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VISION AND MISSION STATEMENT

Our vision is to be a leading global manufacturer and marketer of hydrocarbon and metal products.



Reception area at SAB

Our mission is to provide distinctive, high-quality industrial products and services to our customers, meeting the expectations of our shareholders through optimum utilization of our available human and natural resources, together with the use of state-of-the-art technology – maintaining safe and environmentally sound practices.

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- 1 De-dusting plant, HADEE
- SABIC headquarters, Riyadh
- 3 Jafar A. Al-Yaseen, Operator and Abdullah Al-Ruwaily, Lea Operator at PETROKEMYA



Saudi Basic Industries Corporation

The Middle East's largest non-oil company, Saudi Basic Industries Corporation (SABIC), is based in Riyadh, Saudi Arabia. Founded in 1976, SABIC was one of the first companies set up in the Kingdom to diversify the economy away from upstream oil production. It is now a central component in Saudi Arabia's industrial growth, with a far-reaching expansion process both inside and outside the Kingdom to realize its strategy of becoming a leader in the global petrochemical industry. The Saudi Arabian Government owns 70% of SABIC shares. The remaining 30% are held by private investors in Saudi Arabia and other countries of the Gulf Cooperation Council (GCC).

SABIC owes its existence to Saudi Arabia's natural hydrocarbon resources. The company has world-class plants with world-scale production capacities and makes diverse products; has global marketing and services networks; world-class Research and Technology capabilities in Saudi Arabia, Europe, the USA and India; and a globally linked IT network.

SABIC has two large industrial sites in Saudi Arabia (Al-Jubail and Yanbu). The company has 18 manufacturing affiliates. Most of these affiliates are based in the Al-Jubail Industrial City on the Arabian Gulf. Two are located in Yanbu Industrial City on the Red Sea and one in the eastern province city of Dammam. SABIC is also a partner in three regional ventures based in Bahrain.

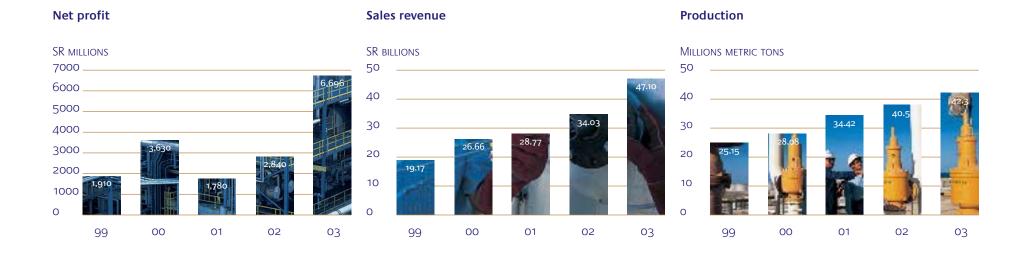
With the recent acquisition of DSM's petrochemical business in Europe – the first in its global expansion plan – SABIC has become the world's third largest producer of polyethylene and the sixth largest producer of polypropylene. Overall, SABIC is the world's fourth largest polyolefin producer.

Soon after acquiring DSM's petrochemical business, in late 2002, SABIC bought Owens Corning's 50 percent share in StaMax BV, a joint venture originally formed with DSM in 1999. Six months after the DSM petrochemicals acquisition, SABIC opened a new propylene plant in Geleen, Netherlands.

Last October, SABIC announced plans to build its new European headquarters building in Sittard, Netherlands, scheduled for completion in late 2005. In March 2003, SABIC and Süd-Chemie AG formed a 50:50 partnership to acquire Scientific Design, Inc. of New Jersey, a world leader in process and catalyst-related chemical technologies.

The management structure of SABIC consists of six Strategic Business Units (SBUs): Basic Chemicals; Intermediates; Polyolefins; PVC and Polyester, which are all grouped under a Petrochemicals Division; Fertilizers, and Metals. Shared Services Organization is another division created to provide common services across the SABIC businesses. Supporting these functions is a Corporate Core consisting of Corporate Human Resources; Corporate Finance; Corporate Control and Research and Technology (R&T).





SABIC employs over 16,000 people worldwide

world-scale manufacturing affiliates

Basic Chemicals production in 2003

Major Products	'000 metric tons
Ethylene	5,924
Methanol	4,630
MTBE (Methyl Tertiary Butyl Ether)	3,143
Propylene	1,077
Styrene	1,017
Benzene	350
Paraxylene	162
Pyrolysis Gasoline	132
CIE (Crude Industrial Ethanol)	249
Butadiene	123
Butene-1	88
Total production	16,895

Intermediates production in 2003

Major Products	'000 metric tons
Mono Ethylene Glycol (MEG)	2,322
Di-Ethylene Glycol (DEG)	226
Tri-Ethylene Glycol (TEG)	12
Purified Terephthalic Acid (PTA)	288
Ethylene Di-Chloride (EDC)	839
Caustic Soda (NaOH)	661
2- Ethylene Hexanol (2EH)	163
Di-Octyle Phthalate (DOP)	20
Vinyl Chloride Monomer (VCM)	415
Iso-Butyl Aldehyde (IBAL)	19
Total production	4,965

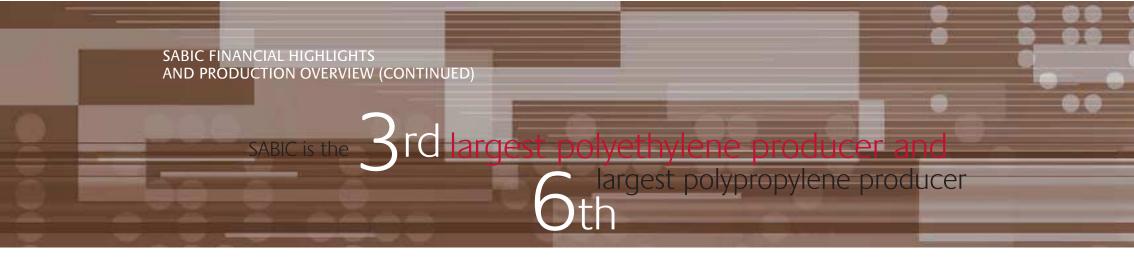
PVC and Polyester production in 2003

Major Products	'000 metric tons
Polyvinyl Chloride (PVC)	335
Polystyrene (PS)	177
Polyethylene Terephthalate (PET) Resin	78.5
Polyester Fibers	125
Melamine	22.5
Total production	738

Polyolefins production in 2003

Major Products	'000 metric tons
Polyethylenes	
KSA (Total SABIC plus Partners)	3,181
Europe	1,261
Malaysia	205
Polypropylenes	
KSA (Total SABIC plus Partners)	877
Europe	1,028
Total production	6,552

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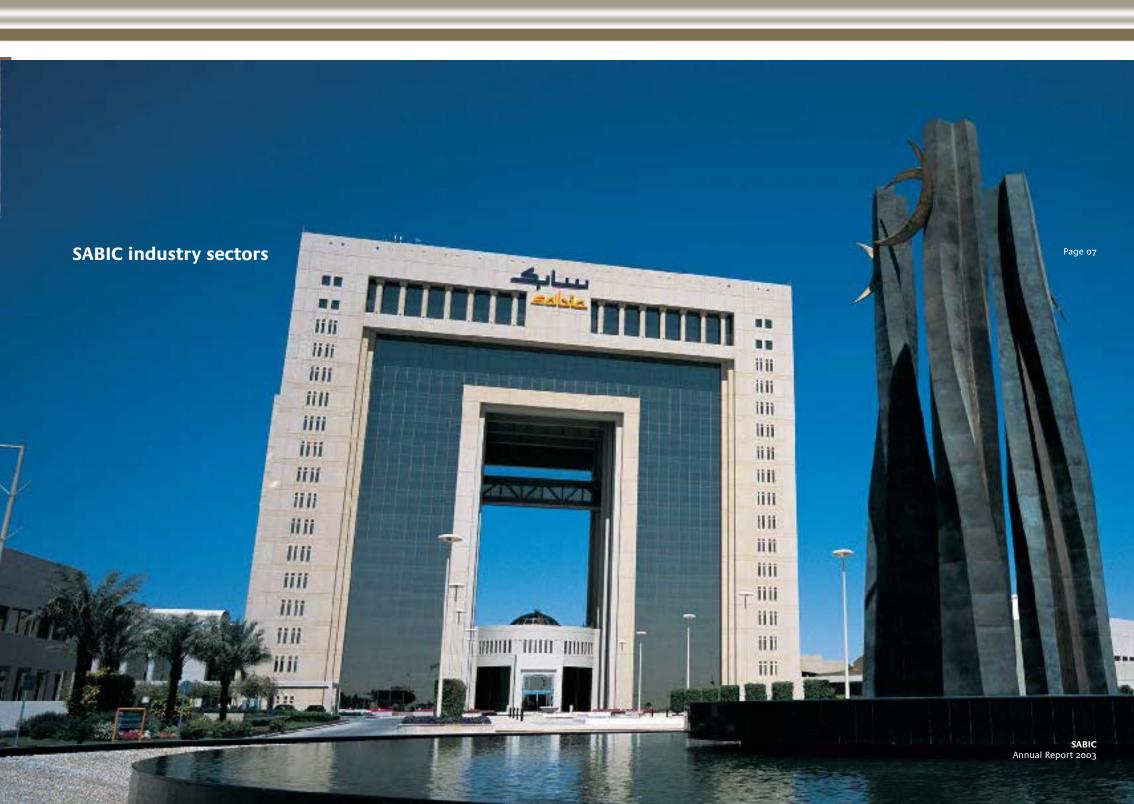
Page o6 Fertilizer production in 2003

Major Products	'000 metric tons
Ammonia	2,122
Urea	2,708
Phosphate, Compound and Liquid	371
Sulphuric Acid	96
Total production	5,297

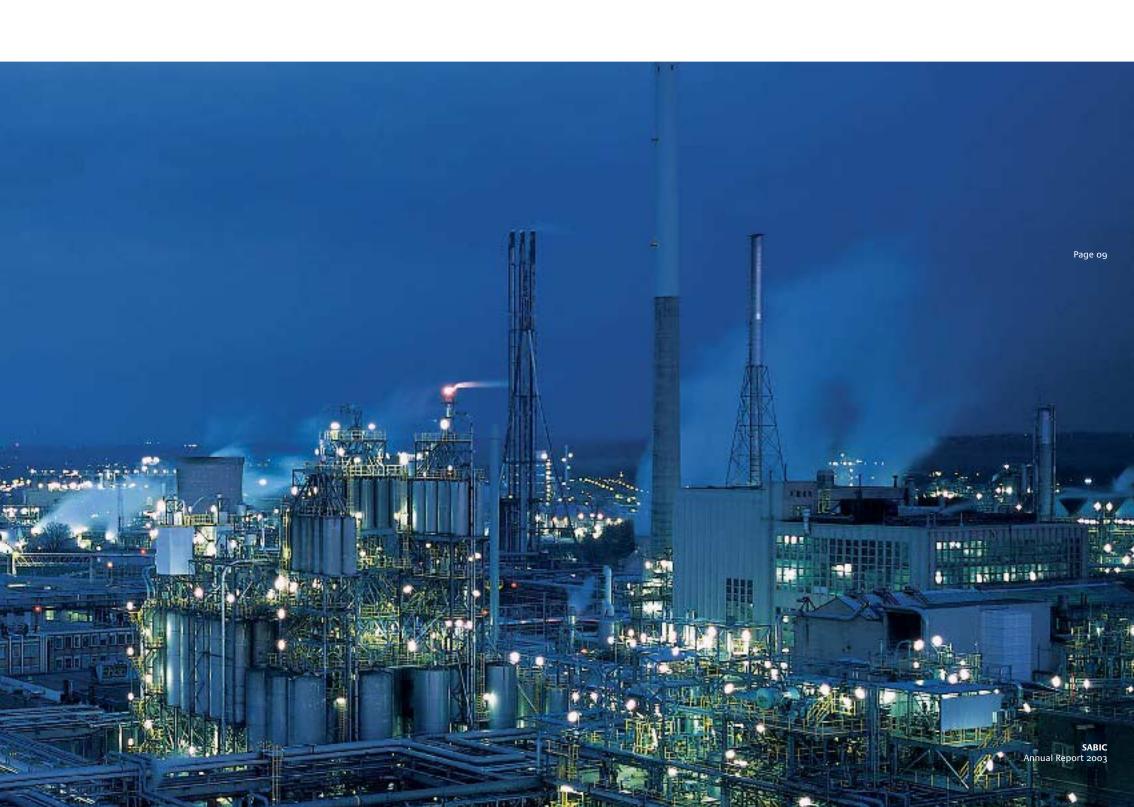
Metals production in 2003

In 2003 Metals production included the following major products:

Major Products	'000 metric tons
Directly Reduced Iron (DRI)	3,285
Steel Billets	2,853
Rebar, Wire Rods	2,561
Steel Slabs	1,045
Hot Strip Mill – Hot Rolled Coils	1,134
Hot Slitting and Recoiling – Hot Rolled Slits	181
Cut-To-Length Line-Plates	13
Pickling Line	372
Cold Reversing Mill – Cold Rolled Coils	339
Batch Annealing Plant	144
Temper Mill	237
Galvanizing Line – Cold Rolled Galvanized Coils	196
Cold Slitting and Recoiling – Hot Rolled Slits	31











