

# FROM CHALLENGE TO ACHIEVEMENT

ANNUAL REPORT & ACCOUNTS 2013





## THE INNOVATION AND THE INSPIRATION

We believe science is about more than ideas and dreams. We believe it is about making innovation a reality.

At SABIC, we bring to life the visions of our customers to help them realize their ambition for their product – whether it is something stronger, brighter, greener, smarter, or altogether better.

We not only create the chemistry that makes things possible. We also believe that with ingenuity and the best materials technology, almost anything can be achieved.

Our combination of ingenious chemistry and can-do attitude to innovation sets out the path that leads From Challenge To Achievement.

PRINCE SAUD BIN ABDULLAH  
BIN THENAYAN AL-SAUD  
CHAIRMAN

MOHAMED AL-MADY  
VICE CHAIRMAN &  
CHIEF EXECUTIVE OFFICER

# THE IMMEDIATE IMPACT OF INGENUITY

Working with our many customers, SABIC has been part of the creation of some of the most radical achievements of the modern world. The tallest building. The smartest smartphone. They transform the way we see the world. Although innovative, these products mean more to SABIC: they inspire us to explore more of what is possible with chemistry.

They are steps on the way to helping people create bigger, lighter, tougher, more sustainable innovation. With over 9,000 patent filings in our global portfolio and 150 product launches in the past year, SABIC scientists are now at work on the next step in the story of what is possible.



## A WINDOW ON TOMORROW

### VOLKSWAGEN® XL1

At the 2013 Geneva Motor Show, Volkswagen presented its XL1 diesel plug-in hybrid – the most fuel-efficient production car in the world. To help lighten the vehicle and reduce energy consumption, Volkswagen chose a polycarbonate (PC) glazing solution from SABIC for the car's stylish side windows. The windows are produced through a two-shot injection-molded process using SABIC's Exatec™ plasma-coating technology on LEXAN™

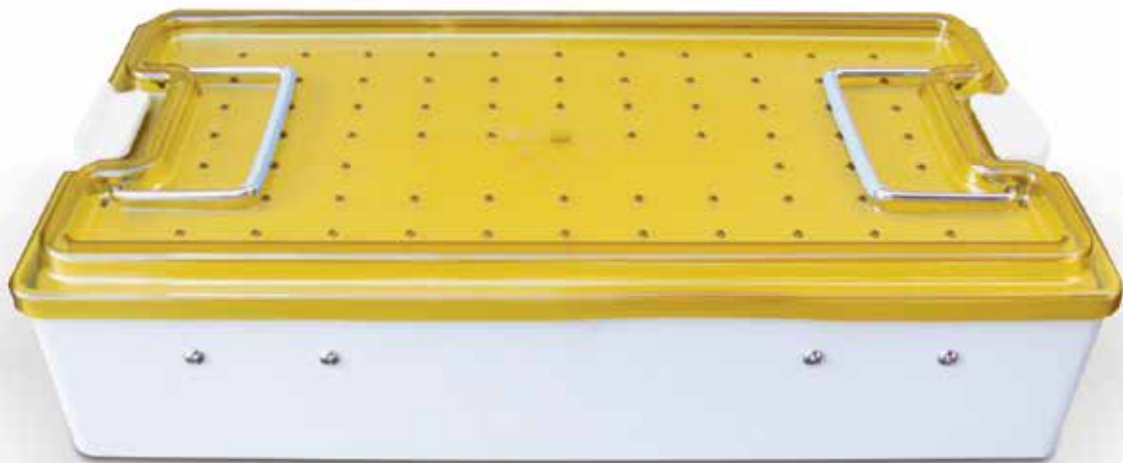
resin, a PC material, and CYCOLOY™ resin, a PC/ABS (acrylonitrile-butadiene-styrene) material. This reduces the weight of the side windows by 33 percent compared to conventional glass solutions, while delivering a high-quality optical appearance and scratch-resistant surface. SABIC provided full application development support to Volkswagen in the design, engineering and production of the side windows.



## SAFE CONTAINER

### INDUSBELLO® STERILIZATION TRAY

Reducing healthcare-associated infections while meeting stringent demands for sterilization performance is a constant challenge in healthcare. To help improve the safety of patients and healthcare environments, SABIC has worked closely with Indusbello to create a differentiated solution for sterilization trays. ULTEM™ resin is designed to withstand different harsh sterilization processes, including high-temperature steam autoclave, gamma radiation and hydrogen-peroxide gas sterilization. At the same time, ULTEM resin can provide design flexibility and enhanced productivity.



WITH SABIC™  
RESINS, HEALTHCARE  
MANUFACTURERS  
CAN REDUCE COSTS  
WHILE CREATING  
SAFE, HIGH-QUALITY  
PRODUCTS.

## SHINING A LIGHT ON INNOVATION

### OSRAM® DULUX® SUPERSTAR® CLASSIC P

Where there's light, there's heat. And where there's heat, there's a problem with aging. So SABIC developed a brand-new material – LEXAN LUX-g resin – which improved the heat-aging properties of OSRAM's SUPERSTAR® LED lamp, as well as providing more color possibilities.



OUR MATERIALS  
CREATE THE  
LOW-ENERGY,  
HIGH-PERFORMANCE  
LIGHTING OF  
THE FUTURE.

## FRUITFUL GROUND

### NPK FERTILIZER

Different climate and soil types present challenges that require innovative agricultural solutions if farmers are to get the best yields. Agro climatic conditions in Saudi Arabia present a particular challenge to growers, leading SABIC to respond with new grades of NPK fertilizer that are optimized for the local environment. Our project to develop these grades not only gave SABIC better access to the USD 250-million Saudi Arabia fertilizer market, it also created new intellectual property for the company and improved asset utilization, creating production efficiencies. The team behind the project received a SABIC “Best Practice” award for their pioneering work in developing these new grades.



CROPS GROW  
BETTER WHEN  
FERTILIZERS ARE  
CUSTOMIZED  
TO LOCAL  
CONDITIONS.



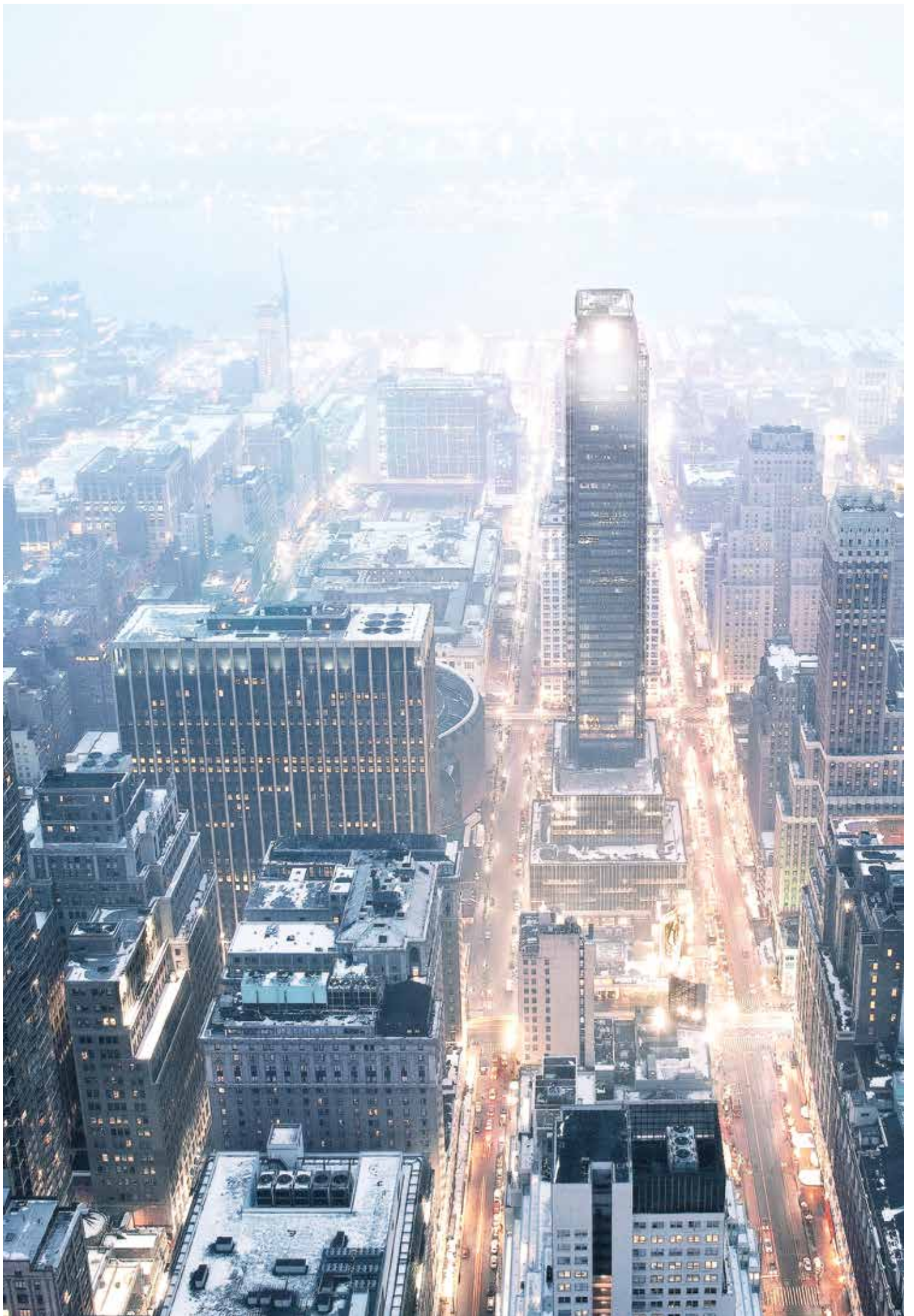
## BEAUTIFUL GAME

### ARENA DO GRÊMIO, BRAZIL

With the World Cup® in mind, sports stadiums have to balance the desire for an awe-inspiring design statement with the need to meet strict safety regulations. SABIC completed the first stadium application in South America with its custom-colored LEXAN™ THERMOCLEAR™ polycarbonate (PC) multi-wall sheet for the roof of the new Arena do Grêmio, a multi-use, 60,000-seat stadium in Porto Alegre, Brazil. This tough roofing material, chosen for its light weight, toughness, and impact resistance versus glass, proved itself even before the stadium was completed when the partially installed roof was undamaged during a violent windstorm. This project represents a new milestone in SABIC's four decades of success, helping designers and architects ensure safety while creating a major architectural statement. Two other stadiums will be using SABIC's LEXAN sheet materials for this year's World Cup in Brazil.



SPORTS STADIUMS  
BECOME WORKS  
OF ART WITH THE  
FLEXIBILITY AFFORDED  
BY SABIC MATERIALS.





# MEET THE PIONEERS

## TWO WORLD-RENOWNED EXPERTS FROM OUTSIDE SABIC SHARE THEIR THOUGHTS ON HOW INNOVATION CAN MEET TODAY'S CHALLENGES

Karen Seto is Professor of Geography and Urbanization at the Yale School of Forestry and Environmental Studies. Prior to joining Yale, she was on the faculty at Stanford University for eight years. Professor Seto's research is on the human transformation of land and the links between urbanization, global change, and sustainability. She is an expert in urbanization dynamics, forecasting urban growth, and examining the environmental consequences of urban expansion. She has pioneered methods using satellite remote sensing to reconstruct historical patterns of urbanization and to develop projections of future urban expansion. She specializes in China and India, where she has conducted urbanization research for more than fifteen years. We asked Professor Seto to discuss the urgent challenge of 21<sup>st</sup>-century urbanization and the innovative solutions that are being created to address it.



### DR. KAREN SETO

#### EXPONENTIAL URBAN GROWTH: A GLOBAL-SCALE CHALLENGE

While in mature cities, significant effort is needed to rebuild, repair and refurbish ageing infrastructure, the most urgent challenge is to deal with rapid urbanization. By 2100 the world population will have grown to over 10 billion people, 80% of whom will live in urban areas. Even by 2050 we expect an urban population of 7 billion. Yale forecasts that by 2030, urban areas will have grown by 1.2 million square kilometers: that's the equivalent of 20,000 American football fields becoming urbanized every day, for 30 years. In south Asia and Africa, this development is informal and ad-hoc, so traditional planning approaches are not relevant. Right now, worldwide, one billion people live in slums or

informal settlements, 800 million have no access to clean water and 2.5 billion have no access to sanitation. So dealing with the growing water and sanitation demands in countries with minimal formal infrastructure is in itself a huge challenge. It's estimated that the world's vehicle stock will grow from 800 million to 2.5 billion by 2050, a huge increase. Trash and waste, too, will expand exponentially: people living in developed-world urban areas create 2 kg of waste per day, four times as much as those in developing countries.

Food is another urbanization challenge, with processing and distribution the main issues. Up to 40% of food is wasted, around 20% in the production and distribution process before it gets to the consumer, and there is also significant "post-consumer" waste that has to do with storage, preparation, and misleading sell-by dates. People are eating more 'away from home' (on the go, or at work, for example), so there's a need for packaging that improves shelf life. And as urbanization causes food production to become more concentrated, we'll see bigger distances between

the places where food is grown and processed, and where it is consumed.

Human ingenuity has frequently overcome predictions that resources will be inadequate to sustain growing populations. Our demand on the planet's resources depends both on governance, which can influence consumption through legislation; and on production, which determines how efficiently we can create and manufacture products.

With the scale of urbanization forecast in the next 30 years, it's estimated that USD 25-30 trillion worth of infrastructure is going to be built. There is an enormous opportunity to use innovative design and materials to shape how the cities of tomorrow are developed.

#### URBAN METABOLISM AND TELECONNECTION: CITIES HAVE NO BOUNDARIES

Cities don't exist in isolation: they are very interconnected. That's why the idea of "smart cities" is only a partial solution to urbanization issues. Fitting buildings with high-tech sensors that control lighting and heating is good (if expensive), but for

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urbanization to be sustainable we need to think about cities in an integrated sense. “Urban metabolism” means looking at all the flows of energy, food, and materials into a city as well as its outputs – waste, exports, pollution – as a single system. Energy-efficient buildings and vehicles are important. But an integrated, systemic approach connects construction and transport more tightly so that, for example, people live closer to where they work.

In essence, a city is a process, not a place. Cities may have sustainability strategies but none make the link between what’s happening within the city and the sites that produce its materials and deal with its waste products. San Francisco, for example, mostly exports ideas, but its products are made in China. The term “teleconnection”, used in climate literature, applies in environmental science to describe the virtual shrinking between different places because of the materials we use. If my chairs are made from Australian bamboo, then how I live is connected to land use in that country. In sustainability terms, you can’t draw a boundary around a city.

#### **INNOVATIVE MATERIALS, CLOSED LOOPS, AND CRADLE- TO-CRADLE PRODUCTION**

There are many opportunities to be innovative in how we package and process food. Intelligent packaging, for example, could interact with food to tell consumers when it has gone bad, eliminating the problem of inaccurate sell-by dates. Because food will also travel further, packaging innovations could also make it last longer and travel better. Biodegradable packaging materials have the added advantage of being compostable and reusable as soil conditioner. This “closed-loop” production minimizes energy

inputs as well as waste and pollutant outputs. In fact, a “cradle-to-cradle” philosophy of production for manufacturing in general – where the waste product of one process becomes the input for another – has enormous advantages for the cities of tomorrow because of the reductions in material and energy demands it offers. Products need to have a second life, with nothing discarded, or a long life.

#### **GREEN CHEMISTRY**

Currently, there is a great deal of research into “green chemistry”, which aims to design and develop chemical products that either reduce or eliminate the generation of hazardous materials. Historically, we have addressed environmental problems by reducing our exposure to harmful materials; however, this typically means an increase in exposure elsewhere. Again, taking a systemic approach means we can design molecules that themselves reduce negative chemical and physical properties. The starting point is to ask what you need from the chemical, then to work out how to manipulate it so it is no longer hazardous to people and the environment.

#### **PEOPLE-CENTRIC, SHARING CITIES**

Hundreds of years ago cities were designed around people; now they are designed around cars, creating disconnects between the workplace and home, and increasing pollution and the need for materials. There are a number of city-scale initiatives that mark a return to the old people-centric principles, which is an innovative approach in today’s context. Also, the “sharing economy” is transforming how we use resources in cities. Car sharing has taken off in cities, because there is no point in ownership if it is too inconvenient or expensive. This trend could

extend to other resource-intensive appliances: for example, people don’t necessarily want to own a refrigerator; they just want their food to be fresh.

#### **OBSTACLES TO SUSTAINABILITY**

Many sustainability initiatives are held back because there is too much thinking “inside the box”. The private sector is susceptible to “path dependency” and finds it hard to get beyond business as usual. It’s tough to get big ideas funded and scaled up; and it’s hard to break out of the centuries-old paradigm in which society is based on fossil energy. When big companies are early adopters of innovative thinking, change is easier. Second, people in developed countries want to maintain their standard of living, with no disruption. This is a challenge when billions of others want to raise theirs. The choice is to change mindsets or deliver services at a high level but using less energy.

#### **THREE STEPS TOWARD GLOBAL SUSTAINABILITY**

The first is to reduce consumption, the second is to close the production loop and the third, to identify “teleconnections” in the production process so you can analyze the full lifecycle of products and take a “cradle-to-cradle” approach. Reducing consumption is not however just about consuming less; it’s about restructuring consumption patterns, sustainably, so that people in developing economies have access to more resources.

Described by Newsweek as “the man responsible for more innovations in modern aviation than any living engineer”, Burt Rutan is a bold entrepreneur and designer with the vision and passion for the advancement of technology. In 2004 Rutan designed SpaceShipOne, the world’s first privately built manned spacecraft to reach space. Inspired by the success of SpaceShipOne, Virgin Group founder Sir Richard Branson started Virgin Galactic and engaged SCALED Composites (the company Rutan founded in 1982) to develop and produce a line of commercial spaceships to fly the public (SpaceShipTwo). Rutan designed Voyager, the first aircraft to circle the world non-stop and his Virgin Atlantic® GlobalFlyer broke Voyager’s record to achieve the first non-stop, solo flight around the world. SCALED Composites is now building Stratolaunch, the world’s largest airplane.



## BURT RUTAN

### WHAT IS YOUR FORMULA FOR ACHIEVING SO MANY “FIRSTS”?

You need to be prepared to accept and take risks, be able to move fast and be prepared to be disruptive. This is what made it possible for us to create the first all-composite airplane after experimenting with the weathering, corrosion, and fatigue performance of composites in different structures. And without this way of doing things we would never have been able to create a non-government manned space program in just 3.5 years. In this time, we created an airplane capable of speed to match an SR-71 Blackbird, yet which could fold itself for re-entry; we built a launch plane, designed a new rocket motor from scratch, created a new navigation system, and ran multiple test flights. In 2004 we flew three out of the world’s five manned spaceflights. We did all this with an average headcount of just 38 people. Traditional, large-scale space programs tend to be managed by folk who are more worried about financial failure than passing performance milestones.

### WHY ARE COMPOSITE MATERIALS SO APPROPRIATE FOR AVIATION?

First, with half the density of aluminum, composites offer significant savings in weight, which in airplanes translates directly into a greater capacity to carry people or cargo. They can cope easily with saltwater environments, which are an issue for the many airplanes that operate in coastal areas. Aluminum has to be protected against saltwater corrosion. Also, composites are immensely strong. Airplanes built from them don’t have “fatigue lives”; unlike contemporary airliners, which are only good for a finite number of cycles (for example of pressurization or exposure to turbulence). If in the 1930s we had progressed straight from wood-and-fabric aircraft to composites, and someone today proposed a move to aluminum, no one analyzing its fatigue characteristics would even consider introducing it.

To understand the strength of composites, compare an Airbus wing or tail (both made of composites) to the shaft of a modern golf club. The difference is that in use, the airplane uses just a fraction of the material’s potential structural performance in terms of stiffness and strength. The golf club, on the other hand, is subjected to twice the strain of any composite airplane wing. However, commercial airplanes still use a great deal of metal in their construction, and at the metal-to-composite interfaces, the metal has to be thicker and the composite heavier. This means airplanes are not exploiting the full potential of composites.

### CAN YOU EXPLAIN WHY YOU THINK AN “ALL COMPOSITE” APPROACH IS BETTER?

It means you can get the full weight and strength benefits of the material. Getting rid of the metal-to-composites interfaces not only reduces weight, it also cuts the need for joints and fasteners, which are subject to heavy loads and can be the source of problems with structures. The materials can also be designed with a great deal of precision. As a current SCALED Composites project shows, these materials don’t limit the size of planes: Stratolaunch, a carrier aircraft for launching space vehicles, will be the biggest airplane in the world, with a wingspan of 117 m.

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”

#### IF COMPOSITES OFFER SUCH HIGH PERFORMANCE, WHY AREN'T ALL AIRPLANES MADE FROM THEM TODAY?

The aviation industry is very risk-averse, which means it tends to develop incrementally. Take the way airplanes look, which hasn't changed in the 60 years since the 707 or the Comet were introduced. A blended flying wing design alone would offer 12-15% more efficiency – this is the kind of advantage that other industries would take big risks to get. We were able to build very experimental, different-looking aircraft because we weren't fazed by the risk of failure in the same way.

There is also much more potential in aerospace to use thermoplastics which allow materials to be melted and welded together rather than bonded with glue. It needs a high initial investment in tooling to cope with the higher temperatures required for manufacturing, but it creates much better structures.

#### HOW DO YOU THINK AVIATION SHOULD CHANGE?

The industry can take two ways forward. Either it can take technologies that it is comfortable with and move slowly into more and more use of composites, as we have seen to date. Or it can take the disruptive approach and introduce completely new materials, as it did with the move from fabrics to aluminum. Switching from thermosets to thermoplastics in fiber composite structures would also have significant advantages: the melting and welding process means no fasteners are needed, because it's with fastened joints where the problems are with composite materials. Right now, though, the industry is stuck with structures that are littered with metal/composite interfaces.

If aviation moved to getting rid of all the metal in airplane structures, this could reduce costs and weight and also cut inspection costs. It could transform an entire industry in a generation, just like the move from fabric to aluminum did.

#### COMPOSITES EXPLAINED

Made by combining multiple materials that have different properties, composites can offer greater strength and less weight than traditional materials. In aviation, carbon-fiber-reinforced polymer composites (widely known as carbon fiber) help make aircraft lighter and stronger.

*The views and opinions expressed in these interviews are those of the interviewees and do not reflect SABIC's policy or position.*









Home of Innovation to be completed by 2015 (conceptual design)



SABIC Plastics Application Development Center



# INNOVATION FROM THE INSIDE OUT

Two signature SABIC programs are helping build the long-term success of SABIC, Saudi Arabia, and our region. By building local innovation capacity, each one aims to catalyze growth, create demand, and promote downstream industry development.

## HOME OF INNOVATION™

The Home of Innovation growth initiative recognizes the fundamental need in Saudi Arabia to develop downstream industry, drive energy efficiency, and create sustainable building solutions. Bringing together the best minds and organizations with an interest in the region's future, it aims to provide inspiration by showcasing innovations that could be manufactured locally, driving demand, and attracting businesses.

As the focal point for this program we will open the Home of Innovation facility in 2015. Situated in Techno Valley at King Saud University in Riyadh, it will include a Demonstration Home and Collaboration Center which will showcase best-in-class, commercially available technologies that improve lifestyles, elevate industry performance, and optimize energy and water use.

The Demonstration Home will show what's possible with the latest technologies: it will generate as much electricity as it uses and enable smart grid technology to leverage different energy sources. The Collaboration Center will be a place where thought leaders, end-users, specifiers, converters, investors, and government officials come together to discuss and experience innovation, and to do business. It will also be an exemplar of best-practice energy performance, consuming 40% less water and 30% less energy than

conventional buildings in the region. Achieving these standards in one of the world's harshest climates is a major achievement and could influence the way homes and communities address challenges such as rapid urbanization, shifting economic influence, and resource scarcity.

To realize the Home of Innovation vision we will collaborate closely with strategic partners that see the Middle East and Africa region as a strategic, long-term investment. This will lead not only to more innovative products, but will also help build the region's economic capability and long-term sustainability.

## SABIC PLASTICS APPLICATION DEVELOPMENT CENTER

Opened in 2013, the SABIC Plastics Application Development Center aims to create innovations that will drive the growth of SABIC, Saudi Arabia and the Middle East region. It is the first facility in the region dedicated to the development of polymers and plastics applications. With state-of-the-art equipment, simulation, and modeling facilities, it focuses on developing new and innovative plastic materials that reduce environmental impacts, cut energy costs, and result in lighter, stronger products. By increasing material efficiency, these products may even offer viable alternatives

to metal and glass. The 42,000-m<sup>2</sup> facility, located next to King Saud University, is home to 180 scientists, engineers and technicians working in close collaboration with customers, academia, and industrial research communities. With its stimulating environment and proximity to manufacturing plants, laboratories, and research centers, it is perfectly positioned to drive innovation in our industry.

