

BOARD OF DIRECTORS REPORT 2016



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BOARD OF DIRECTORS REPORT TO THE SHAREHOLDERS

BOARD OF DIRECTORS

CHAIRMAN

Prince Saud bin Abdullah bin Thenayan Al-Saud

SABIC VICE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Yousef Abdullah Al-Benyan

BOARD MEMBERS

Dr. Abdulrahman Abdullah Al-Humaidi

Mohammed Talal Al-Nahas

Dr. Khaled bin Hamza Nahas

Dr. Saad bin Othman bin Abdullah Al-Kasabi

Abdullah M Al-Issa

Bandar Abdulaziz Al-Waily

Abdulaziz Habdan Alhabdan

INTRODUCTION

DEAR VALUED SHAREHOLDERS,

Greetings,
SABIC Board of Directors is pleased to present this annual report to our valued shareholders in compliance with Corporate Governance Regulations, Registration and Listing of the Capital Market Authority (CMA) Rules, as well as the Saudi Companies Act and the Company's Articles of Association. The Board believes the report will give greater insights into the Company's performance and highlights during the year under review, as regards to production, marketing, and financial performance. Also, the report reflects the Company's efforts in the areas of innovation, scientific research, and technology development and highlights the Company's sustained efforts to strengthen its competitive position among the world's leading chemical companies, and its outstanding contributions in the areas of Sustainability and Corporate Social Responsibility.

The Board of Directors expresses its deepest gratitude and appreciation to the Custodian of the Two Holy Mosques, HRH the Crown Prince, HRH the Deputy Crown Prince, and the Saudi government for their guidance and care for SABIC and all sectors of the country, without exception. The Board lauds the efforts of our valued employees and the loyalty of our success partners, investors, shareholders, suppliers, and customers.

CORPORATE

The Saudi Basic Industries Corporation (SABIC) is an incorporated Saudi Stock Company and is the Middle East's largest non-oil industrial company. It is ranked fourth among chemical companies worldwide. SABIC was founded by Royal Decree number M/66, on Ramadan 13, 1396H (September 6, 1976) and is registered in Riyadh under Commercial Registration number 1010010813, dated Muharram 14, 1397H (August 4, 1977), to create and develop basic industries that invest hydrocarbon and mineral resources of the country and transfer the latest state-of-the-art technology to the Kingdom. 70 percent of the company's shares are owned by the Saudi Arabian government, with the remaining 30 percent publicly traded by Saudi Arabia and GCC citizens, residents of Saudi Arabia, enterprises, institutions, public and foreign financial institutions.

SABIC has constructed and developed 22 industrial complexes in the industrial cities of Jubail and Yanbu in Saudi Arabia. SABIC owns a global technology network of 21 Research, Development and Innovation Centers, besides its partnership in other projects, and more than 64 operational sites on the global map.

1. COMPANY'S MAIN ACTIVITIES AND THEIR IMPACT ON THE BUSINESS AND RESULTS

SABIC and its affiliates' business activities are concentrated in manufacturing Petrochemicals, Specialties, Agri-nutrients and Metals and marketing and distribution of these products in local, regional and global markets.

SABIC's businesses are grouped into:

- **Petrochemicals** including chemicals and polymers
- **Agri-nutrients**, including fertilizers, and specialty agri-nutrients

- **Specialties** including resins, compounds, and compounding
- **Metal products** that include iron and steel and aluminum products
- SABIC Headquarters encompasses the HQ operations, Business Development, Technology & Innovation Centers, Investment, SABIC Industrial Investments Company and its affiliates.

The following table shows the main activities of the company, the volume of production and sales of various strategic business units in 2016 as compared to 2015:

BUSINESS	Million Metric Tons			
	Production [*]		Sales	
	2016	2015	2016	2015
Petrochemicals sector	59.0	57.0	43.7	42.8
Agri-nutrients sector	7.96	7.3	5.3	4.9
Specialties sector	0.3	0.3	0.6	0.6
Metal products	5.4	5.8	5.3	5.6
Total	72.7	70.4	54.9	53.9

*Production includes quantities used within SABIC affiliates, except for quantities produced and sold from Sinopec SABIC Tianjin Petrochemical Co. Ltd

FIGURES IN THOUSAND SAUDI RIYALS

SECTOR	Chemicals	Agri-Nutrients	Metals	Headquarters	Adjustments when consolidating financial statements	Total
YEAR-ENDING DECEMBER 31, 2016						
Sales	156,315,840	4,701,312	9,009,322	7,623,462	(44,823,331)	132,826,605
Total profit	34,995,428	1,192,590	(754,359)	3,786,910	1,689,502	40,910,071
Net Income [*]	22,791,624	1,137,094	(1,346,177)	18,979,059	(23,722,757)	17,838,843
Total Assets ^{**}	228,489,047	12,895,691	19,490,930	220,373,578	(164,652,140)	316,892,858
Total Liabilities	148,416,565	2,002,841	4,451,557	50,854,720	(99,159,448)	106,566,235
YEAR-ENDING DECEMBER 31, 2015						
Sales	170,718,132	5,965,509	10,668,468	8,609,287	(47,875,655)	148,085,741
Total profit	33,993,508	2,712,279	(738,343)	3,704,011	3,356,305	43,027,760
Net Income	21,288,913	2,544,673	(1,457,645)	21,531,096	(25,138,347)	18,768,690
Total Assets	230,068,629	13,797,172	21,032,990	227,972,503	(164,652,140)	328,219,154
Total Liabilities	152,669,108	2,308,376	4,647,441	57,117,195	(98,380,152)	118,361,968

*Net Income includes net profit shares in subsidiaries and affiliates

**Total Assets include investment account balances in affiliates

2. PLANS, DECISIONS AND FUTURE EXPECTATIONS AND EXPANSIONS

NEW ORGANIZATIONAL STRUCTURE

SABIC develops its marketing and competitive capabilities in line with its future expansion plans, the aspirations of its shareholders, its efforts to meet customers' needs, internally and externally, and ever more effective management of different products to achieve the objectives of its 2025 strategy to be the preferred world leader in chemicals, and deliver 'Chemistry that Matters™'. This includes excellence in many areas, including adding value for customers, protecting the environment, health and safety, strengthening cost competitiveness, and meeting the aspirations of its shareholders.

The company conducted a comprehensive study addressing the future challenges and potential opportunities, including market changes and developments, and the importance of strengthening technology, innovation, and sustainability activities. In the light of the results of this study, the company developed its organizational structure, restructuring the Strategic Business and Core Units to help improve performance, develop products that meet market needs, innovate new quality products, and, most importantly, ensure highly capable and skillful human resources.

The new organizational structure was designed to keep up with new developments in the business environment, accelerate growth of internal and external company processes, and foresee promising opportunities in global markets, which required broader emphasis on innovation, leadership of entrepreneurship, and continued development of leadership by taking the lead and proactively responding to the realities of the industry, while upholding the goals of sustainability in all company activities.

The new organizational structure integrated the two Chemicals and Polymers SBUs in one Petrochemicals SBU. As a result, the company's operations are managed through three strategic business units: Petrochemicals, Specialties, and Agri-Nutrients.

Also, the organizational structure introduced a new unit to support the growth of SABIC globally and accomplish the company's strategy by integrating some departments within the Innovation and Business Development Unit, to realize strategic coherence companywide, support SABIC's contribution to the Saudi Vision 2030, develop successful future business opportunities in the long-term, and instill a culture of innovation.

The new organizational structure will lead the company forward to assume a more advanced position among the world's leading petrochemical companies in conformity with the aspirations of its shareholders, meet customers' requirements, develop employees, contribute to community development wherever it operates, and provide new opportunities for growth and development of technology, innovation and business development.

The year 2016 witnessed several developments aimed at strengthening the company's global position and making it ready for a new era of growth in its journey towards 2025 and to be the preferred world leader in chemicals.

INTERNATIONAL FINANCIAL REPORTING STANDARDS PLANS

Based on the endorsement of the Board of Directors of the Saudi Organization for Certified Public Accountants (SOCPA) on the transition to the International Financial Reporting Standards (IFRS), whereby companies listed in the Saudi Stock Market are obliged towards their financial reports in accordance with the International Financial Reporting Standards, effective from January 1, 2017, being one of the largest companies traded on the stock market, has to meet this requirement that covers all the business results of legal entities within it.

Accordingly, SABIC has actually completed the first two phases of the project: evaluation phase and impact analysis phase. The company continued to apply the process of preparing its financial statements according to local standards until December 31, 2016.

During 2016, the Finance function launched the third and final phase of the project, namely the application phase, which included development of internal capacity for SABIC and its affiliates, to help the company comply with all IFRS requirements. This phase also included further support at the level of systems and processes from all sectors across the company as required.

SABIC has developed a comprehensive plan for the transition to IFRS and contracted with a number of external advisors in multiple disciplines to support it in the implementation stages of the plan. An internal working group to implement the plan, with the support of external consultants, was formed. The company has not encountered any difficulties in implementing the plan. Note that the target date for setting up the first financial statement would be December 31, 2016 for the opening balances as at

January 1, 2016, taking into account the application of IFRS for the first time for the purpose of providing financial statements, compared to when starting applying, IFRS during 2017.

Although this project relates to the application of IFRS for financial reporting by companies in the Kingdom, its implementation requires all global SABIC affiliates to submit reports in accordance with IFRS requirements to SABIC. Hence the company's global resources and capabilities will be utilized to fulfill the requirements of the IFRS. SABIC will continue to utilize internal capacities and cooperation with affiliates in order to ensure the success of the project in the company.

EXPANSION AND DIVERSIFICATION OF FEEDSTOCK SOURCES

The company continued to develop and expand businesses under its ambitious vision. This included a number of expansion and development projects, as well as signing a number of strategic agreements. The following is a summary of the key projects and agreements:

EXPANSION AND DEVELOPMENT PROJECTS IN SAUDI ARABIA

- A joint venture agreement with Saudi Aramco to convert oil to chemicals: This comes as a culmination of several previous agreements on research between SABIC and Saudi Aramco to enhance their strategic relationship, as part of their cooperation and integration, in line with the National Transformation Program 2020 and the Saudi Vision 2030. Also, this agreement reflects efforts to achieve its 2025 strategy by contributing to further the downstream industries in the Kingdom, localization of technology, innovation, and creation of more job opportunities.

The company's decision to sign this agreement with Saudi Aramco was based on the results of an initial study on converting oil to chemicals. The concluded agreement provides for the parties to conduct an integrated feasibility study on the proposed project, as well as identify the joint collaboration frameworks and the essential elements of the partnership agreement.

While the feasibility study does not have a financial impact on SABIC, this agreement is part of the company's efforts to tap investment opportunities to meet its strategic goals,

- Saudi Methyl Acrylate Company (SAMAC) project in Jubail Industrial City is a joint venture (JV) equally owned by SABIC and Mitsubishi Rayon (MRC) with an annual production capacity of 40,000 tons of poly methyl methacrylate and 210,000 tons of methyl methacrylate. These products are part of a group of products targeted by SABIC to promote the growth of the downstream industries sector at the local and global levels, including auto industries, electronics and electrical appliances, etc. The engineering, supply, and construction contract was awarded to Taiwan CTCI Corporation in June, 2014. The percentage of accomplishment has reached 93.75 percent. The project completion is scheduled for Q2 2017.
- The nitrogen generation unit building project at gas plants in Yanbu will be used as a reserve if one of the company's units stopped nitrogen production. This project is in line with the company's strategy to prevent any sudden disruption of nitrogen gas supplies to customers, as it is the sole supplier of nitrogen in the industrial city of Yanbu. The daily production capacity of the new unit amounts to 1,500 tons of nitrogen. The engineering and supply works contract was awarded to eTech Construction and Engineering Co. Ltd. Work in the detailed engineering studies is progressing as planned. The project is expected to be completed in Q1 2018.
- The Phase Four project for the generation of nitrogen at gas plants in Jubail is to raise the level of safety and reliability, produce 50,000 cubic meters per hour and improve the quality of the nitrogen delivered to Sadara Chemical Company. Ninety percent of the project's construction has been completed. The project is expected to be completed by mid-2017.

EXPANSION AND DEVELOPMENT OF GLOBAL PROJECTS

SABIC continues work in a series of new projects at global sites outside Saudi Arabia, including the signing of a number of strategic agreements, to enhance its competitiveness, in line with its 2025 strategy, especially in the diversification of feedstock sources different from traditional sources. Among these projects and agreements are:

- Joint venture agreement (Yosemite) with one of ExxonMobil affiliates on the US Gulf Coast, which emphasizes SABIC's efforts to diversify feedstock sources, and enhance cooperation and joint work with Exxon Mobil. This project also assists in the geographical diversification of the

company's operations and strengthens its presence in global markets. It takes SABIC closer to its customers to serve them better, while sourcing feedstock at competitive prices. The project constitutes part of the great efforts made by SABIC to expand successful investments, in line with the National Transformation Program 2020 and the Saudi Vision 2030 targets. The agreement includes a joint study by SABIC and the ExxonMobil affiliate to construct a petrochemicals manufacturing facility along the US Gulf Coast, in addition to an ethylene unit to supply ethylene to other units to produce its derivatives. This study comes within SABIC's methodology of evaluating investment opportunities that contribute to the achievement of its strategic objectives. The two parties will complete the necessary procedures and studies before reaching a decision on the establishment of the project by identifying a place in Texas or Arizona as part of these procedures and studies. It is likely that San Patricio in Texas will be selected as the location to establish the project. Instructions and relevant statutory rules will be followed to establish the project as the plans move forward.

- Product compression project in Burkeville, Alabama, USA, which aims to ship large quantities of Lexan powder resin, 200,000 tons per year, to SABIC affiliates in Asia and the Pacific. The project aims to increase the bulk density of the powder to reduce shipping costs and save sea freight costs by reducing the number of shipping containers to these affiliates. The project will install four large mechanical compression units, increasing the bulk density of all products and creating space to fill each container to the maximum weight, which will reduce the number of containers shipped every year by 20 percent, reducing transport costs. The mechanical construction related to the project is expected to be completed by the end of 2018.
- The gas cracker project in Teesside, UK: the company decided to develop the gas cracking plant to add valuable feedstock of ethane with current naphtha, butane and propane due to its economic viability. The project will be two phases: First: development of the existing plant, and second, development of logistics and creation of a new ethane reservoir. The plan's targeted completion of the first ethane cracking process is by end of 2016.
- The project for the development of expulsion lines at the polypropylene plant in Geleen, The Netherlands, replaces the expulsion lines used since 1979 with a modern advanced technology

line, allowing production of varying grades of copolymer polypropylene with a production capacity of 48 to 51 tons per hour depending on the grade and type of product. Construction related to the project is now 90 percent complete and is scheduled for completion in Q2 2017, with production to begin in July, 2017.

- The joint venture agreement with the Chinese Shenhua Ningxia Coal Industry Ltd is to study development of a petrochemical complex to convert coal to chemicals. The project seeks to safeguard SABIC against feedstock fluctuations. It is in line with its strategy to ensure a balanced geographical representation of its operations and explore investments to strengthen its presence in existing and new markets. This agreement will put SABIC on track towards achieving the goals of its 2025 strategy, to contribute to the implementation of the National Transformation Program 2020 targets, and the Saudi Vision 2030. This agreement came into force on June 30, 2016 and included the possibility of the development of a new petrochemical complex, located in the coal-rich Ningxia Hui region. The coal will be used to produce raw materials for the complex. In the light of the results of the study referred to, the parties will take investment decisions to develop the project, which is conditional upon getting the necessary technical and control licenses.

This agreement defines the technical framework and timetable of cooperation between the two parties to evaluate the project fully in a period not exceeding three years from the date of the agreement mentioned above coming into force. In addition, if it is decided to go ahead with the project, the required documentation will be prepared and submitted for approval to the National Development and Reform Commission (NDRC) of the government of the People's Republic of China. Note that there are no related parties. The planned annual production capacity of the project will be around 730,000 tons of polymers, including polypropylene, polyethylene, ethanephenylacetone and HDPE.

- Mauritania Saudi Mining and Steel Company (Takamul), a joint venture between SABIC and Mauritania National Industrial and Mining Company (SNIM). The feasibility study and exploration began at the Atomai Mines in Zouerat, northern Mauritania. Most of the excavations and analysis of samples were successfully completed. In December 2016, the bank feasibility studies began by hiring an international consultant

to implement all the necessary field studies and analysis according to internationally recognized specifications, based on encouraging data collected since 2013. All studies will be completed by the end 2017.

HOUSING PROJECTS

- The Riyadh Residential Complex Project, Al Waseel Hills, aims to provide housing for SABIC employees in Riyadh. The first phase includes 469 housing units for Saudi employees and 216 units for foreign staff, in addition to four mosques, two schools, three sports clubs, malls, and other public facilities. The implementation of the housing units for Saudi employees was completed in December 2016. The units will be handed over through 2017. The units for foreign employees is expected to be completed in Q2 2017.
- SABIC signed a contract in December 2016 for implementing a Saudi employees' housing project at Al Matrafiya. It is the largest housing project in SABIC's history. It covers an area of 4.4 km², including 2,701 units, tailored to the latest construction specifications, and featuring, alongside condominiums, several facilities, including one large mosque and ten other mosques with 22 housing units for Imams and Muezzins. This is in addition to a large public park, a group of parks and other facilities. This mega project is expected to be completed by 2020.

