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

His Royal Highness
Crown Prince Sultan
Bin Abdulaziz Al-Saud
The Deputy Premier
Minister of Defense & Aviation
& Inspector General

Foreword by

H.E. The Minister of Finance

I am pleased to introduce the annual report of the Saudi Industrial Development Fund for the fiscal year 1425/1426H (2005G). The report provides details of the impressive achievements accomplished during the year.

From its inception in Safar 1394H (1974G) to the end of the fiscal year 1425/1426H (2005G), the Fund has approved 2731 industrial loans with commitments totaling SR 51,973 million. Actual disbursements under such loan commitments aggregated to SR 35,206 million. These loans contributed to the building of 1942 industrial projects throughout the Kingdom. Investors benefiting from these loans have repaid SR 25,361 million. The Fund, in turn, has committed these repayment amounts in loans to many other new projects.

It is noteworthy that in the course of the year covered by the report, a number of important incidents occurred, chief among which were: the approval by the Custodian of the Two Holy Mosques of an increase in the Fund's capital from SR 7 billion to SR 20 billion as of the beginning of the current fiscal year 1426/1427H (2006G); the Kingdom's joining the World Trade Organization (WTO), and the finalization of the procedures of the Small and Medium Enterprises Loan Guarantee Program, with effect from the beginning of the year 1426/1427H (2006G). These developments present a number of opportunities and challenges to the national economy as a whole and to the industrial sector in particular. I feel confident that the Fund's Board of Directors and executive management are fully aware of current requirements, and are capable of coping with such challenges and translating them into achievements which will be a source of pride to the nation and its citizens under the wise guidance of the Custodian of the Two Holy Mosques and his faithful Crown Prince.

Finally, I would like to express my thanks to the Fund's Board of Directors, executive management and all employees for their valuable efforts over the years. I am also confident that by exploiting the adequate resources provided by the government, they will accomplish even more.

May Allah guide our actions.

Ibrahim Bin Abdulaziz Al-Assaf
Minister of Finance

Board of Directors

1. **H.E. Eng. Yousef bin Ibrahim Al-Bassam**
   Vice Chairman and Managing Director,
   SFD and Chairman of the Board, SIDF

2. **Mohammed A. Sindi**
   Assistant Deputy Minister for Industrial
   Affairs, Ministry of Commerce and Industry

3. **Dr. Saleh H. Alawaji**
   Deputy Minister for Electricity Affairs
   Ministry of Water and Electricity

4. **Dr. Abdulrahman A. Al-Hamidy**
   Deputy Governor for Technical Affairs
   Saudi Arabian Monetary Agency

5. **Hassan F. Akeel**
   Assistant Deputy Minister for Finance
   Ministry of Economy and Planning

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Chairman's Statement

It is my pleasure to introduce the annual report of the Fund for the fiscal year 1425/1426H (2005G) which highlights the activities of SIDF since inception up to the said fiscal year.

During the year, the Fund continued its outstanding performance and achieved record figures in this respect with loan commitments totaling SR 3,858 million for the fiscal year 1425/1426H (2005G) - the highest amount ever approved in one year by SIDF since inception - representing an increase of 17% over last fiscal year's commitments. Loans actually disbursed to investors over the year totaled SR 2,156 million i.e., 22% higher than last year's disbursements. Moreover, repayments made by borrowers, during the year, aggregated to SR 1,792 million, an increase of 19% over the amounts repaid during the previous fiscal year.

The number of loans approved for the current fiscal year amounted to 81. They were extended to assist initiation of 43 new industrial projects and expansion of 38 existing ones. This increase in lending by SIDF is a natural response to the growth of investment in the local industrial sector by national as well as foreign investors. It reflects the viability of the Kingdom's investment environment and the confidence and success of investors in the industrial sector. Undoubtedly, the future will present many challenges and opportunities for local and foreign investors in the industrial sector - particularly after the substantial increase of the Fund's capital from SR 7 billion to SR 20 billion and the Kingdom's joining of the World Trade Organization. I am confident that the Fund, with its high-caliber, well-trained national staff as well as its extensive, cumulative experience, is capable of achieving in the years ahead, ever more distinguished results, thereby serving the objectives for which SIDF has been initiated.

Finally, I would like to extend my thanks and appreciation to all SIDF's staff for their dedicated efforts resulting in the remarkable performance during the year. I hope all will continue their commendable efforts so that even better results may be accomplished in the future, under the guidance and support of the Custodian of the Two Holy Mosques and his faithful Crown Prince who render every possible support and care to the Fund as well as to the other government agencies.

May Allah Guide our steps.

Yousef Bin Ibrahim Al-Bassam
Chairman of the Board of Directors

Preface:

Trends and Indicators of the International and Domestic Economy

(1) Review of International Economy 2005-2006G:

After the unprecedented high global economic growth rate of 5.1% in 2004, growth was projected to decelerate to 4.3% in 2005 and 2006 due to the adverse impact of high oil prices. However, in the light of the very strong oil price rise and a less expansionist U.S. policy, the deceleration is now considered limited. It is noteworthy that all regions of the world reported a slowdown in their economic growth in 2005, except for the Japanese economy, which regained momentum, and the Middle East countries, which witnessed a remarkable growth of about 5.4% in 2005.

At another level, global headline inflation has picked up slightly in response to higher oil prices but remains at a moderate level. In the industrial countries, inflation was expected to increase moderately to 2.2% in 2005 from 2.0% in 2004. As for the emerging markets, inflationary pressures have risen to some extent: 5.9% in 2005 and 5.7% in 2006.

At the level of international trade, after the spectacular rise last year of more than 10%, world trade growth decelerated in 2005 to 7.0% and is projected to pick up by 7.4% in 2006.

With respect to commodity markets, oil prices have continued their ascent, hitting a new nominal high of some $65 a barrel in August 2005, before falling back somewhat thereafter. Non-fuel commodity prices, which, in aggregate, remained stable during much of 2004, have since picked up in response to both strong demand - especially for metals- and despite supply disruptions, including those caused by unfavorable weather conditions.

At the level of monetary development, monetary conditions continue to be favorable and financial market conditions remain benign. Long run interest rates, while volatile, continue to be low around the world; global equity markets have remained resilient, supported by strong corporate profits.

On the foreign exchange markets, the U.S. dollar appreciated modestly in trade-weighted terms during the first 8 months of 2005. Movements in other industrial countries' currencies varied widely with the Canadian dollar appreciating further and the Japanese Yen and Euro depreciating.

(2) KSA Economic Review 2005G:

The Saudi economy in 2005 performed impressively attaining results higher than anticipated with growth rates in the various sectors at high levels due to continuous positive developments in the oil market coupled with the continuity of successful economic policies and serious structural and organizational reforms adopted by the government. According to the statement accompanying the declaration of the national budget, GDP is projected to grow in 2005 by 22.7% at current prices reaching SR 1152.6 billion and 6.5% in constant prices. The high growth of GDP is mainly related to parallel growth in the oil sector, which is projected to grow by 37.5% at current prices. In addition, preliminary estimates indicate that public debt will drop to around SR 475 billion, i.e., 41% of GDP, at the end of the fiscal year 2005.

It is only to be expected that the success of the economy should be reflected in all sectors: the positive growth of the private sector is expected to continue at a growth rate of 6.7%, due to the fine performance of its various economic activities. The non-based oil industrial sector is estimated to grow by 8.4%; communications and storage by 9.9%; electricity, gas and water by 4.9%; construction by 6%; transport, wholesale, retail, restaurants and hotels sector by 6.2%.

With regard to inflation, the inflation rates in the kingdom continue to be among the lowest internationally recorded rates. Estimates of cost of living show an increase of 0.4% in 2005 compared to 2004, while the non-oil GDP deflator, a key economic indicator of inflation in the economy in general, increased by 1.14% in 2005.

Moreover, another important indicator that reflects the improving economic performance during the year is the satisfactory state of the current account for balance of payments which is expected to achieve a surplus of SR 326.5 billion in 2005, compared to a surplus of SR 194.7 billion in 2004, i.e., an increase of 67.7%. In the same context, it was projected that the trade balance in 2005 would record a surplus of SR 460.3 billion i.e., an increase of 45.1% on the previous year, due to high oil and other exports. Non-oil exports were expected to achieve a growth rate of 20.6% or SR 69 billion in 2005, accounting for 10.5% of the Kingdom's total exported goods.