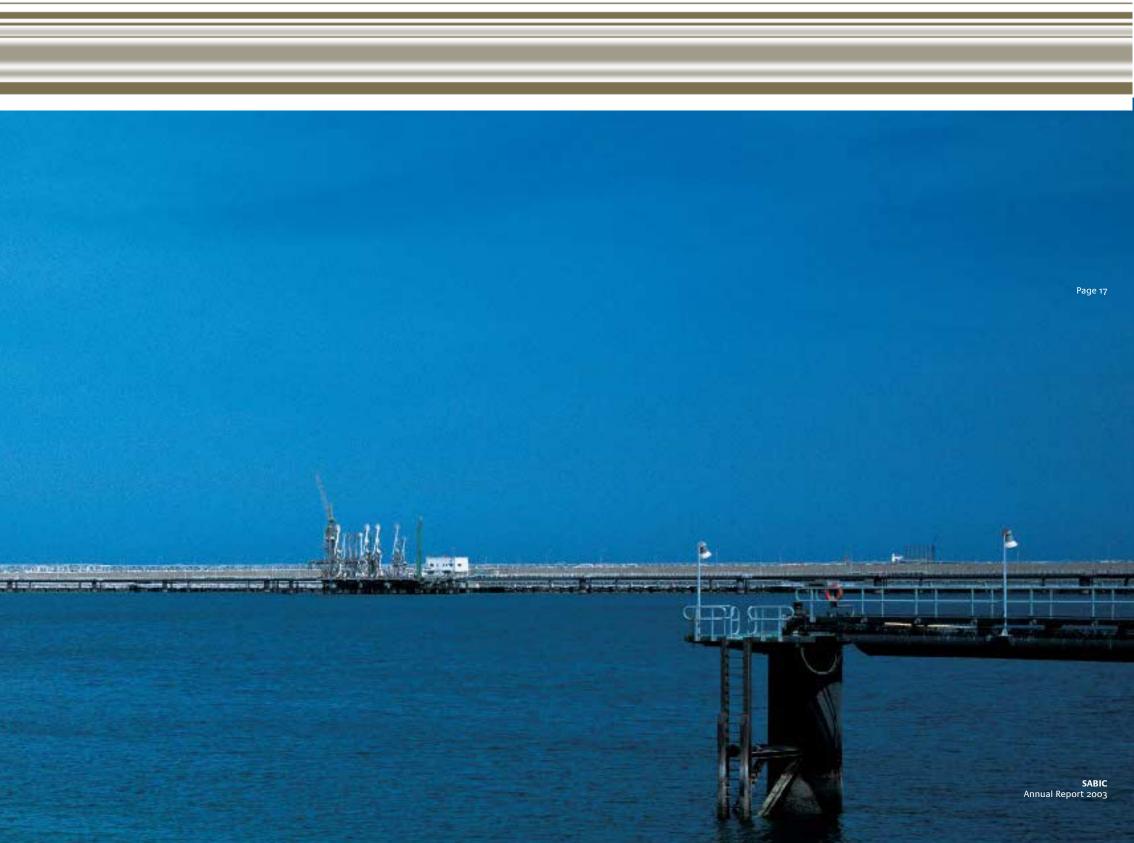














...we have the right people, in the right place, at the right time to support our ambition to become a global leader in the petrochemical industry.



In 2003, SABIC again enjoyed a prosperous year of milestones and accomplishments that continue to enhance the company's global position, image and competitive capability.

SABIC successes during the last year, like all other previous achievements, were realized through the resolve of loyal employees, their dedication and hard work in increasing the company's contribution to Saudi Arabia's national development plans and programs.

SABIC is the largest non-oil industrial company in the Middle East and a pioneer producer that helped the Kingdom transform itself, in just 25 years, from a net importer of petrochemicals to a major exporter to more than 100 countries. Last year, more than 80 percent of petrochemical exports from the Arabian Gulf region were produced and shipped by SABIC.

Our products are well known throughout the Middle East and in many other parts of the world. Crops grown with our fertilizers feed millions of people. The steel we make is used within the Gulf region to build houses, businesses and factories. Our polymers are used to make life-saving medical products, packaging and construction materials,

polyester fibers, water pipes and even components for luxury automobiles. Our motor fuel additives significantly reduce automotive emissions on every continent for the good of the planet.

SABIC's destiny has always been to move from one challenge to another. Since our journey began, SABIC has seen 18 manufacturing facilities formed, assembled total assets worth \$26 billion US dollars, and seen annual production now reach 43 million metric tons. We are confident that this will reach 60 million tons by 2008. To reach this goal, the Board has approved investments of more than \$8 billion for both current construction and planned capacity additions.

The petrochemical industry is very much influenced by global changes, which have forced most companies to develop and follow global strategies in order to gain competitive advantages and be able to survive, grow and profit.

Alongside these industry trends we are developing our company from within to meet the changes ahead. The year saw the continuing roll out of our new ERP/SAP system (FANAR), Shared Services initiative and bedding down of our organizational structure which continues to evolve over time. Our efforts to upgrade the skills of employees continue apace alongside the investment in our physical assets – our manufacturing plants and technology.

We will no doubt witness further challenges ahead. However, I am confident that SABIC will overcome

them because we have the right people, in the right place, at the right time to support our ambition to become a global leader in the petrochemical industry.

As we travel this road to prosperity for both company and Kingdom, we are grateful for the continuing support of King Fahd, Crown Prince Abdullah, HRH Prince Sultan, and the Saudi Arabian government. We also respect and deeply appreciate the unwavering support of the Board, as well as our stakeholders, customers and employees in the years to come.

Prince Saud Ibn Abdullah Ibn Thunayan Al-Saud

Chairman of the SABIC Board of Directors

VICE CHAIRMAN'S REPORT



Revenues from product sales increased 39 percent to SR 47 billion (US \$ 12.6 billion), as we marketed more than 42.3 million metric tons of products from our six strategic business units: Basic Chemicals, Intermediates, Polyolefins, PVC and Polyester, Fertilizers, and Metals.

I am pleased to report that SABIC set new records in 2003 for production, sales and profits.

These achievements reflect the hard work and dedication of our 16,000 employees worldwide and the confidence of our stakeholders.

For 2003, the company earned a net profit of SR 6.7 billion (US \$ 1.8 billion), an increase of 136 percent over the previous year. This highest-ever profit is the result of increased sales volumes, increased world petrochemical prices and greater cost efficiencies. Revenues from product sales increased 39 percent to SR 47 billion (US \$ 12.6 billion), and we produced more than 42.3 million metric tons of products from our six strategic business units: Basic Chemicals, Intermediates, Polyolefins, PVC and Polyester, Fertilizers and Metals.

SABIC remains the largest non-oil industrial company in the Middle East, the world's largest exporter of granular urea, and the world's second largest producer of ethylene glycol, methanol and MTBE.

With the recent acquisition of DSM's petrochemical business in Europe – the first in our global expansion plan – SABIC has become the world's third largest producer of polyethylene and the sixth largest producer of polypropylene. Overall, SABIC is the world's fourth largest polyolefin producer.

Our ultimate goal is to become one of the five largest global manufacturers and marketers of hydrocarbon and metal products.

Global Expansion

The keys to success in the global petrochemical industry have always been access to feedstock, access to technology, and access to the right markets.

Access to competitive feedstocks and access to state-ofthe-art process technologies have elevated SABIC production levels to well beyond Saudi Arabia's domestic demands, and enabled us to focus our attention on 'access to the right markets.'

Europe and the Americas will remain the world's biggest petrochemical markets. However, as the industry's center of gravity moves from West to East, SABIC is targeting at the world's fastest growing markets in Asia, overall, and in China in particular.

Presently, almost half of all SABIC exports go to markets in Asia. That's why the Asia-Pacific region will continue to play a decisive role in SABIC's future for many years to come.

Two years ago, SABIC began a program of global expansion that will continue in the foreseeable future.

Soon after acquiring DSM's petrochemical business, now SABIC EuroPetrochemicals, SABIC bought Owens Corning's 50 percent share in StaMax BV, a joint venture originally formed with DSM. StaMax produces reinforced polypropylene used by the auto industry to make parts for Mercedes-Benz, BMW and other fine cars.

In 2003, SABIC opened a new propylene plant in Geleen, Netherlands and there are plans to include a third ethylene plant there. In October, we announced plans to build a new European headquarters building in nearby Sittard, scheduled for completion in late 2005.

Earlier in the year, SABIC and Süd-Chemie, a German chemical company, formed a 50:50 partnership to acquire Scientific Design, Inc., in the US, a leading provider of technology to the petrochemical industry. SABIC has worked closely with Scientific Design for more than 20 years to develop catalysts and process-technology services.

Expanding our production

To meet growing world demand for SABIC products, an ambitious program of plant expansions and new production is well underway.

For 2003, the company earned a net profit of SR 6.7 billion (US \$ 1.8 billion), an increase of 136 percent over the previous year

In Basic Chemicals, the company's largest strategic business unit (SBU) a new, 1 million metric ton per year (mt/y) ethylene plant at Jubail United Petrochemical Company (UNITED) is expected to come on-stream in the second half of 2004. This is in addition to a similar project under construction at Saudi Yanbu Petrochemical Company (YANPET). A third Butene-1 plant at Arabian Petrochemical Company (PETROKEMYA) is nearing completion to produce 130,000 mt/y by the first quarter of 2005.

Investment in our production continued apace with the announcement of plans to construct a new mono ethylene glycol (MEG) plant at Jubail, as part of United Petrochemical Company (UNITED). The new facility, to go on stream in 2006, will be SABIC's seventh MEG plant, and have a production capacity of 625,000 metric tons per year. A separate, 575,000 mt/y MEG plant, is currently under construction and scheduled to go on-stream in the fourth quarter of 2004.

That new plant will boost SABIC's position as the second largest producer and marketer of ethylene glycol (EG), and help enhance the company's competitive reach both in the Middle East and worldwide.

By 2006, SABIC's total EG production will reach 3.5 million mt/y, representing 20% of global demand. We also announced plans to build an EG plant in the YANBU industrial complex, with a capacity of 626,000 mt/y, for operation in the first quarter of 2008.

Our Intermediates SBU will also produce linear alpha olefins (LAO), including Butene-1 and Eicosene-1+, from the new, alpha-SABLIN technology. LAOs are found in applications ranging from co-monomers and polyalphaolefins (PAOs) that are used in synthetic lubricants as well as various chemical intermediates, surfactants, detergent alcohols, lube oil additives and oilfield chemicals.

A 150,000 mt/y LAO plant will be built at Jubail United Petrochemical Company (UNITED) to go on stream in late 2006. The increased availability of LAOs will provide related product manufacturing opportunities in Saudi Arabia.

SABIC's growth strategy includes the goal of becoming a leading global producer and marketer of polyolefins. In addition to the 800,000 mt/y of additional polyethylene capacity to come on-stream in early 2004 at Jubail, we approved a plan to add 800,000 mt/y and 350,000 mt/y of polyethylene and polypropylene capacity, respectively, at a new complex in Yanbu. Similar expansions are under study at SHARQ in Jubail.

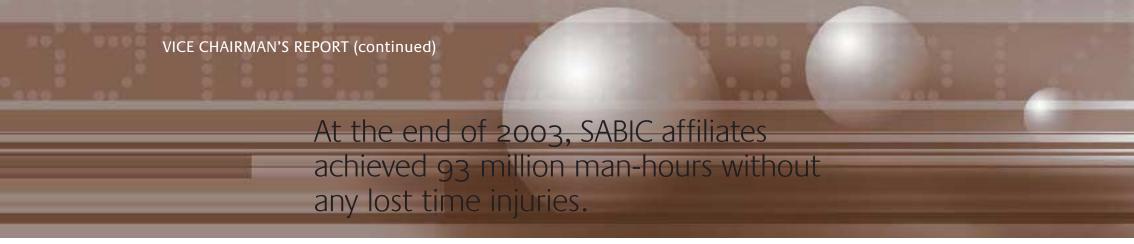
In the PVC and Polyesters business unit, a project was completed in the fourth quarter of 2003 to increase production capacity at the IBN HAYYAN S-PVC plant by 80,000 mt/y to 380,000 mt/y.

Building on our strengths

A highlight of the year was the successful introduction of the FANAR Project (Arabic for lighthouse) at our headquarters in Saudi Arabia and our Asia Pacific operations. We also saw the beginnings of an affiliate program to connect our manufacturing operations in the Kingdom.

FANAR will integrate the company's worldwide information systems with advanced enterprise resource planning (ERP) and real-time systems, applications and products (SAP) data processing. This represents a quality breakthrough of several magnitudes for SABIC, to enhance its business and activities with state-of-the-art technologies and procedures.

The ERP system is a massive computer application that will allow us to manage all operations on the basis of a single, integrated set of corporate data across all affiliates and satellites. It promises huge improvements in efficiency and improved customer service.



In concert with FANAR, cost savings for SABIC and its affiliates are being realized by the Shared Services Project – a pioneer step combined with ERP/SAP that improves the quality of corporate support services and customer service. The resulting Shared Services organization will be expanded company-wide to provide additional support for outside suppliers and contractors. This will not only increase their economic viability but also ensure that the company will receive necessary products and services at competitive prices.

To further improve operations, SABIC long ago made a commitment to develop an in-house Research & Technology expertise. We now employ more than 500 scientists, researchers and technicians in technology centers at five locations on three continents. SABIC's R&T activities were further strengthened by the acquisition of DSM Petrochemicals.

Believing in our people

Recognizing that SABIC employees are our most important assets, the company made significant achievements during the year. Our corporate diversity increased with the integration of the European workforce at SABIC EuroPetrochemicals. The new, Shared Services Organization also provides best-in-class employee services. The SABIC Leadership Development Council now identifies and assesses talent at all levels of the company to ensure the company's continued leadership in the global economy.