SABIC's customers are partners in the development process at the Center and we work closely with them to create and support new plastics applications. Despite having been in operation for less than a year, the SABIC Plastics Application Development Center has already created a number of breakthrough innovations. We have developed new PET tape products, improved the performance of agricultural film, and devised higher-performing grades of polypropylene.

The center is a critical part of SABIC's innovation network, bringing together our Technology & Innovation department with our customers. It plays an important role in SABIC's strategy to become the preferred world leader in chemicals and helps position the Kingdom of Saudi Arabia as the leading driver of innovation in the Middle East region.



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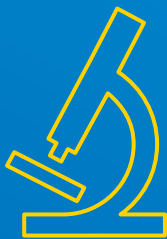
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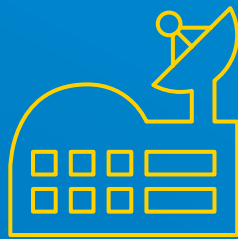
# 01 OVERVIEW AND STRATEGY

# THIS IS SABIC



1,400

SCIENTISTS



18

TECHNOLOGY AND  
INNOVATION CENTERS



9,000

PATENT PORTFOLIO  
FILINGS



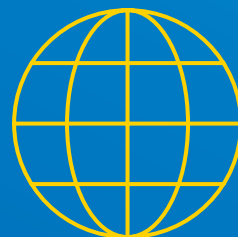
2<sup>ND</sup>

LARGEST DIVERSIFIED  
CHEMICAL COMPANY



40,000

EMPLOYEES



45

COUNTRIES

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SR  
25.3

NET INCOME  
(BILLIONS)

SR  
189

SALES  
(BILLIONS)

SR  
339.1

ASSETS  
(BILLIONS)

# 150 NEW PRODUCTS

SABIC people work 24/7/365 on products to help clients advance their businesses. Sometimes the innovation is incremental. Sometimes it is revolutionary.

The pursuit of competitive advantage never ends. Every year we create around 150 new products. The excitement of innovation carries with it environmental responsibility. Every year we work harder to rise to this challenge and deliver new possibilities for our customers.

## POSSIBILITIES IN TRAVEL

### SAFER INTERIORS

Materials used in rail interiors must meet strict regulations for fire safety. SABIC's new opaque, low-gloss LEXAN H6500 sheet delivers high stiffness for sidewalls, tables, and seating. LEXAN H6200 sheet complies with the German DIN 5510 norm, and offers an attractive cost-benefit balance for cladding and design freedom while complying with the pan-European EN 45545-2 harmonized standard for fire safety in rail interiors.



## POSSIBILITIES IN HEALTHCARE

### ALWAYS CLEAN

Minimizing infections associated with medical care is a major concern in the healthcare industry. Antimicrobial materials are increasingly demanded in order to prevent the spread of pathogens. Featuring silver-based technology, SABIC's nine new antimicrobial compounds give designers and manufacturers the freedom to customize applications, including surgical instruments, fluid and drug-delivery applications, monitoring and imaging devices, hospital beds, and operating tables.



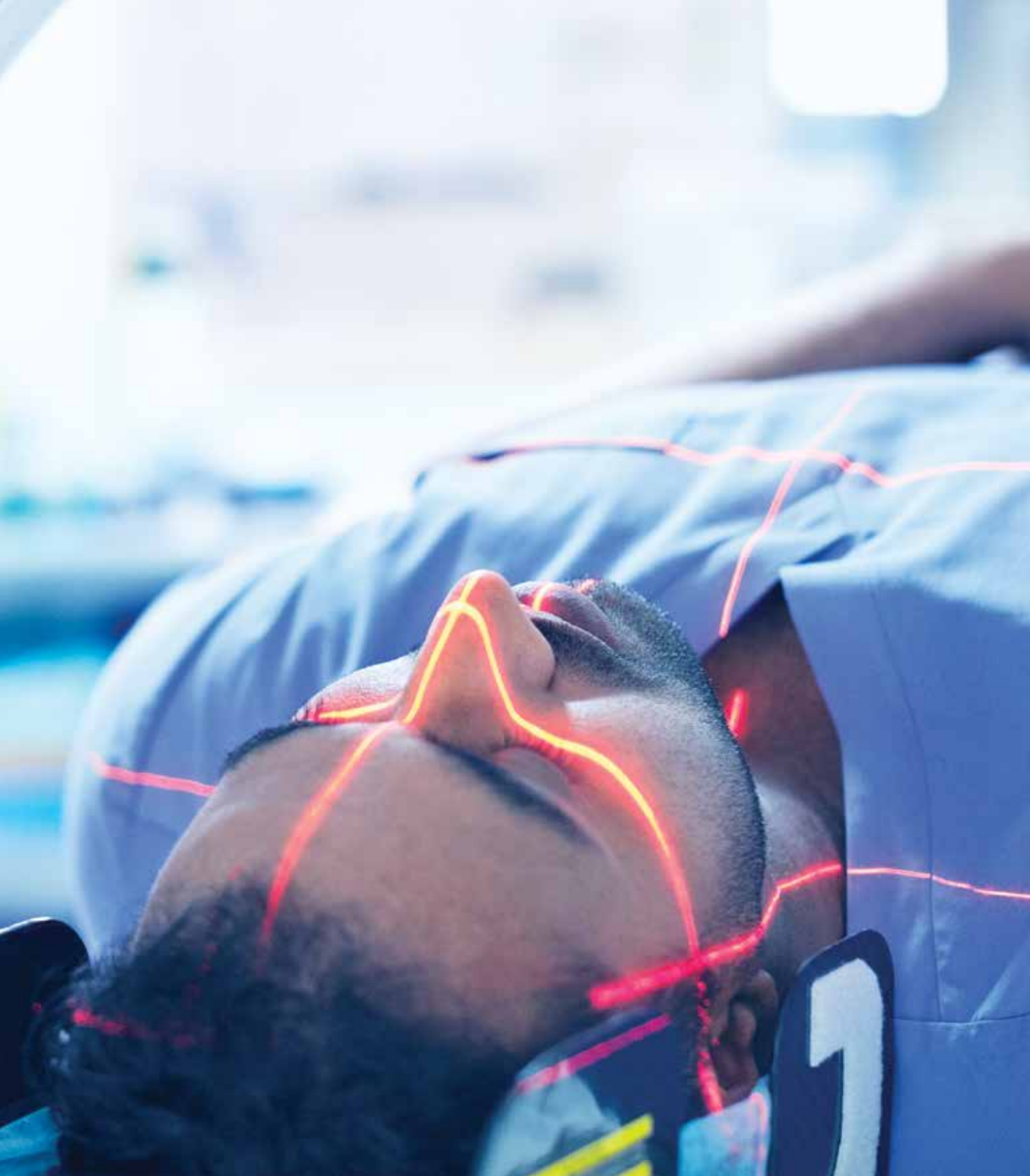
## POSSIBILITIES IN PACKAGING

### GREENER DAIRY

Consumers are increasingly concerned about health and sustainability. SABIC's HDPE dairy-packaging grades help manufacturers respond. They are engineered to preserve the taste and smell of dairy products, and their high thermal efficiency allows for more efficient production and the inclusion of a higher percentage or recycled HDPE.







## POSSIBILITIES IN CARS

### LOW-IMPACT CHARGING

Electric-vehicle infrastructure manufacturers want every aspect of their product to contribute to sustainability goals. Schneider Electric used SABIC's LEXAN copolymer EXL to create efficient charging solutions for EVs. Lightweight, robust, and incorporating 25% recycled polycarbonates, it helps reduce CO<sub>2</sub> emissions without compromising performance.



# CHAIRMAN'S STATEMENT



PRINCE SAUD BIN ABDULLAH  
BIN THENAYAN AL-SAUD  
CHAIRMAN

As we close another successful year for SABIC, I would like to extend my thanks and appreciation to every one of our employees for their continued commitment and dedication to the company.

In 2013 SABIC moved closer to its vision of becoming the world leader in chemicals, both in terms of continued business growth, and more importantly through developing new capabilities that will continue to drive our strategy well into the future.

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WE WILL MAINTAIN OUR COMPETITIVE  
EDGE IN THE COMING YEARS WITH A  
CONTINUED EMPHASIS ON INNOVATION,  
STRONG CUSTOMER RELATIONSHIPS,  
AND THE QUALITY OF OUR PRODUCTS.

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Since our establishment, SABIC has faced and overcome challenges that others thought insurmountable. Today, we are one of the world's leading petrochemical companies, with a growing global reputation for the quality of our technology, the breadth of our capabilities, the excellence of our execution, and the depth of our collaboration. The journey has not been easy. But to turn challenge into achievement requires more than hard work: it demands a constant drive toward innovation.

Innovation and ingenuity lie at the heart of our 2025 strategy. It is only by developing and ingeniously applying new technologies to solve real business challenges that SABIC will achieve its ambitious goals. That is why SABIC continues to invest in a global network of technology and innovation centers that connects the very best skilled scientists in our company with worldwide centers of academic excellence. These centers also provide focal points for customer collaboration and allow us to apply our very best thinking and solutions wherever and whenever our customers need it.

While our dedication to providing our customers with 'Chemistry that matters™' is undiminished, we also remain committed to our role as a key player in facilitating the enablement of downstream diversification within the Saudi Arabian economy. We support our customers in identifying and developing opportunities in transportation, consumer electronics, medical devices, agri-nutrients, packaging, and clean energy. The result is the advancement of the Kingdom's industrialization program, improved prospects for business growth and employment, better opportunities for our customers, and increased growth for SABIC.

To realize this opportunity and to meet our customers' needs in these industries, SABIC must become a more market-facing company with the capacity to provide an integrated and holistic approach across our different business units. Here, too, it is innovation that drives our capabilities and allows us to power the ambitions of our customers from a comprehensive understanding of the unique challenges they encounter.

Achievement wears many faces. It can be represented by business growth, by the introduction of new and innovative products, and by winning the recognition of our customers and peers. All of these are important. However, what has always been most important for SABIC is the realization of carefully planned goals. We have consistently set our sights on the horizon and we have consistently achieved what we set out to do.

SABIC 2025 is more than a set of objectives. It is the clear expression of what we expect of ourselves and of a deeply held belief in our own capabilities. We have always been motivated by challenge. We have always taken an ingenious approach to these challenges. And I have every confidence that these characteristics will ensure that we continue to achieve our goals through 2025 and beyond.

# VICE CHAIRMAN & CEO INTERVIEW



**MOHAMED AL-MADY**  
VICE CHAIRMAN &  
CHIEF EXECUTIVE OFFICER

## LOOKING BACK AT 2013, WHAT KIND OF YEAR HAS IT BEEN FOR SABIC?

2013 has been a year of solid performance for the company. Despite continued challenges in the global economy, SABIC has beaten the market average on improved efficiency and strong performance in key sectors. We have maintained profitable growth, posting net income of SR 25.3 billion on sales of SR 189 billion and assets of SR 339.1 billion. This represents an increase of 2% on 2012.

The year saw us start to build a solid foundation for our 2025 strategy, particularly through the establishment of four new technology and innovation centers: the Corporate Research & Innovation Center at King Abdullah University of Science and Technology near Jeddah; the SABIC Plastics Application Development Center in Riyadh's Techno Valley; and technology centers in Shanghai, China, and Bengaluru, India. This increases our network to 18 dedicated technology centers worldwide, employing around 1,400 skilled scientists.

SABIC also signed agreements for the development of a world-class phosphate production facility in the Kingdom of Saudi Arabia, and for the construction of the world's largest butanol plant in Jubail. We will continue to focus on new production ventures, the expansion of existing facilities, and growing our global network in 2014, emphasizing innovation throughout SABIC with cutting-edge R&D programs, and building our manufacturing and operational excellence.

## WHAT GLOBAL TRENDS HAVE AFFECTED THE PETROCHEMICALS INDUSTRY?

The global chemical sector has turned the corner, with sales volumes starting to stabilize and even pick up. We believe the sector will see better growth, with demand outpacing capacity for the next three years or so. Operating rates should also improve over the next few years and we are confident that SABIC's global reach enables us to address major global challenges and trends.

The so called 'shale-gas revolution' has the potential to extend from the US to other regions including China, Central Europe, Africa, and Australia. The technology drove a major change in the global energy supply and price equation. While shale continues to be the game-changer, the Middle East will continue to be a major producer into the foreseeable future. Our perspective on customer trends sees differences and market opportunities in two distinctly different demographics. In the emerging economies, population growth is driving urbanization, which in turn provides the ingredients for increased consumerism in larger urban areas. This forms the basis for tremendous demand for petrochemicals.

Mature, developed economies are characterized by populations that are aging, but economically empowered and sophisticated. Here, market demand is for more technologically advanced products like innovative plastics. SABIC's success will depend upon our ability to meet the needs of customers both for basic petrochemical products and also for higher-value solutions to meet their evolving needs.

## WHAT MAJOR CHALLENGES HAS SABIC FACED?

The world's economic revival has been impeded by the more mature economies, particularly in Europe, as a result of the debt accumulated during the downturn. The eurozone's banking-sector problems remain unresolved. But weaknesses in some sectors and geographies have been offset by strong growth in others. Improvements in the US as well as the growth and resilience of emerging economies, particularly in Asia Pacific, added positive economic momentum in 2013.

SABIC's continued challenge remains to maintain our competitive advantage in a rapidly changing environment. Our 2025 strategy aims to achieve this through a focus on becoming a more market-centric company and expanding our technology and innovation footprint to identify and take advantage of new opportunities for SABIC and for our customers. We also continue to invest throughout the world to take advantage of competitive feedstock opportunities. We seek out market opportunities globally while maintaining a strong position in Saudi Arabia and its region.

### WHAT ARE SABIC'S KEY INNOVATION OPPORTUNITIES? HOW WILL YOU TAKE ADVANTAGE OF THEM?

Innovation and ingenuity lie at the heart of our company. Innovation is essential to the pursuit of long-term competitive advantage as it alone enables SABIC to provide value-adding solutions that address the most important challenges our customers face. SABIC is a forward-looking company and our global technology and innovation network is developing new feedstock technologies, including CO<sub>2</sub> utilization, hydrogen generation, and methane activation, to support our growing international presence. In particular, we plan to be a market leader in new feedstock-related technologies such as the use of methane gas to produce value-added molecules such as ethylene, propylene, and benzene.

We see opportunity in product innovation in specific core industries. In transportation, engineering thermoplastics are replacing traditional manufacturing materials to reduce weight and enhance performance. Improved resins are required to meet increasingly strict regulatory demands for enhanced safety and flame retardance. Our customers in the electrical and electronic sector need innovative plastics to support advanced design trends while meeting strict requirements for recyclability. And our packaging products must meet ever-tighter safety requirements without compromising clarity, rigidity, and strength.

Our most important opportunity for innovation lies in continued close collaboration with our customers, allowing us to enhance our understanding of their businesses and develop ingenious solutions that answer real-world challenges.

### HOW IS SABIC WORKING IN PARTNERSHIP WITH CUSTOMERS TO PROVIDE THEM WITH COMPETITIVE ADVANTAGE?

Our 2025 vision is about getting closer to our customers' markets to help them realize their ambitions. For example, customers demand solutions that help them reduce their environmental footprint. They seek to cut energy costs during manufacturing, for example by reducing the weight of their products. We continue to make strategic investments in innovative technologies that respond to these needs.

We can support our customers at every stage of the application-development process, from design through material selection, process development, testing, and production. This allows us to combine the right components from our extensive portfolio of products to improve design flexibility, enhance physical characteristics such as rigidity, incorporate specific color palettes, or meet stricter safety regulations. Construction of SABIC's Home of Innovation™ at the SABIC Plastics Application Development Center (SPADC) in Riyadh will commence in 2014. This facility, which combines a product showcase and a customer-collaboration and training center, will further enhance our ability to support the needs of our existing customers and attract new customers.

### HOW IS SABIC WORKING TOWARDS ITS STATED VISION OF BECOMING THE PREFERRED WORLD LEADER IN CHEMICALS?

Our 2025 strategy is carefully designed to ensure that we become more global, more distinctive in our product offering, and more integrated in our operations. We are focused on moving from a provider of commodity chemicals and plastics to a partner in the development of advanced products that support specific customer needs and help them realize their ambitions.

Our success and growth to date results from our investment in partnerships, world-class research and technology programs, and a truly ambitious global growth strategy. Acquisitions have significantly broadened our geographical reach and have given us access to cutting-edge technologies. We will continue

to combine all of this with organic growth to create a winning formula in the years to come, and to make SABIC the preferred world leader in chemicals.

### HOW IS SABIC HELPING TO DEVELOP DOWNSTREAM INDUSTRY IN SAUDI ARABIA AND THE MIDDLE EAST?

SABIC is a key player in facilitating the enablement of downstream diversification within the Kingdom's economy. We are participating with Saudi Aramco and the Public Investment Fund to establish the Industrial Investment Company. This vehicle is dedicated to attracting investment and securing the capabilities necessary to build the Kingdom's presence in the maritime, automotive, power, water, and electrical equipment sectors while maintaining and enhancing our leadership in oil and gas.

We have also expanded our operations into performance chemicals and engineering thermoplastics, opening up new areas of opportunity for our customers to enter downstream value chains and attracting international investors with a special interest in this region.

The SABIC Plastics Application Development Center and the Home of Innovation will help us identify and attract downstream technology partners. We are also investing in training and education in the Kingdom and overseas. We are increasing support for our SME customers. And we continue to communicate the significance of SABIC's product line where we believe opportunities exist for downstream engagement.

# BOARD OF DIRECTORS



6

5

4

3

2

1. Prince Saud bin Abdullah bin Thenayan Al-Saud, Chairman
2. Mohamed Hamad Al-Mady, Vice Chairman and Chief Executive Officer
3. Dr. Abdulrahman Abdullah Al-Humaidi, Board Member
4. Mohammed Abdullah Al-Kharashi, Board Member
5. Dr. Khaled Hamza Ahmed Nahas, Board Member
6. Dr. Saad bin Othman Al-Kasabi, Board Member
7. Abdullah Mohamed Al-Issa, Board Member
8. Bandar Abdulaziz Al-Waily, Board Member
9. Abdulaziz Habdan Al-Habdan, Board Member



1

7

8

9



# A WORLD OF ACHIEVEMENT



SABIC is a global company working on the challenges of a changing world. We have business operations in over 45 countries. SABIC innovations share one thing in every region and market: a positive and transforming impact on the lives of people and the environment.



## GLOBAL HEADQUARTERS

Saudi Arabia



## SABIC CORPORATE RESEARCH AND INNOVATION CENTER

Saudi Arabia



## TECHNOLOGY CENTERS

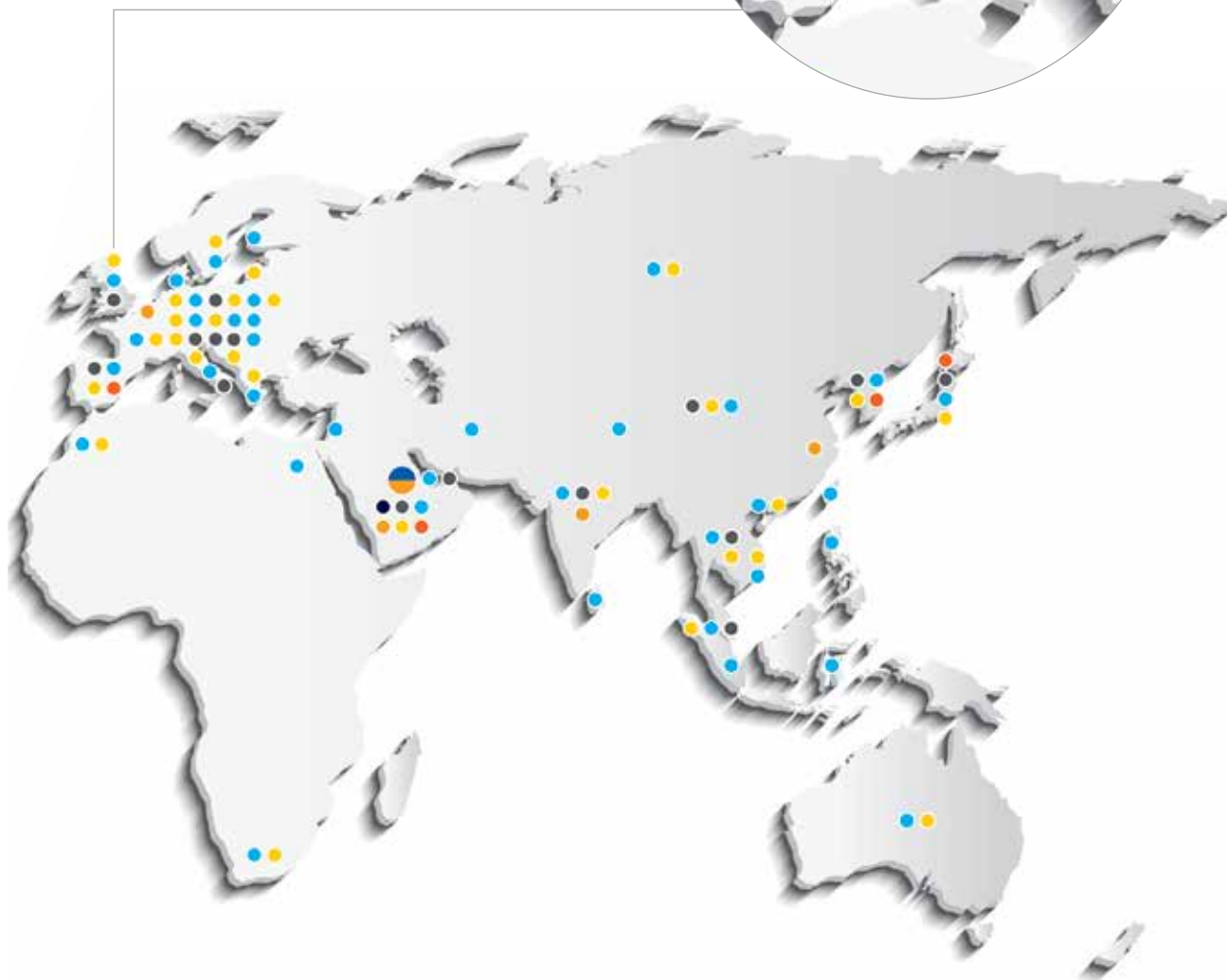
China, India, Netherlands, Saudi Arabia, United States of America



## APPLICATION CENTERS

Japan, Saudi Arabia, South Korea, Spain, United States of America

## OUR GROWING NETWORK SPREADS INNOVATION AROUND THE WORLD.



### DISTRIBUTION, STORAGE FACILITIES, AND LOGISTICAL HUBS

Argentina, Australia, Austria, Belgium, Brazil, Canada, China, Czech Republic, Estonia, France, Germany, Greece, Hong Kong, Hungary, Italy, India, Japan, Malaysia, Mexico, Morocco, Netherlands, Poland, Russia, Saudi Arabia, Singapore, South Africa, South Korea, Spain, Sweden, Thailand, Turkey, United Kingdom & Ireland, United States of America, Vietnam



### INTERNATIONAL SUBSIDIARIES AND SALES OFFICES

Argentina, Australia, Belgium, Brazil, Canada, China, Czech Republic, Denmark, France, Egypt, Germany, Greece, Hungary, India, Indonesia, Iran, Italy, Japan, Lebanon, Malaysia, Mexico, Morocco, Nepal, Netherlands, Philippines, Taiwan, Thailand, Poland, Russia, Saudi Arabia, Singapore, South Africa, South Korea, Spain, Sri Lanka, Sweden, Turkey, Vietnam, United Arab Emirates, United Kingdom & Ireland, United States of America



### MANUFACTURING AND COMPOUNDING COMPANIES

Argentina, Austria, Bahrain, Belgium, Brazil, Canada, China, Germany, Italy, India, Japan, Netherlands, Malaysia, Mexico, Saudi Arabia, Singapore, South Korea, Spain, Thailand, United Kingdom & Ireland, United States of America.



# GLOBAL MARKETS, GLOBAL GOALS

## CONSTRUCTION

### NEW CREATIONS

Architects have more freedom to design the future with SABIC advanced materials.



## MEDICAL DEVICES

### ADVANCING HEALTHCARE

Using our advanced materials, manufacturers create devices that extend what's possible in healthcare.



## PACKAGING

### FLEXIBLE, CONVENIENT, AND ECO-FRIENDLY

SABIC polymers help food and drink producers meet tougher regulations and become more sustainable.



## AGRI-NUTRIENTS

### PRESERVING BIODIVERSITY

By making it possible to produce more food from less land, SABIC fertilizers help sustain wildlife as populations expand.



## ELECTRICAL & ELECTRONICS

### SMARTER DEVICES

SABIC's thermoplastic technology helps create electronic products that combine innovation with sustainability.



## TRANSPORTATION

### TRAVELING LIGHTER

Our materials are helping manufacturers reduce vehicle emissions while creating more attractive designs.



## CLEAN ENERGY

### POWER EVERYWHERE

SABIC's innovative plastics and polymer products will create sustainable renewable-energy solutions for the future.