As for financial and monetary developments and in the light of positive developments locally and internationally, the Kingdom's monetary and financial sector continued its firm policy of achieving a suitable level of liquidity to satisfy the requirements of the national economy in addition to maintaining stability in the local prices and Riyal exchange rate. The money supply in its broad definition within the first ten months of the fiscal year 2005 achieved a growth rate of 9.2%, compared to a growth rate of 9.6% in the same period of the previous fiscal year.

With regard to the banking sector, commercial banks maintained their positive performance and solidified their financial capabilities. Results declared by all banks in the kingdom within the first ten months of the year 2005 showed that capital and reserves for all banks increased by 23.4% to SR 64.5 billion. In the same period, their total claims on the public and private sectors increased by 18.1% and total deposits by 9%. They also continued to play an important role in supporting the private sector and expanding economic activity as the total credit extended to the various economic activities in the private sector increased by 28.4% up to the fourth quarter of the year 2005, compared to an increase of 25% during the same period in the previous year. Furthermore, loans extended to the manufacturing and production sector increased by 27.1%; mining and




quarrying by 59.8%; building and construction by 16.1%; agriculture and fishing by 41.8%, and the Trade sector by 24.7%. On the other hand, financing granted to electricity, water and other services slightly decreased by 3% by the end of the fourth quarter of the year 2005, compared to the same period of the year 2004.

Another indicator related to private sector activity is the performance of the Saudi Industrial Development Fund which continued its support to local industry in all spheres of activity. In the fiscal year 2005, SIDF's loan approvals reached their highest level in any year since its establishment: SR 3,858 million. Moreover, the Fund declared the launch of the small and medium enterprises Loan Guarantee Program (LGP) with a capital of SR 200 million (effective from the beginning of the year 2006). In the same year, the Fund's capital increased from SR 7 billion to SR 20 billion.

Furthermore, the stock market witnessed positive developments in several areas. The general index of the Saudi stock market continued to increase with a growth rate of 103.66%, reaching 16,713 points by the end of 2005, compared to 8,206 points at the end of the previous year. The market also attracted an additional SR 18 billion through various types of offerings. The Capital Market Authority has performed effectively in organizing and monitoring the stock market to achieve transparency, discipline and justice. During the year, it improved the legal environment of the capital market by issuing five implementing regulations to activate the capital market system. It also issued licenses to seven Saudi offices and companies to provide consultation, arrangements, brokerage and mutual funds management within the overall framework of establishing industries which will eventually feature on the stock market.

The year 2005 witnessed a number of positive economic developments, including the issuance of various resolutions and regulations that would enhance the national economy and encourage the private sector to participate more effectively in the national economy. Among these developments

were, the Kingdom's accession to the World Trade Organization (WTO); the foundation of King Abdullah Economic City as the largest economic city in the region; the initiation of the Yanbu II project, in addition to the continuation work on the infrastructure of the Jubail II project; salary increase of national government employees by 15%; the signing of the Shuaiba project agreement for water and electricity with the private sector in the Build-Own-Operate (BOO) system; the signing of a supervision agreement on a railway network (south/north); the restructuring of the Saudi Post Organization on commercial basis, and the commencement of General Authority of Civil Aviation activities according to commercial standards.

By way of completion of previous years' regulations and resolutions aimed at enhancing the national economy, several regulations for strengthening the investment environment were approved, namely, restructuring and reorganization of the courts system; the new labor law; organization of a human rights authority; electricity law; the formation of a council for competition - protection authorized to prevent monopolization and encourage fair competition, and the formulation of rules relating to real-estate offering.

In general, the Saudi economy enjoyed substantial growth in 2005 which augers well for the future. These developments are reflected positively in the local investment environment, with increased trust from investors in all sectors of the local economy, especially production contributing substantially towards greater diversification of the production base. This strong performance of the Saudi economy is expected to continue in the future.

(3) The Kingdom's Industrial Sector's Performance in 2005G:

The non-oil manufacturing sector in the Kingdom achieved substantial growth, approximately 8.4 % in 2005G. In addition, the relative contribution of the sector to the Country's non-oil GDP had increased to 13 % by the end of 2005G. Furthermore, the industrial sector has contributed to a great extent in the growth of an increasing volume of Saudi exports to international markets. In this regard, the oil-based manufacturing sector, which includes petrochemicals, chemicals and fertilizers, has achieved remarkable success in the penetration of international markets. According to the latest UNIDO Competitive Industrial Performance Index (CIP) report, the Kingdom has attained a significant growth in the industrial sector. In this regard, the Kingdom is now among the top 70 industrial countries, ranked at 66 in the industrial technology progress index. Other areas of improvement are in the industrial exports sector and the manufacturing value added per capita, where the Kingdom is now ranked at 46 and 50 respectively. On the basis of these positive local and international indicators, considerable expansion is expected in the Saudi industrial sector to service both local as well as international markets, where greater opportunities for improving the status of Saudi industry have become available subsequent to Saudi Arabia's joining WTO.

A more detailed picture of the performance of the Kingdom's industrial sectors during 2004G, is presented in figures 1- 3 which show the distribution of the components of value added and Saudi labor ratio in the main Saudi manufacturing sectors. As for the value added indicator, figure (1) shows the distribution of the components of the Saudi manufacturing value added in the year 2004G, indicating that profits accounted for about 35% of the manufacturing value added. Wages & salaries accounted for 32%, depreciation 28%, Interest rates 4% and, finally rents accounted for about 1%. This distribution pattern highlights the contribution of the manufacturing sector towards increasing national income by reaching a higher value added covering wages & salaries, and, in addition, by contributing towards the expansion of production capacity.

Figure (1)
Components of the Saudi Manufacturing Value Added (2004)

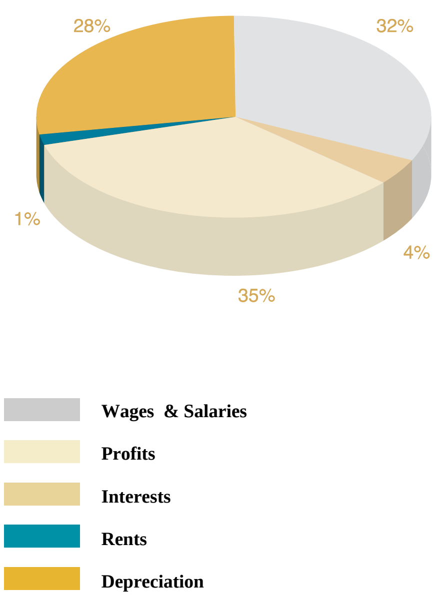


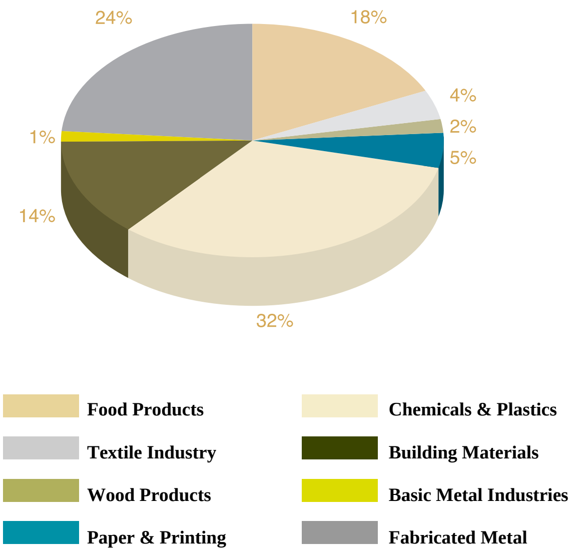
Figure (2)

Components of the Value Added in the Major Industrial Sectors (2004)

Figure (2) above presents a more detailed picture of the distribution of the different components of value added in the major industrial sectors. Profits with wages and salaries accounted for about 75% of gross value added in the Basic Metal Industries and in the Building Materials, Metal Fabrication and Paper and Printing sectors. This figure is reduced to about 50% in the Chemical and Textile Industries, which are relatively more capital-intensive, and the share of depreciation is higher compared to other industries.

As for the ratio of Saudi labor to total labor in the industrial sector, this indicator is gaining increasing importance at the national level. Figure (3) shows Saudi labor ratio to total industry labor in the major industrial sectors during 2004, indicating that the Chemical Products Sector was ahead of all other sectors, with a Saudi employment ratio of 32%. It was followed by Metal Fabrication sector 24%, Food Products sector 18% and Building Material Sector 14%. Next came Paper and Printing, Textiles, Wood Products, and Basic Metal Industries but with a remarkable difference: a Saudi manpower ratio of 1-5%. These ratios reflect the nature and structure of the Saudi industrial sector, which is dominated by the Petrochemical Sector. The latter that accounts for the highest share of Saudi industrial investments, and most of its projects require large investment and labor.

