A culture of innovation

Report & Accounts 2009

Sharing our futures

Net income

SR 9 billion

Sales revenue

SR 103 billion

Total assets

SR 297 billion

Our values

Inspire
Our winning attitude and passionate approach are a part of all that we do.

Empowered by training and leadership skills, we work together to create an action-oriented environment that develops solutions and results for our customers.

Engage
We respect and value differences in our people and their business approaches, fostering a great working environment. Our unfailing commitment to the communities in which we operate helps us remain a positive influence throughout the company and the world.

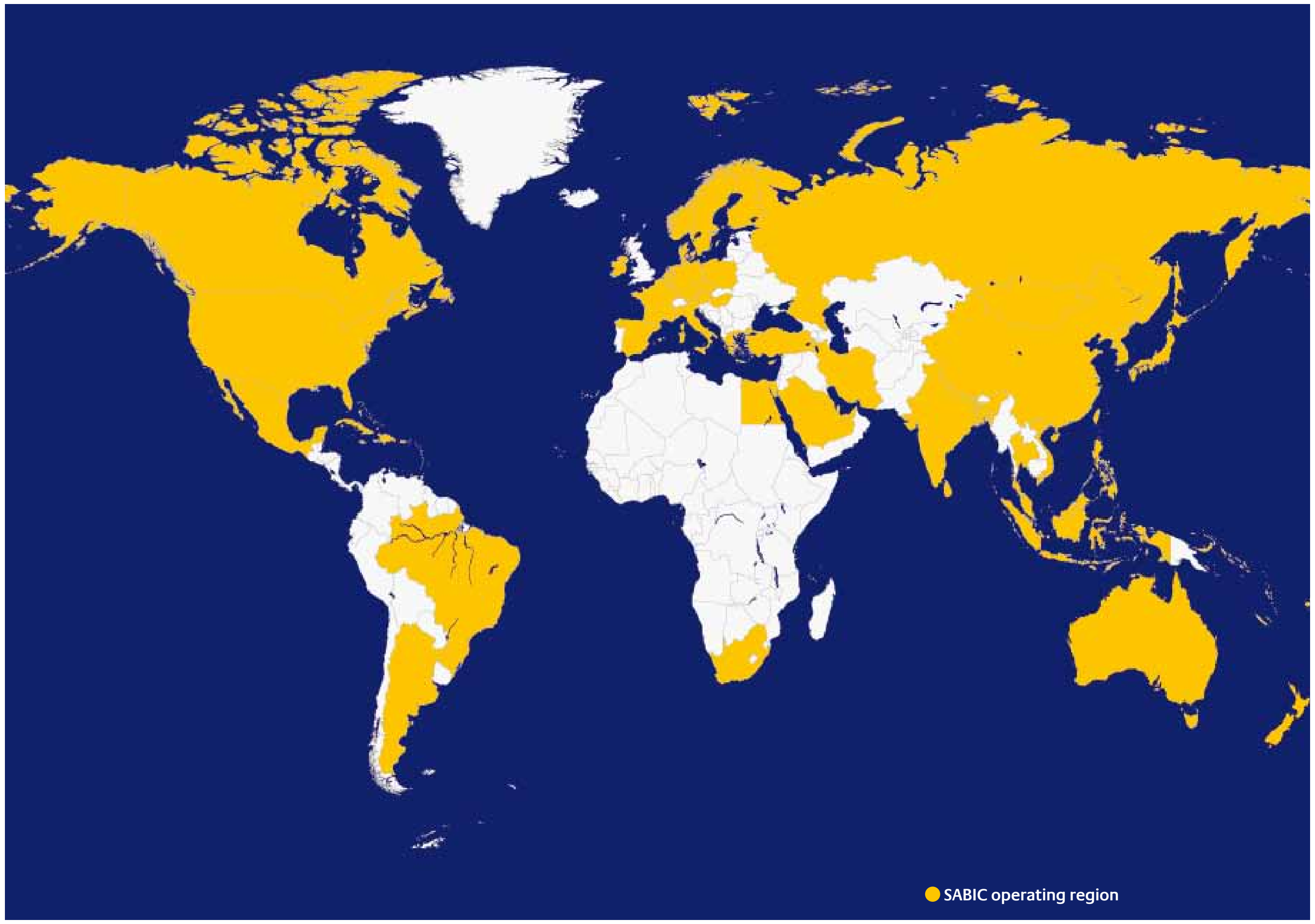
Create
Our curiosity is never satisfied and we are always challenging conventional thinking.

Through long-term alliances with our customers, we seek new ways to uncover opportunities in both product and process to find the next innovative solution.

Deliver
We lead by developing extraordinary breakthroughs for our customers.

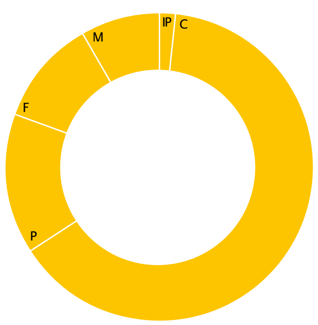
Our unwavering focus on flawless execution drives our joint success and ensures world-class environmental responsibility, health, and safety.

Where we operate



Total production by business unit

'000 metric tons



IP Innovative Plastics
1,033

C Chemicals
37,479

P Polymers
8,666

F Fertilizers
6,542

M Metals
4,776

* Performance Chemicals to start production in 2010

Innovation in globalization

SABIC is committed to building ever closer relationships with its customers all around the world, and invests continuously in developing distribution, research, and manufacturing facilities worldwide.

Well-established in the Middle East, Europe and the Americas, SABIC is rapidly developing its presence in the fast-growing Asia Pacific region, with offices now in Beijing, Shanghai, Shenzhen, Hong Kong, Taipei, Tokyo, Seoul, Manila, Jakarta, Singapore, and Ho Chi Minh City.

Our vision and mission

Saudi Basic Industries Corporation (SABIC) ranks among the world's top six petrochemicals companies. The company is among the world's market leaders in the production of polyethylene, polypropylene and advanced thermoplastics, glycols, methanol, and fertilizers – and one of the largest producers of steel in the Middle East.

Our vision is to be the preferred world leader in chemicals.

Our mission is to responsibly provide quality products and services through innovation, learning and operational excellence while sustaining maximum value for our stakeholders.

Chairman's statement

Prince Saud bin Abdullah bin Thenayan Al-Saud
Chairman of the Board

The year 2009 was one of tough challenges, but challenges that were well met.

Against a backdrop of worldwide economic turbulence, SABIC turned in a very creditable performance – with production up by 4 percent and sales quantities up by 5 percent. Though profitability was severely affected by the dramatic weakening of prices due to the world economic downturn, overall the year's performance was remarkably strong and testifies to the abilities of our global workforce to perform under pressure.

Our success represents a powerful vindication of the strategy we have pursued consistently and resolutely over recent years. We have acquired operating units carefully and effectively, to build our capabilities and geographical presence, steadily developing into a global leader. We have worked hard to improve our business processes. We have invested in new plant and distribution facilities, to exploit growing demand more effectively. And we have invested in our people, in the belief that their talents and their dedication are key to our future.

We have set for ourselves a clear and far-reaching ambition: to become the world's preferred leader in chemicals. To achieve success on such a scale will demand a large commitment – of capital, expertise, and sheer hard work. Much of the necessary groundwork has been put in place over recent years: our acquisition of key assets overseas; our steady progress toward our bold 2020 strategy; and, not least, SABICLearning and our many other investments in the skills and capabilities of our workforce.

This year we have also emphasized a renewed and increased commitment to innovation as the key to a larger and more prosperous future. Our innovations in chemicals, polymers, metals and fertilizers are already making the world a cleaner, safer, and a more sustainable place. Many more are in the pipeline. Our innovations go beyond materials to encompass a full-blown culture of innovation that constantly looks at the ways we interact with our customers and communities, and the ways we relate to our environment, as well as interactions with our key stakeholders – our people, our shareholders, our customers and suppliers.

Innovation is nowhere more apparent and well demonstrated than in the 1 SABIC process we have launched – our structural reorganization of our enterprise into a single, unified global entity – and EMDAD, our project to improve every aspect of our supply chain. We are committed to doing everything better – in the name of efficiency, in the name of sustainability, and in the name of the kind of commercial performance that alone will enable us to achieve our longstanding ambition – to be the preferred world leader in chemicals.

SABIC is now more than ever an outward-looking enterprise that has the ability to be exceptionally responsive to global requirements, as well as the capacity to deliver on customer demands for innovative solutions and cost-competitive products anywhere in the world. Our new operating model also allows us to meet customer requirements with strong-than-ever global buying power and process improvements made possible by the further integration of our global functions.

We are a great company; we will become greater still. I wish to thank all our people and our shareholders for their continued support and for their help in transforming our vision into reality.

Prince Saud bin Abdullah bin Thenayan Al-Saud
Chairman of the Board

"We have set for ourselves a clear and far-reaching ambition: to become the world's preferred leader in chemicals. To achieve success on such a scale will demand a large commitment – of capital, expertise, and sheer hard work."

Vice Chairman and Chief Executive Officer's report

Mohamed H. Al-Mady
Vice Chairman and Chief Executive Officer

"Significant progress was made this year toward advancing SABIC's strategic objectives. Times of turbulence are also times of opportunity for companies with the financial strength and strategic insight to take advantage."

A year of extremes

In a year of extremes, SABIC achieved commendable results through the commitment and capabilities of its people around the world. The extent of the year's fluctuations is nowhere better seen than in the final quarter's results: net income higher by 1,377 percent than the equivalent quarter a year ago. In short, the year began with SABIC very much in the grip of the world economic downturn, and ended it in good shape.

The year saw solid performance in both production and sales, with production at 59 million tons (up 4 percent) and sales at 46 million tons (up 5 percent). Even though profit margins were under pressure all year due to weakened prices brought on by the world economic downturn, the year's production and sales increases are very encouraging for even better results going forward.

Laying the groundwork for growth and innovation

With its strong foundation in production and sales, SABIC spent the year continuing to prepare for the future and significant progress was made this year toward advancing SABIC's strategic objectives. Times of turbulence are also times of opportunity for companies with the financial strength and strategic insight to take advantage. SABIC is such a company, and has made good use of the year to make a number of strategic moves, including expansion of capacity at existing facilities and investment in new industrial plant. As new production from our projects at SHARQ, YANSAB, and the petrochemical complex in China come on-stream during 2010, this will significantly boost total company production and sales going forward.

Along with our strategy of expanding and increasing production, we also focused on improving our processes and efficiency, most notably through the EMDAD supply chain project. Launched in 2007, we have continued to test and refine our processes and customer service vision, turning them into reality. Implementation began in Q1 2009, and has affected virtually every aspect of our operations throughout the entire SABIC global organization. A massive cross-company training program is part of the project also. In addition to teaching our people new skills and techniques, we are also empowering and equipping them with the increasing ability to deliver training themselves.

Essentially we are putting in place a whole new mind-set: a culture of impatience with the status quo; of unwillingness to compromise or accept the merely adequate; a commitment to excellence; a dedication to continuous improvement and ceaseless innovation.

During the year SABIC began identifying and creating the processes and functions for an Enterprise Risk Management structure that addresses the strategic financial, operational and compliance risks to the company. The new risk-mitigation strategy encompasses an enterprise-wide road map and appropriate monitoring and metrics that improve performance and offer better asset protection under all operating scenarios worldwide.

1 SABIC enables an outward-looking global strategy

This year saw the launch of 1 SABIC – among the most important projects for us since the millennium. Following several years of acquisitions and organic growth, 1 SABIC achieved just that – transforming our enterprise into a single, unified, global organization, made up of six strategic business units backed up by centralized corporate functions such as Human Resources, Manufacturing, and Shared Services such as Procurement and Information Technology – all united by common processes based on global best practices.

The 1 SABIC initiative also carried out a further integration of the former three entities: the GE Plastics unit acquired in 2007 and operating as SABIC Innovative Plastics; the SABIC Europe operations that originated with the acquisition of DSM Petrochemicals in 2002 and expanded with Huntsman UK Petrochemicals in 2006; and the Saudi Arabia-based manufacturing and global sales operations. We have now carried that integration further to make Innovative Plastics one of our six strategic business units, along with Chemicals, Performance Chemicals, Polymers, Fertilizers and Metals. While seeking consistent best practice processes across all units, we are also looking to reap significant benefits from the cross-fertilization of ideas. Building on SABIC Innovative Plastics' strong reputation for innovation, we are strengthening our global Technology and Innovation organization by combining all of our six world-class technology centers and industry-recognized scientists and engineers.

The overriding objective we have set for ourselves is to combine the talents of our employees into a single, integrated global organization, that works together with our customers to generate global efficiencies and innovation, and enables SABIC to deliver on its vision of becoming the preferred world leader in chemicals. The 1 SABIC model will also enable us to further strengthen our position in the industry, and support our ambitious growth plans over the next decade.

SABIC's enhanced globality means to our customers worldwide that we will have a greater understanding of their global requirements and the capability to be more responsive to their demands for innovative and cost-competitive products. Our new operating model means we can offer customers an enhanced global buying power, talent management, and other value-creating processes made possible by the further integration of our global functions.

Prospects improving

Our passage through the turbulence of the last 12 months reflects well on the preparations made earlier against just such contingencies. Over the last few years SABIC has significantly enhanced its production capacity, product portfolio and market presence through strategically targeted acquisitions with the right products for the right growth markets. The company is now in good shape for any economic upturn.

Prospects look good for growth worldwide, even though not uniformly robust. We believe prospects for the Gulf region remain sound, with a growing population and growing needs for products that use SABIC's basic commodities, ranging from fibers to construction materials. Prospects for North America, another very important market, are moving forward. Any improvement in key sectors such as construction and auto manufacture, however, which traditionally buy our products in very large quantities, will dramatically improve the earnings picture.

Conditions elsewhere, in Europe and Australasia, vary from country to country. The distribution facilities in which we have invested – particularly in India and China, as well as in the tiger economies of Southeast Asia – will give us increased access to these energetic and large-population economies. Such facilities will also help us exploit fully our increasing investment in localized production facilities.

SABIC people, SABIC values

We have long been committed to making SABIC a learning organization. Our SABICLearning program continued this year to develop the skills of our people and bring on tomorrow's leaders. This increasingly sophisticated and ever-expanding project is helping us build one of the deepest and most extensive resources of talent and expertise in the industry. We know that our future will be determined above all by the skills of our people and the ways they are focused on achieving the ambitious objectives we have set ourselves. SABICLearning will continue to lie at the very heart of our ability to develop sustainable competitive advantage and meet the challenges of the increasingly dynamic global marketplace that lie ahead.

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Committed as we are to leading our industry, we acknowledge and embrace the responsibilities such leadership entails. We have always endeavored to “walk the talk” to exemplify the kinds of values we espouse; to maintain clear and visible good business practices grounded in strong ethical principles. In 2008 we formalized four core values: Inspire, Engage, Create and Deliver, seeing them as central to our commitment to:

- Improving the quality of life of our people and their families, our suppliers and customers – and indeed the entire global society of which we are part
- Sustainability – we are careful in the efficient use of energy, materials and natural resources
- A comprehensive and coherent global action plan, enabling us to focus the efforts of all our people on key issues where we can make a difference.

Sustainability in particular has moved firmly up the business agenda over recent years – not just for us at SABIC, but in the business world generally. There is widespread consensus that we need to do more to enable the human race to live within the planet’s sustainable output, while enabling the less industrialized parts of the world to participate more equitably.

As a hydrocarbon-based giant based in the Gulf, we are at the forefront of confronting many of the core challenges of sustainability: depletion of non-renewable resources and scarcity of food and water; toxicity, pollution and ecological destruction; the ever-increasing demand for energy, along with the threat of greenhouse gases. SABIC expertise and SABIC determination are addressing these and related challenges around the world. The overriding challenge, as a business, is to create market value out of sustainability advances – through process improvements, by reducing costs, risks and waste, and by engaging our people.

This year we defined our ambition and goals in relation to sustainability, and established our baseline. In 2010 we will set clear and transparent operational targets, along with a strategy to meet them. We will educate, we will inspire and we will provide the resources and the support to drive success. In short, we will begin to really ‘make a difference’, in the belief that the values we see in sustainability – and CSR more widely – are key not only to our future as a company but also to our prospects as a society – a society which enables better and more fulfilling lives for all its people.

Further to its focus on sustainability, SABIC has taken the lead through the Gulf Petrochemicals and Chemicals Association to advance the Responsible Care provisions of the International Council of Chemical Associations. We have declared our commitment to this industry-wide initiative which calls on member companies, through their national and/or regional associations, to work together continuously to improve companies’ health, safety and environmental performance, and to follow rigorous reporting standards to communicate with stakeholders about their products and processes.

A year of performance, a year of preparation

2009 has been a tough year – and perhaps more tough years lie ahead. While the prospect of deep and prolonged global recession that faced us at this time last year seems now to have receded, few commentators envisage a rapid return to the vigorous and sustained period of economic growth and prosperity that preceded the downturn. Catastrophe has been averted, and the prognosis for the global economy is now somewhat more upbeat.

We have come through the recession even stronger than before. The preparations laid down in the good times served us well when times got hard. Above all, our people responded with the calm resilience, dedication and, not least, expertise we have come to expect.

Mohamed H. Al-Mady
Vice Chairman and
Chief Executive Officer

We have formalized four core values:
Inspire, Engage, Create and Deliver, seeing them as central to our commitment to improving the quality of life for our people and their families as well as our suppliers and customers.

Board of Directors

7. 5. 2.

1. Prince Saud bin Abdullah bin Thenayan Al-Saud
Chairman of the Board

2. Mohamed H. Al-Mady
Vice Chairman and Chief Executive Officer

3. Ahmed Ibrahim Al-Hakami

4. Abdulmuhsin Ibn Abdulaziz Al-Faris

5. Saleh E. Al-Husseini

6. Abdullah M. Al-Issa

7. Mohammed S. Abanumay

1. 6. 4. 3.

Helping turn vision into reality

Recognizing the strategic contribution of Lexan* sheet technology to Dublin's new Aviva Stadium, European Polycarbonate Sheet Extruders (EPSE) honored Innovative Plastics with its 2009 Best Project and Innovation Award.

SABIC worked closely with Populous and Scott Tallon Walker architects and Buro Happold engineers to exploit fully the potential of a material half the weight of glass, yet 250 times as strong, enabling a structure of audacious beauty and high performance, with significant environmental benefits.

*Trademark of SABIC Innovative Plastics IP B.V.

Aviva Stadium, Dublin, Ireland

Making the world safer

SABIC's Noryl* GTX resin reduces the weight of automotive components, improving fuel economy, cutting emissions, and delivering a whole new level of design freedom, letting OEM designers specify shapes that would otherwise be difficult or impossible to achieve.

The new material delivers lower repair costs along with these aesthetic freedoms. Most importantly, though, it helps designers and engineers meet the most stringent pedestrian protection norms, by integrating energy absorption into new generation fenders.

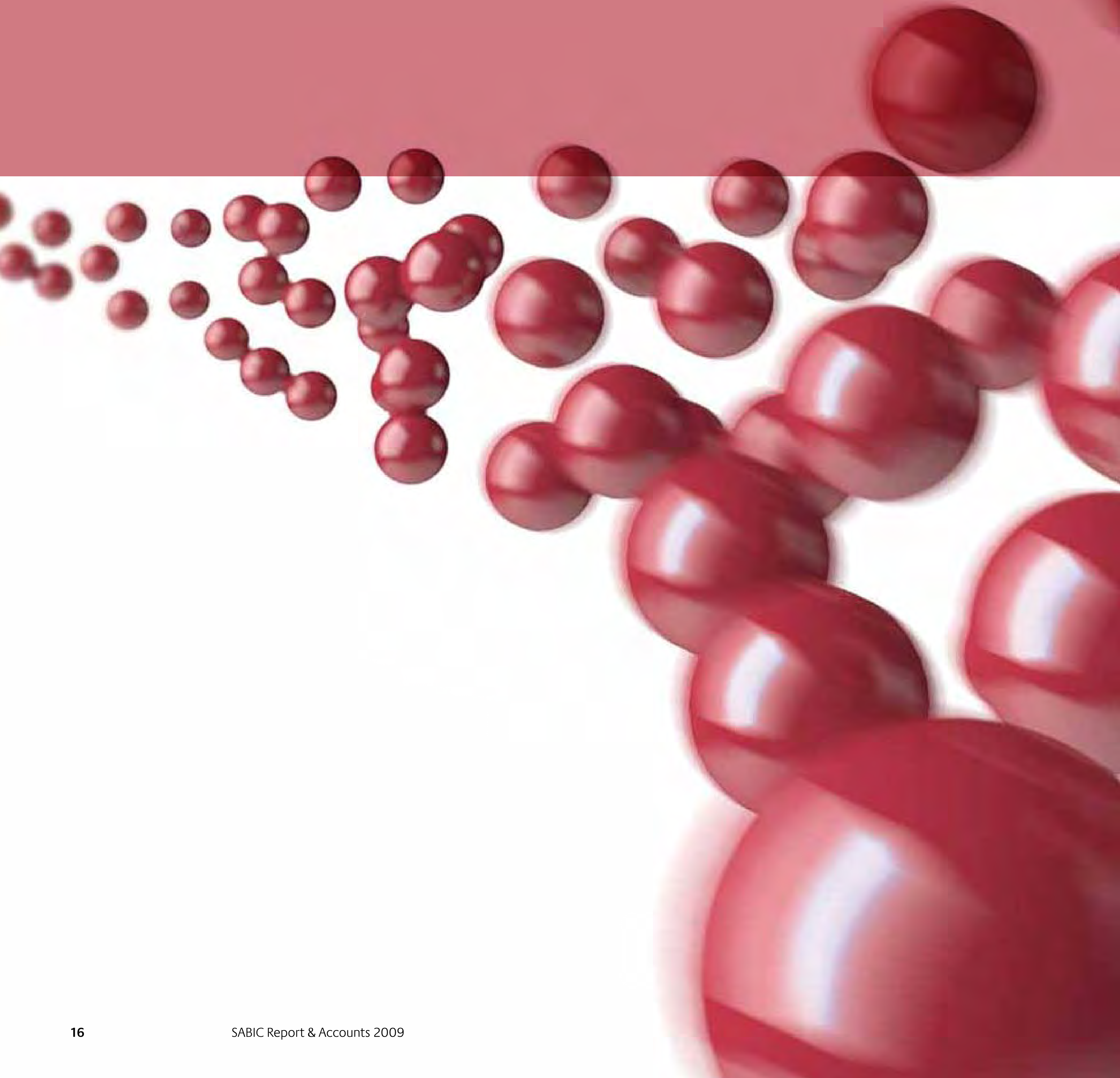

Ford Kuga

Streamlining production

A brand new SABIC-developed TiNo (titanium nitrides) catalyst for polypropylene production delivers a major improvement over its predecessor – another company's proprietary product.

With excellent morphology, reliable plant operation with high throughput and smooth grade transition, and consistent product properties and processibility, extensive trials have confirmed the new catalyst's potential to improve reliability and cut costs.

Enhancing performance



French automaker Renault Sport were developing a new, limited-edition turbocharged version of their Mégane R26, and approached SABIC for help in reducing weight as far as possible – without compromising performance or safety.

By using SABIC's lightweight, high-optical quality Lexan* polycarbonate sheet and a proprietary Exatec* blackout ink technology instead of the standard glass for the backlight and quarter window, they took 5.7kg off the total vehicle weight.

Renault Mégane R26.R

Turning waste into value

Bag house dust (BHD), a fine powder generated during plant cleaning, has always been a headache for SABIC Metals SBU: a polluting and potentially hazardous by-product entailing costly disposal and constituting an ongoing environmental threat.

Thanks to a cooperative project bringing together engineers from SABIC Technology and Innovation, HADEED and Metals SBU, BHD is now collected in bag house filters, to be sold off as a feed material for cement manufacturing, turning costs into revenues and preventing atmospheric pollution.

HADEED, Al Jubail, Saudi Arabia

Gearing-up for the future

Saudi Arabia recently declared its intention to source 15,000 defense items – from pipes to jet engine covers – from Saudi manufacturers. As a leading producer of the polymers, thermoplastics and metals required, SABIC has a key role to play.

The initiative will bring new investment and job opportunities for Saudis, not just to SABIC but to hundreds of local manufacturing firms, as the Kingdom pursues greater self-reliance in defense procurement.

SABIC at Saudi Arabia's Armed Forces Exposition

Chemicals

The products of the Chemicals unit are produced from hydrocarbon feedstocks including methane, ethane, propane, butane, and light naphtha. These chemicals constitute the most basic building blocks of a wide range of other chemicals, plastics and advanced materials, ultimately enabling the manufacture of a vast range of industrial and consumer goods.

