loans during the year. Therefore, Makkah region was ranked third in terms of number, and first by value, of loans approved during the year 1435/1436H (2014G). These loans were granted for the construction of 20 industrial projects and the expansion of two existing industrial projects.

Eastern Region:

Cumulative Amount of Loans:

The cumulative number of loans approved by the Fund to projects in the Eastern Region totaled 1028 loans committed towards the setting up of 732 projects valued at SR 50,378 million, representing, respectively, 27% and 43% of the total number and value of loans. Thus, the Eastern Region ranked first in terms of value and second according to number, of loans approved by the Fund since its inception up to year-end 1435/1436H (2014G). This high percentage of loan commitments to the Eastern region can be attributed to the mega- investments, on average, in projects established in Jubail Industrial City, in the Eastern region.

Loans Approved During 1435/1436H (2014G):

During the year 1435/1436H (2014G), the Fund approved 28 loans valued at SR 1,921 million for projects in the Eastern region which ranked second in terms of number and value of approved loans, accounting for 33% of the value and 19% of the number of loans approved during the report year. These loans were provided to finance the setting up of 19 new industrial projects and expansion of 9 existing ones.

Al-Madinah Al-Munawarah Region:

Cumulative Amount of Loans:

The cumulative number of loans approved by the Fund for implementation of 121 projects in this region up to the year 1435/1436H (2014G) totaled 157 loans amounting to SR 12,586 million, representing approximately 4% of the total number and 11% of the total value of SIDF approved loans. Accordingly, Al-Madinah Al-Munawarah Region ranked fourth in terms of both the number and value of loans approved since SIDF's inception up to year-end 1435/1436H (2014G). This high percentage of loan amounts committed to Al-Madinah Al-Munawarah region, as against the number of loans, can be attributed to the mega- investments, on average, in projects established in Yanbu Industrial City, in Al-Madinah Al-Munawarah region.

Loans Approved During 1435/1436H (2014G):

During the year 1435/1436H (2014G), the Fund approved 13 loans for projects in Al-Madinah Al-Munawarah region, valued at SR 392 million representing respectively 9% and 7% of the total number and value of approved loans. Therefore, Al-Madinah Al-Munawarah region was ranked fourth in terms of total number and fifth, according to total value, of the loan approvals for the year. These loans were provided to finance the setting up of 13 new industrial projects in Al-Madinah Al-Munawarah region.

Jazan Region:

Cumulative Amount of Loans:

The cumulative number of loans approved by the Fund for the implementation of 27 projects in Jazan Region totaled 34 loans amounting to SR 2,958 million, representing approximately 1% of the total number and 3% of the total value of SIDF approved loans . Accordingly, Jazan Region was ranked fifth in terms of the value of loans approved since SIDF's inception up to year-end 1435/1436H (2014G).

Loans Approved During 1435/1436H (2014G):

During the year 1435/1436H (2014G), the Fund approved 5 loans amounting to SR 121 million for the setting up of 5 new industrial projects in Jazan region. Accordingly, Jazan region was ranked fifth in terms of total number and sixth, according to, total value of loan approvals for the year, i.e., approximately 4% of the total number and 2% of the total value of SIDF approved loans. Jazan is regarded as a promising region, so it has benefited considerably from the application of the recent decision to increase SIDF lending limits to less developed rural and urban areas, from 50% of the project cost to 75%, and to extend the loan repayment term from 15 years to 20 years.

Qassim Region:

Cumulative Amount of Loans:

The cumulative number of SIDF-committed loans towards the setting up of industrial projects in Qassim Region totaled 80 loans valued at SR 1,517 million granted to finance 69 industrial projects. Thus, Qassim region was ranked fifth in terms of number and sixth in terms of value of loans approved since SIDF's inception up to year-end 1435/1436H (2014G), representing, respectively, 2% and 1% by total number and value of loans.

Loans Approved During 1435/1436H (2014G):

During the year 1435/1436H (2014G), the Fund approved 6 loans valued at SR 54 million for the implementation of 6 new industrial projects in the Qassim region which was ranked joint- fifth in terms of number and seventh, according to the value of approved loans, accounting for 4% of the number and 1% of the value of loans approved during the report year.

Other Regions of the Kingdom:

Cumulative Amount of Loans:

The cumulative number of loans approved by the Fund for implementation of 153 projects in the other regions of the Kingdom, up to the year 1435/1436H (2014G), totaled 161 loans amounting to SR 5,732 million, representing approximately 4% of the total number and 5% of the total value of loans approved by SIDF since inception up to year-end 1435/1436H (2014G).

Loans Approved During 1435/1436H (2014G):

During the year 1435/1436H (2014G), the Fund approved 18 loans valued at SR 440 million for the setting up of 17 new industrial projects and one expansion project. Four of these projects are located in Najran; three in Aseer, Hail and the Northern Frontiers; two in Al- Joaf; one in Tabouk, and another one in Al- Baha. These loans accounted for 12% of the number and 7% of the value of loans approved during the report year. It is significant that all of the administrative regions of the Kingdom have benefited from SIDF loan approvals for the report year.

3. Financing of Joint Venture Projects:

Since its inception, the Fund has spared no effort in promoting the implementation of joint venture projects, particularly with reputable international companies. In this regard, the Fund stands by its firm conviction that the prerequisites for the success of these projects are in place in the Kingdom. SIDF firmly believes that direct foreign investment is considered an effective tool for the attraction and transfer of modern technology to the Kingdom and the creation of new employment opportunities for Saudi citizens, apart from its crucial role in providing access for national products to foreign export markets. Therefore, the Fund does not require Saudi partnership in these projects as it also finances projects that are wholly owned by foreign investors. In this context, SIDF treats wholly foreign-owned projects on an equal footing with projects wholly or partly owned by Saudi investors.

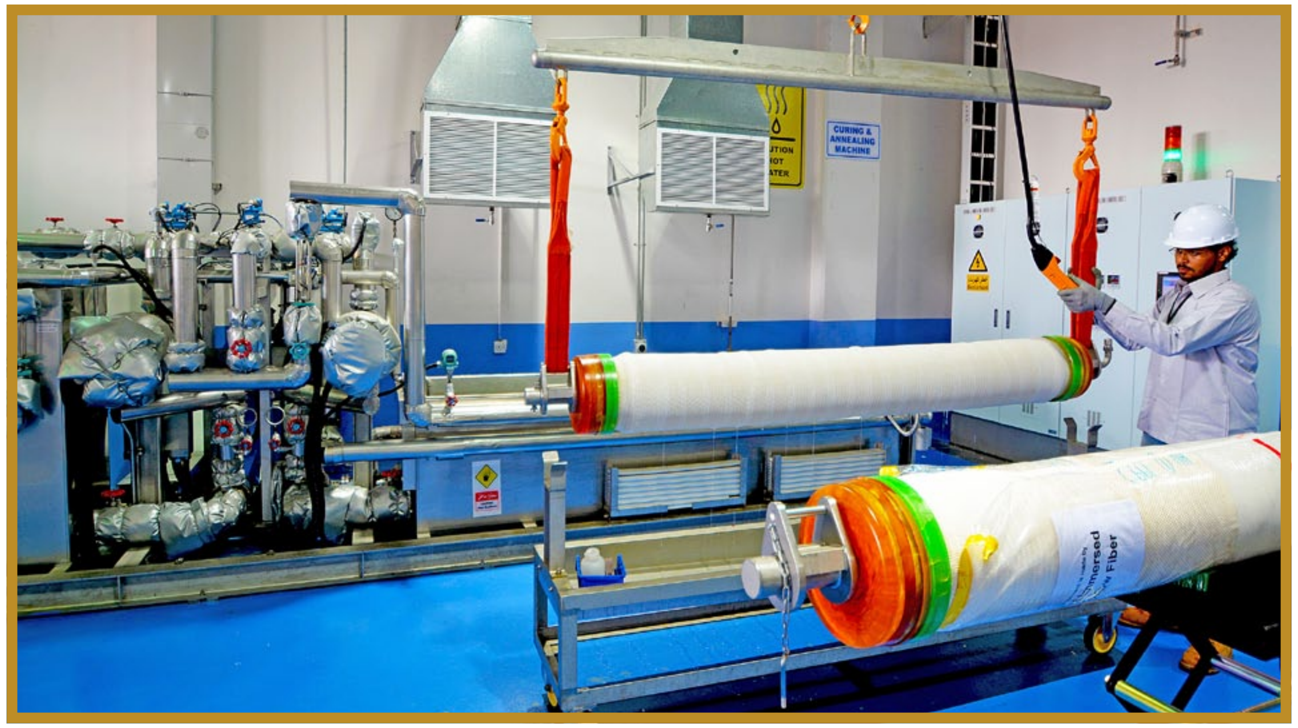
The number of joint-venture projects approved by the fund since its inception up to the end of the fiscal year 1435/1436H (2014G) totaled 688 projects or 26% of all projects approved. Moreover, loans committed to such joint-venture projects amounted to SR 44,148 million representing 37% of total SIDF loans while foreign partners' capital share in these projects represented 34%.

It is worthwhile noting that 123 of these projects, for which a total of SR 11,633 million was committed in loans, have now become fully owned by Saudi investors after their acquisition of the foreign partners' shares, subsequent to their eventual success and full repayment of their debts.

The chemical industries sector surpassed all other industrial sectors in terms of the value of loans approved by SIDF since its inception up to the end of the fiscal year 1435/1436H (2014G) due to the huge volume of capital invested in this sector's projects. The chemical industries sector's share accounted for 53% of SIDF approved loans, followed by the Engineering Industries sector's share (31%) and the Consumer Industries sector's share (6%).

During the report year 1435/1436H (2014G), SIDF approved 13 loans for the establishment of 12 new industrial joint-venture projects and the expansion of one existing project. Commitments to these projects totaled SR 986 million or 16% of SIDF commitments for the year. Loans for the new joint-venture projects included six to the Engineering Industries sector; three to the Chemical Industries sector; two to the Consumer Industries sector, and one to the "Other Industries" sector.

Joint-venture projects approved during the year provided jobs for 1,927 employees, or approximately 20% of the total number of employment opportunities provided by all projects financed during the year 1435/1436H (2014G): 9,805.