Figure (3)
Percentage of Saudi Workers to Total Workers by Major Sectors (2004)



SIDF's Lending Activity

SIDF's Lending Activity

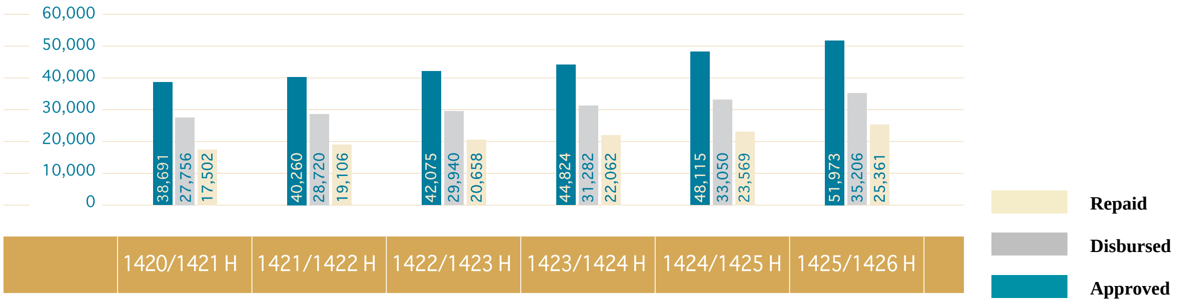
Since its inception in 1974, thirty one years ago, the Fund has maintained its remarkable success in lending activities.

During this period, the Fund has contributed substantially to the industrial development of the Kingdom through provision of soft loans and consultative services to borrower projects in the technical, administrative and marketing fields.

2005, the year of the report was notable for the approval by the Custodian of the Two Holy Mosques of an increase in SIDF's capital to SR 20 billion. Undoubtedly, this substantial increase will enable SIDF to raise considerably the amount of financial support extended to industrial investors in the kingdom. Furthermore, the year 2005 marked the Kingdom's joining the World Trade Organization. Membership affords numerous opportunities and presents formidable challenges to the Kingdom in general and to its industrial sector in particular. In the view of

Figure (4)

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



the significance of the event and its implications, we reserved a special section for its coverage in this report.

During the period from its inception up to the end of the fiscal year 2005, SIDF extended a total of 2731 loans amounting to SR 51,973 million. These loans have assisted in the completion of 1942 industrial projects throughout the Kingdom. Loan disbursements from such commitments totaled SR 35,206 million and repayments SR 25,361 million, reflecting the success of industrial development in the Kingdom.

Throughout the year covered by the report (2005), SIDF approved 81 loans committed to supporting 43 new industrial projects and 38 expansions of existing industrial plants. These existing plants had, previously, been granted loans by SIDF, and have also, through SIDF's support, achieved success, resulting in their considering expansion of their activities and enhancement of their products.

I. Distribution of Loans by Sector:

A review of the main industrial sectors according to value of loans committed, yields the following information:

Chemical Industries

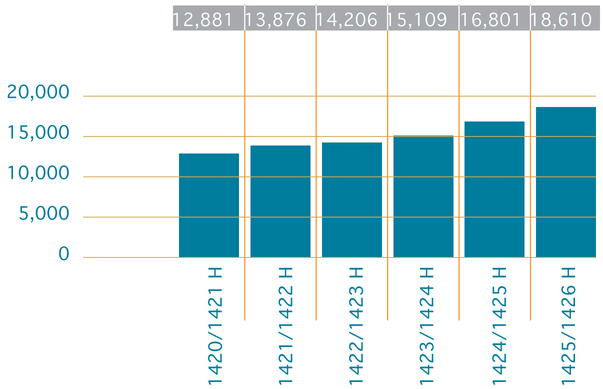


Figure (5)
Cumulative value of Approved SIDF Industrial Loans For the Chemical Idustries Sector (SR Millions)

Size of Loans:

This sector still occupies the leading position among the various industrial sectors by amount of loan commitments. Throughout the period, of SIDF's inception in 1974 to the end of the fiscal year 2005, the cumulative value of the total commitment to this sector amounted to SR 18,610 million, representing 36% of total loans approved.

Projects Approved:

During the fiscal year 2005, SIDF approved 29 loans to this sector, representing 36% of the total number of loans approved during the year. The total commitment to these loans amounted to approximately SR 1,809 million: 47% of all loan approvals during the year. These loans were made to support the establishment of 17 new industrial projects and the expansion of 12 existing ones. This sector ranks first in terms of both number and value of loans approved during the year. Because of the huge amounts required for investment in chemical products projects, it is not surprising that the sector commands nearly half the value of loans approved during the year. SIDF is expected to continue extending new loans to this sector, particularly to industries engaged in petrochemical products mainly on account of the competitive advantage enjoyed by the Kingdom in these industries.

Among the loans approved to this sector, two, each amounting to SR 400 million, were approved for the construction of two plants in Jubail for the production of polypropylene. Another loan, for SR 400 million, was approved for the construction of a plant in Yanbu for the production of propylene. Expansion loans included approval of a SR 207 million loan for the expansion of a Jubail-based plant producing industrial gases and a mixture of Krypton and Xenon. The loans extended to these four projects accounted for about 36% of the total loans approved during the year, thereby confirming the magnitude of SIDF's investment in chemical industries.

Projects Which Commenced Production:

This sector ranked first in terms of projects commencing production during the year with a total of 21 projects in Riyadh, Jeddah, Makkah, Yanbu, Dammam, Jubail and Baljureshi. These projects manufacture a wide range of products including petrochemical products, industrial gases, chlorine, caustic soda, sodium silicate, sulphuric acid, detergents, printing inks, aromatic perfumes, cosmetics, veterinary medicines, basic chemicals, plastic cards, packing materials and other plastic products. The majority of these projects are engaged in expansion.

Engineering Industries

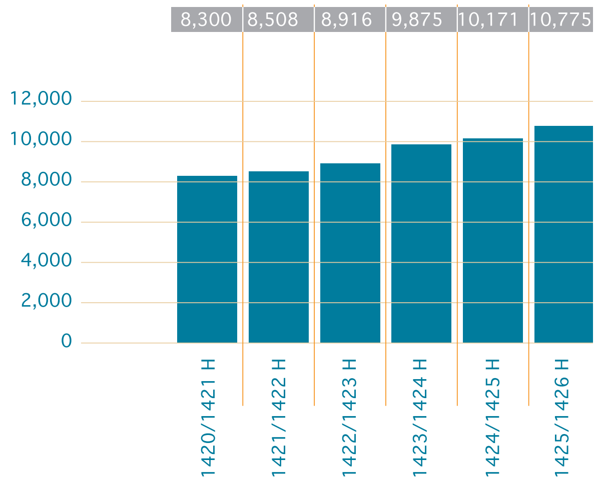


Figure (6)
Cumulative value of Approved SIDF Industrial Loans For the Engineering Idustries Sector (SR Millions)

Size of Loans:

This sector occupied the second place in terms of the value of approved loans. By the end of 2005, cumulative commitments extended to this sector totaled SR 10,775 million - only SR 2 million higher than that of the Consumer Industries Sector - representing 21% of all loans approved by SIDF since inception up to the fiscal year covered by this report.

Projects Approved:

During 2005, SIDF approved 18 loans to this sector amounting to a total of SR 604 million, or approximately 16% of the total lending value. This allocation places the Engineering Industries Sector in second position in terms of the value of loans approved. These loans were made to finance the establishment of 8 new industrial projects and the expansion of 10 existing ones.

Among the loans committed to this sector during the year of the report, a loan amounting to SR348 million was approved for establishing an iron-billets-producing factory in Jeddah. Another SR 11 million was approved to assist construction of a plant in Riyadh for the production of electric control boards. A third loan amounting to SR 5 million was approved for the installation of a Jubail-based factory for the production of crushers' spare parts. Expansion loans included SR 113 million for the expansion of a Jubail-based plant producing iron pipes and another for SR 13 million towards expansion of a factory in Dammam for the production of central air-conditioning units.