As SABIC's largest single strategic business unit (SBU), Chemicals accounts for more than 60 percent of SABIC production, as well as manufacturing most of the raw materials used by other major SBUs, such as Polymers and Performance Chemicals. In 2009, it achieved production of 37.5 million metric tons.

The Chemicals SBU's products divide into four groups: Olefins and Gases; Aromatics and Chlor-Alkali; Oxygenates; and Glycols. Olefins and aromatics are used to produce polyester and polyolefins employed to make plastics, fabrics, and packaging materials. Oxygenates serve as solvents and to improve fuel, while glycols are used in products from polyester, and paint to antifreeze. Chlor-Alkali includes chemicals for other manufacturing processes, such as ethylene dichloride (for PVC) and caustic soda, which has a range of industrial uses including paper and textile production.

Progress in a testing year

Olefins and Gases

The first quarter was difficult with prices low, though the subsequent rise in oil prices and global economic recovery improved matters. Internal ethylene demand and butadiene sales were under pressure, particularly in the first half, due to the global economic slowdown and the delayed start-up of the new UK polyethylene plant.

In gases, nitrogen sales rose 33 percent over 2008, and the pipeline network project between the existing gas plant in Jubail 1 and the future plant in Jubail 2 was awarded.

Aromatics and Chlor-Alkali

SABIC is a global net buyer of the aromatic benzene (including the requirements of Innovative Plastics). The new 1 SABIC organization has introduced global coordination, the first major step being sourcing to meet affiliate needs. Benzene results during 2009 exceeded plan by 13 percent, and the year also saw the restructuring of SABIC's UK aromatics operations finalized. Styrene sales rose 10 percent locally and 6 percent in the rest of the Middle East. Overall export sales were up by 8 percent and by 10 percent in India despite the slow economy.

Chlor-Alkali products include caustic soda, ethylene dichloride and vinyl chloride monomer – the latter one used by the Polymers SBU to produce PVC.

Oxygenates

Oxygenates include methanol and methyl tert-butyl ether (MTBE) and ethyl tertiary butyl ether (ETBE). These alcohols and ethers have a diverse range of practical uses from improving gasoline performance to making solvents.

The global financial crisis made the first half of 2009 difficult in methanol, with slow demand in downstream applications, especially formaldehyde and acetic acid. However, global methanol sales were 4 percent above plan in 2009, with particularly strong performances in Taiwan, and in the key Indian market.

SABIC is the world's largest producer of MTBE, a lead-replacement gasoline blending component. Even though MTBE has been phased out in the US market, it continues to be a popular fuel additive due to its octane-boosting and emissions reduction properties. SABIC promotes the use of MTBE as an environmentally friendly fuel and the preferred gasoline blend in most global markets. A dedicated SABIC team is reviewing the market continuously, studying alternative uses for MTBE and our MTBE assets.

Overall, 2009 saw increased MTBE business in Asia and new relationships established with MMA producers in China. MTBE demand in Europe was relatively strong thanks to unexpected sales to South America, with reduced production from suppliers in other regions. We maintained our business in Turkey and plan for a long-term relationship with Turkish refineries.

Glycols

SABIC remained the world's number one producer with around 18 percent of the market in glycols. These products are used in a variety of applications from polyester fibers and PET bottles to antifreeze, unsaturated polyester resins, lubricants, and fluids.

A Chemicals partnership
SABIC's joint venture plant in Tianjin, SINOPEC SABIC Tianjin Petrochemical Company, will start production in the first quarter of 2010, adding 376,000 metric tons a year of glycol to SABIC's global production capacity.

2009 saw uneven supplies due to delays in the start-up of some of our new plants, and unscheduled shutdowns of some existing ones, along with volatile demand, causing overall monoethylene glycol (MEG) sales to be below plan. The global economic recovery saw prices strengthen in the second half. In Asia Pacific sales rose 700,000 metric tons, with secured contractual sales up to 3.8 million metric tons – around 88 percent of our total production. The economic slowdown saw falling demand in Europe, while sales in the Americas were 2 percent above plan, helped by new tank storage capabilities in Houston.

Diethylene glycol (DEG) sales were up 20 percent on 2008. Prices fell sharply due to a collapse in the construction industry, the largest driver in the UPR industry. Opportunities for 2010 contracts developed this year will help drive our growth in the Americas.

New production capacity

Yanbu National Petrochemical Company (YANSAB) began production at its complex in Yanbu Industrial City in July, with its first shipment of ethylene glycol leaving the Yanbu port for European customers in August. The YANSAB complex, which comprises eight world-class plants, will add a total annual capacity of more than 4 million metric tons of petrochemical products.

Eastern Petrochemical Company's (SHARQ) cracker project came on stream in Jubail late 2009, with additional production of ethylene, polyethylene, and glycols.

SABIC's joint venture (JV) plant in Tianjin, SINOPEC SABIC Tianjin Petrochemical Company, will start production in the first quarter of 2010, adding 376,000 metric tons a year of glycol to SABIC's global production capacity.

Embedding technology

1 SABIC views technology as central to future growth. It is now fully embedded, helping ensure alignment with strategy and driving innovation throughout the SBU. Technology underpins our commitment to support our customers and fully meet their needs.

Alternative feedstock including heavy feedstock processing are key focuses for technology in meeting SABIC 2020 strategy. Sustainability and renewable feedstock resources are new focus areas, exemplifying SABIC's commitment to social responsibility.

Redesigning the supply chain

The new supply chain management was successfully embedded within the SBU during 2009, redesigned to adopt best practices and staffed accordingly. We expect this initiative to deliver enhanced in-transit visibility and customer service, with shorter lead times, on-time delivery, and improved availability. Other benefits include rationalization of working capital through reduced inventory, greater agility in responding to market volatility and improved speed to market, mitigating the impact of price fluctuations and demurrage.

The process of clustering customers was completed, with delivery models and customer service levels laid down for each cluster. Our new sales and operating planning process (S&OP) was implemented, balancing demand, supply, and logistics capacity on a global basis.

Preparing for tomorrow

We are redesigning all activities to improve our profitability, with a particular focus on supply chain improvement, technology and innovation, manufacturing reliability, and approaching the entire business on a genuinely global basis.

We are working on placing new MEG capacity in the market originating from our new plants in Saudi Arabia and the JV Tianjin project in China, developing the necessary logistics planning and arrangements with customers.

We are closely looking into growth opportunities in methanol through new applications. In energy we see increased use of methanol in gasoline blending, e.g. the Chinese government approved use of M85 gasoline, and in the production of di-methyl ether (DME) for use as an LPG substitute. Other segments include methanol to olefins (MTO) and methanol to propylene (MTP).

In new products, we are developing the production of bio-MTBE based on bio-methanol. The European Union has set a target of 10 percent renewable energy use in transportation by 2020. Bio-MTBE could combine the advantage of a relatively low RVP of MTBE compared to ethanol and a renewable energy source. Moreover, bio-MTBE will be double-counted for renewable energy content in the future as our bio-methanol will be second generation, i.e. not competing with food.

Preparing for tomorrow
We are working on placing new MEG capacity in the market originating from our new plants in Saudi Arabia and the JV Tianjin project in China, developing the necessary logistics planning and arrangements with customers.

Performance Chemicals

Performance Chemicals is leading the diversification of the SABIC product portfolio toward value-adding functional chemicals and polymers. Over the coming years, Performance Chemicals will introduce more than 40 new performance products and serve new customers in growing industries ranging from personal care, construction, automotive and alternative energy to aviation. By 2020 Performance Chemicals is forecasted to account for close to 10 percent of SABIC revenues.

Performance Chemicals is aligned into three business units – Base Products, Functional Chemicals and Functional Polymers – each of which has created a distinct marketing approach, reflecting the product offering and target customer segments of each business unit.

Performance Chemicals has also created a new business "incubator" capability – the New Business Commercialization group. This embedded functional team will undertake the creation and development of new businesses bringing value for all of SABIC.

Strategic initiatives

During 2009 SABIC Performance Chemicals achieved several major milestones.

Three distinct business units have been created within the SBU to develop marketing, sales and product management capabilities for the innovative product portfolio which flowed from last year's study that identified strategic products. These business units were designed and implemented using the 1 SABIC methodology to ensure they align with the SABIC 2020 corporate vision, as well as achieving a smooth transition from the change acceleration process.

Two of the new business units generated their first revenues, with sales of a new polymer process catalyst and the transition of several operating businesses from other SBUs.

Several agreements were signed for technology licenses and joint ventures for new projects which are being developed by Performance Chemicals.

Investments create new industries

A group of chemicals derived from Performance Chemicals is implementing a range of major projects which will enhance the range of specialty performance products in the SABIC portfolio.

SAUDI KAYAN construction is progressing well. Among a number of other petrochemical products, the project will deliver performance chemicals: ethoxylates and ethanolamines. SABIC Performance Chemicals is making progress in preparing itself for successful launch of ethoxylates and ethanolamines into the global detergent, personal care and other markets.

Strenghening SABIC's position in the ethoxylate markets, Performance Chemicals has also added natural detergent alcohols, with by-products, to the SAUDI KAYAN scheme. Leveraging SABIC's existing position in the oxo-alcohols, Performance Chemicals will also be bringing n-butanol to the global paint and coatings markets. After a successful commercialization of SABIC's first LAO plant, utilizing α-SABLIN® technology, SABIC Performance Chemicals is working on strengthening SABIC's position as a global LAO player.

Together with a joint venture, Performance Chemicals is developing a project to introduce a large range of synthetic rubber and elastomeric products which will support the creation of new downstream industries in Saudi Arabia. These products will mainly serve customers active in the automotive, appliances and construction industries.

Performance Chemicals has taken a number of steps toward meeting SABIC's internal catalyst requirements. In addition to signing a joint venture with a major licensor, a decision has been made to establish a new company dedicated to manufacturing catalysts. Performance Chemicals builds on SABIC catalysts intellectual property and manufacturing excellence to drive down processes cost via catalyst production rationalization.

Investments bring new partners
During 2009 Performance Chemicals achieved a number of milestones which are significant not only to SABIC, but also to the development of new industries in the Kingdom of Saudi Arabia. The successful signing of a series of agreements will bring new products and new capabilities to the Kingdom. We have also made significant progress in automotive industry-related ventures with the conclusion of technology agreements for several products in the Saudi Elastomers project as well as automotive TPO compounding.

Investments bring revenue growth
2009 saw a major milestone for Performance Chemicals: we launched our first product sales with the transfer of several existing businesses as part of the new 1 SABIC operating model project. These included linear alpha olefins, acetic acid, dioctyl pthalate, 2-ethylhexanol and several process catalysts.

Performance Chemicals brings SAUDI KAYAN on-stream
Our performance chemicals will be manufactured at Jubail when the Saudi Kayan Petrochemical Company (SAUDI KAYAN) goes on-stream in 2010. The plant has an initial production capacity of 6 million metric tons a year.

Innovative Plastics

Industry-leading innovation

Innovative Plastics is a multi-billion-dollar SBU with more than 9,000 employees and operations in over 35 countries. It continues to lead the plastics industry through close collaboration with customers, substantial investment in new polymer technologies, application development on a global scale, innovative process technologies, and environmentally responsible solutions in almost every area of modern life, from automotive, aviation and electronics to construction, alternative energy, and health care. The extensive product portfolio includes thermoplastic resins, specialty compounds, film and sheet products, and coatings.

Developing opportunities for our customers

In 2009, Innovative Plastics' materials continued to expand business opportunities for our customers.

In the consumer electronics industry, our Color Innovation Center continues to present new ideas promoting eco-responsibility, such as aesthetic laser marking and molded-in colors and effects to replace paint in mobile telephones, computers, and other devices. The introduction of Lexan HFD (high flow ductile) resin enabled new design options in applications featuring thin-wall parts, complex geometries, and low temperature toughness.

Many automotive makers are benefiting from Innovative Plastics' design innovation. Components molded from SABIC materials have received four honors at the 2009 Society of Plastics Engineers Automotive Innovation Awards. Noryl* GTX resin fenders won the Hall of Fame award, given to an application selected by multiple automotive companies and in production for over 15 years. Noryl GTX resin was also honored in the SPE Safety category following its selection for the first pedestrian-compliant plastic fender on Ford's new Kuga SUV.

Automakers are looking to reduce the weight of their vehicles while maintaining the highest possible performance. On its new, limited-edition turbocharged Mégane R26, Renault took 5.7kg off the total vehicle weight by replacing the backlight and quarter window glass with SABIC's lightweight, high-optical quality Lexan* polycarbonate sheet with a proprietary blackout ink technology developed by Exatec* LLC, a wholly owned subsidiary of Innovative Plastics.

Exatec's Lexan GLX* product was also selected by Hyundai Motor Company for the three-dimensional rear window and high-mounted brake light of its new, compact "ix-onic" SUV concept.

Meeting aviation's challenges

Today's aviation industry faces complex challenges in a time of rising operations costs, environmental concerns and more stringent customer demands.

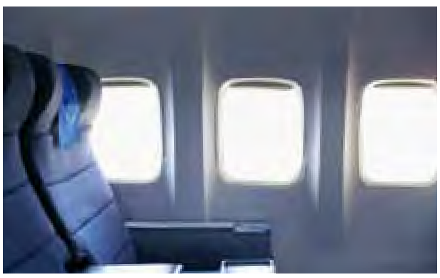
In 2009, Innovative Plastics brought new technology solutions to the aviation industry in consumer safety, total cost of ownership, and weight reduction. These included a new flame-retardant Lexan* sheet for windows, light diffusers and signs; a lightweight Ultem* foam base composite for aircraft components, offering outstanding fire, smoke, and toxicity performance (FST); and Lexan FST resin and XHR sheet, designed to meet both current and future Ohio State University requirements and new FST regulations in aviation.

Advancing health-care applications

Today's health-care industry demands constant innovation to meet ever changing, ever more stringent regulatory, quality and cost requirements.

Innovative Plastics continues to demonstrate materials leadership in the medical device market with a comprehensive health-care product policy for its 50 high-performing health-care materials, all designed to help health-care manufacturers meet regulatory compliance in their applications.

Our health-care product policy is contributing to ever faster industry and regulatory approvals and successful commercialization of a range of medical devices. In 2009, a new consumer health-care product incorporating our materials was introduced – the Breastlight, a home-use device for breast self-examination using our Cycoloy* PC/ABS resin for the housing, and Lexan resin for the lens.



Lexan sheet
Innovative Plastics is helping aircraft manufacturers confront multiple, often contradictory, pressures, from tougher heat-release regulations to demands for increased safety, lower costs and enhancements to customers' flying experience.

The new Lexan XHR6000 sheet meets every challenge. Applications include seating, cockpit linings, window surrounds, door shrouds, and other interior components, making it easy for manufacturers to produce attractive, lightweight, and compliant interiors for the next generation of aircraft, while keeping costs down.

Helping customers reduce weight, while improving performance

In 2009, an expanded polybutylene terephthalate (PBT) product family met electrical manufacturers' thin-wall design requirements in connectors and excess voltage cut-off switches. New materials such as glass-filled Super High Flow Valox* SHF resins, offering twice the flow length of standard glass-filled PBT, reduced both the cost and the weight of these products.

Hyundai Motor India Limited (HMIL) selected Xenoy* PC/PBT alloy for its i10 vehicle's energy absorber – an alloy offering superior absorption efficiency in the i10's limited space, while meeting stringent European safety regulations for lower leg impact.

Karbon Kinetics Ltd's new Gocycle® folding electric bicycle uses high-performance LNP* Verton* composite rather than metal, to achieve a weight of just 16.2kg along with excellent durability.

Better serving large volume markets

This year, Innovative Plastics introduced its SABIC® PC resin product portfolio to serve high-volume applications in the sheet extrusion and optical media markets. The strategy offers customers a fully internet-enabled product portfolio offering overall savings to customers.

Reducing system costs

Innovative Plastics' technology consistently delivers lower overall system cost.

In 2009, Vitality Foodservice improved cost productivity by manufacturing a new low-dose pump from Ultem resin for its latest coffee dispensing system. Lexan Constant Clear* film offers a new, energy-efficient way to keep freezer and refrigerated cases' doors fog-free, helping major supermarket chains reduce energy costs. And Lexan SD security and electronic identity card films' excellent printability, lamination and laser markability properties were specified by several European countries for e-passport data documents production.

Manufacturing investment driving growth

In 2009, Innovative Plastics made a number of strategic investments in production capacity to meet increasing demand for its products around the world.

The STAMAX® product line, previously available only in Europe, was introduced in North America with production capabilities in Michigan, USA. North American and Tier automotive companies are now able to purchase STAMAX LGFPP (long glass fiber-filled polypropylene) in the United States.

Innovative Plastics' growth in Asia Pacific expanded with new capacity investments in both China and India. Resin compounding production in Nansha, China, increased 30 percent, while in India two new Lexan sheet extrusion lines for solid and corrugated sheets were brought on line to supply the transportation and sign markets and support growth in the industrial roof lighting and glazing segments.

Sustainable materials to protect the environment

In 2009 our materials were in the spotlight for reducing environmental impact across many industries.

In building and construction, Innovative Plastics introduced high-performance Lexan Thermoclear* nine-wall polycarbonate sheet to strengthen building designs while increasing energy conservation, improving working and living environments, and promoting recycling.

Our focus on sustainable materials earned the 2009 Green Dot Award™ in transportation, for pioneering work on the Hyundai QarmaQ Advanced Technology Demonstration Vehicle (ATDV), and the Responsible Care Award for our eco-responsible Valox iQ* resin, which incorporates up-cycled PET resin.

Motorola and SABIC worked together on the development of a new eco-engineered Lexan EXL* resin, which contains up to 25 percent post-consumer recycled (PCR) content from discarded water bottles and provides a sustainable thermoplastic solution for Motorola's MOTO® W233 Renew mobile phone, the world's first certified carbon neutral device.

Innovative Plastics continues to be the innovation leader in the engineering plastics industry. We are focused on materials, design and process innovations that help our customers succeed. Our focus on "growth through innovation" will be the key to our future success.

Reducing weight for automakers
On its new, limited-edition turbocharged Mégane R26, Renault took 5.7kg off the total vehicle weight by replacing the backlight and quarter window glass with SABIC's lightweight, high-optical quality Lexan* polycarbonate sheet with a proprietary blackout ink technology developed by Exatec* LLC, a wholly owned subsidiary of Innovative Plastics.

Polymers

SABIC is a major producer of the two most important Polymers: Polyethylene (PE) and Polypropylene (PP). The PE range includes all of the commodity thermo-polymers: Linear Low Density Polyethylene (LLDPE), Low Density Polyethylene (LDPE), and High Density Polyethylene (HDPE). The PP product range includes Random, Homopolymer, Copolymer and specialty automotive grades. The Polymers SBU's other key products include Polyester, Polyvinylchloride (PVC) and Polystyrene.

In a year whose tone was largely set by the world economic downturn, a number of initiatives were undertaken to widen the customer base, improve productivity and reliability, increase total production – particularly in China and the wider Asia Pacific region – and improve distribution capabilities and resources. All told, around 8.7 million metric tons of product were delivered worldwide during the year – an 8 percent increase over 2008.

Polymers supply chain management

SABIC introduced best global supply chain practices throughout its polymers supply chain, by optimizing the flow of raw materials, products and information between SABIC and its global suppliers and customers.

SABIC always seeks to minimize total supply chain cost, through optimum utilization of SABIC capabilities and resources. Strong planning is key, as is active and hands-on management – all channeled through a common IT platform with effective hand-on-hand efforts and communications with all concerned parties – so as to achieve the goals in terms of profit and overall customer satisfaction.

Some 21 warehouses situated around the globe were utilized as product supply stations to be as close as possible to SABIC customers, resulting in a reduction of the lead time required to deliver products for better customer satisfaction.

Innovative catalyst system developed

SABIC developed a polypropylene catalyst called TiNo for polypropylene production that offers substantial improvement over the currently used catalyst. Highlights of improvements include excellent morphology, consistent and reliable plant operation, high throughput, smooth grade transition, consistent product properties and processibility, and the potential to expand the product range.

Reliability improved at Unipol PE/PP reactors

An across-affiliate task force team studied the phenomenon of chunk formation, noting variation between affiliates in hardware and process control procedures. The corrective measures put in place made 2009 a year of excellent reliability, with zero loss of polyolefin production due to chunking.

Increasing presence in China

November saw the inauguration of the new Tianjin petrochemical complex in Tianjin, China, following approval from the Chinese government in July 2009. SINOPEC SABIC Tianjin Petrochemical Co Ltd. (SSTPC) is a 50/50 joint venture between SABIC and China Petroleum & Chemical Corporation (SINOPEC). Sales quantities in China also increased following start-up of a plant under the new SABIC-Aramco marketing agreement.

SABIC in Asia
A number of initiatives were undertaken to widen the customer base, improve productivity and reliability, increase total production – particularly in China and the wider Asia Pacific region – and improve distribution capabilities and resources.

Successful start-ups

SHARQ (Eastern Petrochemical Company) achieved a safe and smooth start-up of the world's largest MEG plant, with on-spec product within 50 hours and full production inside eight days. SHARQ PE -3 and PE -4 plants also started up, producing LLDPE and HDPE.

YANSAB (Yanbu National Petrochemical Company) announced the successful start-up of commercial operations during the year at its plant in Yanbu Industrial City. The YANSAB complex comprises eight world-class plants with a total annual capacity of more than 4 million metric tons of petrochemical products.

During the year Polymers SBU also set a new record of over 1 million metric tons for PP sold from Saudi assets and increased the PET business in the local and regional market, with local sales up from 40,000 to 135,000 metric tons and exports up from 12,000 to 91,000 metric tons. Polymers SBU also increased direct and e-commerce sales and also increased its market share in the key markets of North and South America and Central and Eastern Europe.

The year 2009 also saw integration of SABIC's Asia Pacific offices in Beijing, Seoul, Taipei and Tokyo with those of SABIC Innovative Plastics. The SABIC Hong Kong office also merged with the Shenzhen office and moved to larger premises to accommodate the increased workforce.

The year also saw the introduction of new products, including three new PP grades, and the implementation of improved cost control measures.

New facilities in Europe

Polymer production at Wilton, UK (LDPE System 18 Project) began manufacturing polymer in October 2009.

SABIC's new Specialty Compounding facility in Belgium began production this year. It is the largest green field compounding plant ever built in Europe.

SABIC's new HDPE bi-modal slurry plant, the LD6 in Gelsenkirchen, Germany, also began production during the year.

SABIC's new Specialty Compounding facility in Belgium
The largest green field compounding plant ever built in Europe began production this year.

Fertilizers

SABIC's Fertilizers SBU makes urea, ammonia, phosphate, and liquid fertilizers at three manufacturing affiliates: the Saudi Arabian Fertilizers Company (SAFCO), the Al-Jubail Fertilizer Company (AL-BAYRONI), and the National Chemical Fertilizer Company (IBN AL-BAYTAR).

SABIC has steadily built up its fertilizers capability and is now one of the industry's global leaders, particularly in nitrogen. SABIC production supplies nearly all of Saudi Arabia's urea and most of its phosphate and ammonia, and has become a leading supplier to the Far East, Africa, Australasia, and North America.

Success has been built over the years through alertness and adaptability to customers' needs, the supply of a wide range of high-quality products, and efficient and responsive distribution backed by excellent customer service.

Progress in a challenging year

The news during 2009 was largely dominated by the impact of the global financial crisis, which had a notable effect on prices, as well as demand in some regions. During the second half of the year, however, SABIC saw moderate improvement and recovery in its fertilizers business and was successful in meeting the growing demand in Asia. Shortfalls in some countries also constrained global availability of supply somewhat, thereby improving global prices.

During 2009, ammonia sales passed 900,000 metric tons, representing an increase of some 2 percent over 2008.

The dust emission project at AL-BAYRONI was commissioned during the year and similar work at SAFCO will also lead to project commissioning there in 2010, with both facilities representing a sizable investment in this environmental protection project. During the year AL-BAYRONI 50/50 joint venture between SABIC and the Taiwan Fertilizer Company was renewed.

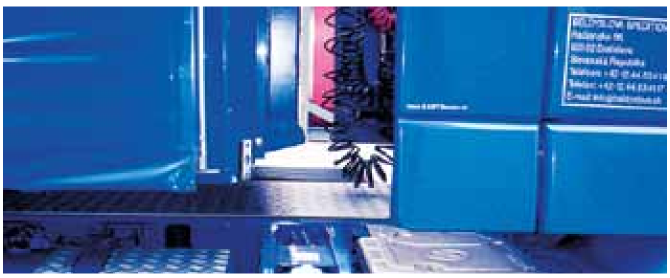
Urea

Fertilizers SBU is also now the world's single biggest exporter of granular urea. Significant new worldwide urea capacity hit the market during the year, and the company faced stronger competition in some strategic markets. SABIC urea has strong presence in key markets such as South Africa, Southeast Asia, North America, and the Indian Subcontinent.