Every employee is given the opportunity for a meaningful career where individual and team efforts result in recognition and reward. With a broad array of market-competitive benefits, salaries and other financial and non-financial incentives, SABIC retains the best and brightest employees to meet the challenges of the new century.

Our deep concern for the well being of our employees is evident in the safety performance of SABIC affiliates. At the end of 2003, SABIC affiliates achieved 93 million man-hours without any lost time injuries.

SABIC concern for health and safety also extends to the environment in which we all live. We continuously monitor the ecological impact of our plants through regular monitoring programs. The slightest ecological concern is seriously reviewed and effective measures are taken to resolve any problems. The environmental performance of SABIC affiliates has been outstanding and is constantly improved over the years.

In a much broader sense, SABIC products contribute to global sustainability by reducing automotive emissions, replacing forest products with recyclable materials, and the efficient utilization of hydrocarbons that were previously burned or vented into the atmosphere.

Our achievements in 2003 were indeed tremendous, and we shall continue to improve our operations and market growth, to become a leading global player in the petrochemicals industry.

Mohamed H. Al-Mady

Vice Chairman and Chief Executive Officer

REVIEW OF BUSINESS BASIC CHEMICALS



1 Pipework

2 Tankers at PETROKEMYA



Basic Chemicals has become the world's C

largest producer of methanol

Basic Chemicals is SABIC's largest Strategic Business Unit (SBU). With effective partnerships, operational excellence and marketing competence, Basic Chemicals has become the world's second largest producer of methanol and MTBE and the fourth largest producer of ethylene.

Basic or 'commodity' chemicals are primary building blocks for petrochemicals. They are key raw materials for SABIC industries and are produced from the hydrocarbon feedstocks of Methane, Ethane, Propane and Butane that are associated with crude oil production. Saudi Arabia has the world's most abundant source of petrochemical feedstocks. This reliable and assured quality of feedstocks plays an important role in production of Basic Chemicals in SABIC.

SABIC's Basic Chemicals SBU comprises three main sections – Olefins, Aromatics and Oxygenates.

Olefins include Ethylene, Propylene, Butadiene and Butene-1 product lines, mainly used in other SABIC downstream plants.

Aromatics comprise Styrene, Benzene, Pyrolysis Gasoline, and Paraxylene. Paraxylene is commonly used in Polyester production. The Styrene facility in Jubail is the world's largest conventional production site.

Oxygenates include Methanol, Crude Industrial Ethanol (CIE) and the High-Octane gasoline-blending component Methyl Tertiary Butyl Ether (MTBE).

An Ethylene plant at Jubail United Petrochemical Company (UNITED) with a capacity of one million metric tons per year is expected to come on-stream in the second half of 2004. This is in addition to the ongoing project at Saudi Yanbu Petrochemical Company (YANPET) for increased Ethylene production. The Basic Chemicals SBU will also be strengthened further with the addition of a third Butene-1 plant at Arabian Petrochemical Company (PETROKEMYA) with a capacity of 130,000 metric tons per year by the first quarter of 2005.

By the middle of 2005, Saudi Petrochemical Company (SADAF) will have its internal facility to produce electricity and steam. The Jubail Energy Company has awarded a US\$ 145 million contract to Siemens Power Generation to build a gas turbine power plant at Al-Jubail, with capacity to produce 260 MW of electricity and 500 tons/hour of steam. The plant, the first private gas turbine facility in Saudi Arabia, will supply power to SADAF.



Intermediate chemicals are used by the petrochemical industry as ingredients to manufacture other downstream products. SABIC produces these essential chemical components for its own industrial processes, as feedstock for the company's affiliates, and for export to global markets.

The three main product segments of the Intermediates SBU are: Fiber Intermediates; Chemical Intermediates; and Linear Alpha Olefins. Each of these segments produces a wide range of products.

Fiber Intermediates

This unit produces Mono Ethylene Glycol (MEG), Di-Ethylene Glycol (DEG), Tri-Ethylene Glycol (TEG), and Purified Terephthalic Acid (PTA).

Up to 75 percent of Ethylene Glycol produced by SABIC is used as a primary feedstock for polyester manufacturing. The remainder is used in manufacturing and a variety of industrial applications, ranging from anti-freeze and luggage to marine engines and x-ray machines.

In 2003, SABIC announced plans to construct a new Mono Ethylene Glycol (MEG) plant at Jubail, to become part of United Petrochemical Company (UNITED). The new facility will be SABIC's seventh MEG plant, and have a production capacity of 625,000 metric tons per year (mt/y). A lump sum, turnkey contract for engineering,

procurement and construction was awarded to Toyo Engineering Company of Japan. The plant is expected to go on-stream in the second quarter of 2006. This will be the second MEG plant at UNITED, in addition to a 575,000 mt/y MEG plant that is currently under construction and scheduled to go on-stream in the fourth quarter of 2004.

The second plant will use new technology from the US-based Scientific Design Inc. SABIC and Süd-Chemie of Germany acquired Scientific Design as a 50:50 joint venture in 2003. Ethylene and oxygen feedstock for the new plant will be provided by other SABIC companies – oxygen from its GAS affiliate; and Ethylene from UNITED and Arabian Petrochemical Company (PETROKEMYA).

The new plant will boost SABIC's position as the second largest producer and marketer of EG, and help enhance the company's competitive reach both worldwide and in the Middle East. By 2006, SABIC's total EG production will reach 3.5 million mt/y, representing 20% of global demand. Of this total, 1.5 million mt/y will be produced at SHARQ (Eastern Petrochemical Company, Al-Jubail); 1.2 million mt/y at UNITED; and 800,000 mt/y at Saudi-Yanbu Petrochemical Company in Yanbu (YANPET) .

SABIC also announced plans in 2003 to build an Ethylene Glycol plant in the YANBU industrial complex.

Chemical Intermediates

The Chemical Intermediates unit produces Ethylene Dichloride (EDC), Caustic Soda, 2-Ethyl Hexanol (2-EH), Di-Octyle Phthalate (DOP) and Vinyl Chloride Monomer (VCM). VCM, produced from EDC, is used to manufacture of Polyvinyl Chloride, better known as PVC, which is used throughout the world to manufacture pipes and other useful plastic products.

Linear Alpha Olefins

The Intermediate SBU also has plans to produce Linear Alpha Olefins (LAO), including Butene-1 and Eicosene-1+, from the new, alpha-SABLIN technology. LAOs are found in applications ranging from co-monomers and polyalphaolefins (PAOs) that are used in synthetic lubricants as well as various chemical intermediates, surfactants, detergent alcohols, lube oil additives and oilfield chemicals.

A 150,000 mt/y LAO plant will be built at Jubail United Petrochemical Company (UNITED) to go on-stream in late 2006. The increased availability of LAOs will provide related product manufacturing opportunities in Saudi Arabia.



Major accomplishments in 2003 at the SABIC Polyolefins Strategic Business Unit (SBU) included an intensive project to ensure the successful integration of the new European assets into the SABIC family, the successful development of 800 kmt pa of PE production capabilities at PETROKEMYA in Jubail, and excellent progress on the new venture, Jubail UNITED. In addition, the Polyolefins SBU continued its successful program of benchmarking its performance, across the board, against the best in class for regional producer competition. The results of those studies are leading to bottom-line improvements in production costs and production efficiencies. Production planning, marketing and sales capabilities have been improved along the full value chain to accommodate an additional 800 kmt pa of polyethylene to be produced annually from 2004. That is being accomplished with no additional staff in those areas. Polyolefins will add, in 2004, improved capability in Customer Service to ensure increased customer satisfaction and retention.

Polyethylene and Polypropylene are two of the major petrochemicals derivatives SABIC produces from the ethane, propane and naphtha feedstocks of the Kingdom. These products are marketed to a large and growing local market and have contributed to industrial growth in the Kingdom as well as the Gulf Cooperation Council (GCC) and the Middle East. SABIC is also becoming a key exporter to global markets where its products are highly

valued by a demanding customer base. Polyethylene and polypropylene play key roles in SABIC's overall thermoplastics business. The growth and development of the polymer resins converter industries in Saudi Arabia, the GCC and the Middle East depend heavily on polyolefins produced and marketed by SABIC. With the acquisition of SABIC EuroPetrochemicals from the Netherlands-based DSM in January 2002, SABIC now ranks 3rd and 6th globally in polyethylene and polypropylene respectively. This acquisition has virtually doubled SABIC's polyolefins production capabilities and European market share.

In 2003, the company sold its polyolefin resins to many converters on a global basis. Customers use SABIC's diverse ranges of products and grades in all aspects of the converter industry, including packaging, construction, agriculture, and medical supplies. SABIC products meet the needs of the converter industry's demands, including the key processes of blown films, injection molding, and rotomolding. The Polyolefins Strategic Business Unit has been working closely with its customers, and their feedback is assessed to improve the products further.

The polyethylene product range includes all of the commodity thermopolymers; linear low density polyethylene (LLDPE), low density polyethylene (LDPE), and high density polyethylene (HDPE). The polypropylene product range includes random, homopolymer, copolymer and specialty automotive grades.

In addition to assets in Saudi Arabia and Europe, SABIC also owns 20% of the Petlin plant in Malaysia. That facility went into operation in August 2002 and by 2003 had produced 205 kmt/y of polyethylene.

SABIC will add 800,000 m/t of polyethylene capacity when its PETROKEMYA polyethylene plants are fully commissioned in early 2004. This will result in a further increase in overall SABIC polyolefins capacity by 20% in Saudi Arabia.

SABIC's polyolefins export markets are located in the Middle East, Africa, Asia and Europe. SABIC is one of the largest polymer exporters to Asia overall, and China in particular. SABIC has been streamlining its warehousing and distribution facilities in Singapore, Hong Kong, Shanghai and Shenzhen to better meet customer needs.

SABIC has made a strong strategic commitment to its polyolefin businesses. In addition to the 800 kmt of polyethylene coming on-stream in early 2004 at Jubail, SABIC will further expand its polyolefins production. SABIC approved a plan to add 800 kmt and 350 kmt of polyethylene and polypropylene respectively, in the new complex at Yanbu, Saudi Arabia. Similar expansion plans are under study at SHARQ in Jubail. SABIC's polyolefins strategy is to be a leading global producer and marketer of polyolefins.



The PVC & Polyester Strategic Business Unit (SBU) of SABIC was formed in September 2002 to produce Polyvinyl Chloride (PVC), Polystyrene (PS), Polyester and Melamine at plants in Al-Jubail, Yanbu and Dammam.

National Plastic Company (IBN HAYYAN) in Jubail produces a variety of PVC grades with total capacity of 324,000 mt/y. Polystyrenes are produced at Arabian Petrochemical Company (PETROCHEMYA) which has a production capacity of 165,000 mt/y. Arabian Industrial Fibers Company (IBN RUSHD) in Yanbu produces about 196,000 mt/y of Polyester products and SAFCO (Saudi Arabian Fertilizer Company) in Dammam produces more than 20,000 mt/y of Melamine.

In 2003 IBN HAYYAN completed a project to increase the S-PVC plant's annual production capacity by 80,000 metric tons per year to 380,000 metric tons per year to meet increasing local and regional demand. The new capacity started in the 4th quarter of 2003.

PVC and Polystyrene (PS)

Polyvinyl Chloride (PVC) and Polystyrene (PS) are used for a diverse range of applications that include pipes and fittings, cable coating, floor covers, rigid and flexible sheets, artificial leather, wall coverings, insulation, foodstuff packaging, bathroom accessories, disposable hospital equipments, toys, and juice cups.

Polyester and Melamine

The Polyester production facilities scaled new heights this year. The Polyester and Melamine section increased sales by 18 percent in 2003.

A new PET plant at IBN RUSHD will come on stream in 2007. The company has also devised a new, 'non-woven' polyester fabric, called SF – 315, which along with 'woven' fabrics containing TiO2, have enabled greater penetration of European markets where demand for these products is increasing.

SABIC is a leading producer and marketer of fertilizers in the world with a production capacity of 5.8 million mt/y of which 3.6 million mt/y was traded and the rest was sold as captive use. Its product range includes Ammonia, Urea, Phosphate, Compound and Liquid Fertilizers. The Fertilizer SBU plays a vital role in the development of the agricultural industry in Saudi Arabia, the Middle East and the rest of the world. SABIC fertilizers are used to enhance crop yields to feed an ever-growing global population.

The Fertilizer SBU has two sections: Urea, and Ammonia and Phosphates. Production is centered at three world-scale fertilizer manufacturing affiliates – Saudi Arabian Fertilizer Company (SAFCO), Al-Jubail Fertilizer Company (SAMAD) and National Chemical Fertilizer Company (IBN AL-BAYTAR).

In 2003, SAFCO awarded a lump-sum turnkey contract for the engineering, procurement and construction of one of the world's largest Ammonia and Urea plant complexes – SAFCO 4. The facility will be constructed at Al-Jubail Industrial City on the northeast coast of Saudi Arabia, and is scheduled for completion by late 2005. Plant capacity will be 1.1 million mt/y of ammonia, and 1.1 million mt/y of urea.

Total fertilizer sales volume in 2003 was about 3.6 million mt/y of which more than 80 percent was exported to major markets in Africa, Asia, North America and Oceania (Australia and New Zealand).

Urea is the most popular and economical of all nitrogenous fertilizers used worldwide. It has a Nitrogen content of 46 percent and therefore is an ideal source of Nitrogen for all kinds of crops including wheat, barley, rice and maize. Urea is also a major raw material for SABIC's Melamine and is used to manufacture other industrial products.