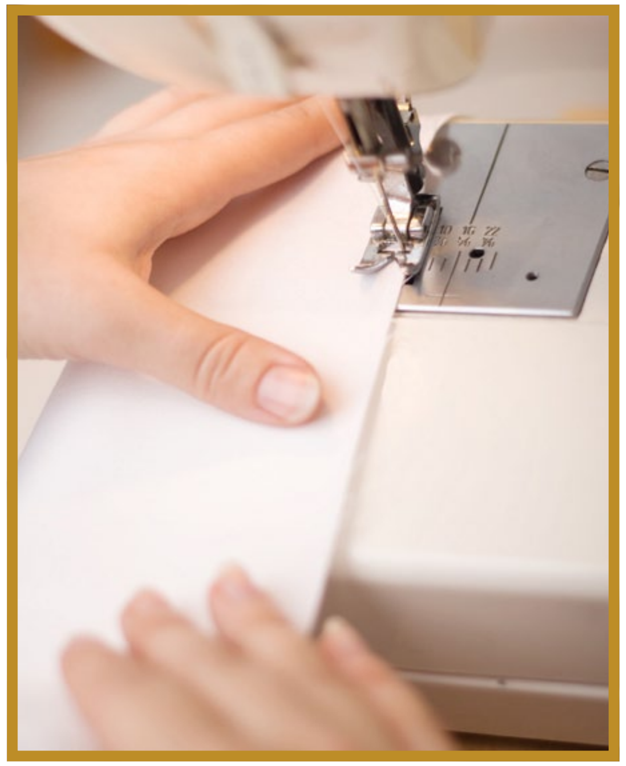


Small and Medium Enterprises (SMEs) Loan Guarantee Program (KAFALAH)

The SME Loan Guarantee Program (KAFALAH) has maintained its ongoing key role in supporting small and medium enterprises Kingdom-wide, based on the Program's status as a major player in the service and development of the community. It also encourages the expansion of the beneficiaries' base and the creation of new job opportunities thereby contributing to the reduction of unemployment in the Kingdom.

The fiscal year 1435/1436H (2014G) was characterized by an exceptional performance by the Program as the number of guarantees approved by its management increased by 44%, to 3,612 guarantees, in contrast with 2,515 guarantees approved in the previous year. Small and medium enterprises also benefited from such guarantees and increased by 28%, to 1497 enterprises during the year, in contrast with 1173 enterprises in the previous year. The total value increased by 31%, to SR 1,688 million, in contrast with SR 1,286 million for the previous year. Loans provided by KAFALAH participating commercial banks to SMEs also increased by 47%, to SR 3,462 million, during the year in contrast with SR 2,348 million extended during the previous year.

The Construction and Contracting Sector led all other sectors with a total of 2,185 guarantees amounting to SR 931 million, representing 60% of the number of guarantees and 55% of the value of guarantees issued by the Program during the fiscal year 1435/1436H (2014G). The Commercial Sector came second with 501 guarantees for SR 214 million, accounting for 14% and 13% of the number and value of the guarantees, respectively. The Industrial Sector ranked third with 332 guarantees valued at SR 219 million, representing 9% and 13% of the number and value of guarantees respectively. The Finance and Business Sector came fourth with 308 guarantees valued at SR 147 million, accounting for 9% and 9% of the number and value of guarantees, respectively. The remaining 286 guarantees, which account for 8% and 10% of the number and value of guarantees, respectively, were distributed among the following sectors: Public and Individual Social Services: 100 guarantees; Tourism and Entertainment: 95; Transportation, Storage and Cooling: 69; Agriculture and Fisheries: 9; Electricity, Gas and Water: 7, and Mining and Petroleum: 6 guarantees.



In pursuance of its aim to achieve balanced regional development, the Program management is keen to ensure optimal use of KAFALAH guarantees by all administrative regions Kingdom-wide. The Riyadh region ranked first in terms of number and value of guarantees issued by the Program during the report year with 1,734 guarantees valued at SR 785 million. The Eastern region came second with 769 guarantees valued at SR 384 million, followed by Makkah Al-Mukarrama region with 576 guarantees totaling SR 257 million. Qassim region ranked fourth with 106 guarantees valued at SR 58 million, followed by Assir and Najran regions with 97 guarantees totaling SR 59 million and SR 46 million respectively. The remaining regions received 233 guarantees amounting to SR 99 million. It is significant that approvals for the report year covered all the administrative regions of the Kingdom.

As for KAFALAH participating banks, the National Commercial Bank (NCB) led all other participating banks in terms of the total number of guarantees approved by the Program during the year with 1,840 guarantees valued at SR 638 million, representing 51% and 38% of the total number and value of approved guarantees respectively. Riyadh Bank came second with 500 guarantees totaling SR 346 million, representing 14% and 20% of the number and total value of guarantees issued respectively. Al Rajhi Bank ranked third with 389 guarantees totaling SR 198 million, representing 11% and 12% of the number and value of guarantees respectively. The remaining banks received 883 guarantees totaling SR 506 million, accounting for 24% and 30% of the number and value of guarantees respectively.

Since the Program launch on 1426/1427H (2006G) up to the fiscal year-end 1435/1436H (2014G), the KAFALAH management has issued a total of 10,892 guarantees to 5,579 SMEs, totaling SR 5,278 million in contrast with total approved financing of SR 10,648 million.

During the year 1435/1436H (2014G), 37 guarantees were liquidated at a value of SR 23.6 million in favor of the participating banks, increasing the number of liquidated guarantees to 100 valued at SR 50.3 million. Distribution of liquidated guarantees is as follows: 42 guarantees for NCB; 20 for Alrajhi Bank; 18 for SABB; 11 for Riyad Bank; 3 for Bank Aljazira; and 2 guarantees for Bank Albilad, ANB and SHB. The number of guarantees liquidated between the launch of the Program and the fiscal year-end 1435/1436H (2014G) accounted for 0.94% and 2% of the total number and value of approved and applied guarantees, respectively.

Motivated by its responsibility towards the SME sector, expansion of the beneficiaries' base and committed to rendering services of the highest standards, the Program management has developed a strategic five-year plan in cooperation with an international, strategic consultation company. The plan keeps pace with the economic growth of the Kingdom in general and the SME sector in particular. In addition, it aims to satisfy the sector's requirements comprehensively. Among the many initiatives included in the plan, following are given the priority: raising financing ceiling and guarantees value; increasing financing resources and introducing new products that help improve growth rates and reach the break-even point without exceeding acceptable risk levels or contravening the state's development plan requirements; the demands of the market, and the requirements of the economic sector.

Number and Value of Approved Guarantees and Number of Beneficiary Enterprises by Commercial Bank Creditors

Bank	Approved Guarantees in 2014				Total Since Launch of the Program			
	Number of Guarantees	SR 000		Number of Beneficiary Enterprises	Number of Guarantees	SR 000		Number of Beneficiary Enterprises
		Value of Guarantees	Value of Finance			Value of Guarantees	Value of Finance	
National Commercial Bank (NCB)	1840	638,209	1,533,709	552	4,269	1,510,681	3,047,291	1,646
Riyad Bank	500	345,597	682,591	324	2,288	1,332,905	2,766,751	1,550
Alrajhi Bank	389	197,894	339,464	174	1,247	680,745	1,207,061	742
Arab National Bank (ANB)	256	110,511	260,762	104	1,245	544,546	1,534,677	482
SAMBA Financial Group	160	53,494	89,263	43	428	201,702	379,455	221
Saudi Hollandi Bank	156	151,801	222,542	125	400	390,753	576,465	331
Bank Aljazira	128	83,020	110,641	68	375	203,398	285,969	165
Bank Albilad	76	47,769	99,914	52	228	151,575	309,817	157
Saudi Investment Bank	46	25,861	52,904	21	120	77,561	149,740	64
Saudi British Bank (SABB)	40	16,113	24,881	18	170	101,037	194,405	135
Saudi French Bank	21	17,631	44,952	16	122	82,818	196,181	86
TOTAL	3,612	1,687,900	3,461,623	1,497	10,892	5,277,721	10,647,812	5,579

Manpower and Training:

SIDF Management has managed to attract and employ, through its effectively designed training programs, suitably qualified Saudis to work at the Fund in various positions and specializations. SIDF's employment procedures are closely linked to career development and the career ladder program, covering such areas as financial analysis, auditing, information technology, economic and statistical studies, marketing, documentary accounting/financial sciences, management, technical consultancy/studies, information analysis, legal studies, etc.

During the fiscal year 1435/1436H, 887 in-house and overseas training programs were provided for Saudi employees, including specialized basic courses; master's degrees; short courses; workshops, seminars and professional conferences, in addition to SIDF in-house training courses. 243 Saudi employees have been trained in accordance with work requirements and scheduled dates of in-house and overseas training courses. 165 of those employees have attended specialized basic courses abroad, including master's degrees and intensive English language courses. 415 Saudi employees have attended short courses held abroad; 156 have attended short courses provided in the Kingdom; 300 Saudi employees participated in short courses provided by and conducted at the Fund, and 24 graduate employees received on-the-job training.

SIDF has invariably capitalized on its good relations with many similar financial institutions inside and outside the Kingdom to develop further the professional skills of SIDF's Saudi staff through effective participation in specialized professional conferences, seminars, and workshops conducted by these institutions. Such collaboration ensures valuable exchange of professional expertise and experience which, in turn, contribute to improving the skills and augmenting the work capability of Saudi staff-positive developments reflected in the overall impressive performance of the Fund.

In keeping with contemporary advanced financial and administrative systems in the Kingdom, SIDF has successfully implemented the Saudization programs it had previously adopted in FY 1435/1436H as evidenced by the recruitment of 148 Saudi employees for various positions in the Fund's departments in accordance with SIDF's approved budget.

Ali Bin Abdullah Al-Ayed

Director General

The Industrial Development Forum for Promising Regions

Introduction:

The Government of the Custodian of the Two Holy Mosques has always been deeply concerned to exert its influence and persist in its efforts to advance the economic prosperity and promote the balanced development of regions and cities Kingdom-wide. This is clearly reflected in the Kingdom's plans for diversifying its sources of national income and strengthening the Saudi economy by advancing the industrial sector to a level which ranks the Kingdom among the most highly advanced industrialized countries. To this end, the Fund took the initiative in organizing the first forum for promising areas: «The Industrial Development Forum for Promising Regions», which was held in Riyadh on 22-23 Rabi'1 1436H, (corresponding to13-14 January 2015) under the co-auspices of the Minister of Finance, H.E. Dr. Ibrahim Al-Assaf, and the Minister of Commerce and Industry, H.E. Dr. Tawfiq Al-Rabiah.