Ammonia and phosphates

The year in ammonia and phosphates was largely driven by a concerted response to the global recession's downward pressure on demand. In this challenging environment, SABIC focused on strengthening the foundation for future growth by building and maintaining strong customer relationships and working to increase market share in all regions.

One of the major challenges of 2009 was to meet the needs for additional quantities of ammonia in order to meet outstanding commitments. The short-term challenge was successfully met and led to a long-term agreement and pipeline facilities between SAFCO and a local producer to supply quantities of ammonia in such cases. This solution brings both environmental and road safety benefits, and should in due course lead to increased ammonia sales.



Reducing emissions

AdBlue is a high-purity aqueous urea solution which uses an SCR (selective catalytic reduction) process to reduce diesel vehicles' nitrogen oxide emissions.

Legislation to control such emissions is in place in Europe and Japan, and due for introduction in the US in 2010. Overall, the global market is estimated at up to 3 million metric tons a year by 2012.

SABIC AdBlue is already selling in Europe and Japan, and moves into the US market are in hand.

The year also saw supply challenges affecting both diammonium phosphate (DAP) and nitrogen, phosphorus, and potassium (NPKs). Supply shortages and high prices were overcome by working closely with farmers locally, to meet their inquiries and fulfill their requirements.

Fertilizers SBU also anticipates and is preparing for future demand in Saudi Arabia, particularly increasing demand for ammonia used in industrial applications – acrylonitrile and di-methyl formamide. The company also targets sales and stronger market presence in growth markets around the world, such as Asia, where significant market growth is likely over the next few years.

Supporting regional agriculture

SABIC continued working closely with farmers in the Gulf region, listening to and responding to their concerns, and offering direct "on the ground" help. The year saw an extension of activity into the Jizzan area by increasing farmers' awareness of SABIC fertilizers products. SABIC carried out a two-year field experiment on mango and fig trees using SABIC fertilizers in comparison with an imported product. Results were positive and significant, with impressive yield and fertilization costs and excellent feedback. Support for commercial and academic research continued, including backing for projects at research centers operated by the Ministry of Agriculture. SABIC support helped establish a modern laboratory for soil, water, and plant analysis to assist farmers achieve better management and yield improvement.

SABIC also provided research support to King Abdulaziz City for Science and Technology, and other higher education facilities such as the King Saud University in Riyadh and the King Faisal University in Al-Ahsa, offering further evidence of commitment to strengthening agriculture in Saudi Arabia and in the Gulf region.

Events in 2009

Fertilizers SBU attended a number of industry events over the course of the year, meeting our customers and extending awareness of our products. These included: the 77th International Fertilizer Industry Association (IFA) Annual Conference in Shanghai; the Saudi Agricultural Exhibition in Saudi Arabia; and the Saudi East African Forum in Ethiopia; and other related forums and global meetings.

A new joint venture

Construction began on the Phosphate Project, Ma'aden Phosphate Company joint venture between SABIC, with 30 percent ownership, and Saudi Arabian Mining Company (Ma'aden), with 70 percent ownership. Start-up is scheduled for the end of 2010 to early 2011. Production figures are planned at 2.9 million metric tons of DAP and 1.1 million metric tons of ammonia, with some spare quantities of ammonia available for the next five years.

Establishing a modern laboratory
SABIC support helped establish a modern laboratory for soil, water, and plant analysis to assist farmers achieve better management and yield improvement.

Metals

Sound performance in a testing year

The Metals SBU oversees the running of the wholly-owned Saudi Iron and Steel Company (HADEED) and runs SABIC's other metals operations: the Aluminum Bahrain (ALBA) joint venture and the Gulf Aluminum Rolling Mill Company (GARMCO), also in Bahrain.

HADEED is the region's leading steel producer, manufacturing both long and flat steel products. Long steel is used in girders and wire rods, mostly in the construction industry; flat steel forms panels, used to make oil drums, car parts and household appliances. HADEED sells to customers in more than 30 countries around the world. It plays a particularly crucial role in the Gulf, where it provides the raw materials for many other companies across a wide range of industries, and is central to the development and construction of basic infrastructure throughout the Middle East.

2009 production, particularly in flat product, was hit by the global economic crisis, mostly in the first quarter, continuing a trend set in the final quarter of 2008. A combination of high inventory and restricted demand led to a number of temporary plant stoppages. By the second quarter demand and production began to pick up, and by year end production was at 4.776 million metric tons.

Sales performance was even better. HADEED exceeded its 4.885 million metric tons target by 5.5 percent, achieving total sales of 5.153 million metric tons, probably aided by prices lower than those prevailing in 2008.

We also took a number of steps to optimize our raw material procurement strategy:

- Negotiated a substantial reduction in iron ore prices, achieving discounts
- Renegotiated some 2008 terms, achieving substantial discounts
- Used 420,000 metric tons of zero value scrap, producing cost savings between December 2008 and May 2009.

Other highlights of the year included:

- An increase in long products market share to 55 percent
- The annual sales of long products were 11 percent ahead of plan
- Long products direct sales were maintained for a second consecutive year, achieving 200,000 metric tons and cost savings
- Signed six straightening service contracts for about 108,000 metric tons per year, with shipments beginning in October
- Adopted credit coverage for made-to-order production, cutting ready for dispatch inventory from 173,000 to 63,000 metric tons between January and end-October.

Safety and security

2009 continued a decade of excellent safety, recording at 0.44 for direct-hire employees and 0.34 for contractors. The incident rate for direct-hire employees is the lowest ever since the start-up of the company.

Over the year, HADEED received the following awards

- SABIC "SHE Excellence Award" with a score exceeding 80 percent, ranking it sixth of 19 SABIC affiliates
- The International Sector Award 2009 from the UK's Royal Society for the Prevention of Accidents, recognizing sustained achievements in occupational Health and Safety management systems and culture, outstanding control of risk, and very low levels of error, harm and loss in comparison with industry peers

Leading steel producer
HADEED is the region's leading steel producer, manufacturing both long and flat steel products.

- World Steel Association Safety & Health Excellence Recognition award 2008 for the development of the HADEED Safety Management Plan
- International Safety Award 2008, marking four consecutive years of successfully meeting British Safety Council requirements.

New projects and expansions
On November 14, HADEED signed an agreement with Italian company Danieli for the construction of a steel plant and a production line for long products in Jubail, Saudi Arabia. The new plant, scheduled to start up in the second half of 2012, will have an annual production capacity of 1 million metric tons of steel billets, bringing HADEED's total production capacity to 6 million metric tons, 4 million being long products. The new plant will make HADEED self-sufficient in feedstock, intermediate and finished products. HADEED will now produce enough steel billets to meet its long production lines' needs, high-quality specialized wire rolls for plants currently relying on imports, and all the needs of special projects.

Technology and innovation
2009 brought a focus on process improvements and product developments to the Metals Technology Section (MTS) at SABIC Technology Center in Jubail. More than 20 projects were completed, including development of new high-strength line pipe steel products.

For one example, MTS together with Metals SBU and HADEED conducted extensive research on the development of heavy gauge (10-15.8 mm) high strength (X60 and X65) and high toughness pipe steels for sour gas applications, addressing one of the most critical pipe steel needs for Saudi Aramco and other regional oil and gas companies. A HADEED mill has become one of only four worldwide to be registered with Shell Global Solutions, enabling it to supply flat steel for pipe for both sour and non-sour applications.

Improving the supply chain
In November, Metals SBU went live with the new 1 SABIC strategy, including implementation of EMDAD, SABIC's supply chain management project. On November 4, the Metals SBU and HADEED became the first team to receive formal approval of all its 13 EMDAD blueprints.

Developing our people
Our employees are the single most important key to our business success. 85 percent of our employees in both the SBU and HADEED are now Saudi nationals. We are increasing our investment in our people, enhancing their knowledge and skills to meet the demands of a modern heavy steel industry and the nation as a whole.

Several programs were carried out to improve employees' skills and knowledge. For one example, our new job qualification program will offer all employees clear and consistent learning and training programs, with systematic grading to steadily raise competency levels, with incremental awards for achievements.

Behaving responsibly
The year saw a number of social responsibility initiatives, mostly focused on improving safety, health and environmental awareness within employees' families, schools, colleges, and the company itself. These included two vehicle safety inspection campaigns on employees' vehicles, AH1N1 and home safety awareness campaigns for employees and their families, and a traffic safety campaign for high school students.

Technology and Innovation

Restructuring for the future

In line with 1 SABIC strategy, SABIC Research and Technology has been completely restructured.

In recognition of innovation's key role in driving rapid growth, boosting market share and enhancing corporate positioning, the unit's name was changed to Technology and Innovation (T&I): a single, unified global organization, fully aligned with the SBUs' research and development plans, and equipped to help them fulfill SABIC customers' needs. Technology departments were created within SBUs, and all SABIC Technology Centers linked up via a virtual network. T&I began establishing a portfolio for corporate projects aligned with the company's strategy, along with a separate initiative focusing on sustainability, with its own project portfolio.

Development of new products and services and the provision of customer support continued. During the year the unit responded to more than 230 technical support requests from affiliates. Enterprising research programs continued to generate innovations in catalysts, polymers, metals, materials and corrosion with a direct impact on the company's businesses.

Catalysts

2009 saw development completed at IBN ZAHR PP plant of SABIC's advanced PP Ziegler-Natta catalyst (TiNo). The new catalysts displays outstanding performance in polymer morphology, productivity, selectivity, and reactor operability, and will significantly strengthen SABIC's competitiveness in polypropylene. A new cost-effective process has been developed to synthesize metallocene catalysts at a competitive price, which in turn will make the metallocene-based polymerization feasible.

New processes are being developed for the aromatization of light naphtha as well as for toluene methylation to paraxylene, in line with the SABIC 2020 feedstock strategy. Third party involvement is now required to reduce time to market, and discussions are underway with a view to establishing and structuring appropriate partnerships. A new environmentally friendly, chromium-free catalyst, which is being developed for the dehydrogenation of isobutane, is under advanced level of testing.

During 2009, there was a revival of interest in the catalyst technology for making Vinyl Acetate Monomer (VAM). SABIC was approached by another company, seeking a detailed discussion of the proprietary technology that produced a more efficient VAM catalyst than any available commercial products.

Performance chemicals

In 2009, SABIC and the German-based Linde Group announced the first successful commercialization of Linear Alpha Olefins (LAO), using their co-developed α-SABLIN® technology. The process uses ethylene as a feedstock for a one-stage homogeneous reaction that produces a full range of high-purity LAOs, from light cuts such as butene-1, hexene-1, and octene-1, used for polyethylenes to heavy cuts used in lube oil additives, surfactants, oil field chemicals, and wax products.

Polymers

A new K59 SPVC grade was developed using a novel polymerization recipe that increased productivity by about 35 percent, with around 45 percent less suspending agent. This replaced the K57 grade, displaying better heat stability and mechanical properties.

Successful trials were conducted at PETROKEMYA's EPVC plant on a new EPVC grade for foam applications before evaluation at SABIC customers' sites. Commercialization will begin in the first quarter 2010, and is expected to improve SABIC EPVC products' market share.

EPS polymerization recipe was modified to manufacture grades with better properties in less time. The improved product was successfully evaluated at three SABIC customers' sites. A lower pentane level in EPS beads will cut volatile hydrocarbon emissions, and commercialization is scheduled for quarter two 2010.

First trials of a bio-degradable copolyester product for specific film application were very successful. Several parties showed interest and trials on a commercial scale were scheduled for early 2010.

Innovative Plastics technology
The first half of Innovative Plastics technology's year was about putting the new business model in place while coping with the economic downturn. Some focus turned to internal processes with a view to improving efficiency in preparation for the upturn. The Technology team also supported transfer of production from old plants which were being closed to more efficient ones, while continuing to invest in new products and processes.

A new ULTEM* (polyetherimide) plant was constructed in Cartagena, Spain. New process chemistry and technology will enable production of a wider range of materials through the use of alternative monomers following start-up, set for spring 2010.

The year saw a number of new products introduced, including the two examples given below:

A new line of products based on the innovative co-polycarbonate (Lexan* HFD), which incorporates a soft block into the backbone of the polymer, was commercialized. The modified polymer architecture brings an improved flow-ductility balance, offering numerous advantages across a broad range of applications. Also, LNP has commercialized the first two products suitable for Molded Interconnect Device (MID) technology, which combines electrical and mechanical functions, such as an antennae into a cell phone housing.

Metals
Major achievements included development of two new high strength line pipe steel products suitable for sour gas applications, to meet the regional oil and gas companies' most critical pipe steel needs. Several projects to develop other new steel products, cut production costs and boost productivity, have also been completed. As an indication of SABIC's strength in the Metals Technology field, SABIC product development scientists have won the 2009 first prize award from the Arab Iron and Steel Union (AISU).

T&I continued working to enhance facilities' performance, implementing advanced process control in five more chemical and polymer plants, boosting capacity by 2 to 3 percent.

Materials and corrosion
T&I provided high-level technical support and expertise to all SABIC affiliates in mitigating and/or preventing corrosion of plant equipment and structures, avoiding failures and unplanned shutdowns and ensuring structural integrity. T&I corrosion experts have also been heavily involved in reliability studies and assessment such as that for SADAF MTBE plant. Verbal and online consultations were also provided on several corrosion-related issues or queries related to materials selections, concrete durability, coatings, and cathodic protection systems. Building on SABIC success in the field of Materials and Corrosion, a senior scientist at T&I has also won the 2010 NACE technical achievements award (NACE being known as the world's largest and most recognized corrosion association).

Opposite page
Wet-chemistry laboratory (both images).

This page
Scale-up unit for a polyolefin catalyst.

New centers of excellence

SABIC began constructing three SABIC Technology and Application Centers in Riyadh, Bangalore, and Shanghai. Riyadh SABIC Application Center (SAC), part of the new Riyadh Techno Valley at King Saud University, will aim to increase SABIC market share by developing new applications for products. Equipped to include the full current and future polymer portfolio, it will be the largest application development center operating as a center of excellence for automotive, packaging and compounding, will work closely with other SACs and will train customers and employees. The centers in Bangalore, India, and Shanghai, China, are intended to replace the facilities SABIC Innovative Plastics uses within GE-integrated sites. Plans and designs are set, land is being acquired, and project teams are in place. Progress is on-track for the scheduled opening by 2012.

Intellectual property

SABIC has a broad intellectual property portfolio with ownership rights or licenses to about 3,760 active patents, and 3,394 pending patent applications worldwide. We also have over 1,300 trademark registrations worldwide for marketing of services and products, including most commercially significant countries.

Sustainability

In 2009, T&I sponsored an initiative to create a Sustainability department and Executive Council to engage all of SABIC in the emerging global business emphasis on social, economic, and environmental sustainability. SABIC's Executive Sustainability Council has reaffirmed the company's commitment to environmental stewardship, believing research must help improve industrial processes and manufacture safer, more efficient and sustainable products. We have been looking at ways to reduce the impact of SABIC operations and products, particularly in terms of GHG emissions, energy and water usage and waste generation, and to provide our customers with products that improve their environmental footprint.

We are, for example, looking to make new and durable materials from recycled PET waste without compromising performance. This "upcycling" technology was recognized by CEIFIC who awarded SABIC in Europe their Responsible Care Award for 2009.

Career development

Several tailor-made workshops and training courses were conducted in collaboration with SABICLearning and SABIC Training Department to train employees in the skills needed by HADEED, Metals SBU, and customers' personnel.

Some T&I sections developed and implemented career development plans for their engineers. Regular meetings were held to monitor the career plan progress of each engineer. In-house training programs tailored by T&I experts were attended by many T&I employees.

An additional two courses and one workshop on metals technology and steelmaking were organized in cooperation with external research centers.

Exhibitions, conferences, and publications

The 4th Biannual Quality Assurance Laboratory Forum (QALF) was held under the theme, "Quality is the Secret of Success". Seeking to open new doors for developing scientific and practical skills, the forum aims also to integrate ways, methods and practices of SABIC laboratories around the world.

T&I took part in the second 'Recycling & Waste Management Saudi Arabia Exhibition,' held in Riyadh.

Left to right
Scale-up unit for a polyolefin catalyst.

Preparation of a polyolefin catalyst.

Nine papers were submitted to regional and international conferences, and accepted for presentation and publication. Eight further papers were submitted by SABIC Innovative Plastics at the technical meeting of the Society of Plastics Engineers in Chicago, in June 2009. A paper presented to the IPC (Association Connecting Electronics Industries) 2009 annual APEX conference in Las Vegas was honored as one of the two best domestic papers. Finally, SABIC Innovative Plastics won four of 10 global innovation awards at the 2009 Society of Plastics Engineers meeting in Detroit, including the "Hall of Fame" award for Noryl* GTX* fenders.

Collaborations

In August 2009, Metals Technology Section (MTS) of SABIC Technology Center at Jubail, signed an agreement with the Advanced Steel Products and Processing Research Center (ASPPRC) at Colorado School of Mines (CSM) making SABIC a member of CSM steel research center, and SABIC delegates attended the second 2009 CSM semiannual meeting in September.

We also began setting up a similar cooperation with a renowned research center at the Carnegie Mellon University, specialized in steelmaking and casting processes.

Collaborations with many local universities such as KAUST, KFUPM, KSU, and Taif University have also started to address various industrial relevant research needs.

In 2009, Technology and Innovation sponsored an initiative to create a Sustainability department and Executive Council to engage all of SABIC in the emerging global business emphasis on social, economic, and environmental sustainability.

Supply Chain (EMDAD)

2009 saw the start-up of phase three of EMDAD project. This, the implementation phase, comes in the wake of two phases of hard and diligent work, developing the general strategy and detailed designs for implementation. This year also witnessed several milestones achieved by EMDAD toward the fundamental objective: establishing a leading supply chain for SABIC.

The focus of EMDAD project, on customer service in particular, will enable the company to provide the right service to customers at the appropriate level and cost, and help achieve the highest levels of customer satisfaction.

In addition to the improvements in working procedures and customer services, those relating to logistics are:

- Building logistical support facilities in Jubail and Yanbu and linking them to SABIC and its affiliates via a fiber optics network. These facilities will provide many benefits, including attracting and developing investments in Jubail and Yanbu, creating large numbers of jobs, and helping protect the environment and enhance road safety by reducing traffic and congestion inside Jubail and Yanbu on the Dammam–Jubail and Yanbu–Jeddah highways. These are in addition to many other economic advantages to SABIC, the most important being reducing delivery lead times to unprecedented levels, coupled with the rationalization of inventory in the supply chain in general.
- Building a truck station in Jubail and enhancing security and safety by tracking the movement of trucks entering and leaving, while improving road safety through prior testing and inspection of trucks in the station.
- Working closely with the General Authority of Sea Ports and major shipping companies to upgrade and develop the facilities and equipment at Yanbu and Jubail commercial ports and increase exports through these ports. Cooperation is still ongoing with the administrations of both ports.

EMDAD project team has also developed integrated work procedures to boost the effectiveness of the supply chain management mechanisms and apply the best internationally established practices as ratified and adopted by strategic business units and core functions.

A new online business portal has been created and designed to help customers communicate more effectively with SABIC. It enables the issuing, cancellation and amendment of orders, and offers access to information on products, orders and invoices. The project team has also completed a number of Master Data Management Blueprints, which will help bring many improvements to day-to-day business, such as developing reports, supporting strategic decision-making and enabling better operations.

Safety and security
SABIC supply chain operations enhance security and safety by tracking the movement of trucks entering and leaving, while improving road safety through prior testing and inspection of trucks.

The project team completed the necessary changes to the management structure according to the new supply chain and 1 SABIC project requirements. Supply chain functions were created within all strategic business units. EMDAD project also helped achieve these changes through cooperative sessions with the 1 SABIC team, during which a new management structure supporting the new supply chain EMDAD-provided capabilities was adopted, within the 1 SABIC organizational structure.

EMDAD project focused on Business Intelligence, utilized in collecting and analyzing data and preparing reports, Key Performance Indicators (KPIs) and operational reports. This Business Intelligence system enables the company to gain a true and accurate picture based on consolidated information, in turn enabling faster and more accurate decisions.

The considerable improvements which EMDAD project brings to SABIC's performance in general and the supply chain in particular require employees with the knowledge and skills to use the technology effectively, while assuring the adoption and internalization of this knowledge and its further development within the company after the project's completion. In this context, the EMDAD team and SABICLearning Center completed an integrated training plan including 96 programs for all levels. A large number of employees involved in EMDAD were reinstated in affiliates and SBUs to carry out the responsibilities of supply chain management and to ensure the optimal utilization of knowledge, expertise and transfer to employees.

Supply chain functions
All supply chain functions within strategic business units benefit from EMDAD-provided capabilities.

Our People

SABIC's dedication to being a "learning organization" is long-standing and widely recognized. We invest in our people because we know they are our future. Their capabilities and commitment are the single most important factor in determining where we can go and what we can achieve. Helping them achieve their potential and deliver to the full extent of their capabilities is more than just a commercial imperative. We put our faith in our people and invest in them because it makes good business sense – but we also do it because ultimately SABIC is, above all, SABIC people.

Great employer, great employees

The last year provides powerful testament to the value of investing in our global family of 33,000 employees. Against a difficult economic backdrop, SABIC's year, while challenging, has been significantly more upbeat than many other large global organizations due to SABIC's underlying financial strength and a culture that takes the long-term view. The calm professionalism of our people has been brought to the task of steering the company through these difficult times while simultaneously continuing its preparation for the challenges that lie ahead.

Despite market turbulence, we maintained our well-established policy of substantial and continuous investment in developmental programs. Such programs, we believe, serve not only to develop and enhance the skills of existing employees, but also to raise the caliber of applicants over time. All around the world, and certainly in the regions where SABIC operates, reputation is all-important. Companies that treat their employees with respect and invest in them with enthusiasm become known for their values – making talented recruits with knowledge, skills and ambition keen to work for them.

Systematic investment in talent

This year has seen the continuation of a number of ground-breaking programs – and the initiation of several more.

The EPIC Performance Management program, now in its second year, saw our management team working with Corporate Planning to facilitate the cascading of objectives and setting of Key Performance Indicators for the organization in Saudi Arabia.

The Human Resources (HR) unit underwent a fundamental review, re-designing itself as a truly global organization, sub-divided by regions and equipped to meet the company's human capital management needs on a global basis with the help of a network of business partners. To achieve the functional excellence called for in the 1 SABIC vision, four new global centers of excellence were created: talent management, compensation and benefits, organizational effectiveness and learning, and development. The centers are globally staffed, with members from every region.

Making 1 SABIC a reality

A diverse team working with the 1 SABIC project team worked to create a new value set for the 1 SABIC organization, and developed a set of nine directly related leadership competencies, to be used for assessing and developing new leaders in 1 SABIC.

SABIC's people programs
People programs will continue to develop and extend, to meet the skills and needs of our people and of our organization as they adapt to the challenges of an ever-changing commercial environment.

Project ASHRA ('Advancing the SABIC Human Resources Agenda') originally envisioned during the initial integration of SABIC Innovative Plastics was launched with the establishment of a dedicated project team which subsequently migrated into the 1 SABIC staffing team. The people of HR thus became one of the first SABIC business functions to begin turning 1 SABIC into reality; becoming global and virtual in one stroke. HR also facilitated the adoption of a new enterprise-wide talent review process beginning with the first organized talent reviews in the spring of 2009. The first value-add of this process was to gain a clear and accurate profile of the talent available globally for the staffing of the 1 SABIC project.

This team, consisting of our professionals from North America, Asia, Europe and the Middle East, also took on the responsibility of leading the staffing of the entire 1 SABIC organization, including creation of a new generation of job descriptions and the subsequent filling of hundreds of roles on a worldwide basis. The entire global 1 SABIC leadership superstructure was ready to go by November 1, 2009, with all necessary personnel in place down through the fourth layer of the enterprise by the end of 2009.

Building competencies for the future

Over the course of 2009, the new 1 SABIC global HR team worked with SABIC leaders to identify and adopt robust processes and supporting technology for the 2010 round of talent reviews. As a result, SABIC has adopted "Success Factors" as its global solution. A team of power-users and application experts was brought together and equipped to train SABIC personnel on their Success Factors applications. By the end of 2009 key people worldwide had received appropriate training.

Throughout this year of change and reorganization, SABIC teams also implemented two new KSA-based assessment centers for managers and supervisors, designed to focus development around the new global values and develop competencies required for sustainable leadership continuity.