ADMINISTRATIVE AND SUPPORT FACILITIES

- The SABIC Research Center project at the Dhahran Techno Valley in the Eastern Province of Saudi Arabia is planned as a global research center. With 39,498.5 square meters of space, the Center will work within an integral system, in close contact with the company's global technology centre. It would be a substitute for the first and second labs at the SABIC Technology Center in Riyadh and is expected to be completed in Q1 2021.
- SABIC Headquarters building, Eastern Region project: The company has entered into a contract with the Danish Henning Larsen company for the preliminary designs and detailed engineering of the project, which will be constructed in the new center of Jubail Industrial City. It will provide the appropriate work environment for the employees of the company with suitable architectural designs and modern engineering standards that makes it environmentally friendly and meets the future needs in agreement with SABIC's 2025 strategy. The building will be constructed on an area of

approximately 6.64 hectares or more than 66,000 square meters and will accommodate more than 3,500 employees in the first stage. It includes offices for staff, administrative and recreational facilities plus car parking for employees and visitors. It has a dedicated building for the information center connecting SABIC to all affiliates and branches. The engineering design phase has been completed and the project is expected to be completed in Q4 2019.

3. RISK MANAGEMENT AND CONTROL POLICY

In light of the rapid global and local economic and political changes and challenges, SABIC's Board of Directors continues to pay the utmost attention to Risk Management, and works to prevent or mitigate the impacts of those risks. 2016 saw more challenges and risks. However, we managed to face these risks and enhanced our operational results, which strengthened the confidence of the company's employees, shareholders and investors in its ability to achieve sustained growth and its strategic objectives.

The risks that have been studied and dealt with proactively include: (1) Strategic Risks – risks affecting the company's ability to achieve its strategic goals; (2) Operational Risks – risks arising from the company's operational actions; and (3) Financial Risks – risks affecting the company's profitability. Risk Management also includes all matters relating to government regulations as well as existing and expected laws in countries where the company has operational or commercial operations.

The company has confronted the strategic risks arising from oil price swings, which had a negative effect on petrochemical prices and fundamentals of competition in this sector. It continued with its global and local investments, with special focus on cost rationalization, reliability and performance enhancement to improve the operational results of its factories and reduce the impact of such risks. Fluctuations in global economies, foreign currency exchange rates, interest rates and political events have also created additional financial risks that were successfully addressed by the Board to reduce their impacts through sound management, constant follow-up and regular proactive studies of those risks, in addition to ensuring the company's full readiness to deal with these sudden changes effectively.

On top of the operational risks comes the risks arising from e-piracy, which the company deals with carefully through a specialized team working around the clock. The team analyses information and monitors traffic on the company's electronic network to deter such malicious activity. The company has also taken qualitative steps in enhancing human capabilities through training, and by acquiring modern technology. The company is actively working to address operational risks related to environment, health, safety and security (EHSS) through an integrated program (SABIC Global EHSS), which is applied by the company's qualified leaders and employees around the world. The program's effective implementation is verified through periodical review programs, and by ensuring the application of controls. The company also took practical and quick steps to address the risks affecting SABIC's competitiveness with customers in global markets through internal development projects, including the completion of a structure plan of some strategic units, actual operation of the project, FANAR+, in the company's units around the world. These challenges are also faced by focusing on enhancing human capabilities as a cornerstone for achieving the company's strategic goals.

The Board approved an update of the Risk Management Policy this year to keep pace with external and internal fundamental changes. This policy was applied to identify all types of risks, evaluate their impacts on the company's performance and take preventive measures to control them. The policy applies to all SABIC's operations around the world. It aims to manage these risks through an integrated governance system, beginning with the company's employees and management, until the detailed reports about these risks are submitted to the Committee of Risks and Compliance of the Board of Directors. The Committee reviews these reports on a quarterly basis, and reports on the efficiency of the measures taken to reduce the impact of these risks. It makes recommendations on whether to continue pursuing these measures or not.

SABIC Risk Management Policy provides for the centralization of risk management to enable the company to achieve its goals and realize its vision to be a leader in the petrochemical industry, while maintaining the company's reputation and protecting its interests. The policy defines the main objectives of Risk Management by proactively identifying and analyzing risks. They include strategic, operational, financial or commercial risks. The policy also spells out preventive steps against these risks and their proper

handling by employing integrated systems and capabilities. The policy also focuses on application of systems, procedures and tools of risk management in all sectors of the company by qualified leaders and work teams to protect the company's interests, while adding high value to the company as part of its commitment towards stakeholders.

Throughout the year, Risk Management also developed an internal assistance system to analyze risks to both investment operations and the company's strategic goals, in order to support the decision-making process. The system assists in making decisions on SABIC's future investments and strategies, through an accurate study of the expected risks and their impacts on desired revenues from these investments and strategies, thus achieving the targeted growth of the company in the future. A pilot version of the system was successfully applied to the strategic goals of the Polymers unit, and the management will continue to apply the system while developing future strategies and investments in other units. This approach will undoubtedly contribute towards making strategic decisions regarding future investments by studying the risks and their expected financial impact before making any decisions and/or changes during execution.

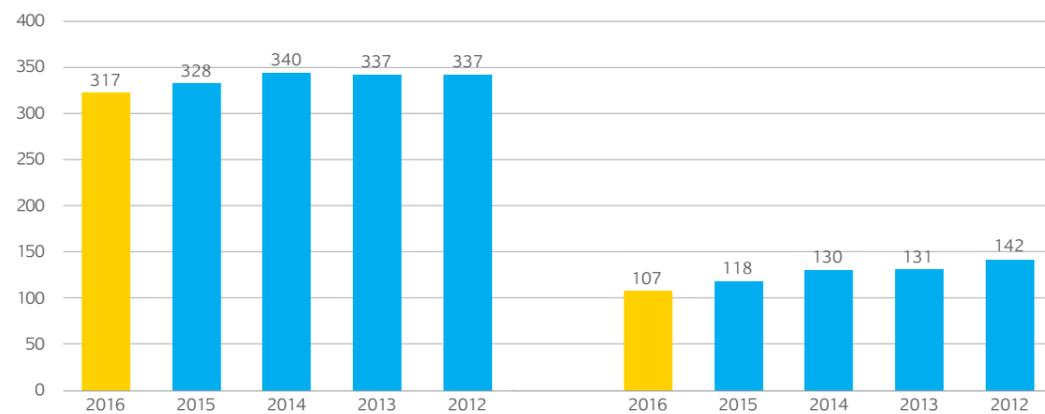
Risk Management began applying and activating the comprehensive risk management system to SABIC affiliates, including the creation of a governance system and a committee of risk management, which helps the affiliates to face the economic, political, and operational challenges and adopt to change. Risk Management will continue to apply these systems and committees to all SABIC affiliates in the coming years.

4. ASSETS, LIABILITIES AND BUSINESS RESULTS FOR THE LAST FIVE YEARS

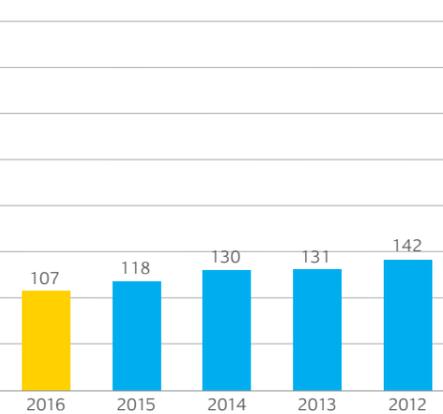
- The net profit earned by the company amounted to SR 17.9 billion, compared to SR 18.8 billion, down by 4.8 % as against the profits last year. The total sales were SR 133 billion, a decrease of 10.3% as against SR 148 billion last year.
- Total assets dropped from SR 328.2 billion in 2015 to SR 317 billion, down by 3.4%.
- Circulating assets in 2016 amounted to SR 108.5 billion, representing 1/3 of current liabilities amounting to SR 41.1 billion in the same year, confirming the financial company's ability to meet ongoing obligations.

- Total shareholders' equity increased from SR 162 billion in 2015 to SR 163 billion in 2016, an increase of 0.6%.
- The operating profit amounted to nearly SR 41 billion, compared to SR 43 billion last year, a decrease of 4.8 %.
- Per share of net income in 2016 amounted to SR 5.95, compared to SR 6.26 in 2015.
- The following graphs illustrate the results of the businesses for the last five fiscal years:

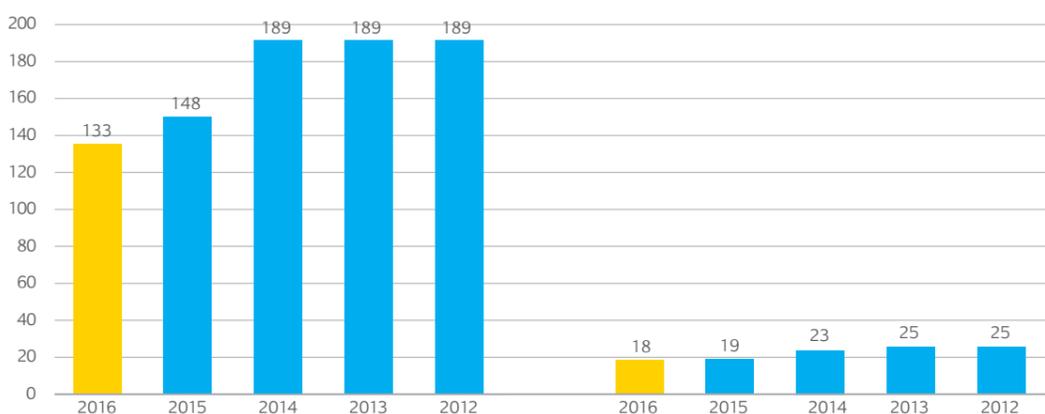
TOTAL ASSETS (SR billion)



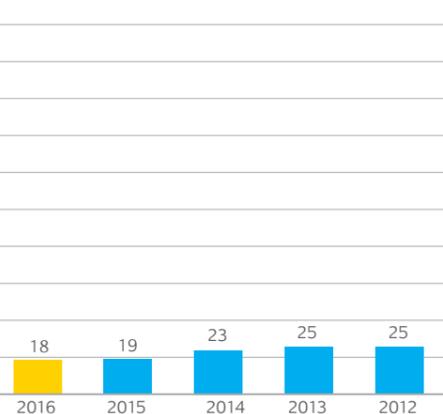
TOTAL DEDUCTIONS (SR billion)



SALES (SR billion)



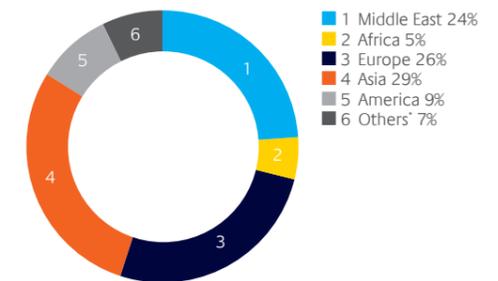
NET PROFIT (SR billion)



5. GEOGRAPHIC ANALYSIS OF THE TOTAL INCOME OF THE COMPANY AND AFFILIATES

Most of the company's revenues are derived from petrochemical products, specialties, agri-nutrient, and iron and steel products, manufacturing and marketed in the local, Middle East, Africa, Europe, America, and Asia markets. The chart on the right illustrates the proportions of the geographical distribution of income through 2016.

GEOGRAPHICAL DISTRIBUTION OF REVENUES FOR 2016



**Others* include shares of partners in income

6. CLARIFICATION OF FUNDAMENTAL DIFFERENCES IN OPERATIONAL RESULTS FROM PREVIOUS YEAR RESULTS

ITEM	2016	2015	-or +changes	Percentage of change
Sales/revenues	132,826,605	148,085,741	(15,529,136)	(10.3)
Sales cost/revenues	(91,916,534)	(105,057,981)	(13,141,447)	(12.5)
Total profit/loss from operation	40,910,071	43,027,760	(2,117,689)	(4.9)
Main business expenses	(14,131,749)	(14,508,439)	(376,690)	(2.6)
Profit/loss from major operations	26,778,322	28,519,321	(1,740,999)	(6.1)

The reason for decreased net profit is attributed to lower average selling prices of products, increase in the zakat allocation, increase in depreciation of Ibn Rushd machinery and equipment amounting to SR 686 million of which SABIC shares amount to SR 330 million. There has been a decrease in sales cost and general and administrative expenses.

7. CLARIFICATION OF DIFFERENCES FROM ACCOUNTING STANDARDS ISSUED BY THE SAUDI ORGANIZATION FOR CERTIFIED PUBLIC ACCOUNTANTS (SOCPA).

The consolidated financial statements of the company during the fiscal year ended December 31, 2016 are in accord with the generally accepted accounting standards in Saudi Arabia issued by Saudi Organization for Certified Public Accountants (SOCPA).

8. DETAILS OF AFFILIATES, ASSOCIATED COMPANIES, AND INVESTMENTS LISTED IN THE FINANCIAL STATEMENTS

AFFILIATES INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS

S	AFFILIATE NAME	Ownership Direct or indirect %	Main activity	Country of operation	Country of foundation	Capital in SR
1	SABIC Industrial Investments Co. and affiliates	100	Construction of metal, petrochemical, chemical and fertilizer plants	Saudi Arabia	Saudi Arabia	300,000,000
2	SABIC Luxembourg SARL and affiliates	100	Operation of petrochemical complexes production and sale of hydrocarbon products and innovative plastics polymers and chemicals.	Europe, America, and Asia	Luxembourg	34,387,500
3	Arabian Petrochemical Company and the company's affiliates (Petrokemya)	100	Operation of olefins and derivatives and polymers production complex	Saudi Arabia	Saudi Arabia	1,955,540,000
4	Saudi Iron & Steel Company (Hadeed)	100	Manufacturing of flat and long steel products	Saudi Arabia	Saudi Arabia	1,070,000,000
5	SABIC Sukuk	100	Sukuk management	Saudi Arabia	Saudi Arabia	500,000
6	SABIC Catalyst Company (Sabcat).	100	Develop, build, own, operate and maintain plants for producing methanol, ethylene glycol, ethylene polymers, butane catalysts and other products	Saudi Arabia	Saudi Arabia	500,000
7	Saudi Carbon Fiber Company	100	Develop, build, own, operate and maintain plants for the production of carbon fiber and acrylic fiber	Saudi Arabia	Saudi Arabia	500,000
8	SABIC Services Supply Company	100	Logistics, transportation, distribution, storing, shipping, exporting, loading and unloading	Saudi Arabia	Saudi Arabia	500,000
9	Saudi-European Petrochemical Company (Ibn Zahr)	80	Operation of methyl tertiary-butyl ether complex (MTBE) and polypropylene	Saudi Arabia	Saudi Arabia	1,025,665,000
10	Jubail United Petrochemical Company (United)	75	Operation of petrochemical complex for the production of ethylene, polyethylene, ethylene glycol, linear Alpha olefins	Saudi Arabia	Saudi Arabia	2,495,620,000
11	National Chemical Fertilizers Company (Ibn Al-Baytar)	71.5	Production of chemical fertilizers	Saudi Arabia	Saudi Arabia	494,700,000
12	National Industrial Gases Co (Gas)	70	Production and supply of industrial gases to different industries	Saudi Arabia	Saudi Arabia	248,000,000

S	AFFILIATE NAME	Ownership Direct or indirect %	Main activity	Country of operation	Country of foundation	Capital in SR
13	Yanbu National Petrochemical Company (Yansab)	51.95	Operation of petrochemical complex for the production of ethylene, propylene, polyethylene LDPE, HDPE, glycol ethylene, polypropylene, and methyl tertiary butyl ether, and a mixture of aromatic compounds, butane 1, butane 2, thermal gasoline, styrene and methanol	Saudi Arabia	Saudi Arabia	5,625,000,000
14	Saudi Methanol Co (Ar-Razi)	50	Processes for developing, creating, owning and operating chemical methanol complex industry	Saudi Arabia	Saudi Arabia	259,000,000
15	Al Jubail Fertilizer Co (Al-Bayroni)	50	Build, develop and operate petrochemical complex, which produces urea, ammonia gas, ethyl hexanol, and Dioctyl phthalate	Saudi Arabia	Saudi Arabia	671,500,000
16	Saudi Yanbu Petrochemical Company (Yanpet)	50	Operation of petrochemical complex to produce ethylene, glycol ethylene, polyethylene, polypropylene, propylene, thermal gasoline	Saudi Arabia	Saudi Arabia	4,596,000,000
17	National Methanol Company (Ibn Sina)	50	Operation of petrochemical complex, to produce methanol, methyl tertiary-butyl ether (MTBE)	Saudi Arabia	Saudi Arabia	558,000,000
18	Saudi Petrochemical Company (Sadaf)	50	Operation of petrochemical complex to produce ethylene, raw industrial ethanol, ethylene dichloride, styrene, caustic soda, and methyl tertiary-butyl ether (MTBE)	Saudi Arabia	Saudi Arabia	3,110,790,000
19	Eastern Petrochemical Company (Sharq)	50	Operation of petrochemical complex to produce glycol ethylene production, linear low density, high density polyethylene, and olefins plant	Saudi Arabia	Saudi Arabia	1,890,000,000
20	Al-Jubail Petrochemical Company (Kemya)	50	Operation of ethylene cracker and polyethylene, propylene, rubber plants	Saudi Arabia	Saudi Arabia	2,149,200,000
21	Saudi Japanese Acrylonitrile Company (Shrouq)	50	Production of ABS and sodium cyanide	Saudi Arabia	Saudi Arabia	160,000,000
22	Saudi Methyl Acrylate Company (SAMAC)	50	Production of methyl methacrylate and polymethyl methyl methacrylate	Saudi Arabia	Saudi Arabia	1,350,000,000
23	Arabian Industrial Fibers Company (Ibn Rushd)	48.07	Production of aromatic components and derivatives and a pure terephthalic acid, acetic acid, polyethylene terephthalate	Saudi Arabia	Saudi Arabia	8,510,000,000
24	Saudi Arabian Fertilizer Company (SAFCO)	42.99	Manufacturing and marketing of urea and ammonia.	Saudi Arabia	Saudi Arabia	4,166,666,660
25	Saudi Kayan Petrochemical Company (Saudi Kayan)	35	Investment in industrial projects, including petrochemicals, owning and constructing supporting industrial ventures feeding raw materials to company activities and facilities	Saudi Arabia	Saudi Arabia	15,000,000,000