The Fund's initiative in organizing the forum is in line with the objectives of the Kingdom's wise leadership whose top priority is the industrial development of the promising regions. The forum was one of a series in the Fund's initiatives aimed at supporting the advancement of the industrial sector in various regions nation-wide. The most recent was that of raising the maximum percentage of loans to finance the industrial projects located in the promising regions and cities from 50% to 75% of the total cost of a particular project, besides extending the term of repayment from 15 years to 20 years. In addition, the maximum limit of a loan for industrial projects located in these regions was increased to SR1.2 billion, as against a maximum of SR 900 million for industrial projects located in the major cities. As a result of these incentives, the promising regions' share of the Fund's loans increased to 48% in terms of number of loans provided, and to nearly 40% in terms of the value of the loans approved by the Fund over the period, from the enforcement of the resolution in 2011 until the end of FY 2014, bearing in mind that these percentages were no more than 14% of the total number of the Fund's loans and just 15% of the value of the loans provided by the Fund before the said resolution.

The Forum Objectives:

- Encouraging industrial investment in the promising regions in accordance with its essential role in the creation of job opportunities for local citizens; its contribution towards achieving balanced development, and utilization of the resources and opportunities available.
- Developing a framework for a national strategy that specifies the required objectives; designs the polices needed to implement these objectives and identifies opportunities available for industrial development of the promising regions.
- Highlighting the incentives and facilities provided to potential investors and examining methods of linking industrial activity in the promising regions with basic industrial activities in the Kingdom.
- Benefiting from international expertise in the industrial development of the promising regions.

The forum sessions focused on a number of topics including ways and means; policies, objectives and requirements of the industrial development of these promising regions, and the role the private sector is encouraged to play in regional industrial development. The forum identified the industrial investment opportunities available in a number of the promising regions, citing some success stories of certain industrial projects in various locations. Additionally, the challenges that are facing investors in some of these regions were also showcased; global expertise in regional industrial development was prominent among the various important topics discussed in the forum.

More than 700 distinguished participants representing senior public officials, entrepreneurs and private sector chief executives from the Kingdom and abroad attended the forum, including the 17th President of the Republic of South Korea, Honorable Myung-bak Lee, who was the guest of honor and keynote speaker on the first day's session and who shared his views with the audience on the second.

The papers presented by the speakers and the discussions conducted at the forum reflected the participants' consensus regarding the conclusion that the industrial development of the promising regions is a fundamental part of the overall economic development of these regions. The forum has come up with a number of recommendations aimed to promote the overall economic development of the promising regions and help create the appropriate environment in which industrial investments can flourish. They are as follows:

Recommendations:

1. Developing a well-defined development plan for each promising region, within the framework of the national development plan, specifying the objectives, the projects and the specific, competent agencies that are responsible for implementation of projects. Monitoring the implementation of the plan will be the responsibility of the regions' local departments.
2. Identifying economic clusters (industrial, agricultural, services) in each region based on their most competitive advantage; highest possible value added, the possibility of creating as many job opportunities as possible. The aim is to focus efforts and help boost the development of each region by utilizing its particular advantages.
3. Designing programs to develop the career skills of national manpower available in each promising region in keeping with the type of economic clusters, in addition to improving the mechanisms for financing the cost of training specialized, competent Saudis in the promising regions.
4. Focusing on providing the basic foundations needed for sustainable development in the promising regions, namely, to put in place advanced infrastructure, an adequate health sector, and a modern education sector. As far as infrastructure is concerned, the following should be emphasized:
    - Providing adequate infrastructure for the industrial cities in the promising regions; investigating obstacles to be overcome, and providing the industrial cities with the required services.
    - Industrial cities to be linked with the transport networks, emphasizing the railways for low-cost transport, and continuing efforts to improve roads and airports.
    - Industrial cities and their facilities are to be connected via a network of modern information and communications systems, and factory administrators are to be encouraged to use modern communications technologies.
5. The Chambers of Commerce and Industry in the promising regions are to fully explore the available investment opportunities in their regions, and market such opportunities professionally and systematically, both domestically and internationally, in coordination with the competent authorities.
6. Strengthening the role of individual initiatives and supporting the small and medium enterprises to enable them to participate in the development process in the promising regions.
7. Developing new financing mechanisms to encourage setting up of service projects in the promising regions.
8. State institutions and major companies are to identify and regularly update their input and spare parts' requirements so as to explore the feasibility of local manufacture of these items.
9. Exploring mechanisms whereby preference pertaining to the government contracts executed in the promising regions can be given to the projects and factories operating there.
10. Exploring a flexible mechanism through which to adhere to Saudization rates in relevant investment projects, industrial or non-industrial, located in the promising regions, based on population density and unemployment rates in each region.

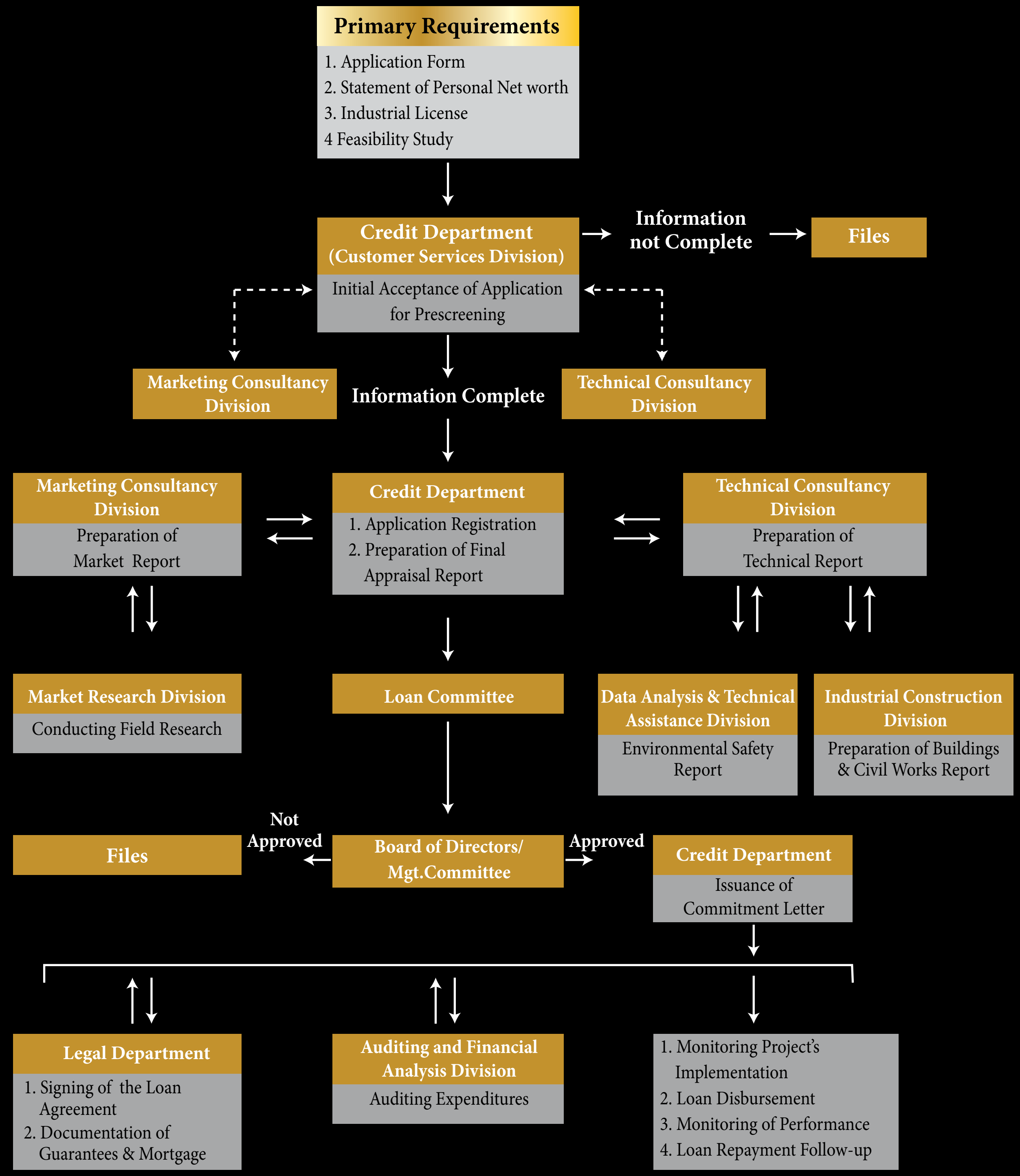
SIDF Loan Application's Cycle

The Fund's management is unceasing in its efforts to extend its lending services to national and foreign industrialists with due speed and efficiency. Therefore, it is constantly developing procedures, guidelines and policies to improve the lending activities of the Fund so as to cater for such requirements and keep pace with the lending schemes of similar financial institution worldwide.

All these efforts are embodied in the adopted Application cycle which is modified from time to time in line with prevailing practices to facilitate the adoption of the latest developments in the fields of administrative organization, financial analysis and technological progress.

The flow chart overleaf shows the Application cycle currently adopted by the Fund; it clearly indicates processing, appraisal, and implementation/ follow-up procedures relating to the projects to be financed. It also presents details of the disbursement of the Fund's commitment to borrowing projects, and the monitoring of loan maturities' repayments by beneficiary borrowers.