During the year, SABICLearning broadened its scope globally by introducing unified, company-wide programming of learning and development. It multiplied core programs in critical areas such as leadership, marketing and sales, finance, supply chain management, and technical. SABICLearning also broke ground for the new SABICLearning Center, and launched an e-learning curriculum that delivers learning to employees where they are and when they need it.

The key to our success

SABIC's people programs will continue to develop and extend, to meet the skills and needs of our people and of our organization as they adapt to the challenges of an ever-changing commercial environment. Some things, of course, will never change: competitive pay and benefits, safe and healthy working conditions and a commitment to provide tools and learning that enable employees to reach their full potential.

Corporate Social Responsibility

Corporate Social Responsibility (CSR) lies at the heart of SABIC. Our commitment to clear and open business practices based on strong ethical principles is a matter of record, and has always guided the way we do everything we do. Our commitment to CSR is rooted both in fundamental values – a basic belief in "doing the right thing" – and in business imperatives. The transparent, globalized economy of the 21st century is no place to cut ethical corners. "Doing the right thing" has become a prerequisite for sustainable commercial viability.

Committing to ethical behavior is one thing; putting it into action in a global company is quite another. Just what constitutes the right thing to do can be viewed differently in different societies, different cultures. In a company as international as SABIC, behaving in an ethical way demands a high level of sensitivity to the variability of ethical values around the world. Our greatest ally, as so often, is the strength of our human resource. SABIC people are drawn from every country and culture in which we operate; we encourage and trust them always to behave in an ethical and responsible manner, in keeping with local values as well as our foundation principles, wherever they happen to work.

Wherever we operate and whatever we do, we look always to:

- Improve quality of life
- Protect the environment
- Support sustainability.

The year in the Gulf

SABIC had an active year in the Gulf region, particularly in the areas of education, water management and environmental responsibility.

Education

Chair established

Having already set up a number of scientific chairs at various Saudi universities, SABIC this year established a new chair for Islamic Finance Market Studies at the Imam Mohammed bin Saud Islamic University, as part of the company's ongoing efforts to discover and develop innovative financial and investment channels in keeping with Islamic principles.

The chair aims to enhance research in Islamic finance to support the continuous development of Saudi Arabia and to help develop a knowledge-based economy, undertake scientific research based on the needs of the community, and deepen understanding of Islamic finance. Other objectives include integrating university and research institutions' research, financing scientific research, developing talent in the field, collaborating with appropriate government bodies for issuing and circulating securities, and helping build Saudi Arabia into a global financial center for Islamic financial services.

The chair will:

- Conduct applied research in Islamic finance and encourage financial experts and researchers at universities and research centers to create new financial tools for developing Saudi Arabia's financial market
- Provide consultancies and conduct training programs in Islamic finance; define, follow up and sort out securities; and suggest priorities for their development in order to maximize their benefits to financial institutions
- Organize scientific conferences, seminars and workshops related to Islamic finance, invite expert speakers and support scientific communication programs to conduct research.

Sponsorships

SABIC supported a number of educational and cultural initiatives over the course of the year, including:

- The Third Conference of Languages and Translation at Mohammad bin Saud Islamic University on December 28
- Symposium on attention-deficit hyperactivity disorder (ADHD), in Riyadh on November 7, in collaboration with the ADHD Society, ADHD Support Group and AAP, held under the theme "Best methods of handling ADHD patients" and focusing on early care and teacher training for early diagnosis and treatment.

Beach cleaning campaign
The campaign engaged large numbers of children to help clean the beach. T-shirts and hats were distributed to all participants, who also took part in a "clean-up" drawing contest.

Anti-drugs education program

A National Program to Combat Drugs is an ambitious five-year program initiated in 2009, backed by a SABIC pledge of SR 50 million. A committee combining representatives from SABIC and anti-drug authorities in the Kingdom will be established, with a view to creating educational courses to positively influence youth behavior and producing supporting literature and other media.

Security and safety training

The Employee Training and Development Section, TQM, Eastern Petrochemical Company (SHARQ), received 43 summer training and practice students on July 11 as part of its contribution toward training Saudis.

The trainees attended a session on security and safety conducted by SHARQ industrial security management. They were later placed at various departments for a two-month training course, followed by seven months of practice.

Exhibitions

A diabetes awareness exhibition under the theme "Diabetes, Education and Prevention" was held at the Fanateer Compound in Jubail from November 11–15 to mark World Diabetes Day. The Royal Commission for Jubail and Yanbu, the Saudi Diabetes Society, and several local hospitals participated in the event.

SABIC also took part in various other exhibitions, including:

- Recycling & Waste Management Saudi Arabia
- Saudi Agri-Food Industries
- Safety, Health, and Environment held at AR-RAZI, December 2009.

Water management and sustainable agriculture

SABIC participated in a number of shows and exhibitions in support of regional water management and agricultural development, including:

- The 28th International Agriculture, Water and Agri-Industry Show held in Riyadh from November 1–5, encouraging and enabling the optimum use of fertilizers to achieve maximum output
- The Third Olive Festival in Al-Jouf on November 14.

Environmental responsibility

Arab Environment Day

SABIC marked Arab Environment Day 2009 with the ceremonial planting of a tree by Dr. Abdul Rahman Al-Ubaid, Executive Vice President, Technology and Innovation, at the Technical Center in Jubail on October 13. Arab Environment Day, observed every year on October 14, was this year held under the title "Education for Sustainable Development".

Beach cleaning campaign

The Saudi Petrochemical Company (SADAF) conducted a beach cleaning campaign at Al-Fanateer Beach in Jubail on December 31, 2009.

Held under the supervision of the Safety, Health and Environment Awareness Committee in cooperation with the Jubail Royal Commission, the campaign engaged large numbers of children to help clean the beach. T-shirts and hats were distributed to all participants, who also took part in a "clean-up" drawing contest.

The children were told about different kinds of waste and made aware of the importance of sorting them out in appropriate bins. The campaign ended with the distribution of prizes and gifts to the children and their parents.

Blood donation

Saudi European Petrochemical Company (IBN ZAHR) recently joined up with the Blood Bank of the Royal Commission for Jubail and Yanbu Hospital for their latest blood donation campaign.

Held under the theme "Donate blood, save someone's life," this, the second such campaign, highlighted the importance of donating blood, promoting greater awareness of its significance in public health care.

Higher levels of participation this year provide heartening evidence of increasing appreciation of the value of giving blood, and commitment to the principle of contributing to the common good.

Campaigns and donations

Saudi European Petrochemical Company (IBN ZAHR) held a blood donation campaign in cooperation with the Blood Bank of the Royal Commission for Jubail and Yanbu Hospital. Under the theme "Donate blood, save someone's life," the campaign was the second of its kind, and achieved much higher participation than its predecessor a year earlier, suggesting a heartening strengthening of community awareness in society.

A second such campaign, together with King Faisal Specialist Hospital and Research Center, engaged employees and contractors at the Riyadh headquarters from June 7–10.

SABIC employees donated SR 432,000 to the Disabled Children's Association as part of the company's local community support program. SABIC also contributed to various charities, cared for talented and gifted people, and sponsored various conferences, economic and environmental forums and sports tournaments.

SABIC donated SR 25 million to alleviate the sufferings of people affected by the floods in Jeddah, and another SR 25 million to provide shelter for people displaced in Jizan.

The year around the world

The Netherlands

SABIC Innovative Plastics this year won the Dutch and European Responsible Care Award for our Valox and Xenoy iQ portfolio.

Werkgroep Gezonder (Work Group Healthier) represented The Netherlands at an international congress. The group's approach to promoting and encouraging health has been elected one of the top two in The Netherlands.

SABIC volunteers led the BizWorld project in the Bergen op Zoom region, teaching young people how to go about setting up a business. Others at the Lambertijnenhof, an institute for mentally and physically handicapped people, helped rejuvenate their farm: redecorating, installing a new roof and floor, putting in new fences, building five new rabbit houses and flattening the paddock. To make the farm safe and accessible $8m^3$ of gravel was put in, and a new drinking pond constructed. Local volunteers also contributed to the Hang Out at the Lievenshovelaan project, in cooperation with the Rabobank, Wonen West Brabant, and the local community of Bergen op Zoom.

Some SABIC employees mentor level one students with learning difficulties or social problems, or who lack previous education and need guidance. With their mentors' help, students receive qualifications and become equipped to participate fully in society.

UK

At SABIC's Teesside Petrochemicals plant, a wide range of community relations activities has been in place for many years in support of SABIC's global CSR effort.

Top priority is given to maintaining and improving relationships with a wide range of key groups and opinion formers, including the local community, educational institutions, elected representatives and the media.

Throughout 2009, the plant engaged with its neighboring communities situated close to its sites at Wilton and North Tees, keeping in close and regular contact with a wide network of long-established community liaison panels, discussing issues of mutual interest and concern. SABIC also operates a community support program whereby groups of employees decide on donations to worthy local causes. Over the course of 2009, around £25,000 was distributed to over 100 groups and individuals.

Excellent links were maintained with local councils and MPs on Teesside, engaging their interest and helping build and encourage their support for our operations there and understanding of the difficult challenges the industry faces during the prolonged recession. We also continued to develop strong ties with local and regional educational groups through SABIC's Teesside Education Liaison Steering Group, in which employee volunteers give their time to helping school pupils and students of all ages, helping spread greater awareness and understanding of SABIC and the industry.

Sponsorships
SABIC supported a number of educational and cultural initiatives over the course of the year.

A particular focus was the UK Children Challenging Industry scheme, through which primary school children aged 10 to 11 visit companies like SABIC to see their operations first hand and gain real life experience of subjects linked to the school curriculum. Bringing lessons to life and making theory real in this way is, we believe, a great way to encourage the interest of the young and nurture the engineers and scientists of the future.

SABIC also continued to develop the Saudi Student Scholarship Program, now in its third year, with around 80 young Saudis undertaking chemical engineering and business degree courses at a number of universities throughout the UK. The initiative has rapidly developed into a flagship scheme within SABIC, aimed at developing the considerable talent among young Saudis.

Germany
SABIC in Germany has set its CSR objective as "to be a good neighbor," focusing its activities primarily on local schools and kindergartens, where it can help young people from all backgrounds, rich or poor, native or migrant. Focusing on the young in this way also generates a "multiplier effect": benefits delivered to each child spill over to, on average, two parents and three grandparents.

The core of the activity is a program called "Kids discover chemistry," which aims to support young people looking to make their future in the world of science and chemistry. We try to help support efforts to make science and chemistry an integral part of the day-to-day routine in kindergartens and schools. While clearly helping the young people and their education and awareness, there are also benefits in terms of our relations with the wider community, which is helped to develop a better understanding of who we are and what we do, and of the high standards we maintain in safety, health and care for the environment.

Along with our priority group we also initiated a relationship with a local educational center to promote SABIC alongside a number of our peers – other industrial and chemical companies in the region.

USA
In 2009 our materials were in the spotlight for reducing environmental impact across many industries.

In building and construction, SABIC Innovative Plastics introduced high-performance Lexan* Thermoclear* nine-wall polycarbonate sheet to strengthen sustainable building design by increasing energy conservation, improving working and living environments, and promoting recycling.

Our focus on sustainable materials earned 2009's Green Dot Award™ in transportation, for pioneering work on the Hyundai QarmaQ Advanced Technology Demonstration Vehicle (ATDV). The company was also honored with the Responsible Care Award for our eco-responsible Valox iQ* resin, which incorporates up-cycled PET resin.

Motorola and SABIC co-developed a new eco-engineered Lexan* EXL resin, containing up to 25 percent post-consumer recycled (PCR) content from discarded water bottles, providing a sustainable thermoplastic solution for Motorola's MOTO® W233 Renew mobile phone – the world's first certified carbon neutral device.

Our people are drawn from every country and culture in which we operate; we encourage and trust them always to behave in an ethical and responsible manner, in keeping with local values as well as our foundation principles, wherever they happen to work.

Environment, Health, Safety, and Security

SABIC's commitment to environment, health, safety, and security (EHS&S) is well established, and manifested in strong policies and management support at all levels, and with comprehensive EHS&S systems and programs. SABIC plants worldwide are designed, built, operated and managed to ensure they meet best industry practices and standards on environment, health, safety, and security.

Being a responsible employer and a dependable partner in the community, SABIC applies EHS&S best practices in all its operations. It maintains a strong environmental program and regularly conducts audits to check for compliance and to ensure that its operations do not affect its neighbors.

SABIC takes new initiatives every year to improve efficiency, conserve energy, reduce waste and minimize the use of natural resources.

Year of commitment

During the year, SABIC maintained its compliance with environmental regulations, and initiated several programs toward fulfilling its obligations to the community. Assessment of nitrogen oxide (NOx) emissions at its manufacturing affiliates in Saudi Arabia was completed during the year and confirmed the plants as meeting the emission-control standards set by the Royal Commission of Jubail and Yanbu.

SABIC also conducted an audit of atmospheric emissions at its plants in Saudi Arabia and Europe under the Clean Development Mechanism. All plants were found to be meeting the set emission-control targets.

During 2009, all SABIC plants in Saudi Arabia, and most in other regions, revalidated their environmental management systems certification in compliance to ISO 14001, further reinforcing their commitment to environmental protection.

In February, the SFTC in Jubail won a certificate of re-accreditation from the US-based National Board on Fire Service Professional Qualification for the next five-year cycle. The center trained more than 2,500 candidates in fire fighting, industrial rescue, emergency response and first aid. During 2009, the SFTC expansion was undertaken, doubling its capacity.

In Europe, the Dutch government noted SABIC's pioneering work in increasing rail transportation safety as setting an example for the industry, citing the introduction of "hot BLEVE-free" arrangements for transporting hazardous feedstock and products such as LPGs by rail (BLEVE meaning Boiling Liquid Expanding Vapor Explosion). Such arrangements reduce the risk of explosions.

The Bergen op Zoom site implemented a project whereby storm water which had previously flowed to the municipal sanitary treatment plant or the site wastewater treatment plant, or simply into drainage ditches, is now collected using 2,700 meters of new piping and three large pump pits into a large basin for treatment and testing before being released into the harbour in compliance with wastewater permits and regulations. The project reduced both the load on the Dutch Authorities' facilities and flooding and wastewater treatment volumes at the SABIC site.

A substance inventory and identification was also completed for all SABIC materials in Europe in line with REACH legislative requirements. REACH (Registration, Evaluation, Authorization and Restriction of Chemical substances) is a European regulation on chemicals and their safe use.

The SABIC Shanghai site launched a plant water usage reduction project at the beginning of 2009. The project team identified three key drivers to reduce water usage: redesigning the water bath to prevent overfilling; introducing more efficient clean-down processes; and eliminating leakages of water. Overall, the project has reduced water consumption per unit product by nearly 27 percent against the average usage over the previous two years.

SABIC's consistent record of all-round improvement in environment, health, safety, and security has not gone without recognition. Its affiliates/sites have won numerous prestigious international awards including those of the National Safety Council, USA, The Royal Society for the Prevention of Accidents, UK, the British Safety Council, and the Japanese Industry Safety & Health Association.

EHS&S standards

SABIC safety, health, and environment management standards (SHEMS) are a set of standards that define the minimum expectations of SABIC for the management of Safety, Health and Environment activities to ensure safe operations of SABIC facilities globally. They are an excellent example of an integrated approach to improve efficiency and effectiveness of EHS&S systems and audits.

The implementation of SHEMS continued during the year in Saudi Arabia and Europe, with SABIC Innovative Plastics facilities also initiating their compliance process. The results of internal audits conducted by SABIC plants showed them progressing well for SHEMS implementation.

EHS&S performance

Going by the standards set by the US-based occupational, safety, and health administration (OSHA), SABIC's EHS&S performance in 2009 continued to be among the industry's "best in class".

Key achievements in the Kingdom of Saudi Arabia during the year as against 2008 include: 2 percent reduction in the SHE rate; 24 percent reduction in the number of recordable injuries in the workforce; 29 percent reduction in the OSHA incident rate; 51 percent reduction in the number of contractor recordable injury cases; and 50 percent reduction in the incidence rate among contractors.

In Europe there was a 47 percent reduction in the number of contractor recordable injury cases, and a 24 percent reduction in the incidence rate of contractors, and the achievement of a SHEPI target below 0.85.

Our SABIC Innovative Plastics sites and facilities also recorded a 29 percent reduction in the incidence rate.

Awards and recognition

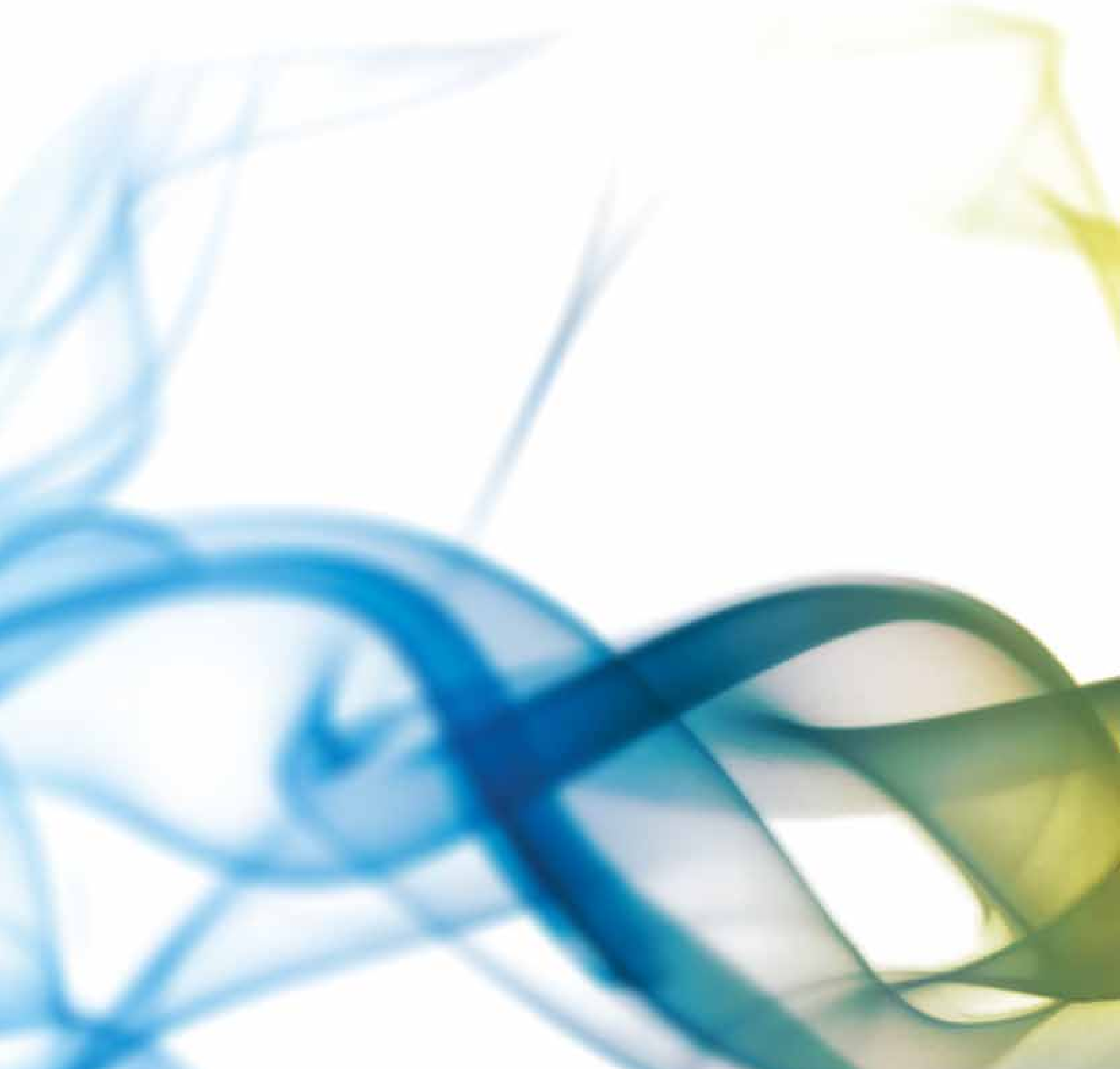
SABIC's consistent record of all-round improvement in environment, health, safety, and security has not gone without recognition. Its affiliates/sites have won numerous prestigious international awards including those of the National Safety Council, USA, the Royal Society for the Prevention of Accidents, UK, The British Safety Council, and the Japanese Industry Safety & Health Association. SABIC has also won several citations from the Royal Commission of Jubail and Yanbu.

SABIC's own awards for its affiliates and contractors have evolved into a much-coveted prize and a very challenging and motivational force for everyone in SABIC to seek improvements in EHS&S performance and programs. Awards announced in 2009 for the 2008 period were won by the Jubail Petrochemical Company (KEMYA), Gold; the National Industries Gas Company (GAS), Silver; and the Jubail United Petrochemical Company (UNITED), Bronze. Awards were also won by contractors CISL UK (Gold), AMEC UK (Silver) and AYTB (Bronze). The Turnaround Contractor Award went to Al-Suwaidi Contracting Company and the Project Award to Foster Wheeler.

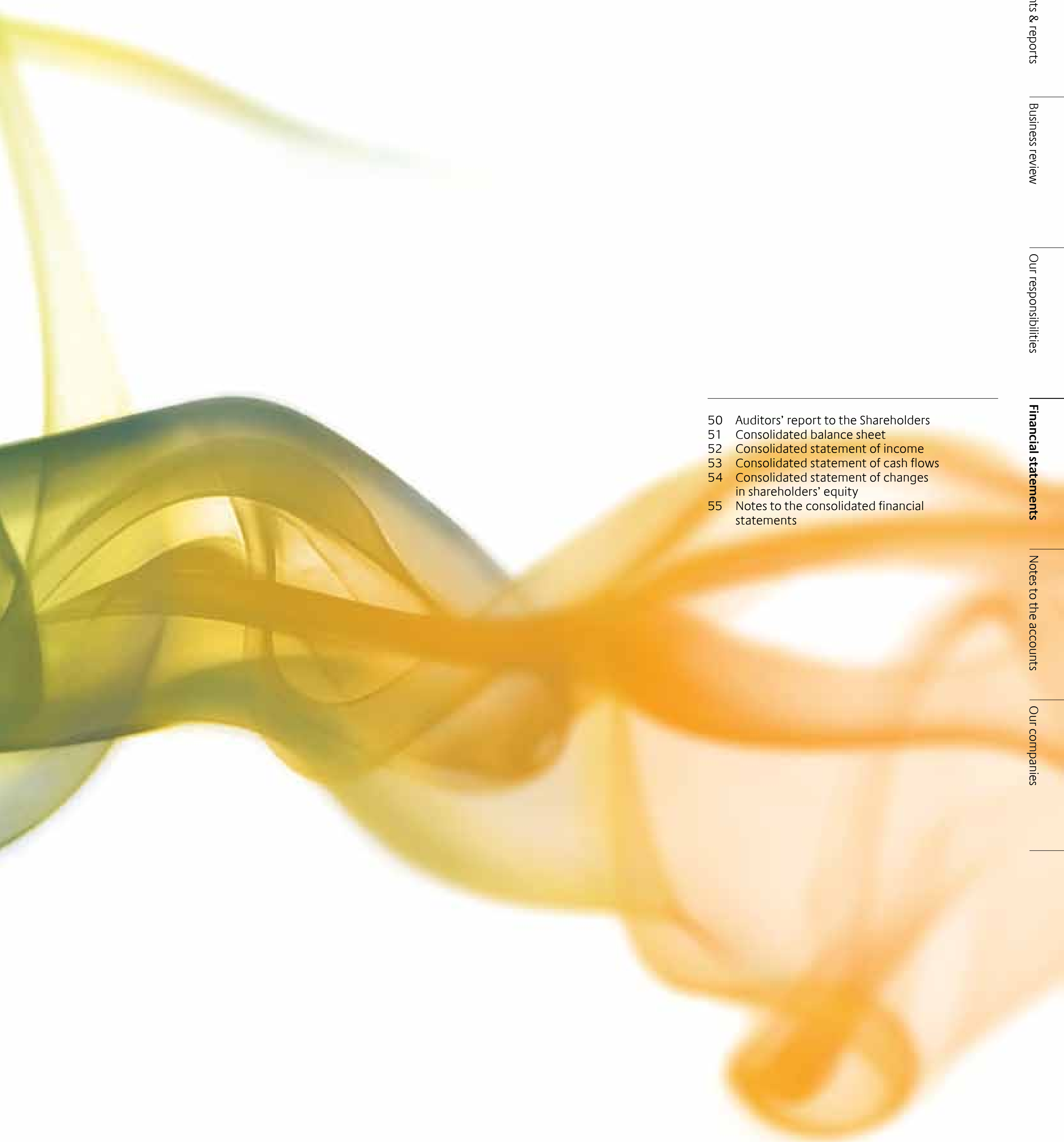
EHS&S new role

As part of the restructuring of the SABIC organization, EHS&S' role was globalized by establishing regional EHS&S groups to provide effective and timely support and guidance to SABIC affiliates/SBUs/sites on EHS&S related issues, share best practices, and help ensure effective utilization of EHS&S resources. Product Stewardship which is an integrated business process for identifying, managing and minimizing environmental, health, and safety risks throughout all stages of a product's life cycle in the best interest of society and our key stakeholders was added to EHS&S' role, along with Global Assurance, giving EHS&S the remit to set global EHS&S strategies, monitor performance, set standards, conduct global audits, and develop and organize EHS&S performance recognition programs.