INVESTMENTS IN JOINT VENTURES/ASSOCIATED COMPANIES

S	NAME OF ASSOCIATE COMPANY	Percentage ownership	Main activity	Country of operation	Country of foundation	Capital in SR
1	Sinopec SABIC Tianjin Petrochemical Co. Ltd	50	Production and sale of petrochemical products	China	China	5,145,496,129
2	SABIC SK Nexlene Company (SSNC)	50	Operation of complex for the production of linear low density polyethylene	Singapore	South Korea	1,125,037,500
3	Gulf Petrochemical Industries Company (GPIC)	33.33	Manufacturing of petrochemicals	Bahrain	Bahrain	600,000,000
4	Gulf Aluminium Rolling Mill Company (GARMCO)	30.40	Manufacturing of petrochemicals and production of aluminum	Bahrain	Bahrain	386,843,998
5	Maaden	30	Operation of phosphate and fertilizer completed	Saudi Arabia	Saudi Arabia	6,208,480,000
6	Saudi Arabian Industrial Investment company (SAIIC)	25	Investment in downstream industries	Saudi Arabia	Saudi Arabia	5,000,000,000
7	Power and Water Utility Company for Jubail and Yanbu (Marafiq)	24.81	Maintenance, management and implementation of salt water treatment and cooling systems	Saudi Arabia	Saudi Arabia	2,500,000,000
8	Aluminium Bahrain (Alba)	20.62	Manufacturing and production of aluminum	Bahrain	Bahrain	1,420,000,000
9	National Chemical Carriers Ltd. Co.	20	Buy, lease and operate petrochemical carriers (tankers and ships)	Saudi Arabia	Saudi Arabia	610,000,000
10	Ma'aden Wa'ad Al-Shamal Phosphate Company (MWSPC)	15	Operation of phosphate and fertilizer production complex	Saudi Arabia	Saudi Arabia	7,005,001,875

9. DETAILS OF STOCKS AND DEBT INSTRUMENTS FOR EACH AFFILIATE COMPANY:

S	NAME OF AFFILIATE	No. of shares	Value of Shares in SR	*Debt instruments in SR'000
1	SABIC Industrial Investments Co. and affiliates	300,000	1000 each	2,550,995
2	SABIC Luxembourg S. A. R. L. and affiliates	262,000	131,25 each	10,456,781
3	Arabian Petrochemical Company (Petrokemya) and affiliates	195,554	10000 each	112,500
4	Saudi Iron & Steel Company (Hadeed)	1,070,000	1000 each	0
5	SABIC Sukuk (Sukuk)	5,000	100 each	0
6	SABIC Industrial Catalyst Company (Sabcat)	5,000	100 each	0
7	Saudi Carbon Fiber Company	5,000	100 each	0
8	Saudi-European Petrochemical Company (Ibn Zahr)	1,025,666	1000 each	448,875
9	Jubail United Petrochemical Company (United)	2,495,620	1000 each	0
10	National Chemical Fertilizers Company (Ibn Al-Baytar)	494,700	1000 each	0
11	National Industrial Gases Co (Gas)	248,000	1000 each	70,550
12	Yanbu National Petrochemical Company (Yansab)	562,500,000	10 each	2,596,141
13	Saudi Methanol Co (Ar-Razi)	25,900	10000 each	0
14	Al Jubail Fertilizer Co (Al-Bayroni)	13,430	50000 each	0
15	Saudi Yanbu Petrochemical Company (Yanpet)	4,596,000	1000 each	0
16	National Methanol Company (Ibn Sina)	5,580	100,000 each	1,432,250
17	Saudi Petrochemical Company (Sadaf)	3,110,790	1000 each	0
18	Eastern Petrochemical Company (Sharq).	189,000	10000 each	360,000
19	Al-Jubail Petrochemical Company (Kemya)	21,492	100000 each	6,825,000
20	Saudi Japanese Acrylonitrile Company (Shrouq)	16,000,000	10 each	0
21	Arabian Industrial Fibers Company (Ibn Rushd)	851,000,000	10 each	4,025,400
22	Saudi Arabian Fertilizer Company (SAFCO)	333,333,333	10 each	0
23	Saudi Kayan Petrochemical Company's (Saudi Kayan)	1500,000,000	10 each	23,023,447
24	Saudi Methyl Acrylate Company (SAMAC)	135,000,000	10 each	1,931,250
25	SABIC Services Supply Company	50,000	10 each	

* Debt instruments do not include internal loans between companies that were excluded for the purpose of consolidating financial statements

10. DESCRIPTION OF COMPANY POLICY FOR DISTRIBUTION OF DIVIDENDS

The distribution and amount of dividends depend on net profit, and the company's cash flow in line with the policy of the company Articles of Association, Articles 43, 44, 45, which read as follows:

The company annually deducts statutory reserve, and the reserve determined by the ordinary General Assembly. Out of the annual net profits of the company, the first installment is distributed to shareholders at the rate of 5 percent of the paid capital. The necessary amount of remunerations for

DIVIDENDS CYCLE	Dividend per share	No of shares	Total distributed dividends	Date of eligibility
First half of 2016	SR 2	3 billion	SR 6 billion	Distributed on September 6, 2016
Second half of 2016	SR 2	3 billion	SR 6 billion	Date of distribution shall be announced after the approval of the General Assembly, expected on April 11, 2017

11. INTERESTS AND CHANGES IN EQUITY FOR PERSONS OTHER THAN THE MEMBERS OF THE BOARD OF DIRECTORS, SENIOR EXECUTIVES AND THEIR RELATIVES DURING THE LAST FINANCIAL YEAR:

Board members will be allocated as approved by the ordinary General Assembly in accordance with Article 16 hereto. The remaining amount will be distributed as additional share of the profits to shareholders or carried forward to the coming years. Approved dividends to shareholders will be distributed in the venue and dates to be determined by the Board of Directors. Note that the Board of Directors had recommended to the General Assembly to distribute dividends for 2016 as follows:

In developing the stock data below, the company relied on the data from the Saudi Stock Exchanges (Tadawul). The following are ownerships of the company's shares or debt instruments during 2016. Note that the company had not been informed of any interests belonging to persons other than the members of the Board of Directors and Senior Executives in the classes of shares with eligibility of voting, or any change in those rights during 2016.

NAME	No. of shares at the beginning of the year	% of ownership at the beginning of the year	Net change in No. of shares during the year	% of change during the year	No. of shares by end of the year	% of ownership by end of the year
Public Investment Fund (PIF)	2,100,000,000	70	0	0	2,100,000,000	70
General Organization for Social Insurance (GOSI)	171,042,836	5.70	0	0	171,042,836	5.70

12. INTERESTS AND CHANGES IN EQUITY FOR BOARD MEMBERS, SENIOR EXECUTIVES AND THEIR RELATIVES DURING THE LAST FISCAL YEAR:**DESCRIPTION OF ANY INTERESTS DUE TO THE BOARD MEMBERS, THEIR SPOUSES AND THEIR MINOR CHILDREN IN SABIC SHARES OR DEBT INSTRUMENTS**

S	THE NAME OF STAKEHOLDER	Beginning of the year		End of the year		Net change
		No. of shares	Debt instruments	No. of shares	Debt instruments	
1	Prince Saud bin Abdullah bin Thenayan Al-Saud	60,134	-	0	-	0
2	Yousef Abdullah Al-Benyan	0	-	0	-	0
3	Bandar Abdulaziz Al-Waily	0	-	0	-	0
4	Abdulrahman Abdullah Al-Humaidi	0	-	0	-	0
5	Saad Bin Othman Bin Abdullah Al-Kasabi	0	-	0	-	0
6	Khaled bin Hamza Nahass	4,526,144	-	3,625,244	-	900,900
7	Abdullah M Al-Issa	300,000	-	300,000	-	0
8	Abdulaziz Habdan Alhabdan	0	-	0	-	0
9	Mohammed A. Al Kharashi	0	-	His relationship with the company ended on September 20, 2016 as per company's announcement on Tadawul on September 21, 2016		0
10	Mohammed Ibn Talal Al Nahas	Appointed on September 20, 2016 as per company's announcement on Tadawul on September 21, 2016		0	-	0
11	Public Investment Fund (PIF), represented by Board members appointed by the government	2,100,000,000	-	2,100,000,000	-	0
12	Hassana Investment Company, represented by the Board member, Abdulaziz Habdan Alhabdan	1,875,794	-	1,875,794	-	0
13	Al Raidah Investment Company, represented by Mohammed Ibn Talal Al Nahas	0	-	0	-	0

DESCRIPTION OF ANY INTERESTS DUE TO THE BOARD MEMBERS, THEIR SPOUSES AND THEIR MINOR CHILDREN IN SAFCO AFFILIATE SHARES OR DEBT INSTRUMENTS

S	THE NAME OF STAKEHOLDER	Beginning of the year		End of the year		Net change
		No. of shares	Debt instruments	No. of shares	Debt instruments	
1	Prince Saud bin Abdullah bin Thenayan Al-Saud	0	-	0	-	0
2	Yousef Abdullah Al-Benyan	2,250	-	2,250	-	0
3	Bandar Abdulaziz Al-Waily	0	-	0	-	0
4	Abdulrahman Abdullah Al-Humaidi	0	-	0	-	0
5	Saad Bin Othman Bin Abdullah Al-Kasabi	0	-	0	-	0
6	Khaled bin Hamza Nahass	2,906,247	-	2,906,247	-	0
7	Abdullah M Al-Issa	22,500	-	22,500	-	0
8	Abdulaziz Habdan Alhabdan	0	-	0	-	0
9	Mohammed A. Al Kharashi	0	-	His relationship with the company ended on September 20, 2016 as per company's announcement on Tadawul on September 21, 2016		0
10	Mohammed Ibn Talal Al Nahas	Appointed on September 20, 2016 as per company's announcement on Tadawul on September 21, 2016		0	-	0
11	Saudi Basic Industries Corporation (SABIC), represented by SABIC Vice Chairman and Chief Executive Officer Yousef Abdullah Al-Benyan	179,135,832	-	79,135,832	-	0
12	Hassana Investment Company, represented by the Board member, Abdulaziz Habdan Alhabdan	18,129,922	-	13,745,000	-	4,384,922

DESCRIPTION OF ANY INTERESTS DUE TO THE BOARD MEMBERS, THEIR SPOUSES AND THEIR MINOR CHILDREN IN SAUDI KAYAN AFFILIATE SHARES OR DEBT INSTRUMENTS

S	THE NAME OF STAKEHOLDER	Beginning of the year		End of the year		Net change
		No. of shares	Debt instruments	No. of shares	Debt instruments	
1	Prince Saud bin Abdullah bin Thenayan Al-Saud	150,000	-	150,000	-	0
2	Yousef Abdullah Al-Benyan	17,727	-	17,727	-	0
3	Bandar Abdulaziz Al-Waily	0	-	0	-	0
4	Abdulrahman Abdullah Al-Humaidi	24,000	-	24,000	-	0
5	Saad Bin Othman Bin Abdullah Al-Kasabi	0	-	0	-	0
6	Khaled Nahass	1,500,000	-	0	-	(1,500,000)
7	Abdullah M Al-Issa	0	-	0	-	0
8	Abdulaziz Habdan Alhabdan	0	-	75,000	-	75,000
9	Mohammed Ibn Talal Al Nahas	Appointed on September 20, 2016 as per company's announcement on Tadawul on September 21, 2016		200	-	0
10	Mohammed A. Al Kharashi	Appointed on September 20, 2016 as per company's announcement on Tadawul on September 21, 2016		His relationship with the company ended on September 20, 2016 as per company's announcement on Tadawul on September 21, 2016		0

DESCRIPTION OF ANY INTERESTS DUE TO THE BOARD MEMBERS, THEIR SPOUSES AND THEIR MINOR CHILDREN IN YANSAB AFFILIATE SHARES OR DEBT INSTRUMENTS

S	THE NAME OF STAKEHOLDER	Beginning of the year		End of the year		Net change
		No. of shares	Debt instruments	No. of shares	Debt instruments	
1	Prince Saud bin Abdullah bin Thenayan Al-Saud	15,495	-	15,495	-	0
2	Yousef Abdullah Al-Benyan	2,500	-	2,500	-	0
3	Bandar Abdulaziz Al-Waily	0	-	0	-	0
4	Abdulrahman Abdullah Al-Humaidi	85	-	85	-	0
5	Saad Bin Othman Bin Abdullah Al-Kasabi	0	-	0	-	0
6	Khaled bion Hamza Nahass	650,000	-	0	-	(650,000)
7	Abdullah M Al-Issa	0	-	0	-	0
8	Abdulaziz Habdan Alhabdan	24,130	-	0	-	(24,130)
9	Mohammed Ibn Talal Al Nahas	Appointed on September 20, 2016 as per company's announcement on Tadawul on September 21, 2016		25	-	25
10	Mohammed A. Al Kharashi	0		His relationship with the company ended on September 20, 2016 as per company's announcement on Tadawul on September 21, 2016		0
11	Saudi Basic Industries Corporation (SABIC), represented by SABIC Vice Chairman and Chief Executive Officer	286,875,000	-	0	-	0

DESCRIPTION OF ANY INTERESTS DUE TO THE SENIOR EXECUTIVES, THEIR SPOUSES AND THEIR MINOR CHILDREN IN SABIC SHARES OR DEBT INSTRUMENTS

S	THE NAME OF STAKEHOLDER	Beginning of the year		End of the year		Net change
		No. of shares	Debt instruments	No. of shares	Debt instruments	
1	Musaed Sulaiman Abdullah Al-Ohali	16,000	-	16,000	-	0
2	Omar Abdullah Abdulrahman Al-Amoudi	0	-	0	-	0
3	Abdulrahman Saleh Abdulrahman Al-Fageeh	0	-	0	-	0
4	Abdulaziz Suleiman Abdulaziz Al-Humaid	0	-	0	-	0
5	Khalid Abdulaziz Ibrahim Al-Mana	0	-	Out of the list of senior executives on October 19, 2016		0
6	Awadh Mohamed Saleh Al-Maker	13,400	-	13,400	-	0
7	Ernesto Occhiello	0	-	0	-	0
8	Yusuf Abdulrahman Ibrahim Al-Zamel	59,300	-	Out of the list of Senior Executives in April 2016		0
9	Abdulaziz Ali Abdulaziz Al-Oudan	0	-	0	-	0
10	Uwaidh Khalaf Hassan Al-Harethi	0	-	0	-	0
11	Ahmad Terais Saad Sheikh	0	-	0	-	0
12	Anas Yusuf Kentab	Joined the list of senior executives on October 15, 2016		9,000	-	0

DESCRIPTION OF ANY INTERESTS DUE TO THE SENIOR EXECUTIVES, THEIR SPOUSES AND THEIR MINOR CHILDREN IN SAFCO AFFILIATE SHARES OR DEBT INSTRUMENTS

S	THE NAME OF STAKEHOLDER	Beginning of the year		End of the year		Net change
		No. of shares	Debt instruments	No. of shares	Debt instruments	
1	Musaed Sulaiman Abdullah Al-Ohali	0	-	0	-	0
2	Omar Abdullah Abdulrahman Al-Amoudi	0	-	0	-	0
3	Abdulrahman Saleh Abdulrahman Al-Fageeh	0	-	0	-	0
4	Abdulaziz Suleiman Abdulaziz Al Humaid	0	-	0	-	0
5	Khaled Abdulaziz Ibrahim Al-Mana	0	-	Out of the list of senior executives on October 19, 2016		
6	Awadh Mohamed Saleh Al-Maker	0	-	0	-	0
7	Ernesto Occhiello	0	-	0	-	0
8	Yusuf Abdul Rahman Ibrahim Al Zamel	38,295	-	Out of the list of senior executives in April 2016		
9	Abdulaziz Ali Abdulaziz Al Oudan	0	-	0	-	0
10	Uwaidh Khalaf Hassan Al-Harethi	0	-	0	-	0
11	Ahmad Terais Saad Sheikh	0	-	0	-	0
12	Anas Yusuf Kentab	Joined the list of senior executives on October 15, 2016				
13	Saudi Basic Industries Corporation (SABIC), represented by SABIC Vice Chairman and Chief Executive Officer Yousef Abdullah Al-Benyani	179,135,832		179,135,832		0

DESCRIPTION OF ANY INTERESTS DUE TO THE SENIOR EXECUTIVES, THEIR SPOUSES AND THEIR MINOR CHILDREN IN SAUDI KAYAN AFFILIATE SHARES OR DEBT INSTRUMENTS

S	THE NAME OF STAKEHOLDER	Beginning of the year		End of the year		Net change
		No. of shares	Debt instruments	No. of shares	Debt instruments	
1	Musaed Sulaiman Abdullah Al-Ohali	0	-	0	-	0
2	Omar Abdullah Abdulrahman Al-Amoudi	67,200	-	214,200	-	147,000
3	Abdulrahman Saleh Abdulrahman Al-Fageeh	0	-	0	-	0
4	Abdulaziz Suleiman Abdulaziz Al Humaid	0	-	0	-	0
5	Khaled Abdulaziz Ibrahim Al-Mana	0	-	Out of the list of senior executives on October 19, 2016		
6	Awadh Mohamed Saleh Al-Maker	31,000	-	30,000	-	(1,000)
7	Ernesto Occhiello	0	-	0	-	0
8	Yusuf Abdul Rahman Ibrahim Al Zamel	69,000	-	Out of the list of senior executives in April 2016		
9	Abdulaziz Ali Abdulaziz Al Oudan	0	-	0	-	0
10	Uwaidh Khalaf Hassan Al-Harethi	0	-	0	-	0
11	Ahmad Terais Saad Sheikh	0	-	0	-	0
12	Anas Yusuf Kentab	Joined the list of senior executives on October 15, 2016		10,000	-	0

DESCRIPTION OF ANY INTERESTS DUE TO THE SENIOR EXECUTIVES, THEIR SPOUSES AND THEIR MINOR CHILDREN IN YANSAB AFFILIATE SHARES OR DEBT INSTRUMENTS

S	THE NAME OF STAKEHOLDER	Beginning of the year		End of the year		Net change
		No. of shares	Debt instruments	No. of shares	Debt instruments	
1	Musaed Sulaiman Abdullah Al-Ohali	24,410	-	24,410	-	0
2	Omar Abdullah Abdulrahman Al-Amoudi	44,205	-	0	-	(44,205)
3	Abdulrahman Saleh Abdulrahman Al-Fageeh	5,000	-	5,000	-	0
4	Abdulaziz Suleiman Abdulaziz Al Humaid	76,000	-	0	-	(76,000)
5	Khaled Abdulaziz Ibrahim Al-Mana	2,712	-	Out of the list of senior executives on October 19, 2016		
6	Awadh Mohamed Saleh Al-Maker	29,000	-	29,000	-	0
7	Ernesto Occhiello	0	-	0	-	0
8	Yusuf Abdul Rahman Ibrahim Al Zamel	100,155	-	Out of the list of senior executives on April 2016		
9	Abdulaziz Ali Abdulaziz Al Oudan	0	-	0	-	0
10	Uwaidh Khalaf Hassan Al-Harethi	5,000	-	0	-	(5,000)
11	Ahmad Terais Saad Sheikh	0	-	0	-	0
12	Anas Yusuf Kentab	Joined the list of senior executives on October 15, 2016		5,000	-	0
13	Saudi Basic Industries Corporation (SABIC), represented by SABIC Vice Chairman and Chief Executive Officer Yousef Abdullah Al-Benyan	292,218,750	-	292,218,750	-	0

13. INFORMATION RELATED TO LOANS AND DEBTS OF THE COMPANY AND AFFILIATES

The following table shows information regarding the company consolidated loans and its movement during 2016. The company's financial statements includes detailed information on existing and receivable loans.