02

# OUR BUSINESS

# CHEMICALS

## HIGHLIGHTS

### EFFICIENCY

Asset optimization across our olefins and oxygenates businesses enables SABIC to produce more with less.

### LEADERSHIP

Global sales expansion has consolidated our position as the world's largest glycols producer.

### CO<sub>2</sub> MARKETING

SABIC has reached agreements with several customers for the sale of pure gaseous CO<sub>2</sub>.

## MARKET FOCUS

### FUEL

SABIC MTBE creates higher-performance automotive fuels.

### PLASTICS

Olefins are the foundation for polymers and advanced plastics.

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## KEY FACTS



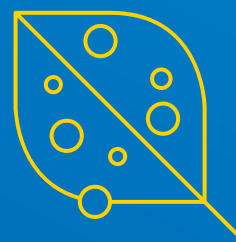
NO 1

LARGEST CO<sub>2</sub> RECOVERY  
PLANT IN THE WORLD



NO 1

ETHYLENE GLYCOL  
PRODUCER



NO 1

WORLD'S LARGEST  
PRODUCER OF MTBE

## BUSINESS AREAS

OLEFINS AND GASES, AROMATICS AND CHLOR-ALKALI, GLYCOLS, OXYGENATES.



AUTOMOBILES RUN MORE  
EFFICIENTLY WITH SABIC  
FUEL ADDITIVES.



## CHEMICALS

# INNOVATION STARTS HERE

With SABIC chemicals, anything is possible. From basic hydrocarbon feedstocks like methane, ethane, propane, butane, and naphtha, we build the foundation for an almost infinite variety of industrial and consumer products.

Chemicals represent over 60% of SABIC's total production by value. In 2013 we consolidated our leadership positions in glycols and chlor-alkali and further optimized production of olefins and oxygenates. In particular, we have used technical and commercial ingenuity to produce more with less.

## OLEFINS AND GASES

Efficiency was a core theme in 2013 for our olefins business, which provides the raw materials for the production of polymers. Using innovative ideas and working closely with suppliers, we optimized the feedstock mix in both Europe and Kingdom assets, and identified all bottlenecks at Petrokemya and Sharq following the completed revamp project. We also successfully implemented the energy saving project at Olefin 4 in the Netherlands during the Q4 2013 turnaround. And by strengthening synergies and arranging ethylene, propylene, and butene-1 sales between Jubail, Yanbu, and Europe, we worked to maximize the utilization of excess olefins within SABIC assets.

The Gases business made improvements to its operations, transferring marketing and sales to the Chemicals SBU and amending a marketing agreement between SABIC and its affiliate to include the marketing of carbon dioxide. SABIC has reached agreements with a number of customers for the sale of pure gaseous CO<sub>2</sub> – and with the completion of the United CO<sub>2</sub> utilization project, the Gases business now has the world's largest CO<sub>2</sub> recovery plant. Developing CO<sub>2</sub> recovery projects will reduce the CO<sub>2</sub> footprint in more than one site. Liquid sales increased by 5% in 2013.

## AROMATICS AND CHLOR-ALKALI

In our Aromatics business we continued to leverage our global benzene production and purchasing network to maximize value and manage risk for our downstream businesses. We saw the first test runs of our expanded complex at Ibn Rushd, and completed global benchmarking of our major Aromatics facilities in order to set the basis for continuing improvement.







## GLYCOLS

With revenues up 9%, SABIC's glycols business remains the world's largest, producing 6.53 million metric tons in 2013. We have retained our favored-supplier status with customers by providing a consistent, high-quality product throughout the world. MEG is largely used in the global packaging industry, especially bottles, and in antifreeze manufacturing. Over 10% of the polyester globally is manufactured using SABIC's MEG.

The glycol team's major efforts to expand the business have borne fruit, especially in China, where we have achieved significant growth in key markets from 2012 to 2013. As part of the SABIC 2025 strategy, the team is planning a new ethylene-glycol plant and de-bottlenecking projects, which will enhance our market position and satisfy growing global demand. Through 2013 we also increased market penetration: SABIC glycol products are now sold in all continents, and our share of many emerging markets has increased significantly.

## OXYGENATES

2013 saw 38% revenue increase in methanol sales, with production up to 4.8 million tons. Methanol is playing a stronger role as a building block with the increased use as a feedstock for MTO and MTP.

SABIC continues to be the world's largest producer of MTBE (methyl tert-butyl ether) and second-largest methanol producer. Market conditions in 2013 were excellent for methanol, while MTBE was subject to price volatility caused by geopolitical tensions in the Middle East. MTBE continues to be the first choice for fuel blending with an increase in the demand for methanol in fuel applications. The past year saw further asset optimization across both businesses, saving energy and raw materials while increasing production. Initiatives to optimize working capital have also far exceeded their targets. At the Ar-Razi megaplant, turnaround – which included projects aimed at improving reliability – was successfully completed ahead of schedule.



CHEMICALS CASE STUDIES

# CAPTURING VALUE FROM CO<sub>2</sub>

## CO<sub>2</sub> PLANT BUILT IN JUBAIL

The CO<sub>2</sub> plant to be built in Jubail by United will compress and purify raw CO<sub>2</sub> from ethylene-glycol production so it can be used in the production of methanol and fertilizer. In addition to transforming a waste product into a valuable raw material, the new plant will also save approximately 500,000 tons of CO<sub>2</sub> from being emitted into the atmosphere each year.







# PERFORMANCE CHEMICALS

## HIGHLIGHTS

### SABUCO ANNOUNCED

New company registration heralds further move toward world's largest butanol plant.

### FIRST SYNTHETIC RUBBER SHIPMENT

Pre-marketing phase will familiarize customers with this new product from SABIC.

## MARKET FOCUS

### CONSTRUCTION

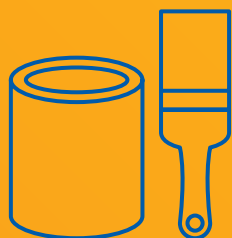
SABIC products create longer-life buildings and improve thermal efficiency.

### AUTOMOTIVE

Our functional polymers help create longer-lasting, more fuel-efficient vehicle tires and automotive parts.

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## KEY FACTS



NO 1

WORLD'S LARGEST  
BUTANOL PLANT UNDER  
CONSTRUCTION



NO 1

CREATING THE WORLD'S  
LARGEST MMA LINE



1<sup>ST</sup>

NATURAL DETERGENT  
ALCOHOL PLANT  
(OLEO-CHEMICALS)  
IN THE MIDDLE EAST

## BUSINESS AREAS

FUNCTIONAL CHEMICALS: ETHANOL AMINES, ETHOXYLATES, OLEO-CHEMICALS, LAO, OXO-ALCOHOLS, DOP, POLYURETHANE. BASE PRODUCTS: ACETIC ACID, MMA, ACN, ACRYLIC ACID AND ITS ESTERS. FUNCTIONAL POLYMERS: EPDM, POM, BR, PMMA, TPE, CARBON BLACK. CARBON FIBER. CATALYST.





SABIC MATERIALS HELP  
BUILDINGS MAINTAIN  
A PERFECT CLIMATE

# ADVANCED INGREDIENTS

Innovative, sustainable products depend on the very latest advances in chemistry and materials. SABIC performance chemicals cover a huge range of products that last longer, perform better, and have a lighter environmental footprint.

## OXO/LAO: PROGRESS AND RECORDS

The past year saw the registration of Saudi Butanol Company (SaBuCo), which will be building the world's largest butanol plant in Jubail. It is a joint-venture between SABIC affiliate Saudi Kayan, Sadara (a Saudi Aramco/Dow Chemical joint-venture), and Saudi Acrylic Company (owned by TSOC). The new plant, which will have an annual capacity of 330 KMT, is scheduled to go onstream in Q2 2015.

In addition to the upcoming n-Butanol plant, significant efforts have been made to optimize the existing Oxo units. This has included the optimization of performance at the 2-EH plant and the development of a new grade of DOP (high-purity DOP) to serve the healthcare market.

United achieved a new quantity and plant-load record for linear alpha olefins (LAO) production. The LAO business also invested significantly in enhancing the product quality in order to appeal to new customers and participate in new market segments, as well as making progress towards  $\alpha$ -Sabin® technology for optimum performance. The Performance Chemicals business also developed a new pipeline technology to improve returns in one of its key growth segments.

Overall, the OXO/LAO business developed new market segments and customers to improve returns and meet demand, while different shipping methods allowed us to position SABIC products to meet new market requirements. Our sales teams' efforts to work closely

with our customers helped to achieve NPS scores (a measure of customer loyalty) that exceeded expectations. The OXO/LAO business monitors its sustainability performance against SABIC's four environmental performance indicators – GHGs, energy, water, and material efficiency. We also work with our customers to help customers achieve their own sustainability ambitions.

## ETHOXYLATES AND AMINES

During 2013, Saudi Kayan was certified for Good Manufacturing Practices, GMP, for its ethoxylates and ethanolamines plants. Moreover, its TriEthanolAmine (TEA) product obtained clearance from the Chemical Weapons Convention inspection by the Organization for the Prohibition of Chemical Weapons.

The business also registered its first sales of PEG 300, a new product portfolio. A new application (gas sweetening) is under development using specified grades of SABIC's product, Ethanolamine, at a local refinery in Saudi Arabia.

This year saw the development of several new product grades in our Technology & Innovation facility for the Ethoxylate plant. Commercial production for some of the new grades was also carried out successfully.





SPADC, the SABIC Plastics Application Development Center in Riyadh

## FUNCTIONAL POLYMERS ADVANCE

SABIC began the crucial pre-marketing phase for its new synthetic rubber product, during which we will familiarize customers with the product and its benefits. As a bridging arrangement in the run-up to manufacturing, we have begun marketing imported synthetic-rubber products for local customers in Saudi Arabia. New warehouses to be built in Jubail and Yanbu will provide supply coverage across Saudi Arabia.

In anticipation of an expansion of its operations, Ibn Sina has awarded the engineering, procurement, and construction contract for its polyoxymethylene (POM) project. Ibn Sina is a joint-venture between SABIC and CTE, which is owned by Celanese Corporation and Duke Energy.

The functional-polymers business is advancing SABIC's sustainability agenda on several fronts: by identifying applications where high hardness plastics like POM can replace metal and other heavy materials; using synthetic rubber in building fixtures to replace materials that weather more quickly; improving building insulation and thereby reducing energy consumption; and participating in the development of longer-lasting, more fuel-efficient vehicle tires.

The past year also saw the grand opening of SPADC, the SABIC Plastics Application Development Center in Riyadh Techno Valley, which is designed to help customers with application development, product testing, and training on materials.

## MILESTONES IN MMA AND ACRYLONITRILE

During 2013 we passed several milestones in SABIC's acrylonitrile and methymethacrylates (MMA) projects, and successfully made progress toward the goal of awarding the EPC.

A new SABIC manufacturing affiliate under formation will produce 250 KTA of methymethacrylate and 40 KTA of poly methymethacrylate products, making it the world's largest MMA line. The new affiliate's products will support the automotive, electrical, and surface-coating industries.

Shrouq, the Saudi Japanese Acrylonitrile Company, will produce 200 KTA of acrylonitrile and 40 KTA of sodium cyanide, which will serve the local automotive and carbon-fiber industries and create downstream investment opportunities in polyacrylamide and nitrile rubber. The Middle East's first sodium cyanide plant at Shrouq will produce products necessary for the domestic gold-mining industry and support local mining-industry growth.

## CARBON FIBER – INTRODUCING SCFC

Following the signing of a technology agreement for the production of carbon fiber, SABIC has established SCFC, the Saudi Carbon Fiber Company, in Yanbu to move forward with the design and construction of the carbon-fiber plant.

## SABCAT VOLUMES UP

Catalyst sales volumes exceeded business forecast by 10%. SABCAT has made significant progress in two important projects: completing FEED for its HDPE catalyst project, and obtaining the process-design package for its ethylene oxide project.

# SEALED FOR LIFE

## EPDM BY SABIC

The building and construction industry looks for long life and reliability when it specifies materials. EPDM (ethylene propylene diene monomer) offers exceptional longevity compared to traditional material. Used in window and door seals and for waterproofing roofs, EPDM stands up to ozone and weathering, creating products that last many decades longer than alternatives, especially in high-rise buildings. SABIC's EPDM will also be used in the automotive sector and for a wide range of industrial and consumer applications.



## NEW POSSIBILITIES

### POLYOLEFIN ELASTOMER (POE)

Produced using state-of-the-art metallocene technology, SABIC's polyolefin elastomer (POE) combines the flexibility and low compression set of rubber with the processing ease of thermoplastic. This creates a versatile material that can be used in a range of innovative applications, from new types of footwear to light weight and durable automotive components.





## KEEP ON ROLLING

### POLYBUTADIENE RUBBER

The rubber that meets the road today often contains polybutadiene, which offers a number of advantages for vehicle tires. With better resistance to wear combined with lower rolling resistance, this synthetic rubber helps vehicles travel farther and more efficiently on a set of tires. The material also has safety benefits and reduces vehicle noise, improving local environments. SABIC began pre-marketing of synthetic rubber globally during 2013.

# INNOVATIVE PLASTICS

## HIGHLIGHTS

### DRIVING ECONOMY

Our polycarbonate glazing cuts weight in the world's most fuel-efficient production car.

### MATERIAL SAFETY

SABIC resins and compounds help make healthcare and aviation safer.

### DESIGN FREEDOM

Engineers, designers, and architects can do more with SABIC's advanced materials.

## MARKET FOCUS

AUTOMOTIVE

HEALTHCARE

CONSUMER ELECTRONICS

ELECTRICAL AND LIGHTING

MASS TRANSPORTATION

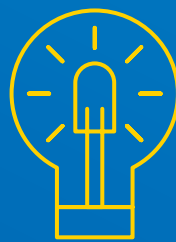
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## KEY FACTS



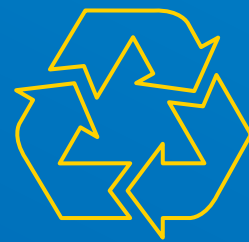
33%

WEIGHT SAVING VS.  
CONVENTIONAL  
AUTOMOTIVE GLASS  
SOLUTIONS



LONGER-

LASTING LED  
LIGHTING



RE-USE

CLOSED-LOOP  
RECYCLING MEANS NEW  
PRODUCTS FROM OLD

## BUSINESS AREAS

RESINS AND SPECIALTY COMPOUNDS, SPECIALTY FILM AND SHEET, POLYMER SHAPES.

HANDHELD DEVICES  
BECOME LIGHTER,  
THINNER, AND  
STRONGER WITH  
SABIC RESINS



INNOVATIVE PLASTICS

# MATERIAL ADVANCES



SABIC's Innovative Plastics business works closely with its customers to develop game-changing new materials. From light-weight vehicles to dramatic new buildings, our advanced resins, sheets, and plastics constantly extend what's possible.

## AUTOMOTIVE

At the Geneva Motor Show, Volkswagen presented its XL1 diesel plug-in hybrid – the most fuel-efficient production car in the world. To help lighten the vehicle and reduce energy consumption, Volkswagen used – among other measures – a polycarbonate (PC) glazing solution from SABIC for the car's stylish side windows. The windows are produced through a two-shot injection-molded solution using SABIC's Exatec plasma-coating technology on LEXAN resin, a PC material, and CYCOLOY resin, a PC/ABS (acrylonitrile-butadiene-styrene) material. This solution reduces the weight of the side windows by 33% vs. conventional glass solutions, while delivering a high-quality optical appearance and scratch-resistant surface. SABIC provided full application development support to Volkswagen in the design, engineering, and production of the side windows.

SABIC collaborated with Chrysler and helped the automaker to produce an instrument panel (dashboard) for the 2014 Model Year Jeep® Cherokee® with a thickness of 2.0 mm, enabling significant weight and cycle-time savings. Typical parts molded out of polyolefin resins are 2.5 to 4 mm. Chrysler used STAMAX™ 30YK270 resin to produce the interior component, saving the automaker millions of kilos of plastic over the life of the program and improving the vehicle's fuel economy and emissions footprint.

For the next-generation all-electric LEAF®, Nissan chose SABIC's NORYL™ N1150 resin for key components of its lithium-ion battery-pack system, reducing component weight by up to 20%. The resin's qualities also enabled further stable battery production in Nissan's automotive-assembly system. With support from SABIC, automotive-lighting supplier Hella Slovenia collaborated with Volkswagen to develop a distinctive fog lamp that offers exceptional thermal resistance in a compact space, glare reduction, and increased design freedom. Using ULTEM resin, the fog lamp is installed on the new Golf, named Europe's 2013 'Car of the Year', and other Volkswagen Group models. This solution shows how SABIC helps automotive customers push the boundaries of design and respond to fast-changing requirements and industry trends.

## HEALTHCARE

SABIC'S new LNP™ antimicrobial compounds are helping medical-device manufacturers reduce healthcare-associated infections (HCAs). Using our range of nine compounds, designers and manufacturers can select appropriate formulations depending on whether the end product is a high- or low-touch application. We can customize antimicrobial solutions for applications including surgical instruments, fluid and drug delivery applications, monitoring and imaging devices, hospital beds, and operating tables.

## CONSUMER ELECTRONICS

In 2013 we introduced new grades of LNP THERMOCOMP™ compound, which enable mobile-device OEMs to embed antennas onto the frame of portable devices, consolidating parts and reducing system costs. Canon's use of SABIC's NORYL GN390 resin illustrates how SABIC helps consumer-electronics manufacturers combine innovation, aesthetics, and sustainability. Canon's High Impact Polystyrene (HIPS), collected from returned copier machines, is converted to SABIC's NORYL GN resin, which is then used in the manufacture of new products such as the Canon® inkjet printer. This helps Canon to register on the Electronic Product Environmental Assessment Tool, a US regulation.

## ELECTRICAL/LIGHTING

SABIC has responded to the need for automation systems that maximize energy and resource efficiency in manufacturing and factory settings. Developed in collaboration with Siemens, our flame-retardant LEXAN EXL 5689 copolymer resin – which is used to manufacture Siemens® SIMATIC® S7-1500® controllers – pushes the boundaries of extreme heat resistance while providing excellent flow and ductility. It also enhances safety, as a result of its high-toxicity performance and impact resistance. In this collaboration SABIC has combined polymer chemistry, flame-retardant science, and regulatory understanding to solve a pressing industry challenge.

SABIC also introduced two new lighting-industry solutions. LEXAN LUX-G and LUX-T resins improve the heat-aging performance in LED lighting compared to existing solutions, an important innovation as incandescent and CFL bulbs are phased out.

## MASS TRANSPORTATION

SABIC continues to help aircraft OEMs meet the critical challenges of weight reduction, regulatory compliance, sustainability, and improved flying experience. In 2013 we introduced three new LEXAN XHR Sheet & Film products that fully comply with Flame Smoke Toxicity (FST) and heat-release standards for aircraft interiors.

The low-gloss LEXAN XHR6005 sheet brings velvet-texture aesthetics to interior applications such as seating and window surrounds, and can reduce weight by 12%; LEXAN XHR A13 film adds robustness in multilayer laminate constructions used in decorative interior applications and LEXAN XHR5000, a co-extruded sheet, increases opacity for window shades.



The Grotte de la Salamandre Visitor Center in France

## BUILDING AND CONSTRUCTION

SABIC has received the Innovation Award from the European Polycarbonate Sheet Extruders (EPSE) with its LEXAN BIPV (building-integrated photovoltaic) panel used in the Grotte de la Salamandre Visitor Center in France. As demand for solar power rises, LEXAN BIPV panels are helping to drive the feasibility and integration of this increasingly preferred energy source into construction. The panels installed at Grotte de la Salamandre generate all of the building's energy, and were selected as an alternative to glass due to their combination of enhanced design freedom, thermal insulation, easy installation, and energy production, all in a single light-weight material.

## NEW FACILITIES

SABIC opened new branches of its Polymers shapes plastics distribution business in Guadalajara, Mexico; Mexico City, Mexico; and Austin, Texas, USA, providing local customers with improved access to a wide range of plastics and associated materials. The Specialty Film & Sheet business expanded its Campinas facility with a new, state-of-the-art LEXAN sheet-extrusion line. The new line will support future growth in the region, producing monolithic and corrugated LEXAN sheet. SABIC has also opened a new customer-service center for its Specialty Film & Sheet (SF&S) business in Nansha, China, to deliver faster service and materials solutions to customers throughout the country.

## SUSTAINABILITY INNOVATIONS

Two major investments at US facilities will increase production efficiency and reliability. At Mount Vernon, Indiana, a cogeneration (CoGen) plant will use natural gas to create the majority of the steam for the site, addressing new EPA standards and leveraging the long-term supply of natural gas in the region. The CoGen plant is expected to reduce the facility's GHG intensity by 35-40% compared to a 2010 baseline. Additionally, the CoGen plant is expected to enhance energy efficiency, helping reduce costs over the long term. At the Selkirk, NY, manufacturing site, a 2013 lighting and energy-controls upgrade is expected to save energy equivalent to powering over 200 homes and cut GHG emissions equivalent to taking 800 vehicles off the road annually.

INNOVATIVE PLASTICS CASE STUDIES

# FLYING SMARTER



## A NEW WAY TO STYLE CARS

### CITROËN

Always famed for its innovative vehicle designs, Citroën took style a step further with its elegant DS5 hatchback. Using SABIC's LEXAN GLX resin, the automaker was able to create a 3D rear quarter window design that would not have been possible with glass, and also cut overall glazing weight by 20%. The softly curved windows smoothly integrate an aerodynamic spoiler and roof pillar. The largest rear quarter windows in production, they are also the first to use injection-compression molding to reduce residual stresses.



### AVIATION

The aircraft industry demands extremely high safety and performance features from the materials it uses – but it wants them to look and feel good as well. Leading aircraft seating and interiors provider Geven S.p.A. achieves this for its customers using SABIC's LEXAN XHR sheet. The LEXAN XHR sheet combines outstanding processability with outstanding strength and lightness, meeting Geven's weight limit of 9 kg per seat and fully complying with stringent flame, smoke, and heat-release regulations and AIRBUS toxicity requirements, qualifying for AIRBUS AIMS04-06-01 material specification.

## MATERIALS REBORN

### CANON

Sustainability is a defining challenge for consumer-electronics firms. How can they constantly release innovative products while meeting green standards? Canon achieves this using SABIC's NORYL GN390 resin. Creating a closed-loop recycling program, high-impact polystyrene recovered from returned copier machines is converted to the SABIC NORYL resin, which is then used to make new products such as inkjet printers.

“  
SABIC NORYL RESIN  
IS USED TO MAKE  
NEW PRODUCTS SUCH  
AS INKJET PRINTERS.  
”

# POLYMERS

## HIGHLIGHTS

### LDPE BREAKTHROUGH

With a special molecular structure, SABIC LDPE nExCoat5™ provides benefits throughout the packaging value chain.

### LOWER IMPACT

New polymer grades are reducing the energy and materials needed to manufacture products.

### BETTER LOGISTICS

The new Jubail Portside Logistics Facility heralds a more sustainable, reliable polymer supply chain.

## MARKET FOCUS

### HEALTHCARE

We create safe, high-performance materials to support a range of medical applications.

### FOOD AND DRINK

Our polymers improve safety, reduce the energy used in food and beverage packaging, and help better preserve food.