Projects Which Commenced Production:

This sector ranked second in terms of the number of projects which commenced production during the year 2005, with a total of 16 projects in Riyadh, Jeddah, Dammam, Jubail, and Ras Tanura. These projects are involved in the production of iron alloys, steel bars, office furniture, safes, reinforcement mesh, metal galvanization, insulation boards, refrigerators, electric meters, crushers and vehicles' axes. The projects include 11 new projects and 5 expansion projects of existing plants.

Consumer Industries

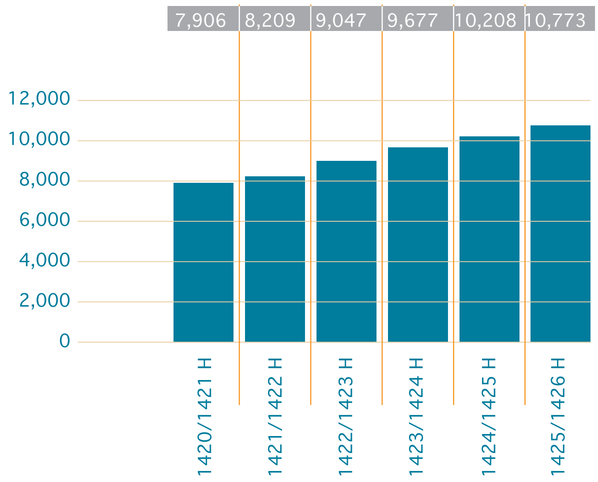


Figure (7)
Cumulative value of Approved SIDF Industrial Loans For the Consumer Idustries Sector (SR Millions)

Size of Loans:

This sector occupies third place in terms of the value of approved loans. By the end of 2005, cumulative commitments extended to this sector totaled SR 10,773 million representing 21% of all loans approved by SIDF since inception up to the fiscal year referred to.

Projects Approved:

During the fiscal year 2005, SIDF approved 22 loans to this sector totaling SR 565 million representing 15% of all loans approved during the year. This allocation ranks the sector third in terms of value of approved loans. However, in terms of number of approvals, the sector comes second. Loans extended to this sector assisted in financing 11 new industrial projects and expanding 11 existing ones.

Among the new loans extended to this sector, SR 83 million was extended for the establishment of a plant in Riyadh for the production of processed and frozen chicken meat. Another loan of SR 54 million was committed to the installation of a factory in Yanbu for the production of polypropylene filaments. Additionally, a loan amounting to SR 44 million was approved towards construction of a plant in Kharj for the production of tissue-paper rolls. Expansion loans included a SR 73 million loan for the expansion of a Hofouf-based plant producing unwoven fabrics. Another SR 71 million loan was extended for the expansion of a factory in Jeddah producing carton-paper rolls. Furthermore, a SR 63 million loan was extended towards expansion of a Riyadh-based plant producing duplex paper.

Projects Which Commenced Production:

This sector comes third in terms of the number of projects which commenced production during the year 2005, with a total of 12 projects in Riyadh, Kharj, Jeddah and Al-Hasa. These projects manufacture a variety of products including bakery products, sweets, juices, processed meat, treated water, aseptic containers of foodstuffs, soft drinks, paper bags, carton-sheets, paper envelopes, mattresses and wooden furniture. The projects include 7 new projects and 5 expansion projects of existing plants.

Cement Industry

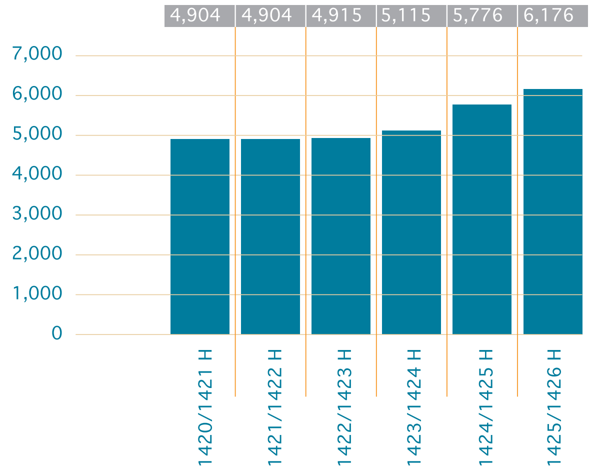


Figure (8)
Cumulative value of Approved SIDF Industrial Loans For the Cement Industry Sector (SR Millions)

Size of Loans:

By the end of 2005, cumulative commitments to this sector totaled SR 6,176 million or 12% of all total commitments made since inception, placing this sector fourth in terms of size of loans granted.

Projects Approved:

During the fiscal year 2005, SIDF approved one loan to this sector amounting to SR 400 million. The loan was made to assist the building of a cement factory in Riyadh. SIDF is expected to resume the financing of new projects in this sector due to increased construction activity and the marked improvement of the Kingdom's economy. Because of the competitive edge enjoyed by the Kingdom in this field, financing, in the coming years, would focus on benefits accrued from export opportunities to neighboring countries.

Projects Which Commenced Production:

Only one project in this sector commenced commercial production during the year of the report. It is an expansion project of a Riyadh-based cement factory.

Other Building Materials

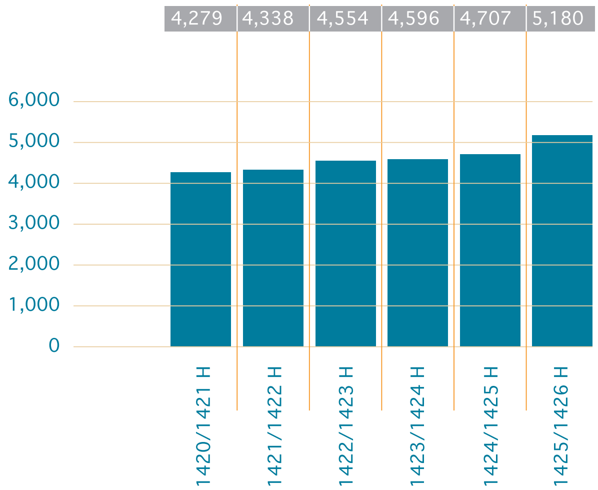


Figure (9) Cumulative value of Approved SIDF Industrial Loans For the Other Building Materials Sector (SR Millions)

Size of Loans:

By the end of 2005, SIDF committed to this sector a total sum of SR 5,180 million which represents 10% of the cumulative loans approved to industrial projects since inception. This allocation ranks the sector fifth in terms of volume of loans granted.

Projects Approved:

During the year 2005, SIDF approved 10 loans to this sector totaling SR 473 million or 12% of all loan approvals during the year. These loans were extended in support of six new projects and the expansion of four existing ones. Among the projects approved in this sector during the year, a loan of SR 115 million was extended towards construction of a factory in Jeddah for the production of ceramic tiles. Expansion loans included one amounting to SR 193 million for the expansion of a plant (also in Jeddah) for the construction of red bricks.

Projects Which Commenced Production:

This sector ranks fourth in terms of the number of projects which commenced production during the year 2005, with a total of 6 projects in Riyadh, Jeddah, Madina, Yanbu and Mezahmiyah. These projects manufacture a wide range of products including red bricks, roof tiles, ceramic tiles and ceramic sanitary ware. All are expansion projects of existing plants.

II. Joint-Venture Financing

SIDF continues to encourage establishment of joint-venture projects particularly in collaboration with internationally renowned companies in the belief that there is great potential for such projects in the Kingdom. Foreign investments are considered an effective means for attraction and transfer of modern technology as well as the creation of new job opportunities for Saudis. Furthermore, foreign investments are instrumental in importing capital and providing access to international markets for national products. In addition, foreign partnerships contribute to the upgrading of production efficiency in the industrial sector and the provision of technically advanced training for Saudi nationals.

The number of joint-venture projects approved by the Fund since its inception up to the end of the fiscal year 2005 reached 548 projects, or 28% of total projects approved. Loans committed to those joint-venture projects amounted to SR 18,157 million or 34% of total SIDF loans. Foreign partners' share in these projects accounted for 31% of their capital.

The Chemical Industries Sector has outpaced all other industrial sectors in terms of loan commitments to joint-venture projects with a share of 48%. The Engineering Industries Sector is ranked second with a share of 26%.

During 2005, SIDF approved 17 loans in support of the establishment of 10 new joint-venture projects and the expansion of 7 existing ones. Commitments to these projects totaled SR 688 million or 18% of SIDF commitments for the year.