In Europe, the Dutch government noted SABIC's pioneering work in increasing rail transportation safety as setting an example for the industry.



Consolidated financial statements



Auditors' report to the shareholders

ERNST & YOUNG

AUDITORS' REPORT TO THE SHAREHOLDERS OF SAUDI BASIC INDUSTRIES CORPORATION (SABIC) (Saudi Joint Stock Company)

Scope of audit

We have audited the accompanying consolidated balance sheet of Saudi Basic Industries Corporation (SABIC) - Saudi Joint Stock Company - and its subsidiaries (the Group) as at 31 December 2009 and the related consolidated statements of income, cash flows and shareholders' equity for the year then ended. These consolidated financial statements are the responsibility of the Group's management and have been prepared by them in accordance with the provisions of Article 123 of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the consolidated financial statements.

Unqualified opinion

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

i) present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2009 and the results of its operations and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.

ii) comply with the requirements of the Regulations for Companies and SABIC's by-laws in so far as they affect the preparation and presentation of the consolidated financial statements.

for Ernst & Young

Abdulaziz A. Al-Sowailim
Certified Public Accountant
Registration No. 277

Riyadh: 8 Rabi Awal 1431H
(22 February 2010)

ERNST & YOUNG

Consolidated balance sheet

As of 31 December 2009	Note	SR'000 2009	SR'000 2008
ASSETS			
Current assets			
Cash and cash equivalents	4	56,377,434	51,027,586
Accounts receivable	5	20,533,768	16,104,204
Inventories	6	23,769,990	24,359,750
Prepayments and other current assets	7	5,782,492	3,963,434
Total current assets		**106,463,684**	**95,454,974**
Non-current assets			
Investments	8	8,298,741	8,792,981
Property, plant and equipment	9	157,539,066	141,440,177
Intangible assets	10	21,901,313	22,979,090
Other non-current assets	11	2,658,498	3,092,767
Total non-current assets		**190,397,618**	**176,305,015**
TOTAL ASSETS		**296,861,302**	**271,759,989**
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable	13	13,382,450	8,261,246
Accrued liabilities and other payables	14	12,268,388	11,864,382
Short-term bank borrowings	15	939,774	1,235,542
Current portion of long-term debt	16	5,537,199	3,053,274
Zakat payable	17	1,720,962	2,165,563
Total current liabilities		**33,848,773**	**26,580,007**
Non-current liabilities			
Long-term debt	16	100,537,782	88,367,462
Employees' benefits payable	18	7,044,485	7,339,816
Other non-current liabilities	19	2,800,062	2,831,091
Total non-current liabilities		**110,382,329**	**98,538,369**
TOTAL LIABILITIES		**144,231,102**	**125,118,376**
EQUITY			
Shareholders' equity			
Share capital	20	30,000,000	30,000,000
Statutory reserve	21	15,000,000	14,702,984
General reserve	21	54,478,089	43,652,631
Retained earnings		8,776,707	14,576,859
Total shareholders' equity		**108,254,796**	**102,932,474**
Minority interests	22	**44,375,404**	**43,709,139**
Total equity		**152,630,200**	**146,641,613**
TOTAL LIABILITIES AND EQUITY		**296,861,302**	**271,759,989**

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

Consolidated statement of income

Year ended 31 December 2009	Note	SR'000 2009	SR'000 2008
Sales		103,061,800	150,809,596
Cost of sales		(74,441,849)	(103,547,946)
GROSS PROFIT		**28,619,951**	**47,261,650**
Selling, general and administrative expenses	23	(8,634,207)	(9,171,992)
Impairment of goodwill	10	(1,181,250)	-
INCOME FROM MAIN OPERATIONS		**18,804,494**	**38,089,658**
Investment and other income	24	1,496,265	3,046,280
Financing charges		(3,025,508)	(3,800,927)
INCOME BEFORE MINORITY INTERESTS AND ZAKAT		**17,275,251**	**37,335,011**
Minority interests in the net earnings of subsidiaries	22	(7,301,529)	(13,905,168)
INCOME BEFORE ZAKAT		**9,973,722**	**23,429,843**
Zakat	17	(900,000)	(1,400,000)
NET INCOME FOR THE YEAR		**9,073,722**	**22,029,843**
EARNINGS PER SHARE (SR):			
Attributable to income from main and continuing operations	25	6.34	13.07
Attributable to net income for the year	25	3.03	7.34

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

Year ended 31 December 2009	Note	SR'000 2009	SR'000 2008
OPERATING ACTIVITIES			
Income before zakat		9,973,722	23,429,843
Adjustments for:			
Depreciation, amortization and impairment		10,772,512	10,051,999
Share in earnings of associated companies, net		(229,501)	(1,124,589)
Minority interests share in the net earnings of subsidiaries		7,301,529	13,905,168
Changes in operating assets and liabilities:			
Accounts receivable and prepayments		(6,248,623)	10,054,874
Inventories		589,761	(2,053,791)
Accounts payable, accrued expenses and other payables		5,523,918	(6,967,062)
Other non-current liabilities		(326,360)	56,331
Zakat paid		(1,344,601)	(1,122,928)
Net cash from operating activities		**26,012,357**	**46,229,845**
INVESTING ACTIVITIES			
Property, plant and equipment, net		(23,987,968)	(26,595,513)
Investments, net		723,741	(1,647,514)
Intangible assets, net		(1,155,398)	(1,136,307)
Other non-current assets, net		(215,988)	(427,275)
Net cash used in investing activities		**(24,635,613)**	**(29,806,609)**
FINANCING ACTIVITIES			
Long-term debt, net		14,654,245	12,711,104
Short-term bank borrowings, net		(295,769)	(163,646)
Dividends paid		(3,750,108)	(10,281,634)
Minority interests, net		(6,635,264)	(13,538,269)
Net cash from (used in) financing activities		**3,973,104**	**(11,272,445)**
INCREASE IN CASH AND CASH EQUIVALENTS		**5,349,848**	**5,150,791**
Cash and cash equivalents at the beginning of the year		**51,027,586**	**45,876,795**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (note 4)		**56,377,434**	**51,027,586**

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

Consolidated statement of changes in shareholders' equity

Year ended 31 December 2009	Share capital SR'000	Statutory reserve SR'000	Technology and innovation reserve SR'000	General reserve SR'000	Retained earnings SR'000	Total SR'000
Balance as of 31 December 2007	**25,000,000**	**12,500,000**	**1,291,691**	**28,894,705**	**23,467,635**	**91,154,031**
Increase in share capital	5,000,000	-	-	-	(5,000,000)	-
Annual dividends (note 29)	-	-	-	-	(5,000,000)	(5,000,000)
Board of Directors' remuneration (note 29)	-	-	-	-	(1,400)	(1,400)
Transfer to general reserve (note 29)	-	-	(1,291,691)	14,757,926	(13,466,235)	-
Net income for the year	-	-	-	-	22,029,843	22,029,843
Transfer to statutory reserve	-	2,202,984	-	-	(2,202,984)	-
Interim dividends (note 29)	-	-	-	-	(5,250,000)	(5,250,000)
Balance as of 31 December 2008	**30,000,000**	**14,702,984**	**-**	**43,652,631**	**14,576,859**	**102,932,474**
Annual dividends (note 29)	**-**	**-**	**-**	**-**	**(3,750,000)**	**(3,750,000)**
Board of Directors' remuneration (note 29)	**-**	**-**	**-**	**-**	**(1,400)**	**(1,400)**
Transfer to general reserve (note 29)	**-**	**-**	**-**	**10,825,458**	**(10,825,458)**	**-**
Net income for the year	**-**	**-**	**-**	**-**	**9,073,722**	**9,073,722**
Transfer to statutory reserve	**-**	**297,016**	**-**	**-**	**(297,016)**	**-**
Balance as of 31 December 2009	**30,000,000**	**15,000,000**	**-**	**54,478,089**	**8,776,707**	**108,254,796**

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

31 December 2009

1. ORGANIZATION AND ACTIVITIES

Saudi Basic Industries Corporation (SABIC) is a Saudi joint stock company established pursuant to Royal Decree Number M/66 dated 13 Ramadan 1396H (corresponding to 6 September 1976) and registered in Riyadh under commercial registration No. 1010010813 dated 14 Muharram 1397H (corresponding to 4 January 1977). SABIC is 70% owned by the Government of the Kingdom of Saudi Arabia and 30% by the private sector.

SABIC and its subsidiaries (the "Group") are engaged in the manufacturing, marketing and distribution of chemical, fertilizer, and metal products in world markets.

2. BASIS OF CONSOLIDATION

The consolidated financial statements are comprised of the financial statements of the Group, as adjusted by the elimination of significant inter-company balances and transactions. A subsidiary is an entity in which SABIC has a direct or indirect equity investment of more than 50% or over which it exerts effective management control. The financial statements of the subsidiaries are prepared using accounting policies which are consistent with those of SABIC. The subsidiaries are consolidated from the date on which SABIC is able to exercise effective management control.

The subsidiaries consolidated in these consolidated financial statements are as follows:

	Direct and indirect shareholding 2009	Direct and indirect shareholding 2008
SABIC Industrial Investments Company (SIIC) and its subsidiaries	100.00	100.00
SABIC Luxembourg S.a.r.l. (SLUX) and its subsidiaries	100.00	100.00
SABIC Asia Pacific Pte. Ltd. (SAPPL) and its subsidiaries	100.00	100.00
Arabian Petrochemical Company and its subsidiary (Petrokemya)	100.00	100.00
Saudi Iron and Steel Company (Hadeed)	100.00	100.00
SABIC Sukuk Company (SUKUK)	100.00	100.00
Saudi European Petrochemical Company (Ibn Zahr)	80.00	80.00
Jubail United Petrochemical Company (United)	75.00	75.00
National Chemical Fertilizer Company (Ibn Al-Baytar)	71.50	71.50
National Industrial Gases Company (Gas)	70.00	70.00
Yanbu National Petrochemical Company (Yansab)	51.95	55.95
Saudi Methanol Company (Ar-Razi)	50.00	50.00
Al-Jubail Fertilizer Company (Al-Bayroni)	50.00	50.00
Saudi Yanbu Petrochemical Company (Yanpet)	50.00	50.00
National Methanol Company (Ibn Sina)	50.00	50.00
Saudi Petrochemical Company (Sadaf)	50.00	50.00
Eastern Petrochemical Company (Sharq)	50.00	50.00
Al-Jubail Petrochemical Company (Kemya)	50.00	50.00
Arabian Industrial Fiber Company (Ibn Rushd)	47.26	47.26
Saudi Arabian Fertilizer Company (Safco)	42.99	42.99
Saudi Kayan Petrochemical Company (Saudi Kayan)	35.00	35.00

All subsidiaries are incorporated in the Kingdom of Saudi Arabia except for SLUX and SAPPL which are incorporated in Luxembourg and Republic of Singapore, respectively. Yansab, Safco, and Saudi Kayan (currently in the development stage) are Saudi Joint Stock Companies.

2. BASIS OF CONSOLIDATION (continued)

Yanbu National Petrochemical Company (Yansab)

SABIC owned 55.95% of the share capital of Yansab. Included in this shareholding was 4% (22.5 million shares) owned by SIIC, which was sold to SABIC's eligible employees at par value under a stock grant scheme. During the fourth quarter of 2009, SIIC received the sale proceeds and transferred the ownership of the 4% share capital to the relevant employees.

SINOPEC/SABIC Tianjin Petrochemical Co. Ltd

During the year 2009, SIIC concluded a joint venture agreement with China Petroleum & Chemical Corporation (SINOPEC) to form SINOPEC/SABIC Tianjin Petrochemical Co. Ltd, a jointly controlled entity, equally owned by the two parties. As of 31 December 2009, the Group had paid SR 252 million of the total due capital contribution of SR 1,681 million. The Group has proportionately consolidated its interest in this jointly controlled entity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with the accounting standards generally accepted in the Kingdom of Saudi Arabia. The significant accounting policies applied consistently are as follows:

Accounting convention

The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value for available for sale investments and derivative financial instruments.

Use of estimates

The preparation of the consolidated financial statements by management requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities. The actual results ultimately may differ from these estimates.

Cash and cash equivalents

Cash and cash equivalents include cash, demand deposits, and highly liquid investments with original maturities of three months or less.

Accounts receivable

Accounts receivable are stated at the invoiced amount less an allowance for any doubtful debts. An estimate for doubtful debt is made when the collection of the receivable amount is considered doubtful. Bad debts are written off as incurred.

Inventories

Inventories are stated at the lower of cost or market value. Cost of raw materials, consumables, spare parts and finished goods is principally determined on a weighted average cost basis. Inventories of work in progress and finished goods include cost of materials, labor and an appropriate proportion of direct overheads.

Property, plant and equipment

Property, plant and equipment are stated at cost net of accumulated depreciation except for freehold land and construction work in progress which are stated at cost. Expenditure for maintenance and repairs is expensed, while expenditure for betterments is capitalized. Depreciation is provided over the estimated useful lives of the applicable assets using the straight-line method.

Leasehold improvements are depreciated over the shorter of the estimated useful life or the remaining term of the lease.

The capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

The estimated years of depreciation of the principal classes of assets are as follows:

	Years
Buildings	33
Plant and equipment	20
Furniture, fixtures and vehicles	4-10

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

Associated companies

Investments of 20% or more in the share capital of investees, other than subsidiary companies, and over which the Group exercises significant influence, are reflected in the consolidated financial statements based on the equity method. The Group's share in the financial results of these investees is recognized in the consolidated statement of income.

Available for sale

This represents investments in financial assets neither acquired for trading purposes nor to be held to maturity. These are stated at fair value. Differences between the fair value and the cost, if significant, are reported separately in the consolidated statement of changes in shareholders' equity. Any decline other than temporary in the value of these investments is charged to the consolidated statement of income.

Fair value is determined by reference to the market value if an open market exists, or on the basis of the most recent financial statements. Otherwise, cost is considered to be the fair value.

Held to maturity

Investments that are acquired with the intention of being held to maturity are carried at cost (adjusted for any premium or discount), less any decline in value which is other than temporary. Such investments are classified as non-current assets with the exception of investments maturing in the following twelve months.

Jointly controlled entities

A jointly controlled entity is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control. In the consolidated financial statements, the Group reports its interests in jointly controlled entities using proportionate consolidation, whereby the Group's share of the assets, liabilities, income and expenses of jointly controlled entities is combined on a line-by-line basis with the equivalent items in the Group's consolidated financial statements.

Intangible assets

Goodwill

The excess of consideration paid over the fair value of net assets acquired is recorded as goodwill. Goodwill is periodically re-measured and reported in the consolidated financial statements at carrying value after being adjusted for impairment, if any. The carrying amount of negative goodwill, if any, is netted off against fair value of non-current assets.

Pre-operating expenses

Expenses incurred during the development of new projects and their start-up periods, and which are expected to provide benefits in future periods, are deferred or capitalized. The deferred pre-operating expenses are amortized starting from the commencement of the commercial operations using a straight-line method over the shorter of the estimated period of benefit or seven years.

Impairment

The Group periodically reviews the carrying amounts of its long term tangible and intangible assets to determine whether there is any indication that those assets have suffered any impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash generating unit is reduced to its recoverable amount. Impairment is recognized in the consolidated statement of income.

Except for goodwill, where impairment subsequently reverses, the carrying amount of the asset or the cash generating unit is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognized for the asset or cash generating unit in prior years. A reversal of impairment is recognized in the consolidated statement of income.

Accounts payable and accruals

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the suppliers and service providers or not.

Dividends

Final dividends are recognized as a liability at the time of their approval by the General Assembly. Interim dividends are recorded as and when approved by the Board of Directors.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Zakat and income tax

Zakat is provided in accordance with the Regulations of the Directorate of Zakat and Income Tax (DZIT) in the Kingdom of Saudi Arabia and on an accrual basis. The provision is charged to the consolidated statement of income. Differences, if any, resulting from the final assessments are adjusted in the year of their finalization. Foreign shareholders in subsidiaries are subject to income tax which is included in minority interest in the consolidated financial statements.

For subsidiaries outside the Kingdom of Saudi Arabia, provision for tax is computed in accordance with tax regulations of the respective countries.

Employees' benefits

Employees' end of service benefits are provided for in accordance with the requirements of the Saudi Arabian Labor Law and SABIC's policies. Employees' early retirement plan costs are provided for in accordance with the Group's policies and are charged to the consolidated statement of income in the year the employee retires. The Group has pension plans for its employees in overseas jurisdictions. The eligible employees participate in either defined contribution or defined benefit plans. The pension plans take into consideration the legal framework of labor and social security laws of the countries where the companies are incorporated.

Employees' home ownership program

Unsold housing units constructed for eventual sale to eligible employees are included under land and buildings and are depreciated over 33 years. Upon signing the sale contract with the eligible employees, the relevant housing units are classified under other non-current assets.

Revenue recognition

Sales represent the invoiced value of goods shipped and services rendered by the Group during the year, net of any trade and quantity discounts. Generally sales are reported net of marketing and distribution expenses incurred in accordance with executed marketing and off-take agreements.

Investment income from associated companies is recognized based on the equity method.

Earnings on time deposits are recognized on an accrual basis.

Selling, general and administrative expenses

Production costs and direct expenses are classified as cost of sales. All other expenses, including selling and distribution expenses not deducted from sales are classified as selling, general and administrative expenses.

Technology and innovation expenses

Technology and innovation expenses are charged to the consolidated statement of income when incurred.

Foreign currency translation

Transactions in foreign currencies are translated into Saudi Riyals at the rates of exchange prevailing at the time of such transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the exchange rates prevailing at the balance sheet date. Gains and losses from settlement and translation of foreign currency transactions are included in the consolidated statement of income.

The financial statements of foreign operations are translated into Saudi Riyals using the exchange rate at each balance sheet date, for assets and liabilities, and the average exchange rates for revenues and expenses. Components of equity, other than retained earnings, are translated at the rates prevailing at the date of their occurrence. Translation adjustments, if material, are recorded as a separate component of shareholders' equity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to certain portions of its interest rate risks arising from financing activities. The Group generally designates these as cash flow hedges of interest rate risk. The use of financial derivatives is governed by the Group's policies, which provide principles on the use of financial derivatives consistent with the Group's risk-management strategy. The Group does not use derivative financial instruments for speculative purposes. Derivative financial instruments are initially measured at fair value on the contract date and are re-measured to fair value at subsequent reporting dates.

Changes in the fair value of derivative financial instruments that are designated as effective hedges of future cash flows are recognized directly in equity, if material and the ineffective portion is recognized in the consolidated statement of income. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or a liability, then, at the time the asset or liability if recognized, the associated gain or loss on the derivative that had previously been recognized is included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognized in consolidated statement of income in the same period in which the hedged item affects net income or loss.

Changes in fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in consolidated statement of income as they arise. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualified for hedge accounting. At that time, for forecast transactions, any cumulative gain or loss on the hedging instrument recognized in equity is retained in equity until the forecasted transactions occur. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in equity is transferred to consolidated statement of income for the period.

Leasing

Leases are classified as capital leases whenever the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under capital leases are recognized as assets of the Group at the lower of the present value of the minimum lease payments or the fair market value of the assets at the inception of the lease.

Finance costs, which represent the difference between the total leasing commitments and the lower of the present value of the minimum lease payments or the fair market value of the assets at the inception of the lease, are charged to the consolidated statement of income over the term of the relevant lease in order to produce a constant periodic rate of return on the remaining balance of the obligations for each accounting period.

Rental payments under operating leases are charged to consolidated statement of income on a straight-line basis over the term of the operating lease.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (a business segment) or in providing products or services within a particular economic environment, which is subject to risks and rewards that are different from those of other segments.

4. CASH AND CASH EQUIVALENTS

	SR'000 2009	SR'000 2008
Time deposits	54,008,191	44,664,188
Bank balances	2,369,243	6,363,398
	56,377,434	**51,027,586**

5. ACCOUNTS RECEIVABLE

	SR'000 2009	SR'000 2008
Trade accounts receivable	17,943,086	14,639,285
Amounts due from joint venture partners (note 12)	2,891,288	1,751,408
	20,834,374	16,390,693
Less: Provision for doubtful debt	(300,606)	(286,489)
	20,533,768	**16,104,204**

No single customer accounts for more than 5% of the Group's sales for the years ended 31 December 2009 and 2008.

6. INVENTORIES

	SR'000 2009	SR'000 2008
Finished goods	9,989,150	11,861,240
Raw materials	5,797,700	6,438,819
Spare parts	5,796,358	4,563,358
Work in progress	2,331,844	1,486,472
Goods in transit	636,902	809,739
	24,551,954	25,159,628
Less: Provision for slow-moving and obsolete items	(781,964)	(799,878)
	23,769,990	**24,359,750**

7. PREPAYMENTS AND OTHER CURRENT ASSETS

	SR'000 2009	SR'000 2008
Prepaid expenses	921,423	434,509
Restricted cash	819,752	817,026
Taxes and subsidy receivables	523,577	1,189,070
Employee advances and home ownership receivables	208,781	247,793
Other	3,308,959	1,275,036
	5,782,492	**3,963,434**

Restricted cash represents employee savings plan deposits held in a separate bank accounts which are not available to the Group. Other includes advances to contractors, accrued income on time deposits, and miscellaneous assets.

8. INVESTMENTS

	Shareholding %	Shareholding in equity SR'000 2009	Shareholding in equity SR'000 2008
Associated company			
Gulf Petrochemical Industries Co. (GPIC)	33.33	522,890	623,469
Gulf Aluminum Rolling Mills Co. (GARMCO)	31.28	164,274	167,059
Ma'aden Phosphate Company (MPC)	30.00	1,788,750	1,788,750
Laleh Petrochemical Company (LALEH)	30.00	124,297	75,000
Power and Water Utilities Company for Jubail and Yanbu (MARAFIQ)	25.00	1,392,839	1,301,988
Aluminum Bahrain BSC (ALBA)	20.00	1,317,234	1,522,031
National Chemical Carrier Company (NCC)	20.00	189,202	163,074
Other		699,663	687,821
		6,199,149	6,329,192
Available for sale		187,204	207,715
Held to maturity		1,912,388	2,256,074
		8,298,741	**8,792,981**

8. INVESTMENTS (continued)

The movement of investments in associated companies is as follows:

	SR'000 2009	SR'000 2008
Balance at the beginning of the year	6,329,192	3,904,985
Share in earnings for the year, net (note 24)	229,501	1,124,589
Additions during the year	49,297	1,870,118
Disposals during the year	(102,294)	(143,881)
Dividend received	(317,866)	(455,616)
Currency translation adjustments, net	11,319	28,997
Balance at the end of the year	**6,199,149**	**6,329,192**

NCC, MARAFIQ and MPC are incorporated in the Kingdom of Saudi Arabia. GPIC, GARMCO and ALBA are incorporated in the Kingdom of Bahrain. LALEH is incorporated in Iran. Other includes investments in associated companies by SLUX and its subsidiaries.

Available for sale

This item comprises investments in the mutual funds and other financial assets. These are recorded at market price.

Held to maturity

This item represents investment in Sukuk and bonds.

9. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings SR'000	Plant and equipment SR'000	Furniture, fixtures and vehicles SR'000	Construction work in progress SR'000	Total 2009 SR'000	Total 2008 SR'000
Cost:						
At the beginning of the year	19,816,833	128,549,568	2,975,421	68,393,873	219,735,695	192,239,088
Additions	152,312	1,192,335	62,222	23,709,416	25,116,285	29,384,176
Transfers/disposals	506,671	9,302,652	(277,774)	(11,919,357)	(2,387,808)	(1,898,608)
Currency translation adjustment	181,576	634,999	17,334	123,392	957,301	11,039
At the end of the year	20,657,392	139,679,554	2,777,203	80,307,324	243,421,473	219,735,695
Depreciation:						
At the beginning of the year	6,841,906	69,178,908	2,274,704	-	78,295,518	69,125,514
Charge for the year	1,188,581	7,266,424	118,413	-	8,573,418	8,067,259
Impairment	-	-	-	-	-	994,208
Transfers/disposals	(90,230)	(1,099,153)	(171,769)	-	(1,361,152)	115,548
Currency translation adjustment	37,430	326,758	10,435	-	374,623	(7,011)
At the end of the year	7,977,687	75,672,937	2,231,783	-	85,882,407	78,295,518
Net book amounts:						
At 31 December 2009	**12,679,705**	**64,006,617**	**545,420**	**80,307,324**	**157,539,066**	
At 31 December 2008	12,974,927	59,370,660	700,717	68,393,873		141,440,177

9. PROPERTY, PLANT AND EQUIPMENT (continued)

The construction in progress mainly represents the expansion of existing plants and new projects being executed by certain subsidiaries. The related capital commitments are reported in note 30. The financing charges capitalized during the year 2009 amounted to SR 1.4 billion (2008: SR 1.5 billion).