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## KEY FACTS



5

NEW POLYMER GRADES  
CERTIFIED SUSTAINABLE



INNOVATION

NEW HIGHER-  
PERFORMANCE  
HDPE GRADES



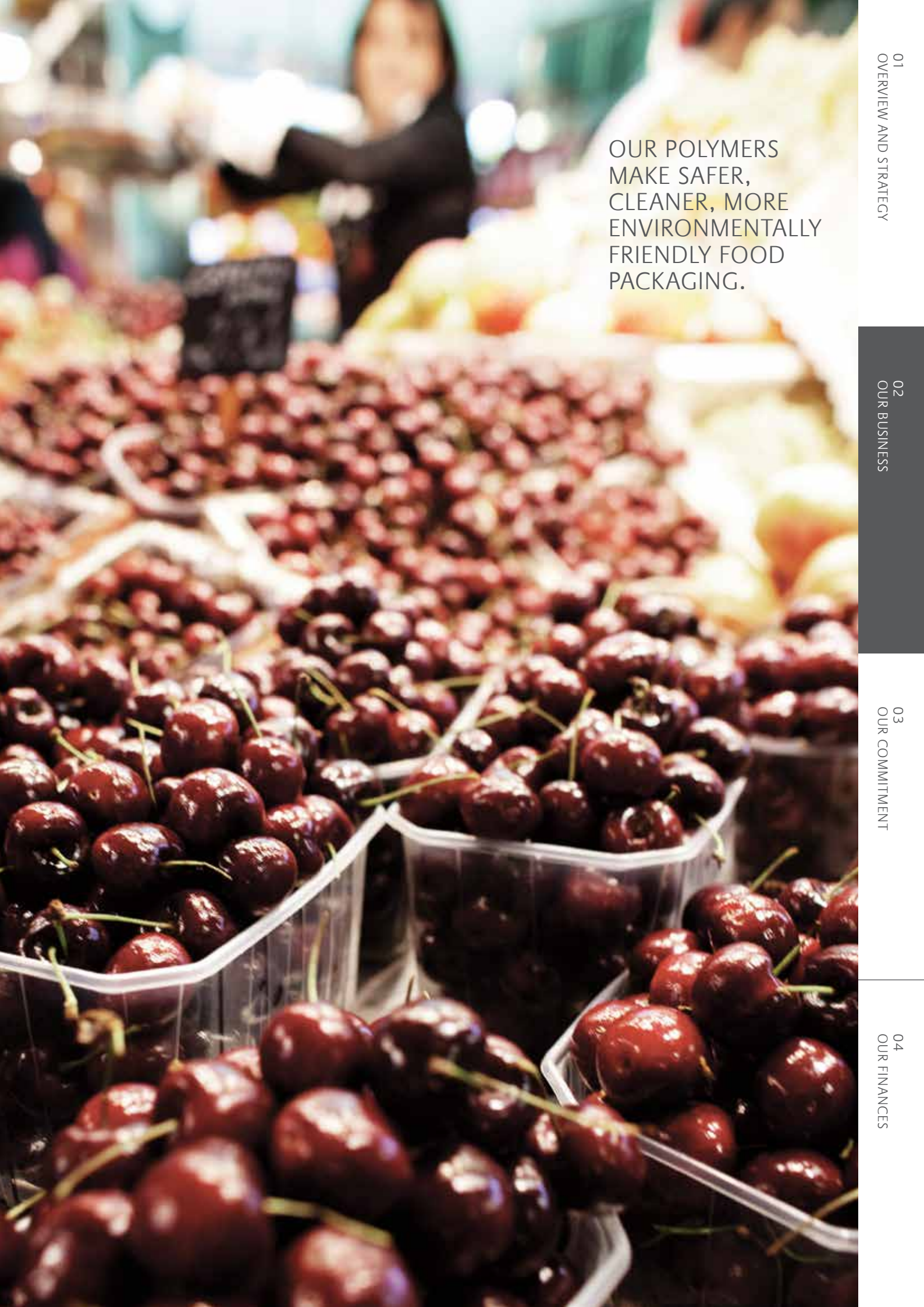
2

NEW PET GRADES

## BUSINESS AREAS

POLYETHYLENE (PE), POLYPROPYLENE (PP), POLYETHYLENE TEREPHTHALATE (PET)  
POLYVINYL CHLORIDE (PVC), POLYSTYRENE (PS).





OUR POLYMERS  
MAKE SAFER,  
CLEANER, MORE  
ENVIRONMENTALLY  
FRIENDLY FOOD  
PACKAGING.

## POLYMERS

# BETTER, LIGHTER, STRONGER

SABIC polymers are always improving. Our experts constantly find innovative ways to improve the performance of these advanced materials and to improve their environmental performance.

### POLYVINYL CHLORIDE (PVC)

In 2013, new SABIC suspension polyvinyl chloride (SPVC) food and medical grades have achieved the requirements for many medical and food applications. The new grades are approved by international pharmacopeias, compliant with food-contact regulations, and will help customers offer safe and attractive healthcare and food products. These new materials can result in many innovative compounds: non-phthalate compounds for blood bags and tubes are examples of close joint work between SABIC and its customers, such as medical and food compounders, to develop sustainable solutions.

### POLYSTYRENE (PS)

SABIC's polystyrene business enjoyed an exceptional year in 2013. We improved our high-impact polystyrene (HIPS) grade, making it tougher and stiffer so that customers using sheet-extrusion and thermoforming applications will be able to downgauge or reduce the amount of impact modifiers.

Through optimization of product formulation and additives, our general-purpose polystyrene (GPPS) has better clarity for injection-molding applications and has better thermal properties for hot-food applications.

### POLYETHYLENE TEREPHTHALATE (PET)

During 2013 we developed and commercialized two new PET grades. To serve the growing demand for film-flexible packaging and advertising applications, we developed Biaxial-Oriented Polyethylene Terephthalate (BOPET). This new resin improves productivity, printability, strength, and provides a better CO<sub>2</sub> and O<sub>2</sub> barrier. Low intrinsic viscosity (IV) PET, designed for small bottles, reduces the energy needed in injection molding and ensures water bottles generate low levels of acetaldehyde.

### LOW-DENSITY POLYETHYLENE (LDPE) EXTRUSION COATING

SABIC LDPE nExCoat5 is a breakthrough product for the extrusion-coating process commonly used in packaging applications. Produced using SABIC's unique CTR technology, it has a specially designed molecular structure that brings a wide range of benefits to the whole extrusion-coating value chain. nExCoat5 offers energy savings, excellent sealing and adhesion properties, better processability, and improved process efficiency.

### HIGH-DENSITY POLYETHYLENE (HDPE)

Innovation and sustainability have been key themes for HDPE in a year that saw several new higher-performance grades introduced. For small bottles, grades SABIC Vestolen A BI5822 and SABIC Vestolen A BI5828 from our bimodal HDPE platform offer superior ESCR (environmental stress-cracking resistance), and improve sustainability by enabling customers to down-gauge to thin bottles. SABIC introduced a new industrial container grade, SABIC HDPE CP5703, which reduces the weight of open-head drums. The introduction of a new high-added-value (HAV) grade for still water (SABIC HDPE CC860V) offers superior organoleptic properties and provides an optimum solution for preserving water quality. In the Middle East and Africa we also launched a bimodal film grade, SABIC HDPE F00851, which offers better mechanical properties and down-gauging potential.





In 2013 SABIC grew significantly in the building and construction sector. We introduced colored pipe grades for water and gas, and our pressure pipe grade achieved certification in Australia (PIPA), France (ACS) and Germany (KTW).

SABIC innovations are cutting the time needed to bring new HDPE pipe products to market. Our new, high-speed Strain Hardening test method for slow-crack-growth resistance in HDPE pressure-pipe material will benefit processors.

## MORE SUSTAINABLE SOLUTIONS

Five more polymer grades were added to SABIC “sustainability solutions” in 2013. To qualify for this status, materials must be innovative, market leading, and offer sustainability benefits in the value chain. Sustainability solutions are assessed with a detailed lifecycle analysis (LCA) and reviewed by experts from different SABIC departments.

### SABIC VESTOLEN A RELY

Superior crack resistance enables trenchless (“no dig”) pipe installation, reducing environmental and urban impacts.

### SABIC PP SPUNBOND 519A

Allows for finer filaments to be spun in nonwoven hygienic garments, creating advantages throughout the value chain – from the need for less feedstock to creation of less waste.

### SABIC LDPE nExCoat5

The new LDPE coating grade produced by SABIC’s CTR® technology for aseptic carton beverage packaging offers unique benefits, including energy saving.

### PVC 741E

Reengineered for better plasticizer efficiency of artificial-leather applications, this grade saves material and avoids the environmental risks in tanning leather from animals.

### SABIC LDPE 2202 UMS

Has higher melt strength, so foams can be thinner and lower-density, saving materials.

## IMPROVED POLYMER SUPPLY CHAIN

In September 2013 the Polymers business opened the Jubail Portside Logistics Facility. Designed to increase customer-service levels, reduce lead times, and enhance reliability along SABIC’s supply chain, this state-of-the-art facility combines a container terminal and pallet-staging area.

## CUSTOMER ENGAGEMENT

During 2013 our technical marketing teams have made use of the new SABIC Plastics Applications Development Center to co-develop new products with customers. These joint projects have been achieved by the strength of our innovation and our ability to adopt best practices.



## POLYMERS CASE STUDIES

# BETTER CLOSURES

### HIGH-PERFORMANCE HDPE AND PP

SABIC's high-performance HDPE and PP materials meet the tough taste and safety demands for beverage caps and closures. The outstanding organoleptic performance of our latest HDPE grade, SABIC HDPE CC860V, ensures high water purity, making it a product of choice for the bottled-water industry. Sports-drink producers can save energy and create more attractive products with our SABIC PP QR674K from the QCRYSTAL product range. This random PP grade enables custom caps and closures to be processed at significantly lower temperatures while offering excellent transparency and gloss opportunities.



## CLEAR DOSAGE

### SYRINGE BARRELS

Rising treatment costs have spurred growth in home care and self-administered treatment, driving a need for light-weight products that are safe and easy to use. SABIC's healthcare portfolio includes polypropylene grades that feature exceptional glass-like clarity. This helps users to dose accurately and detect contaminants in conventional or pre-filled plastic syringes and dosing systems. And with a peroxide-free technology, the SABIC grades create a cleaner resin for pharmaceutical product packaging, allowing a better shelf life for drug contents.



## FUTURE CASE

### SAMSONITE®

The changing demands of modern life require Samsonite to continually improve the quality of its suitcases. Building on 15 years of collaboration, SABIC worked with Samsonite to improve color-mixing capability, surface quality, and unequalled form recovery to produce the next generation of stronger, more durable suitcases.



# FERTILIZERS

## HIGHLIGHTS

### NITROGEN AND PHOSPHATE GROWTH

Our urea production capacity will grow significantly by 1.1 mmtpa. In Phosphates, SABIC has a 15% share in a new venture to create one of the world's largest phosphate facilities.

### CLEAN AIR

We have completed projects at all our plants to prevent gaseous ammonia and urea particulates from being vented to the atmosphere.

## MARKET FOCUS

### AGRICULTURE

Our fertilizer grades help farmers to improve yields.

### INDUSTRY

SABIC's Technical Grade Urea project will reduce NOx emissions from vehicles and industrial processes.

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## KEY FACTS



6.7<sup>M</sup>

TONS PER YEAR:  
LEADING WORLD  
FERTILIZER PRODUCER



PARTNER

JOINT-VENTURE PARTNER  
IN NEW 16 MMTPA  
SAUDI ARABIA  
PHOSPHATE FACILITY



\$250<sup>M</sup>

OPTIMIZED NPK FERTILIZER  
GAVE BETTER ACCESS TO  
\$250M SAUDI ARABIAN  
FERTILIZER MARKET

## BUSINESS AREAS

UREA, AMMONIA, PHOSPHATE, COMPOUND FERTILIZERS.



SABIC'S FERTILIZERS ADDRESS  
THE 21ST CENTURY'S DEFINING  
CHALLENGE: FEEDING THE  
WORLD, SUSTAINABLY.



## FERTILIZERS

# CREATING PLENTY

SABIC helps to feed the world's growing population. We pioneer fertilizers that are optimized to produce more food from less land.

With over 6.7 million tons per annum of gross production capacity, SABIC is one of the world's leading fertilizer producers. We produce a wide range of fertilizers through our three affiliates, Saudi Arabian Fertilizers Company (SAFCO), the Al-Jubail Fertilizer Company (Al-Bayroni), and National Chemical Fertilizer Company (Ibn Al-Baytar), for the world's key markets.

## NEW PROJECTS

During 2013, SABIC signed an agreement with the Ma'aden mining company and US fertilizer company Mosaic to jointly develop a world-class phosphate production facility in the Kingdom of Saudi Arabia. SABIC has a 15% share in the new venture, which will be one of the largest fully integrated phosphate facilities in the world, with production capacity of 16 million tons per year. The project includes new phosphate mines and processing units located in the King Abdullah Project for the Development of the North (at Wa'ad Al-Shammal) and the expansion of processing plants at Ras Al Khair.

Progress at SAFCO V, the 1.1-mmtpa standalone urea plant, is on target for 2014. Offering reductions in energy and water-use intensity, this new plant will help SABIC further improve its environmental performance in fertilizers.

Also on target in 2014 is the Technical Grade Urea (TGU) project, whose products will be used to reduce NO<sub>x</sub> emissions from diesel exhausts and industrial processes.

## NEW PRODUCTS

SABIC launched two new NPK grades in the Saudi Arabia market in 2013. Specifically developed for Saudi Arabia's unique soil and climate conditions, they provide targeted, balanced nutrients for high-value cash crops and illustrate how SABIC is able to develop customized products as well as commodity fertilizers. Through the year, agricultural seminars educated farmers on the correct selection and use of suitable grades to match local conditions. The NPK Grades Development Project received a best practice award, conferred by the Royal Commission of Jubail and Yanbu, and was rated among the top five SABIC projects for 2013.





SAFCO, SABIC's fertilizer production plant

## PHOSPHATE MARKET GROWTH

Our joint-venture with Ma'aden has enabled SABIC to strongly position phosphate fertilizers in the important Indian sub-continent region. In 2013 we continued to explore the new growth markets of Latin America and Eastern Africa for phosphate sales.

## SAFE AND ENVIRONMENTALLY FRIENDLY

SABIC's fertilizer business is committed to high standards of safety and sustainability. By the end of 2013, we completed projects at all our plants to capture gaseous ammonia and urea particulates, and prevent them from being vented to atmosphere. We completed 24 million safe man-hours in 2013, once again with no time lost for injuries.





FERTILIZERS CASE STUDIES

# CUSTOMIZED FERTILIZER SOLUTIONS





**BUILDING LOCAL KNOWLEDGE**

With effective advertising campaigns and an individual contact program, SABIC's local fertilizers team created a strong impact with an educational program in the Jaizan region of Saudi Arabia. Working with our leading distributor, we raised awareness among farmers – who had mostly depended on farmyard manure – about the importance of fertilizers in increasing yields and product quality. Their improved knowledge is now reflected in higher returns and improved crops.



# METALS

## HIGHLIGHTS

### MAJOR INVESTMENTS

SABIC is investing a total of 4.3bn USD in new Saudi Arabia manufacturing facilities.

### FEEDSTOCK SECURITY

Feasibility study is being conducted on iron-ore reserves in Mauritania which could secure cost-effective, high-quality raw materials.

### HIGH PRODUCTIVITY

We exceeded our design capacity in flat products by 15%.

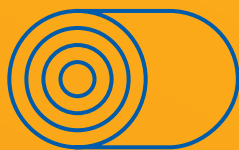
## MARKET FOCUS

### CONSTRUCTION

SABIC's high-strength rebars optimize reinforcement density in high-rise structures.

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## KEY FACTS



5.9

MMTPA OF TOTAL METAL PRODUCTION, UP 5%



500

MILLION TONS ESTIMATED ORE RESERVES IN MAURITANIA INVESTMENT



8%

GREENHOUSE GAS REDUCTION AND ALL SUSTAINABILITY TARGETS EXCEEDED

## BUSINESS AREAS

LONG PRODUCTS: REINFORCING BAR, REBAR-IN-COIL, WIRE-ROD COILS, STEEL BILLETS.  
FLAT PRODUCTS: HOT ROLLED, COLD ROLLED, GALVANIZED PRODUCTS, COLOR COATED PRODUCTS, AND STEEL SLABS.





HIGH-STRENGTH SABIC  
STEEL IS USED IN LANDMARK  
PROJECTS LOCALLY AND  
AROUND THE REGION.



METALS

# BUILDING STRENGTH

The SABIC metals business supports the growing infrastructure of Saudi Arabia. Major investments and initiatives in 2013 are securing, diversifying, and growing SABIC's capability to produce this crucial resource.



## FOREIGN INVESTMENTS

Research into investment opportunities to secure iron-ore feedstock has led to SABIC undertaking exploration at the Atomai Mines in Zouerate, northern Mauritania in 2013. This resource, with estimated iron-ore reserves of 500 million tons, will strengthen SABIC in the region and secure cost-effective, high-quality raw materials. SABIC has established the Mauritania Saudi Mining and Steel Company (TAKAMUL) to develop this resource, which will enhance supply-chain reliability and protect against market and price fluctuations.

## PRODUCTION

Overall, the Metals business has continued to strengthen production and capacity utilization. During 2013, total finished products increased 5% to 5.9 mmtpa and total dispatched volume rose 4% to 5.5 mmtpa.

## LONG PRODUCTS (REBARS)

Long Products local market share rose 1% in 2013, achieving sales of 3.3 mmtpa. During the year, the Metals business has looked to add value with direct sales to the project sector, aimed at meeting the sector's requirements directly from our products. Sales to the project sector of 255,000 mmtpa represented 18% of total Long Product sales and we expect to increase market share in 2014 with the completion of the Rod Mill 2 project.

## FLAT PRODUCTS

In 2013 we worked hard to capture the local and regional growth in demand driven by the government's expenditure and infrastructure projects. Against this background and the global market situation, we achieved a new production record of 2.3 mmtpa. This exceeded our design capacity by 15% at a time when global average capacity utilization was no more than 80%. Total revenues rose 14% to SR 5.7bn. Approximately 70% of flat products were sold locally, capturing 67% market share in Saudi Arabia. We also sold 1.5 mmtpa of flat products to the manufacturing sector to be used in pipes, poles, drums, AC ducts, and tubes. To support our focus on different segments, we developed several new grades: K55 for casing applications, API X70 (high thickness), and API GB sour for oil and gas pipeline applications.

## RESEARCH AND TECHNOLOGY

We completed over 28 research projects in 2013 aimed at enhancing the Metals business. Topics covered included product development, production improvement, cost optimization, wastewater recycling, and optimizing water and energy use. We continued our sponsorship of the Middle East Steel Conference for the Oil and Gas industry, with initiatives including a week-long Saudi/Korean workshop to highlight studies and work done in the development of steel.

## SUSTAINABILITY

The Metals business achieved a resounding success in sustainability last year, achieving all its stretch targets. Sites achieved 8% reduction in GHGs and energy usage, 6% reduction in water consumption, and 26% reduction in material waste compared to a 2010 baseline. By 2016 we are targeting reductions of 22% in GHGs, 23% in energy, 22% in water, and 62% in waste. The Metals team represents SABIC at the Saudi Energy Efficiency Center, helping it arrive at benchmark figures with which to set consumption targets for local producers.

## EHSS

The past year has seen significant achievements in health, environment, safety, and security, top-ranking concerns for the Metals business. Our SHER (incident rate) score was 0.52, the best ever – and we passed ISO 14001 and the OHSAS 18001 surveillance audit with no major non-conformities. Hadeed registered zero irregularities in 2013, complying with the environmental laws and requirements of the Royal Commission for Jubail and Yanbu. We trained 1,000 direct and contract employees in an enhanced Work Permit system, and provided environmental and occupational health training for 435 employees.

Hadeed performed commendably during the external audit and successfully passed the RC 14001 responsible-care accreditation with no major findings. To enhance the responsible-care culture within Hadeed, several awareness programs were held during the year. Further, to improve the surrounding environment around company facilities, significant environmental projects such as wind breaker and fume extraction for dust control are being implemented. As a member of the World Steel Association, SABIC actively participated in the World Steel CO<sub>2</sub> Data Collection Program.

## HUMAN RESOURCES DEVELOPMENT

The Metals business and Hadeed ran several programs to enhance employees' competencies, as well as crafting a robust succession planning and promotion process and talent exchange.

## METALS CASE STUDIES

# STRONGER AND HIGHER

### GLOBAL MEGAPROJECTS

High-rise buildings need more steel in their foundations. However, if there are too many reinforced bars (rebars), there is less space for concrete pouring, limiting what's possible for the building. SABIC's higher-strength rebars solve this problem by optimizing the reinforcement density in structures. Conforming to international specifications for mega-projects, our rebars are used in landmark structures such as the expansion of the holy mosques in Makkah and Madinah.



## LIGHTWEIGHT FILTERS

### REDUCING COMPONENT WEIGHT

Weight is everything in today's automotive industry, even for steel components. So oil-filter manufacturers are demanding thinner cold-rolled annealed steel sheets, posing a technical challenge for steel producers. SABIC's response is new steels with very low carbon and nitrogen content, offering the thinness and high formability that manufacturers need.



## SLEEP SOFTLY

### LONG-LASTING MATTRESSES

Box mattresses use “Bonnell” springs, which provide the right combination of comfort and strength. However for mattresses to stay comfortable over time, it’s essential to get the right material and wire gauge. SABIC’s high-carbon wire rods are used to make spring wires with suitable strength-to-weight ratio allowing for the production of lighter, more material-efficient springs.



# TURNING IDEAS INTO PROFIT

Always looking for new ways to make radical improvements to our processes and products, SABIC's Technology & Innovation initiatives constantly build our competitiveness.

Technology & Innovation was a major driver of growth and market share in 2013. Currently, our 700+ research projects are estimated to generate total risk-adjusted net present value (NPV) of USD 19bn. Our next focus areas are on perfecting technologies with partners and developing our own in-house technologies with aggressive patent targets. We filed a record number of patent cases in 2013, bringing SABIC's total patent portfolio filings to 9,791.

## VALUE FROM FEEDSTOCK

We are always seeking ways to harvest optimal value from feedstock. In Q3 2013 we piloted a new process for converting syngas to olefins, which offers a 20% increase in return for a 20% decrease in capital. We are pursuing second-generation oil to chemicals, targeting a yield on oil over 90%, and looking into a direct route from methane to benzene. SABIC is also exploring the cost advantages of non-conventional feedstock. We are targeting a cost-advantage development of obtaining hydrogen from water splitting to be around USD 900/ton and targeting a cost of USD 0.03/kWh for obtaining electricity from high-altitude wind. We are also reusing CO<sub>2</sub> in chemicals manufacturing.

## TRANSFORMING TRANSPORT

SABIC's light-weighting solutions are improving fuel efficiency, crash resistance, and manufacturing cycles, and the industry is taking note. At the November 2013 Society of Plastics Engineers' Automotive Innovation Awards, two of our customers earned awards for applications that use our materials (in the body interior and chassis/hardware categories). Three additional applications were honored as finalists, including the polycarbonate side windows of the XL1. Our work continues. We are developing and piloting polycarbonate-glass structures for train and underground applications.

## BETTER PROCESSES

From 2013 our Ziegler-Natta catalyst is now used for over 35% of polypropylene production capacity and we plan to extend it to further manufacturing sites. Other examples of innovative SABIC polyolefin catalysts include the LLDPE ZN catalyst, first industry-tested in Q2 2013, and our gas-phase metallocene catalyst, testing for which is anticipated in 2014. Due to be piloted in 2016, the SABIC multi-zone reactor gas phase technology is expected to lead to 20% increases in production for each reaction and enable new grades to be created.





سابك  
sabic

沙特基础工业公司上海研发中心  
SABIC Technology Center Shanghai

سابك  
sabic





## ACTIVE LICENSING

Through 2013 we reached over 50 agreements for licensing technology in to SABIC while actively pursuing opportunities to license out our LPDE, LAO, and ABS technologies, reaching a number of agreements.

## SUSTAINABILITY

Our Technology & Innovation initiatives have led SABIC's sustainability drive, progressing toward our target of reducing our footprint by 25% by 2025, and resulting in lower cost and increased revenue per unit of hydrocarbons consumed. We identified downstream opportunities where 32 products were identified as having sustainability advantages.

## OPEN FOR TOMORROW

Two new SABIC Technology Centers (STCs) officially opened for business in 2013. Costing USD 200m, our new facilities in Bengaluru, India and Shanghai, China, represent a step forward in SABIC's commitment to Asia, which is our fastest-growing region globally. SABIC CEO Mohamed Al-Mady noted that for Asia, "The key to success involves cooperation among governments, scientists, and the business sector to promote science, technology, and innovation. The SABIC technology centers in India and China will serve as catalysts to help Asian economies and industries realize this ambition through our investment in cutting-edge science for a sustainable future."

Both STCs will focus on long-term research programs aimed at achieving sustainable urbanization, one of today's defining challenges for both China and India. In Shanghai, for example, SABIC is developing a special film for the solar industry to help China introduce alternatives such as solar energy into its national energy mix. In India, SABIC's film application technology aims to increase agricultural productivity by enhancing photosynthesis in greenhouse plants.

The two STCs join our existing network of technology and innovation centers in Asia: one in Moka, Japan and another in Sungnam, South Korea. They bring to 18 the total number of SABIC R&D centers globally.

### BENGALURU STC

- Development cost: USD 100m
- Workforce: 300 scientists and engineers
- Size: 187,000 m<sup>2</sup>
- SABIC's largest R&D facility in Asia

### SHANGHAI STC

- Development cost: USD 100m
- Workforce: 170 application development and materials technologists
- Size: 60,000 m<sup>2</sup>
- Also serves as Greater China head office



# SUSTAINABLE MOVEMENT

**SABIC is committed to developing the most efficient and environmentally friendly supply chain in our industry. Around the world, a series of ingenious initiatives is helping to turn this ambition into reality.**

In March 2013, SABIC signed a strategic partnership with Pennsylvania State University (Penn State) to supplement our in-house development programs and accelerate supply-chain career development across all business units. Designed to help SABIC be an industry leader in supply-chain innovation, the applied-learning program has already helped the Metals business identify opportunities to substantially reduce working capital.