Loans for the new joint-venture projects comprise six loan commitments to projects in the Chemical Industries Sector; three loan commitments to the Engineering Industries Sector, and one loan commitment to the Consumer Industries Sector.

Joint-venture projects approved during the year provided 1,527 job opportunities representing about 13% of the total opportunities provided by all projects approved by SIDF during the year 2005: 11,635.

III. Manpower and Training

Saudi Industrial Development Fund

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

During the fiscal year, 362 training programs were implemented for Saudi employees, both domestically and abroad. These included specialized basic courses, short-term courses, symposiums, professional conferences and in-house training courses. A total of 197 Saudi employees received training courses commensurate with work requirements and timing of domestic and overseas training courses. Of this number, 21 employees joined specialized core courses, including intensive English language courses, while 31 university-graduate employees received on-the-job professional and practical training.

The Fund benefits from its good relations with many similar local and international financial institutions in upgrading and developing the professional capabilities of its Saudi employees. This is achieved through active participation in specialized professional conferences, symposiums and scientific seminars in which these organizations have a role. Such participation ensures the exchange of professional know-how and scientific expertise which effectively enhances the capabilities of Saudi employees and positively impacts on the Fund's overall performance.

Because of its advanced administrative and financial regulations, SIDF was able to implement current approved programs for the recruitment of Saudis. During the fiscal year, 55 Saudi employees were recruited, as per the approved budget for the year 2005, to meet work requirements in the various departments and divisions of the Fund.

Mohammad Bin Salem Al-Dobaib
Acting Director General

Industrial Projects' Cycle and SIDF Organization Chart

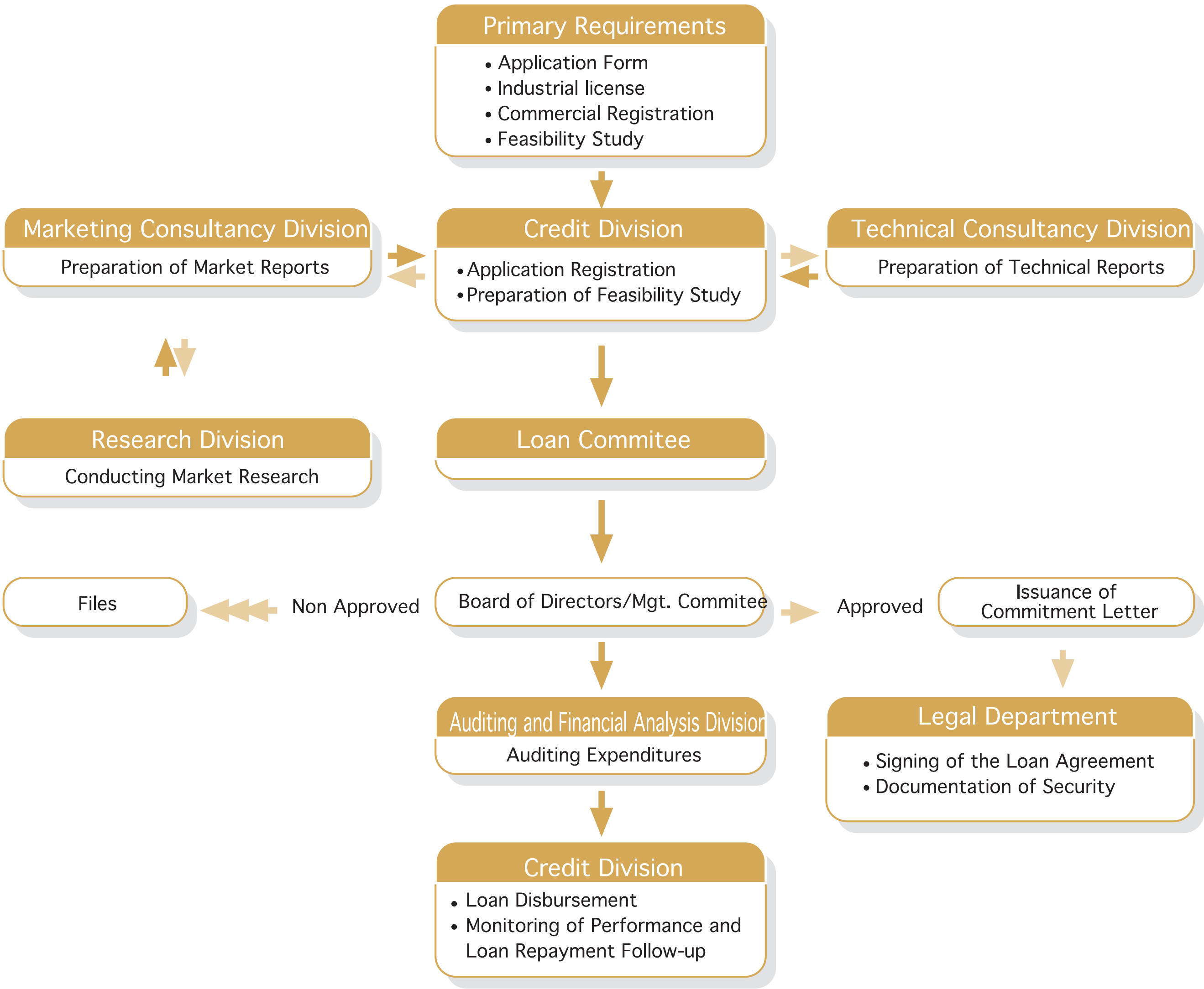
Industrial Projects' Cycle

The Fund's management spares no effort in extending its lending services to 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 institutions worldwide.

All these activities are evident in the adopted project cycle which is modified from time to time in line with prevailing practices to encourage adoption of the latest developments in the field of administrative organization.

The following flow chart shows the project cycle currently adopted by the Fund. The flow chart shows processing, appraisal, implementation and follow-up of the projects to be financed. It further highlights disbursement of the Fund's commitment in the form of loans and the monitoring of loan maturities' repayment by beneficiary borrowers.

Loan Application's Processing Flow Chart



Notes:

1. The length of the evaluation period depends on the applicant's cooperation and the timely submission of required information.
2. For expansion projects, the foregoing stages also apply, but some are likely to be omitted.

SIDF Organization Chart

Saudi Industrial Development Fund

The form of the organizational chart of the Fund is clearly in line with the pattern of the project cycle as shown above. Accordingly, following the recent breakdown of the Projects' Department into two departments, i.e., The Credit Department and the Projects' Studies and Consultancy Department. The Fund's activities, in accordance with more effective allocation of responsibilities, are now carried out by the following departments:

1. Credit Department

This department is responsible for the running of the project lending program through appraisal, follow-up, disbursement, collection, and provision of consultancy services as deemed necessary for investors in the various areas. The department conducts, from time to time, studies on the performance of the various industrial sectors within the Kingdom and then formulates appropriate policies to support each individual sector. It further participates in the conducting of economic and statistical studies jointly with the Projects' Studies and Consultancy Department.

2. Projects' Studies and Consultancy Department:

This department supports the Credit Department in all technical and marketing fields. It also assumes responsibility for the conducting of economic and statistical studies deemed to be in the best interests of the department's activities.

3. Operation and Administration:

This department is concerned with in-house affairs of the Fund such as disbursement of approved loans and collection of repayments from investors. It consists of six sections: General Accounting, Loan Accounting, General Services, Purchases, Maintenance and Translation sections.

4. Human Resources Department:

This department consists of two divisions, i.e. the Personnel Division and the Training & Career Development Division.

5. Legal Department:

This department comprises four divisions, i.e. Contracts Division, Cases Division, Legal Studies Division, and Follow-up & Foreclosures Division.