COMPANY CONSOLIDATED LOANS AND ITS MOVEMENT DURING 2016 (IN THOUSAND SR)

CLARIFICATION	Original loan amount	Balance beginning of the year	Balance added by end of year	Paid loan amounts	Balance end of year	Loan period (years)	Lender
Long term	93,180,489	56,235,463	5,529,785	13,676,909	47,997,341	5-15	Several parties
Short term	2,264,243	428,201	0	428,201	0	1	Several parties
Bonds*	21,382,375	16,827,826	-	2,000,000	14,706,781	5-7	Several parties
Total	116,827,107	73,491,490	5,529,787	16,183,016	62,704,122		

*There is a decrease in the value of bonds caused by currency exchange rate change by SR 121,045

LOAN DETAILS

Local banks	21,385,751	34%
Foreign banks	17,242,175	27%
Bond	6,706,781	11%
*Public Investments Fund	11,561,000	18%
Industrial Development Fund	2,375,950	4%
Export credit agencies	3,432,465	5%
Total	62,704,122	100%

*8 billion bonds sourced through the Public Investment Fund

14. DESCRIPTION OF CONVERTIBLE DEBT INSTRUMENTS AND CONTRACTUAL SECURITIES AND UNDERWRITING RIGHTS ISSUES GRANTED BY THE COMPANY

There were no debt instruments convertible into shares, or any option or subscription rights or similar rights issued or granted by the company during 2016.

15. DESCRIPTION OF CONVERSION RIGHTS AND SUBSCRIPTION UNDER CONVERTIBLE DEBT INSTRUMENTS ISSUED OR GRANTED BY THE COMPANY

There were no subscription or conversion rights under debt instruments convertible into shares or subscription option rights or similar rights or notes issued or granted by the company during 2016.

16. DESCRIPTION OF ANY REFUND OR BUYOUT OR CANCELLATION BY THE COMPANY FOR ANY RECOVERABLE DEBT TOOLS

- SABIC recovered bonds worth SR 2 billion to the Public Investment Fund on December 29, 2016, and the balance is SR 8 billion.
- SABIC completed repaying the Tokyo Mitsubishi Bank loan worth US\$1 billion on August 9, 2016.
- Hadeed completed repaying the ANZ loan worth US\$426 million on March 10, 2016.
- JCSSC completed repaying the foreign partner, Vopak, worth US\$350 million on February 25, 2016.
- Sharq completed repaying JVIC loan worth US\$1,170 million on December 15, 2016.

The above does not denote that the loan has been paid in one instalment, but that the original loan closed during the year.

17. THE NUMBER OF BOARD MEETINGS AND THE ATTENDANCE RECORD OF EACH MEETING

MEMBER NAME	Attendance record						Total
	1st meeting February 21, 2016	2nd meeting June 1, 2016	3rd meeting September 20, 2016	4th meeting October 26, 2016	5th meeting November 10, 2016	6th meeting December 18, 2016	
Prince Saud bin Abdullah bin Thenayan Al-Saud	Attended	Attended	Attended	Attended	Attended	Attended	6
Yousef Abdullah Al-Benyan	Attended	Attended	Attended	Attended	Attended	Attended	6
Khaled Nahass	Attended	Attended	Attended	Attended	Attended	Attended	6
Abdullah M Al-Issa	Attended	Attended	Attended	Attended	Attended	Attended	6
Bandar Abdulaziz Al-Waily	Attended	Attended	Attended	Attended	Attended	Attended	6
Abdulrahman Abdullah Al-Humaidi	Attended	Attended	Attended	Absent	Attended	Attended	5
Saad Bin Othman Bin Abdullah Al-Kasabi	Attended	Attended	Attended	Attended	Attended	Attended	6
Abdulaziz Habdan Alhabdan	Attended	Attended	Attended	Attended	Attended	Attended	6
Mohammed A. Al Kharashi	Attended	Attended	Attended		Resigned on September 20, 2016		3
Mohammed Ibn Talal Al Nahas			Joined the board membership on September 20, 2016	Attended	Absent	Attended	2

18. DESCRIPTION OF ANY DEAL BETWEEN THE COMPANY AND RELATED PARTIES

The company works on marketing and sales of affiliate products in various local, regional and global markets through marketing agreements signed with those companies. The company provides procurement services, involving transportation, warehouse services and delivery of materials related to spare parts for affiliates through the SABIC Shared Services function. The company, represented by Shared Services, provides accounting, human resources, information technology, and engineering services to affiliates under an agreement signed with them.

The company, represented in the Legal Department and Safety and Security Department, protects SABIC and its affiliates business against legal risk, and maintain interests through legal advice and review of contracts and all litigation and other legal services. The company, represented by the Audit Department, performs operational review of all aspects of activity in sectors and departments of SABIC and affiliates inside and outside Saudi Arabia.

19. INFORMATION ON ANY CONTRACTS IN WHICH THE COMPANY IS A PARTY AND INTERESTS OF THE MEMBERS OF THE BOARD OF DIRECTORS AND CEO, OR CFO.

The company has not concluded any contracts of substantial interest to a member of the Board of Directors, CEO, or the CFO, or anyone related to any of them.

20. A STATEMENT OF ANY WAIVER OF SALARIES AND COMPENSATIONS BY THE BOARD MEMBERS OR SENIOR EXECUTIVES:

There are no procedures or waiver agreements of any salary or compensation by one of the Board members or senior executives.

21. STATEMENT OF ANY SHAREHOLDERS WAIVER OF DIVIDENDS.

There are no waiver agreements, or arrangements under which one of the company's shareholders assign his dividends.

22. A STATEMENT AND DESCRIPTION OF THE VALUE OF REGULAR PAYMENTS DUE

Liabilities payable in 2016:

ITEM	December 31, 2016	December 31, 2017
Liabilities payable [*]	4,108,637	4,231,078
Distribution of due dividends	1,225,636	1,139,394
Income tax/ Zakat allocation	820,266	882,903
Compensations due to employees	1,712,450	1,972,962
Others ^{**}	1,270,869	2,923,673
TOTAL	9,137,858	1,150,010

^{*}Accrued liabilities item includes foreign currency differences.
^{**}Other items include retains of contracts and other allocations.

23. STATEMENT OF THE VALUE OF INVESTMENTS AND RESERVES CREATED FOR THE BENEFIT OF THE EMPLOYEES OF THE COMPANY

The following table shows the allocations and compensations for the benefit of employees of the company, in 2016 as included in the company's financial statements compared to the previous year.

DESCRIPTION	2016	2017
End of service award	12,082,129	11,484,549
Savings program	1,020,864	931,944
Early retirement program	66,480	325,834
TOTAL	13,169,473	12,742,327

24. REPRESENTATIONS OF THE BOARD OF DIRECTORS

The Board acknowledges the following:

- The accounting records were properly prepared.
- The internal control system was founded and implemented effectively.
- There are no doubts on the company's ability to continue business.

25. INFORMATION TO BE DISCLOSED UNDER CORPORATE GOVERNANCE REGULATIONS

Based on the principle of commitment and transparency, the report of the Board of Directors disclosed all the information to be disclosed under the Corporate Governance Regulations contained in Article 9 of the Rules of Corporate Governance, as well as Article 43 of the Rules of Registration and Listing with the exception of those mentioned in Article 28 of this report.

26. REMARKS OF THE CERTIFIED ACCOUNTANT ON THE ANNUAL FINANCIAL STATEMENTS

Auditors' report shows that the consolidated financial statements are free of material misstatements, and any reservations towards it.

27. RECOMMENDATIONS OF THE BOARD OF DIRECTORS TO REPLACE THE CERTIFIED ACCOUNTANT AND THE CAUSES

During the company's General Assembly meeting on April 11, 2016, the Board's recommendation on reappointment of external auditor (Ernst & Young) to review the quarterly and annual financial statements of the company, and determining the fees for 2016, has been approved. The Board did not recommend replacement of Auditors before the expiry of the specified period.

28. CORPORATE GOVERNANCE REGULATIONS THAT HAVE NOT BEEN APPLIED AND THE REASONS

The company applies all the provisions contained in the Rules of Corporate Governance issued by the Capital Market Authority (CMA), except the provisions below:

PROVISIONS NOT APPLIED	REASON	Article No.
Investors who are judicial persons and who act on behalf of others – e.g. investment funds – shall disclose in their annual reports their voting policies, actual voting, and ways of dealing with any material conflict of interests that may affect the practice of the fundamental rights in relation to their investments.	There is no provision that authorizes the company to prevent judicial persons of the right to vote on the stock registered in records in their names	6 Para d

29. NAMES OF COMPANIES WHOSE BOARD MEMBER IS ALSO A MEMBER OF SABIC BOARD OF DIRECTORS:

NAME OF MEMBER	Names of companies whose Board member is a member of SABIC Board of Directors
Prince Saud bin Abdullah bin Thenayan Al-Saud	–
Yousef Abdullah Al-Benyan	– Saudi Arabian Fertilizers Co. (SAFCO) – Yanbu National Petrochemical Company (Yansab)
Khaled Nahas	– National Water Company – Hasana Investment Company
Abdullah M Al-Issa	– Saudi Arabian Mining Company (Maaden) – Riyadh Bank – Dur Hospitality – Mobily
Bandar Abdulaziz Al-Waily	–
Abdulrahman Abdullah Al-Humaidi	–
Saad Bin Othman Bin Abdullah Al-Kasabi	–
Abdulaziz Habdan Alhabdan	– Saudi Telecom (STC) – Saudi Fransi Capital – Saudi Arabian Fertilizers Co.(SAFCO)
Mohammed Ibn Talal Al Nahas	– Riyadh Bank – ACWA Power – Al Raidah Investment Company
Mohammed A. Al Kharash resigned on September 20, 2016	– Saudi Arabian Mining Company (Maaden) – Al Raidah Investment Company

30. STRUCTURE OF THE BOARD OF DIRECTORS AND MEMBERS CLASSIFICATION:

The current Board of Directors consists of 9 members. The following table shows the structure of the Board and Members classification:

MEMBER NAME	Membership classification			Committees of the Board of Directors
	Executive	Non-executive	Independent	
Prince Saud bin Abdullah bin Thenayan Al-Saud		✓		Nominations and Remuneration Committee
Yousef Abdullah Al-Benyan	✓			Nominations and Remuneration Committee Investment Committee
Khaled Nahass			✓	Investment Committee Audit Committee Risks & Compliance Committee
Abdullah M Al-Issa			✓	Nominations and Remuneration Committee Investment Committee
Bandar Abdulaziz Al-Waily		✓		Nominations and Remuneration Committee
Abdulrahman Abdullah Al-Humaidi		✓		Audit Committee Risks & Compliance Committee
Saad Bin Othman Bin Abdullah Al-Kasabi		✓		Investment Committee Risks & Compliance Committee
Abdulaziz Habdan Alhabdan		✓		Audit Committee Risks & Compliance Committee
Mohammed Ibn Talal Al Nahas			✓	Investment Committee Risks & Compliance Committee
Mohammed A. Al Kharash Resigned on September 20, 2016			✓	Investment Committee Risks & Compliance Committee

31. A BRIEF DESCRIPTION OF THE FUNCTIONS AND TASKS OF THE BOARD COMMITTEES:

The company's Board of Directors has four committees formed to support the Board in performing its functions. The performance of these committees is subject to periodic review according to several factors, including the need of the to continue supporting the Board. In addition, the Board of Directors continuously assesses the need for additional committees.

FIRST: AUDIT COMMITTEE

The Committee performs its approved functions, including overseeing the Internal Audit Department of the company and studying its reports, examining the Internal Control System, in addition to studying the initial and annual financial statements, accounting policies in place, and recommends to the Board the nomination of Auditors of the company. The Committee files recommendations to the Board. The Committee has held seven meetings during the fiscal year 2016.

Audit Committee Structure

– Abdulaziz Habdan Alhabdan	Chairman
– Khaled Nahas	Member
– Abdulrahman Abdullah Al-Humaidi	Member
– Abdulmohsen Abdulaziz Al Faris	Member (not a board member)
– Abdul Rahman bin Ibrahim Hamid	Member (not a board member)

SECOND: NOMINATION AND REMUNERATIONS COMMITTEE

The Committee carries out its approved functions, including recommending candidates to run for Board membership in accordance with the approved requirements, reviewing all work, policies, programs and requirements for membership of the Board of Directors, and sets clear policies for compensation and remuneration for Board Members and Senior Executives. The Committee also reviews the work, policies and programs related to human resources of the company and files the necessary recommendations to the Board. The Committee held three meetings during the fiscal year 2016.

Nomination and Remunerations Committee Structure:

– Prince Saud bin Abdullah bin Thenayan Al-Saud	Chairman
– Yousef Abdullah Al-Benyan	Member
– Abdullah M Al-Issa	Member
– Bandar Abdulaziz Al-Waily	Member

THIRD: RISK AND COMPLIANCE COMMITTEE

The Committee carries out its approved functions, including assessment of the effectiveness of the Risk Management and Corporate Compliance Program, reviews company policies in the area of risk management and compliance controls and control procedures and regulations applied by the company to ensure compliance with those policies, and monitors the company's record in the area of compliance and risk control. The Committee discusses any legal issues that will influence the core company policy and procedures regarding compliance with legal and regulatory requirements. The Committee makes the necessary recommendations to the Board of Directors. The Committee held four meetings during the financial year 2016.

Risk and Compliance Committee Structure

– Khaled Nahas	Chairman
– Mohammed Ibn Talal Al Nahas	Member
– Saad Bin Othman Bin Abdullah Al-Kasabi	Member
– Abdulrahman Abdullah Al-Humaidi	Member
– Abdulaziz Habdan Alhabdan	Member

FOURTH: INVESTMENT COMMITTEE

The Committee carries out its approved functions, including evaluation of SABIC investment activities and submits proposals and recommendations to the Board of Directors in transactions related to mergers, acquisitions, joint ventures and investment in new, or existing projects, or expansion projects. The Committee reviews the company's investment strategy. The Committee held three meetings during the fiscal year 2016.

Investment Committee Structure:

– Abdullah M Al-Issa	Chairman
– Yousef Abdullah Al-Benyan	Member
– Saad Bin Othman Bin Abdullah Al-Kasabi	Member
– Khaled Nahas	Member
– Mohammed Ibn Talal Al Nahas	Member

BOARD MEMBERS TRAINING PROGRAM:

Within the general framework of training programs for Board members, the Foundation program for a new member joining the Board in 2016 was held to introduce them to the business and activities of the company, the Board's mechanisms and committees. The Foundation program for the Board members include the following elements:

PETROCHEMICALS	COMPANY'S BUSINESS AND ACTIVITIES	CORPORATE GOVERNANCE	PLANT TOURS
– Introduction to Petrochemicals	– Company history	– Corporate Governance Rules	– Tour of a number of plants
– Industries and basic materials	– Company vision and objectives	– BoD role and responsibilities	
– Key markets.	– Company strategy	– BoD tasks	
– Most important local and external challenges	– Key business and activities	– BoD work mechanisms	
– Research & Development	– Financial and operational data	– BoD committees	
	– Organizational structure: roles and responsibilities of departments	– Conflict of interests	
		– Shareholder equities	
		– Disclosure and transparency	
		– Legislative and regulatory aspects	

32. DETAILS OF THE REMUNERATIONS AND COMPENSATIONS PAID TO BOARD MEMBERS, SENIOR EXECUTIVES AND CFO

The following table shows the remunerations and compensations paid to Board members and Senior Executives, including the CEO and CFO during 2016:

DESCRIPTION	Board executive members	Board non-executive and independent members	Total earnings of the five top executives*
Salaries & compensations	–	–	12,288,552
Allowances	36,000	1,524,683	8,484,829
Periodic and annual remunerations	600,000	4,800,000	14,991,879
Incentive plans	–	–	–
Compensation or other benefits in kind paid monthly or yearly	–	–	341,400
TOTAL	636,000	6,324,683	36,106,660

*Including the CEO and CFO, who received highest remunerations and compensations

33. FINES, PENALTIES AND RESTRICTIONS IMPOSED ON THE COMPANY BY THE COMPETENT AUTHORITY OR BY ANY SUPERVISORY OR OTHER JUDICIAL OR REGULATORY PARTY

There are no penalties, disciplinary actions, precautionary measures, or restrictions imposed on the company by the competent body or by any other supervisory, organizing or legal body.