## SUPPLY CHAIN STRATEGY

Throughout 2013, SABIC's Global Supply Chain Center of Excellence (GSC COE) and SBU Supply Chain Management (SCM) focused on formulating a strategy to support SABIC's 2025 vision and ensure a sustainable supply chain. We recognize that sustainability goes beyond carbon footprints and operating responsibility to include every aspect of the supply chain. Accordingly, our strategy rests on six pillars: Capability, Infrastructure, Process, Systems, Strategic Sourcing, and Sustainability.

## CAPABILITY

As we accelerate the recruitment, development, and promotion of top-performing supply chain professionals, we are confident that SABIC is on the path to becoming the number-one supply-chain performer in petrochemicals.

In a further initiative, the Polymers business has created a single, global customer-service organization by merging its order-to-cash in sales, execution, and monitoring departments. This development, which follows a similar move in Chemicals and will continue with Fertilizers in 2014, will improve customer satisfaction levels by creating smoother, more effective processes.

We launched the Supply Chain Career Development program in 2013, aiming to provide consistent, best-in-class career development throughout our professionals' careers. We are developing an Early Career Path program for new graduates and identified relevant supply-chain competencies for SABIC.

## APPLIED LEARNING SPEEDS POLYMERS DELIVERY

The Polymers team in Singapore and the GSC COE have completed SABIC's first Applied Learning program, called "Moving the Gears Faster – Together". In the program, the team developed a process-improvement design aimed at speeding up the end-to-end process from customer engagement to product delivery from the Singapore hub, one of SABIC's container transshipment centers in Asia Pacific.

We assembled a cross-functional team to participate in an intense, three-month long project, which resulted in innovative solutions to overcome operational challenges faced by the business. Many of these were implemented in real time. By accelerating process velocity, these solutions will result in additional sales revenue, working-capital reduction, and annual supply-chain savings. And they will benefit over 600 customers in Asia by speeding up overall delivery and service. The remaining solutions will be implemented by the end of 2014.

With this pilot SABIC also pioneered a new approach to learning and development. Developed jointly by the Penn State University, SABIC Academy, and the GSC COE, the Applied Learning model coaches and trains teams to realize a significant business-improvement opportunity, then requires participants to apply their new skills immediately. Applied Learning helps participants to retain what they have learned, and it accelerates the return on the training investment for the company.







“  
OUR STRATEGY RESTS ON  
SIX PILLARS: CAPABILITY,  
INFRASTRUCTURE,  
PROCESS, SYSTEMS,  
STRATEGIC SOURCING,  
AND SUSTAINABILITY.  
”

## INFRASTRUCTURE

We reached a key milestone in our supply-chain transformation with the opening in September 2013 of the Jubail Portside Logistics Facility (PLF), which will reduce lead times and enhance supply-chain reliability. SABIC has also been granted a dedicated customs gate to the PLF, which will assist in the facility's smooth operation.

At the King Fahd Industrial Port in Jubail, construction by the Jubail Chemical Storage & Services Company (JCSC) has started on its new 474,000-m<sup>3</sup> facilities to handle liquid chemicals and specialty products, including non-SABIC products. Phase One is expected to be completed by the end of 2014 and Phase Two by 2016.

SABIC also leased Fajr, the world's largest and most sophisticated chemical tanker, in 2013. Dedicated to our Chemicals business, this state-of-the-art 75,000 DWT vessel will cut port congestion and reduce operating costs and fuel consumption.

Demonstrating our commitment to Saudi Arabia's strategic rail initiative, SABIC formalized a memorandum of understanding with Saudi Arabian Railways. Transition of selected SABIC metals products to rail will be planned first, followed by other business units.

In Europe, a new rail terminal at Chemelot in Geleen connects our Polymers business into the heart of Europe. Supported by a joint-venture and the government, this strategic investment is also a sustainable enhancement to the Chemelot industrial complex. The Polymers business also opened a new warehousing facility in Tallinn, Estonia, to reduce costs and lead times and enable further growth for SABIC in the region.

## PROCESS AND SYSTEMS

The GSC COE has embarked on a five-year strategy to embed Supply Network Modeling in SABIC. This will help develop innovative ways of bringing SABIC products closer to customers, especially in emerging regions. In Asia, a Polymers grade-classification initiative has reduced inventory days by 26% and costs by 10% while in Saudi Arabia, Master Production Scheduling (MPS) at five plants significantly reduced the working capital of polyethylene grades. The Innovative Plastics business in the US has improved Internet and EDI ordering capabilities, raising electronically processed orders from 40% to 70% during 2013. Singapore Customs has granted a Secure Trade Partnership (STP) certification to our Asia Pacific Chemicals business, which will provide a framework to enhance supply-chain security measures and practices.

Detailed assessments of Supply Chain Management departments by the GSC COE continued in 2013 and will continue throughout 2014. The Metals business scored highly as a best-practices benchmark, achieving a 65% reduction in unplanned stock production.

## SUSTAINABILITY

We are committed to a responsible supply chain. By 2016 we aim to reduce SABIC's supply-chain energy consumption by 0.7 MMBOE (million barrels of oil equivalent).

In Europe, SABIC and strategic partner Oiltanking/Stolthaven have built 10 chemical storage "cup" tanks that are 99.7% emission-free. Using internal floating roofs, double seals, and a double hull, they prevent the annual emission of 6,000 tons of hydrocarbons and save USD 0.8m per annum.

SABIC was awarded "Green Supply Chain Contributor of the Year" at the 2013 China Petrochemical Supply Chain Summit. Our work with SINOPEC joint-venture SSTPC to install pipelines to the port will remove 17,000 trucks from the roads in Tianjin, greatly improving safety and cutting carbon emissions.





In recognition of its carbon-emissions reduction initiative in Japan, the Innovative Plastics business and its partners were awarded the 2013 Minister's Award for Green Partnership by the Ministry of Economy, Trade and Industry. In this project, SABIC and Kubota worked to ensure full container utilization in both directions, reducing fuel usage and CO<sub>2</sub> emissions. SABIC expects this new partnership to reduce emissions from inland transportation by up to 30%.

Safety initiatives and achievements continued through 2013. The Chemicals business in Europe chaired a joint initiative between the main safety associations to implement best-practice guidelines for the safe loading and unloading of chemical road freight vehicles. In the US, the Chemicals business achieved the CSX Chemical Safety Excellence Award for recording no spills, accidents, or environmental hazards while shipping railcars.

# MANUFACTURING

Sustaining manufacturing excellence is critical in our drive to become the preferred world leader in Chemicals. Underpinned by a rigorous EHSS culture, a talented and committed workforce, and a proven manufacturing excellence model, we ensure that world-class operating standards are met.

Our approach and management systems ensure continuous improvement in our safety performance, increased reliability, and low operating costs.

## CULTURE & PEOPLE EXCELLENCE

SABIC employees have established a culture of excellence, which is reflected in the achievements of our sites across the globe and is underpinned by our SABIC values. Our people play an integral role in contributing to the success of our operational performance, which is supported by a comprehensive manufacturing model that employs robust work processes and creates an environment for knowledge share and learning.

We want to attract the right talent and support our people in their development within our company. This begins from day one in SABIC, when our new engineers are enrolled in a world-class graduate development program. In the long term, we continue to create a working environment that inspires and connects people through our global networks, ensuring access to depth and breadth of experience and diverse assignments.

## SUSTAINABILITY

We continue to create awareness and embed Sustainability into our daily activities and existing work processes at SABIC. SABIC's footprint-development methodology complies with international standards such as the WBCSD protocol and our footprint is audited and verified annually since the base year (2010) by external auditors.

We are analysing our footprint to identify areas for improvement so we can focus our efforts on preserving natural resources and protecting the environment.

## MANUFACTURING CENTER OF EXCELLENCE

The Manufacturing Center of Excellence (MCE) plays an essential role in continuously improving reliability and efficiency of our assets, which leads to profitability. The MCE has employed a systematic approach to deploy expertise, standard work processes, reliability methodologies, and best practice. It has established global network structures, consisting of a fixed core and virtual members, to assure knowledge share across SABIC sites globally.

Benchmarking continues to play a key role in our endeavors to achieve best-quartile performance. In 2013 we conducted benchmarks for the Aromatics and Polypropylene business lines. By 2014 we will have benchmarked 50% of our assets globally, our ambition is



to complete all our assets in the coming few years; this will ensure a clear baseline to measure against our ambition in our 2025 strategy.

Strategic relationships and collaboration between SABIC and OEMs are established with signed framework agreements with Water Treatment and Distributed Control System vendors to name a few examples. While we continue to build SABIC internal competencies and capabilities, these agreements will support us in improving safety, reliability, and cost/value performance.

We continue to work closely with all affiliates' subject-matter experts to improve their capabilities by developing competency-level matrices, identifying training needs, and developing plans for individuals to fulfil requirements. In addition to this, we continue to leverage existing reliability tools like Weibull, as well as introduce new reliability tools such as RAM and Asset Lifecycle Management.



## PERFORMANCE, VALUE, AND SYNERGIES

As SABIC continues to grow its global manufacturing presence, we consistently achieve top performance through established processes and systems deployed throughout our global sites, ensuring safe and reliable plant operations and higher capacity utilization.

In 2013, particular emphasis on reliability initiatives and organizational design were key in driving cost effectiveness and improvement in overall plant performance across all regions. Notable improvements have also been achieved in Performance Reporting Systems and Data Quality which are two key elements to help highlight and address "performance killers" across SABIC manufacturing sites in a systematic, consistent, and sustainable approach.

Manufacturing continues to identify initiatives that address value creation and synergies. For example, in Yanbu we are leveraging the untapped potential of available feedstock streams to set up derivative plants.



03

# OUR COMMITMENT

# PEOPLE WHO CAN

At SABIC, we are proud of our talent and we invest significantly in developing our people. During 2013 we made strong progress toward building SABIC's human capital and creating a performance culture. We invested in building leadership capabilities and instilling SABIC values, built partnerships with technology institutes, and strengthened our internal scholarship program. Our efforts have been rewarded with new Top Employer awards and excellent engagement in our employees' survey.

## LEADERSHIP DEVELOPMENT

Sponsored by the SABIC Academy, 26 employees achieved EMBA from a well-recognized US business school in 2013, an initiative that is in line with our strategy to build SABIC's leadership capability. During the year we implemented the CEO Leadership Challenge program, in which emerging leaders engage directly with the CEO and senior management to come up with innovative solutions for SABIC's key challenges.

## BUILDING CAPABILITY

To attract qualified researchers, we have built a strong partnership with King Abdullah University for Science & Technology (KAUST) as well as other global research institutes. Internally, SABIC's scholarship program is now starting to bear fruit, bridging the gap to the skills we need in engineering disciplines. We have also enriched our talent and leadership pipelines through a robust talent-management process. Further, as part of our progress toward a performance-based culture, we continued building a competitive pay scale for SABIC employees.

## TOP EMPLOYER RECOGNITIONS

SABIC, with its global presence, is moving ahead to become the employer of choice in the petrochemical industry. As a result, SABIC has received the Top Employers Asia Pacific and Top Employers Europe certifications in recognition of its effort to provide an excellent working culture for its employees. The Top Employers Institute concluded that SABIC "forms part of a select group of employers that advance employee conditions worldwide... they can truly consider themselves at the top of an exclusive group of the world's best employers."

## EMPLOYEE SATISFACTION

During 2013 HR launched SABIC'S second employee survey, with a strong participation rate of 89%. The survey shows considerable employee satisfaction in certain areas. At the same time, SABIC is committed to take corrective action wherever required to increase our employee satisfaction as a response to their feedback. We also enhanced the quality of feedback in the Talent Review Process to improve transparency on employee performance.

Overall, our work in the past year has been aimed at underpinning SABIC's 2025 strategy, building the capabilities and enabling the culture the company will need to meet its ambitious goals.





# THE JOURNEY TO SUSTAINABILITY

“Step by Step”, the theme of SABIC’s 2012 Sustainability Report, reflects our belief that sustainability is a long journey that requires the focus, commitment, and hard work of everyone in the business. SABIC employees everywhere are engaged in programs to reduce our environmental footprint, to work to the highest safety and ethical standards, and to help customers meet their sustainability goals. However, sustainability is evolving to mean more than this. It demands that we understand the sustainability priorities of all our stakeholders and proactively manage the natural, social, human, and economic capital needed to consistently deliver value to them. To achieve this, SABIC is developing sustainable business processes and goals for all dimensions of our business, step by step.

## PROTECTING NATURAL CAPITAL

We currently depend on finite hydrocarbon resources to make many products that are essential for society. To help protect this natural capital, by 2025 we aim to improve the efficiency of our hydrocarbon use by 25%, as measured by energy consumption and greenhouse gas (GHG) emissions per unit of product sales. Since we set environmental sustainability goals in 2010, we have reduced our energy usage by 4% and emissions intensity by nearly 3%. As our production volume has increased by 10% over the same period, which translates into significant avoidance of energy usage and increased emissions. Water conservation and waste avoidance, also SABIC goals, have seen even better efficiency improvements.

## INVESTMENT IN SUSTAINABLE PROCESSES

While we achieved these gains through employee actions, further improvement requires investment in our processes. In 2013, three projects illustrated the commitments we are making. In Jubail, Saudi Arabia, SABIC is investing in the largest carbon-capture plant in existence, which will capture over 500,000 tons of CO<sub>2</sub> from chemical production to be used in the manufacture of valuable products like methanol and urea. In Mount Vernon, Indiana, USA, we will replace coal-based steam generation with natural gas-fired combined heat and power, which will cut the plant’s CO<sub>2</sub> emissions by more than 35%. In Geleen, Netherlands, investments in an

olefin cracker will reduce energy consumption by 1.5 million GJ, making it among the most efficient in Europe. More fundamental process changes like these will be needed to continue the journey toward SABIC’s goals. To achieve these, our business units work closely with our Manufacturing and Technology & Innovation departments to design and implement even more advanced technologies to protect the natural capital we depend on.

## PRODUCTS WITH A LIGHTER FOOTPRINT

SABIC’s ability to protect natural capital extends beyond our production processes to encompass the entire product value chain. For example, lighter packaging reduces our customers’ manufacturing footprint while improving the performance of their products for consumers. We have delivered new, lighter-weight sustainability solutions to the aircraft, rail, and automotive market segments. Notably, the Volkswagen XL1 launched with some of the world’s most innovative automotive solutions, including lightweight LEXAN polycarbonate side windows with SABIC’s advanced Exatec plasma-coating technology. This makes the Volkswagen XL1 the first production vehicle with side windows featuring this advanced coating technology and helps the windows achieve a 33% weight reduction compared to glass. All innovation programs in SABIC are assessed for their ability to impact sustainability for society across the value chain.



## SOCIAL AND HUMAN CAPITAL DEVELOPMENT

Today we recognize, more than ever before, that strong collaboration with society and continuous development of our human resources are essential both to create value and to ensure economic sustainability. Delivering on these responsibilities requires the dedicated efforts of all SABIC business units and corporate functions. It encompasses a strong foundation in ethics and integrity; EHSS programs that protect our employees and communities; training programs that build the capacity of our talented employees; product safety throughout the value chain; and the donation of resources and talent to our communities. We still have many opportunities to improve, but are proud of the commitment of our business and the contributions of our employees. You will find details of our vision, actions, and aspirations for Social and Human Capital Development in the “Step by Step” SABIC Sustainability Report and in our 2013 Sustainability Report to be released 2014.

## SUSTAINABILITY AND GREEN CHEMISTRY

Sustainability is a part of the fabric of SABIC. Our sustainability program will deliver sustainability leadership that meets the expectations of our stakeholders.

In 2013 SABIC became a United States Environmental Protection Agency SmartWay® Partner. SmartWay® is an EPA program designed to reduce transportation-related emissions by creating incentives to improve supply-chain fuel efficiency.

“  
WE HAVE DELIVERED  
NEW, LIGHTER WEIGHT  
SUSTAINABILITY SOLUTIONS  
TO THE AIRCRAFT,  
RAIL, AND AUTOMOTIVE  
MARKET SEGMENTS.  
”

# OUR COMMITMENT TO THE COMMUNITY

As a leading global petrochemical manufacturer with operations in Saudi Arabia and worldwide, SABIC strives to make a positive impact on local communities where we operate through partnerships and community programs. Being a responsible business guides our long-term commitment to investing in future generations and to embedding ethical principles in our company's culture. The company is currently developing a global CSR strategy, in line with the SABIC 2025 strategy objectives. We prioritize projects, sponsorships, and charitable contributions based on their ability to impact and align with the core strategic areas of SABIC's social-responsibility goals, with a focus on education, healthcare, community development, and environmental protection.

Throughout 2013, SABIC sponsored numerous events and activities in Saudi Arabia and other communities around the world where we operate. From supporting social programs and charity organizations to sponsoring economic conferences, sports events, and cultural festivals, SABIC is dedicated to making a lasting difference on communities locally and globally.

Saudi Arabia is our home market and we have special responsibility to contribute to the Kingdom's sustainable economic and social development. Our company will benefit from a growing Saudi economy that continues to diversify its economy and provide opportunities for workers and young people. For this reason, we are proud of our commitment to healthcare, education, community development, culture, innovation, and business development in Saudi Arabia, as exemplified by the initiatives below.

## HEALTHCARE

SABIC funds a number of healthcare initiatives, most recently the Autism Research Center, which was inaugurated at the King Faisal Specialist Hospital in Riyadh. In support of the Disabled Children Association, we are partnering in a scholarship and treatment program for 20 children over a five-year period. Programs such as these give independence to children with special needs. SABIC also sponsored the National Epilepsy Awareness Campaign conducted by the Saudi Society for Epilepsy Diseases in public schools, universities, and commercial centers, designed to educate all segments of society, particularly young people, on this nerve disorder, and to

increase community awareness of epilepsy, which studies show impacts about 6.5% of the country's population.

## EDUCATION

Education is an important social-responsibility priority for SABIC, the ultimate goals being to ensure that all Saudi youth have the opportunity to contribute to the country's development and prosperity and to ensure they have the skills to compete in a global marketplace. We especially want to encourage educational excellence in math, the sciences, and creative professions. To these ends, SABIC was the exclusive sponsor of the Yanbu Mathematics & Science Olympiad in June 2013, with participation by more than 800 intermediate and secondary-school students (both boys and girls) throughout the province.

SABIC donated school supplies to 600 students from low-income families to pursue their education, in a program in partnership with the Charity Association and the Female Charity Society. Supplies included giving children the right tools, such as copybooks, crayons, engineering drawing kits, and notebooks, to ensure they are properly equipped to study and learn.

SABIC also sought to encourage creative talent in young children through sponsorship of a drawing contest in collaboration with the Education Services Department. The contest demonstrated SABIC's commitment to creating a strong sense of awareness among the student community, and society in general, for developing talented, creative minds and confidence in their skills. Participants included more than 10,000 students from





Beach-cleaning campaign in Jubail



Bengaluru primary school initiative

200 schools. The competition focused on themes such as safety, health, and the environment. An exhibition of the winning drawings was held at the Al-Fanateer Commercial Complex in 2013.

## COMMUNITY DEVELOPMENT

Fostering strong and prosperous communities in the Kingdom is important to SABIC and the nation. In Jubail province, SABIC provided winter clothing, blankets, and heaters to help 6,000 needy families cope with winter conditions. SABIC employees in Eastern Province and volunteers from Jubail participated in the program.

SABIC was also a sponsor of the National Productive Families Forum & Exhibition in Jeddah in 2013. The forum included six meetings and 22 workshops organized around the theme of "Towards Creating a *Made in Saudi Arabia* Mindset." The event sought to promote balanced economic development in the Kingdom, and helped launch several initiatives to support and develop productive families.

## SPONSORSHIPS OF BUSINESS AND INNOVATION FORUMS

SABIC is a leader in promoting a culture of innovation in Saudi Arabia. The company was the exclusive sponsor of the Arab Creativity Awards presented during a two-day annual event organized by the Arab Thought Foundation. The awards brought together intellectuals, researchers, private sector executives, civil society groups, youth, and media to promote a culture of innovation and entrepreneurship. Creativity awards were presented for science, economics, literature, technology, media, social services, and the arts.

In addition, SABIC sponsored the Industrial Innovation Award in 2013 to recognize innovative ideas and strengthen ties between the Kingdom's industrial sector and scientific and academic institutions. More than 200 innovations were presented in the fields of water, petrol, gas, petrochemicals, renewable energy, information technologies, and medicine, among others. More than 800 workshops and presentations were held during the event, affirming SABIC's leadership role in promoting national knowledge and innovation. SABIC was also a sponsor of the 6<sup>th</sup> Riyadh Economic Forum in December 2013. This prestigious event focused on

positive contributions to the Kingdom's economic growth. The Forum brings together government and business leaders to study and analyze issues that affect the Saudi economy, pinpoint economic growth obstacles, and propose practical solutions to facilitate sound economic decision-making.

SABIC sponsored the Najran Investment Forum in September 2013. The Forum, attended by more than 600 participants, sought to showcase economic and investment opportunities in Najran in different business sectors, including industry, mining, and housing.

## CULTURE AND SPORTS

Culture and sports help define the Saudi nation at home and around the world. SABIC has a long history of supporting equestrian activities for youth. In 2013, the company sponsored the 27<sup>th</sup> Equestrian Race at the King Abdulaziz Race Track in Janadriya, the King Abdullah Show Jumping Festival in Riyadh, and the 8<sup>th</sup> National Horse Jumping Championships at the Equestrian Club in Yanbu. SABIC also supported a different type of racing by sponsoring the Saudi Arabian Motor Federation's nine-day Hail International Rally in 2013, bringing together auto racing fans for the popular event and a series of cultural and recreational programs.

SABIC also supported important cultural events including the Janadriyah Festival, Okaz Festival, and the Qassim Dates Festival. Globally, SABIC sponsored and partnered with government organizations and helped children with special needs in areas of confidence-building, education, and disease prevention in several countries such as Hong Kong, Vietnam, and Malaysia. SABIC also hosted the annual competition for gifted students in chemistry in Geleen, Netherlands, to emphasize the importance of chemistry in high school and encourage research. It also organized an awareness session on the daily use and recycling of plastics.

# ENVIRONMENT, HEALTH, SAFETY, AND SECURITY

By applying the highest Environment, Health, Safety, and Security standards, we aim to ensure the safety and security of SABIC's employees and assets, preserve the environment, and contribute to the community at large.

## SAFETY, SECURITY, HEALTH, AND ENVIRONMENT MANAGEMENT (SHEM) STANDARDS

SABIC's operations are managed and controlled using comprehensive, state-of-the-art SHEM standards. All these standards are then subject to periodic review, reflecting our own culture of continuous improvement and learning from others in the industry.

In 2013 we revised several SHEM elements and sub-elements to ensure alignment with Responsible Care® requirements, and also developed them to address our commitment towards the critical area of Product Stewardship. An extensive multi-layer audit program is in place to verify the effectiveness and extent of SHEM implementation within SABIC. The results of these audits have shown significant improvement each year. Following implementation in our Innovative Plastics in 2013, SHEM is now implemented at all sites globally.

## PRODUCT STEWARDSHIP

SABIC ensures its products are managed safely throughout their lifecycle, reducing risks of adverse environmental, health, and safety impacts. To realize this objective we developed a Product Stewardship 2025 Strategic Action Plan and we have also developed new SHEM elements to support the growth of a strong Product Stewardship culture within SABIC.

## RESPONSIBLE CARE®

In all aspects of its business operations, SABIC is committed to ensuring environmental protection, process safety, occupational health and safety, chemical and product safety, distribution safety, and dialog with society in accordance with Responsible Care Standards.

Innovative Plastics received RC14001 certification for its US headquarters in Pittsfield, USA, as well as other regional manufacturing sites. SABIC was also the subject of a successful RC14001 multisite certification audit for its operations in the Middle East/Africa region.

## SAFER (SABIC ASSURANCE PROGRAM FOR EHSS RISKS)

SAFER is a methodology to assess and rank EHSS risks based on their probability and potential consequences. SAFER ensures that, based on the ranking, we engage the appropriate level of management to own risks and deliver the necessary risk-mitigation decisions and actions. SAFER applies to all aspects of EHSS risks, specifically enhancing process safety. During 2013, SAFER was rolled out at all SABIC sites globally.

## CRISIS MANAGEMENT DRILLS

We conducted Crisis Management Drills across SABIC's global sites during 2013 to ensure the effectiveness of crisis-management systems at local, regional, and global levels within the company. These exercises are a critical element of SABIC's processes to manage overall business risk effectively, consistently, and within a framework of continuous improvement.

## CLEAN DEVELOPMENT MECHANISM PROJECTS

SABIC's support for Clean Development Mechanism activities received a boost in 2013: local stakeholder consultation for a number of CDM projects from sites was successfully conducted and also picked up by the media. The United Nations began the validation process for one of these projects.









## EHSS ALERTS & AWARENESS

SABIC is always exploring new technologies and ways to enhance the EHSS awareness of employees and contractors. We consider EHSS incidents as a critical source of learning and further improvement in our practices. We issued EHSS Alerts (for EHSS incidents happening in SABIC) and Awareness Bulletins (for EHSS incidents elsewhere in industry) across the company, highlighting causes of incidents, learnings, and actions to prevent them in future.