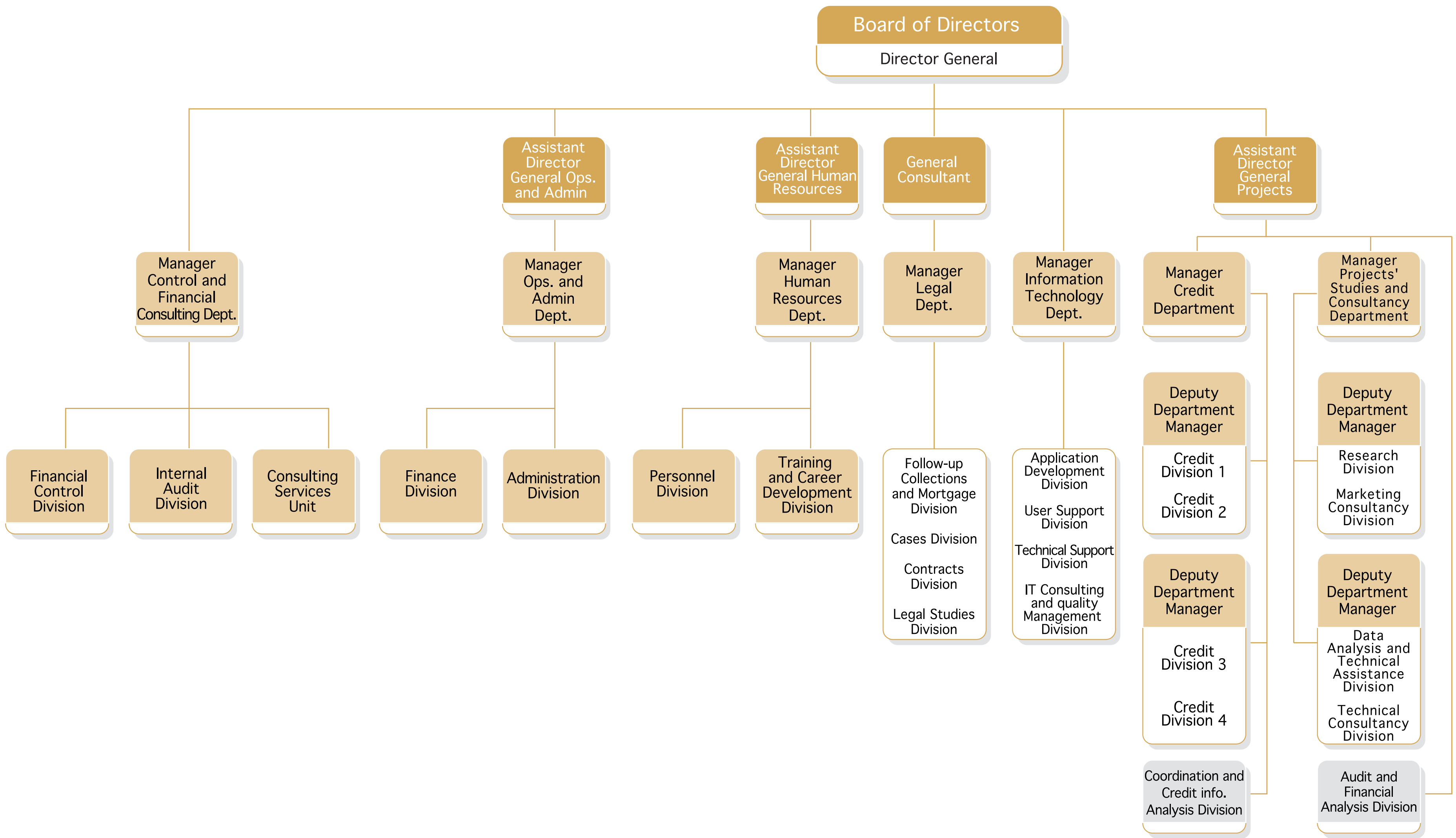
6. Control and Financial Consulting Department:

This department consists of the Financial Control Division, Internal Audit Division and Consulting Services Unit. Its key functions include budgeting and an actual performance analysis for each fiscal year.

7. Information Technology Department:

This department consists of the Technical Support Division, Applications Development Division, User Support Division, and Quality Consultancy Division.

SIDF Organization Chart



The Kingdom's Membership of the World Trade Organization (WTO) "Opportunities and Challenges"

Saudi Industrial Development Fund

1. Introduction:

The importance of WTO membership arises from the status and importance of the organization itself through its dominance of international trade. WTO has 149 member states (as of December 2005); besides 30 countries are negotiating accession. WTO members control more than 89% of international trade and 90% of global foreign direct investment.

Regarding the Saudi - WTO relationship, the kingdom was one of the first countries to submit its membership application (June 1993). Since that date and until the middle of 2005, the kingdom participated in several rounds of negotiation with WTO members, resulting in 38 bilateral agreements. The final agreement was signed with the US in September in 2005. At the end of November 2005, the Saudi file was approved by WTO's members. In December 2005, the WTO ministerial conference declared Saudi Arabia the WTO 149th Member.

2. The Impact of the Kingdom's joining WTO:

Before discussing the impact of WTO membership either on the Saudi economy as a whole or on the Saudi industry in particular, it should be emphasized that the Saudi economy is not expected to face serious difficulties in adapting to the new order entailed by WTO membership. In fact, the Saudi economy moves in conformity with the usual market forces. Besides, its laws and regulations are not inconsistent with the rules and agreements of the Organization. Furthermore, the Saudi market qualification can basically be attributed to its careful preparations over the years preceding membership particularly in the following fields:

- The serious economic and structural reform process initiated by the Kingdom in the early nineties. This process is represented by privatization of a number of public projects and gradual liberalization of the Saudi market. Furthermore, the Kingdom's membership of the Gulf Cooperation Council prepared the market adequately, with customs duties not exceeding 5%, a figure much lower than the ceiling adopted in the World Trade Organization. This means that the Saudi market is now fully open to external markets.

- A number of national councils and commissions such as the Supreme Economic Council, the Supreme Council for Petroleum and Minerals and the General Investment Authority, have been established. Other commissions are expected to follow suit such as The Supreme Commission for Export Promotion.

- On the legislative level, a number of laws have been enacted to prepare the Saudi market for adaptation to the agreements laid down by

World Trade Organization, particularly TRIPS, GATS, and TRIMS. These new laws and regulations amounted to 40. Most significant among them are the foreign Investment Act (2000), Trade Marks Act (2002), Intellectual Property Rights Law (2004), Income Tax Act (2004) and the Competition Encouragement Act (2004), etc.

2.1 The Impact of the Kingdom's WTO Membership on the Saudi Economy:

The Kingdom's membership of the World Trade Organization is generally expected to facilitate the merging of the Saudi economy into the World economy. It is also expected to contribute to the expansion of internal and external investment, the creation of more job opportunities for Saudis in addition to increasing Saudi products and services' capacity to reach world markets. Studies and projections confirm that the Saudi economy will experience prosperity and development in the long run. However, in the short and medium term, it is expected to witness a mix of positive and negative effects. Thereafter, the Saudi economy should be strong and capable of competing locally and internationally. We show below the major opportunities and challenges that the Saudi economy may face as a result of the Kingdom's membership of WTO:

- Increase of opportunities through access to external markets. Saudi exports of goods and services will be able to access member countries' markets without discrimination in accordance with "the most favored nation" principle. Also, Saudi exports will be treated on equal terms with the local products of member countries, which is an application of the "national treatment" principle. However, this privilege imposes a counter challenge as products of member countries shall have the same privileges in the Saudi market. This will create pressures on local products. Such pressures need to be countered with a more efficient market and competitive products.

- Membership of the World Trade Organization will safeguard the Kingdom against unilateral measures and biased commercial policies adopted by other countries. Furthermore, the Kingdom's exports won't be subjected to anti-dumping duties or countervailing duties unless such legal measures are mandated by agreement with the organization. The Kingdom may resort to such measures to protect its interests.

  However, this privilege poses in return a challenging commitment, i.e., the products of other member countries may not face anti-dumping claims unless pertinent terms are in place. This means that the Saudi market would be exposed to a flow of imported goods. The Saudi market should be ready to cope with such situations by offering highly competitive products in terms of both price and quality. Also, an anti-dumping national agency needs to be established. The experience of other WTO members needs to be studied in this regards.

- Opening the Saudi market provides an incentive to Saudi producers to be more efficient and capable of confronting the challenges imposed



by imports. Local consumers would also enjoy the benefits of competitive prices, high quality products and freedom of choice from a wide range of products. (Consumer Superiority Principle).

- Implementation of the investment related agreement will create favorable conditions for the attraction of investment inflows. UNCTAD studies indicate that the majority of international investments go to WTO member countries on the assumption that they have free markets and modern legislation. Therefore, an increased inflow of foreign investment into the Saudi market is expected. Indications of such have been noted in the first half of the current year (2005). The increase is also apparent in the World Investment Report issued by UNCTAD where the Kingdom was top recipient of FDI in the Arab countries.