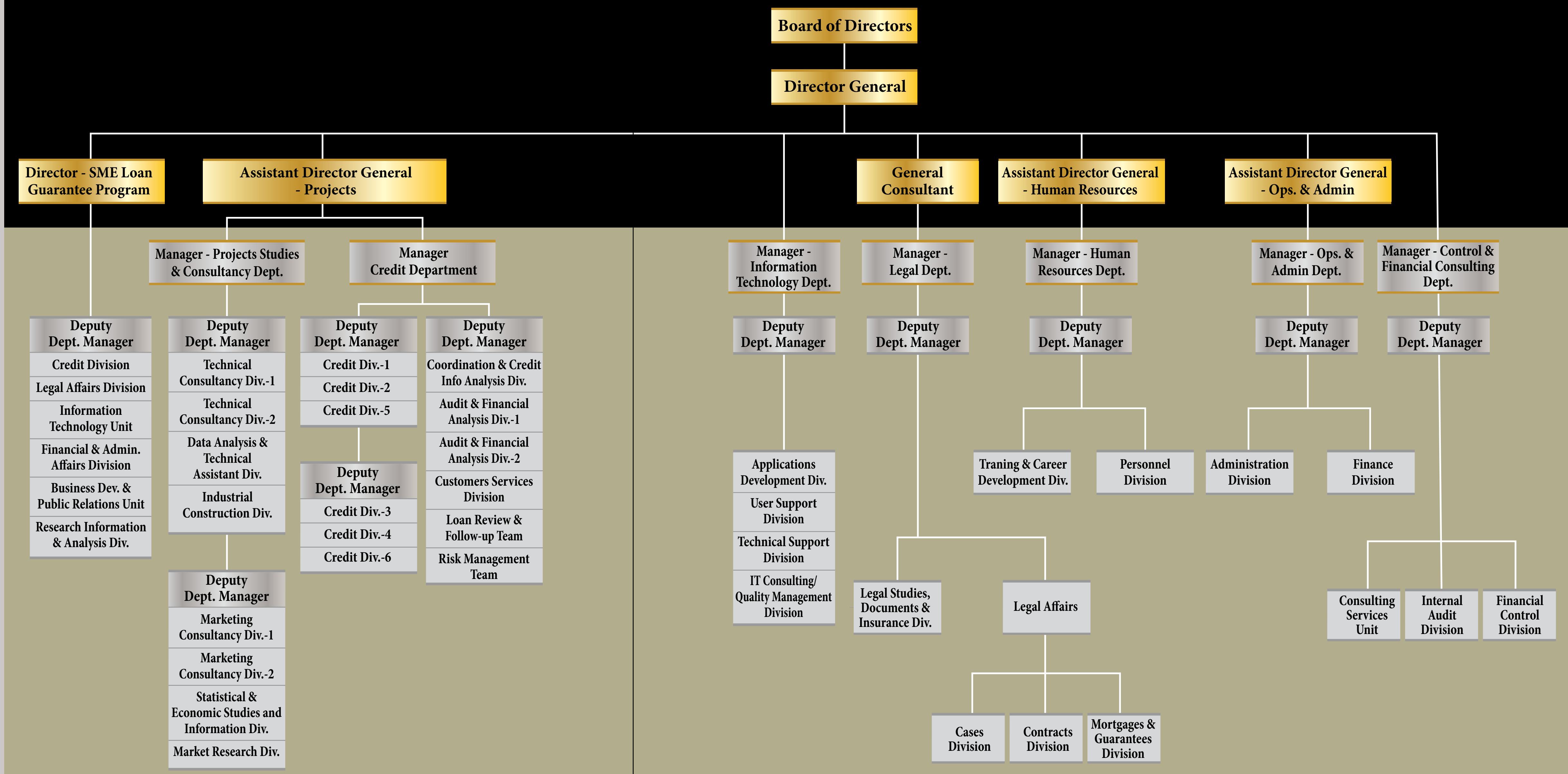
Loan Application's Processing Flow Chart

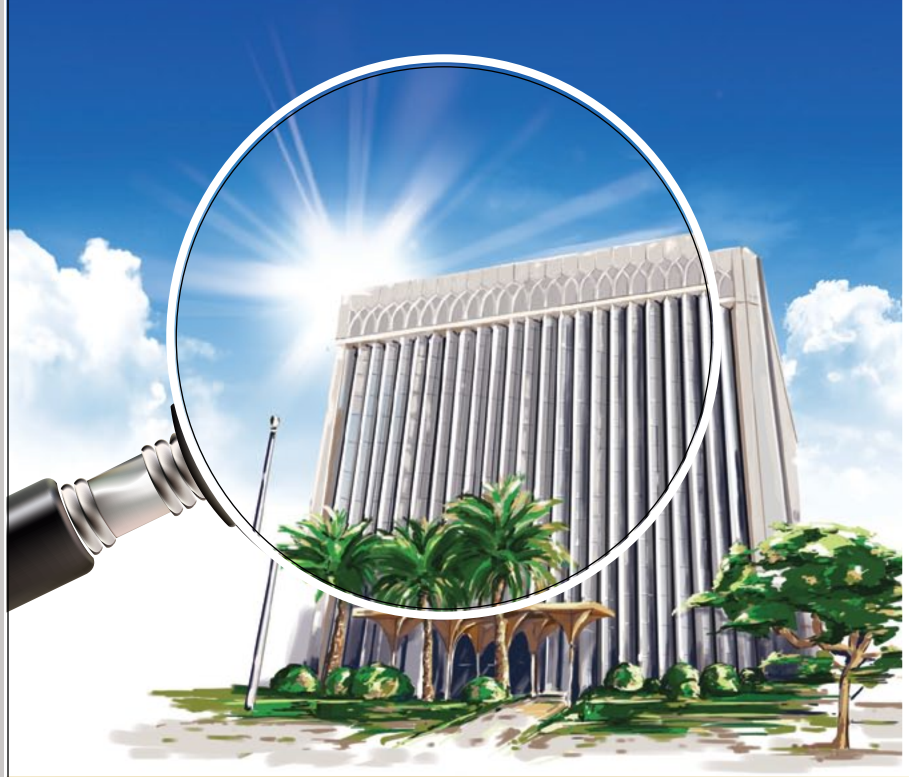


Note:

1. The duration of the project evaluation period is determined by the applicant's cooperation and his prompt submission of essential information.
2. For expansion projects the outlined steps also apply though some may be omitted.

SIDF'S Organization Chart





In Focus:

Small & Medium Enterprises Loan Guarantee Program

Small & Medium Enterprises Loan Guarantee Program

The SMEs Loan Guarantee Program (Kafalah) was established under the Resolution of H.E. Minister of Finance No. (1166) dated 04/05/1425H as a mutual development initiative between the Ministry of Finance and commercial banks. Kafalah aims to cover lending banks' risk to finance SMEs which are potentially viable but unable to provide the guarantees required for obtaining finance. Management of the Program has been entrusted to the Saudi Industrial Development Fund given its long experience and qualified staff in credit and banking fields. The Kafalah guarantees up to 80% of loans extended by financing banks with a maximum of SR 1.6 Million for each activity of an enterprise whereas the maximum total guarantees issued for sole proprietorships and companies are SR 5 Million and SR 10 Million respectively.

Kafalah has many goals including the following:

- Assisting SMEs to obtain Sharia compliant loans to help them to expand and prosper.
- Encouraging financing institutions to grant loans to SME.
- Attracting SME sponsors who do not have experience of dealing with financial institutions.
- Helping SME Sector to develop and grow in order to assume its significant role in the national economy.
- Creating new jobs with minimum capital requirements.
- Promoting less developed regions.

In spite of limited financing sources, Kafalah has surpassed all expectations since its inception nine years ago (1426/1427H) - thanks to the massive efforts of SIDF, Kafalah and partner banks. The number of Guarantees issued by Kafalah exceeded expectations by 31% and the value of guarantees and loans increased by 110% and 218% respectively. Actual rate of default accounted is only 1%, compared to the projected rate of 18%. The Program recently contracted the implementation of an Enterprise Resource Planning (ERP) including a dedicated data center.

The Saudi Government's strong commitment to enhancing SME's contribution to economic growth and partner banks' favourable response has motivated the Program management to improve its performance in line with the growth of the national economy in general and SME sector in particular in order to fulfill its requirements. In this respect, the Program is now involved with an international, specialized consultant to develop its five-year strategic plan including initiatives that help achieve higher growth and reach the break-even point while keeping risks within acceptable levels in conformity with the government development plan, market demands and economic requirements of the sector.

The Fund's management has also been active in attracting qualified nationals and foreign experts to assist in KAFALAH's development. Consequently, the number of Kafalah employees increased from 7 employees in 2006 to 104 employees by the end of 2014 to satisfy business needs and growth. Likewise, the organizational structure of Kafalah has been developed, as shown below:

1- Credit Division

The Credit division evaluates guarantee applications received from financing banks in terms of economic viability, credit worthiness, technical competence and risks. Moreover, the Division holds periodical meetings with the financing banks to maximize effectiveness, monitor bank portfolios and collect guarantee fees. It also makes site visits, together with the banks, to ensure that loans are spent properly.

2- Legal Affairs Division

The Legal Affairs Division provides legal advice to the management, ensures validity of guarantee application documents and completes guarantee issuance procedures after checking security, mortgage and insurance documents. Moreover, the Division follows up default cases and institutes lawsuits to protect the Program interests. It also formulates and reviews contracts and commitments between SIDF/Kafalah and others and follows up any impediment to implementation .

3- Research and Information Analysis Division

The Research and Information Analysis Division registers, processes, saves and periodically updates all data regarding issued guarantees. Moreover, the Division analyzes data to issue periodic statistic reports for the Program activity and its relation with the financing banks and conducts economic and statistic researches and studies related to the national economy and SMEs sector. It also prepares information requested by external relevant parties in line with its nature and duties.

4- Business Development and Public Relations Unit

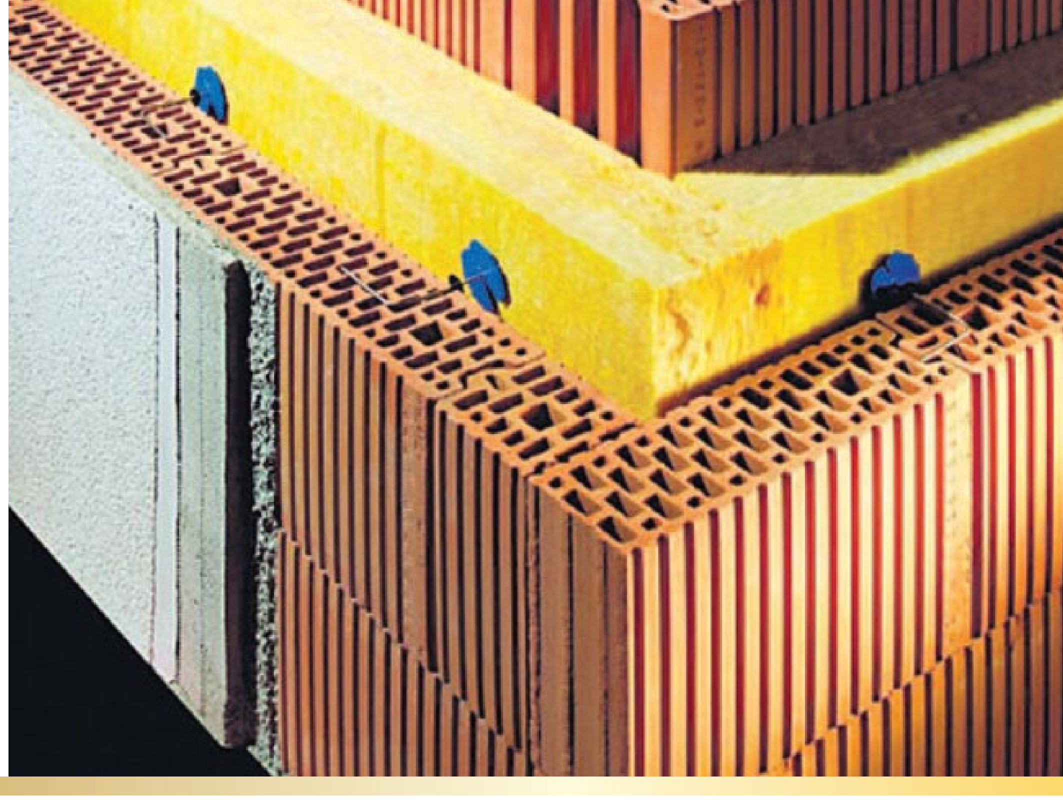
The Business Development and Public Relations Unit provides front end customer service to clients, as well as forming working relationships with banks and related organizations. Moreover, the Unit works with international consultants to establish future business development and growth strategies and organizes Kingdom-wide training courses and educational seminars for young businessmen and women. It also supervises promotional campaigns for the program particularly in promising regions.