Land and Buildings include an amount of SR 47.7 million at 31 December 2009 and 2008 representing the cost of freehold land. The land on which plant and related facilities of certain subsidiaries are constructed were leased from the Royal Commission for Jubail and Yanbu under renewable lease agreements for a period up to 30 years.

Property, plant and equipment of certain subsidiaries are mortgaged to Saudi Industrial Development Fund (SIDF) as a security for term loans (note 16).

10. INTANGIBLE ASSETS

	SR'000 2009	SR'000 2008
Patents, trademarks and other intangibles, net	6,252,288	6,641,297
Pre-operating and deferred costs, net	1,588,068	1,365,598
Goodwill	14,060,957	14,972,195
	21,901,313	22,979,090

Patents, trademarks and other intangibles
Patents, trademarks and other intangible assets are amortized over varying expected periods of benefit.

Pre-operating and deferred costs
Pre-operating expenses include plant commissioning and start-up costs. The deferred pre-operating expenses are amortized over a period of benefit not exceeding 7 years.

Goodwill
The movement in the Group's reported goodwill at 31 December was as follows:

	SR'000 2009	SR'000 2008
At the beginning of the year	14,972,195	13,967,870
Purchase price allocation adjustments	-	556,034
Impairment	(1,181,250)	-
Exchange differences, net	270,012	448,291
At the end of the year	14,060,957	14,972,195

Impairment assessment
Based on the goodwill impairment test performed at the Group level during the year ended 31 December 2009, it has been determined that the goodwill is impaired to the extent of SR 1,181 million. The difference in impairment at the Group and the relevant subsidiary levels, is due to the impact of synergies expected to be realized by the Group, different reporting dates and financial accounting standards.

Goodwill's recoverable amount has been determined based on 'value-in-use' calculation on the basis of discounted cash flows based on management approved projected cash flows for the relevant subsidiary (considered as one cash generating unit) for a five-year period. The cash flows beyond the five-year period are extrapolated using an estimated terminal growth rate. Management believes the growth rate used does not exceed the long-term average growth rate for the business. The discount rate used is pre-tax and reflects specific risks relevant to the business. The 'value-in-use' method shows that the recoverable amount calculation is most sensitive to changes in the long-term and terminal growth rates, discount rate, working capital and capital expenditures assumptions in the terminal period.

11. OTHER NON-CURRENT ASSETS

	SR'000 2009	SR'000 2008
Employees' advances and home ownership receivables	1,481,411	1,464,056
Deferred taxes	1,055,803	1,226,345
Miscellaneous	121,284	402,366
	2,658,498	3,092,767

Employees' advances and home ownership receivables
Certain subsidiaries have established employees home ownership programs that offer eligible employees the opportunity to buy residential units constructed by these subsidiaries. The cost of land and direct construction costs are repayable by the employees over a period of 20 years. The ownership of the housing units is transferred to the employees upon full payment of the amounts due.

Deferred taxes
Deferred taxes relate to subsidiaries of SLUX operating in various tax jurisdictions.

12. TRANSACTIONS WITH JOINT VENTURE PARTNERS

In the ordinary course of business operations, certain affiliates of SABIC sell their products to joint venture partners in accordance with the marketing and off-take agreements. Sales to joint venture partners amounted to approximately SR 8.1 billion (2008: approximately SR 15.1 billion). Certain joint venture partners also provide technology and innovation, and other services to certain SABIC affiliates in conformity with the executed agreements. Balance due from/to joint venture partners are shown in notes 5 and 13, respectively.

13. ACCOUNTS PAYABLE

	SR'000 2009	SR'000 2008
Trade accounts payable	13,257,863	8,216,509
Amounts due to joint venture partners (note 12)	124,587	44,737
	13,382,450	8,261,246

14. ACCRUED LIABILITIES AND OTHER PAYABLES

	SR'000 2009	SR'000 2008
Accrued liabilities	7,296,725	7,070,114
Taxes payable	1,491,679	1,733,468
Dividend payable	586,936	619,882
Other	2,893,048	2,440,918
	12,268,388	11,864,382

Other mainly includes contract retentions and other payables.

15. SHORT-TERM BANK BORROWINGS

Short-term bank borrowings at 31 December 2009, which bear financing charges at prevailing market rates, amounted to approximately SR 0.9 billion (2008: SR 1.2 billion). The Group had unused credit facilities at 31 December 2009 amounting to SR 3.8 billion (2008: SR 3.4 billion).

16. LONG-TERM DEBT

	SR'000 2009	SR'000 2008
Public Investment Fund (PIF)	11,186,596	7,117,684
Saudi Industrial Development Fund (SIDF)	2,784,227	1,490,761
Commercial debt	66,451,658	57,239,498
Bond	4,027,500	3,947,793
Notes	5,625,000	5,625,000
Sukuk	16,000,000	16,000,000
Total	106,074,981	91,420,736
Less: Current portion	(5,537,199)	(3,053,274)
Non-current portion	100,537,782	88,367,462

Term loans
The PIF term loans are generally repayable in semi-annual installments and financing charges on these loans are at varying rates above LIBOR. The SIDF term loans are repayable in semi-annual installments. The administration fees related to the SIDF loans paid are capitalized as part of the plant construction costs. The commercial debt is repayable in conformity with varying repayment terms set out in the applicable loan agreements. The financing charges are payable in accordance with the terms set out in the relevant loan agreements.

During 2007, The Group borrowed $6.665 billion from a syndicate of bank lenders in the form of two senior secured term loans (term loans A and B), for the acquisition of Sabic Innovative Plastics B,V, (SIP), an indirect subsidiary of SLUX.

Term Loan A had an initial funded amount of $1.5 billion including a subset that was funded as EUR 93.647 million. Term Loan A has a 6.5-year term and amortizes at 5% each quarter beginning December 2009 rising to 7.5% for the quarters ending September and December as of 2013 with the remaining 10% due upon maturity. Term Loan A bears interest at floating rate LIBOR for $ or EURIBOR for EUR, as appropriate, plus 1.25%.

Term Loan B had an initial funded amount of $5.165 billion including a subset that was funded as EUR 1.313 billion. Term Loan B has a 7 year term, and amortizes at 0.25% each quarter beginning December 2007, with the remaining 93.25% due upon maturity. Term Loan B bears interest at floating rate LIBOR for $ or EURIBOR for EUR, as appropriate, plus 2.50%.

Under the above loan agreements, SIP is subject to a senior secured leverage covenant commencing from the quarter ended 30 June 2008.

SIP also entered into $1 billion five year senior secured revolving credit agreement with a syndicate of banks. Under this revolving credit agreement, SIP is subject to a fixed charge coverage covenant, provided that the covenant shall not apply until less than 10% of the facility remains undrawn and available. As of 31 December 2009, there was no drawn balance under this facility.

During 2008 and 2009, portion of certain tranches of Term Loan B were voluntarily prepaid.

Bond
During 2006, SABIC Europe B.V. (a wholly-owned subsidiary of SLUX) issued an unsecured Euro 750 million Euro-bond. The Euro-bond carries a fixed coupon rate of 4.5% with final maturity date due on 28 November 2013. On 19 December 2008, SABIC Capital I B.V. (an indirect wholly-owned subsidiary of SLUX) replaced SABIC Europe B.V. in carrying the liability of the Euro-bond with the execution of the exchange offer. The exchange offer was executed by SABIC Capital I B.V. providing guarantee for the obligations to the bond-holders. The significant terms and conditions remained unchanged including the semi-annual coupon payments due in May and November each year.

16. LONG-TERM DEBT (continued)

Notes

On 31 August 2007, SIP issued senior unsecured notes of $1.5 billion. The notes carry a fixed coupon rate of 9.5% with final maturity date due on 15 August 2015. The coupon payments are payable in February and August each year.

On 29 December 2009, SABIC entered into an agreement with the PIF for a private placement of Saudi Riyal notes amounting to SR 10 billion with multiple tranches. Such tranches when drawn will have the bullet maturity after 7 years. SABIC issued its first Saudi Riyal note tranche totaling to SR 2 billion, maturing in 2016.

Sukuk

On 29 July 2006, the Group issued its first Sukuk amounting to SR 3 billion Sukuk, at par value of SR 50,000 each without discount or premium, maturing in 2026. On 15 July 2007, the Group issued its second Sukuk amounting to SR 8 billion, at par value of SR 10,000 each, subject to minimum holding of SR 50,000, without discount and premium, maturing in 2027. On 3 May 2008, the Group issued its third Sukuk amounting to SR 5 billion, at par value of SR 10,000 each, without discount or premium, maturing in 2028. The Sukuk issuances bear a rate of return based on SIBOR plus a specified margin payable quarterly in arrears from the net income received under the Sukuk assets held by the Sukuk custodian 'SABIC Sukuk Company', a wholly owned subsidiary of SABIC.

At the end of each five-year period, the Group shall pay an amount equal to 10% of the aggregate face value of the Sukuk as bonus to the Sukuk holders. The Group has provided an undertaking to the Sukuk holders to purchase the Sukuk from the Sukuk holders in the first, second and third "fifth year date" (the respective periodic distribution date following after fifth, tenth and fifteenth year of issue) at an amount equivalent to 90%, 60% and 30% of the face value respectively.

As of 31 December 2009, total Sukuk issued by the Group under the above mentioned facility amounted to SR 16 billion (SR 16 billion as of 31 December 2008). The periodic distributions expensed during the year ended 31 December 2009 amounted to SR 274 million (2008: SR 572 million).

The aggregate repayment schedule of long-term debt is as follows:

	SR'000 2009	SR'000 2008
2009	-	3,053,274
2010	5,537,161	6,312,614
2011	11,263,658	15,312,868
2012	12,671,283	12,658,026
2013	14,467,685	9,841,062
2014	19,695,426	4,605,916
Thereafter	42,439,768	39,636,976
Total	106,074,981	91,420,736

17. ZAKAT

The Group's zakat is based on the financial statements of SABIC and its subsidiaries. The movement in Group's zakat provision is as follows

	SR'000 2009	SR'000 2008
At the beginning of the year	2,165,563	1,767,020
Provided during the year	900,000	1,400,000
Adjustments	-	121,471
Paid during the year	(1,344,601)	(1,122,928)
At the end of the year	1,720,962	2,165,563

SABIC has filed its zakat returns with the Department of Zakat and Income Tax (DZIT) up to 2008, and settled the zakat dues accordingly. SABIC received the zakat assessments up to 2006. The zakat assessments for the years 2007 and 2008 are still under review by the DZIT.

18. EMPLOYEES' BENEFITS PAYABLE

	SR'000 2009	SR'000 2008
End-of-service benefits	6,236,189	6,528,865
Thrift plan	785,842	773,635
Early retirement plan	22,454	37,316
	7,044,485	7,339,816

19. OTHER NON-CURRENT LIABILITIES

	SR'000 2009	SR'000 2008
Deferred tax and other liabilities	2,004,374	1,868,543
Obligations under capital leases (note 30)	795,688	962,548
	2,800,062	2,831,091

20. SHARE CAPITAL

SABIC's share capital amounting to SR 30 billion is divided into 3 billion shares of SR 10 each as of 31 December 2009 and 2008.

21. RESERVES

Statutory reserve

In accordance with Saudi Arabian Regulations for Companies, SABIC must set aside 10% of net income in each year until it has built up a reserve equal to one half of the capital. This having been achieved, SABIC has resolve to discontinue such transfers. The reserve is not available for distribution.

General reserve

In accordance with SABIC's By-Laws, the General Assembly can establish general reserve as an appropriation of retained earnings. General reserve can be increased or decreased by a resolution of the shareholders and is available for distribution.

22. MINORITY INTERESTS

The minority interests are shown in the consolidated balance sheet as part of equity. The minority interests in the net earnings of subsidiaries are shown separately in the consolidated statement of income.

The movement of minority interests in the consolidated balance sheet is as follows:

	SR'000 2009	SR'000 2008
At the beginning of the year	43,709,140	
43,342,241		
Minority interests in the net earnings of subsidiaries	7,301,529	13,905,168
Other movements, net	(6,635,265)	(13,538,270)
At the end of the year	44,375,404	43,709,139

23. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	SR'000 2009	SR'000 2008
Employees cost	3,557,718	4,093,855
Administrative expenses	2,236,637	1,596,937
Selling and distribution	2,209,298	2,791,448
Technology and innovation expenses	529,637	571,116
Depreciation and amortization	100,917	118,636
	8,634,207	9,171,992

24. INVESTMENT AND OTHER INCOME

	SR'000 2009	SR'000 2008
Earnings on time deposits	637,806	1,805,340
Exchange differences and others, net	628,958	116,351
Share in earnings of associated companies, net	229,501	1,124,589
	1,496,265	3,046,280

25. EARNINGS PER SHARE

The earnings per share are calculated based on the number of outstanding shares at the end of the year. The outstanding number of shares at 31 December 2009 was 3 billion shares (3 billion shares at 31 December 2008).

26. SEGMENT INFORMATION

The Group's operations consist of the following business segments:

- **The chemicals segment,** includes basic chemicals, intermediates, polymers and specialty chemicals.
- **The fertilizers segment,** consists of fertilizer products.
- **The metals segment,** consists of steel products.
- **The corporate segment,** includes the corporate operations, Technology and innovation centers, the investment activities and SABIC Industrial Investments Company (SIIC).

	Chemicals SR'000	Fertilizers SR'000	Metals SR'000	Corporate SR'000	Consolidation adjustments and eliminations SR'000	Total SR'000
31 December 2009						
Sales	**111,932,553**	**5,100,767**	**10,312,071**	**6,139,003**	**(30,422,594)**	**103,061,800**
Gross profit	**19,607,558**	**2,556,662**	**2,437,456**	**2,996,144**	**1,022,131**	**28,619,951**
Net income	**7,822,795**	**2,576,281**	**1,800,137**	**9,578,409**	**(12,703,900)**	**9,073,722**
Total assets	**233,317,077**	**12,899,921**	**20,565,049**	**157,900,394**	**(127,821,139)**	**296,861,302**
Total liabilities	**153,599,396**	**2,400,660**	**4,405,895**	**47,090,887**	**(63,265,736)**	**144,231,102**
31 December 2008						
Sales	166,410,287	8,954,194	14,950,975	6,834,081	(46,339,941)	150,809,596
Gross profit	31,813,893	6,273,407	5,761,838	3,368,429	44,083	47,261,650
Net income	20,711,972	6,066,191	5,019,068	22,686,978	(32,454,366)	22,029,843
Total assets	213,257,116	14,748,420	21,093,629	142,467,990	(119,807,166)	271,759,989
Total liabilities	128,995,501	2,504,029	4,934,613	37,402,992	(48,718,759)	125,118,376

The net income amounts of the above segments include share in earnings of subsidiary and associated companies. Also, the total assets amounts in these segments include investment balances with respect to subsidiary companies.

A substantial portion of the Group's operating assets are located in the Kingdom of Saudi Arabia. The principal markets for the Group's chemical products are Europe, USA, the Middle East, and Asia Pacific. While the corporate activities are based in the Kingdom of Saudi Arabia, the principal markets for the Group's fertilizers segment are mainly in South East Asia, Australia, New Zealand, South America, Africa and the Middle East. The metals segment sales are mainly in the Kingdom of Saudi Arabia and other Gulf Cooperative Council (GCC) Countries.

27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments principally include cash and cash equivalents, trade and other accounts receivable, derivative financial instruments, investments in securities, loan advances, short-term bank borrowings, accounts payable, accrued expenses, long-term debt and other liabilities.

Credit Risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. The Group has no significant concentration of credit risk. Cash is substantially placed with national banks with sound credit ratings. Trade accounts receivable are carried net of provision for doubtful debts.

Interest Rate Risk is the risk that the value of financial instruments will fluctuate due to changes in the market interest rates. The Group has no significant interest-bearing long-term assets, but has interest-bearing liabilities at 31 December 2009. The Group manages its borrowings made at floating rates by using interest rate swaps (note 28), which have the economic effect of converting borrowings from floating rates to fixed rates. The interest rate swaps, when exercised, provide the Group with the right to agree with the counter party to exchange, at specified intervals, the difference between fixed contract rates and floating interest amounts, calculated by reference to the agreed notional principal amounts.

Liquidity Risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available to meet any future commitments.

Currency Risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Group monitors the fluctuations in currency exchange rates and manages its effect on the consolidated financial statements accordingly.

Fair Value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. As the consolidated financial statements are prepared under the historical cost convention, differences can arise between the book values and fair value estimates. Management believes that the fair value of the financial assets and liabilities are not materially different from their carrying values.

28. DERIVATIVES

At 31 December 2009, SABIC had one (2008: three) commission rate swap agreements in place with notional amount of SR 5 billion (2008: SR 5.9 billion). As per the terms of agreements, SABIC pays a fixed rate and receives a variable rate on the notional amount.

29. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS AND APPROPRIATION OF NET INCOME

The General Assembly, in its annual meeting held on 15 Rabi Awal 1430H, corresponding to 11 April 2009, approved the appropriation of the net income for the year ended 31 December 2008 as follows:

- distribution of cash dividends of SR 9 billion (SR 3 per share) including interim cash dividends of SR 5,250 million (SR 1.75 per share)
- transfer 10% of net income to statutory reserve
- payment of SR 1.4 million as Board of Directors' remuneration
- transfer the remaining balance to the general reserve.

On 4 Muharram 1431H, corresponding to 21 December 2009, the Board of Directors proposed to the General Assembly a distribution of cash dividends amounting to SR 4,500 million (SR 1.5 per share) for the year ended 31 December 2009. The above are subject to the approval of the shareholders at the Annual General Assembly Meeting.

The consolidated financial statements were approved by the Board of Directors on 8 Rabi Awal 1431H, corresponding to 22 February 2010.

30. COMMITMENTS

Capital commitments

SABIC's commitment for capital expenditures at 31 December 2009 approximately amounted to SR 24 billion (2008: SR 32 billion).

Operating lease commitments

Commitments under non-cancelable operating leases with initial terms of greater than one year are as follows:

	SR'000 2009	SR'000 2008
2009	-	1,579,775
2010	1,437,965	690,632
2011	760,037	594,688
2012	673,216	531,971
2013	576,086	579,943
Thereafter	2,298,212	1,926,932
	5,745,516	5,903,941

Obligations under capital leases

Commitments under capital leases with initial terms of greater than one year are as follows:

	SR'000 2009	SR'000 2008
2009	-	116,691
2010	114,398	117,551
2011	115,193	118,432
2012	116,016	119,328
2013	116,854	116,838
Thereafter	962,101	1,065,341
Net present value of minimum lease payments	1,424,562	1,654,181
Less: finance charges	(609,014)	(673,578)
current portion	(19,860)	(18,055)
Non-current portion (note 19)	795,688	962,548

31. CONTINGENCIES

The Group is involved in litigation matters in the ordinary course of business, which are being defended. While the ultimate results of these matters cannot be determined with certainty, the management does not expect that they will have a material adverse effect on the consolidated financial statements of the Group.

The Group's bankers have issued, on its behalf, bank guarantees amounting to SR 2.4 billion (2008: SR 3.8 billion) in the normal course of business.

32. SUBSEQUENT EVENTS

In the opinion of the management, there have been no significant subsequent events since the year end that would have a material impact on the financial position of the Group as reflected in these consolidated financial statements.

33. COMPARATIVE FIGURES

Certain prior year figures have been re-classified to conform with the presentation in the current year.

Our companies

Our manufacturing and compounding companies

Company	Location	Partnership	Products
ALBA (Aluminum Bahrain)** M	Bahrain	SABIC Industrial Investments Company (20%), State of Bahrain (77%), Brenton Investments, Germany (3%)	Aluminum (liquid metal, ingots, rolling stabs, and billet)
AL-BAYRONI (Al-Jubail Fertilizer Company) C F	Al-Jubail, Saudi Arabia	A 50/50 SABIC joint venture formed in 1979 with Taiwan Fertilizer Company	Ammonia, urea, 2-ethyl hexanol, and DOP
AR-RAZI (Saudi Methanol Company) C	Al-Jubail, Saudi Arabia	A 50/50 SABIC joint venture formed in 1979 with a consortium of Japanese companies led by Mitsubishi Gas Chemical Company	Chemical grade methanol
GARMCO (Gulf Aluminum Rolling Mill Company)** M	Bahrain	SABIC (31.28%), Kuwait (16.97%), Bahrain (38.36%), Iraq (4.12%), Oman (2.06%), Qatar and Gulf Investment Corporation (5.15%)	Aluminum sheets and can stocks
GAS (National Industrial Gases Company) C	Al-Jubail (head office), Saudi Arabia	SABIC (70%) and a group of Saudi Arabian Industrial Gases Companies (30%)	Hydrogen
	Yanbu (branch), Saudi Arabia	As above	Oxygen and nitrogen
GPIC (Gulf Petrochemical Industries Company)** C F	Bahrain	Joint venture with equal partnership for the Petrochemical Industries Company of Kuwait, State of Bahrain, and SABIC	Methanol, ammonia, and urea
HADEED (Saudi Iron and Steel Company) M	Al-Jubail, Saudi Arabia	A wholly owned affiliate of SABIC	Steel rebar, wire rod hot rolled coils, cold rolled coils, galvanized coil, and flat steel products
IBN AL-BAYTAR (National Chemical Fertilizer Company) F	Al-Jubail, Saudi Arabia	50/50 SABIC joint venture with SAFCO	Ammonia, urea, compound fertilizer, phosphate, and liquid fertilizer
IBN RUSHD (Arabian Industrial Fibers Company) C P	Yanbu, Saudi Arabia	SABIC (47.26%), PIF (33.51%) and a group of Saudi Arabian and regional private sector partners (19.23%)	Aromatics (xylenes and benzene), Purified Terephthalic Acid (PTA), bottle grade chips, PET, and acetic acid
IBN SINA (National Methanol Company) C	Al-Jubail, Saudi Arabia	SABIC (50%), CTE (50% – owned by Elwood Insurance Ltd., 25% and Texas Eastern Arabian Ltd., 25%)	Chemical grade methanol, and MTBE
IBN ZAHR (Saudi European Petrochemical Company) C P	Al-Jubail, Saudi Arabia	SABIC (80%), Ecofuel-Italy (10%), Arab Petroleum Investment Corporation APICORP (10%)	MTBE and polypropylene
KEMYA (Al-Jubail Petrochemical Company) C P	Al-Jubail, Saudi Arabia	A 50/50 SABIC joint venture with Exxon Mobil (USA)	Polyethylene and ethylene
PETROKEMYA (Arabian Petrochemical Company) C P IP	Al-Jubail, Saudi Arabia	A wholly owned affiliate of SABIC	Ethylene, polystyrene, butene-1, propylene, styrene butadiene, benzene, polyethylene, VCM, E-PVC, S-PVC, and ABS

Ⓒ Chemicals
Ⓟ Polymers
Ⓕ Fertilizers
PC Performance Chemicals
Ⓜ Metals
IP Innovative Plastics