Saudi Arabia is the third largest exporter of Urea in the world. In Granular Urea, SABIC is the single largest producing and exporting company in the world. In 2003 SABIC's worldwide market share amounted to 11 percent out of 21 million tons net offshore trade – the net traded volume that excludes the captive trade within the regions of the Americas and Europe. Urea was exported to Southeast Asia; North America; the Far East and Oceania; and to the Middle East and Africa.

Ammonia and Phosphates constitute SABIC's second group of fertilizer products after Urea. The company's production meets 90 percent of Saudi Arabia's requirements for Phosphates and 100 percent of Ammonia. While most of the Ammonia is used as raw material to produce Urea, about half a million ton goes to the international market – mainly to the Far East, Southeast Asia, the USA, and the Middle East.

SABIC's fertilizer business has expanded rapidly in recent years and this has strengthened its competitive position in world markets. As higher-cost producers in countries such as the United States, Japan and Western Europe resort to plant closures, the 'import' option becomes more economical for these countries. Thus, SABIC and other competitive suppliers will be in a position to meet increased fertilizer demand for the foreseeable future.

In Saudi Arabia, SABIC products provide the essential nutrients needed to achieve quality crop yields on lands that used to be arid desert. The Kingdom is now self sufficient in key crops such as wheat. Several other crops are also grown using SABIC's products.

During 2003, SABIC's Research and Technology and the Fertilizer SBU undertook a research program on fertilizers and their benefits. The results of this research are being made available to a number of farmers through agricultural seminars, conferences and exhibitions, scientific meetings and guidebooks. The fertilizer research and communication is an ongoing program, and efforts are made on a continuous basis to develop it in such a manner that covers the largest section of farmers and those concerned with the farming community in the Kingdom.



The Metals SBU plays a significant part in SABIC's diversified manufacturing business. SABIC meets the domestic needs of the Kingdom and other countries within the GCC as well as overseas by providing efficient and effective services to a wide range of traders and downstream customers in the construction, engineering and manufacturing industries.

Saudi Iron and Steel Company (HADEED), SABIC's wholly owned affiliate in Jubail, is the leading steel manufacturer in the Gulf region. HADEED produces Long Steel products such as Reinforcing Bars, Wire Rods and Sections for the Kingdom's construction industry.

In 2003, SABIC approved a project for HADEED which will produce an additional 500,000 mt/y of Rebars and Wire Rods. The Board had previously approved another project to increase capacity of the flat products to 2 million mt/y.

Long Steel Products

Long Steel products include Reinforcing Bars, Wire Rods and Light Sections and are mainly used for the construction and fabrication industries. Some of the notable landmarks in the Middle East built with SABIC steel include the Kingdom Center, Al-Faisaliah Tower and SABIC's new headquarters in Riyadh; and the Emirates Towers, Burj Al-Arab and Jumeirah Beach Hotels in Dubai.

Hot rolled, Cold Rolled and Galvanized Flat Steel Products

These products are used in a wide variety of construction applications such as pre-engineered steel buildings, warehouses and industrial plants, and in the manufacture of steel pipes for gas and oil industries. Other uses include water pipes, tanks and oil drums, containers, auto-body-parts, air conditioning, refrigeration units and household appliances. SABIC plans to increase annual production of Flat Steel products to 2 million mt/y through a series of phased expansions over the next few years. Currently, Flat Sheet Steel imports to the region exceed 1 million mt/y. In 2003, HADEED signed a contract for the installation of a vacuum degasser unit to produce new and special steel grades.

Production Capacities

HADEED has progressively expanded its production from an initial 800,000 mt/y in the 1980s to 3,900,000 mt in 2003.

Marketing

SABIC's future Metal strategy is focused on key issues related to the regional steel industry. These wide ranging subjects include pricing of steel products, market competition, risks of competition in the market, the relevance of e-commerce and marketing opportunities within the Middle East and North Africa.

Ferroalloy Smelter

SABIC has a stake in the 80,000 mt/y capacity SABAYEK Ferroalloy Smelter in Al-Jubail. SABAYEK's product mix consists of Silicon Manganese for the steel and foundry industries and Silicon Metal for the chemical and aluminum industries.

Aluminum

The Metals SBU also manages SABIC's interests in two aluminum manufacturing affiliates in Bahrain – Aluminum Bahrain (ALBA) and Gulf Aluminum Rolling Mill Company (GARMCO). ALBA produces 500,000 mt/y of Liquid Metal, Ingots, Rolling Slabs and Billets and is planning to install its fifth smelter to increase its capacity to 807,000 mt/y by 2005. GARMCO produces 125,000 mt/y of Aluminum sheets and coils. In 2003 it expanded its capacity to 145,000 mt/y.

SABIC EuroPetrochemicals

SABIC EuroPetrochemicals BV (Sittard, Netherlands) is a SABIC subsidiary, which includes all SABIC activities in Europe, employing around 2,300 people. SABIC has a European sales offices network, logistic hubs and two petrochemical sites in Europe: at Geleen (Netherlands) and at Gelsenkirchen (Germany). In 2003 SABIC sales in Europe amounted to almost 6 million tonnes of polymers, base chemicals and intermediates.

Business review

SABIC achieved a record sales and record production out of its existing European facilities as well as from exports from the Kingdom into Europe.

The year 2003 was the first full year of operations as SABIC EuroPetrochemicals after SABIC acquired the petrochemicals business of DSM in Europe in 2002.

In 2003, the company successfully integrated all SABIC's business in Europe resulting in one integrated sales organisation in Europe, one FANAR integrated business system, one trade name SABIC® for polymers and successful start-up of a sophisticated on-line system for instantaneous customer orders of polymer products.

The company approved plans to build a new European head office for SABIC in Europe in Sittard (Netherlands), where all European business and services activities will be centralized. In June 2003 SABIC moved its European headquarters from London to Sittard (Netherlands), to become fully integrated with SABIC EuroPetrochemicals. A few months later, after a selection process of less then a year SABIC decided to build a new European head office also in Sittard. The office is expected to open in early 2006.

Projects

SABIC acquired full ownership of STAMAX B.V.; producer of long glass fiber reinforced polypropylene and announced an investment in a second 35.000 mtpa production line, which will come on stream in 2004. StaMax is used by the auto industry to make parts for Mercedes-Benz, BMW and other fine cars.

Preparations have started for expansion of the cracker capacity (NICER project), to overcome the current ethylene and propylene shortfall. At the same time, a study will be finalized into the construction of two polyethylene plants – a high-pressure system for low-density polyethylene, a bi-modal polyethylene plant – a new polypropylene plant (PPF-7) and the replacement of several older facilities. The end of 2004 expects the results of the ongoing studies and their financial implications.

REVIEW OF BUSINESS GLOBAL OPERATIONS SABIC IN EUROPE (continued)

In 2003 12 percent of orders



were handled via SABIC EuroPetrochemicals' eShop (on-line store)

Hans Weijers, Operator, PP6
plant GELEEN

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Increasing sales via SABIC's eShop

Now, with a few mouse-clicks customers can place orders, check available inventory, see the status of their orders, and schedule just-in-time deliveries. The eShop enables on-line purchasing for virtually all polymers produced by SABIC for customers in Europe.

Accepted orders are confirmed immediately, enabling customers to synchronize their own production planning. This level of customer service is unique, as none of SABIC competitors in Europe offer this service.

In 2003, more than 5,000 orders for SABIC products, or 12 percent, were handled via SABIC EuroPetrochemicals' eShop on-line store. By the end of 2004, it is anticipated that 30% of all orders for SABIC EuroPetrochemicals' products will placed on-line.

More advantages

The eShop is fast and user-friendly (five languages are offered) and allows rapid intervention in the event of problems. The system benefits SABIC EuroPetrochemicals by vastly reducing order entry processing. That time saved is reallocated for planning, improving customer service and managing the growth of imports to Europe from Saudi Arabia.

Early in 2003, the Eastern Petrochemical Company (SHARQ), an affiliate of SABIC, celebrated being the first SABIC location in Saudi Arabia to successfully 'Go-Live' with ERP/SAP software.

In 2003, SABIC formed a Shared Services Organization to develop complementary services between SABIC and its affiliates and to help SABIC achieve its strategic objectives through increased efficiency.

An Executive Committee was formed at the beginning of 2003 to ensure smooth and effective functioning of Shared Services Organization. Its tasks are to determine general policy, determine and recommend the operational and investing budget, review performance and develop relations between Shared Services Organization and its clients.

The Shared Services Organization signed a Service Level Agreement with SABIC Management on 1 December 2003 regarding the implementation of Shared Services within HQ. SABIC offices went live successfully with Shared Services Organization on 1 December as per plan. Preparations for the project were made in record time and involved people from all of the departments within SABIC.

The working team used a number of means to familiarize people with the project, including special seminars, posters, e-mails and attending weekly departmental meetings to answer questions and get feedback on the project. In addition, SABIC's Intranet was used extensively to provide updates on the project and training material. Information was also shown on display screens at the head office.

Special training programs were prepared for each HQ department as the service has different elements for different users. Special programs were set up for staff working as coordinators in each department.

At the same time, preparations to extend Shared Services to SABIC's affiliate companies were well underway, with affiliates scheduled to join Shared Services in successive waves through 2004.

ERP/SAP

The company celebrated the successful implementation of its FANAR (a light house in Arabic) project, a new Global Enterprise System – using SAP technology – at the company headquarters in Riyadh, and sales offices in Europe and Asia-Pacific.

This project is regarded as one of SABIC's most challenging implementations, as three different geographical locations and three different time zones have been integrated. The system allows SABIC to manage all its operations on the basis of a single, integrated set of corporate data, across all affiliates and overseas offices. ERP/SAP enables faster decision-making and ensures huge improvements in the company's efficiency, effectiveness and cost management – for example, shorter intervals between orders and payments, reduced inventory, and improved

customer service. An important additional benefit is that ERP/SAP facilitates the introduction of Shared Services, with affiliates and Shared Services operating on the same system and to the same specifications

Early in 2003, the Eastern Petrochemical Company (SHARQ), an affiliate of SABIC, celebrated being the first SABIC location in Saudi Arabia to successfully 'Go-Live' with ERP/SAP software.

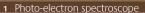
Alignment of SS and ERP/SAP implementation plans

In order to minimize cost and disturbance to affiliates, and in order to assure the successful implementation of both change projects, the implementation plans for SS and ERP/SAP projects were aligned. This activity involved more than simply determining common 'Go-Live' dates. A single project management structure and implementation plan was created, in addition to single, on-site implementation teams, combining both issues as a single objective. In coming years, SABIC will see the simultaneous implementation of Shared Services and ERP/SAP at all affiliates.

REVIEW OF BUSINESS RESEARCH AND TECHNOLOGY

SABIC R&T has earned more than

7 international patents, and has another 360 patent applications pending.





SABIC's Research and Technology was established to improve manufacturing processes, develop new technologies and provide technical support for customers. At SABIC R&T, research is being conducted in the fields of chemicals, catalysts, a range of polymers, fertilizers and metals. Projects are also developed and implemented to strengthen the environmental management. R&T works in close co-ordination with the Strategic Business Units (SBUs) and manufacturing affiliates to help develop new, improved products and processes.

SABIC's main Research and Technology center is located on the outskirts of Riyadh and employs more than 500 scientists, researchers and technicians. The complex has state-of-the-art research facilities and a complete range of research equipment and services needed for technological innovation and development. The center developed proprietary processes for the production of Acetic Acid and Linear Alpha Olefins (LAO). Based on these technologies, full-scale facilities are being constructed for the manufacture of these products.

SABIC's R&T activities have been strengthened by the acquisition of DSM Petrochemicals, now known as SABIC Euro-Petrochemicals. This gives SABIC much-needed European exposure in the field of research and technology. The acquisition has brought together

experienced management teams, successful research divisions and a group of skilled people. This will benefit SABIC's customers and suppliers in Europe by providing cost savings and growth opportunities in petrochemical manufacturing.

In 2003, SABIC and Süd-Chemie AG formed a 50:50 joint venture to acquire Scientific Design Company, Inc., headquartered in New Jersey, US. SABIC has worked closely with Scientific Design for more than 20 years to develop catalysts and process-technology services, to manufacture such major chemicals as ethylene oxide, ethylene glycol and maleic anhydride. The acquisition of Scientific Design by this joint venture will greatly enhance SABIC R&T activities.

The acquisition also represents a significant strategic milestone, which will enhance the core activities of both joint-venture partners. Under this new ownership, Scientific Design will continue to license its processes, provide engineering services and sell catalysts to its clients worldwide. Süd-Chemie, which specializes in the development and production of high-performance catalysts, will be adding extremely attractive market segments to its product portfolio. The joint venture will enable SABIC, a leading producer of chemical and petrochemical products, to strengthen its global technological position.

SABIC also has Research and Technology centers in Al-Jubail, Saudi Arabia; Houston, Texas; and Vadadora, India. Construction of the new Jubail center began in 2003. This center is scheduled for completion during the first quarter of 2004. The geographical spread of SABIC's R&T facilities allows the company to draw on the expertise of its scientists and engineers to provide technical support to customers all over the world.

SABIC also supports excellence in scientific achievement and education. In 2002, creation of The Prince Abdullah Prize for outstanding contributions in Science and Technology was announced during the opening ceremony of the SABIC headquarters building. SABIC has since taken positive steps to establish an executive committee to develop guidelines and implementation procedures for awarding this annual prize.