5- Information Technology Unit

The Information Technology Unit provides IT services, hardware, software and technical support for the Program staff to enable them to accomplish their tasks effectively.

6- Financial and Administrative Affairs Division

The Financial and Administrative Affairs Division supervises all financial and administrative aspects of Kafalah in accordance with the relevant accounting practices, prepares periodical financial reports and retains guarantee documents. Moreover, the Division provides all supporting admin. services such as maintenance, telecommunications, and transport as well as supervising reception and delivery of purchases to pertinent divisions and units.



Industrial Study:

Thermal Insulation in
The Kingdom of Saudi Arabia

Thermal Insulation in The Kingdom of Saudi Arabia

Product Description

Thermal insulation is the method used to inhibit the transfer of thermal energy from one area to another. Thermal insulation material acts as a barrier to reduce the transfer of heat energy from one material to another by reducing the conduction, convection and/or radiation effects. Thermal insulation materials are, usually, also good electrical insulators.

In the context of a building, thermal insulation is used to help maintain interior temperatures within desirable ranges with the minimum use of heating or cooling. Therefore it is fundamental in achieving the goal of saving energy.

In tropical areas like Saudi Arabia, thermal insulation is mainly used to protect the buildings from excessive heat during peak summer time. It limits the transfer of heat into the building from the outside, and, if properly implemented, can substantially reduce the energy used for air-conditioning.

The thermal insulation materials most commonly encountered in Saudi Arabia are:

- Expanded polystyrene (EPS).
- Extruded polystyrene (XPS).
- Polyurethane (PUR) and Polyisocyanurate (PIR) foam.
- Fiberglass.
- Mineral wool (Rockwool).
- Insulation render.

While the principal purpose of the above materials is to provide thermal insulation, some are selected for additional physical performance properties. For example, mineral wool provides acoustic insulation and fire resistance. Other materials such as perlite (fire resistance), or aerated autoclaved blocks (construction) are frequently selected because, in addition to their primary purpose, they also provide excellent thermal insulation performance.

There is a range of accepted measures of thermal insulation performance, and the measure which has been selected by the Kingdom's standards authority, The Saudi Standards, Metrology and Quality Organization (SASO), is known as "thermal transmittance", or "U-value» (SASO 2865: 2014 Thermal Transmittance Values for Residential Buildings). The unit of U-Value is Watt/m^2 Kelvin, and measures the heat loss per unit of surface area. Therefore, the lower the thermal transmittance, the better the thermal insulation performance of the material.

Among the materials which are primarily used for thermal insulation, polyurethane provides the lowest thermal transmittance, or U-Value, and is often selected in applications where space is at a premium. However, polyurethane is relatively costly, and therefore, for standard building applications in the Kingdom, polystyrene tends to be favoured due to its low density and cost. In industrial applications, mineral wool is often selected due to superior fire resistance properties, while fiberglass – which is very flexible and easily shaped, is preferred for the lining of pipes and air-conditioning ducts.

Market Overview

Saudi Arabia is the fastest growing consumer of electricity in the Middle East. During the past decade, the Kingdom's consumption of electricity increased from 144,385 Gigawatt Hours (GWh) in 2004 to 256,879 GWh in 2013. About 80% of electricity consumed was in buildings, and, of this, approximately 70% was used for air conditioning. The Saudi Electricity Company (SEC) estimates that with more than 1.5 million new homes needed to keep pace with population growth, domestic energy demand is anticipated to double by 2030G.

Up until 2013, the use of thermal insulation in the Kingdom tended to be confined to a limited number of commercial and institutional buildings in addition to government buildings. In residential buildings thermal insulation was mainly installed in roofs.

Over the last decade, the SEC has promoted the use of thermal insulation via a range of media channels. It has also introduced a pricing mechanism which links the price per kilowatt-hour to the rate of consumption increase. However, these actions have not significantly tempered the growth in power consumption which continues at an annual pace of 7%.

On 22/9/1431H, the Royal Decree #6927 was issued, stipulating the mandatory use of thermal insulation in all new residential and commercial buildings. The Royal Decree applies to all buildings for which municipal building permits were issued on or after 1/2/1435H. The mandatory thermal insulation program is coordinated by the Insulation Committee of the Saudi Center for Energy Efficiency, and is chaired by HE Prince Abdulaziz bin Salman. SASO and the SEC are represented on this committee.

On 09/08/1435, SASO issued its Thermal Insulation Material Standards for Residential Buildings, with a directive that they will have official effect in six months from the date of issue.

SASO has established standards for the following 9 non-structural insulation materials to be used in residential buildings:

1. Polyurethane/iso-cyanurate foam & board	4. Loose vermiculite	7. Expanded polystyrene
2. Mineral (rock) wool	5. Cellular glass	8. Extruded polystyrene
3. Loose perlite	6. Rendering mortar	9. Rigid cellular phenol

SASO and SEC have emphasized that the above list is not prescriptive, and that alternative insulation materials may be used provided that they achieve the specified insulation performance.

SASO have divided the Kingdom into three zones based on the prevailing climate conditions, and have established the following insulation performance requirements as follows:

Part of the Building	U-Value (W/m^{2}K)		
	Zone 1	Zone 2	Zone 3
Roof	0.20	0.24	0.27
Wall	0.34	0.40	0.45
Doors and Windows	2.84	2.84	2.84

- Zone 1 includes: Riyadh, Makkah (excl. Taif), Eastern Province, Al Madinah, Najran, Jazan, Bisha.
- Zone 2 includes: Qassim, Hail, Tabuk, Al-Jouf (Excluding Qurayyat) the Northern Borders (excl Turaif), Asir (excl. Abha, KhamisMushayt, and Bisha), Taif, Baha.
- Zone 3 includes: Abha, Khamis Mushayt, Qurayyat and Turaif.

As indicated in the previous table, insulation is confined to roofs, walls, doors and windows. Pipe, air ducts and flooring insulation are exempted but, according to SASO, standards are planned to be issued in a future circular. Existing buildings are also exempted, unless they are being refurbished. Building extensions are not exempted.

The SEC is the official supervisor of the thermal insulation program through its newly formed mandatory thermal insulation unit. SEC policy is to refuse to connect electricity to any building unless it is properly thermal insulated according to the standards issued by SASO. Initially, this will apply to residential buildings in the following cities:

The following 24 cities and towns have been selected:

Administration Region	Names of Towns Selected for Mandatory Thermal Insulation	No. of Towns
Riyadh	Riyadh & Al-Kharj	2
Makkah	Makkah Al-Mukaramah, Jeddah &Taif	3
Madinah	Madinah Al-Munawarah& Yanbu	2
Qassim	Burayadh & Onaizah	2
Eastern Region	Dammam, Dharan, Khobar, Qatif, Ahssa & Hafr Al-Batin	6
Asir	Abha & Khamis Mushait	2
Tabuk	Tabuk	1
Hail	Hail	1
Jizan	Jizan	1
Najran	Najran	1
Baha	Baha	1
Jouf	Skaka	1
Northern Frontier	Arar	1
Total		**24**

According to SEC statistics, the above 24 cities consumed about 82% of electricity sold in 2013. SEC has invested in a network program with the municipalities, which facilitates online flow of the building permits information to SEC. They have engaged a large team of inspectors equipped with advanced thermal insulation testing equipment. Once the building permit information is received by SEC, the program communicates with the building's owner and contractor to arrange for regular field visits throughout the construction phase to ensure compliance with insulation standards.

Supply / Demand

SIDF has examined the supply and demand of the main non-structural thermal insulation materials used in the Kingdom. SIDF has also reviewed the supply and demand of Aerated Autoclaved Blocks (AAC), which is the major structural insulation material used in the Kingdom.

The following table shows the supply and demand of thermal insulation materials during the past three years:

KSA Thermal Insulation Demand 2011-2013

Product	No. of Factories	Description	2011	2012	2013	CAGR
Polystyrene (EPS)	20	Total Sales	23,237	23,399	26,213	6.2%
(Tons/Year)		Imports	279	231	724	
		Exports	325	56	410	
		Demand	**23,191**	**23,574**	**26,527**	
		Growth %		1.6%	12.5%	6.9%
Polystyrene (XPS)	7	Total Sales	19,165	21,862	17,709	-3.9%
(Tons/Year)		Imports	1,118	924	2,894	
		Exports	1,630	1,788	1,434	
		Demand	**18,653**	**20,998**	**19,169**	
		Growth %		12.6%	-8.7%	1.4%
Rockwool	3	Total Sales	24,606	27,710	30,877	12.0%
(Tons/Year)		Imports	8,105	5,388	3,502	
		Exports	11,648	10,276	10,031	
		Demand	**21,063**	**22,822**	**24,348**	
		Growth %		8.4%	6.7%	7.5%
Fiberglass	2	Total Sales	12,716	12,962	12,830	0.4%
(Tons/Year)		Imports	12,326	11,510	14,914	
		Exports	4,928	4,223	3,945	
		Demand	**20,114**	**20,249**	**23,799**	
		Growth %		0.7%	17.5%	8.8%
Polyurethane/ Isocyanurate	5	Total Sales	11,610	12,510	13,560	8.1%
(Tons/Year)		Imports	1,136	3,698	1,836	
		Exports	320	330	340	
		Demand	**12,426**	**15,878**	**15,056**	
		Growth %		27.8%	-5.2%	10.1%
Total Non-Structural Insulation	**37**	**Demand**	**95,447**	**103,521**	**108,899**	
(Tons/Year)		**Growth %**		**8.5%**	**5.2%**	**6.8%**
AAC Blocks and Panels	6	Total Sales	613,607	715,072	740,368	9.8%
(M^3/Year)		Imports	0	0	0	
		Exports	210,549	188,421	193,686	
		Demand	**403,058**	**526,651**	**546,682**	
		Growth %		30.7%	3.8%	16.5%

As indicated in the above table, with the exception of fiberglass, the Kingdom imports small quantities of thermal insulation materials. On the other hand, the Kingdom exports substantial quantities of rock wool and AAC blocks to other GCC and neighboring countries. This indicates that the Kingdom has already reached a high level of self-sufficiency of thermal insulation materials.