## E-LEARNING TRAINING MODULES

We also used E-Learning as a way to disseminate EHSS awareness across SABIC, and launched several new modules in 2013. E-learning modules on SHEM Awareness is mandatory for all SABIC employees, while other modules depend on employees' work and responsibilities.

## EHSS AWARD PROGRAM

SABIC continues to motivate its sites by presenting EHSS Awards every year. These awards have generated much enthusiasm and have been an important element to drive EHSS performance improvement within our sites. The awards are unique because they are not only decided on by the accomplishments of the sites, but also on the basis of a rigorous evaluation process involving stringent evaluation of data provided by the sites by a global assessment team through visits to each site.

In 2013, Kemya won the Gold Award, United received the Silver Award, and Ibn Zahr the Bronze Award. The winning EHSS Global Contractors were Harsco, winning Gold, Cofely the Silver, and Inabensa the Bronze. Al-Suwaiddi Industrial Services Company won the Gold Award for EHSS Maintenance Contractor as well as the Sword of Merit.

SABIC has also developed an EHSS Award Program for its Small Sites so that their efforts and activities towards EHSS performance improvement are also highlighted, appreciated, and recognized.

## EHSS IT SOLUTION

Our EHSS IT Solution provides an up-to-date, best-in-class EHSS tool for all of our sites globally. This project was revitalized and re-initiated in 2013, with Incident Management the first module to be launched as part of this project.

## SAUDI ARABIA CONTRACTOR MANAGEMENT SYSTEM

Contractors contribute significantly to our growth and progress. To ensure that their work is done in a healthy, safe, and environmentally friendly way – from registration to mobilization, implementation, and demobilization – SABIC has launched a Contractor Management System. Fully aligned with SABIC SHEM standards, this system has been welcomed by the senior management of both sites and contractors. Piloting of this project has already started at the sites in Saudi Arabia, after which it will be expanded to other regions.

## SECURITY AWARENESS AND READINESS

SABIC is continuously enhancing security measures at its facilities worldwide. We conducted periodic security-management audits in 2013, also holding Security Readiness Testing Exercises and security drills to test sites' responsiveness and arrangements.

## NATIONAL AND INTERNATIONAL AWARDS AND RECOGNITION

We received a number of awards in 2013, including:

- 2013 Association of International Chemical Manufacturers (AICM) Responsible Care® Merit Award in Beijing
- Ibn Zahr won the sixth annual MARAFIQ Award for Sustainable Development 2013
- The British Safety Council presented United with Globe of Honor for excellence in environmental care. The recognition is accorded to a company that is in compliance with the environmental standards set for the award, which recognizes the "best of the best" in environmental management
- Teesside, UK, was awarded the Health Leadership Award at the Chemical Industries Association and 'Outstanding Contribution by a Larger Organization' in the North East Equality Awards for its work in promoting mental health in the workplace
- Mount Vernon, USA received the National Pollution Prevention Round Table's Most Valuable Pollution Prevention Project award
- Rayong, Thailand, has been awarded a National Best Safety Management Award by the Thai Ministry of Labor in recognition of the company's efforts in maintaining world-class Environmental, Health, Safety, and Security (EHSS) standards in its operations
- Rayong, Thailand, received the Zero Accident Campaign Silver Award from the Thai Ministry of Labor. This is the sixth consecutive year that the Rayong site has received this award



# COMPLIANCE AND RISK MANAGEMENT

Sound and effective compliance and risk-management processes are essential to our success, particularly in the challenging regulatory environment in which we operate today. These processes are designed to ensure that the interests of all SABIC stakeholders, including customers, employees, shareholders, and our communities, are safeguarded and promoted over the long term.

In addition to our EHSS practices, SABIC ensures that we build and maintain world-class compliance and risk-management processes through our Legal Affairs, Enterprise Risk Management, and Internal Audit departments, all of which are focused on supporting SABIC's drive to become the world's preferred leader in chemicals.

## LEGAL AFFAIRS

The responsibilities of Legal Affairs begin with providing proactive day-to-day support to manage legal risk for the business, while promoting growth through commercial transactions, M&A activities, and strategic counseling. The team also supports the company's 2025 goals in two key areas: building and maintaining robust compliance processes and a strong compliance culture to foster the highest ethical standards; and working closely with our technology and business leaders to maximize the value we gain from our innovation activities through strategic intellectual-property protection.

Under our Compliance program, SABIC employees continued their excellent performance in 2013 on assigned web-based compliance training modules based on our Code of Ethics policies, completing some 300,000 modules worldwide, with overall completion rates exceeding 97%. Other compliance highlights included enhancing our compliance investigation and reporting procedures, completing Compliance Review and Risk Mitigation sessions with four additional business units/functions in 2013, extending additional elements of our Compliance Framework to SABIC affiliates, and creating a new Anti-Corruption Code of Ethics policy and training module.

The new Anti-Corruption policy and training module, together with our risk-based live training program, create a strong foundation for SABIC's deep commitment to fighting corruption. This commitment also extends to external leadership efforts to combat corruption through participation in the B20 Task Force to improve

Transparency and Anti-Corruption efforts, the United Nations Compact, and the World Economic Forum, as well as events sponsored by the Saudi National Anti-Corruption Commission (Nazaha). These efforts were recognized in October 2013 when the prominent anti-corruption organization, Transparency International, ranked SABIC 11<sup>th</sup> out of 100 large multinational companies from emerging markets (and 1<sup>st</sup> in the Middle East) for the strength of its anti-corruption program and reporting transparency.

In Intellectual Property, our IP lawyers and business and technology leaders continued with our value-add approach toward "monetizing" our innovation efforts, which saw our original patent applications grow by almost 60% in 2013. We now have a formidable patent estate of more than 9,700 global dockets to help us boost margins and drive growth. We also continue with our IP-awareness training program which has reaped substantial benefits for SABIC, particularly in Saudi Arabia, where we saw an increase of over 200 percent in patent filings in 2013 covering inventions made in the country.



## ENTERPRISE RISK MANAGEMENT

SABIC recognizes the important correlation between its continued growth and its success in managing business and operational risks to maintain a competitive advantage. The Enterprise Risk Management (ERM) department enhances the possibilities of achieving company targets by promoting strategic decision-making processes that include identifying and predicting risks and improving future planning through continuous risk-mitigation efforts. The benefits of a strong ERM program include:

1. Promoting the achievement of the company's strategic objectives through effective risk management
2. Improving future planning through the continuous survey of anticipated and emerging risks
3. Maintaining a competitive advantage through a comprehensive process for identifying and mitigating business and operational risks.

During 2013, the ERM department developed and implemented a Business Continuity Management (BCM) process, which raises the level of readiness to respond to unexpected interruptions and to increase business resilience.

ERM has conducted several risk assessment and business continuity workshops and training sessions covering multiple sites at SABIC globally in a plan to cover all global operations by 2015. It will keep working with the business to ensure the effective management and reporting of risks across the organization and to raise the level of awareness within SABIC, with the ultimate goal of having risk management and business continuity fully embedded within SABIC's culture.

“  
THE SYSTEM PROMOTES  
CONSISTENCY IN RISK-  
MANAGEMENT STANDARDS.  
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The existence of an independent ERM function coupled with a robust risk-governance structure ensures that appropriate escalation and cascading of risk information and mitigation actions is carried out throughout all levels of the organization. This provides the Board and relevant stakeholders with the assurance that potential threats and weaknesses are detected and managed proactively. During 2013, SABIC used its comprehensive Compliance and Risk Management system to support risk-management processes executed by its ERM and Legal Compliance teams. The system promotes consistency in risk-management standards, methodology, terminology, and reporting, and creates synergies in risk analysis, risk mitigation, and risk-based decision-making. Using the system, the Legal and ERM teams conduct reviews of SABIC's Business Units and Functions to identify opportunities for the company to improve compliance and control processes to mitigate potential risks. This process is conducted on an ongoing basis; two Business Units and two Corporate Functions were reviewed in 2013.

## INTERNAL AUDIT

The Internal Audit Department audited the company's operations in 2013, in accordance with the SABIC Audit Committee Approved Annual Audit Plan, to verify the effectiveness of the company's internal control systems, to safeguard company assets, and to evaluate the suitability of the company's performance in mitigating risks. PricewaterhouseCoopers, appointed as the company's external auditor, also conducted periodic audits and reviewed the closing financial statements of the company. As a result of these audits and reviews, there were no fundamental weaknesses uncovered in the internal control systems of the company.

The Internal Audit Department completed all planned audits for 2013, which covered fully 69% of high-risk areas identified. The follow up and closing of findings reached almost 80%, which exceeded best-in-class levels. The Internal Audit Department also participated in several specialized training courses in 2013 in order to educate staff in several areas, including Controllershship and other Code of Ethics policies, anti-dumping, analytical audit tools (ACL), and procurement fraud.

As part of the company's continuous improvement effort, an evaluation of the Internal Audit Quality Assurance and Improvement Program (QAIP) against international internal auditing standards was conducted and the results, which “generally conform” to the Institute of Internal Auditors (IIA) Standards, were shared with Senior Management and the Audit Committee. Finally, the Audit Department is planning to introduce a system of self-auditing and continuous auditing using several advanced-technology systems so that our high-risk operations have the tools to mitigate potential risks they identify on a timely basis.

04

# OUR FINANCES

## **INDEPENDENT AUDITORS' REPORT**

February 19, 2014

To the Shareholders of Saudi Basic Industries Corporation (SABIC):  
A Saudi Joint Stock Company

### **Scope of audit**

We have audited the accompanying consolidated balance sheet of Saudi Basic Industries Corporation (SABIC) (the "Company") and its subsidiaries (collectively referred to as the "Group") as of December 31, 2013 and the consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended, and the notes from (1) to (34) which form an integral part of the consolidated financial statements. These consolidated financial statements, which were prepared by the Company in accordance with Article 123 of the Regulations for Companies and presented to us with all information and explanations which we required, are the responsibility of the Group's management. 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 Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

### **Unqualified opinion**

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

- Present fairly, in all material respects, the financial position of the Group as of December 31, 2013 and the results of its operations and its cash flows for the year then ended in conformity with accounting standards generally accepted in Saudi Arabia appropriate to the circumstances of the Group; and
- Comply, in all material respects, with the requirements of the Regulations for Companies and the Company's By-laws with respect to the preparation and presentation of consolidated financial statements.

PricewaterhouseCoopers

By:

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## CONSOLIDATED BALANCE SHEET

As of 31 December 2013  
(Saudi Riyals in '000)

|                                      | Note | 2013               | 2012<br>(restated) |
|--------------------------------------|------|--------------------|--------------------|
| <b>ASSETS</b>                        |      |                    |                    |
| <b>Current assets</b>                |      |                    |                    |
| Cash and cash equivalents            | 4    | 37,546,960         | 36,836,440         |
| Short-term investments               |      | 30,681,255         | 28,985,367         |
| Accounts receivable                  | 5    | 30,116,345         | 31,542,075         |
| Inventories                          | 6    | 32,441,952         | 34,498,649         |
| Prepayments and other current assets | 7    | 4,065,816          | 4,432,836          |
| <b>Total current assets</b>          |      | <b>134,852,328</b> | <b>136,295,367</b> |
| <b>Non-current assets</b>            |      |                    |                    |
| Investments                          | 8    | 13,491,379         | 10,381,738         |
| Property, plant, and equipment       | 9    | 165,434,911        | 165,440,316        |
| Intangible assets                    | 10   | 22,196,733         | 22,661,123         |
| Other non-current assets             | 11   | 3,095,218          | 2,659,344          |
| <b>Total non-current assets</b>      |      | <b>204,218,241</b> | <b>201,142,521</b> |
| <b>TOTAL ASSETS</b>                  |      | <b>339,070,569</b> | <b>337,437,888</b> |

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.

SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND SUBSIDIARIES  
(A Saudi Joint Stock Company)

## CONSOLIDATED BALANCE SHEET (continued)

As of 31 December 2013  
(Saudi Riyals in '000)

|  | Note   | 2013               | 2012<br>(restated) |
|--|--------|--------------------|--------------------|
| <b>LIABILITIES AND EQUITY</b>          |        |                    |                    |
| <b>Current liabilities</b>             |        |                    |                    |
| Short-term bank borrowings             | 12     | 2,191,243          | 874,188            |
| Current portion of long-term debt      | 13     | 5,725,889          | 15,029,453         |
| Accounts payable                       | 14     | 19,503,827         | 19,604,347         |
| Accruals and other current liabilities | 15     | 13,995,357         | 9,627,281          |
| Zakat payable                          | 16     | 3,049,797          | 3,207,770          |
| <b>Total current liabilities</b>       |        | <b>44,466,113</b>  | <b>48,343,039</b>  |
| <b>Non-current liabilities</b>         |        |                    |                    |
| Long-term debt                         | 13     | 73,947,077         | 79,531,700         |
| Other non-current liabilities          | 17     | 3,506,577          | 3,175,896          |
| Employee benefits                      | 18     | 10,494,719         | 10,535,928         |
| <b>Total non-current liabilities</b>   |        | <b>87,948,373</b>  | <b>93,243,524</b>  |
| <b>Total liabilities</b>               |        | <b>132,414,486</b> | <b>141,586,563</b> |
| <b>EQUITY</b>                          |        |                    |                    |
| <b>Shareholders' equity</b>            |        |                    |                    |
| Share capital                          | 19     | 30,000,000         | 30,000,000         |
| Statutory reserve                      | 20     | 15,000,000         | 15,000,000         |
| General reserve                        | 20     | 93,799,473         | 84,021,011         |
| Retained earnings                      |        | 17,471,944         | 16,394,004         |
| <b>Total shareholders' equity</b>      |        | <b>156,271,417</b> | <b>145,415,015</b> |
| <b>Non-controlling interests</b>       | 21     | <b>50,384,666</b>  | <b>50,436,310</b>  |
| <b>Total equity</b>                    |        | <b>206,656,083</b> | <b>195,851,325</b> |
| <b>TOTAL LIABILITIES AND EQUITY</b>    |        | <b>339,070,569</b> | <b>337,437,888</b> |
| <b>CONTINGENCIES AND COMMITMENTS</b>   | 30, 31 |                    |                    |

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2013  
(Saudi Riyals in '000)

|   | Note | 2013          | 2012          |
|---|------|---------------|---------------|
| Sales   |      | 189,031,500   | 189,025,547   |
| Cost of sales   |      | (133,687,137) | (135,632,216) |
| <b>GROSS PROFIT</b>   |      | 55,344,363    | 53,393,331    |
| Selling, general, and administrative expenses                     | 22   | (12,759,672)  | (12,367,794)  |
| <b>INCOME FROM MAIN OPERATIONS</b>                                |      | 42,584,691    | 41,025,537    |
| Share in earnings of equity-accounted investees                   | 8    | 328,756       | 1,031,719     |
| Financial charges   |      | (1,756,272)   | (2,492,797)   |
| Other income  | 23   | 1,309,273     | 1,279,936     |
| <b>INCOME BEFORE SHARE OF NON-CONTROLLING INTERESTS AND ZAKAT</b> |      | 42,466,448    | 40,844,395    |
| Share of non-controlling interests                                | 21   | (14,888,066)  | (13,564,133)  |
| <b>INCOME BEFORE ZAKAT</b>  |      | 27,578,382    | 27,280,262    |
| Zakat   | 16   | (2,300,000)   | (2,500,000)   |
| <b>NET INCOME</b>   |      | 25,278,382    | 24,780,262    |
| <b>EARNINGS PER SHARE (Saudi Riyals):</b>                         | 24   |               |               |
| Attributable to income from main operations                       |      | 14.19         | 13.68         |
| Attributable to net income  |      | 8.43          | 8.26          |

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.



SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND SUBSIDIARIES  
(A Saudi Joint Stock Company)

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013  
(Saudi Riyals in '000)

|   | 2013                | 2012<br>(restated)  |
|---|---------------------|---------------------|
| <b>OPERATING ACTIVITIES</b>                         |                     |                     |
| Income before zakat                                 | 27,578,382          | 27,280,262          |
| <i>Adjustments for:</i>                             |                     |                     |
| Depreciation, amortization, and impairment          | 14,283,312          | 13,729,760          |
| Share in earnings of equity-accounted investees     | (328,756)           | (1,031,719)         |
| Share of non-controlling interests                  | 14,888,066          | 13,564,133          |
| <i>Changes in operating assets and liabilities:</i> |                     |                     |
| Accounts receivable                                 | 1,425,730           | (115,630)           |
| Inventories   | 2,056,697           | (3,034,679)         |
| Prepayments and other current assets                | 367,020             | (1,086,697)         |
| Accounts payable                                    | (100,520)           | 3,216,248           |
| Accruals and other current liabilities              | 2,679,838           | (538,798)           |
| Other non-current liabilities                       | 330,681             | (721,877)           |
| Employee benefits                                   | (41,209)            | 1,164,251           |
| Zakat paid  | (2,457,973)         | (2,432,626)         |
| <b>Net cash from operating activities</b>           | <b>60,681,268</b>   | <b>49,992,628</b>   |
| <b>INVESTING ACTIVITIES</b>                         |                     |                     |
| Short-term investments                              | (1,695,888)         | (1,005,918)         |
| Investments, net                                    | (2,780,885)         | 351,062             |
| Property, plant, and equipment, net                 | (11,902,646)        | (10,986,605)        |
| Intangible assets, net                              | (374,675)           | (1,962,000)         |
| Other non-current assets, net                       | (1,972,071)         | (1,590,466)         |
| <b>Net cash used in investing activities</b>        | <b>(18,726,165)</b> | <b>(15,193,927)</b> |

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the year ended 31 December 2013  
(Saudi Riyals in '000)

|   | 2013         | 2012<br>(restated) |
|---|--------------|--------------------|
| <b>FINANCING ACTIVITIES</b>                             |              |                    |
| Short-term bank borrowings                              | 1,317,055    | (459,235)          |
| Long-term debt, net                                     | (14,888,187) | (6,463,081)        |
| Non-controlling interests                               | (14,939,710) | (14,311,046)       |
| Dividends paid  | (12,733,741) | (14,914,371)       |
| Net cash used in financing activities                   | (41,244,583) | (36,147,733)       |
| <b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b> | 710,520      | (1,349,032)        |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR      | 36,836,440   | 38,185,472         |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR            | 37,546,960   | 36,836,440         |

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.

SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND SUBSIDIARIES  
(A Saudi Joint Stock Company)

# CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2013  
(Saudi Riyals in '000)

|  | <i>Note</i> | <i>Share<br/>capital</i> | <i>Statutory<br/>reserve</i> | <i>General<br/>reserve</i> | <i>Retained<br/>earnings</i> | <i>Total</i> |
|--|-------------|--------------------------|------------------------------|----------------------------|------------------------------|--------------|
| Balance as of<br>31 December 2011                      |             | 30,000,000               | 15,000,000                   | 69,780,661                 | 23,241,750                   | 138,022,411  |
| Impact of<br>revision of IAS 19<br>"Employee Benefits" | 3           | –                        | –                            | –                          | (1,364,246)                  | (1,364,246)  |
| Balance as of<br>1 January 2012,<br>as restated        |             | 30,000,000               | 15,000,000                   | 69,780,661                 | 21,877,504                   | 136,658,165  |
| Annual dividends<br>for 2011                           |             | –                        | –                            | –                          | (9,000,000)                  | (9,000,000)  |
| Board of directors'<br>remuneration                    |             | –                        | –                            | –                          | (1,400)                      | (1,400)      |
| Transfer to general<br>reserve                         | 29          | –                        | –                            | 14,240,350                 | (14,240,350)                 | –            |
| Interim dividends<br>for 2012                          | 29          | –                        | –                            | –                          | (6,000,000)                  | (6,000,000)  |
| Net income   |             | –                        | –                            | –                          | 24,780,262                   | 24,780,262   |
| Re-measurement<br>impact of "Employee<br>Benefits"     | 3           | –                        | –                            | –                          | (1,022,012)                  | (1,022,012)  |
| Balance as of<br>31 December 2012,<br>as restated      |             | 30,000,000               | 15,000,000                   | 84,021,011                 | 16,394,004                   | 145,415,015  |
| Annual dividends<br>for 2012                           | 29          | –                        | –                            | –                          | (9,000,000)                  | (9,000,000)  |
| Board of directors'<br>remuneration                    | 29          | –                        | –                            | –                          | (1,800)                      | (1,800)      |
| Transfer to<br>general reserve                         | 29          | –                        | –                            | 9,778,462                  | (9,778,462)                  | –            |
| Interim dividends<br>for 2013                          | 29          | –                        | –                            | –                          | (6,000,000)                  | (6,000,000)  |
| Net income   |             | –                        | –                            | –                          | 25,278,382                   | 25,278,382   |
| Re-measurement<br>impact of<br>"Employee Benefits"     | 3           | –                        | –                            | –                          | 579,820                      | 579,820      |
| Balance as of<br>31 December 2013                      |             | 30,000,000               | 15,000,000                   | 93,799,473                 | 17,471,944                   | 156,271,417  |

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 1. ORGANIZATION AND ACTIVITIES

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

SABIC and its subsidiaries (the "Group") are engaged in the manufacturing, marketing, and distribution of chemical, fertilizer, and metal products in global markets. The Group's head office is located in Riyadh, Kingdom of Saudi Arabia.

## 2. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia issued by the Saudi Organization for Certified Public Accountants (SOCPA).

### Accounting Convention

The consolidated financial statements are prepared under the historical-cost convention, except for the measurement at fair value of available-for-sale investments and derivative financial instruments, using the accruals basis of accounting and the going-concern concept. For employee and other post-employment benefits related to foreign entities, actuarial present-value calculations are used.

### Use of estimates, assumptions, and judgments

The preparation of the consolidated financial statements in conformity with generally accepted accounting standards requires management to make estimates,

assumptions, and judgments that affect the reported amounts of revenues, expenses, assets, and liabilities. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The actual results ultimately may differ from such estimates.

The accounting estimates and assumptions involving a higher degree of uncertainty include impairment of non-current assets and certain employee benefits related to foreign entities.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted by SABIC in preparing its consolidated financial statements are applied consistently except as described in subsequent paragraphs.

### Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group, as adjusted for the elimination of significant inter-company balances and transactions.

A subsidiary is an entity in which SABIC has a direct or indirect equity investment of more than 50% or over which it exerts effective management control. The financial statements of the subsidiaries are prepared using accounting policies which are consistent with those of SABIC. The subsidiaries are consolidated from the date on which SABIC is able to exercise effective management control, and deconsolidated from the date SABIC loses its effective management control.

SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND SUBSIDIARIES  
(A Saudi Joint Stock Company)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Basis of consolidation (continued)

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

|  | Direct and indirect shareholding % |        |
|--|------------------------------------|--------|
|  | 2013                               | 2012   |
| SABIC Industrial Investments Company (SIIC) and its subsidiaries | 100.00                             | 100.00 |
| SABIC Luxembourg S.a.r.l. (SLUX) and its subsidiaries            | 100.00                             | 100.00 |
| Arabian Petrochemical Company and its subsidiary (Petrokemya)    | 100.00                             | 100.00 |
| Saudi Iron and Steel Company (Hadeed)                            | 100.00                             | 100.00 |
| SABIC Sukuk Company (Sukuk)                                      | 100.00                             | 100.00 |
| SABIC Industrial Catalyst Company (Sabcat)                       | 100.00                             | 100.00 |
| Saudi Arabia Carbon Fiber Company (SCFC)                         | 100.00                             | 100.00 |
| Saudi European Petrochemical Company (Ibn Zahr)                  | 80.00                              | 80.00  |
| Jubail United Petrochemical Company (United)                     | 75.00                              | 75.00  |
| National Chemical Fertilizer Company (Ibn Al-Baytar)             | 71.50                              | 71.50  |
| National Industrial Gases Company (Gas)                          | 70.00                              | 70.00  |
| Yanbu National Petrochemical Company (Yansab)                    | 51.95                              | 51.95  |
| Saudi Methanol Company (Ar-Razi)                                 | 50.00                              | 50.00  |
| Al-Jubail Fertilizer Company (Al-Bayroni)                        | 50.00                              | 50.00  |
| Saudi Yanbu Petrochemical Company (Yanpet)                       | 50.00                              | 50.00  |
| National Methanol Company (Ibn Sina)                             | 50.00                              | 50.00  |
| Saudi Petrochemical Company (Sadaf)                              | 50.00                              | 50.00  |
| Eastern Petrochemical Company (Sharq)                            | 50.00                              | 50.00  |
| Al-Jubail Petrochemical Company (Kemya)                          | 50.00                              | 50.00  |
| Saudi Japanese Acrylonitrile Company (Shrouq)                    | 50.00                              | 50.00  |
| Arabian Industrial Fibers Company (Ibn Rushd)                    | 47.26                              | 47.26  |
| Saudi Arabian Fertilizer Company (Safco)                         | 42.99                              | 42.99  |
| Saudi Kayan Petrochemical Company (Saudi Kayan)                  | 35.00                              | 35.00  |

All directly owned subsidiaries are incorporated in the Kingdom of Saudi Arabia except for SLUX which is incorporated in Luxembourg. Yansab, SAFCO, and Saudi Kayan are listed Saudi Joint Stock Companies.