SABIC also established guidelines to implement companyendowed chairs in Saudi universities. The SABIC Prize, awarded for best graduation projects by chemical engineering graduates at Saudi universities, was launched in early 2003. Nominations have been received, and winners will be announced in 2004.

REVIEW OF BUSINESS ENVIRONMENT AND SAFETY



- 1 Environmental monitoring equipment, SAMAD
- 2 SABIC fire training center
- 3 Scrap metal recycling at HADEED



By the end of 2003, twelve SABIC affiliates achieved ISO 14001 certificates.



SABIC plants are designed, built, operated and managed in a manner to ensure they meet best industry practices and standards on security, safety, health and environment and that they comply with the applicable local regulatory requirements. At SABIC, protection of the Environment, Health and Safety of employees, customers, contractors, company assets, neighboring facilities and the community is given top priority. Reasonable means and available resources are effectively utilized to minimize the risks and continuously improve security, personnel and process safety, occupational health and environment performance. SABIC strives to achieve 'excellence' and to be a responsible employer and community member.

SABIC monitors the ecological impact of its industries through regular environmental monitoring programs. The slightest ecological concern is seriously reviewed and effective measures are taken to improve the situation. Compliance to international treaties and best-known international standards for environmental management is the cornerstone of the company's environmental management programs. In 2003, seven affiliates received ISO 14001 certification. By the end of 2003, twelve SABIC affiliates achieved ISO 14001 certificates. The environmental performance of SABIC affiliates has been outstanding and has seen significant improvement over the years.

Periodic audits are carried out by SABIC corporate and by the affiliates to ensure compliance to safety and PSM (Process Safety Management) standards. Employees working for SABIC are trained to feel responsible and empowered to implement safety requirements. The result of all these efforts can be seen from the improved safety performance and downward incident rate (0.55) trend recorded in the year 2003 and from the fact that SABIC affiliates have achieved recognized performance that is comparable to the best in the industries of the world in a short span of time. These affiliates completed 93 million man-hours without any lost time injury by end of 2003. Further, most of the affiliates did not record any loss workday injury in 2003.

SABIC provides state of the art emergency response and rescue training to employees and to the employees of some of the industries in the Middle East. The SABIC Fire Training Center facility is the only 'accredited' emergency response and rescue training center outside North America. During 2003, SABIC Fire Training Center trained more than 1,600 persons from SABIC affiliates, local companies and the Middle East.

SABIC recognizes the good safety performance of its affiliates through a safety award program. The award has created a healthy competition amongst the affiliates and has acted as a motivator for continuous improvement. The award is presented on an annual basis and last year, Al-Jubail Petrochemical Company – KEMYA, won the Gold. The silver award went to Saudi Methanol Company – AR-RAZI and the Bronze award to Saudi Petrochemical Company – SADAF. Besides the awards, certificates of appreciation were presented to the affiliates that met the award application criteria. The awards and the certificates were presented by Prince Saud bin Thunayan Al-Saud – Chairman of SABIC.

REVIEW OF BUSINESS

Investing in the development of human resource is a key factor in acquiring the competitive advantage that SABIC needs to become a global leader.

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The Human Factor at SABIC

SABIC's commitment to the development of its human resources is second to none. Since its founding, SABIC realized that investing in the development of such a vital resource is a key factor in acquiring the competitive advantage that SABIC needs to become a global leader. Despite the great obstacles encountered, SABIC has proudly achieved what few other companies in the region can claim. Such achievements have only been possible through the leveraging of SABIC's partnership with outstanding global companies who helped make available the expertise, know-how and technology needed to develop people. In this regard, SABIC also recognizes the huge financial and regulatory support the government has provided to SABIC to facilitate the development of its human capital.

The future will see even more challenges for SABIC, challenges arising from global and regional transformation, competitive challenges due to globalization and increasing competition and consolidation of the company's core business environments.

The company's proactive approach to meeting these challenges includes maintaining the proper knowledge, skills, abilities and attitudes in the workforce. This includes encouraging employees to continually develop in order to stay both competitive and employable in the new world environment, as well as networking key parts of the global organization in order to effectively transfer both knowledge and technology.

Achievements in 2003 were significant.

- Corporate diversity increased with the integration of the European workforce at SABIC EuroPetrochemicals in The Netherlands.
- With the new, Shared Services Organization, SABIC now provides best-in-class employee services.
- The SABIC Leadership Development Council identifies and assesses talent at all levels of the company to ensure the company's continued leadership in the global economy.

At SABIC, every employee is given the opportunity for a meaningful career where individual and team efforts result in recognition and reward. The philosophy on compensation, therefore, has shifted to a focus on Total Rewards and Performance Management.

Thus, with a broad array of market-competitive benefits, salaries and other financial and non-financial incentives, SABIC can retain the best and brightest employees, and meet the challenges of the new century.

REPORT AND ACCOUNTS FOR SAUDI BASIC INDUSTRIES CORPORATION AND ITS SUBSIDIARIES A SAUDI JOINT STOCK COMPANY INDEPENDENT AUDITORS' REPORT

31 December 2003

Ernst & Young P.O. Box 2732 Al Faisaliah Office Tower – Level 6 King Fahad Road Riyadh 11461 Saudi Arabia

Auditors' Report to the Shareholders of Saudi Basic Industries Corporation (SABIC)

We have audited the accompanying consolidated balance sheet of Saudi Basic Industries Corporation – a Saudi joint stock company – and its subsidiaries (the company) as at 31 December 2003 and the related statements of income, cash flows and changes in shareholders' equity for the year then ended. These consolidated financial statements are the responsibility of the company's management and have been prepared by them 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 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.

As set out in note 28 to the consolidated financial statements, and in respect of the company's determination on the basis of related legal advice that the grounds for appeal and the chances for success are substantial, no amount has been provided in these consolidated financial statements in connection with an initial court verdict against the company in the amount of SR 1,563 million.

In our opinion, except for the effect of not providing any amount in the consolidated financial statements in respect of the matter set out in the preceding paragraph, the consolidated financial statements taken as a whole present fairly, in all material respects, the consolidated financial position of the company as of 31 December 2003 and results of its operations and cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.

for Ernst & Young **Dr. Abdullah A. Baeshen**Registration No. 66

Riyadh: 24 Muharram 1425H (15 March 2004)

REPORT AND ACCOUNTS FOR SAUDI BASIC INDUSTRIES CORPORATION AND ITS SUBSIDIARIES A SAUDI JOINT STOCK COMPANY CONSOLIDATED BALANCE SHEET

As at 31 December 2003

Page 36 Assets

		2003	2002
	Notes	SR'000	SR'000
Current assets			
Cash and cash equivalents	25	14,620,902	10,323,981
Accounts receivable	4	8,585,866	7,578,684
Inventories	5	7,043,968	6,866,438
Other receivables and prepayments	6	2,431,007	1,108,758
Total current assets		32,681,743	25,877,861
Investments	7	2,672,383	2,172,744
Property, plant and equipment	8	64,760,297	62,660,935
Intangible assets	9	7,013,279	5,405,549
Other non current assets	10	2,172,407	3,054,831
Total assets		109,300,109	99,171,920

Liabilities and shareholders' equity

		2003	2002
	Notes	SR'000	SR'000
Current liabilities			
Accounts payable	12	6,046,360	3,843,811
Short term bank facilities	13	459,260	701,934
Current portion of long term loans	14	4,498,021	3,540,270
Accrued liabilities and provisions	15	5,742,870	5,009,191
Total current liabilities		16,746,511	13,095,206
Non current liabilities			
Long term loans	14	31,918,236	30,669,278
Other non current liabilities	16	4,059,822	4,254,693
Total non current liabilities		35,978,058	34,923,971
Minority interests		16,305,496	16,077,455
Shareholders' equity			
Share capital	17	15,000,000	15,000,000
Statutory reserve	18	6,495,449	5,825,834
Research and technology reserve	18	1,291,691	1,291,691
General reserve	18	11,456,363	10,394,046
Retained earnings		6,026,541	2,563,717
Total shareholders' equity		40,270,044	35,075,288
Total Liabilities, and shareholders' equity		109,300,109	99,171,920

The attached notes 1 to 32 form part of the consolidated financial statements.

REPORT AND ACCOUNTS FOR SAUDI BASIC INDUSTRIES CORPORATION AND ITS SUBSIDIARIES A SAUDI JOINT STOCK COMPANY CONSOLIDATED STATEMENT OF INCOME

Year ended 31 December 2003

		2003	2002
	Notes	SR'000	SR'000
Sales		46,782,405	34,025,826
Cost of sales		33,145,784	26,338,905
Gross profit		13,636,621	7,686,921
Administration and marketing expenses	19	3,036,495	2,392,962
Income from operations		10,600,126	5,293,959
Other income	20	831,216	415,376
Financial charges	21	(983,794)	(823,808)
Income before minority interests and zakat	t	10,447,548	4,885,527
Minority interests		(3,451,392)	(1,731,953)
Income before zakat		6,996,156	3,153,574
Zakat	22	(300,000)	(305,000)
Net income for the year		6,696,156	2,848,574
Basic earnings per share (SR)	23	22.32	9.50

The attached notes 1 to 32 form part of the consolidated financial statements.

REPORT AND ACCOUNTS FOR SAUDI BASIC INDUSTRIES CORPORATION AND ITS SUBSIDIARIES A SAUDI JOINT STOCK COMPANY CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2003

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	2003	2002
Notes	SR'000	SR'000
Operating activities		
Net income for the year	6,696,156	2,848,574
Adjustments for:		
Depreciation and currency translation adjustment, net	7,031,983	3,761,626
Share in results of associated companies	(294,802)	(72,860)
Provision for zakat	300,000	305,000
Changes in operating assets and liabilities:		
Accounts receivable and prepayments	(2,329,431)	(3,133,653)
Inventories	(177,530)	(1,383,830)
Accounts payable, accrued liabilities and provisions	2,839,427	1,762,054
Other non current liabilities	(194,871)	707,712
Zakat paid	(231,230)	(449,982)
Net cash from operating activities	13,639,702	4,344,641

2002

2002

	2003	2002
No	•	SR'000
Investing activities	IES 3K 000	31/ 000
Additions to property, plant and equipment, net	(9,131,345)	(5,517,618)
Investments, net	(204,837)	(1,230,354)
Increase in other non current assets, net	(725,306)	(3,010,544)
Net cash used in investing activities	(10,061,488)	(9,758,516)
Financing activities		
Proceeds from long term loans	3,206,098	10,154,546
Repayment of long term loans	(999,389)	(4,453,574)
Repayment of short term bank facilities, net	(242,674)	(285,358)
Dividends paid	(1,473,369)	(894,182)
Minority interests, net	228,041	241,477
Net cash from financing activities	718,707	4,762,909
Increase (decrease) in cash and cash equivalen	ts 4,296,921	(650,966)
Cash and cash equivalents at the beginning of the year	ear 10,323,981	10,974,947
Cash and cash equivalents		
at the end of the year (note 25)	14,620,902	10,323,981

The attached notes 1 to 32 form part of the consolidated financial statements.

REPORT AND ACCOUNTS FOR SAUDI BASIC INDUSTRIES CORPORATION AND ITS SUBSIDIARIES A SAUDI JOINT STOCK COMPANY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Year ended 31 December 2003

		Share c	APITAL			Research and			
		GOVERNMENT	PRIVATE SECTOR	TOTAL SHARE CAPITAL	STATUTORY RESERVE	TECHNOLOGY RESERVE	GENERAL RESERVE	Retained earnings	TOTAL EQUITY
	Note	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000
Balance at 31 December 2001		10,500,000	4,500,000	15,000,000	5,540,977	1,291,691	9,693,625	1,601,821	33,128,114
Dividends		_	_	_	-	_	_	(900,000)	(900,000)
Board of Directors' remuneration		_	_	_	_	_	_	(1,400)	(1,400)
Transfer to general reserve	18	_	-	_	-	-	700,421	(700,421)	_
Net income for the year		_	_	_	_	_	_	2,848,574	2,848,574
Transfer to statutory reserve	18	_	-	_	284,857	_	_	(284,857)	_
Balance at 31 December 2002		10,500,000	4,500,000	15,000,000	5,825,834	1,291,691	10,394,046	2,563,717	35,075,288
Dividends		_	_	_	_	_	_	(1,500,000)	(1,500,000)
Board of Directors' remuneration		_	-	_	-	_	_	(1,400)	(1,400)
Transfer to general reserve	18	_	-	_	-	-	1,062,317	(1,062,317)	_
Net income for the year		_	_	_	_	_	_	6,696,156	6,696,156
Transfer to statutory reserve	18	_	_	_	669,615	_	_	(669,615)	_
Balance at 31 December 2003		10,500,000	4,500,000	15,000,000	6,495,449	1,291,691	11,456,363	6,026,541	40,270,044

The attached notes 1 to 32 form part of the consolidated financial statements.

31 December 2003

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1 Legal form/objectives

Saudi Basic Industries Corporation (SABIC) is a joint stock company established under the Royal Decree numbered M/66 dated 13 Ramadan 1396H (corresponding to 6 September 1976) and registered under commercial registration numbered 10813 dated 14 Muharram 1397H (corresponding to 4 January 1977). SABIC is 70% owned by the Government of the Kingdom of Saudi Arabia and is 30% owned by citizens of the Kingdom of Saudi Arabia and other Gulf Cooperation Council States.

The principal purposes of SABIC and its subsidiaries (the company) are setting up of petrochemical and metal industries, execution of projects necessary to supply the company with its raw material requirements, and the marketing of industrial products inside and outside the Kingdom of Saudi Arabia.