It should be noted that most of the major factories that produce thermal insulation materials have been financed by the Saudi Industrial Development Fund (SIDF).

Future Outlook:

The adoption of the mandatory use of thermal insulation is expected to boost the demand for thermal insulation materials. This will enable existing local producers to expand their production facilities and allow new investors to enter the growing market.

The following table shows demand forecast for the major insulation materials of thermal insulation:

Year / Product	MCD Forecast of KSA Thermal Insulation Demand 2014-2018 (tons)							
	2013	2014	2015	2016	2017	2018	CAGR	Density kg/m^3
EPS	26,527	29,180	32,100	35,310	38,840	42,720	10.0%	16
XPS	19,169	21,090	23,200	25,520	28,070	30,880	10.0%	32
Rockwool	24,348	26,780	29,460	32,410	35,650	39,220	10.0%	50
Fiberglass	23,799	25,460	27,240	29,150	31,190	33,370	7.0%	8
PUR/PIR	15,056	15,960	16,920	17,940	19,020	20,160	6.0%	35
Total Non-Structural Thermal Insulation	**108,899**	**118,470**	**128,920**	**140,330**	**152,770**	**166,350**	**9.0%**	
AAC Blocks (m^3/year)	546,682	594,240	645,940	702,140	763,230	829,630	9%	550

As indicated in the above table, demand for thermal insulation materials is expected to grow at 6 to 10% annually during the next four years in accordance with the implementation of mandatory thermal insulation regulations in residential buildings. The market is expected to witness strong competition among the various different thermal insulation products depending on their technical merits and prices. SIDF will continue to support the thermal insulation industry depending on the product in question and market conditions.

Subject Under Scrutiny:

The Future of KSA Industrial Cities

The Future of KSA Industrial Cities

Introduction:

The remarkable development of the Kingdom's industrial sector and its increased contribution to the national economy, particularly over the past decade, attests to the government's estimation of the sector as a strategic option to diversify income sources. In keeping with the importance of this ongoing industrial sector development, a need arises for the setting up of more advanced industrial cities to cater for the sector's further growth and efficiency. The need for more modern industrial cities has been affirmed in recent years by the government's directives to localize new factories in industrial cities, a move supported by the current implementation of plans to assign more locations to the development of industrial enterprises.

The Concept of Industrial Cities as Special Economic Zones (SEZs) Worldwide:

Industrial cities are considered as one of the most important forms of SEZs. Although, some primitive forms of industrial areas were found in ancient times that could be described as SEZs, the modern concept of SEZs first came into existence in 1959 when the first free trade zone was established in the Shannon Industrial Zone of the Republic of Ireland. Over the subsequent decades, different forms of SEZs have been established for various purposes.

An "SEZ" is defined as a dedicated area with well-defined geographical boarders in a country, regulated and controlled by a governmental agency, in which investors are provided with specific preferential incentives not available elsewhere within the same country. The table below shows the main types of SEZs common worldwide.

Main types of SEZs worldwide

Type of SEZs	Development Objectives	Target Markets
Free Trade Zone	Supporting trade	Domestic / Re-export
Traditional Export Processing Zone	Enhancing export-based industries	Export Markets
Hybrid Export Processing Zone	Developing the manufacturing sector in general, including export industries	Domestic / Export Markets
Free Ports	Enhancing integrated development	Domestic / Export Markets
Enterprise Zone	Revitalizing urban areas	Domestic markets

Source: Special Economic Zones: Performance, Lessons learned, and Implications for Zone Development, FIAS, 2008.

The importance of industrial cities:

Global and domestic experiences have asserted the success of "industrial cities" as an effective mechanism to enhance industrial investment, especially with respect to strategic industries. Establishing and developing industrial cities is a significant and effective industrial policy towards the development of the manufacturing sector and increasing its investment. Closely regulated and monitored, industrial cities provide an ideal location for carrying out manufacturing activities so as to achieve national industrial objectives, and eventually contribute to the overall development of the economy. Industrial cities, in principle, have two types of economic benefits as outlined below:

- Static benefits, which are straightforward and measurable, e.g.,
  - Direct employment creation and income generation.
  - Diversification of national income sources.
  - Development of export growth and diversification.
  - Increase in foreign exchange earnings.
  - Promotion of domestic investment and attraction of foreign direct investment (FDI).
  - Increase in government revenues (fees, taxes…etc.).
- Dynamic benefits, which are more complex to measure but have wider-ranging economic effects in the long-term, e.g.,
  - Indirect employment creation.
  - Skills upgrading of National labor.
  - Promotion of backward/forward linkages among industries located in one area.
  - Increase in female job opportunities.
  - Technology transfer.
  - Contribution to better coordination and cooperation among the industrial investors themselves and with government agencies, regarding investors' needs, services, and other industrial regulations.
  - Encouragement of simulation of enterprises which have successfully been implemented following the best business practices, thereby enhancing innovation and development.
  - Expansion of balanced regional development.

Industrial cities in the Kingdom:

Hybrid industrial zones are now prominent in the Kingdom. Examples are Jubail and Yanbu industrial cities and others owned by the Saudi Industrial Property Authority (MODON). The purpose of such industrial cities is to boost for the development of the Kingdom's industrialization in general to satisfy local demands and encourage industrial exports. The Kingdom has now had over four decades of experience in establishing industrial cities, a far-sighted development in line with the global trend in the of allocation of specific locations towards industrial enterprises.

In the Kingdom, existing operational factories are located on either State-owned or privately-owned lands. Most of the factories, particularly the strategically important ones, are located on lands administered and supervised by government agencies, notably the Royal Commission for Jubail and Yanbu, MODON, and regional municipalities, besides many other industrial investments located on private lands, either owned or leased by investors. Moreover, "The Economic Cities Authority" (ECA), has recently emerged and is assuming an increasingly important role in providing developed lands for industrial development.

Government incentives to industrial investors:

The Government provides many incentives to industrial investors to promote industrial investment generally. The most important include:

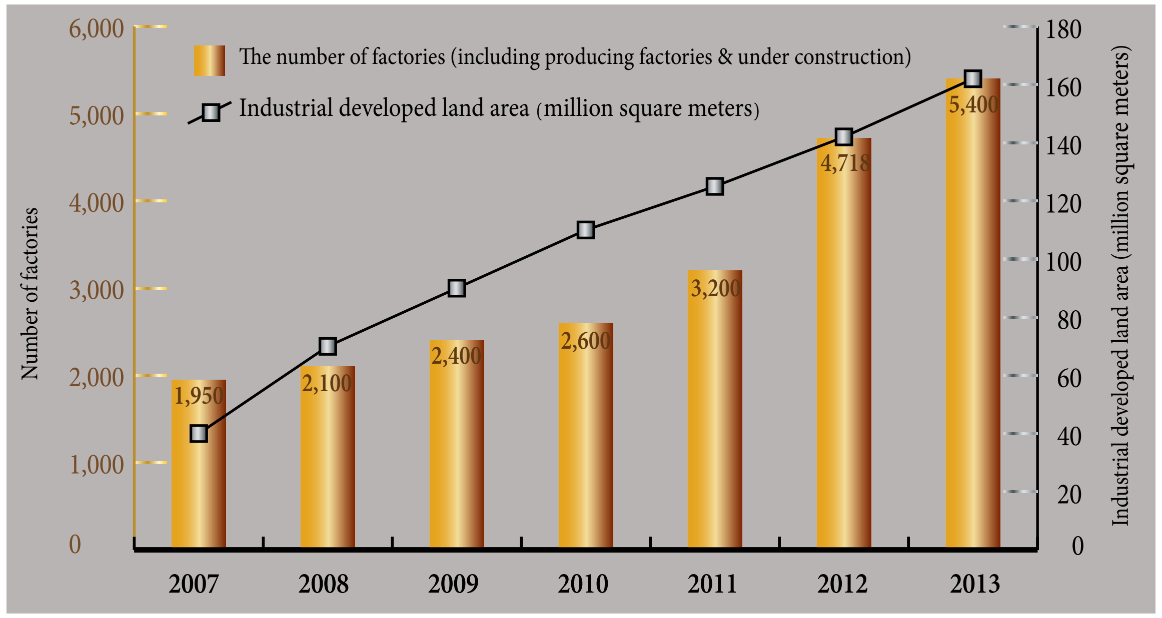
- Exemption of raw and semi-manufactured materials, e.g., bags, boxes and rolls, used for industrial packaging, from customs duties, provided that there are no substitutes for such materials in the Kingdom.
- Exemption of products intended for export from export duties and other levies pursuant to specific rules.
- Utilization of the Gulf Cooperation Council (GCC)'s Common Customs Law which allows movement of locally manufactured products freely among the GCC member countries.
- Offering very generous tax incentives to foreign investors, especially in the promising regions.
- Access to government loans which may finance, in certain cases, up to 75% of the cost of projects located in the promising regions and cities.
- Utilization of Human Resources Fund's programs in support of employment of competent Saudis.
- Utilization of the Saudi Export Program which facilitates the promotion of industrial exports.

Moreover, the Government, through MODON, provides many additional attractive incentives for industrial investors to set up industrial projects in industrial cities. Such incentives include:

- The offer of industrial locations at affordable prices.
- Opportunities for investment in non-industrial activities such as commercial, residential, logistics services and technology.
- Proximity of the industrial cities to the local and international markets.
- Provision of integrated infrastructure for and ongoing development of, the services provided, including roads, water and electricity networks; advanced communications networks; industrial security; government services, and commercial and residential complexes.
- Offer of investment opportunities to the private sector for development and operation of services in the industrial cities through the public-private partnership (PPP) system.