34. RESULTS OF THE ANNUAL REVIEW OF THE EFFECTIVENESS OF INTERNAL CONTROL SYSTEM PROCESSES

- The Internal Audit Department – independently and objectively – assesses the adequacy and effectiveness of the Internal Control Systems, Risk Management and Corporate Governance, with a focus on high risks that threaten the company, using risk-based audit methodology. The Internal Audit Department functionally reports to the Audit Committee and administratively to the Vice Chairman and Chief Executive Officer. In carrying out its duties, the Department has absolute power to access all SABIC's sites around the world, and all information, documents and employee-related issues.
- During 2016, the company's business has undergone periodic audits. The Internal Audit Department carried out planned audits as approved by the Audit Committee for 2016, to investigate, objectively and independently, the adequacy and effectiveness of Internal Control Systems in protecting the company's assets, and assessing performance suitability to control potential risks, in addition to participating in some

special assignments, including, for instance, review of compliance with company's policies with the Compliance with the Work Ethics Team, as well as the implementation of a joint audit with SABIC's partners in joint ventures.

- The Department continued to follow up with the company's executive management responsible for implementing the recommendations contained in the audit reports, to ensure their implementation in accordance with set dates and specific procedures to ensure the integrity of the internal control processes.
- The Certified External Auditor, appointed to audit the accounts of the company for 2016, Ernst & Young, reviewed the Internal Control System within the scope of its review of the final financial statements of the company. The referenced review operation did not show substantial weakness in the Internal Control System of the company, reflecting the conviction of the effective established internal control processes.
- To keep up with SABIC's steady growth during the past years, and in an effort to apply the best international auditing practices, the Department has developed a strategic plan, which was approved by the Audit Committee in 2015. The plan consists of five major projects: (1) Development of risk-based audit plan, (2) Data analysis, (3) Rework of the audit programs (internal control system evaluation tests), (4) Communication, (5) Development and knowledge.
- The Department is committed to ensuring the application of internal auditing standards through the Expertise Center to assure quality of business implementation and development projects.

35. CORPORATE GOVERNANCE

The company is committed to maintaining the highest standards of quality and performance in all its business activities, including the application of corporate governance standards for achieving diverse objectives. In this regard, the company developed governance regulations in conformity with all relevant laws and regulations. These regulations were approved and are directly supervised by the Board of Directors. The objective is to direct, manage and control the company's business to ensure compliance with the Corporate Governance best practices and ensure observation and implementation of the best international regulations in compliance that guarantee the rights of employees, shareholders, investors and stakeholders alike, to achieve the company's vision to be the preferred world leader in chemicals.

The Pearl Initiative, a non-profit organization that seeks to promote the level of accountability and transparency for companies in the Gulf region, honored SABIC in Dubai in 2016, for its outstanding contributions towards promoting sustainability and corporate governance practices in the Gulf region.

SABIC has a track record in the areas of transparency and the fight against corruption. It was ranked top at the corporate level in the Middle East, and the 11th globally, by Transparency International for its transparency and actions against corruption. Consequently, the company won praise from the Custodian of the Two Holy Mosques for this international recognition, enhancing Saudi Arabia's global reputation in this area.

36. TRANSPARENCY AND COMPLIANCE

SABIC is committed to a culture of full transparency with regard to compliance issues. The corporate Code of Ethics provides the basis for that culture under which employees and stakeholders comply with high ethical behavior in the workplace, and learn how to ask questions if they are not sure of the compliance with the Code of Ethics, with no hesitation at all, in reporting compliance concerns in good faith, without any fear of any consequences or negative consequences of such reporting.

The Risk Management Committee oversees compliance-related issues, while the company's Law Department supervises daily management regarding compliance issues, at the direction of the Senior Advisor of compliance.

Under the SABIC Compliance Program, the company's employees completed about 99 percent compliance training online in 2016. The company succeeded, within its proactive efforts, to prevent and mitigate risks, in applying reviews regarding compliance-related risks with 27 executive leaders, strategic business units and core units. Also, more than two-thirds of the executives took part in compliance workshops. The remaining executives will complete this intensive program by 2017 for further promotion of the compliance culture in the company.

In addition, SABIC went ahead with its firm commitment to fight corruption. Domestically, SABIC launched a comprehensive program to verify the compliance of suppliers. It is designed to adopt ethical practices in the company's global supply chain. Globally, SABIC has played a prominent role as reflected in the Anti-corruption Forum held in Beijing, during China's presidency of the G20 Summit. This is in addition to joining the initiative against corruption, launched by United Nations Global Compact and the World Economic Forum, as well as its leadership at the local and regional levels in events sponsored by the National Anti-Corruption Commission (Nazaha) and the Pearl Initiative.

Also, SABIC continues to strengthen its leadership role in the GCC Board of Directors Institute, which seeks to build positive influence in the region through professional development of the members of the boards.

37. COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

Represented by the Investors department, SABIC pays due importance to investors and shareholders. They are well informed of the company's performance and activities during the year through the Board of Directors annual report. Also, they are continuously informed of any significant developments that may arise and have an impact on the company's financial position and business in such a manner that does not impact their competitiveness, through the SABIC website, or "Tadawul" and other means of communications, in accordance with the company's disclosure policy. The company is keen to observe such a policy by following the instructions of the Capital Market Authority (CMA), the Ministry of Commerce and Investment and the regulations in effect in Saudi Arabia. Also, the company updates lists of unclaimed and old outstanding dividends not updated or not claimed by shareholders to help them receive all their financial entitlements.

The Investors Department develops and improves relations between shareholders and the company by facilitating services through strategic plans, which are reviewed annually and developed to suit the shareholders' interests. The Investors Department manages and organizes stock records of shareholders and follows up distribution of dividends.

Also, the Investors Department follows up the obligations of the Board members and senior executives regarding their ownership of the company's shares and the periods of trade ban. It publishes all relevant company announcements on the Tadawul website, makes arrangements for the company's general assembly meetings, and responds to inquiries from shareholders.

38. CONTRIBUTION TO THE DEVELOPMENT OF THE NATIONAL ECONOMY

SABIC is committed to support the Kingdom leadership's vision to be a successful leading global model of excellence in line with the Saudi Vision 2030 by playing a pivotal and intermediary role between oil and industry, being in the middle of the value chain in terms of manufacturing. It supports the national economic transformation and growth, by raising the level of competitiveness of domestic industries, strengthening the external competitive position through investments, transferring knowledge and science, focusing on investments in technology and innovation and creating an investment environment for petrochemical and downstream industries. The aim is to boost the strategic position of the Kingdom.

During 2016, SABIC's direct contribution to the gross domestic product (GDP) was estimated at 1.9 percent and approximately 3.7 percent to the domestic product for the private sector, and around 15 percent to the domestic product for the downstream industrial sector. SABIC in-Kingdom production amounted to 64.8 million metric tons. SABIC purchases of local materials of feedstock and electricity and water exceeded SR 23.6 billion.

Likewise, in 2016, SABIC's local sales to the agricultural sector amounted to SR 672 million, SR 12.6 billion to the industry sector, and around SR 7 billion to the construction and building sector. Consequently, SABIC's contribution to the national economic productivity sectors during 2016 was around SR 20 billion.

SABIC has contributed to improving the national balance of payments, with its SR 50 billion of exports to world markets in 2016, representing 30 percent of the total Kingdom's non-oil commodity exports. Such exports have contributed to bringing in more foreign exchange. This is in addition to SABIC's sales in the domestic market in the same year amounting to SR 20 billion, representing the value of fertilizer, industrial raw materials and metal commodities provided by the company for the productive economic sectors, doing away with the need for imports, which positively reflected on the balance of payments.

39. DEVELOPMENT OF NATIONAL DOWNSTREAM INDUSTRIES

SABIC's strategy is to help develop downstream industries by adopting various methods and programs to excel in this regard, and invest in natural resources for sustainable development, thereby contributing to national efforts to diversify sources of income. Through its 2025 strategy, SABIC endeavors to create a unique business system covering the entire value chain, to expand the scope of small and medium-sized enterprises, and create jobs opportunity.

In this context, the company followed the "Push-Pull" strategy, which comprises four axes: Push, Pull, Development of Small and Medium-Sized Enterprises (SMEs), and Development and Community Involvement. The company merges these axes and associated investments and program to serve downstream industries.

First, Push: It ensures that investments in assets, products and innovations within the Kingdom will lead to opportunities that enrich the small and medium-sized sector, and boost business activities in the downstream industries sector, leading to new SMEs. Over the next few years, additional investments will be made as an incentive to develop new value chains in other industrial fields, such as Elastomer (synthetic rubber), Engineering Thermoplastics (ETP) and others, which would, in turn, speed up efforts to create more SMEs, with associated career opportunities.

Second, Pull: It helps establish major industries within the Kingdom, which create the necessary demand (Pull), that opens the scope for a wide range of small and medium-sized enterprises, with an initial investment of SR 1 billion; a joint commitment by three key entities in Saudi Arabia: the Public Investment Fund (PIF), Saudi Aramco, and SABIC. These entities are collaborating together under the Saudi Arabian Industrial Investment Company (SAIIC), which are a platform for creating major industries in the Kingdom, and building new value chains and associated SMEs.

Third, SME Development: This includes many new and existing centers and associated program, which directly address the most important challenges of SMEs already mentioned. SABIC has invested over SR 2 billion in active and effective centers, including the Home of Innovation™, which serves as a center for collaboration and business development. It brings together SABIC and business partners, industry leaders, investors, and government agencies, looking for new business opportunities. The SABIC Plastics Application Development Center (SPADC) seeks to take the plastics industry into new industrial areas, in keeping with present-day advances. The Center pays particular attention to the development of innovative plastics that provide solutions to help reduce the environmental footprint, reduce energy costs, and produce lighter and more powerful materials. The SABIC Local Content Development Program supports local industrial companies and service providers to become the preferred vendors for the company.

Fourth, Community Development and Involvement: SABIC has entered into many cooperative agreements with universities, resulting in programs that contribute to capacity development, and link academia with industry sectors. This axis also provides support to society in many areas, including education, health care, and protection of environment, water and sustainable agriculture.

40. ENRICHING LOCAL CONTENT MANUFACTURING

Since 2010, SABIC has embraced an initiative to develop and upgrade local industries within its strategic efforts to achieve sustainability, boost competitiveness, step up its contributions to the development of the Saudi economy, generate additional employment opportunities for young people by raising its local content procurement ratio to 75 percent, according to SABIC Strategy 2025. The strategy is based on four principles:

1. Attract foreign investment with added value to the country and the Saudi economy.
 2. Develop the capacity of domestic manufacturers and qualify them to compete at a global level.
 3. Create more job opportunities for Saudis in industrial areas.
 4. Nurture and coordinate with the government and private sectors in the field of localization of industries in the Kingdom. Thanks to the concerted efforts of employees, the following milestones were achieved during 2016:
 - Increase in the total value of procurement from locally manufactured materials up to SR 2.4 billion, representing 34 percent of the total materials purchased during the year, representing 143 percent since the start of the program.
 - The total value of contracts for local services amounted to SR 7.8 billion at 86 percent of the total services purchases. Accordingly, the value of local procurement of materials and services, except for mega projects services, increased to SR 10.2 billion in 2016, representing 46 percent of SABIC annual procurements in Saudi Arabia.
 - The number of qualified local manufacturers, during the same period, increased from 230 to 545 factories, an increase of 132 percent by end of 2016.
 - More than 65 investors were attracted with estimated capitals equivalent to SR 9.6 billion, thus contributing to creating more than 11,000 new jobs in the local economy.
- Sponsorship and participation in five conferences and trade shows supporting the localization industry, and offering investment opportunities in the areas of spare parts and chemicals in SABIC. More than 1,000 samples were showcased at the Armed Forces Exhibition, with 20,000 pieces showcased electronically.
 - Contribution to six government bodies – Ministry of Energy, Saudi Arabian General Investment Authority, Royal Commission for Jubail and Yanbu, Saudi Industrial Property Authority (MODON), Saudi Industrial Development Fund and the Chamber of Commerce and industry in the Eastern Region – to develop strategies, increase domestic industrial content and identify future needs for spare parts and chemicals.
 - In addition, SABIC continued to build, support and nurture a national group with similar initiatives in several government agencies linked to the private sector, such as Ministry of Commerce and Investment, Ministry of Defence, Saudi Arabian General Investment Authority, Royal Commission for Jubail and Yanbu, Saudi Aramco, Sadara and Marafiq, etc. It hosted 13 meetings to coordinate efforts and agree on joint initiatives such as a "Unicode" project for materials classification and indexing of local manufacturing capacity in the Kingdom since the start of the program.

41. CORPORATE SOCIAL RESPONSIBILITY (CSR):

SABIC intensifies its efforts in Corporate Social Responsibility as a long-term investment to serve and develop the community, improve the standard of living, preserve the safety and health of the environment and protect the natural resources. SABIC instils a social responsibility culture among its employees as a way of life whether at the workplace, at home, or within the community. Employees urge their families to share their social responsibility practices, while the company continues to take up new initiatives and projects for community well-being in the present and future.

Since 2004, SABIC investments in this area has amounted to approximately SR 3 billion, including a series of mega projects and strategic initiatives for community service and development, with focus on education in science, technology, health, environmental protection, water and sustainable agriculture, which are the main focus areas of the company's social responsibility strategy.

The company has strengthened its contributions in the area of social responsibility through 2016, investing around SR 55 million, boosting its image in the communities where it operates in line with its values, Inspire, Engage, Create, and Deliver.

The social responsibility strategy, RAISE, is based on five key enablers: Reputation, Audience, Innovation, Strategy, Endurance. This strategy helped coordinate and unite efforts of all the company's sites around the world in this critical area and maximize its impact, more than what the competition is doing in this regard. SABIC is a world leader in social responsibility in parallel with being a world leader in chemicals. This ambitious strategy is supported by the ratification of social responsibility policy, "Clear Vision," which outlines the procedures, guidelines and regulations for the company's contributions and voluntary initiatives for its employees, worldwide.

The company has adopted five international social initiatives, "International Social Responsibility Initiatives," to enhance its reputation in the communities in which it operates, recognizing that strategic initiatives in this area builds a brighter future for all. Successful initiatives create leaders able to shoulder responsibility, contribute to an environment, and a strong cohesive society that can support the needy. In this context, SABIC encourages its employees to volunteer part of their time and effort. SABIC recommends projects expected to create

positive social impact. It is proud of its employees' passion towards social responsibility initiatives, which SABIC recognizes as an integral part of its mission. SABIC's tag line, 'Chemistry that Matters™', indicates that chemistry and communication are important to all individuals and societies.

For example, the SABIC Academy hosted a workshop on Nutrients and Agricultural Economics, in cooperation with the Arab Fertilizer Association (AFA), to boost the role of the association. The workshop was also to help the members communicate with consumers and keep up with global trends, with the end objective of achieving food security in the Arab world.

SABIC also launched an Agricultural Awareness Caravan, in cooperation with the Ministry of Environment, Water and Agriculture, and the Arab Fertilizer Association. The objectives of the Caravan were to develop expertise within the national agricultural sector and share best practices, and at the same time, introduce SABIC's innovative palm nutrient. The Caravan was the first of its kind in the Kingdom and the Arab region.

In one month, the Caravan toured Riyadh, Qassim, Al-Ahsa, and Madinah. These are the main palm cultivation areas in the Kingdom and constitute more than 85 percent of the total local dates production. The company also organized, in cooperation with the Ministry of Environment, Water and Agriculture, a series of technical workshops to spread agricultural knowledge among farmers and farm workers, and brief them on the optimal use of specialized fertilizer agri-nutrient. The company culminated its strategic cooperation with the Ministry of the Environment, Water and Agriculture, by signing a joint agreement, whereby SABIC will operate an Agricultural Research Center for five years. The Center, which had a trial run in 2016, has been built at SABIC's expense as part of its social responsibility initiatives, thereby boosting its CSR mission.

In the area of health care, SABIC has provided support amounting to SR 300 million to construct a specialist hospital for mental health and addiction treatment in Riyadh. It will be an ideal and model Center for mental health and addiction treatment. It is expected to be completed in Q1 2020.

Also, SABIC sponsored numerous events aimed at supporting social and charity activities and initiatives licensed by the Ministry of Labor and Social Development. SABIC cares for the gifted and inspires

creativity and innovation. It supports and sponsors conferences, seminars, economic events, cultural festivals and sports events. SABIC will continue to support existing projects, including the expansion of the global scope of the SABIC Science Caravan, the Waste Free Environment and blood donation campaigns. It will continue to review new project proposals submitted by employees, partners and the communities in which it operates.

The company is intensifying its efforts in anticipation of future developments, and is prioritizing its initiative and support programs based on global trends and community needs. It is maintaining this momentum with the enthusiasm of its employees and strength of its products and resources, in coordination with its global office and sites.

As for charitable projects, the SABIC higher management decided to build a mosque, the Dr. Ghazi Abdul Rahman Al-Gosaibi Mosque, in appreciation and recognition for his efforts in the foundation of SABIC. The company provided full support for the construction of this mosque at the heart of the Jubail Industrial City with a unique architectural theme. The design phase was completed and soliciting tenders for construction phase began. The project is expected to be completed in Q4 2018.

42. SUSTAINABILITY

Success in a 'Chemistry that Matters™' industry requires thoughtful scientific strategy, consistent with long-term trends, taking into account the economic needs, environmental performance, and social context.