2 Basis of consolidation

The consolidated financial statements are prepared on the basis of the individual financial statements of SABIC and the audited financial statements of its subsidiaries, as adjusted by the elimination of significant inter company balances and transactions.

Subsidiaries are consolidated from the date on which control is transferred to SABIC. The subsidiary companies consolidated in these financial statements are as follows:

		Shareholding %
	2003	2002
SABIC Marketing Ltd. and its subsidiaries (SML)	_	100.00
SABIC Services Ltd. and its subsidiaries (SSL)	_	100.00
Arabian Petrochemical Company (PETROKEMYA)	100.00	100.00
Saudi Iron and Steel Company (HADEED)	100.00	100.00
SABIC Industrial Investments Co. and its subsidiaries (SIIC)	100.00	100.00
Jubail United Petrochemical Company (UNITED)	100.00	100.00
SABIC Luxembourg S.A.R.L. and its subsidiaries	100.00	100.00
SABIC Asia Pacific Pte. Ltd. and its subsidiaries	100.00	_
SABIC Antilles N.V.	100.00	_
National Plastic Company and its subsidiary (IBN HAYYAN)	100.00	96.50
National Chemical Fertilizer Co. (IBN ALBAYTAR)	71.50	71.50
National Industrial Gases Company (GAS)	70.00	70.00
Saudi European Petrochemical Co. (IBN ZAHR)	70.00	70.00
Arabian Industrial Fiber Company (IBN RUSHD)	53.90	53.90
Saudi Methanol Company (AR-RAZI)	50.00	50.00
Al-Jubail Fertilizer Company (SAMAD)	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
Saudi Arabian Fertilizer Co. (SAFCO)	42.99	42.99

On 28 June 2002, the company signed an agreement for the acquisition of the petrochemical segment of Dutch States Mines (DSM). The financial statements of this subsidiary have been consolidated with these financial statements with effect from 1 July 2002 i.e. the date on which SABIC exercised effective control of DSM.

The comparative figures, therefore, include the balance sheet amounts of SABIC Luxembourg S.A.R.L. as at 31 December 2002, and the income statement for the six months then ended.

All subsidiaries are incorporated in the Kingdom of Saudi Arabia except for SABIC Luxembourg S.A.R.L. and SABIC Antilles N.V., which are incorporated in Luxembourg and Netherlands, respectively, and SABIC Asia Pacific Pte. Ltd, which is incorporated in the Republic of Singapore.

During the year ended 31 December 2003, the company signed a Memorandum of Understanding with General Organization for Social Insurance (GOSI) and Pension Fund to sell 25% of its interest in UNITED. The legal formalities for the sale have not been completed at 31 December 2003.

IBN HAYYAN and PETROKEMYA have agreed to merge their activities effectively from 1 January 2004.

3 Summary of significant accounting policies

The consolidated financial statements have been prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.

The accounting policies are consistent to those adopted in the previous year. The significant accounting policies adopted are as follows:

(a) Accounting convention

The consolidated financial statements are prepared under the historical cost convention except for the measurement of available for sale securities at fair value, and for accounting for investments in associated companies on an equity basis.

(b) Property, plant and equipment

The cost of freehold land and construction work in progress is not depreciated. The cost less the estimated residual value of other property, plant and equipment is depreciated on a straight line basis over the estimated useful lives of the assets.

Leasehold improvements and assets are amortized on a straight line basis over the shorter of the useful life of the improvement and assets or the term of the lease.

Expenditure for repair and maintenance is charged to the consolidated statement of income. Expenditure for betterment that increases the value or materially extends the lives of the related assets is capitalized, and depreciated on a straight line basis over the estimated extended useful life.

(c) Inventories

Inventories are valued at the lower of cost and market. The cost of inventories is determined as follows:

Raw materials, consumables and goods for resale – Purchase cost on a first-in first-out basis (note 5).

Work in progress and finished goods

 Cost of direct materials and labor plus attributable overheads based on a normal level of activity.

Spare parts

- On a weighted average method.

The raw materials, consumables and goods for resale in certain subsidiaries are valued on the weighted average method (note 5).

(d) Investments

Associated companies

Associated companies are companies in which SABIC has long term investment comprising an interest of 20% in the voting capital and / or over which it exerts significant influence. The consolidated financial statements include an appropriate share of the associated companies' post acquisition results and reserves based on their latest financial statements. SABIC's share of the results of associates is included in other income in the consolidated statement of income.

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Page 42 Available for sale securities

Investments of less than 20% of the voting capital of investee companies, which are not bought for trading purposes, are classified as available for sale securities and are included under non current assets, unless they will be sold in the next year. Available for sale securities are stated at fair value. Differences between the fair value and the cost, if significant, are reported separately in the statement of changes in shareholders' equity. Any decline other than temporary in the value of these securities 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 bought with the intention of being held to maturity are carried at cost (adjusted for any premium or discount), less any decline other than temporary in their value. Such investments are classified as non current assets with the exception of bonds which mature in the next fiscal period, which are classified as current assets.

(e) Pre-operating expenses

Expenses incurred during development and 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 estimated period of benefit or seven years, whichever is less.

(f) Accounts receivable

Accounts receivable are stated at the original invoice amount less a provision for any uncollectible amounts. An estimate for doubtful debts is made when the collection of the accounts receivable amount is no longer probable. Bad debts are written off as incurred.

(q) Cash and cash equivalents

For the purposes of the consolidated cash flow statement, cash and cash equivalents consist of bank balances and cash on hand, short term deposits, and investments that are readily convertible into known amounts of cash and have a maturity of three months or less when purchased.

(h) 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, these housing units are classified under other non current assets.

(i) Goodwill and amortization

The excess of consideration paid over the fair value of net assets acquired is recorded as goodwill and is amortized over the estimated period of benefit or 20 years, whichever is less.

(j) Dividends

Dividends are recognized as a liability at the time of their declaration by the General Assembly.

(k) Employees' end of service benefits and early retirement plan

Employees' terminal benefits are provided for in accordance with the company's policies and the requirement of the Saudi Arabian Labor Law. Employees' early retirement plan costs are provided for in accordance with the company's policies and are charged to the consolidated statement of income in the year the employee chooses to retire.

(I) Revenue recognition

Sales represent the invoiced value of goods shipped and services rendered by the company during the year, net of trade and quantity discounts. Sales are reported net of marketing expenses in accordance with marketing and sales agreements signed with the marketers.

Investment income is recognized on the equity method for investments in associated companies.

Earnings on bank deposits are recognized on the accrual basis.

(m) Zakat

Zakat is provided for in accordance with Saudi Arabian fiscal regulations. The provision is charged to the consolidated statement of income. Any differences resulting from the final assessment are recorded at the time when such assessments have been finalized.

(n) Research and development expenses

Research and development expenses are charged to the consolidated statement of income when incurred.

(o) Administration and marketing expenses

Production costs, direct expenses and related selling and distribution expenses, which are not deducted from sales, are classified as cost of sales. All other expenses are classified as administration and marketing expenses.

(p) Foreign currency translation

Transactions in foreign currencies (which are not covered by forward foreign exchange contracts) are recorded in Saudi Riyals at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to 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 rate for each period for revenues, expenses, gains and losses. Components of equity, other than retained earnings, are translated at the rate ruling at the date of occurrence of each component. Translation adjustments, if material, are recorded as a separate component of shareholders' equity.

(q) Derivative financial instruments

The company uses derivative financial instruments including interest rate swaps and options to hedge its risks associated with interest rate and foreign currency fluctuations. Derivative assets related to the financial instruments are initially recognized in the balance sheet at cost and are subsequently measured at fair market value, with gains and losses being included in the consolidated statement of income.

(r) Leases

Capital leases, which transfer to the company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the lower of the fair value of the leased asset at inception, and the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

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

Leases, by which the lessor retains substantially all the risks and benefits of ownership of the asset, are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated statement of income on a straight line basis over the lease term.

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(s) Impairment

At each balance sheet date, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an 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 company 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 losses are recognized as an expense in the consolidated statement of income.

Where an impairment loss 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 loss been recognized for the asset or cash generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the consolidated statement of income.

4 Accounts receivable

	2003	2002
	SR'000	SR'000
Trade accounts receivable	7,515,101	6,478,445
Amounts due from related parties (note 11)	1,265,792	1,264,848
Allowance for doubtful debts	(195,027)	(164,609)
	8,585,866	7,578,684

No single customer accounted for more than 5% of the company's sales for the years ended 31 December 2003 and 2002.

5 Inventories

	2003	2002
	SR'000	SR'000
Goods for resale and finished goods	3,142,543	2,935,773
Spare parts	2,330,068	1,875,873
Chemicals and raw materials	967,778	1,259,948
Work in progress	339,782	247,047
Goods in transit	263,797	547,797
	7,043,968	6,866,438

Saudi Accounting Standards require that the cost of inventory should be determined using the weighted average method. The management believes that the first-in first-out method is more appropriate considering the nature and the physical flow of the products. Had the company used the weighted average method, the cost of inventory and the cost of sales would not have been materially different.

6 Other receivable and prepayments

	2003	2002
	SR'000	SR'000
Letter of guarantee	1,676,796	_
Prepaid expenses	244,861	141,032
Other receivables	509,350	967,726
	2,431,007	1,108,758

Letter of guarantee represents cash held by the bank to issue a letter of guarantee in connection with a legal case (note 28).

7 Investments

	Shareholding	2003	2002
	%	SR'000	SR'000
Investments in associated companies (1)		
Gulf Petrochemical Industries Co. (GPIC)	33.33	506,320	451,508
Gulf Aluminum Rolling Mills Co. (GARMCO)	31.28	94,678	68,959
National Chemical Carrier Company (NCC)	20.00	138,752	139,131
Power and Water Utilities Company for			
Jubail and Yanbu (MARAFIQ)	25.00	402,618	155,059
Aluminum Bahrain BSC (ALBA)	20.00	965,348	982,795
Petlin	20.00	54,858	68,859
ARG	16.67	146,997	117,956
Others		118,504	42,757
		2,428,075	2,027,024
Available for sale securities (b)		44,308	45,720
Held to maturity securities (c)		200,000	100,000
		2,672,383	2,172,744

NCC and MARAFIQ are companies incorporated in the Kingdom of Saudi Arabia. GPIC, GARMCO and ALBA are incorporated in the Kingdom of Bahrain. Petlin, ARG and Others are European companies.

(a) Following is the movement of investments in associated companies:

	2003	2002
	SR'000	SR'000
Balance at beginning of the year	2,027,024	838,543
Acquired during the year	247,559	1,212,367
Valuation adjustments, net	153,492	(23,886)
Balance at end of the year	2,428,075	2,027,024

- (b) Available for sale securities consist of investments in ordinary shares of listed companies and are valued at their fair value as at the balance sheet date. Unrealized losses related to the valuation of available for sale securities reported under the partners' equity of a subsidiary, amounted to SR 5.8 million (2002: SR 14.2 million).
- (c) Held to maturity securities represent investments held by a subsidiary in Saudi Government Development Bonds.

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8 Property, plant and equipment

The estimated useful lives of the assets for the calculation of depreciation are as follows:

Buildings – 33 years Plant, machinery and equipment – 20 years Furniture, fixtures and motor vehicles – 4 to 20 years

	Construction		PLANT, MACHINERY	Furniture, fixtures	TOTAL	TOTAL
	WORK IN PROGRESS	Land and buildings	AND EQUIPMENT	AND MOTOR VEHICLES	2003	2002
	SR'000	SR'000	SR'000	SR' 000	SR'000	SR'000
Cost:						
At the beginning of the year	3,746,691	12,464,662	86,218,239	1,915,228	104,344,820	94,897,605
Currency translation adjustment	21,178	111,777	1,422,281	41,162	1,596,398	_
Additions of a subsidiary's assets (note 2)	-	_	_	_	_	8,074,183
Additions	5,601,778	11,320	735,912	175,385	6,524,395	1,907,644
Transfers to assets	(628,196)	(78,735)	1,350,120	901,268	1,544,457	
Disposals	(81,865)	(68,081)	(97,044)	(286,915)	(533,905)	(534,612)
At the end of the year	8,659,586	12,440,943	89,629,508	2,746,128	113,476,165	104,344,820
Depreciation:						
At the beginning of the year	_	3,637,926	36,573,786	1,472,173	41,683,885	34,426,779
Currency translation adjustment for accumulated depreciation	-	34,681	734,760	35,094	804,535	_
Charge for the year	_	404,611	4,451,325	342,483	5,198,419	3,929,597
Relating to a subsidiary's assets (note 2)	-	_	_	_	_	3,618,489
Accumulated depreciation related to assets transferred	-	(78,735)	952,142	487,087	1,360,494	_
Disposals	-	(15,888)	(36,188)	(279,389)	(331,465)	(290,980)
At the end of the year	-	3,982,595	42,675,825	2,057,448	48,715,868	41,683,885
Net book amounts:						
At 31 December 2003	8,659,586	8,458,348	46,953,683	688,680	64,760,297	
At 31 December 2002	3,746,691	8,826,736	49,644,453	443,055		62,660,935

CONSTRUCTION

The construction in progress represents the expansion of plants for certain subsidiaries in order to increase their production capacity, in addition to other capital projects. The related commitments are reported in note 30. The related financial charges capitalized during the year 2003 amounted to SR 103.3 million (2002: SR 132.2 million).

Buildings include an amount of SR 410 million (2002: SR 410 million) representing the cost of freehold land.