Company	Location	Partnership	Products
SADAF (Saudi Petrochemical Company) C	Al-Jubail, Saudi Arabia	A 50/50 SABIC joint venture with Shell Chemicals Arabia, LLC (an affiliate of Royal Dutch Shell)	Ethylene, crude industrial ethanol styrene, caustic soda, ethylene dichloride, and MTBE
SAFCO (Saudi Arabian Fertilizer Company) F P	Al-Jubail, Saudi Arabia	SABIC (42.99%), GOSI and Public Pension Agency (15.4%), public shareholders (41.61%)	Ammonia, urea, and urea formaldehyde
SABIC Acetylene B.V. C	Geleen, The Netherlands	A wholly owned affiliate of SABIC	Acetylene
SABIC Belgium N.V. P	Genk, Belgium	A wholly owned affiliate of SABIC	STAMAX and PP-compounds
SABIC Innovative Plastics IP	Aichi, Japan	SABIC Innovative Plastics (51%) and AGC (49%)	Lexan* sheet and film
SABIC Innovative Plastics IP	Bay St Louis, Mississippi, USA	A wholly owned affiliate of SABIC	Cycolac*, Cycoloy*, and Geloy* resins
SABIC Innovative Plastics IP	Benoi, Singapore	A wholly owned affiliate of SABIC	Lexan*, Cycoloy*, and Cycolac* resins
SABIC Innovative Plastics IP	Bergen op Zoom, The Netherlands	A wholly owned affiliate of SABIC	Lexan*, Xenoy*, Noryl*, Noryl GTX* and Valox* resins; Lexan* sheet, and film
SABIC Innovative Plastics IP	Burkville, Alabama, USA	A wholly owned affiliate of SABIC	Lexan* resin
SABIC Innovative Plastics IP	Campinas, Brazil	A wholly owned affiliate of SABIC	Lexan*, Noryl*, Valox*, Xenoy*, Cycoloy*, Cycolac* and Geloy* resins, LNP* compounds, and Lexan* multiwall sheet
SABIC Innovative Plastics IP	Carville, Louisiana, USA	SABIC Petrochemicals Holding US, Inc (50%) and Total Petrochemicals (50%)	Styrene
SABIC Innovative Plastics IP	Categena, Spain	A wholly owned affiliate of SABIC	Lexan*, Extem*, Ultem*, and Cycoloy* resins
SABIC Innovative Plastics IP	Chung-Ju, Korea	A wholly owned affiliate of SABIC	Lexan*, Cycoloy*, Noryl*, and Xenoy* resins
SABIC Innovative Plastics IP	Cobourg, Canada	A wholly owned affiliate of SABIC	Lexan*, Cycoloy*, Cycolac*, Valox*, Ultem*, Xenoy*, Xylex* and Visualfx* resins, LNP* compounds, and Lexan* sheet
SABIC Innovative Plastics IP	Columbus, Indiana, USA	A wholly owned affiliate of SABIC	LNP* compounds
SABIC Innovative Plastics IP	Enkuizen, The Netherlands	A wholly owned affiliate of SABIC	Lexan* sheet and film
SABIC Innovative Plastics IP	Fosses, France	A wholly owned affiliate of SABIC	LNP* compounds and LNP* Starflam* resin
SABIC Innovative Plastics IP	Geismar, Louisiana, USA	SABIC Petrochemicals Holding US, Inc (16.6%) and Williams Olefins, LLC (83.4%)	Ethylene by-products, propylene, crude butadiene, and DAC
SABIC Innovative Plastics IP	Klang, Malaysia	A wholly owned affiliate of SABIC	Lexan* multiwall sheet and film

Company	Location	Partnership	Products
SABIC Innovative Plastics IP	Long Sault, Canada	A wholly owned affiliate of SABIC	Lexan* multiwall sheet
SABIC Innovative Plastics (SABIC Innovative Plastics Japan, LLC) IP	Moka Tochigi, Japan	A wholly owned affiliate of SABIC	Cycoloy*, Lexan*, Noryl*, Noryl GTX*, Flexible Noryl*, Ultem*, Valox* and Xenoy* resins, LNP*, Lubriloy*, Stat-loy* and Faradex* compounds
SABIC Innovative Plastics IP	Mt. Vernon, Indiana, USA	A wholly owned affiliate of SABIC	Lexan*, Cycoloy*, Ultem*, Valox*, Xenoy*, Xylex*, Supec* and Siltem* resins, Lexan* sheet and film, and Illuninex* display film
SABIC Innovative Plastics IP	Nansha, China	A wholly owned affiliate of SABIC	Lexan*, Cycoloy* and Cycolac* resins, Lexan* and Valox* films, and LNP* compounds
SABIC Innovative Plastics IP	Olgiate, Italy	A wholly owned affiliate of SABIC	Lexan* sheet, Lexan* Thermoclear* sheet, and Lexan* Thermoclick* sheet
SABIC Innovative Plastics IP	Ottawa, Illinois, USA	A wholly owned affiliate of SABIC	Cycolac*, Cycoloy*, and Geloy* resins
SABIC Innovative Plastics IP	Pontirolo, Italy	A wholly owned affiliate of SABIC	LNP* compounds, LNP* Staramid*, Starflam*, Lubricomp* and Thermocomp* compounds, Lexan*, Valox*, and Cycoloy* resins
SABIC Innovative Plastics IP	Ramdonksveer, The Netherlands	A wholly owned affiliate of SABIC	LNP* compounds
SABIC Innovative Plastics IP	Rayong, Thailand	A wholly owned affiliate of SABIC	Lexan*, Noryl*, Noryl GTX*, Valox*, Xenoy*, Cycoloy* and Cycolac* resins, and custom engineered products
SABIC Innovative Plastics IP	San Luis, Petosi, Mexico	A wholly owned affiliate of SABIC	LNP* compounds, LNP* Starflam* resin, Valox*, and Xenoy* resins
SABIC Innovative Plastics IP	Selkirk, New York, USA	A wholly owned affiliate of SABIC	PPO* resin, Noryl*, Noryl* PPX and Noryl GTX* resins, and high impact polystyrene (HIPS)
SABIC Innovative Plastics IP	Shanghai, China	A wholly owned affiliate of SABIC	Lexan*, Cycoloy*, Noryl*, Valox*, Geloy* and Xenoy* resins, Visualfx resins, and custom engineered products
SABIC Innovative Plastics IP	Tampico, Mexico	A wholly owned affiliate of SABIC	Cycoloy*, Cycolac*, Geloy*, and Lexan* resins
SABIC Innovative Plastics IP	Thornaby, UK	A wholly owned affiliate of SABIC	LNP* Verton* compound
SABIC Innovative Plastics IP	Thorndale, Pennsylvania, USA	A wholly owned affiliate of SABIC	LNP* compounds – Colorcomp*, Lubriloy* Lubricomp*, Stat-kon*, Stat-loy*, Konduit*, Starflam*, Thermocomp* and Thermotuf* compounds, Extem*, Valox*, and Xenoy* resins
SABIC Innovative Plastics IP	Tortuguitas, Argentina	A wholly owned affiliate of SABIC	Cycolac*, Cycoloy* Lexan*, Valox* Xenoy, and Noryl* resins
SABIC Innovative Plastics IP	Vadodara, India	A wholly owned affiliate of SABIC	Lexan*, Cycoloy*, Noryl*, Valox*, and Xenoy* resins

C Chemicals
P Polymers
F Fertilizers
PC Performance Chemicals
M Metals
IP Innovative Plastics

Company	Location	Partnership	Products
SABIC Innovative Plastics IP	Washington, West Virginia, USA	A wholly owned affiliate of SABIC	Cycolac*, Cycoloy*, and Geloy* resins
SABIC Innovative Plastics IP	Wiener Neustadt, Austria	A wholly owned affiliate of SABIC	Lexan* sheet
SABIC Innovative Plastics IP	Wixom, Michigan, USA	Exatec LLC – A wholly owned affiliate of SABIC	Polycarbonate automotive glazing
SABIC Innovative Plastics IP	Zhongshan, China	A wholly owned affiliate of SABIC	Lexan* sheet
SABIC Petrochemicals B.V. C P	Geleen, The Netherlands	A wholly owned affiliate of SABIC	Polyethylene (HDPE, LDPE, LLDPE), polypropylene, ethylene, propylene, butadiene, MTBE/ETBE, benzene, gasoline components, styrene, C9 resin feed, cracked distillate, acetylene, hydrogen, and carbon black oil
SABIC UK Petrochemicals Ltd C	Teesside, UK	A wholly owned affiliate of SABIC	Ethylene, propylene, benzene, toluene, paraxylene, and cyclohexane
SABIC Polimer Industry A.S. P	Adana, Turkey	SABIC Industrial Investments Company (70%), and Basic Petrokimya Limited Sirketi (30%)	General purpose polystyrene (GPPS), and high impact polystyrene (HIPS)
SABIC Polyolefine GmbH P	Gelsenkirchen, Germany	A wholly owned affiliate of SABIC	Polyethylenes (HDPE, LLDPE) and polypropylene
SINOPEC SABIC Tianjin Petrochemical Co. Ltd. C P	Tianjin, China	A 50/50 joint venture between SABIC Industrial Investments Company and SINOPEC (China Petroleum & Chemical Corporation)	Ethylene, polyethylene, ethylene glycol, polypropylene, butatiene, phenol, and butene-1
SAUDI KAYAN (Saudi Kayan Petrochemical Company) C PC P	Al-Jubail, Saudi Arabia	SABIC (35%), Al-Kayan Petrochemical Company (20%), public shareholders (45%)	Ethylene, propylene, polypropylene, LDPE, HDPE, ethylene glycol, acetone, polycarbonate (PC), ethanolamines (EOA), ethoxylates, bisphenol A, and benzene
SHARQ (Eastern Petrochemical Company) C P	Al-Jubail, Saudi Arabia	A 50/50 SABIC joint venture with a consortium of Japanese companies led by Mitsubishi Corporation	Polyethylene, ethylene glycol, and ethylene
TAYF (Ibn Hayyan Plastics Products Company) C P	Al-Jubail, Saudi Arabia	SABIC wholly owned affliliate Arabian Petrochemical Company, (PETROKEMYA) (99%), SABIC Industrial Investments Company (1%)	Tri-Ethyl aluminum (TEAL), TPO/PP compounds, PC compounds, ABS compounds, and specialty products
UNITED (Jubail United Petrochemical Company) C P	Al-Jubail, Saudi Arabia	SABIC (75%), Pension Fund (15%), General Organization of Social Insurance (10%)	Ethylene, polyethylene, ethylene glycol (EG), and linear alpha olefins (LAO)
YANPET (Saudi Yanbu Petrochemical Company) C P	Yanbu, Saudi Arabia	A 50/50 SABIC joint venture with Mobil Yanbu Petrochemical Company (an affiliate of ExxonMobil Chemical, USA)	Ethylene, polyethylene, ethylene glycol, polypropylene, pyrolysis gasoline, and propylene
YANSAB (Yanbu National Petrochemical Company) C P	Yanbu, Saudi Arabia	SABIC (51%), public shareholders (39%), other companies in the Gulf region (10%)	Ethylene, propylene, ethylene glycol (mono, di,tri), linear low density polyethylene (LLDPE), high density polyethylene (HDPE), polypropylene, butene-1, butene-2, benzene, toluene/xylene mixture, and MTBE

* Trademark of SABIC Innovative Plastics IPV.V
**SABIC joint ventures in Bahrain

Global directory

Albania
SABIC Greece MEPE
Cosmos Offices
Agiou Georgiou 5, Patriarchiko
Pylea, 55535 Thessaloniki
Greece

T: +30 2313 080310
+30 2313 080311
F: +30 2313 080319

Argentina
SABIC Innovative Plastics Argentina SRL
Descartes, 3668 ZIP B1661AYF
Tortuguitas – Pcia. Buenos Aires
Argentina

T: +52 2320 55 2800
F: +54 2320 55 2831

Australia
SABIC Innovative Plastics Australia Pty Ltd
Brandon Office Park
530 – 540 Springvale Road
Building 4, Level 1
Glen Waverley 3150
Victoria, Australia

T: +613 8561 3600
F: +613 9561 4900

SABIC Innovative Plastics Australia Pty Ltd
Suite 3, Level 3
1C Grand Avenue, Rosehill 2142
New South Wales, Australia

T: 1 800 649 112
F: +613 9561 4900

SABIC Innovative Plastics Australia Pty Ltd
16 Graham Street, Export Park
Adelaide 5950, South Australia
Australia

T: 1 800 649 112
F: +618 8154 0125

Austria
SABIC Deutschland GmbH & Co. KG
Graf-Adolf-Platz 15
40213 Düsseldorf
Postfach 10 48 65
40039 Düsseldorf, Germany

T: +49 211 1 71 400
F: +49 211 1 71 40101

SABIC Innovative Plastics
Ges.mb.H Pottendorfer Strasse 47
2700 Wiener Neustadt, Austria

T: +43 2622 390 31
F: +43 2622 390 20

Bahrain
ALBA (Aluminum Bahrain)
(Regional joint venture)
PO Box 570, Manama, Bahrain

T: +973 17 830 000
F: +973 17 662 120

Gulf Petrochemical Industrial Co.
(Regional joint venture)
PO Box 26730, Manama, Bahrain

T: +973 17 731 777
F: +973 17 731 047
E: gpic@gpic.com

Gulf Aluminium Rolling Mill Co.
(Regional joint venture)
N. Sitra Industrial Area
PO Box 20725, Bahrain

T: +973 17 731000
+973 17 734600
F: +973 17 730542
E: sales@garmco.com

Baltic states
SABIC Eastern Europe
12th Floor, Riverside
Towers, Business center –
Bld 5, Kosmodamianskaya
Naberezhnaya 52 – Bld 5
115054 Moscow, Russia

T: +7 985 7730632
+7 985 7730459
F: +7 495 9378290

Belarus
SABIC Eastern Europe
12th Floor, Riverside
Towers, Business center –
Bld 5, Kosmodamianskaya
Naberezhnaya 52 – Bld 5
115054 Moscow, Russia

T: +7 985 7730632
+7 985 7730459
F: +7 495 9378290

Belgium
SABIC Sales Europe
PO Box 5151, 6130 PD Sittard
The Netherlands

T: +31 46 722 2381
F: +31 10 264 4817

SABIC Belgium N.V.
Geleenlaan 35, B-3620 Genk
Belgium

T: +32 89 574707

Bosnia and Herzegovina
SABIC Hungary Kft.
Duna Tower Office building
Népfürdõ u.22, B building
10 floor, 1138 Budapest
Hungary

T: +36 1 889 3336
+36 1 889 3337
F: +36 1 889 3338

Bulgaria
SABIC Greece MEPE
Cosmos Offices
Agiou Georgiou 5
Patriarchiko Pylea
55535 Thessaloniki
Greece

T: +30 2313 080310
+30 2313 080311
F: +30 2313 080319

Brazil
SABIC Innovative Plastics South America – Indústria e Comércio de Plásticos Ltd.
Av. Ibirapuera, 2332 Torre I cj.42
04028-900 São Paulo – SP
Brazil

T: +55 11 3708 0500
F: +55 11 3708 0505

SABIC Innovative Plastics South America - Indústria e Comércio de Plásticos Ltd.
Rua Manoel Thomaz, 545
13067-190 Campinas – SP
Brazil

T: +55 19 3781 1000
F: +55 19 3281 2144

Canada
SABIC Innovative Plastics
1 Structured Products Drive
Long Sault, Ont, K0C 1P0
Canada

T: +905 534 8199
F: +905 534 9220

China
SABIC (Shanghai) Trading Co. Ltd
Suite 2106, Jin Mao Tower
88 Century Blvd
Pudong New Area
Shanghai 200121
China

T: +86 21 5047 5688
F: +86 21 5047 2588
E: sappl-sro@sabic.com.cn

SABIC Beijing Branch
16F, Tower A, Gemdale Plaza
No. 91, Jianguo Road
Chaoyang District
Beijing 100022, China

T: +86 10 8529-8777
F: +86 10 8529-6781
E: stcl-bej@sabic.com.cn

SABIC (Shenzhen) Trading Co. Ltd
Unit 3605-3607, Office Tower
Shun Hing Square
Di Wang Commercial Centre
5002 Shen Nan Dong Road
Shenzhen, 518008, China

T: +86 755 2583 8828
F: +86 755 2583 8933
E: stcl.shz@sabic.com.cn

SABIC Innovative Plastics
Pacific Headquarters
16F, Plaza 66
1266 Nanjing Road (W)
Shanghai 200040, China

T: +86 21 3222 4500
F: +86 21 6289 8998

SABIC Innovative Plastics
Greater China Headquarters
16F, Plaza 66
1266 Nanjing Road W
Shanghai 200040, China

T: +86 21 6288 1088
F: +86 21 6288 0818

SABIC Innovative Plastics (Shanghai) Co. Ltd
58 Ai Du Road
Wai Gao Qiao Free Zone
Shanghai 200131, China

T: +86 21 5046 0000
F: +86 21 5046 0795

SABIC Innovative Plastics (China) Co. Ltd
No. 1 Plastics Ave
Western Industrial District, ETDZ
Panyu, Guangzhou 511458
China

T: +86 20 8498 0148
F: +86 20 8498 0202

Croatia

SABIC Hungary Kft.
Duna Tower Office building
Népfürdõ u.22, B building
10 floor, 1138 Budapest, Hungary

T: +36 1 889 3336
+36 1 889 3337
F: +36 1 889 3338

Czech Republic

SABIC Hungary Kft.
Duna Tower Office building
Népfürdõ u.22, B building
10 floor, 1138 Budapest, Hungary

T: +36 1 889 3336
+36 1 889 3337
F: +36 1 889 3338

SABIC Innovative Plastics Czech, s.r.o.
V Sadech 4
160 00 Prague 6 – Bubenec
Czech Republic

T: +420 220 511 400
F: +420 239 015 608

Denmark

SABIC Nordic A/S
Bregneroedvej 132
DK–3460 Birkeroed, Denmark

T: +45 4582 8245
F: +45 4582 0103

Sabic Innovative Plastics Denmark ApS
Sluseholmen 2-4
2450 Copenhagen SV, Denmark

T: +45 33 32 49 18
F: +45 33 32 49 10

Egypt

SABIC Egypt
Egypt Representative Office
Northern Tower, Nile City Towers
Cornish El-Nil, 15th Floor, Cairo
Egypt

T: +202 24619077
F: +202 24619073/74

Estonia

SABIC Eastern Europe OOO
12th Floor, Riverside
Towers, Business center –
Bld 5, Kosmodamianskaya
Naberezhnaya 52 – Bld 5
115054 Moscow, Russia

T: +7 985 7730632
+7 985 7730459
F: +7 495 9378290

Finland

SABIC Nordic A/S
Bregneroedvej 132
DK–3460 Birkeroed, Denmark

T: +45 45 82 82 45
F: +45 45 82 01 03

SABIC Innovative Plastics Finland OY
Italahdenkatu 22B
FIN-00210 Helsinki
Finland

T: +358 9 6211010

France

SABIC France S.A.S.
Le Monge
22, place des Vosges
La Défense 5
92979 Paris la Défense Cedex
France

T: +33 (0) 1 41978300
F: +33 (0) 1 41978301

SABIC Innovative Plastics France SNC
9 rue Georges Besse
Immeuble Galilee
92182 Antony Cedex, France

T: +33 (0) 175 600 570
F: +33 (0) 142 371 041

Georgia

SABIC Eastern Europe
12th Floor, Riverside
Towers, Business center –
Bld 5, Kosmodamianskaya
Naberezhnaya 52 – Bld 5
115054 Moscow, Russia

T: +7 985 7730632
+7 985 7730459
F: +7 495 9378290

Germany

SABIC Deutschland GmbH & Co. KG
Graf-Adolf-Platz 15, 40213
Düsseldorf, Postfach 10 48 65,
40039 Düsseldorf, Germany

T: +49 211 1 71 400
F: +49 211 1 71 40101

SABIC Polyolefine GmbH
Pawikerstr. 30
45896 Gelsenkirchen, Germany

T: +49 2 09 93 39–1
F: +49 2 09 93 39–200
E: gelsenkirchen@sabic-europe.com

SABIC Innovative Plastics Germany GmbH
Eisenstrasse 5
65428 Ruesselsheim, Germany

T: +49 (0) 6142 601-0
F: +49 (0) 6142 65748

Greece

SABIC Greece MEPE
Cosmos Offices
Agiou Georgiou 5, Patriarchiko
Pylea, 55535 Thessaloniki
Greece

T: +30 2313 080310
+30 2313 080311
F: +30 2313 080319

Hong Kong

SABIC Innovative Plastics Hong Kong Ltd
Room 1008, Tower One
The Gateway, 25 Canton Road
Tsimshatsui, Kowloon, Hong Kong

T: +852 2629 0888
F: +852 2629 0800

Hungary

SABIC Hungary Kft.
Duna Tower Office building
Népfürdõ u.22, B building
10 floor, 1138 Budapest, Hungary

T: +36 1 889 3336
+36 1 889 3337
F: +36 1 889 3338

Sabic Innovative Plastics Kereskedelmi Kft
Duna Tower
Népfürdõ u.22, B building
10 floor, 1138 Budapest, Hungary

T: + 36 1 889-3345
F: + 36-1-889-3344

India

SABIC India Pvt. Ltd
5th Floor, The Capital Court
Olof Palme Marg, Munirka
New Delhi 110067, India

T: +91 11 2671 3121/22/23/24
F: +91 11 2671 3125/26
E: sipl@sabicindia.com

SABIC Innovative Plastics India Pvt. Ltd
Plastics Avenue
P. O. Jawahar Nagar
Vadodara – 391320, India

T: +91 265 3068551/2
F: +91 265 2232144

SABIC Innovative Plastics India Pvt. Ltd
Millers' Boulevard 70/2
1st floor, Millers Road
Bangalore – 560052, India

T: +91 80 4053 9600
F: +91 80 4053 9605

SABIC Innovative Plastics India Pvt. Ltd
9th Floor, Tower B
Building No-9, DLF Cyber City
Phase-III, Gurgaon – 122002
India

T: +91 24 4745300
F: +91 24 4745355

SABIC Innovative Plastics India Pvt. Ltd
Solitaire Corporate Park
Building 7, Floor 8
Unit 1, New Andheri-Ghatkopar
Link Road, Chakala, Andheri
Mumbai – 400 093, India

T: +91 22 4026 3537 41
F: +91 22 4026 3544

SABIC Innovative Plastics India Pvt. Ltd
9C, Ega Trade Center
Poonamalle High Road
Kilpauk, Chennai – 600010, India

T: +91 44 3026 8274 76
F: +91 44 4285 8905

SABIC Innovative Plastics India Pvt. Ltd
Office No. 302 Astral Court
Near Anandban Club
Marutrao Gaikwad Nagar
Aundh, Pune – 411007, India

T: +91 20 4005 7877/878
F: +91 20 4005 7881

SABIC Research & Technology Pvt. Ltd (SRTPL)
Plot No. 5 and 6, Savli GIDC
Estate, Savli–Vadodara Highway
Manjusar 391 775, Vadodara
India

T: +91 266 7265400
F: +91 266 7264 245
E: mransari@sabicind.com

Indonesia

SABIC Indonesia Rep Office
Indonesia Stock Exchange
Building, Tower 1, No. 1702
Jl. Jend. Sudirman Kav 52-53
Jakarta 12190, Indonesia

T: +62 (21) 5140 0055
F: +62 (21) 5140 0077
E: sappl-iro@sabic.co.id

SABIC Innovative Plastics (SEA) Pte. Ltd
Indonesia Stock Exchange
Building, Suite 1703, Tower 1
Level 17, Jalan Jend. Sudirman
Kav. No. 52-53, Jakarta 12190
Indonesia

T: +62 21 5150150
F: +62 21 5150140

Iran

SABIC Iran
PO Box 1435613511, Tehran, Iran

T: +98 21 88662522
F: +98 21 88662521

Italy

SABIC Italia SPA
Via San Clemente 1, 20122
Milano, Italy

T: +39 02 85974400
F: +39 02 8646 5421 (Chemicals)
F: +39 02 8646 5472 (Polymers)

SABIC Innovative Plastics Italy Srl
Viale Brianza 181
20092 Cinisello Balsamo MI, Italy

T: +39 02 61834 1
F: +39 02 61834 211

SABIC Innovative Plastics Italy Srl
Italy Via San Franscesco d'Assisi
11/13, 21057 Olona, Olgiate
Italy

T: +39 0331 3499 49
F: +39 0331 3499 21

Ireland

SABIC United Kingdom Ltd
Papermill Drive, Redditch
Worcestershire B98 8QJ, UK

T: +44 1527 590570
F: +44 1527 590577

Japan

SABIC Japan Ltd
Tokyo Club Building
7th floor, Kasumigaseki 3-2-6
Chiyoda-ku, Tokyo, 100-0013
Japan

T: +81 3 3580 3930
F: +81 3 3580 9777
E: sjl@sabic.co.jp

SABIC Innovative Plastics Japan LLC
Tokyo Office, Tokyo Club Building
Kasumigaseki 3-2-6, Chiyoda-ku
Tokyo 100-0013, Japan

T: +81 3 3593 4700
F: +81 3 3593 4709

Moka office
2–2 Kinugaoka, Moka-Shi
Tochigi-Ken 321–4392, Japan

T: +81 285 802111
F: +81 285 802156

Osaka Office
Osaka Sun Mullion, 2-6-12,
Minami-Honmachi, Chuo-ku,
Osaka 541-0054, Japan

T: +81 6 6282 2601
F: +81 6 6282 2606

Kariya Sales Office
Kariya City, Aichi 29-1 K-Front
Building 2-4F, Aioicho 2 Chome
448-0027, Japan

T: +81 566 63 6046
F: +81 566 22 0089

Kazakhstan

SABIC Eastern Europe
12th Floor, Riverside
Towers, Business center –
Bld 5, Kosmodamianskaya
Naberezhnaya 52 – Bld 5
115054 Moscow, Russia

T: +7 985 7730632
+7 985 7730459
F: +7 495 9378290

Korea

SABIC Korea Ltd
20th floor, Donghoon Tower
702-19, Yeoksam-dong
Gangnam-gu, Seoul 135–513
South Korea

T: +82 2 2052 7790
F: +82 2 2052 7794
E: skl@sabic.co.kr

SABIC Innovative Plastics Korea Ltd
Seoul Office
20th Floor, Donghoon Tower
702-19, Yeoksam-Dong
Gangnam-Ku, Seoul, 135-513
South Korea

T: +82 2 5106000
F: +82 2 5106666

Latvia

SABIC Eastern Europe
12th Floor, Riverside
Towers, Business center –
Bld 5, Kosmodamianskaya
Naberezhnaya 52 – Bld 5
115054 Moscow, Russia

T: +7 985 7730632
+7 985 7730459
F: +7 495 9378290

Lebanon
SABIC Lebanon
PO Box 11–2153, Beirut 2011–8403 , Lebanon

T: +961 1 973444 Ext 101–114
F: +961 1 972865

SABIC Innovative Plastics
Solidere, Mina´a El Hosn
Berytus Parks Building 1344 –
5th Floor, Block B Ahmad Daouk
Street, Beirut, Lebanon

T: +961 1 203303 ext: 225
F: +961 1 327271

Lithuania
SABIC Eastern Europe
12th Floor, Riverside
Towers, Business center –
Bld 5, Kosmodamianskaya
Naberezhnaya 52 –
Bld 5, 115054 Moscow, Russia

T: +7 985 7730632
+7 985 7730459
F: +7 495 9378290

Macedonia
SABIC Greece MEPE
Cosmos Offices
Agiou Georgiou 5, Patriarchiko
Pylea, 55535 Thessaloniki
Greece

T: +30 2313 080310
+30 2313 080311
F: +30 2313 080319

Malaysia
SABIC Innovative Plastics Malaysia Sdn. Bhd.