The SABIC Sustainability Initiative focuses on the most important business priorities to achieve long-term value for the company, stakeholders and society through the identification and analysis of global trends, and risk anticipation by proactively dealing with them. The Initiative also seeks to seize opportunities and boost the company's capacity to be flexible and responsive. Innovative sustainability solutions contribute to increasing revenues and boosting the value chain to help customers achieve their sustainability goals.

The company's net revenues grew by reducing operations costs and supply chain by enhancing the efficiency of resources and operational tools. Sustainability encourages innovation of technical

solutions efforts to improve operational processes and develop new products, to make SABIC the preferred supplier of chemical products and solutions.

The company's efforts in the field of sustainability, contributes to accelerating its growth and boosting its reputation, besides highlighting the ambitious vision of its shareholders. In 2016, SABIC intensified its efforts to improve work processes and patterns within the Excellence in Sustainability Initiative, across the manufacturing departments, to improve and speed up performance, by reviewing performance measurements and advanced control in shorter periods. Furthermore, efforts were exerted to develop the culture of Sustainability to become an integral part of the plant operating procedures not just a principle in managing the company's assets. Also, SABIC paid attention to enhancing knowledge and improving working mechanisms and processes with all stakeholders of the company.

The Metals Strategic Business Unit completed 95 percent of major metals projects planned for 2016, to achieve sustainability objectives, including improving energy performance. The SBU seeks to add three other products to SABIC products portfolio, which made "sustainability principle". In 2015, the SBU had added seven products.

The Sadaf environmental project aims at implementing some improvements in the ethylene polychloride plant, to meet the requirements of Environmental Department in the Royal Commission for Jubail. Eighty five percent construction work on the project has been accomplished without any delays, and is expected to be completed in Q3 2017. The construction of the plant contaminated water treatment project at Saudi Kayan was completed in compliance with the Royal Commission Environmental Regulations 2010.

The Sustainability function is leading efforts to amend legislation and enhance marketing communications. It guides the company to the right track for development. It stimulates the process of accelerating the pace of innovation needed in the contemporary business environment. Undoubtedly, there is a strong relation between sustainability and a company's workforce. Sustainable companies are more successful in retaining employees. Moreover, people prefer to work for sustainable companies.

43. RELIABILITY

SABIC's confident steps towards achieving its vision and strategy constitute a fundamental pillar to meet the aspirations of its shareholders to safe investment in the short and long term. SABIC is committed to achieving this requirement by applying the latest and most effective systems in safety and asset management across all sectors and sites around the world, always emphasizing that improving performance and continued success are at the forefront of its priorities.

SABIC is aware that reaching the top is an enormous challenge that requires integration of all administrative and technical elements to raise the level of competence and reliability in all its plant and sites. This will be reflected in the increase of profitability in general. The company has made significant efforts in spreading the Reliability culture among employees. To improve Reliability, due attention is paid to equipment upgrade, maintenance, safety, and environmental protection.

The Reliability Department's sustained efforts were instrumental in raising the level of readiness of the plants and developing overall performance. The plants readiness improved by at least 0.1 percent, equal to approximately 52,000 metric tons of annual production. Despite operational difficulties encountered by the plants, the companies succeeded in making use of all available quantities of ethane gas to increase production capacities, and managed to increase the use of ethane gas in their plants by 3.4 percent over the master plan and an increase of 12.7 percent over the actual consumption in 2015.

There are still many unforeseen challenges through and beyond 2017, which prompt SABIC to further spread awareness and commitment in the area of environment, health, safety, and security at all facilities, for the purpose of protecting life and property, and avoiding any adverse environmental effects, taking into account that there are potential risks which may result from the operations of the company and its products on people and environment.

SABIC believes that the key to success in this area is its workforce, which is committed and dedicated to apply Reliability standards in all its facilities. SABIC reaffirms that Reliability is an essential enabler of operational excellence, not just a priority. Taking care of safety, security, health and the environment is a substantial value, deep belief and fundamental drive towards uncompromising practices. SABIC does not

target achieving compliance through the imposition of measures, but more through promoting compliance and building a culture, whereby the employees get used to meet safety requirements in all their daily work. It constitutes an ongoing challenge to achieve further improvement.

44. ENVIRONMENT, HEALTH, SAFETY, AND SECURITY

The Environment, Health, Safety and Security in SABIC is not merely a priority, but a key value and driving force to create a culture that goes beyond the legislative requirements and compliance, to confirm excellence in these critical areas in order to enhance performance. This cannot be compromised in order to achieve short term goals in any way whatsoever.

The company is keen to pursue a set of Key Performance Indicators (KPIs) in its facilities to ensure continued improvement of performance of environment, health, safety and security, including the Accident Rate Indicator in these areas. This rate was improved by 83 percent since 2005. Injury rate has improved by 67 percent. Nevertheless, the accident rate of safety, security, health and environment and the injury increased in 2016, compared with the previous year. Three tragic incidents took place in three affiliates. As a result, SABIC unfortunately lost 13 people, with some individuals seriously injured. As is the practice in such cases SABIC worked with the concerned authorities and companies to conduct a thorough and meticulous investigation to identify the factors that may have contributed to these accidents, and has taken strict measures to avoid similar incidents in all affiliates, in future.

Also, SABIC launched the "Life Saving Rules" in cooperation with organizations involved in chemical industries and their affiliates, to increase awareness of the risks that may arise from the company's operations and safe procedures that should be followed to avoid serious accidents, as well as improved performance in the field of environment, health, safety and security, and strengthening the manufacturing processes.

Manufacturing process safety is essential to ensure a safe design for manufacturing facilities, construction, operation and maintenance to protect employees, visitors, and the communities in which it operates. The company has been paying due attention to this important aspect:

- The year 2016 saw the restructuring of the company to become more focused on a global scale, including creation of an Operation Risk Management Group, which comprises experts committed to supporting all the company's facilities around the world, and implementation of the mechanical safety evaluation initiative to strengthen focus on mechanical systems and safety barriers, identifying a risk system and program and measures to reduce risk.
- In December 2016, SABIC was honored for hosting the 3rd Global Summit for the Safety of Manufacturing Processes, which was held in Dammam, Saudi Arabia, to introduce industrial expertise, engineering practices and leadership qualities that lead industry to "no risk" culture.
- SABIC collaborated with Mary Kay O'Connor Process Safety Center, to develop a comprehensive program in this area.
- SABIC sponsored the 3rd World Summit on safety of manufacturing processes and had a high representation in the Advisory and Technical Committees, confirming its leading position in this field in GCC.
- The company conducted a comprehensive evaluation of mechanical integrity across five selected sites to review and assess the manufacturing sites and the effectiveness of the reliability program.
- SABIC organized a training workshop for all focal points to enhance the implementation of safer risk management.
- The company used Baker Risk Management program and organized training programs for engineers who were chosen to lead the future studies, with the aim to building capacity to locate facilities.
- SABIC reviewed the crisis management scale to better understand the roles and responsibilities.
- Completed of assessing the fire and safety systems in all company buildings across the regions of Saudi Arabia.
- SABIC upgraded the Command Centers Communications facilities to communicate with key members.

The SABIC Emergency Management Program was designed to enhance the effectiveness of crisis management systems at local, regional and global levels. The program attracts teams for crisis

management with a framework to identify development opportunities. In 2016, several exercises in crisis management at the regional and global levels were performed to ensure the highest levels of preparedness and readiness. Improvements recorded in meetings after each experience are listed in SABIC crisis management record. Communication units have been set up at the Command Center to promptly familiarize employees with these happenings.

Products Supervision Department applies a regulatory program for new products and raw materials through the SAP system to strengthen the capacity of SABIC in supply chain management, ensure risk evaluation in product design, management of risk and advanced communication expectations. The 3rd phase of Responsible Care was implemented, the product codes for safety were updated, and the implementation plan meets a three-year period. EHSS systems were successfully implemented through FANAR+, including labelling of hazardous material, and managing raw materials data. Also, U.S. Government Chemical Data Reporting program was successfully completed for all products imported and manufactured by SABIC affiliate sites in America.

RESPONSIBLE CARE

As part of the ongoing efforts to overcome limits of compliance with legislation, SABIC adopted the Responsible Care program, which aims to stimulate continuous improvement in environment, health, safety and security performance in all phases of the company's operations up to delivery of products and services to customers. SABIC chemical sites worldwide have retained the certification of the Responsible Care (RC14001:2013). SABIC and its affiliates will get the new Responsible Care (RC 14001:2015) certification next year. SABIC takes the lead in Responsible Care in the Middle East through The Gulf Petrochemicals and Chemicals Association (GPCA).

SECURITY RISK MANAGEMENT

In the past years, significant threats and challenges to the public security and electronic security have emerged in all parts of the world. This prompted SABIC to create the Security Center of Excellence in 2016, to ensure the validity and accuracy of security risks being monitored, update and develop security policies at local and global levels, and apply effective programs to manage security risk at the company's sites around the world. Moreover, the Center will be assigned to cooperate with the Information Technology Security to strengthen work in the area of information security.

To ensure that SABIC Security Risk Management programs remain optimal for the long run, the Security Center of Excellence conducts continuous measurements with similar businesses, as reflected in the following functions:

- Started to implement a security program for travel in the Middle East and Africa, according to a predefined plan.
- Strengthening the security staff adequacy through a number of programs, such as development of security teams for confrontation programs, rehabilitation, physical fitness and self-challenge programs, relying on security training center, and front line leadership (security supervisors).
- Improved protection and preparedness through processes, such as arming the security teams, and improving security protection system in SABIC buildings, as well as internal and external security exercises.
- Completed security assessment of all company buildings in the regions of Saudi Arabia.
- Created security awareness and conducted guidance programs through site campaigns, besides training special security forces on how to deal with explosives.
- Developed a security tracking system, any other security notes, responsible care, security code to support compliance, and follow up of the results of the security check in security standards (14SHEM) and local laws and regulations for the Higher Authority for Industrial Security, and any other security reviews.

APPRECIATION AND AWARDS

In 2016, SABIC won several national and international awards in recognition of its distinguished performance in environment, health, safety and security across different sites around the world, as follows:

- US ACC awarded three SABIC manufacturing facilities four awards for Responsible Care, energy efficiency, and waste reduction.
- SABIC Rayong site in Thailand was awarded the best safety management award for 2016 by the Department of Labor in Thailand for the eleventh consecutive year, with Green Industry 2016 Certification. SABIC was also ranked the third Best Green Industry by the Ministry of Interior.

- SABIC Moka site in Japan was awarded safety and improvement in the workplace award, for companies that made a good improvement in safety in the workplace. The award was awarded by the Head of the Labor Office (Tochigi).
- The Netherlands Chemical Industry Association granted SABIC Bergen op Zoom the Responsible Care award for the human resources project (Self-scheduling).
- SABIC Teesside and Thornaby sites in UK won the Best Health in the Workplace Award. SABIC Teesside site was entitled to Continuous Excellence award, while Thornaby site won the Gold Award.
- In 2016, the Agri-Nutrients Strategic Business Unit was honored with the renewal of many international certifications on environment and safety, and compliance with the quarantine specifications for Australia and New Zealand. Office and field examination of warehouses, loading and shipping zones in Jubail and Raas Al Khair have been successfully completed. Moreover, SABIC has completed more than 219 million safe working hours without lost time injury during construction of mega engineering projects.
- Metals Strategic Business Unit secured all environmental permits from the Royal Commission for Jubail and Yanbu. All Hadeed plants became environmentally licensed. Six non-company-owned radioactive sources were moved to King Abdullah City for Atomic and Renewable Energy warehouses and stores. The company effectively took part in global events and campaigns, such as Earth, Water and Environment Days, which targeted all employees and contractors to enrich their culture to maintain the integrity of the environment, as well as organizing awareness campaigns on the Royal Commission environmental rules and regulations. In addition, there was participation with articles addressing commitment to environmental safety and industrial health in the quarterly magazine published by the Royal Commission.
- The company culminated its outstanding performance in this area by winning an award from the World Steel Association for implementing a Dust Removal System project in the steel plant to promote the health and safety of workers. Also, Hadeed achieved, in 2016, the second place in King Khalid Responsible Competitiveness Award, a prize offered to top rated companies in the Saudi responsible competitiveness index, based on thorough professional classification based on global standards.

45. HUMAN RESOURCES

2016 was a distinct year in SABIC's journey, in line with its 2025 strategy and transformation program on the one hand, and Saudi Vision 2030 and the National Transformation Program 2020 on the other hand, highlighting its national responsibilities and activating its leadership in developing and localizing the industrial sector. The company focused its efforts, on intensifying its plans and programs to build, attract and develop talent within and outside the Kingdom.

ATTRACTING AND RETAINING TALENTS

SABIC always seeks to attract talented and creative people. As part of this effort, SABIC launched the Employee Attraction Strategy, based on studying business needs more effectively, and employing the best international methods to recruit the best talents, and develop a process for new employees through innovative training programs to position SABIC as a preferred employer. SABIC believes human resources are its most valuable assets, and its key enabler to strengthen its advantages and competitiveness. SABIC recognizes the importance of developing its human resources to accomplish the objectives of its 2025 strategy. The Human Resources function has been stimulating talent and creating opportunities for employee development.

FOCUS ON LEADERSHIP

SABIC recognizes the key role played by leaders in human resource development. SABIC is building and developing a new generation of leaders through several programs, including the Executive MBA Program and the Global Leadership Challenge Program. The company does not only focus on developing its own leaders, but supports leaders of government departments and the public sector in Saudi Arabia, through specialized programs developed and held at SABIC Academy in Riyadh.

TRANSFORMATION

The company has maintained its efforts, within the framework of the transformation process begun in 2015, to keep up with the rapid changes in the business environment. Human Resources plays an essential role in leading the integration of strategic business units and service sectors, and in investment and innovation, employing flexible methodologies and controlling costs, with a clear focus on customers' needs. SABIC has worked closely with employees during the implementation of recent transformation programs, using various channels and means including meetings, open discussions,

and written and video communications as well as sector-specific workshops to ensure employees are aware of the importance of change to the company's continued success.

46. INNOVATION

Technology and Innovation played a key role in SABIC's growth in 2016 and in boosting its market share. The company is continuously seeking to step up its capabilities in this area, to help drive its strategic growth. Technology and Innovation currently has over 640 research projects, which are expected to add value and contribute substantially to the fulfillment of SABIC's corporate strategy.

RESEARCH AND PATENTS

In 2016, SABIC accomplished its ambitious goals in the field of patents, with total patents and patent applications rising to 11,783. There are currently eight research projects in development. 80 patent registration applications have been submitted. Also, in 2016, SABIC introduced two new grades of NPK and NPK 18-18-5-SOP materials. A third grade of Tuber Specific product will be introduced at the beginning of 2017. Also, in 2016, the Metals SBU completed 19 research projects, and submitted one patent.

INNOVATIVE INITIATIVES

SABIC has created several innovative initiatives in support of its growth, in areas such as heating, ventilation and air conditioning, with tests in Saudi Arabia reporting energy consumption savings of 23 percent. SABIC scientists have also developed new pesticides to combat red palm weevil, which has been blighting palm cultivation in the Kingdom since the mid-1980s. SABIC committed to reach a definitive solution to this dangerous scourge which afflicts date palm cultivation throughout the region. Field tests on the latest pesticide showed successful results within a year of application.

SABIC's high-performance Demonstration House, which won the Leadership in Energy and Environmental Design (LEED) Platinum Award, succeeded in 2016 in generating 48,221 kWh of renewable solar electricity, enough to compensate for the greenhouse gas emissions produced by 7.4 passenger cars per year.

SABIC also enhanced use of iron ore to improve the Hadeed plant's output. A newly designed process for using smaller iron ore pellets has been implemented to improve productivity and the use of iron ore. This

initiative is expected to save 50,000 tons of iron ore, which used be disposed of as by-products. Also, SABIC started using smaller iron ore pellets in Hadeed direct reduction plant to add more value to feedstock materials by reducing losses from generating fine particles, and by converting the refractories consumed during manufacturing into valuable materials to be used as additives in steel-making processes, that partially or entirely eliminates the need to inject dolomite.

SABIC also continues its efforts to explore the best ways to capture, purify and make use of carbon dioxide to manufacture high-value products, both reducing costs and promoting sustainability.

SABIC Technology Center in Riyadh investigated options to remove and recycle C10 additive – a contaminant which otherwise reduces market value. The basic chemistry was introduced successfully in the lab. Aided by experience gained from the Sablin-A, extraction of acid was successfully increased to three tons per hour. The Acid Extraction Unit, referred to as “Amines Removing Unit”, was successfully introduced in the United affiliate in Jubail, increasing profits by US\$10 million per year.

SABIC is constructing a new polypropylene plant at Geleen, The Netherlands, using innovative technology, with a daily production capacity of 1,000 kgs. The new plant features two polymerization reactors and a processing line. The plant passed the acceptance test to be ready in March 2017 and will produce homopolymers, copolymers and other types of polymers. It promises to be an important asset, developing successful products for the polypropylene market.

TECHNOLOGY DEVELOPMENT

SABIC has succeeded in developing the first algae product technology, under an initiative in the Kingdom, with US\$2 million to be allocated over the next two years to finance new industries for drugs and cosmetics. A black steel initiative has also been developed to meet the needs of the growing market for steel sheets used for commercial pipe industry. Also, SABIC developed pre-painted steel products for heat resistant ceilings. Ceramic pigments in the paint reflect infrared energy while absorbing visible light, reducing heat transfer through ceiling. This reduces energy consumption and costs, while protecting natural resources and reducing pollution.

Steel coils have been developed to control bacteria. They are used for covering walls in sensitive hygiene environments such as cold store facilities and clean rooms. The anti-microbial ingredient used in the paint has been registered as compliant with European Union directives on homologation pesticides, and the United States Environmental Protection Agency Regulations (USEPA). Also, the paint is endorsed for use in food contact applications by the European Union and the United States.