SINOPEC SABIC Tianjin Petrochemical Co. Ltd. (SSTPC) is a jointly controlled entity equally owned by SIIC and

China Petroleum & Chemical Corporation (SINOPEC). In May 2011, the International Accounting Standard Board (IASB) issued International Financial Reporting Standards 11: Joint Arrangements (IFRS 11). Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint-ventures, depending on the contractual rights and obligations of each investor

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2013

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Basis of consolidation *(continued)***

rather than the legal structure of the joint arrangement. IFRS 11 removes the option of proportionate consolidation set out in International Accounting Standard 31: Interest in Joint-Ventures (IAS 31), which had been applied by the Group in 2012 and prior years. IFRS 11 requires entities to account for joint-ventures using the equity method. The application of IFRS 11 is effective for the annual periods starting on or after 1 January 2013. Accordingly, effective 1 January 2013, the Group started recording the results of SSTPC using the equity method. The effect of the above-mentioned change in accounting policy is not considered to be significant and, therefore, comparative figures have not been restated.

### **Cash and cash equivalents**

Cash and cash equivalents include cash on hand, bank balances, short-term deposits, demand deposits, and highly liquid investments with original maturities of three months or less.

### **Short-term investments**

#### ***Short-term deposits***

Short-term deposits with original maturities of more than three months but less than 12 months are classified as short-term investments and included under current assets. Income from these deposits is recognized on the accruals basis.

#### ***Held to maturity – current portion***

Held-to-maturity investments are reclassified as short-term investments under current assets when their remaining maturities are less than 12 months.

### **Accounts receivable**

Accounts receivable are stated at the original invoice amount less any provision for doubtful debts. An estimate for doubtful debts is made when the collection of the receivable amount is considered doubtful. Bad debts are written off in the consolidated statement of income as incurred.

### **Inventories**

Inventories are stated at the lower of cost or net realizable value, less provision for slow-moving items and obsolescence. Cost of raw materials, consumables, spare parts, and finished goods is principally determined on weighted-average cost basis. Inventories of work in

progress and finished goods include cost of materials, labor, and an appropriate proportion of direct overheads.

### **Investments**

#### ***Equity-accounted investees***

##### ***Associated companies:***

Investment in associated companies represents investments of 20% or more in the share capital of investees, other than subsidiary companies, and over which the Group exercises significant influence.

##### ***Joint-venture:***

A joint-venture is a contractual arrangement whereby an entity and other parties undertake an economic activity that is subject to joint control. The agreement requires unanimous agreement for financial and operating decisions among the parties involved.

In the consolidated financial statements, the investments in equity-accounted investees are initially recognized at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of such investees. The Group's share in the financial results of these investees is recognized in the consolidated statement of income.

#### ***Available for sale***

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

#### ***Held to maturity***

This represents investments that are acquired with the intention and ability of being held to maturity, which are carried at cost (adjusted for any premium or discount), less any decline in value, which is other than temporary. Such investments are classified as non-current assets with the exception of investments maturing in the following 12 months.



## SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND SUBSIDIARIES (A Saudi Joint Stock Company)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Property, plant, and equipment

Property, plant, and equipment is stated at cost less accumulated depreciation and impairment, except for freehold land and construction work in progress, which are stated at cost. Expenditure on maintenance and repairs is expensed, while expenditure on improvements is capitalized. Financing costs related to qualifying assets are capitalized until they are ready for their intended use.

Items of property, plant, and equipment are depreciated from the date they are available for use or, in respect of self-constructed assets, from the date such assets are completed and ready for the intended use. Depreciation is provided over the estimated useful lives of the applicable assets using the straight-line method. Leasehold improvements are depreciated over the shorter of the estimated useful life or the remaining term of the lease. The capitalized leased assets are depreciated over the shorter of the estimated useful lives or the lease term. The estimated useful lives of the principal asset classes are as follows:

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

#### Leases

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

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

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

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

#### Intangible assets

Intangible assets acquired separately are measured at cost upon initial recognition. Intangible assets acquired in a business combination are measured at fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortization and impairment, if any.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite useful lives are amortized using the straight-line method over the estimated useful lives of relevant assets and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The amortization periods for intangible assets with finite useful lives are as follows:

|   |           |
|---|-----------|
| Trademarks  | 22 years  |
| Customer lists  | 18 years  |
| Patented and unpatented technologies                      | 10 years  |
| IT development costs and technology and innovation assets | 3-5 years |

Goodwill and other intangible assets with indefinite useful lives are tested for impairment annually, or earlier when circumstances indicate that the carrying value may be impaired.

#### Goodwill

The excess of consideration paid over the fair value of net assets acquired is recorded as goodwill. Goodwill is annually re-measured and reported in the consolidated financial statements at carrying value after adjustment for impairment, if any. If, after reassessment, the net amounts of the identifiable net assets acquired at the acquisition date exceed the sum of the consideration paid, the excess is recognized immediately in the consolidated statement of income as a gain.

#### Pre-operating expenses, deferred costs, and other intangible assets

Expenses incurred during the development of new projects, which are expected to provide benefits in future periods, are deferred and are amortized from the commencement of the commercial operations using a straight-line method over the shorter of the estimated period of economic benefits or seven years.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### *Pre-operating expenses, deferred costs, and other intangible assets (continued)*

Expenses incurred during turnaround of production facilities are deferred and amortized over the period to the next turnaround.

### **Impairment**

At each balance-sheet date, the Group reviews the carrying amount 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. The recoverable amount is the higher of an asset's fair value less costs to sell or value-in-use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the Cash Generating Unit (CGU) to which the asset belongs.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. Impairment losses are charged to the consolidated statement of income.

For assets other than goodwill, an assessment is made periodically as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. This reversal is limited so that the carrying amount of the asset does not exceed the amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income.

### **Accounts payable and accruals**

Liabilities are recognized for amounts to be paid in the future for goods or services received at the balance-sheet date.

### **Provisions**

Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

### **Dividends**

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

### **Zakat and income tax**

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

For subsidiaries outside the Kingdom of Saudi Arabia, provision for tax is computed in accordance with tax regulations of the respective countries. Current income-tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the relevant tax authorities.

### **Deferred income tax**

Deferred income tax is provided using the liability method on temporary differences at the balance-sheet date between the tax bases of assets and liabilities and their carrying amounts for financial-reporting purposes. Deferred income-tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits, and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carry-forward of unused tax credits, and unused tax losses can be utilized.

The carrying amount of deferred income-tax assets is reviewed at each balance-sheet date and reduced to

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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Deferred income tax (continued)

the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income-tax asset to be utilized. Unrecognized deferred income-tax assets are reassessed at each balance-sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

#### Long-term debt

Borrowings are initially recognized at cost, being the fair value of the proceeds received, net of transaction costs. Financial charges are accrued in the consolidated statement of income.

#### Employee benefits

Employee end-of-service benefits are provided for in accordance with the requirements of the Saudi Arabian Labor Law and Group's policies. Employee early-retirement-plan costs are provided for in accordance with the Group's policies and are charged to the consolidated statement of income in the year the employee retires.

The Group has pension plans for its employees in overseas jurisdictions. The eligible employees participate in either defined-contribution or defined-benefit plans. The pension plans take into consideration the legal framework of labor and social-security laws of the countries where the subsidiaries are incorporated.

In June 2011, the IASB announced revisions to International Accounting Standard 19: Employee Benefits (IAS 19) impacting the measurement and presentation of employee benefits in respect to post-employment plans. The Group adopted the revisions of IAS 19, related to its pension plans for its employees in overseas jurisdictions, which became effective 1 January 2013. The most significant change of IAS 19 relates to the accounting for changes and measurement of defined-benefit obligations and plan assets. The amendments require the recognition of changes in defined-benefit obligations and fair value of plan assets when they occur, and eliminate the 'corridor approach' permitted under IAS 19 as applied by the Group up to 31 December 2012. In addition, IAS 19 accelerates the recognition of past service costs and requires all actuarial gains and losses to be recognized in the retained earnings.

Due to the amendments in IAS 19, the presentation of changes in defined-benefit obligations and plan assets is split into three components:

**Service costs** – are recognized in the consolidated statement of income and include current and past service cost, as well as gains or losses on settlements.

**Net interest** – is recognized in the consolidated statement of income and calculated by applying the discount rate at the beginning of the reporting period to the net defined-benefit liability or asset at the beginning of each reporting period.

**Re-measurement** – is recognized directly in the retained earnings and comprises actuarial gains and losses on the defined-benefits obligation, i.e., the excess of the actual return-on-plan assets over the change in plan assets due to the passage of time and the changes, if any, due to the impact of the asset ceiling.

The revision of IAS 19 has been accounted for with effect from 1 January 2013 retrospectively, and the comparative figures for the year ended 31 December 2012 have been restated.

#### Employee home-ownership program

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

#### Revenue recognition

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

#### Selling, general, and administrative expenses

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



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Technology and innovation expenses

Technology and innovation expenses are charged to the consolidated statement of income when incurred. Development expenses which are expected to generate measurable economic benefits to the Group are capitalized as intangibles and amortized over their expected useful lives.

### Foreign-currency translation

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

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

### Derivative financial instruments

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

Changes in the fair value of derivative financial instruments that are designated as effective hedges of future cash flows are recognized directly in equity, if material and the ineffective portion is recognized in the consolidated statement of income. If the cash-flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or a liability, then,

at the time the asset or liability is recognized, the associated gain or loss on the derivative that had previously been recognized is included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognized in the consolidated statement of income in the same period in which the hedged item affects net income or loss.

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

### Financial assets and liabilities

A financial asset and liability is offset and the net amount is reported in the consolidated financial statements, when the Group has a legally enforceable right to offset the recognized amounts and intends either to settle on a net basis, or to realize the asset and liability simultaneously.

### Consolidated statement of cash flows

The Group uses the indirect method to prepare the consolidated statement of cash flows. Cash flows in foreign currencies are translated at average exchange rates.

### Segment reporting

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

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## 4. CASH AND CASH EQUIVALENTS

|               | 2013       | 2012       |
|---------------|------------|------------|
| Time deposits | 28,748,830 | 30,187,011 |
| Bank balances | 8,798,130  | 6,649,429  |
|               | 37,546,960 | 36,836,440 |

Cash and cash equivalents as of 31 December 2013 include restricted cash balances amounting to SR 1.4 billion (2012: SR 1.3 billion), which represent employee savings-plan deposits held in separate bank accounts, which are not available to the Group.

## 5. ACCOUNTS RECEIVABLE

|   | 2013       | 2012       |
|---|------------|------------|
| Trade accounts receivable                                   | 26,117,677 | 27,495,821 |
| Amounts due from foreign partners of subsidiaries (note 27) | 4,252,521  | 4,307,590  |
|   | 30,370,198 | 31,803,411 |
| Less: Provision for doubtful debts                          | (253,853)  | (261,336)  |
|   | 30,116,345 | 31,542,075 |

## 6. INVENTORIES

|  | 2013        | 2012        |
|--|-------------|-------------|
| Finished goods                                     | 17,782,105  | 18,548,753  |
| Raw materials                                      | 8,082,286   | 8,758,018   |
| Spare parts  | 6,370,324   | 6,219,582   |
| Goods-in-transit                                   | 1,387,456   | 2,123,773   |
| Work-in-progress                                   | 5,145       | 85,892      |
|  | 33,627,316  | 35,736,018  |
| Less: Provision for slow-moving and obsolete items | (1,185,364) | (1,237,369) |
|  | 32,441,952  | 34,498,649  |

## 7. PREPAYMENTS AND OTHER CURRENT ASSETS

|   | 2013      | 2012      |
|---|-----------|-----------|
| Prepaid expenses                                    | 1,414,157 | 1,214,645 |
| Taxes and subsidies receivables                     | 532,535   | 575,187   |
| Employee advances and receivables – current portion | 188,253   | 203,063   |
| Others  | 1,930,871 | 2,439,941 |
|   | 4,065,816 | 4,432,836 |

Others include advances to contractors, accrued income on time deposits, and miscellaneous items.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013  
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## 8. INVESTMENTS

|  | Shareholding<br>% | Shareholding in equity |            |
|--|-------------------|------------------------|------------|
|  |                   | 2013                   | 2012       |
| <i>Associated companies</i>                    |                   |                        |            |
| Gulf Petrochemical Industries Co. (GPIC)       | 33.33             | 650,591                | 619,694    |
| Gulf Aluminum Rolling Mills Co. (GARMCO)       | 31.28             | 256,308                | 165,756    |
| Ma'aden Phosphate Co. (MPC)                    | 30.00             | 2,062,603              | 2,369,715  |
| Power and Water Utilities Co. (MARAFIQ)        | 24.81             | 1,246,243              | 1,641,544  |
| Aluminum Bahrain BSC. (ALBA)                   | 20.62             | 1,775,642              | 1,687,829  |
| National Chemical Carrier Co. (NCC)            | 20.00             | 250,192                | 234,890    |
| Others   |                   | 799,192                | 650,421    |
|  |                   | 7,040,771              | 7,369,849  |
| <i>Joint-venture</i>                           |                   |                        |            |
| SSTPC (note 3)                                 | 50.00             | 2,191,591              | –          |
|  |                   | 9,232,362              | 7,369,849  |
| <i>Held to maturity (Sukuk and bonds)</i>      |                   |                        |            |
|  |                   | 3,524,867              | 2,688,699  |
| <i>Available for sale</i>                      |                   |                        |            |
| Investments in quoted and un-quoted securities |                   | 351,662                | 323,190    |
| Amount paid on account of investments          |                   | 382,488                | –          |
|  |                   | 734,150                | 323,190    |
|  |                   | 13,491,379             | 10,381,738 |

Movement in equity-accounted investees is as follows:

|   | 2013      | 2012      |
|---|-----------|-----------|
| Balance at beginning of the year            | 7,369,849 | 6,822,027 |
| SSTPC – opening balance adjustment (note 3) | 2,149,764 | –         |
| Share in earnings                           | 328,756   | 1,031,719 |
| Additions/reclassifications during the year | 215,572   | 22,906    |
| Dividends received                          | (831,579) | (506,803) |
| Balance at end of the year                  | 9,232,362 | 7,369,849 |



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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013  
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## 8. INVESTMENTS (continued)

### *Associated companies*

NCC, MARAFIQ, and MPC are incorporated in the Kingdom of Saudi Arabia. GPIC, GARMCO, and ALBA are incorporated in the Kingdom of Bahrain. Others mainly include investments in associated companies held by subsidiaries of SLUX.

### *Joint-venture*

Effective 1 January 2013, SABIC's interests in SSTPC were deconsolidated and accounted for using the equity method of accounting (note 3).

### *Available for sale*

Investments in quoted and unquoted securities represent equity interests in which the Group has no significant influence.

Amount paid on account of investments represents SABIC's contribution to acquire 15% interest in Wa'ad Al Shamal Phosphate Project. Saudi Arabian Mining Company (Ma'aden) and Mosaic Phosphates B.V. are other parties to this project. As per the shareholders' agreement, the parties intend to establish a limited-liability company to undertake the project. Legal formalities for this were in process as of 31 December 2013.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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## 9. PROPERTY, PLANT, AND EQUIPMENT

|                                       | Land and<br>buildings | Plant and<br>equipment | Furniture,<br>fixtures, and<br>vehicles | Construction<br>work in<br>progress | Total<br>2013 | Total<br>2012 |
|---------------------------------------|-----------------------|------------------------|---|-------------------------------------|---------------|---------------|
| <b>Cost:</b>                          |                       |                        |   |                                     |               |               |
| At beginning of the year              | 28,825,994            | 223,528,672            | 4,006,365                               | 22,429,823                          | 278,790,854   | 266,989,881   |
| Additions                             | 109,240               | 2,296,411              | 30,576                                  | 14,714,937                          | 17,151,164    | 14,171,921    |
| Transfers/<br>disposals               | 1,126,635             | 4,807,164              | 73,636                                  | (8,267,782)                         | (2,260,347)   | (3,115,793)   |
| SSTPC<br>deconsolidation              | (600,871)             | (4,289,795)            | (306,333)                               | (518,220)                           | (5,715,219)   | –             |
| Currency<br>translation<br>adjustment | 202,945               | 887,575                | 17,051                                  | 11,640                              | 1,119,211     | 744,845       |
| At end of<br>the year                 | 29,663,943            | 227,230,027            | 3,821,295                               | 28,370,398                          | 289,085,663   | 278,790,854   |
| <b>Depreciation and impairment:</b>   |                       |                        |   |                                     |               |               |
| At beginning of the year              | 10,586,115            | 99,755,423             | 3,009,000                               | –                                   | 113,350,538   | 101,185,324   |
| Charge for<br>the year                | 1,116,752             | 10,495,622             | 166,082                                 | –                                   | 11,778,456    | 11,959,674    |
| Transfers/<br>disposals               | (12,521)              | (1,361,422)            | (53,699)                                | –                                   | (1,427,642)   | (182,007)     |
| SSTPC<br>deconsolidation              | (69,056)              | (597,283)              | (61,365)                                | –                                   | (727,704)     | –             |
| Currency<br>translation<br>adjustment | 62,599                | 596,516                | 17,989                                  | –                                   | 677,104       | 387,547       |
| At end of<br>the year                 | 11,683,889            | 108,888,856            | 3,078,007                               | –                                   | 123,650,752   | 113,350,538   |
| <b>Net book amounts:</b>              |                       |                        |   |                                     |               |               |
| At 31 December<br>2013                | 17,980,054            | 118,341,171            | 743,288                                 | 28,370,398                          | 165,434,911   |               |
| At 31 December<br>2012                | 18,239,879            | 123,773,249            | 997,365                                 | 22,429,823                          |               | 165,440,316   |

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## 9. PROPERTY, PLANT, AND EQUIPMENT (continued)

Construction work in progress mainly represents the expansion of existing plants and new projects. The related capital commitments are reported in note 31. The financing charges capitalized during 2013 amounted to SR 0.14 billion (2012: SR 0.14 billion).

As of 31 December 2013, land and buildings include an amount of SR 2 billion (2012: SR 1.9 billion) representing

the cost of freehold land. The land on which plant and related facilities of certain subsidiaries in the Kingdom of Saudi Arabia are constructed is leased from the Royal Commission for Jubail and Yanbu under renewable lease agreements for a period of up to 30 years. Property, plant, and equipment of certain subsidiaries in the Kingdom of Saudi Arabia are mortgaged to Saudi Industrial Development Fund (SIDF) as security for its term loans.

## 10. INTANGIBLE ASSETS

|  | 2013       | 2012       |
|--|------------|------------|
| Goodwill   | 13,276,421 | 13,254,202 |
| Patents, trademarks, customer lists, and other intangibles | 4,823,207  | 5,717,536  |
| Pre-operating expenses and deferred costs                  | 4,097,105  | 3,689,385  |
|  | 22,196,733 | 22,661,123 |

*Goodwill*

The movement in the Group's reported goodwill as of 31 December is as follows:

|                          | 2013       | 2012       |
|--------------------------|------------|------------|
| At beginning of the year | 13,254,202 | 13,141,835 |
| Exchange differences     | 22,219     | 112,367    |
| At end of the year       | 13,276,421 | 13,254,202 |

*Impairment assessment*

Based on the annual goodwill impairment test performed at the Group level during the year ended 31 December 2013, no impairment charge was recorded.

Goodwill's recoverable amount has been determined based on 'value-in-use' calculations on the basis of discounted cash flows based on management-approved projected cash flows for the relevant cash-generating units for a five-year period. The cash flows beyond the five-year period are extrapolated using an estimated

terminal growth rate. Management believes the growth rate used does not exceed the long-term average growth rate for the business. The discount rate used is pre-tax and reflects specific risks relevant to the business.

The 'value-in-use' method shows that the recoverable amount calculation is most sensitive to changes in business performance, long-term and terminal growth rates, discount rate, and working capital and capital-expenditure assumptions in the terminal period.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013  
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## 11. OTHER NON-CURRENT ASSETS

|   | 2013      | 2012<br>(restated) |
|---|-----------|--------------------|
| Home-ownership receivables              | 928,158   | 1,091,086          |
| Employee advances                       | 401,578   | 397,337            |
| Deferred taxes                          | 217,897   | 414,334            |
| Reimbursement of tax payments (note 17) | 733,976   | –                  |
| Prepaid mining fees                     | 112,500   | –                  |
| Others                                  | 701,109   | 756,587            |
|   | 3,095,218 | 2,659,344          |

### *Employee advances and home-ownership receivables*

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

### *Deferred taxes*

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

### *Reimbursement of tax payments*

Reimbursement of tax payments relates to the recovery of tax payments from GE Company as a result of the purchase-price agreement related to the acquisition of SABIC Innovative Plastics Holding B.V., a subsidiary of SLUX.

### *Others*

Others mainly include advances to contractors and other items.

## 12. SHORT-TERM BANK BORROWINGS

Short-term bank borrowings as of 31 December 2013, which bear financing charges at prevailing market rates, amounted to SR 2.2 billion (2012: SR 0.9 billion). The Group had unused credit facilities as of 31 December 2013 which amounted to SR 3.4 billion (2012: SR 2.9 billion).

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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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## 13. LONG-TERM DEBT

|  | 2013        | 2012         |
|--|-------------|--------------|
| <b>Term loans:</b>                       |             |              |
| Commercial debt                          | 49,058,673  | 62,299,205   |
| Public Investment Fund (PIF)             | 6,201,656   | 7,081,875    |
| Saudi Industrial Development Fund (SIDF) | 3,153,104   | 2,804,875    |
|  | 58,413,433  | 72,185,955   |
| <b>Bonds</b>                             | 11,382,375  | 7,468,425    |
| <b>Notes</b>                             | 10,000,000  | 10,000,000   |
| <b>Sukuk</b>                             | –           | 5,000,000    |
| <b>Total debt</b>                        | 79,795,808  | 94,654,380   |
| <b>Less:</b>                             |             |              |
| Current portion of long-term debt        | (5,725,889) | (15,029,453) |
| Capitalized financing costs              | (122,842)   | (93,227)     |
| <b>Long-term debt</b>                    | 73,947,077  | 79,531,700   |

### Term loans

The Group obtained commercial loans from various financial institutions in order to finance its expansions, new projects, and acquisitions, which are repayable in installments at varying interest rates in conformity with the applicable loan agreements.

The Public Investment Fund (PIF) and Saudi Industrial Development Fund (SIDF) term loans are generally repayable in semi-annual installments and financing charges on these loans are at varying rates. The administration fees related to the SIDF loans paid are capitalized as part of the plant construction costs.

### Bonds

The following bonds were outstanding as of 31 December 2013:

On 2 November 2010, SABIC Capital I B.V., a subsidiary of SLUX, issued a five-year \$1 billion bond with a coupon of 3.0%. The proceeds were used to repay external debt.

On 3 October 2013, SABIC Capital II B.V., a subsidiary of SLUX, issued a five-year \$1 billion bond with a coupon of 2.625%. The proceeds were used to repay external debt.

On 20 November 2013, SABIC Capital I B.V. issued a seven-year €750 million bond with a coupon of 2.75%. The proceeds were used to redeem Eurobond € 750 million, upon its maturity on 28 November 2013.

### Notes

On 29 December 2009, SABIC entered into an agreement with PIF for a private placement of unsecured Saudi Riyal notes amounting to SR 10 billion with multiple tranches. Such notes are fully drawn and have a bullet maturity after seven years of their issuance.

### Sukuk

On 3 May 2008, SABIC issued its third Sukuk amounting to SR 5 billion, at par value of SR 10,000 each, without discount or premium, maturing in 2028. On 15 May 2013, SABIC purchased the assets of its third Sukuk amounting to SR 5 billion in accordance with the terms and conditions of the Sukuk. As of 31 December 2013, the outstanding Sukuk amounted to nil (31 December 2012: SR 5 billion).

SABIC has provided guarantees for bonds and certain term loans for certain subsidiaries. The outstanding amount as of 31 December 2013 was SR 38.0 billion (2012: SR 24.1 billion).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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## 13. LONG-TERM DEBT (continued)

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

|              | 2013              | 2012              |
|--------------|-------------------|-------------------|
| 2013         | –                 | 15,029,453        |
| 2014         | 5,725,889         | 12,009,214        |
| 2015         | 13,957,096        | 14,049,188        |
| 2016         | 12,645,864        | 16,518,363        |
| 2017         | 11,827,076        | 11,882,713        |
| Thereafter   | 35,639,883        | 25,165,449        |
| <b>Total</b> | <b>79,795,808</b> | <b>94,654,380</b> |

## 14. ACCOUNTS PAYABLE

|   | 2013              | 2012              |
|---|-------------------|-------------------|
| Trade accounts payable                                    | 19,458,629        | 18,865,515        |
| Amounts due to foreign partners of subsidiaries (note 27) | 45,198            | 738,832           |
|   | <b>19,503,827</b> | <b>19,604,347</b> |

## 15. ACCRUALS AND OTHER CURRENT LIABILITIES

|  | 2013              | 2012             |
|--|-------------------|------------------|
| Accrued liabilities                        | 5,829,238         | 4,875,099        |
| Dividends payable                          | 3,145,573         | 879,314          |
| Taxes payable                              | 1,645,118         | 876,709          |
| Employee-related                           | 1,326,026         | 934,750          |
| Contract retentions                        | 319,341           | 318,259          |
| Current portion – capital leases (note 31) | 148,046           | 137,392          |
| Others                                     | 1,582,015         | 1,605,758        |
|  | <b>13,995,357</b> | <b>9,627,281</b> |

Taxes payable include tax payable by foreign partners and certain foreign entities.