- The services sector (e.g. as Insurance and Banking) is expected to be among the first sectors to be affected by the Kingdom's membership. The share of foreign partners in commercial banks is scheduled to be raised to 60%. Also, foreigners are expected to be allowed to form cooperative insurance companies. As a result, intensive efforts are required to develop this sector. It can be accomplished by encouraging foreign investment in this field and inviting commercial banks currently working in the Kingdom to update their strategies and structures as well as urging them to get involved in mergers in order to meet the challenges of openness towards, and competition with, foreign banks.

- In view of the Kingdom's political and economic weight, its membership of the Organization will allow it to work side by side with other countries having similar interests, developing countries being first among them. The Kingdom can use economic strength and influence to exploit the globalization 'movements' to its own advantages as much as possible.

- Joining the Organization will support the Kingdom's current successful economic reform program. It is also a guarantee that this course cannot be reversed. However, it poses yet another challenge, i.e., updating government institutions to appropriate levels so they will be capable of securing not only the success of the reform process, but also of directing reforms so that they will benefit the Saudi economy.

2.2. The Impact of the Kingdom's WTO Membership on the Saudi Industrial Sector:

The opportunities and challenges facing the Saudi Industrial Sector as a result of the Kingdom's WTO membership could be summarized as follows:

- The agreements of WTO include customs and administrative facilities in world trade. This will lead to the opening of new markets for the Kingdom's industrial exports and/or increase their competitiveness in the international markets. Petrochemical industries, particularly, are expected to be the major beneficiary from the Kingdom's joining the WTO as these industries enjoy the principal competitive advantage represented by the wide availability of hydrocarbon materials from oil and gas which provide the energy input for these industries. Furthermore, the Kingdom's petrochemical industries have matured and become a main player in the petrochemicals industry globally. This success is due to their comparative advantages pertaining to price and quality. These industries are expected to benefit from the petrochemicals agreement (Coordinated Petrochemicals Understanding) which determined the customs ceiling for these products at 6.5%. Consequently, the Kingdom's products shall not be subjected to severe restrictions and high customs ceilings or dumping claims. This means more exports which in turn reflects positively on the Saudi economy.

- WTO agreements restrain dumping methods used by some countries as a means of marketing their products. Such restrictions will increase the competing capacity of Saudi industrial products in both internal and external markets. Already a number of local industrial companies have reached high levels of performance and many have succeeded in obtaining international standard certificates.

- More industrial investments are expected to flow into the Kingdom. These investments will be instrumental in preparing the Saudi market for the challenges posed by openness (through technology transfer, creation of new jobs, producing import-substitution goods and increasing exports). However, to obtain such benefits, a number of prerequisites need to be available. Most important among these is the availability of skilled Saudi workers in the industrial sector. This means increased attention and investment in technical and professional training.

- Small and Medium Enterprises (SMEs) will face greater challenges not least because interest in these industries is a relatively new development in the Kingdom. They are still lacking in marketing and technological development which is reflected in poor competing capacity internally and externally. Moreover, compatibility with international standards presents a significant challenge for these industries, especially now that the government is committed to implementing WTO agreements such as TRIPS agreement.

  To meet these challenges, SIDF and similar institutions must give more consideration to the development of these industries through training, skills upgrading and intensive investment in research and development. Small and medium enterprises can then transfer creative new ideas into products that may be marketed internally and externally. Also, these industries need to be financed by soft programs in conformity with the rules of the Organization as these rules do not prohibit supporting these industries under certain conditions.

  In this context, SIDF has recently launched the Small and Medium Enterprises Loan Guarantee Program (LGP), that will increase support for and development of the small and medium enterprises sector. Moreover, it is important to link these small enterprises with existing larger projects in the Kingdom.

- A number of Saudi industries face one particularly daunting challenge, i.e., the upgrading of the competing capacities of their products. Upgrading these capacities to international standards is necessary, not only to gain market shares in international export markets but also to maintain and strengthen shares in local markets. Meeting this challenge will require local industrial units in the Kingdom

to upgrade productivity levels and improve the quality of their products to international standards. In this regard, comparative experience clearly underlines the crucial role played by foreign direct investment.

- The future role of the Saudi Industrial Development Fund, is expected to increase prominence in sustaining the Saudi industrial sector so that it is equipped to meet the WTO accession challenges. The SIDF could achieve its goals through providing greater awareness of its services and intensifying its financial and technical support to industrial projects. Besides, the Fund's current rules and procedures have been harmonized with WTO rules and procedures. The Fund's rules offer the opportunity for the foreign investor to benefit from Fund credit even if it has no local Saudi partner (as is the case with Saudi investors). In addition, the kingdom has guaranteed on its final commitment schedules that financial and development organizations can continue providing subsidy since it is not directed to a specific industry.

3. Conclusion:

Although the Kingdom's membership of WTO opens up extensive opportunities, it also poses a number of challenges. As the Kingdom continues to develop, more attention should be paid to the following issues:

- **Speeding up the establishment of a national center to take care of WTO affairs** and provide pertinent economic, legal and administrative technical consultancies. It should also help the private sector in dealing with WTO's rules and regulations, particularly in the settlement of disputes and dumping issues. The center should build a database covering all issues related to WTO.

- **Training and qualifying Saudi technical, economic and legal personnel** so they are qualified to assist government institutions and the private sector in dealing with WTO rules and regulations.

- **Supporting Small and Medium Enterprises.** Since more formidable challenges will confront small and medium enterprises, they should be supported by all forms of support in accordance with WTO agreements. They should also make use of comparative experience in this respect.

- **Accelerating the transfer and localization of technology**, particularly through the attraction of more foreign industrial investment as technology plays a crucial role in increasing productivity which directly affects the competing capacity of industrial products.

- **Improving the capabilities of Saudi manpower**, as the skills demanded by industrial manpower are a determinant factor in industrial development and the future competitive capabilities of the industrial sector.

- **Implementing and developing the industrial integration concept**. Factories, particularly larger ones, should encourage other factories, preferably local ones, to provide them with production needs. In so doing, the larger factories will be able to concentrate on developing their principal products and developing their competitive potentials.

- **Revising industrial quality standards** so that Saudi industrial products may not have to cope with technical restrictions in the markets of other member countries.

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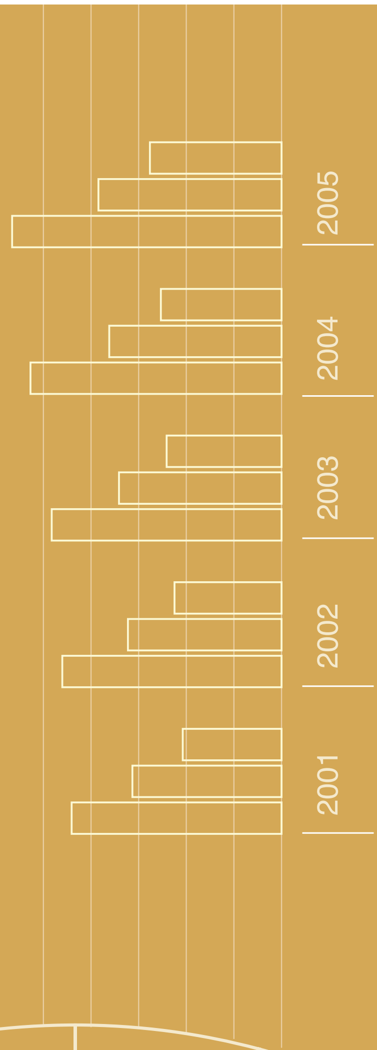