In the chemical area, SABIC assessed C4/C5. Successful butadiene extraction technology has been developed, and a plant has been designed for the extraction of Isoprene and DCPD materials. The company has registered a unique type of technology patent for extracting a convertible cracker by-product, which is hydrolyzed and recycled into cracker feedstock, to create a valuable product out of an expensive manufacturing process. The product will be introduced in the market as a new product. Also, this process includes extraction of another by-product from DCPD and converting it into a marketable chemical product. SABIC developed and investigated the feasibility of a unique technology to improve the cracking process. It is expected to boost the cracker units' productivity by one to two percent.

SABIC developed, tested and introduced a new method for deploying high-emission paint in furnaces, increase the amount of feedstock, lowering the energy density to an estimated 5.4 mjc per year. SABIC also developed several catalyst technologies for using a wide range of feedstock types, and implemented more efficient operations, which enable it to use different types of feedstocks in the future.

Switching to an HSC catalyst improves the olefins feedstock by nearly 5 percent, with the possibility of reducing CO₂ emissions by around 30 percent at every glycol ethylene plant. Implementation of this project brought such reductions at 50 percent of the company's plants, with the balance scheduled for implementation by 2020. SABIC invests in innovation to boost profits; focus on improving the productivity of existing assets boosts annual EBITA by US\$150-US\$200 million

Other significant milestones include a combination of olefins internal components (C14-C18), generally used as lubricants, including drilling fluids, increasingly important over recent years with the

introduction of the cracking technology to extract oil and gas from shale oil. Also, SABIC affiliate, Al-Jubail Fertilizer Company (Al-Bayroni) succeeded, with the implementation of a renovation plan, in reducing energy consumption at its ammonia plant by 20 percent, while maintaining the same level of production. SABIC circuits solutions portfolio combined the properties of the electric insulation of thermoplastics control technologies and the technologies that respond to direct laser structuring, to enable the establishment of three-dimensional connecting courses. Additional molding enables the integrated design of low power miniature antennas. Equipment parts manufacturers have embraced these hardware solutions for smart phones, watches, fitness equipment, and audio headsets, which enable their products to be compact, lightweight and aesthetically and attractive.

SABIC continues to expand network server applications using specialized additives in printed circuit boards. Teams and resources have been focused on increasing the capacity of these additives, and to help meet the growing industry demands for enhanced insulation materials performance. Also, in 2016, SABIC introduced SABIC SUPEER™ which demonstrates the excellence of SABIC METALLOCENE grades, and SABIC COHERE™ (Olefin Blastomere, BOB): conveying the core value of the material to work together. SABIC is working on the development of thermoplastic solutions for bus hatches delivering benefits such as light weight, good surface appearance, aesthetic, durability and rigidity, and low system cost. Lighter weight saves up to 35 percent, compared with the existing metal part.

Global automotive manufacturers have welcomed SABIC weight-saving hybrid technology for plastic and metal, which can help reduce weight by over 45 percent compared with steel in structural components. For makers of coffee machines and capsules, SABIC collaborates with its customers to develop innovative plastic solutions, with advanced tools used to develop sustainable applications, reducing costs and time, as well as enabling 3D printing.

Optimization and anti-coking technology has now been introduced in over 60 percent of SABIC crackers in Saudi Arabia, in either online or offline mode, contributing to production of 100,000 tons

of olefins in 2016 while saving 65,000 tons of feedstock. SABIC's vision of developing the first smart olefins plant, with minimum waste, increased efficiency and optimized sustainability, is fast becoming reality. SABIC's Development of Harsh Weathering Competency Center supports global growth, and promotes external applications for various materials by creating weather data of the region and its impact on materials in areas, such as auto lenses and packaging resins.

SABIC introduced new versatile compounds by processing two new compounds and redesigning materials mixing and blending rooms within the laboratory to support development of ABS in AMR. These two new compounds are multiple-use according to the design, and support future development in a wide range of markets and materials, as well as supporting the development of other compounds for numerous production lines, including the ETP and PO.

47. MANUFACTURING

The Manufacturing function mainly focuses on reducing operational risk, increasing revenues, and managing costs. The company this year completed a transformational project, promoting manufacturing excellence to develop and deploy new and comprehensive standards across all SABIC industrial sites around the world (Manufacturing Excellence Management Standard), supporting the objectives of the 2025 strategy, and developing clear guidelines for the sites' organizational structures, required leadership behaviors, and performance management. It also addresses the core manufacturing business processes. While assessing the sites, the company identified areas that needs improvement.

The transformation journey began by deploying the Manufacturing Excellence Management Standard during 2015-2016. The active involvement of all sites in implementing this effective standard to promote manufacturing excellence is anticipated. SABIC's recognition and reward program continued, now in its sixth year, supporting standards to improve and enhance the performance of affiliate plants in culture, compliance to standards and reliability of assets. About 40 percent of SABIC affiliates achieved more than 90 percent of the performance objectives set, confirming commitment affiliates' to improving plant reliability.

LEADERSHIP IN MANUFACTURING COST

SABIC has created a "leadership in manufacturing cost" project to promote the best performance in all its manufacturing sites across the Kingdom. The "rationalization" initiative aims to cut costs, streamline waste disposal and enhance synergies between affiliated companies.

The project aims to create sustainable value through improved rates for manufacturing services units, as well as expanding the outsourcing strategy with affiliates, capitalizing on economies of scale, reducing urgent procurement orders, upgrading the maintenance team, stimulating local business development, reducing spare parts inventory and maximizing the value of large contracts, depending on the estimated value of products or services offered. In 2016, the company started monitoring opportunities to begin gradual utilization as of 2017 through to 2020.

ENERGY MANAGEMENT

SABIC embraced energy management system focus as a key enabler of active positive contribution toward efforts to reduce global warming, and improve the performance of assets and meet legislative requirements. The company's energy management system provided basic tools and best ways to analyze and seize opportunities to ensure continuous improvement and sustainable growth. During 2016, over 100 individuals from affiliates were trained to apply the Effective Energy Management System. The energy management performance of seven affiliates in Saudi Arabia was examined, and appropriate actions to improve their performance taken.

MANUFACTURING SITES INTEGRATION

SABIC worked with local utilities providers, Marafiq and Saudi Electricity Company, to explore opportunities for sustained cooperation to reduce consumption of natural resources, preserve such resources and cut manufacturing costs across several levels. The Ar-Razi project to capture oxygen that is released in the air is expected to be completed by mid-2017, tapping around 75,000 tons of oxygen for use through the oxygen supply network in Jubail. This is in addition to the completion of the project for linking the gas flowing out of gasoline in Petrokemya with Ar-Razi methanol plants by the end of 2017, to add approximately 110,000 tons of chemical methanol per year.

48. HOME OF INNOVATION™

The Home of Innovation™ is SABIC's latest developmental initiative in Riyadh. It was established by the company in Riyadh Techno Valley at King Saud University, a few meters away from SABIC Plastics Application Development Center. It was opened mid last year. It brings together the best minds and organizations with an interest in the region's future. It aims to provide inspiration by showcasing innovations, driving demand and attracting businesses toward a diverse and sustainable economy. It focuses on areas such as energy-saving building designs, construction, and sustainable operations.

The Home of Innovation™ is a forum for industrial leaders, ministries, government agencies, universities and others to offer innovative solutions to strategic markets in Saudi Arabia and the neighboring region. It serves as a center for cooperation, business development, and exhibition. It syndicates business partners, industry leaders, investors, government agencies, and SABIC, in search of new business opportunities. The Home of Innovation™ combines aspects of marketing, innovation and technology. The goal is to create demand, and promote the development of the downstream industries sector. It also serves as a forum and a platform for showcasing global innovations, and monitors and develops opportunities and solutions available in new markets. The Home of Innovation™ contributes to engaging the business community in the Kingdom and the Middle East, through facilitating cooperation between leading industrial companies, and showcasing solutions and products which can be manufactured locally.

The Home of Innovation™'s high-performance Demonstration House, which accommodates one family, is the first in the Middle East to achieve Leadership in Energy and Environmental Design (LEED) platinum certification. This house is designed to be self-sufficient in energy. The Home of Innovation™ is not just an example of sustainability innovation, but also a stimulus for development of downstream industries and expanding labor market. It exemplifies the cooperation between SABIC and other parties involved in national industry to help the Kingdom in delivering sustainable homes in the near future.

49. INFORMATION SECURITY

During 2016, the Shared Services function accomplished several important milestones, and continues to achieve its objectives.

Information security is one of the key challenges facing business organizations, including oil, gas and chemical industries, where information technology and systems play a crucial role in addressing many challenges that might impact efficiency, and threaten competitive advantages. SABIC has stepped up its efforts over the past two years to develop its capabilities and potentials in this area, and this year undertook several specific actions to meet these challenges, including but not limited to:

- Continue close monitoring of computer networks in the company.
- Exchange and share expertise and information with third parties specialized in this area.
- Conduct technical tests on information security.
- Intensify awareness and training sessions for company employees in the field of electronic security.
- Protect SABIC's reputation on information networks.
- Continue to develop and qualify security team.
- Maintain the most important standards for information protection systems, periodically.

SABIC, as part of its CSR initiatives, seeks to engender greater awareness in society of information security risks, and works to improve security and combat counter cyber-attacks in the general public interest.

50. THE 12TH SABIC TECHNICAL CONFERENCE (STC-12)

SABIC has widened the scope and format of this conference, a technical meeting for company scientists, engineers and specialists, broadening its horizons to make it a must for scientists and researchers from around the world as well as a supporter to local industries, adding value to the national economy in line with the objectives of the National Transformation Program 2020 to achieve the Saudi Vision 2030.

This year's conference was held under the theme, "Asset Integrity Excellence," recognising the importance of asset management, and testifying to SABIC's commitment to sustainability in all its operations, as a key factor in the company's transformation to achieve global leadership and integration and manufacturing excellence, and to continue to provide innovative solutions to today's industrial challenges.

The Supervisory Committee received more than 3,800 scientific submissions, an increase of 50 percent over the previous session. 107 papers were selected for technical courses, reflecting the great interest and enthusiastic participation of researchers from inside and outside the Kingdom. SABIC organized specialized workshops for performance measurement in support of small and medium-sized companies in particular. Engineers and specialists joined the workshops to look into reliability and safety of assets: two of the most important fields in relation to manufacturing processes.

The conference was accompanied by the largest exhibition of its kind in the Kingdom. 200 companies representing about 30 countries from around the world took part, showcasing their products and technical solutions in an area of 65,000 square meters: an area equivalent to more than six football field. By developing a technical meeting into a technical conference, SABIC aims to promote and develop national industries, as well as supporting the conferences, helping ensure that it will become a firm fixture in the world's calendar of such industrial and business meetings of minds, for the benefit of participants and society.

51. CORPORATE COMMUNICATIONS

SABIC has achieved a leading position in the world. This demands timely and informed interaction with various local, regional and global media and social sites. It also entails taking advantage of every opportunity to promote SABIC's media presence, maintain a positive image across the media, enhance its reputation in business environments and the communities in which it operates, and keep alert for opportunities to promote its vision and strategy 2025 for further growth and sustainability.

In this area, SABIC has developed a portfolio of media awareness messages to highlight the company's strategies and objectives at events in the Kingdom and around the world, highlighting its efforts in sustainability, innovation and entrepreneurship. Such events included the Royal visit to Jubail Industrial City and inauguration of various SABIC projects, SABIC 12th Technical Conference in Jubail, United Nations Climate Change Conference, COP22 in Morocco, GPCA Annual Forum, and Misk Global Forum. The company also produced quarterly conference briefings to review its performance and financial results, and organized a number of events to raise the company's profile in Saudi, Gulf, Arab, and international media.

Internal Communications took the initiative to launch "Communication Effectiveness for Leaders" in collaboration with the SABIC Academy, with a series of specialized and effective workshops to address the challenges of internal communication in the company. Such workshops help improve internal communications in SABIC's work environment. Participants acquire deeper understanding of the communication process and methods, and how best to use communication tools to influence perceptions and bring about advantageous behavior change.

SABIC capitalized on the announcement of the Saudi Vision 2030 to reaffirm its commitment to supporting the leadership vision for the Kingdom to be a leading global paradigm of excellence, by highlighting the crucial role of the company, being located in the middle of the value chain between oil and industry. SABIC supports national economic transformation and growth by raising the level of competitiveness of domestic industries, and strengthening the external competitive position through investments. It supports the transfer of knowledge, promotes investments in technology and innovation, and actively participates in creating an investment environment for petrochemical and downstream industries to boost the strategic position of the Kingdom. SABIC engaged with the media, highlighting the alignment of its own vision to the National Transformation Program 2020, thanks to its vast innovation infrastructure and diverse sources of feedstock.

STRATEGIC BUSINESS UNITS

STRATEGIC BUSINESS UNITS

The year 2016 brought numerous challenges, externally and internally. External challenges reflected challenging market conditions due to declining oil prices, and a slowdown in China – the world’s largest consumer of petrochemicals. The major internal challenges involved the design and implementation of a new organizational structure, as part of the corporate transformation program in pursuit of SABIC’s 2025 strategy.

PETROCHEMICALS

The main challenge of 2016 was the integration of the Chemicals Strategic Business Unit (SBU) with Polymers SBU, as the Petrochemicals SBU.

In March 2016, commercial production at the world’s largest butanol manufacturing facility commenced, four months ahead of schedule, with annual production capacity of 330,000 metric tons. Natural butanol, which is used in a wide range of applications, is a significant addition to SABIC’s product portfolio.

SABIC also invested in creating the world’s largest plant for capturing carbon dioxide and utilizing it in Jubail Industrial City. The plant captures more than 500,000 tons of CO₂ per year for use in the production of ethylene glycol, and is purified and distributed to affiliates, which use it to manufacture valuable materials, such as agri-nutrients. The conversion process also contributes to reducing CO₂ emissions, enhancing production efficiency and reducing costs.

A decade of research and development bore fruits in the form of over 30 applications of thermoplastics and polypropylene, which are used in the heavy trucks industry. These applications were showcased at the K Show 2016. About 140kg of thermoplastic material were used in the Scania truck which was on display at the show, reflecting the strong potential for these materials in the heavy truck transportation market.

This year SABIC gained approval from National Laboratory for Measurements and Experiments (LNE) for the “b 6006” tube, which enabled the company to expand its uses in the field of gas pipelines. This approval endorses the quality of pipe solutions offered by SABIC to meet the needs of customers for applications facing stringent regulatory requirements. This approval will give the product access to new markets in the Middle East and Africa. Using b 6006 tubes reduces installation time and replaces traditional materials such as steel, which is more expensive in production, installation and maintenance. These pipes also feature smooth inner surfaces, helping reduce the energy consumed in transporting liquids.

SABIC also developed a new polycarbonate product in compliance with the requirements of the World Food and Drug Organization, broadening the company’s polycarbonate product portfolio and fulfilling the company’s strategy of focusing increasingly on premium products which command premium prices.

AGRI-NUTRIENTS

Agri-Nutrients SBU intensified its efforts to step up production, increase market share, open new markets and add specialized innovative products to enhance production in both quantity and quality. The efforts have helped boost urea production by 500,000 metric tons, compared to the previous year.

Also, SABIC continued to work in one of its affiliates to increase commercial production of pure urea for industrial applications, achieving a capacity of 80,000 tons annually. SABIC's market share of urea products increased by 10 percent over the previous year. The company succeeded in opening up new markets, including selling pure urea for industrial applications in Australia, India and Pakistan, supplied urea to Korea, and ammonia to Madagascar, South Africa and Singapore.

The Agri-Nutrients SBU continues to develop new agricultural nutrients to meet the needs of customers in Saudi Arabia and the Middle East, including: vegetables nutrient (18-18-5 + 9 Sulfur), and tubers nutrient (11-29-19 + 6 Sulphur), following last year's successful launch of a new nutrient for palm trees. The SBU also developed one of its ammonia plants to reduce the use of natural gas, without affecting production capacity.

Agri-Nutrients SBU was able to save nearly SR 20 million through long-term contracts and implementation of several initiatives. Rescheduling plant maintenance enabled it to provide more than 100,000 tons of urea and significant quantities of carbon dioxide, helping revenues to nearly US\$19 million. Upgrading stock management of urea, ammonia, high-purity urea and DAP compound improved working capital by nearly US\$5 million, while upgrading production management of urea and ammonia increased income by around US\$600,000.

In 2016, the Agri-Nutrients SBU established the Global Customer Service Department, as a foundation for excellent service delivered by highly-skilled staff.

The Agri-Nutrients SBU is currently assessing a number of projects within SABIC Strategy 2025 to expand outside Saudi Arabia, especially in Africa, India and Latin America.

SPECIALTIES

SABIC restructured the Innovative Plastics Unit in 2015, establishing a new Specialties SBU which enjoys relative immunity from market fluctuations and capitalizes on feedstock advantages to provide innovative, high-value solutions to customers.

In 2016, the Specialties SBU finalized its new organizational structure, creating three independent business units: Resins, Specialty Compounds, and Performance Products, with a view to enhancing accountability and improving profitability.

This year SABIC sold its American Polymers shapes unit, to increase its focus on businesses that generate greater value for customers by providing a variety of unique, and distinctive solutions. Four dedicated business units were created to focus on the specific requirements of the markets: transportation, healthcare, display and electronics and architectural systems. The new structure aims to strengthen relationships with customers and understand their needs, characterized as they are by stringent regulatory requirements.

SABIC is committed to providing the resources necessary to support its growth initiatives, and to support a strong competitive structure. This commitment was reflected in the financial results for 2016, showing higher profits as against 2015.

Specialties SBU intensified its efforts to achieve operational excellence. It invested heavily in the FANAR+ project, which SABIC began applying in recent years and successfully launched in 2016. It enhanced transparency, developed customer service, and positioned the SBU for bigger success within the company.