Lot 762 Jalan Haji Sirat
42100 Klang, Selangor, Malaysia

T: +60 3 3291 3133
F: +60 3 3290 3133

SABIC Innovative Plastics LNP Malaysia Sdn. Bhd.
Lot 35, Persiaran Bunga Tanjung 2
Senawang Industrial Park, 70400
Seremban, Negeri Sembilan
Malaysia

T: +60 6 6767700
F: +60 6 6786518

SABIC Innovative Plastics Malaysia Sdn. Bhd.
Unit 4B Lower Level 5 Hotel
Equatorial, No 1 Jalan Bukit
Jambul, 11900 Penang
Malaysia

T: +60 4 8180886
F: +60 4 8180880

SABIC Innovative Plastics Malaysia Sdn. Bhd.
Suite 3B-11-3, Block 3B,
Level 11, Plaza Sentral,
Kuala Lumpur 50470
Malaysia

T: +60 3 2274 6198
F: +60 3 2273 3487

Mexico
SABIC Commercial Materials Mexico, SRL de C.V.
Av. Paseo de la Reforma No. 2620
Torre Reforma Plus, Piso 17
Col. Lomas Altas. 11950
México, D.F.

T: +52 55 1105 6700
F: +52 55 1105 6799

Montenegro
SABIC Hungary Kft.
Duna Tower Office building
Népfürdõ u.22, B building
10 floor, 1138 Budapest, Hungary

T: +36 1 889 3336
+36 1 889 3337
F: +36 1 889 3338

The Netherlands
SABIC Capital B.V.
World Trade Center, Tower H
27th floor, Zuidplein 216
1077 XV Amsterdam
The Netherlands

T: +31 46 722 2128
F: +31 10 264 4829

SABIC Europe
PO Box 5151, 6130 PD Sittard
The Netherlands

T: +31 46 722 2222
F: +31 46 722 0000
E: info@sabic-europe.com

SABIC Sales Europe
PO Box 5151, 6130 PD Sittard
The Netherlands

T: +31 46 722 2381
F: +31 10 264 4817

SABIC Europe Manufacturing
PO Box 475, 6160 AL Geleen
The Netherlands

T: +31 46 4767000
E: geleen@sabic-europe.com

SABIC Europe Research & Development
PO Box 319, 6160 AH Geleen
The Netherlands

T: +31 464760207
F: +31 464760503

SABIC Innovative Plastics BV
European Headquarters
Plasticslaan 1
4612 PX Bergen op Zoom
The Netherlands

T: +31 164 29 2911
F: +31 164 29 2940

SABIC Innovative Plastics
Zoutketen 2, 1601EX Enkhuizen
The Netherlands

T: +31 228 317 944
F: +31 228 317 278

Norway
SABIC Nordic A/S
Bregneroedvej 132
DK–3460 Birkeroed, Denmark

T: +45 45 82 82 45
F: +45 45 82 01 03

Philippines
SABIC Asia Pacific Pte LTD.
Philippine Representative Office
38th Floor, Philamlife Tower
8767 Paseo de Roxas
Makati City 1226, Philippines

T: +63 2 885 0497/98
F: +63 2 885 0294
E: sappl-pro@sabic.com.ph

Poland
SABIC Poland Sp z.o.o
ul.17 Stycznia 45A
02– 146 Warszawa, Poland

T: +48 22 4323737
+48 22 4323735
F: +48 22 4323740

SABIC Innovative Plastics Poland Sp. z.o.o
17 Stycznia Street 45A
IV piçtro (4th floor)
02-146 Warsaw, Poland

T: +48 22 432 3711
F: +48 22 432 3730

Portugal
SABIC Marketing Ibérica S.A.
Edificio Euro-3
C/Frederic Mompou, 5, 4°–4a
E–08960 Sant Just Desvern
Barcelona, Spain

T: +34 93 470 30 60
F: +34 93 473 64 36

Qatar

SABIC Innovative Plastics
C-Ring Road & Najma Intersection
PO Box 24997, Doha, Qatar

Romania

SABIC Hungary Kft.
Duna Tower Office building
Népfürdõ u.22, B building
10 floor, 1138 Budapest, Hungary

T: +36 1 889 3336
+36 1 889 3337
F: +36 1 889 3338

Russia

SABIC Eastern Europe OOO
12th Floor, Riverside
Towers, Business center –
Bld 5, Kosmodamianskaya
Naberezhnaya 52 –
Bld 5, 115054 Moscow, Russia

T: +7 985 7730632
+7 985 7730459
F: +7 495 9378290

SABIC Innovative Plastics Rus
12th Floor, Riverside
Towers, Business center –
Bld 5, Kosmodamianskaya
Naberezhnaya 52 –
Bld 5, 115054 Moscow, Russia

T: +7 495 937 8368
F: +7 495 739 6801

Saudi Arabia

Saudi Basic Industries Corporation (HQ)
PO Box 5101, Riyadh 11422
Saudi Arabia

T: +966 (0) 1 225 8000
F: +966 (0) 1 225 9000
E: info@sabic.com

Dammam office
PO Box 2629, Dammam 31461
Saudi Arabia

T: +966 (0) 3 847 2333
F: +966 (0) 3 847 2016

Jeddah office
PO Box 30204, Jeddah 21477
Saudi Arabia

T: +966 (0) 2 608 8888
F: +966 (0) 2 636 2561
+966 (0) 2 636 9802

Al-Jubail office
PO Box 10040, Al-Jubail 31961
Saudi Arabia

T: +966 (0) 3 347 7200
F: +966 (0) 3 341 1552

Qassim office
PO Box 5027, Al-Qassim
Saudi Arabia

T: +966 (0) 6 322 0866
F: +966 (0) 6 322 0376

SABTANK
SABIC Terminal Services Co.
PO Box 10135, Al-Jubail 31961
Saudi Arabia

T: +966 (0) 3 345 3646
F: +966 (0) 3 357 5470

Yanbu office
PO Box 30382, Yanbu
Saudi Arabia

T: +966 (0) 4 321 1660
F: +966 (0) 4 321 1754

AR-RAZI
Saudi Methanol Co. PO
Box 10065, Al-Jubail 31961
Saudi Arabia

T: +966 (0) 3 357 7800
F: +966 (0) 3 358 5552
E: arrazi@arrazi.sabic.com

AL-BAYRONI
Jubail Fertilizer Co.
PO Box 10046, Al-Jubail 31961
Saudi Arabia

T: +966 (0) 3 341 64 88
F: +966 (0) 3 341 7122
E: albayroni@albayroni.sabic.com

GAS
National Industrial Gases Co.
PO Box 10110, Al-Jubail 31961
Saudi Arabia

T: +966 (0) 3 357 5738
F: +966 (0) 3 358 8880
E: hussainaa@gas.sabic.com

HADEED
Saudi Iron & Steel Co.
PO Box 10053, Al-Jubail 31961
Saudi Arabia

T: +966 (0) 3 357 1100
F: +966 (0) 3 358 5000

IBN AL-BAYTAR
National Chemical Fertilizer Co.
PO Box 10283, Al-Jubail 31961
Saudi Arabia

T: +966 (0) 3 341 1100
F: +966 (0) 3 341 1257
E: safco@safco.sabic.com

IBN RUSHD
Arabian Industrial Fiber Co.
PO Box 30701, Yanbu 21477
Saudi Arabia

T: +966 (0) 4 321 8000
F: +966 (0) 4 321 8008
E: ibnrushd@ibnrushd.sabic.com

IBN SINA
National Methanol Co.
PO Box 10003, Al-Jubail 31961
Saudi Arabia

T: +966 (0) 3 340 5500
T: +966 (0) 3 340 5604

IBN ZAHR
Saudi European Petrochemical Co.
Al-Jubail 31961, Saudi Arabia

T: +966 (0) 3 341 5060
F: +966 (0) 3 341 2966
E: info@ibnzahr.sabic.com

KEMYA
Jubail Petrochemical Co.
PO Box 10084, Al-Jubail 31961
Saudi Arabia

T: +966 (0) 3 357 6000
F: +966 (0) 3 358 7858
E: kemya@kemya.sabic.com

PETROKEMYA
Arabian Petrochemical Co.
PO Box 10002, Al-Jubail 31961
Saudi Arabia

T: +966 (0) 3 358 7000
F: +966 (0) 3 358 4480
E: petrokemya@petrokemya.sabic.com

SADAF
Saudi Petrochemical Co.
PO Box 10025, Al-Jubail 31961
Saudi Arabia

T: +966 (0) 3 357 3000
F: +966 (0) 3 357 3343
E: info@sadaf.sabic.com

SAFCO
Saudi Arabian Fertilizer Co.
PO Box 11044
Al-Jubail Industrial City – 31961
Saudi Arabia

T: +966 (0) 3 341 1100
F: +966 (0) 3 341 1257
E: safco@safco.sabic.com

SAUDI KAYAN
Saudi Kayan Petrochemical Co.
PO Box 10302, Al-Jubail 31961
Saudi Arabia

T: +966 (0) 3 359 3000
F: +966 (0) 3 359 3111

SHARQ
Eastern Petrochemical Co.
PO Box 10035, Al-Jubail 31961
Saudi Arabia

T: +966 (0) 3 357 5000
F: +966 (0) 3 358 0385
E: sharq@sharq.sabic.com

TAYF
IBN Hayyan Plastic Products Company
PO Box 10273, Al-Jubail 31961
Saudi Arabia

T: +966 (0) 3 358 4000
F: +966 (0) 3 358 7577
E: tayf@sabic.com

UNITED
Jubail United Petrochemical Company
PO Box 10085, Al-Jubail 31961
Saudi Arabia

T: +966 (0) 3 359 5000
F: +966 (0) 3 35 87752

YANSAB
Yanbu National Petrochemical Company
PO Box 31396
Yanbu Industrial City
Yanbu 21477, Saudi Arabia

T: +966 (0) 4 325 4444
F: +966 (0) 3 325 6666

YANPET
Saudi Yanpet Petrochemical Co.
PO Box 30333, Yanbu 21441
Saudi Arabia

T: +966 (0) 4 3965000
F: +966 (0) 4 3965006
E: info@yanpet.sabic.com

Technology & Innovation
PO Box 42503, Riyadh 11551
Saudi Arabia

T: +966 (0) 1 499 9333
F: +966 (0) 1 265 1101

Technical Services Laboratory
T: +966 (0) 1 265 1661
F: +966 (0) 1 265 1686

Serbia
SABIC Hungary Kft.
Duna Tower Office building
Népfürdõ u.22, B building
10 floor, 1138 Budapest, Hungary

T: +36 1 889 3336
+36 1 889 3337
F: +36 1 889 3338

Singapore
SABIC Asia Pacific Pte. Ltd
One Temasek Avenue
06-01 Millenia Tower
Singapore 039192

T: +65 6557 2555
F: +65 6531 8101
E: sappl@sabic.com.sg

SABIC Innovative Plastics (SEA) Pte. Ltd

SABIC Innovative Plastics Singapore Pte. Ltd
23 Benoi Road
Singapore 629895

T: +65 6210 4100
F: +65 6861 3063

Slovakia
SABIC Hungary Kft.
Duna Tower Office building
Népfürdõ u.22, B building
10 floor, 1138 Budapest, Hungary

T: +36 1 889 3336
+36 1 889 3337
F: +36 1 889 3338

Slovenia
SABIC Hungary Kft.
Duna Tower Office building
Népfürdõ u.22, B building
10 floor, 1138 Budapest, Hungary

T: +36 1 889 3336
+36 1 889 3337
F: +36 1 889 3338

Spain
SABIC Marketing Iberica SL
Edificio Euro-3
C/Frederic Mompou 5, 5, 4°– 4a
E–08960 Sant Just Desvern
Barcelona, Spain

T: +34 93 470 30 60
F: +34 93 473 64 36

SABIC Innovative Plastics Iberica SL
S.A C/ Frederic Mompou, 5 2º 1ª
Sant Just Desvern
08960 Barcelona, Spain

T: +34 93 2521626
F: +34 93 2802619

SABIC Innovative Plastics Espana ScpA
CR Cartegna, La Aljorra, Murcia
30390 Spain

T: +34 96 8129100

Sweden
SABIC Nordic A/S
Bregneroedvej 132
DK–3460 Birkeroed, Denmark

T: +45 45 82 82 45
F: +45 45 82 01 03

SABIC Innovative Plastics
Nordfeldtsväg 9
645 51 Strängnäs, Sweden

T: +46 152 425 30
F: +46 152 425 31

Switzerland
SABIC Deutschland GmbH & Co. KG
Graf-Adolf-Platz 15, 40213
Düsseldorf, Postfach 10 48 65
40039 Düsseldorf, Germany

T: +49 211 1 71 400
F: +49 211 1 71 40101

Taiwan
SABIC Asia Pacific Pte Ltd
Taiwan Branch
Room B, 7F. No. 8, Sec.3
Minsheng E. Road, Taipei 10480
Taiwan

T: +886 2 2516 8198
F: +886 2 2516 8178
E: sappl-tbo@sabic.com.tw

SABIC Innovative Plastics Taiwan Holding Limited
Taiwan Branch (Hong Kong)
7F, No. 8, Min Sheng E. Rd.
Sec. 3, Taipei 10480, Taiwan

T: +886 2 2183 7000
F: +886 2 2516 6509

Thailand
SABIC Innovative Plastics (Thailand) Co., Ltd
15th Fl, Thaniya Plaza Building
52 Silom Road, Suriyawong,
Bangrak, Bangkok 10500
Thailand

T: +66 2 2312323
F: +66 2 231 2322

SABIC Innovative Plastics (Thailand) Co., Ltd
64/22 Moo 4 Tumbol Pluak
Daeng, Amphur Pluak Daeng
Rayong 21140, Thailand

T: +66 38 955235
F: +66 38 955244

Turkey
SABIC Turkey
Degirmen Sok. Nida Kule No.12
11th Floor, 34744 Kozyata
Istanbul, Turkey

T: +90 216 5717 500
F: +90 216 5717 575

SABIC Polymerland Muhenddislik Plastikleri Sanayi vs Ticaret Anonim Sirketi
Soner Sok. No: 5, Meral Plaza
Kat: 6, Tepeustu Mevkii 34771
Umraniye, Istanbul, Turkey

T: + 90 (216) 612 7722
F: + 90 (216) 612 7723

Turkmenistan

SABIC Eastern Europe
12th Floor, Riverside
Towers, Business center –
Bld 5, Kosmodamianskaya
Naberezhnaya 52 – Bld 5
115054 Moscow, Russia

T: +7 985 7730632
+7 985 7730459
F: +7 495 9378290

Ukraine

SABIC Eastern Europe
12th Floor, Riverside
Towers, Business center –
Bld 5, Kosmodamianskaya
Naberezhnaya 52 – Bld 5
115054 Moscow, Russia

T: +7 985 7730632
+7 985 7730459
F: +7 495 9378290

United Arab Emirates

Dubai office
PO Box 25893, Exit No. 35,
Media City (Sheikh Zayed Road)
Business Central Tower (A)
Floor 39, Office: 3902A and
3903A, Dubai, UAE

T: +971 4 4355888
F: +971 4 4230810

United Kingdom and Northern Ireland

SABIC United Kingdom Ltd
Papermill Drive, Redditch
Worcestershire B98 8QJ, UK

T: +44 (0) 1527 590570
F: +44 (0) 1527 590577

SABIC UK Petrochemicals Limited
PO Box 99 Wilton Centre
Redcar TS10 4YA, UK

T: +44 (0) 1642 453366
F: +44 (0) 1642 834608
E: teeside@sabic-europe.com

SABIC Innovative Plastics Ltd
c/o DSM House
Papermill Drive, Redditch
Worcestershire B98 8QJ, UK

T: +44 (0) 152 759 0570

United States of America

SABIC Americas, Inc.
2500 City West Boulevard
Suite 650, Houston
TX 77042, USA

T: +1 713 532 4999
F: +1 713 532 4994
E: info@americas.sabic.com

SABIC Technology Center
1600 Industrial Blvd.
Sugar Land, TX 77478, USA

T: +1 281-207-5500
F: +1 281-207-5550

SABIC Innovative Plastics
Americas and Global HQ
1 Plastics Avenue, Pittsfield
MA 01201, USA

T: +1 413 448 7110
F: +1 413 448 5573

SABIC Innovative Plastics
9930 Kincey Ave. Huntersville
North Carolina 28078, USA

T: +1 800 752 7842
F: +1 888 752 7842

SABIC Polymershapes
11515 Vanstory Drive, Suite 140
Huntersville
North Carolina 28078, USA

T: +1 704 948 5000
+1 866 437 7427
F: +1 704 948 5082

Exatec, LLC
31220 Oak Creek Drive, Wixom
MI 48393, USA

T: +1 248 926 4200
F: +1 248 960 1143

SABIC Innovative Plastics LNP Products

475 Creamery Way
Exton, PA 19341, USA

T: +1 610 363 4500

SABIC Innovative Plastics
1 Lexan Lane, Mt Vernon,
Indiana 47620, USA

T: +1 812 831 7000

SABIC Innovative Plastics
1 Noryl Ave, Selkirk
New York 12158, USA

T: +1 518 475 5011

SABIC Innovative Plastics
2148 North 2753rd Road
Ottawa, Illinois, 61350, USA

T: +1 815 434 7000

SABIC Innovative Plastics
1 Plastics Drive, Burkville
Alabama, 36752, USA

T: +1 334 832 5000

Uzbekistan

SABIC Eastern Europe
12th Floor, Riverside
Towers, Business center –
Bld 5, Kosmodamianskaya
Naberezhnaya 52 –
Bld 5, 115054 Moscow, Russia

T: +7 985 7730632
+7 985 7730459
F: +7 495 9378290

Vietnam

SABIC Vietnam Rep Office
Suite 1106
Saigon Tower Building
29 Le Duan Street, District 1
Ho Chi Minh City, Vietnam

T: +84 (8) 824 3802
F: +84 (8) 824 3973
E: sappl.vro@sabic.com.vn

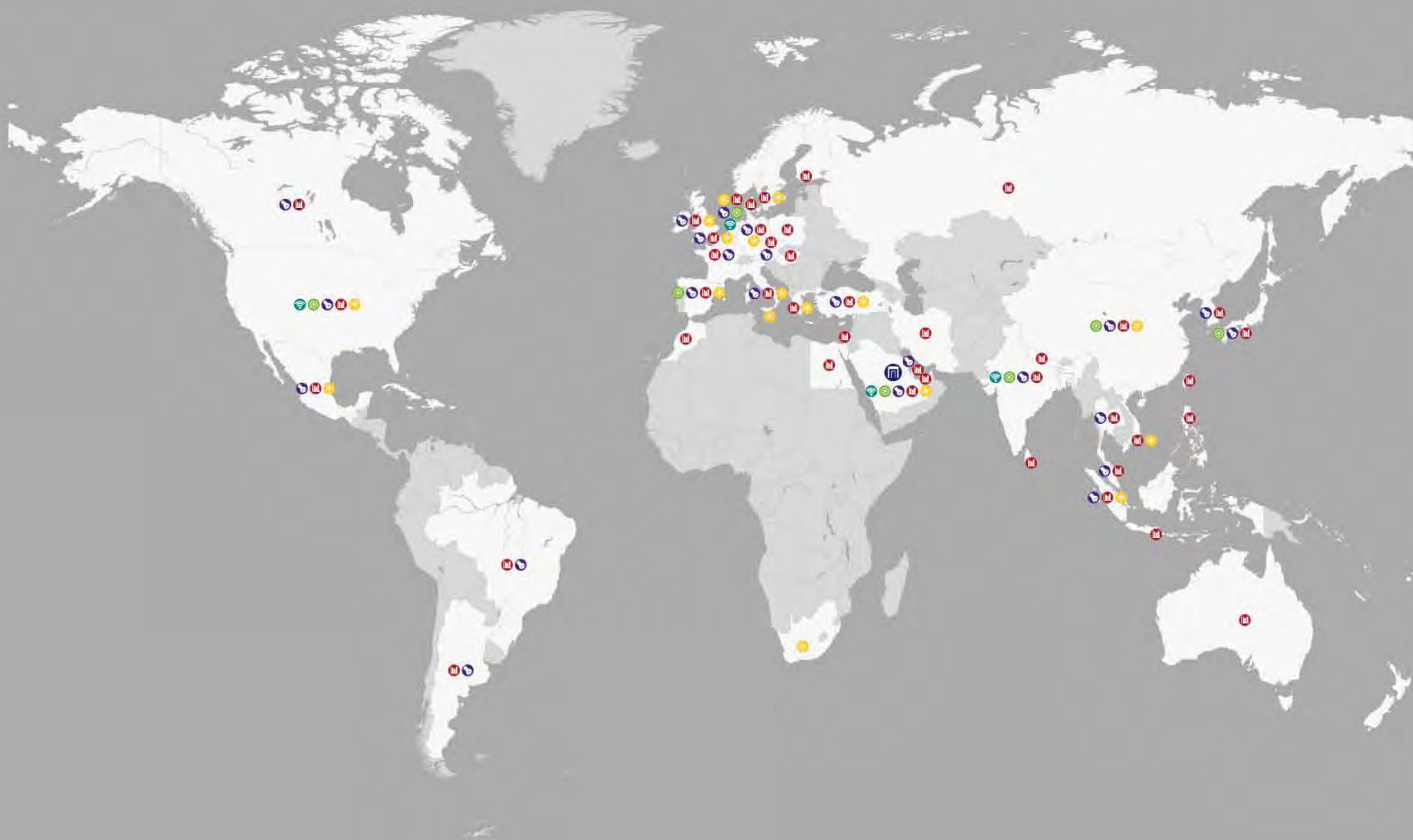
SABIC Innovative Plastics (SEA) Pte. Ltd
1506 Ocean Park Building
1 Dao Duy Anh, Dong Da District
Hanoi, Vietnam

T: +84 4 35772518
F: +84 4 35772515

SABIC Innovative Plastics (SEA) Pte. Ltd
6th Floor, Bach Viet Building
65 Tran Quoc Hoan
Ward 4, Tan Binh District
Ho Chi Minh City, Vietnam

T: +84 8 62969077
F: +84 8 62969031

Our global operations



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●	Application centers	(10)
●	Manufacturing and compounding companies	(64)
●	Distribution, storage facilities and logistical hubs	(46)
●	Technology centers	(6)
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1 SABIC

40 countries

213 sites

33,000 employees

Saudi Basic Industries Corporation
PO Box 5101, Riyadh 11422
Kingdom of Saudi Arabia

T +966 (0) 1 225 8000
F +966 (0) 1 225 9000
E info@sabic.com

www.sabic.com

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