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## 16. ZAKAT PAYABLE

The movement in the Group's zakat provisions is as follows:

|                          | 2013        | 2012        |
|--------------------------|-------------|-------------|
| At beginning of the year | 3,207,770   | 3,140,396   |
| Provided during the year | 2,300,000   | 2,500,000   |
| Paid during the year     | (2,457,973) | (2,432,626) |
| At end of the year       | 3,049,797   | 3,207,770   |

Zakat returns of SABIC and its wholly owned subsidiaries are submitted to the Department of Zakat and Income Tax (DZIT) based on separate consolidated financial statements prepared for zakat purposes only. Other partially owned subsidiaries file their zakat returns separately.

SABIC has filed its zakat returns, settled the dues, and received the related zakat certificates from the DZIT up to the year ended 31 December 2012. SABIC has cleared its zakat status with DZIT up to the year ended 31 December 2010. The zakat assessments for the years ended 31 December 2011 and 2012 are currently under review by the DZIT.

## 17. OTHER NON-CURRENT LIABILITIES

|  | 2013      | 2012<br>(restated) |
|--|-----------|--------------------|
| Deferred tax and other liabilities         | 2,861,359 | 2,493,542          |
| Obligations under capital leases (note 31) | 645,218   | 682,354            |
|  | 3,506,577 | 3,175,896          |

Deferred tax and other liabilities mainly include deferred taxes recorded in foreign subsidiaries, tax payments reimbursable by GE Company (note 11), and other long-term payables.

## 18. EMPLOYEE BENEFITS

|                         | 2013       | 2012<br>(restated) |
|-------------------------|------------|--------------------|
| End-of-service benefits | 9,706,825  | 9,802,333          |
| Employee savings plan   | 731,102    | 664,335            |
| Early retirement plan   | 56,792     | 69,260             |
|                         | 10,494,719 | 10,535,928         |

## 19. SHARE CAPITAL

SABIC's share capital amounting to SR 30 billion is divided into 3 billion shares of SR 10 each as of 31 December 2013 and 2012.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013  
(Saudi Riyals in '000)

## 20. RESERVES

### *Statutory reserve*

In accordance with the Saudi Arabian Regulations for Companies, SABIC must set aside 10% of its annual consolidated net income as the statutory reserve until it reaches 50% of the share capital. The reserve is not available for distribution.

### *General reserve*

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

## 21. NON-CONTROLLING INTERESTS

Non-controlling interests which are principally related to the subsidiaries in the Kingdom of Saudi Arabia are shown in the consolidated balance sheet as part of equity. Share of non-controlling interests in the

net results of subsidiaries is shown separately in the consolidated statement of income. The movement of non-controlling interests in the consolidated balance sheet is as follows:

|                                    | 2013         | 2012         |
|------------------------------------|--------------|--------------|
| At beginning of the year           | 50,436,310   | 51,183,223   |
| Share of non-controlling interests | 14,888,066   | 13,564,133   |
| Dividends paid and others          | (14,939,710) | (14,311,046) |
| At end of the year                 | 50,384,666   | 50,436,310   |

## 22. SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES

|  | 2013       | 2012       |
|--|------------|------------|
| Selling and distribution                   | 5,571,986  | 5,646,651  |
| Employee-related                           | 2,600,854  | 2,586,080  |
| General and administrative                 | 2,452,652  | 2,597,535  |
| Technology and innovation                  | 1,649,526  | 1,392,061  |
| Depreciation, amortization, and impairment | 484,654    | 145,467    |
|  | 12,759,672 | 12,367,794 |

## 23. OTHER INCOME

|                           | 2013      | 2012      |
|---------------------------|-----------|-----------|
| Earnings on time deposits | 746,227   | 796,444   |
| Others                    | 563,046   | 483,492   |
|                           | 1,309,273 | 1,279,936 |

Others include insurance claims; net results of disposals of property, plant, and equipment; exchange-rate differences; and other miscellaneous items.

SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND SUBSIDIARIES  
(A Saudi Joint Stock Company)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013  
(Saudi Riyals in '000)

## 24. EARNINGS PER SHARE

The earnings-per-share figures are calculated based on the weighted-average number of outstanding shares at 31 December 2013 and 2012.

## 25. SEGMENT INFORMATION

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

- **The chemicals segment** includes chemicals, polymers, performance chemicals, and innovative plastic products
- **The fertilizers segment** consists of fertilizer products
- **The metals segment** consists of steel products
- **The corporate segment** includes the corporate-operations, technology, and innovation centers; investment activities; and SABIC Industrial Investments Company (SIIC)

|                                    | Chemicals   | Fertilizers | Metals     | Corporate   | Consolidation adjustments & eliminations | Total       |
|------------------------------------|-------------|-------------|------------|-------------|--|-------------|
| <b>Year ended 31 December 2013</b> |             |             |            |             |  |             |
| Sales                              | 220,338,543 | 7,284,884   | 14,277,661 | 11,293,941  | (64,163,529)                             | 189,031,500 |
| Gross profit                       | 42,428,056  | 4,250,698   | 2,452,413  | 4,909,726   | 1,303,470                                | 55,344,363  |
| Net income                         | 29,734,456  | 4,445,045   | 1,767,432  | 26,028,469  | (36,697,020)                             | 25,278,382  |
| Total assets                       | 260,955,164 | 14,170,989  | 23,295,212 | 225,547,539 | (184,898,335)                            | 339,070,569 |
| Total liabilities                  | 172,890,479 | 1,894,094   | 5,506,111  | 64,254,185  | (112,130,383)                            | 132,414,486 |

**Year ended 31 December 2012**

|                   |             |            |            |             |               |             |
|-------------------|-------------|------------|------------|-------------|---------------|-------------|
| Sales             | 217,905,489 | 8,500,050  | 14,845,169 | 15,702,180  | (67,927,341)  | 189,025,547 |
| Gross profit      | 39,149,674  | 5,344,244  | 3,004,444  | 4,163,116   | 1,731,853     | 53,393,331  |
| Net income        | 27,357,677  | 5,492,002  | 2,116,327  | 25,275,341  | (35,461,085)  | 24,780,262  |
| Total assets      | 255,504,941 | 14,807,030 | 23,486,168 | 227,995,548 | (184,355,799) | 337,437,888 |
| Total liabilities | 164,673,929 | 2,065,080  | 6,264,499  | 73,769,978  | (105,186,923) | 141,586,563 |

The total of net results of the above segments includes the share in results of subsidiaries and associated companies. In addition, the total-assets amounts in these segments include investment balances with respect to subsidiaries.

A substantial portion of the Group's operating assets are located in the Kingdom of Saudi Arabia. The principal markets for the Group's chemical products are Europe,

USA, the Middle East, and Asia Pacific. The principal markets for the Group's fertilizers segment are mainly in South East Asia, Australia, New Zealand, South America, Africa, and the Middle East. The metals-segment sales are mainly in the Kingdom of Saudi Arabia and other Gulf Cooperative Council (GCC) Countries. The corporate activities are primarily based in the Kingdom of Saudi Arabia.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013  
(Saudi Riyals in '000)

## 26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments principally include cash and cash equivalents, time deposits, accounts and other receivables, derivative financial instruments, investments in securities, advances, short-term bank borrowings, accounts payable, accruals, long-term debt, and other liabilities.

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

**Commission Rate Risk** is the risk that the value of financial instruments will fluctuate due to changes in the market commission rates. The Group has no significant commission-bearing long-term assets, but has commission-bearing liabilities at 31 December 2013. The Group manages its borrowings made at floating rates by using commission-rate swaps (note 28), which have the economic effect of converting borrowings from floating rates to fixed rates. The commission-rate swaps, when exercised, provide the Group with the right to agree with the counterparty to exchange, at specified intervals, the difference between fixed contract rates and floating commission amounts, calculated by reference to the agreed notional principal amounts.

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

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

**Fair Value** is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's-length transaction. As the consolidated financial statements are prepared under

the historical-cost convention, differences can arise between the book values and fair-value estimates. Management believes that the fair values of the financial assets and liabilities are not materially different from their carrying values.

## 27. TRANSACTIONS WITH FOREIGN PARTNERS OF SUBSIDIARIES

In the ordinary course of business operations, certain subsidiaries of SABIC sell their products to foreign partners in accordance with marketing and off-take agreements. Sales to the foreign partners during the year ended 31 December 2013 amounted to SR 16.0 billion (2012: SR 18.4 billion). Certain foreign partners also provide technology and innovation, and other services to certain SABIC affiliates in conformity with executed agreements. Balances with foreign partners are shown in notes 5 and 14, respectively.

## 28. DERIVATIVE FINANCIAL INSTRUMENTS

The Group has executed derivative financial instruments including commission-rate swaps. The remaining notional amount outstanding as of 31 December 2013 under such agreements was SR 6.7 billion (2012: SR 9.5 billion).

## 29. APPROPRIATION OF NET INCOME

The Annual General Assembly, in its meeting held on 3 Jumada Al-Thaany 1434H corresponding to 13 April 2013, approved the appropriation of net income for the year ended 31 December 2012 as follows:

- Distribution of cash dividends of SR 15 billion (SR 5 per share), which includes the interim cash dividends amounting to SR 6 billion (SR 2 per share) for the first half of 2012
- Payment of SR 1.8 million as Board of Directors' remuneration
- Transfer of remaining balance to the general reserve

SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND SUBSIDIARIES  
(A Saudi Joint Stock Company)NOTES TO THE CONSOLIDATED  
FINANCIAL STATEMENTS (continued)For the year ended 31 December 2013  
(Saudi Riyals in '000)

## 29. APPROPRIATION OF NET INCOME

(continued)

On 29 Sha'baan 1434H corresponding to 8 July 2013, SABIC's Board of Directors approved the distribution of interim cash dividends for the first half of 2013 amounting to SR 6 billion (SR 2 per share).

On 14 Safar 1435H corresponding to 17 December 2013, the Board of Directors proposed a distribution of cash dividends for the second half of the year ended 31 December 2013 amounting to SR 9 billion (SR 3 per share). The proposed dividends are subject to the approval of the shareholders at their Annual General Assembly Meeting. The total cash dividends for the year ended 31 December 2013 would amount to SR 15 billion (SR 5 per share).

## 30. CONTINGENCIES

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

The Group's bankers have issued, on its behalf, bank guarantees amounting to SR 2.3 billion (2012: SR 2.5 billion) in the normal course of business.

## 31. COMMITMENTS

## Capital commitments

The Group's commitment for capital expenditures at 31 December 2013 amounted to approximately SR 23.8 billion (2012: SR 27.5 billion).

## Operating-lease commitments

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

|            | 2013      | 2012      |
|------------|-----------|-----------|
| 2013       | –         | 1,420,611 |
| 2014       | 1,579,145 | 1,207,374 |
| 2015       | 1,269,411 | 923,516   |
| 2016       | 1,060,661 | 758,352   |
| 2017       | 726,558   | 562,762   |
| Thereafter | 2,297,977 | 1,562,823 |
|            | 6,933,752 | 6,435,438 |



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013  
(Saudi Riyals in '000)

## 31. COMMITMENTS (continued)

### Obligations under capital leases

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

|                               | 2013      | 2012      |
|-------------------------------|-----------|-----------|
| 2013                          | –         | 137,392   |
| 2014                          | 148,046   | 143,205   |
| 2015                          | 143,786   | 139,155   |
| 2016                          | 144,723   | 140,070   |
| 2017                          | 105,652   | 102,765   |
| Thereafter                    | 674,842   | 666,086   |
| Minimum lease payments        | 1,217,049 | 1,328,673 |
| Less:                         |           |           |
| Finance charges               | (423,785) | (508,927) |
| Current portion (note 15)     | (148,046) | (137,392) |
| Non-current portion (note 17) | 645,218   | 682,354   |

## 32. SUBSEQUENT EVENTS

In the opinion of management, there have been no significant subsequent events since the year ended 31 December 2013 that would have a material impact on the financial position of the Group as reflected in these consolidated financial statements.






## 33. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors on 19 Rabi Al-Thani 1435H corresponding to 19 February 2014.

## 34. COMPARATIVE FIGURES









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

# MANUFACTURING COMPANIES

| COMPANY  | LOCATION  | PARTNERSHIP   | PRODUCTS   |
|--|---|---|--|
| <b>ALBA</b> <br>Aluminum Bahrain**  | Bahrain   | SABIC Industrial Investments Company (20%), State of Bahrain (77%), Brenton Investments, Germany (3%)                                 | Aluminum (liquid metal, ingots, rolling slabs, and billet)   |
| <b>Al-Bayroni</b>  <br>Al-Jubail Fertilizer Company          | Al-Jubail, Saudi Arabia   | A 50/50 SABIC joint-venture with Taiwan Fertilizer Company  | Ammonia, urea, 2-ethyl hexanol, and DOP  |
| <b>Ar-Razi</b> <br>Saudi Methanol Company   | Al-Jubail, Saudi Arabia   | A 50/50 SABIC joint-venture with a consortium of Japanese companies led by Mitsubishi Gas Chemical Company                            | Chemical-grade methanol  |
| <b>Garmco</b> <br>Gulf Aluminum Rolling Mill Company**  | Bahrain   | SABIC (31.28%), Kuwait (16.97%), Bahrain (38.36%), Iraq (4.12%), Oman (2.06%), Qatar (2.06%), and Gulf Investment Corporation (5.15%) | Aluminum sheets and can stocks   |
| <b>Gas</b> <br>National Industrial Gases Company  | Al-Jubail, Saudi Arabia (head office); Yanbu, Saudi Arabia (branch) | SABIC (70%) and a group of Saudi Arabian private-sector companies (30%)   | Oxygen, nitrogen, argon and krypton/xenon (Al-Jubail); oxygen and nitrogen (Yanbu)                   |
| <b>GPIC</b>  <br>Gulf Petrochemical Industries Company** | Bahrain   | Joint-venture with equal partnership for the Petrochemical Industries Company of Kuwait, State of Bahrain and SABIC                   | Methanol, ammonia, and urea  |
| <b>Hadeed</b> <br>Saudi Iron and Steel Company  | Al-Jubail, Saudi Arabia   | A wholly owned affiliate of SABIC   | Steel rebar, wire rod, hot-rolled coils, cold-rolled coils, galvanized coil, and flat-steel products |
| <b>Ibn Al-Baytar</b> <br>National Chemical Fertilizer Company   | Al-Jubail, Saudi Arabia   | 50/50 SABIC joint-venture with SAFCO  | Ammonia, urea, compound fertilizer, phosphate, and liquid fertilizer                                 |

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

| COMPANY   | LOCATION                              | PARTNERSHIP   | PRODUCTS   |
|---|---------------------------------------|---|--|
| <b>Ibn Rushd</b> <b>C P</b><br>Arabian Industrial<br>Fibers Company   | Yanbu,<br>Saudi Arabia                | SABIC (45.19%), PIF (33.51%),<br>and a group of Saudi Arabian<br>and regional private-sector<br>partners (21.30%) | Aromatics (xylenes and<br>benzene), purified terephthalic<br>acid (PTA), bottle-grade chips,<br>PET, and acetic acid |
| <b>Ibn Sina</b> <b>C</b><br>National Methanol<br>Company              | Al-Jubail,<br>Saudi Arabia            | SABIC (50%), CTE (50% –<br>owned by Elwood Insurance<br>Ltd., 25%, and Texas Eastern<br>Arabian Ltd., 25%)        | Chemical-grade methanol<br>and MTBE  |
| <b>Ibn Zahr</b> <b>C P</b><br>Saudi European<br>Petrochemical Company | Al-Jubail,<br>Saudi Arabia            | SABIC (80%), Ecofuel-Italy (10%),<br>Arab Petroleum Investment<br>Corporation APICORP (10%)                       | MTBE and polypropylene   |
| <b>Kemya</b> <b>C P</b><br>Al-Jubail Petrochemical<br>Company         | Al-Jubail,<br>Saudi Arabia            | A 50/50 SABIC joint-venture<br>with ExxonMobil (USA)  | Polyethylene and ethylene  |
| <b>Petrokemya</b> <b>C P IP</b><br>Arabian Petrochemical<br>Company   | Al-Jubail,<br>Saudi Arabia            | A wholly owned affiliate of SABIC   | Ethylene, polystyrene, butene-1,<br>propylene, butadiene, benzene,<br>polyethylene, VCM, E-PVC,<br>S-PVC, and ABS    |
| <b>Sadaf</b> <b>C</b><br>Saudi Petrochemical<br>Company               | Al-Jubail,<br>Saudi Arabia            | A 50/50 SABIC joint-venture<br>with Shell Chemicals Arabia, LLC<br>(an affiliate of Royal Dutch Shell)            | Ethylene, crude industrial<br>ethanol, styrene, caustic soda,<br>ethylene dichloride, and MTBE                       |
| <b>SAFCO</b> <b>F</b><br>Saudi Arabian<br>Fertilizer Company          | Al-Jubail,<br>Saudi Arabia            | SABIC (42.99%), GOSI and Public<br>Pension Agency (15.4%), public<br>shareholders (41.61%)                        | Ammonia, urea, and urea<br>formaldehyde  |
| <b>SABIC Innovative<br/>Plastics</b> <b>IP</b>                        | Bay St. Louis,<br>Mississippi,<br>USA | A wholly owned affiliate of SABIC   | CYCOLAC™, CYCOLOY™,<br>and GELOY™ resins   |

| COMPANY   | LOCATION                       | PARTNERSHIP                                    | PRODUCTS   |
|---|--------------------------------|--|--|
| SABIC Innovative Plastics    | Bergen op Zoom, Netherlands    | A wholly owned affiliate of SABIC              | LEXAN™, XENOY™, NORYL™, NORYL™ GTX™ and VALOX™ resins; LEXAN™ sheet, and film  |
| SABIC Innovative Plastics    | Burkville, Alabama, USA        | A wholly owned affiliate of SABIC              | LEXAN™ resin   |
| SABIC Innovative Plastics  | Cartagena, Spain               | A wholly owned affiliate of SABIC              | LEXAN™, EXTEM™, ULTEM™, and CYCOLOY™ resins  |
| SABIC Innovative Plastics  | Mt. Vernon, Indiana, USA       | A wholly owned affiliate of SABIC              | LEXAN™, CYCOLOY™, ULTEM™, VALOX™, XENOY™, XYLEX™, SUPEC™, and SILTEM™ resins, LEXAN™ sheet and film, and ILLUNINEX™ display film |
| SABIC Innovative Plastics  | Ottawa, Illinois, USA          | A wholly owned affiliate of SABIC              | CYCOLAC™, CYCOLOY™, and GELOY™ resins  |
| SABIC Innovative Plastics  | Selkirk, New York, USA         | A wholly owned affiliate of SABIC              | PPO™ resin, NORYL®, NORYL PPX® and NORYL GTX® resins, and high-impact polystyrene (HIPS)   |
| SABIC Innovative Plastics  | Washington, West Virginia, USA | A wholly owned affiliate of SABIC              | CYCOLAC™, CYCOLOY™, and GELOY™ resins  |
| SABIC Innovative Plastics  | Wixom, Michigan                | Exatec LLC – A wholly owned affiliate of SABIC | PC automotive glazing  |



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

| COMPANY   | LOCATION                | PARTNERSHIP   | PRODUCTS  |
|---|-------------------------|---|---|
| SABIC Petrochemicals B.V.<br><b>C P</b>                           | Geleen, Netherlands     | A wholly owned affiliate of SABIC   | Polyethylene (HDPE, LDPE, LLDPE), polypropylene, ethylene, propylene, butadiene, MTBE / ETBE, benzene, gasoline components, styrene, C9 resin feed, cracked distillate, acetylene, hydrogen, and carbon-black oil |
| SABIC UK Petrochemicals Ltd<br><b>C P</b>                         | Teesside, UK            | A wholly owned affiliate of SABIC   | Ethylene, propylene, benzene cyclohexane, cracked distillate hydrogen, butadiene, polyethylene (LDPE)   |
| SABIC Polyolefine GmbH<br><b>P</b>                                | Gelsenkirchen, Germany  | A wholly owned affiliate of SABIC   | Polyethylenes (HDPE, LLDPE) and polypropylene   |
| SINOPEC SABIC Tianjin Petrochemical Co. Ltd. <b>C P</b>           | Tianjin, China          | A 50/50 joint-venture between SABIC Industrial Investments Company and SINOPEC (China Petroleum & Chemical Corporation) | Ethylene, propylene, polyethylene (HDPE, LLDPE), polypropylene, ethylene oxide, MEG, DEG, phenol, acetone, MTBE, butadiene, and butene-1  |
| Saudi Kayan <b>P PC C IP</b><br>Saudi Kayan Petrochemical Company | Al-Jubail, Saudi Arabia | SABIC (35%), Al-Kayan Petrochemical Company (20%), public shareholders (45%)  | Ethylene, propylene, polypropylene, LDPE, HDPE, ethylene glycol, acetone, polycarbonate (PC), ethanolamines (EOA), ethoxylates, bisphenol A, benzene, normal butanol, and natural detergent alcohol (NDA)         |
| Sharq <b>C P</b><br>Eastern Petrochemical Company                 | Al-Jubail, Saudi Arabia | A 50/50 SABIC joint-venture with a consortium of Japanese companies led by Mitsubishi Corporation                       | Ethylene, propylene, aromatics (BTX), ethylene glycol (mono, di, tri), linear low-density polyethylene (LLDPE), and high-density polyethylene (HDPE)  |
| Shrouq <b>C</b><br>Saudi Japanese Acrylonitrile Company           | Al-Jubail, Saudi Arabia | SABIC (50%), ASAHI Kasei Chemicals Corporation (30%) and Mitsubishi Corporation (20%)                                   | Chemicals   |

| COMPANY   | LOCATION                   | PARTNERSHIP  | PRODUCTS  |
|---|----------------------------|--|---|
| SOCC <sup>PC</sup><br>Saudi Organometallic<br>Chemicals Company       | Al-Jubail,<br>Saudi Arabia | A 50/50 joint-venture between<br>Saudi Specialty Chemicals<br>Company and Albemarle<br>Netherlands BV                                      | Tri-ethyl aluminum (TEAL)   |
| Specialty Chem <sup>C P</sup><br>Saudi Specialty<br>Chemicals Company | Al-Jubail,<br>Saudi Arabia | Wholly owned affiliate of<br>SABIC (Arabian Petrochemical<br>Company – Petrokemya, 99%,<br>and SABIC Industrial Investments<br>Company 1%) | Tri-ethyl aluminum (TEAL), TPO/<br>PP compounds, PC compounds,<br>ABS compounds, and specialty<br>products  |
| United <sup>C P</sup><br>Jubail United<br>Petrochemical Company       | Al-Jubail,<br>Saudi Arabia | SABIC (75%), Pension Fund<br>(15%), General Organization<br>of Social Insurance (10%)  | Ethylene, polyethylene, ethylene<br>glycol (EG), and linear alpha<br>olefins (LAO)  |
| Yanpet <sup>C P</sup><br>Saudi Yanbu<br>Petrochemical Company         | Yanbu,<br>Saudi Arabia     | A 50/50 SABIC joint-venture<br>with Mobil Yanbu Petrochemical<br>Company (an affiliate of<br>ExxonMobil Chemical, USA)                     | Ethylene, polyethylene, ethylene<br>glycol, polypropylene, pyrolysis<br>gasoline, and propylene   |
| Yansab <sup>C P</sup><br>Yanbu National<br>Petrochemical Company      | Yanbu,<br>Saudi Arabia     | SABIC (51%), public shareholders<br>or owned by others (49%)   | Ethylene, propylene, ethylene<br>glycol (mono, di, tri), linear low-<br>density polyethylene (LLDPE),<br>high-density polyethylene<br>(HDPE), polypropylene, butene-1,<br>butene-2, benzene, toluene/<br>xylene mixture, and MTBE |

\* Brands marked with <sup>TM</sup> are trademarks of SABIC

\*\* SABIC joint-ventures in Bahrain

This list includes all manufacturing affiliates (with the exception of compounding facilities), as wholly owned by SABIC or to which SABIC is partner. It includes each affiliate's location, types of products produced, and if not wholly owned, the percentage owned by SABIC in such affiliate.

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