These incentives have proved successful in expanding considerably the Kingdom's industrial production base by doubling the number of industrial cities owned by MODON, from only 14 industrial cities in 2007 to 32 industrial cities in 2013. The locations of the developed industrial lands increased from 40 million square meters in 2007 to approximately 163 million square meters in 2013, with an annual growth rate of 43%, which has contributed to the increase in the number of factories in the industrial cities: from about 1,950 factories in 2007 to about 5,400 factories in 2013. According to MODON, by the end of 2013, total investment in factories located in the industrial cities exceeded SR 250 billion, and employing more than 300,000 workers.

Progress in Number of Factories and Developed Areas in the Industrial Cities



Source: MODON 2013 Annual Report

Future prospects for the Kingdom's industrial cities:

It seems certain that the future prospects for industrial development in the Kingdom depend, to an ever-increasing extent on the availability of industrial cities in the years ahead. This factor can be attributed to the following causes:

- The manufacturing sector in the Kingdom has achieved a strong annual growth rate over the past five years, averaging 8%, at constant prices. As such, it is one of the fastest growing producing sectors in the Saudi economy, giving rise to expectations that demand for industrial locations will grow substantially over the years to come.
- All new factories must legally be located in dedicated industrial investment areas in compliance with the Council of Minsters' resolution of year 1434H (2013), which should result in an increasing demand for MODON's developed industrial lands.
- To cater for the expected higher demand for industrial lands in the future, MODON has already embarked an expansion plan to increase the number of industrial cities from 32 to 40 by the end of 2016. In this context, the demand for industrial lands has grown at an average rate of 35% over the period of 2008 – 2013.
- Private investment in setting up industrial cities has recently appeared more attractive: recently, seven industrial cities owned by the private sector and supervised by MODON, have been established. These private industrial cities will undoubtedly contribute to satisfying much of the growing demand for MODON's industrial sites.
- There is growing concern at government level in the Kingdom over the urgent need to minimize environmental pollution risks related to industrial activity, especially with respect to factories operating outside the industrial cities due to their proximity to residential neighborhoods. However, there is undeniable evidence that the pollution risks emanating from factories in the industrial cities is less harmful because of the implementation of stricter regulations on the use of power and rigorous monitoring of the industrial waste disposal. In this regard, the Council of Ministers has ordered the formation of ad hoc committees to study the status of those factories operating outside the dedicated industrial areas; how to address their specific situation, and even to explore the possibility of relocating them to dedicated industrial areas.

- The Saudi Arabian General Investment Authority (SAGIA) stipulates that the establishment of light industrial projects proposed by foreign investors should only take place in an economic or industrial city.

SIDF's role in supporting the Kingdom's industrial cities:

SIDF plays an active role in supporting and developing industrial cities through provision of loans to private industrial projects and lending incentives to the promising regions and cities. In addition to financing private industrial projects, SIDF grants loans to the following:

A- Projects relating to logistics and industrial support services located inside the industrial cities:

To satisfy the industrial sector's need for services projects, SIDF extends loans to finance industrial logistics and support services to create integrated services industrial zones catering for the growing demands of industrial investors for an appropriate and attractive environment. These loans promote local manufacturers' competitiveness and finance the provision of services to the Kingdom's industry generally and the industrial cities specifically. Such industrial support services include industrial logistics; district cooling systems; model factories; training centers, and housing projects in the industrial cities. All such services are subject to the provision that they should be located inside MODON's industrial cities and are licensed by MODON. Industrial logistics include warehouses, handling equipment, and transportation systems within the industrial cities. In addition, the SIDF's financing of logistics include the following:

- Natural gas distribution projects in the industrial cities.
- Water desalination and sewage treatment projects that serve the industrial cities.
- Chemical, industrial and medical waste treatment projects.
- Food and drug sterilization projects.
- Mobile seawater desalination projects (barges).

SIDF loans to industrial logistics and support services are subject to SIDF's established lending terms, the most important of which are submission of an updated feasibility study for the project; evidence that the project is commercially viable and owned by the private sector. The project is also subject to the same policies, procedures and evaluation as those pertaining to other industrial projects. In line with the Government's policy of supporting development of the promising regions, SIDF's incentives to support projects located in these regions and cities can also be utilized by investors to finance industrial logistics and support services projects located inside industrial cities in the promising regions.

B- Infrastructure development in industrial cities:

In order to encourage the private sector to invest in the development and setting up of model industrial cities, the Fund's Board of Directors has approved a SR 1 billion program to finance development of the infrastructure in the industrial cities owned by MODON as well as those in the private sector, based on the following criteria:

- Licenses to be obtained from MODON and the Electricity and Co-generation Regulatory Authority (ECRA) for the development of the industrial cities' lands.
- SIDF finances up to 50% of the total infrastructure development costs.
- SIDF finances up to 50% of the purchase price of the land, at no more than 100 riyals per square meter.
- SIDF grants loans to finance development of the infrastructure of the industrial cities. These are limited to the private sector's developers and not to the regulatory agencies, namely MODON or ECRA.
- Disbursement of approved loans shall be effected on the basis of the committed actual costs incurred by the developers.
- Standard requirements and procedures governing SIDF loans reserved for industrial projects must be met/followed by developers of industrial infrastructure, with reference to SIDF's lending policies, guarantees, disbursement procedures, conditions and covenants.
- Loan maturity schedule shall extend over a maximum 10-year term with a grace period of up to 5 years, in accordance with project study and appraisal.

The private sector has responded promptly and favourably to SIDF's new lending incentives. Despite the fact that such loan incentives were launched only 3 years ago, the number of loans approved by the Fund for infrastructure development as well as, logistics and industrial support services located in the industrial cities, totaled 19, worth more than SR 859 million, granted to finance projects at estimated cost of approximately SR 2.35 billion and distributed to relevant regions Kingdom-wide. It is worth noting that the support policy for infrastructure and industrial support services is among the main provisions of National Industrial Strategy (NIS), in which SIDF has been accorded a critical role in ensuring their implementation.

Although SIDF stipulates no pre-conditions governing SIDF financed projects to be established inside the industrial cities, it prefers to finance factories set up under the umbrella of the industrial cities where means of support and organization are already in place, so as to ensure greater opportunities for the success of projects. The following are some of the main enterprises benefiting from the Fund's support for a range of industrial cities, namely, the Sudair City for Industry and Business; Al-Kharj Industrial City, and Jeddah Second Industrial City. These cities are among the most recently established with promising potential for industry in the Kingdom.

Sudair City for Industry and Business:

Sudair City for Industry and Business is one of the largest industrial cities, established over a total area of 265 million square meters. Its infrastructure works were initiated in 1430H, and its developed area at present totals approximately 16.8 million square meters, of which about 3.6 million square meters were leased. Of the total leased area 96% is allocated to industrial activities, whereas other investment activities and residential accommodation account for the balance of 4%. Furthermore, an area of 4 million square meters is currently under development.

The industrial projects and logistics services located in Sudair City for Industry and Business benefit from SIDF's lending incentives, including the financing of up to 60% of the project's cost and extended repayment term of up to 20 years. Despite having been only recently established, Sudair Industrial City received SIDF loans amounting to more than SR346 million extended for the financing of 18 industrial projects, with total investments of more than SR 910 millions, by the end of 2014. Of the total amount of loans extended by SIDF, the chemical industries received the lion's share: a total of 7 loans, followed by the engineering industries, which received 5 loans; building materials industries 3 loans; consumer industries 2 loans, and finally one loan to other industrial sectors.

The Sudair City for Industry and Business is commonly regarded as a promising industrial city as it is located in the second-largest area of industrial lands with the possibility of investing in almost all types of industrial activities, including dedicated sites for special industrial clusters. In addition, there are potential investment opportunities in other industrial support services such as hotels; residential accommodation for workers and employees; commercial markets, and recreational centers. Moreover, Sudiar Industrial City enjoys SIDF loan incentives including the financing of logistics services. Furthermore, Sudair City is characterized by its unique geographical location in the center of Riyadh and the Qassim region, thus benefiting from cheap access to the two regions' markets and attracting further investments to Riyadh. In addition, the ongoing railway project, which would actually bypass the area, is considered one of the most important for the competitiveness of the factories located there.

Al-Kharj Industrial City:

Al-Kharj Industrial City was established in 1430H. It is located in a total area of about 100 million square meters, making it one of the largest big industrial cities. Despite its recent establishment, the city contains a variety of industrial investments and is continuously attracting more. This is reflected in its comparatively high land utilization rate: 34% of its total developed areas currently estimated at 12.6 million square meters. Industrial projects located in the city occupy about 99% of the total utilized area, and an additional area of about 5 million square meters is currently under development.

Similar to Sudair City for Industry and Business, Al-Kharj Industrial City is entitled to the same SIDF lending incentives, including loans to finance up to 60% of the total of a project's cost, and a repayment period of up to 20 years. Up to the end of the year 2014G, SIDF financed 33 factories located in Al-Kharj Industrial City, with loan amount exceeding SR 955 million, and total value of investments of more than SR 2,567 million. Most of the loans (13 loans) went towards financing chemical industries, followed by 9 loans to the consumer industries; 5 loans to the engineering industries; 4 loans to the building materials industries, and, finally 2 loans to other industrial sectors.

The proximity of Al-Kharj to Riyadh is considered as the most important factor behind the prosperity of Al-Kharj Industrial City. Furthermore, its growing importance arises from its being the only industrial city located in the Southern part of the Riyadh region, and is expected to remain the largest industrial city even after the future setting up of additional cities in the region. Although not yet utilized, many non-industrial investment opportunities in Al-Kharj Industrial City are readily available to be exploited by investors, particularly the SIDF's lending incentives for the promising regions which are also applicable to Al-Kharj Industrial City, including the financing of logistics and industrial support services.

Jeddah Second Industrial City (Jeddah 2nd):

The Second Industrial City in Jeddah was established in 1429H extending over a total, fully- developed area of 8 million square meters, to satisfy the growing demand for industrial lands in Jeddah due to the non-availability of vacant sites in Jeddah First Industrial City. About 39% of Jeddah Second Industrial City's lands are utilized, of which 86% is occupied by industrial enterprises, while other investment activities and residential accommodation account for 11% and 3%, respectively.