The recoverability of net book value of assets of IBN RUSHD (a 53.9% owned subsidiary), which are included in property, plant and equipment and other non current assets, amounted to SR 6.4 billion (2002: SR 6.8 billion), is dependent upon the success of the future operations of IBN RUSHD.

The plots of land on which plant and related facilities of certain subsidiaries are constructed are leased from the Royal Commission for Jubail and Yanbu under renewable lease agreements for periods ranging from 20 to 30 years.

Property, plant and equipment of certain subsidiaries are mortgaged to financial institutions as security against term loans (note 14).

9 Intangible assets

	2003	2002
	SR'000	SR'000
Pre-operating expenses and others, net (a)	3,347,355	2,452,890
Goodwill, net (b)	3,665,924	2,952,659
	7,013,279	5,405,549

(a) Pre-operating expenses consist of allowable plant construction costs and start up costs.

The deferred pre-operating expenses are amortized over period of benefit which is estimated to be 7 years. The total accumulated amortization at 31 December 2003 amounted to SR 2.81 billion (2002: SR 2.77 billion).

During 2003, the company and its subsidiaries revised the amortization period of pre-operating expenses to comply with Saudi Accounting Standards. The effect of this change in estimate for the year ended 31 December 2003 was an additional charge of SR 107 million to the consolidated statement of income.

(b) Goodwill represents the amount arising from the acquisition of the Petrochemical Division of DSM as follows (refer to note 2):

	2003	2002
	SR'000	SR'000
Cost:		
At the beginning of the year	3,035,334	_
Additions	236,252	3,035,334
	3,271,586	3,035,334
Currency translation adjustments	714,416	_
At the end of the year	3,986,002	3,035,334
Amortization:		
At the beginning of the year	82,675	_
Provided during the year	213,474	82,675
	296,149	82,675
Currency translation adjustments	23,929	_
At the end of the year	320,078	82,675
Net book value as at 31 December	3,665,924	2,952,659

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10 Other non current assets

	2003	2002
	SR'000	SR'000
Home ownership programs (a)	1,089,593	1,060,349
Other assets (b)	1,082,814	1,994,482
	2,172,407	3,054,831

- (a) Certain subsidiaries have established employees' home ownership programs that offer eligible employees the opportunity to buy residential units which are constructed by these subsidiaries. The cost of the 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 the payments of the amounts due.
- (b) Other assets include advances to contractors, employees' advances, deferred taxes and others.

11 Related party transactions

SABIC sells products to its joint ventures through marketing agreements. Sales to these joint ventures amounted to SR 7.6 billion (2002: SR 6.1 billion). The partners also provide research and technology services to these joint ventures. They charged the subsidiaries an amount of SR 8.2 million (2002: SR 8.5 million) against these services.

Amounts due from and to related parties at 31 December 2003 and 2002, which are shown in notes 4 and 12, respectively, principally relate to these transactions.

12 Accounts payable

	2003	2002
	SR'000	SR'000
Trade accounts payable	6,017,746	3,816,349
Amounts due to related parties (note 11)	28,614	27,462
	6,046,360	3,843,811

13 Short term bank facilities

Short term bank facilities at 31 December 2003, which bear commissions at prevailing market rates, amounted to approximately SR 459 million (2002: SR 702 million).

The company has unused credit facilities at 31 December 2003 of SR 2.6 billion (2002: SR 1.7 billion).

14 Long term loans

	2003	2002
	SR'000	SR'000
Public Investment Fund (PIF)	5,704,918	5,943,739
Saudi Industrial Development Fund (SIDF)	1,238,034	1,337,484
Commercial loans	29,473,305	26,928,325
	36,416,257	34,209,548
Less: Current portion	(4,498,021)	(3,540,270)
Non current portion	31,918,236	30,669,278

The Public Investment Fund (PIF) loans are repayable in twelve semi annual installments which commenced 5 1/2 years after the starting of commercial operations by certain subsidiaries. Commission rates are up to 6% per annum, depending on the return on equity as defined in the loan agreements.

Saudi Industrial Development Fund (SIDF) loans are repayable in semi annual installments commencing on various dates. The loans administration fees that were paid in advance are capitalized as part of the plant construction costs.

Commercial loans are repayable in various installments, with commissions at prevailing market rates.

Certain long term loans carry covenants related to liquidity and net assets, as defined in the agreements. IBN RUSHD is in violation of the covenants of its loan agreements with SIDF of SR 615 million (2002: SR 650 million). The Board of Directors of IBN RUSHD is of the opinion that they will obtain an appropriate waiver.

HADEED is also in violation of the covenants of its loan agreements with PIF of SR 1,487 million (2002: SR 1,594 million). HADEED management is in the process of obtaining a waiver of these covenants by arrangements with a consortium of banks.

The aggregate repayment schedule of long term loans is as follows:

	2003	2002
	SR'000	SR'000
2003	-	3,540,270
2004	4,498,021	6,405,354
2005	6,982,649	5,362,738
2006	10,324,695	5,341,124
2007	4,946,695	7,405,341
Thereafter	9,664,197	6,154,721
	36,416,257	34,209,548

15 Accrued liabilities and provisions

	2003	2002
	SR'000	SR'000
Accrued liabilities and other provisions	2,742,739	2,607,893
Zakat and tax provision (note 22)	1,376,746	1,307,976
Other liabilities	1,070,618	514,210
Contracts retentions	282,292	335,268
Dividend payable	270,475	243,844
	5,742,870	5,009,191

16 Other non current liabilities

	2003	2002
	SR'000	SR'000
Employees' end of service benefits	2,997,191	2,810,498
Employees' early retirement plan and other liabilities	870,147	1,243,049
Employees' thrift plan	192,484	201,146
	4,059,822	4,254,693

17 Share capital

Share capital is divided into 300 million shares of SR 50 each (2002: 300 million shares).

18 Reserves

Statutory reserve

As required by Saudi Arabian Regulations for Companies, 10% of the income for the year has been transferred to the statutory reserve. The company may resolve to discontinue such transfers when the reserve totals 50% of the share capital. The reserve is not available for distribution.

Other reserves

In accordance with SABIC's bylaws, the General Assembly can establish other reserves as an appropriation of retained earnings. Such reserves can be increased or decreased by a resolution from the shareholders. These reserves are available for distribution.

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19 Administration and marketing expenses

	2003	2002
	SR'000	SR'000
Employees' cost	1,352,622	1,228,323
Selling and marketing	611,661	224,205
Depreciation	578,094	297,336
Administrative services	466,003	585,753
Maintenance	28,115	57,345
	3,036,495	2,392,962

20 Other income

	2003	2002
	SR'000	SR'000
Share in results of associated companies, net	294,802	72,860
Earnings on bank deposits and bank commission	271,862	169,317
Exchange differences, net	271,358	14,102
Miscellaneous	(6,806)	159,097
	831,216	415,376

21 Financial charges

	2003	2002
	SR'000	SR'000
Public Investment Fund (PIF)	122,605	8,922
Saudi Industrial Development Fund (SIDF)	14,864	72,848
Commercial banks	846,325	742,038
	983,794	823,808

22 Zakat and tax matters

- (a) SABIC has not obtained any final zakat certificates since incorporation. SABIC had requested the Department of Zakat and Income Tax (DZIT) to assess its zakat liability on the consolidated financial statements for SABIC and its subsidiaries, which was objected to by the DZIT. During the year ended 31 December 2003, SABIC agreed with the DZIT to file its zakat declaration on an unconsolidated basis. Therefore, the consolidated zakat liability for SABIC for the year represents the zakat on SABIC's unconsolidated financial statements, in addition to SABIC share in the zakat liabilities of its subsidiaries.
- (b) The following is the movement of the zakat provision for the years ended 31 December:

	2003	2002
	SR'000	SR'000
Balance at the beginning of the year	1,307,976	1,452,958
Less: Payments by the company, net	(231,230)	(449,982)
Add: Current year provision	300,000	305,000
Balance at the end of the year (note 15)	1,376,746	1,307,976

(c) In the opinion of management, adequate provision has been made for any liability to the DZIT that may arise upon the settlement of any amounts due, as per the final zakat and tax assessments.

23 Basic earnings per share

Basic earnings per share is calculated based on the weighted average number of the outstanding shares at the beginning and at the end of the year. The outstanding number of shares at 31 December 2003 is 300 million shares (2002: 300 million shares).

24 Segment information

The company is organized in the following main business segments:

The petrochemical segment includes basic chemicals, intermediates, PVC and polyesters, polyolefins and fertilizer products.

The metals segment consists of steel production and investments in aluminium production companies.

The corporate segment includes the operations of the head office, investing activities and research and development.

There are no significant inter segment revenues between the petrochemical and the metal segments.

	PETROCHEMICALS	METAL	Corporate	TOTAL
2003	SR'000	SR'000	SR'000	SR'000
Sales	38,682,388	4,900,557	3,199,460	46,782,405
Gross profit	11,312,008	1,449,375	875,238	13,636,621
Depreciation and currency				
translation adjustment, ne	et 6,471,002	469,042	91,939	7,031,983
Total assets	46,129,912	10,068,879	53,101,318	109,300,109
Total liabilities	36,630,237	4,312,333	11,781,999	52,724,569
Additions to property,				
plant and equipment, net	8,363,715	152,366	615,264	9,131,345
Investment in associated				
companies	320,364	_	2,107,711	2,428,075
	·	·		

	PETROCHEMICALS	METAL	CORPORATE	TOTAL
2002	SR'000	SR'000	SR'000	SR'000
Sales	29,986,145	3,797,614	242,067	34,025,826
Gross profit (loss)	7,276,185	652,112	(241,376)	7,686,921
Depreciation and current	Cy			
translation adjustment, n	et 3,145,723	555,211	60,692	3,761,626
Total assets	78,240,771	9,433,074	11,498,075	99,171,920
Total liabilities	29,369,740	4,807,754	13,841,683	48,019,177
Additions to property,				
plant and equipment, ne	t 4,870,375	109,413	537,830	5,517,618
Investment in associated				
companies	229,572	_	1,797,452	2,027,024

A substantial portion of SABIC's operating assets are located in the Kingdom of Saudi Arabia. The principal markets for SABIC petrochemical products are Europe, the Middle East, and Asia Pacific. While the corporate activities are in the Kingdom of Saudi Arabia, the metal segment sales are mainly in Saudi Arabia and Gulf Cooperative Council Countries. It is not practicable to summarize the sales of the petrochemicals segment to the individual geographic areas of other segments.

25 Cash and cash equivalents

	2003	2002
	SR'000	SR'000
Bank balances and cash	3,800,707	3,755,764
Short term deposits	10,820,195	6,568,217
	14,620,902	10,323,981

Cash and cash equivalents include an amount of SR 32 million (2002: SR 36 million) representing restricted cash against loans commission and principal as they become due.

31 December 2003

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26 Risk management

Financial instruments carried on the balance sheet principally include cash and cash equivalents, accounts receivable and other assets, bank borrowings, accounts payable and accrued and other current 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 company 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 company has no significant interest bearing long term assets, but has interest bearing liabilities at 31 December 2003. The company manages its borrowings made at floating rates by using interest rate swaptions (note 27), which have the economic effect of converting borrowings from floating rates to fixed rates. The interest rate swaptions, when exercised, provide the company 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 company 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. Management 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 company's consolidated financial instruments are compiled under the historical cost convention, differences can arise between the book values and fair value estimates. Management believes that the fair value of the company's consolidated financial assets and liabilities are not materially different from their carrying values.

27 Derivatives

The company entered into swaptions and interest rate swap agreements to hedge the volatility in interest rate related to loans outstanding at year end amounting to SR 9.14 billion (2002: SR 1.47 billion). The options are exercisable up to August 2004. The arrangements require payment of option premium periodically.

28 Legal claims

On 21 March 2003, the jury of a court in the United States of America reached an initial verdict against the company in the amount of SR 1,563 million. The company has filed an appeal in respect of this initial verdict.

The company has been advised by its retained legal counsel that the grounds for the appeal and the chances for success are substantial. On this basis, the ultimate outcome cannot be determined with certainty presently. Accordingly, no amounts have been reflected in these consolidated financial statements.

29 Approval of financial statements and appropriation of net income

The Board of Directors, in its meeting held on 24 Muharram 1425H (corresponding to 15 March 2004), has approved the financial statements and proposed the appropriation of the net income for the year as follows:

- distribution of cash dividends of SR 3,600 million (SR 12 per share)
- payment of SR 1.4 million as Board of Directors' remuneration
- transfer of the remaining balance to the general reserve.

The above are subject to the approval of the shareholders at the Annual General Meeting.

30 Commitments

Capital commitments

The Board of Directors has authorized future capital expenditure amounting to SR 24 billion (2002: SR 4.3 billion).