lending Activity Charts

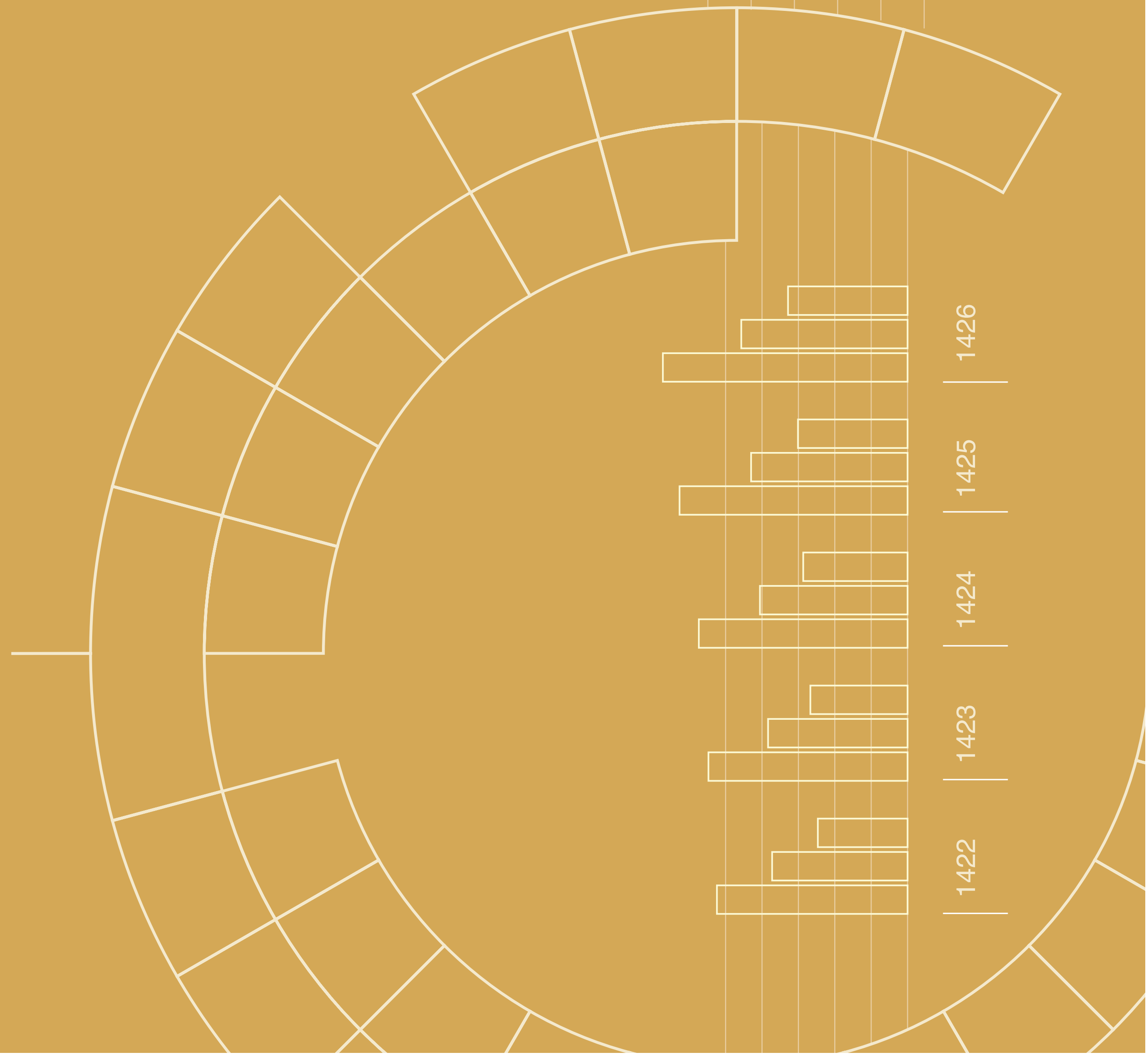

Table Showing Number of newly approved SIDF industrial projects by minor sector

Sectors	1425/1426H	Cumulative Total
Consumer Products	**11**	**550**
Food	3	250
Beverages	-	41
Textiles	3	60
Leather & substitutes	-	24
Carpentry products	2	13
Wooden furniture	1	49
Paper products	2	77
Printing	-	36
Chemical Products	**17**	**473**
Chemicals	8	218
Oil & gas products	1	24
Rubber Products	1	14
Plastic products	7	217
Building Materials	**6**	**299**
Ceramic products	1	9
Glass products	-	49
Other building materials	5	241
Cement	**1**	**22**
Engineering Products	**8**	**561**
Metal products	3	327
Machinery	2	82
Electrical Equipment	2	100
Transport Equipment	1	52
Other Manufacturing	**-**	**37**
Total	**43**	**1942**

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

Sectors	1425/1426H	Cumulative Total
Consumer Products	**565**	**10,773**
Food	156	4,952
Beverages	-	970
Textiles	176	1,962
Leather & substitutes	-	133
Carpentry products	12	165
Wooden furniture	5	338
Paper products	216	2,038
Printing	-	215
Chemical Products	**1,809**	**18,610**
Chemicals	1,479	14,166
Oil & gas products	16	1,214
Rubber Products	138	217
Plastic products	176	3,013
Building Materials	**473**	**5,180**
Ceramic products	115	615
Glass products	-	1,404
Other building materials	358	3,161
Cement	**400**	**6,176**
Engineering Products	**604**	**10,775**
Metal products	534	7,610
Machinery	29	789
Electrical Equipment	31	1,495
Transport Equipment	10	881
Other Manufacturing	**7**	**459**
Total	**3,858**	**51,973**

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Kingdom of Saudi Arabia

Saudi Industrial Development Fund

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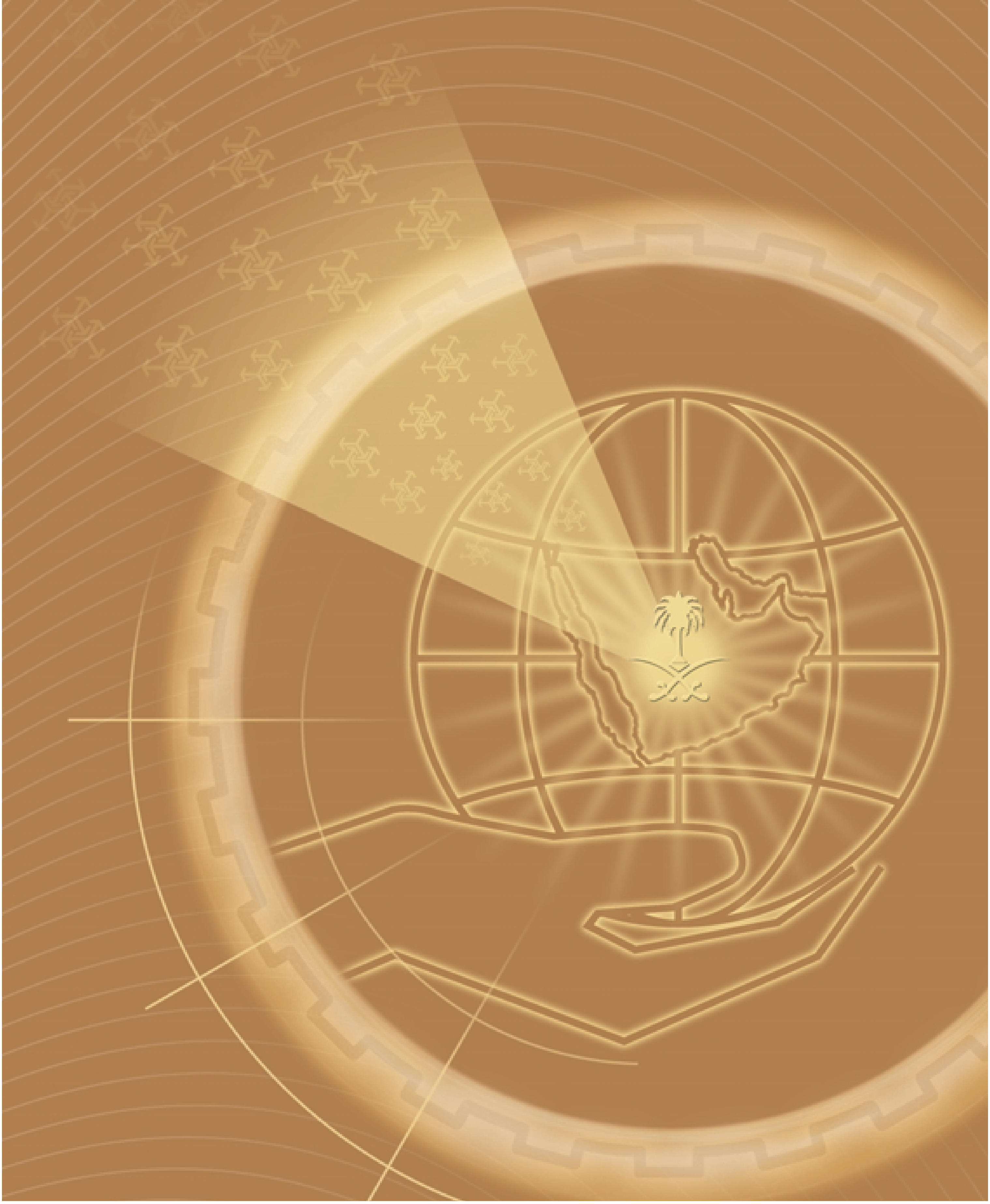

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