SIDF's loans granted for the setting up of industrial projects in Jeddah 2nd industrial city totaled 11, valued at SR 218.5 million, with total investments of more than SR 547 million, distributed among chemical industries which won the lion's share (6 loans), engineering industries (2 loans), and the consumer industries (1 loan).

As for loans extended to logistics and services projects, SIDF granted 2 loans to finance workers accommodation projects, amounting to SR 74.6 million, with total investments exceeding SR 168.8 million.

The favourable prospects and future of the Jeddah Second Industrial City arise principally from Jeddah's strategic importance as an industrial and economic hub in the Kingdom, being located very near the main city of Jeddah to which it is connected by a highway, facilitating movements of products and manpower. As stated above, all lands of Jeddah 2nd are fully developed and stand ready for investments, especially for non-industrial activities that can utilize about 60% of unoccupied lands.

Challenges facing the industrial cities:

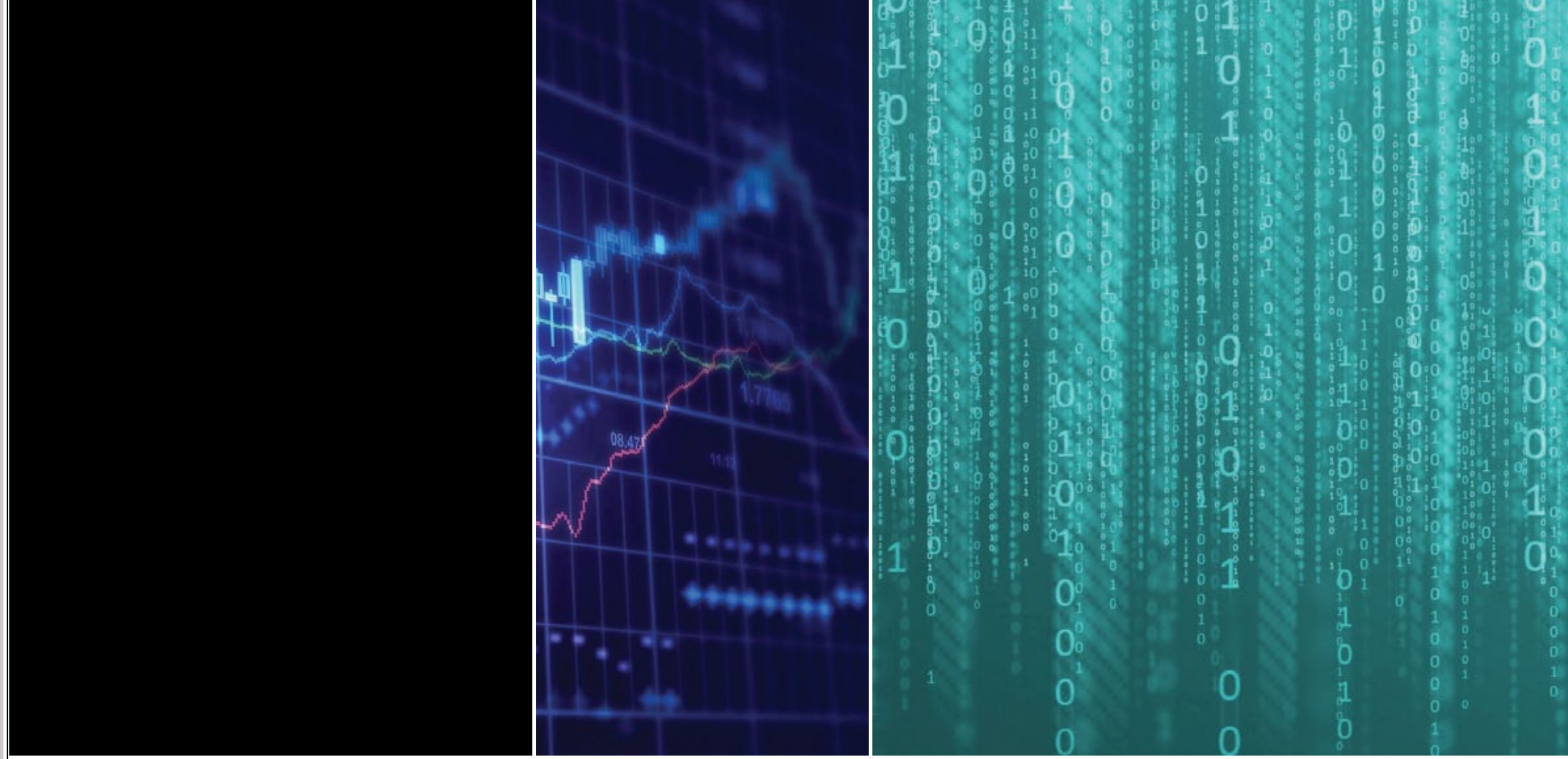
Despite the growing evidence of benefits and incentives provided for investment in establishing new industrial cities, there are some challenges that need to be faced. For example, it is essential that efforts be continuously sustained to improve the quality of the industrial lands; to develop the support services provided; to provide additional incentives to attract both local and foreign additional industrial investments, and to encourage industrial projects located outside industrial areas to move to the industrial cities. Other challenges include the need for a prompt response to the growing demand for new industrial lands, especially in the regions and cities experiencing rapid and more extensive industrial growth. Moreover, closer attention should be paid to the limited availability of utilities such as electricity, gas and water supplies in some industrial cities.

Furthermore, a detailed and updated database covering manufacturing projects within industrial cities should be provided. This database would facilitate performance assessment of industrial projects to help identify accurately the projects' contribution to the country's overall GDP; and to specify the problems faced and explore possible remedies. Such a database will require regular updating to provide full and detailed information about industrial activity, production, water and energy consumption, and manpower (Saudi and non-Saudi). It is essential for appropriate decision-making; the improvement of production efficiency of operating factories while increasing their contribution to the industrial development process in the Kingdom.

Conclusion:

The Kingdom's experience confirms that the setting up of industrial cities is a prerequisite for successful industrial development. This is evidenced by the fact that the Kingdom's most efficient and strategically important factories are located in industrial cities. Recently, the creation of new industrial cities is gaining increasing importance, as it is widely believed that the industrial development process and the success of new industrial projects will depend on the availability of developed industrial cities that have integrated industrial support services.

The Government's efforts exerted in this area include the provision of huge areas of developed lands for industrial use with the object of attracting a number of reputable international companies, such as Siemens and Isuzu, to invest in the Kingdom. Moreover, additional tracts of industrial lands are expected to be developed in the promising regions in the near future as plans have already been designed to increase the number of industrial lands in these regions. Currently, 22 industrial cities have already been established in the promising regions and cities, representing 69% of the total number of industrial cities existing in the Kingdom: a total of 32. This situation will certainly enable the Fund to carry out its effective lending role more effectively in these promising regions.



SIDF Lending Activity Charts:

Table - 1
Table showing number of newly-approved SIDF industrial projects by minor sector

Sector	1435/1436H (2014 G)	Cumulative Total
Consumer Products	**24**	**730**
Food	13	348
Beverages	3	73
Textiles	0	73
Leather & substitutes	0	24
Carpentry products	3	20
Wooden furniture	3	58
Paper products	2	97
Printing	0	37
Chemical Products	**39**	**677**
Chemicals	14	315
Oil & gas products	2	38
Rubber Products	0	20
Plastic Products	23	304
Building Materials	**23**	**442**
Ceramic Products	0	14
Glass Products	3	68
Other Building Material	20	360
Cement	**0**	**33**
Engineered Products	**29**	**766**
Metal Products	21	471
Machinery	2	92
Electrical Equipment	3	141
Transport Equipment	3	62
Other Manufacturing	**10**	**69**
Total	**125**	**2,717***

* of which (531) loans were terminated.

Table - 2
Table showing value of approved SIDF industrial loans by minor sector (SR millions)

Sector	1435/1436H (2014 G)	Cumulative Total
Consumer Products	**1,026**	**20,129**
Food	499	10,981
Beverages	107	2,184
Textiles	5	2,415
Leather & substitutes	0	133
Carpentry products	55	272
Wooden furniture	27	414
Paper products	333	3,503
Printing	0	227
Chemical Products	**1,515**	**45,443**
Chemicals	1,190	35,431
Oil & gas products	9	3,398
Rubber Products	0	804
Plastic Products	316	5,810
Building Materials	**422**	**12,599**
Ceramic Products	18	1,787
Glass Products	116	3,632
Other Building Material	288	7,180
Cement	**88**	**11,603**
Engineered Products	**806**	**23,367**
Metal Products	706	17,837
Machinery	23	936
Electrical Equipment	57	3,316
Transport Equipment	20	1,278
Other Manufacturing	**2,035**	**4,846**
Total	**5,892***	**117,987****

* Approved for financing 125 new projects and expanding 20 existing ones.
* * of which SR (17,439) million were terminated or reduced.

Table 3
Table Showing Number of Newly Approved SIDF Industrial Projects by Province

Province	1435/1436H (2014 G)	Cumulative Total
Riyadh	45	972
Makkah	20	643
Madinah	13	121
Qassim	6	69
Eastern Province	19	732
Asir	3	48
Tabouk	1	12
Hail	3	29
Jizan	5	27
Najran	4	22
Al-Baha	1	10
Al-Jouf	2	23
Northern Frontier	3	9
Total	**125**	**2,717***

* of which (531) loans were terminated.

Table 4
Table Showing Value of Approved SIDF Industrial Loans by Province (SR Millions)

Province	1435/1436H (2014 G)	Cumulative Total
Riyadh	893	22,953
Makkah	2,071	21,863
Madinah	392	12,586
Qassim	54	1,517
Eastern Province	1,921	50,378
Asir	18	1,058
Tabouk	21	557
Hail	322	1,556
Jizan	121	2,958
Najran	23	1,170
Al-Baha	9	37
Al-Jouf	14	337
Northern Frontier	33	1,017
Total	**5,892***	**117,987****

* Approved for financing 125 new projects and expanding 20 existing ones.
* * of which SR (17,439) million were terminated or reduced.

Saudi Industrial Development Fund
P.O. Box 4143, Riyadh 11149
Kingdom of Saudi Arabia
Tel: 00966 11 4774002 - Fax: 00966 11 4790165
E-mail: PR@sidf.gov.sa
website: www.sidf.gov.sa

Annual Report 1435/1436H
Legal Deposit No. 16/3419
ISSN: 1319-5530

2014

Annual Report for the Fiscal Year 1435 1436 H

www.sidf.gov.sa