Operating lease commitments

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

	2003	2002
	SR'000	SR'000
2003	_	179,176
2004	223,516	173,666
2005	213,157	130,459
2006	194,018	111,855
2007	236,478	338,723
Thereafter	1,525,888	110,734
	2,393,057	1,044,613

Obligations under capital leases

Assets held under capital leases are included in the consolidated financial statements as follows:

	2003	2002
	SR'000	SR'000
Buildings	19,200	21,280

Minimum annual rentals are in aggregate as follows:

	2003	2002
	SR'000	SR'000
2003	-	2,080
2004	19,200	19,200
	19,200	21,280

31 Contingent liabilities

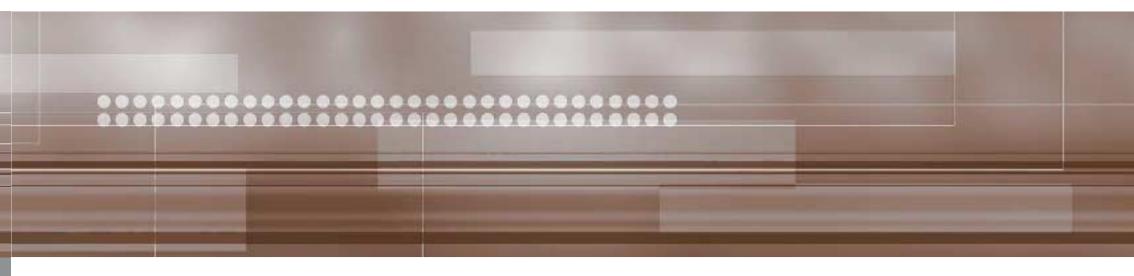
The company is involved in litigation matters in the ordinary course of business, which are being defended. While the ultimate results of these matters cannot be determined with certainty, management does not expect that they will have a material adverse effect on the consolidated financial statements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

The company's bankers have issued, on its behalf, bank guarantees amounting to SR 752 million (2002: SR 404.1 million) in the normal course of business.

32 Comparative figures

Certain of the prior year amounts have been reclassified to conform with the presentation in the current year.







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Riyadh, Saudi Arabia

SABIC Research and Technology

Riyadh, Saudi Arabia Al-Jubail, Saudi Arabia Geleen, The Netherlands Houston, Texas, USA Little Ferry, New Jersey, USA Vadodara, Gujarat, India

SABIC Manufacturing sites

Yanbu, Saudi Arabia Al-Jubail, Saudi Arabia Dammam, Saudi Arabia Manama, Bahrain Geleen, The Netherlands Gelsenkirchen, Germany

SABIC International Subsidiaries and Sales Offices

Houston, Texas, USA Essen, Germany Milan, Italy Tokyo, Japan Paris, France Barcelona, Spain New Delhi, India Mumbai, India Chennai, India Singapore Manila, Philippines Seoul, South Korea Shanghai, China Taipei, Taiwan Dubai, United Arab Emirates Hong Kong Redditch, England

For Sales Offices in Europe you can download the map on our website http://www.sabic-europe.com/ europe/sites/sales/_en/index.htm or

http://www.sabic-europe.com/ europe/_en/index.pl

Distribution and Storage Facilities

Riyadh, Saudi Arabia Jeddah, Saudi Arabia Dammam, Saudi Arabia Qassim, Saudi Arabia Al-Jubail, Saudi Arabia Yanbu, Saudi Arabia Houston, Texas, USA Wilmington, North Carolina, USA New York Harbor, USA New Orleans, Louisiana, USA Bologna, Italy Livorno, Italy Lavera, France Marseilles, France Rotterdam, Netherlands Gainsborough, England Felixstowe, England Meer, Belgium Barcelona, Spain Wallhamn, Sweden Gebze, Turkey Shanghai, China Shekou, China Malta Hong Kong Jakarta, Indonesia Singapore Ulsan, South Korea Suez Canal, Egypt Jebel Ali, United Arab Emirates



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SABIC Manufacturing Companies

AR-RAZI Saudi Methanol Company Company

Al-Jubail Location

A 50/50 SABIC METHANOL COMPANY Japanese **Partnership**

companies led by Mitsubishi Gas Chemical Company

1400 H (1979) Date Established **On-Stream Date** 1403 H (1983) Feed Stocks Methane

Chemical Grade Methanol **Products**

SADAF Saudi Petrochemical Company Company

Location Al-Jubail

A 50/50 SABIC joint venture with Pecten Arabian **Partnership**

SAUDI PETROCHEMICAL COMPANY a subsidiary of Shell Oil Co. (USA)

Date Established 1400 H (1980) **On-Stream Date** 1405 H (1985)

Feed Stocks Ethane, Salt, Benzene, Methanol, Butane Ethylene, Crude Industrial Ethanol, Styrene, Caustic **Products**

Soda, Ethylene Dichloride, MTBE

IBN SINA National Methanol Company

Location

Company

A SABIC (50%), Hoechst-Celanese - USA (25%), Pan **Partnership** Energy - USA (25%) NATIOINAL METHANOL COMPANY

Date Established 1401 H (1981) 1405 H (1981) On-Stream Date **Feed Stocks** Methane, Butane

Chemical Grade Methanol, MTBF **Products**

♦•*

Company YANPET Saudi-Yanbu Petrochemical Company

Location

Partnership A 50/50 SABIC joint venture with Exxon Mobil (USA)

SAUDI-YANBU PETROCHEMICAL COMPANY

Date Established 1400 H (1980) On-Stream Date 1405 H (1985)

Ethane LPG, Light Naptha **Feed Stocks**

Products Ethylene, Polyethylene, Ethylene Glycol

•

PETROKEMYA Arabian Petrochemical Company Company

Location

A wholly owned affiliate of SABIC ARABIAN **Partnership**

PETROCHEMICAL COMPANY

Date Established 1401 H (1981) On-Stream Date 1405 H (1985)

Feed Stocks Ethane, Styrene, Propane, Butane, Light Naptha Ethylene, Polystyrene, Butene-1, Propylene, Natural **Products**

Gasoline Butadiene, Benzene

KEMYA Al-Jubail Petrochemical Company Company

Location Al-Jubail

A 50/50 SABIC joint venture with Exxon Mobil (USA) **Partnership**

AL JUBAIL PETROCHEMICAL COMPANY

Date Established 1400 H (1980) On-Stream Date 1405 H (1985) Feed Stocks Ethane, Propane Polyethylenes, Ethylene **Products**

SHARQ Eastern Petrochemical Company Company

Location

A 50/50 SABIC joint venture with a consortium of **Partnership**

> Japanese EASTERN PETROCHEMICAL COMPANY companies led by Mitsubishi Corporation

Date Established 1401 H (1981) On-Stream Date 1405 H (1985) **Feed Stocks** Ethylene

Products Linear Low Density Polyethylene (LLDPE),

Ethylene Glycol

Company Location Al-Jubail

Partnership SABIC (96.5%), Saudi Plastic Products Company

(SAPPCO, 2%), Arabian Plastic Manufacturing Co. Ltd. (1.5%). This is effective from January 1, 2002.

IBN HAYYAN Arabian Plastic Manufacturing Co. Ltd.

Date Established 1404 H (1984) 1407 H (1987) On-Stream Date

Feed Stocks Ethylene, Ethylene Dichloride

Vinyl Chloride Monomer, Polyvinyl Chloride, PVC Paste **Products**

IBN ZAHR Saudi European Petrochemical Company Company Al-Jubail SABIC (70%), Neste Oy-Finland (10%), Location

Ecofuel-Italy (10%), SAUDI-EUROPEAN PETROCHEMICAL **Partnership**

COMPANY Arab Petroleum Investment Corporation

APICORP (10%) 1405 H (1984)

Date established On-Stream Date 1408 H (1988)

Feed Stocks Chemical Grade Methanol, Butane, Propylene

Products MTBE, Polypropylene

••

Company IBN RUSHD Arabian Industrial Fibers Company Location

Partnership SABIC (51.7%) and 15 Saudi Arabian and Regional

ARABIAN INDUSTRIAL FIBERS COMPANY private sector

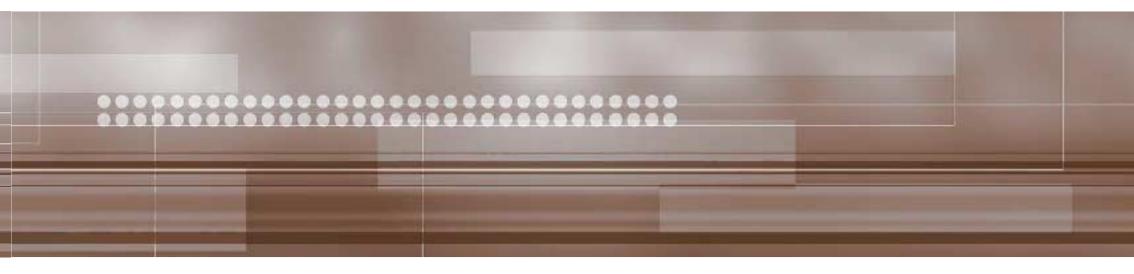
partners

Date Established 1413 H (1993) On-Stream Date 1416 H (1995)

Feed Stocks Ethylene Glycol, Butane **Products**

Aromatics (Xylenes and Benzene), Purified Terephthalic Acid (PTA, Polyester Textile Chips, Textile Staple, Bottle

Grade Chips, Carpet Staple



Company **SAMAD** Al-Jubail Chemical Fertilizer Company Location **Partnership** A 50/50 SABIC joint venture formed in 1971 With AL-JUBAIL CHEMICAL FERTILIZER COMPANY Taiwan Fertilizer Company (Republic of China) Date Established 1400 H (1979) On-Stream Date 1403 H (1983) Feed Stocks Methane, Propylene Ammonia, Urea, 2-Ethyl Hexanol, DOP1385 **Products** SAFCO Saudi Arabian Fertilizer Company Company Location Dammam SABIC (41%), SAFCO Employees (10%)

Private Saudi Arabian SAUDI ARABIAN FERTILIZER **Partnership** COMPANY and AL-JUBAIL SHAREHOLDERS (49%) Date Established H (1965) On-Stream Date 1969 and 1993 **Feed Stocks** Methane, Sulfur **Products** Ammonia, Urea, Sulphuric Acid, Melamine IBN AL-BAYTAR Safco National Chemical Fertilizer Co. Company Location Al-Jubail a 50/50 SABIC joint venture with SAFCO NATIONAL CHEMICAL FERTILIZER COMPANY 1405 **Partnership** Date Established 1405 H (1985) On-Stream Date 1407 H (1987) Feed Stocks Methane, Phosphoric Acid **Products** Ammonia, Urea, Compound Fertilizers

Company **HADEED** Saudi Iron and Steel Company Location Al-Jubail **Partnership** A wholly owned affiliate of SABIC SAUDI IRON AND STEEL COMPANY Date Established 1399 H (1979) **On-Stream Date** 1403 H (1983) Iron Ore, Scrap Iron and Steel Feed Stocks Steel Rebar, Wire Coil, Steel Sections, Flat Steel **Products Products** GAS Company Location Al-Jubail **Partnership** SABIC (70%) and a group of Saudi Arabian producers of NATIONAL INDUSTRIAL GASES COMPANY and Yanbu industrial gases (30%) Date Established 1403 H (1983) On-Stream Date 1404 H (1984) Feed Stocks **Products**

Company

Location

Partnership

Feed Stocks

Products

Oxygen, Nitrogen, Argon, Krypton-Xenon **TAYF** Ibn Havvan Plastic Products Company Al-Jubail SABIC affiliate IBN HAYYAN (57.17%), Saudi Industrial and Commercial IBN HAYYAN PLASTIC PRODUCTS COMPANY Agencies Company (30.83%), Saudi Industrial Development Company (TATWEER 10%), Saudi Ceramic Company (2%) **Date Established** 1417 H (1996) On-Stream Date 1420 H (1999) Polyvinyl Chloride Plastic Boards, Wall Covering, Artificial Leather, Di-Octyl Phthalate, Book Binding Products

Company **ALBA** Aluminum Bahrain Location Bahrain (77%), Brenton Ivestments, Germany (3%), ALUMINUM BAHRAIN the Saudi Public Investment Fund, **Partnership** represented by SABIC (20%) Date Established 1388 H (1968) **On-Stream Date** 1391 H (1971) **Feed Stocks** Alumina **Products** Aluminum (liquid metal, ingots, rolling stabs, billet) **GPIC** Gulf Petrochemical Industries Company Company Location Partnership Joint venture with equal partnership for the Petrochemical Industries GULF PETROCHEMICAL INDUSTRIES COMPANY Company of Kuwait, the state of Bahrain and SABIC1399 Date Established H (1979) 1405 **On-Stream Date** H (1985) Feed Stocks Methane Methanol, Ammonia, Urea **Products** Company **GARMCO** Gulf Aluminum Rolling Mill Company Location Bahrain Kuwait (16.97%), Bahrain (38.36%), Iraq **Partnership** (4.12%), Oman (2.06%), Gulf Invest.Corp. (5.15%) and

Saudi Arabia, represented by SABIC (31.28%)

Aluminum Sheets and Can Stocks

1401 H (1981)

1405 H (1985)

Basic Chemicals

Fertilizers Intermediates

Date Established

On-Stream Date

Feed Stocks

Metals

Polymers

SABIC Annual Report 2003



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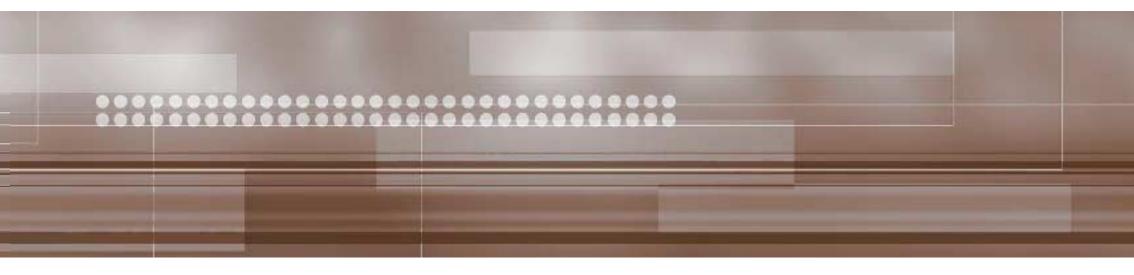
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