METALS

Through the Metals SBU, SABIC intensified, its efforts in key projects to promote its regional leadership in the iron and steel industry, through a number of initiatives including strengthening operational efficiency, increasing market share, reducing fixed cost management, contracting, applying a number of sustainability, innovation, and leadership programs, and pricing based on value. SABIC also expanded its regional presence.

SABIC is working on a number of strategic studies, assessing their financial and operational impact, analyzing results, and using the data to help anticipate future trends. It also completed various project studies with encouraging results, including promoting the use of raw materials by improving production yield, substituting alternatives for iron ore to reduce production cost, and using furnace dust waste in its zinc and cement production.

The Hadeed affiliate won the King Abdulaziz Quality Award for 2016 in the large production facilities sector, reflecting its success in implementing Total Quality Management.

SABIC successfully introduced a new pricing strategy for long products, resulting in a standard share in 2016 from Saudi market size, compared to 2015. Long products operations were developed to meet customers' expectations in high-value products, such as earthquake-resistant products. Also, it intensified its efforts to strengthen cooperation with customers.

Despite fierce competition and a sharp drop in prices, SABIC was able to maintain sales in flat steel products, and reduce inventory by about 26 percent, compared to the beginning of 2016, by opening new markets and attracting new customers in existing and new markets. It also made inroads into new industrial sectors, such as the fire extinguishers industry, with sales expected to generate good financial returns to the company over the next few years.

AUDITORS' REPORT AND FINANCIAL STATEMENTS

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CONSOLIDATED BALANCE SHEET

As of December 31, 2016

ASSETS	NOTE	2016 (SR '000)	2015 (SR '000)
Current assets			
Cash and cash equivalents	4	40,767,064	38,649,323
Short-term investments	5	20,104,858	29,909,811
Accounts receivable	6	19,789,515	19,375,842
Inventories	7	23,121,770	24,635,449
Prepayments and other current assets	8	4,724,011	4,491,584
Total current assets		108,507,218	117,062,009
Non-current assets			
Investments	9	16,951,799	16,678,790
Property, plant and equipment	10	170,008,456	173,157,717
Intangible assets	11	16,234,164	16,546,018
Other non-current assets	12	5,191,221	4,774,620
Total non-current assets		208,385,640	211,157,145
TOTAL ASSETS		316,892,858	328,219,154

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

Scope of audit

We have audited the accompanying consolidated balance sheet of Saudi Basic Industries Corporation ("SABIC") and its subsidiaries (the "Group") as at 31 December 2016 and the related consolidated statements of income, cash flows and shareholders' equity for the year then ended. These consolidated financial statements are the responsibility of the Group's management and have been prepared by them in accordance with the requirements of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the consolidated financial statements.

Unqualified opinion

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

- present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016 and the results of its operations and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.
- comply with the requirements of the Regulations for Companies and SABIC's by-laws in so far as they affect the preparation and presentation of the consolidated financial statements.

for Ernst & Young

Rashid S. AlRashoud
Certified Public Accountant
Registration No. 366



Riyadh: 25 Jumad Awal 1438H
(22 February 2017)

CONSOLIDATED BALANCE SHEET

continued

As of December 31, 2016

LIABILITIES AND EQUITY	NOTE	2016 (SR '000)	2015 (SR '000)
Current liabilities			
Current portion of long-term debt	13	13,226,895	13,306,056
Accounts payable	14	16,359,705	16,515,186
Accruals and other current liabilities	15	9,137,858	11,150,010
Zakat payable	16	2,386,336	1,633,473
Total current liabilities		41,110,794	42,604,725
Non-current liabilities			
Long-term debt	13	49,100,832	59,279,377
Other non-current liabilities	17	3,185,136	3,735,539
Employee benefits	18	13,169,473	12,742,327
Total non-current liabilities		65,455,441	75,757,243
TOTAL LIABILITIES		106,566,235	118,361,968
EQUITY			
Shareholders' equity			
Share capital	19	30,000,000	30,000,000
Statutory reserve	20	15,000,000	15,000,000
General reserve	20	110,889,032	110,889,032
Other reserves		(5,718,885)	(4,005,688)
Retained earnings		12,877,748	10,040,705
Total shareholders' equity		163,047,895	161,924,049
Non-controlling interests	21	47,278,728	47,933,137
TOTAL EQUITY		210,326,623	209,857,186
TOTAL LIABILITIES AND EQUITY		316,892,858	328,219,154
CONTINGENCIES AND COMMITMENTS	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 December 31, 2016

	NOTE	2016 (SR '000)	2015 (SR '000)
Sales		132,826,605	148,085,741
Cost of sales		(91,916,534)	(105,057,981)
GROSS PROFIT		40,910,071	43,027,760
Selling, general and administrative expenses	22	(12,664,243)	(13,727,824)
Impairment of plant and equipment of a subsidiary	10	(1,467,506)	(780,615)
INCOME FROM MAIN OPERATIONS		26,778,322	28,519,321
Share in results of equity-accounted investees	9	875,935	1,192,026
Financial charges		(1,690,430)	(1,509,014)
Other income, net	23	2,085,057	1,311,475
INCOME BEFORE SHARE OF NON-CONTROLLING INTERESTS AND ZAKAT		28,048,884	29,513,808
Share of non-controlling interests	21	(7,210,041)	(8,645,118)
INCOME BEFORE ZAKAT		20,838,843	20,868,690
Zakat	16	(3,000,000)	(2,100,000)
NET INCOME		17,838,843	18,768,690
EARNINGS PER SHARE (Saudi Riyals):	24		
Attributable to income from main operations		8.93	9.51
Attributable to net income		5.95	6.26

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2016

	2016 (SR '000)	2015 (SR '000)
OPERATING ACTIVITIES		
Income before Zakat	20,838,843	20,868,690
Adjustments for:		
Depreciation, amortization and impairment	16,327,917	15,712,692
Share in results of equity-accounted investees	(875,935)	(1,192,026)
Share of non-controlling interests	7,210,041	8,645,118
Changes in operating assets and liabilities:		
Accounts receivable	(413,673)	6,623,782
Inventories	1,513,679	7,039,471
Prepayments and other current assets	(232,427)	(362,519)
Accounts payable	(155,481)	(1,101,969)
Accruals and other current liabilities	(1,623,133)	(587,826)
Other non-current liabilities	(550,403)	(383,220)
Employee benefits	(91,243)	1,183,474
Zakat paid	(2,247,137)	(2,668,178)
NET CASH GENERATED FROM OPERATING ACTIVITIES	39,701,048	53,777,489
INVESTING ACTIVITIES		
Short-term investments, net	9,804,953	9,077,564
Investments, net	602,926	(9,050)
Property, plant and equipment, net	(13,098,226)	(19,759,050)
Intangible assets, net	(591,398)	(342,170)
Other non-current assets, net	(934,903)	(1,825,907)
NET CASH USED IN INVESTING ACTIVITIES	(4,216,648)	(12,858,613)

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 December 31, 2016

	2016 (SR '000)	2015 (SR '000)
FINANCING ACTIVITIES		
Long and short-term debt, net	(10,588,452)	(9,793,999)
Non-controlling interests	(7,864,450)	(9,597,992)
Dividends paid	(14,913,757)	(16,503,778)
NET CASH USED IN FINANCING ACTIVITIES	(33,366,659)	(35,895,769)
INCREASE IN CASH AND CASH EQUIVALENTS	2,117,741	5,023,107
Cash and cash equivalents at the beginning of the year	38,649,323	33,626,216
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	40,767,064	38,649,323

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended December 31, 2016

	NOTE	Share capital (SR '000)	Statutory reserve (SR '000)	General reserve (SR '000)	Other reserves (SR '000)	Retained earnings (SR '000)	Total (SR '000)
Balance as of December 31, 2015		30,000,000	15,000,000	110,889,032	(4,005,688)	10,040,705	161,924,049
Annual dividends for 2015	29	-	-	-	-	(9,000,000)	(9,000,000)
Board of Directors' remuneration	29	-	-	-	-	(1,800)	(1,800)
Interim dividends for 2016	29	-	-	-	-	(6,000,000)	(6,000,000)
Net income		-	-	-	-	17,838,843	17,838,843
Net change on currency translation of foreign operations		-	-	-	(1,256,952)	-	(1,256,952)
Re-measurement impact of employee benefits obligations		-	-	-	(518,386)	-	(518,386)
Net change on revaluation of available for sale investments and others		-	-	-	62,141	-	62,141
Balance as of December 31, 2016		30,000,000	15,000,000	110,889,032	(5,718,885)	12,877,748	163,047,895

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

 continued

For the year ended December 31, 2015

	NOTE	Share capital (SR '000)	Statutory reserve (SR '000)	General reserve (SR '000)	Other reserves (SR '000)	Retained earnings (SR '000)	Total (SR '000)
Balance as of December 31, 2014		30,000,000	15,000,000	104,076,056	(2,323,131)	14,586,791	161,339,716
Annual dividends 2014		-	-	-	-	(9,000,000)	(9,000,000)
Board of directors' remuneration		-	-	-	-	(1,800)	(1,800)
Transfer to general reserve		-	-	6,812,976	-	(6,812,976)	-
Interim dividends for 2015	29	-	-	-	-	(7,500,000)	(7,500,000)
Net income		-	-	-	-	18,768,690	18,768,690
Net change on currency translation of foreign operations		-	-	-	(1,898,163)	-	(1,898,163)
Re-measurement impact of employee benefits obligations		-	-	-	301,476	-	301,476
Net change on revaluation of available for sale investments and others		-	-	-	(85,870)	-	(85,870)
Balance as of December 31, 2015		30,000,000	15,000,000	110,889,032	(4,005,688)	10,040,705	161,924,049

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 December 31, 2016

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% directly owned by the Public Investment Fund (the "PIF"), which is wholly owned by the Government of Saudi Arabia.

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

2. BASIS OF PREPARATION

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

Effective 1 January 2017, the Group's consolidated financial statements will be prepared under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and endorsed by SOCPA. Upon IFRS adoption, the Group will be required to comply with the requirements of IFRS 1 – First-time Adoption of International Financial Reporting Standards for the reporting periods starting 1 January 2017. In preparing the opening IFRS financial statements, the Group will analyse the impact and incorporate certain adjustments due to first time adoption of IFRS.

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 accrual 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 significant 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.

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% and/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.

The non-controlling interests are calculated and presented as a separate line item in the consolidated balance sheet and the consolidated statement of income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

For the year ended December 31, 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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

	Direct and indirect shareholding %	
	2016	2015
SABIC Industrial Investments Company (SIIC) and its subsidiaries	100	100
SABIC Luxembourg S.a.r.l. (SLUX) and its subsidiaries	100	100
Arabian Petrochemical Company (Petrokemya) and its subsidiaries	100	100
Saudi Iron and Steel Company (Hadeed)	100	100
SABIC Sukuk Company (Sukuk)	100	100
SABIC Industrial Catalyst Company (SABCAT)	100	100
Saudi Arabia Carbon Fiber Company (SCFC)	100	100
SABIC Supply Chain Services Limited Company (SSCS)	100	-
Saudi European Petrochemical Company (Ibn Zahr)	80	80
Jubail United Petrochemical Company (United)	75	75
National Chemical Fertilizer Company (Ibn Al-Baytar)	71.5	71.5
National Industrial Gases Company (Gas)	70	70
Yanbu National Petrochemical Company (Yansab)	51.95	51.95
Saudi Methanol Company (Ar-Razi)	50	50
Al-Jubail Fertilizer Company (Al-Bayroni)	50	50
Saudi Yanbu Petrochemical Company (Yanpet)	50	50
National Methanol Company (Ibn Sina)	50	50
Saudi Petrochemical Company (Sadaf) *	50	50
Eastern Petrochemical Company (Sharq)	50	50
Al-Jubail Petrochemical Company (Kemya)	50	50
Saudi Japanese Acrylonitrile Company (Shrouq)	50	50
Saudi Methacrylates Company (Samac)	50	50
Arabian Industrial Fibers Company (Ibn Rushd)	48.07	48.07
Saudi Arabian Fertilizer Company (SAFCO)	42.99	42.99
Saudi Kayan Petrochemical Company (Saudi Kayan)	35	35

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

During 2016, SABIC Supply Chain Services Limited Company was incorporated (currently in the development stage). The Company is located in Riyadh, KSA and will be engaged in logistics, transportation, distribution and storage of petrochemical products.

* Sadaf shareholders agreed to change the ownership structure subsequent to the year ended December 31, 2016 (note 32)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

For the year ended December 31, 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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 twelve months are classified as short-term investments and included under current assets. Income from these deposits is recognized on 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 twelve 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, and net of 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, labour and an appropriate proportion of direct overheads.

INVESTMENTS

Equity-accounted investees

Associated companies

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not a control or a joint control over those policies.

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/incorporation 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. Significant changes in equity items of these investees are reported within other reserves under consolidated statement of changes in shareholders' equity.

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 within other reserves under consolidated statement of changes in shareholders' equity. Any decline other than temporary in the value of these investments is charged to the consolidated statement of income.

Fair value is determined by reference to the market value if an open market exists, or by the use of other alternative valuation methods. Otherwise, cost is considered to be the fair value.

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 twelve months period from the date of consolidated balance sheet.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and impairment, except for freehold land and construction work in progress which are stated at cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

For the year ended December 31, 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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	33–40 years
Plant and equipment	20 years
Furniture, fixtures and vehicles	4–10 years

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. Costs, which are directly attributable to turnarounds and major inspections and eligible for capitalisation, are recognized under property, plant and equipment. Such costs once capitalized are depreciated over the period to the occurrence of next such turnaround or major inspection.

LEASES

Leases are classified as finance 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 finance 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	3–15 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.

Pre-operating costs, deferred costs and other intangible assets

Costs 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 December 31, 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

IMPAIRMENT OF NON-CURRENT ASSETS

At each balance sheet date, the Group reviews the carrying amount of its tangible and intangible non-current assets to determine whether there is any indication that those assets have suffered an impairment loss. If 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 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 General Authority of Zakat and Tax (GAZT) in Saudi Arabia and on accrual basis. The provision is charged to the consolidated statement of income. Differences, if any, resulting from the final assessments are adjusted in the year of their finalization. Foreign shareholders in subsidiaries are subject to income tax in Saudi Arabia, which is included in non-controlling interests in the consolidated financial statements.

For subsidiaries outside 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 liabilities are recognized for taxable temporary differences.

Deferred income tax assets are recognized for 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, and the carry forward of unused tax credits and unused tax losses can be utilized.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

For the year ended December 31, 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to 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 recognized at cost, being the fair value of the proceeds received, net of transactions' costs. Financial charges are recorded 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 Labour 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 labour and social security laws of the countries where the subsidiaries are incorporated.

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The net pension asset or liability recognized in the consolidated balance sheet in respect of defined benefit post-employment plans is the fair value of plan assets less the present value of the projected defined benefit obligation (DBO) at the balance sheet date. Recognized assets are limited to the present value of any reductions in future contributions or any future refunds. The projected defined benefit obligation is calculated annually by qualified actuaries using the projected unit credit method. Re-measurement amounts, if any, are recognized and reported within other reserves under consolidated statement of changes in shareholders' equity and comprises of actuarial gains and losses on the defined benefits obligation.

Pension costs for the year are calculated on a year-to-date basis using the actuarially determined pension cost rate at the end of the prior year, adjusted for significant market fluctuations and for significant one-off event, such as plan amendments, curtailments and settlements. In the absence of such significant market fluctuations and one-off event, the actuarial liabilities are rolled forward in the scheme based on the assumptions as at the beginning of the year. If there are significant changes to the pension assumptions or arrangements during the year, consideration is given to obtaining an actuarial valuation of the scheme liabilities.

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 year, net of any trade and quantity discounts. Generally, sales are reported net of marketing and distribution expenses incurred in accordance with executed marketing and off-take agreements.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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

TECHNOLOGY AND INNOVATION EXPENSES

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

For the year ended December 31, 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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 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 in the consolidated statement of changes in 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 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.

4. CASH AND CASH EQUIVALENTS

	2016 (SR '000)	2015 (SR '000)
Time deposits	29,101,843	29,981,723
Bank balances	11,665,221	8,667,600
TOTAL	40,767,064	38,649,323

Cash and cash equivalents as of December 31, 2016 include restricted cash balances amounting to SR 0.94 billion (December 31, 2015: SR 0.87 billion), which represent employee savings plan deposits held in separate bank accounts, which are not available to the Group.

CURRENT VERSUS NON-CURRENT CLASSIFICATION

An asset or liability is classified as current when it is expected to be realized or paid within twelve months after the balance sheet date, except for derivatives designated as a hedge, which are classified consistent with the underlying hedged item.

OFFSETTING

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

For the year ended December 31, 2016

5. SHORT-TERM INVESTMENTS

The short-term investments mainly represent time deposits with banks of original maturities of more than three months and less than twelve months. These investments carry commission rates in line with the prevailing market rates.

6. ACCOUNTS RECEIVABLE	NOTE	2016 (SR '000)	2015 (SR '000)
Trade accounts receivable		16,828,569	17,109,023
Amounts due from foreign partners of subsidiaries	27	3,208,033	2,466,970
		20,036,602	19,575,993
Less: Provision for doubtful debts		(247,087)	(200,151)
TOTAL		19,789,515	19,375,842

7. INVENTORIES	2016 (SR '000)	2015 (SR '000)
Finished goods	12,726,410	12,438,511
Spare parts	5,914,022	6,163,983
Raw materials	3,799,435	5,338,245
Goods-in-transit	1,477,099	955,407
Work-in-process	704,830	900,024
	24,621,796	25,796,170
Less: Provision for slow moving and obsolete items	(1,500,026)	(1,160,721)
TOTAL	23,121,770	24,635,449

8. PREPAYMENTS AND OTHER CURRENT ASSETS	2016 (SR '000)	2015 (SR '000)
Prepayments	1,855,255	1,691,070
Taxed receivables	550,002	311,461
Employee advances and receivables	375,384	311,603
Others	1,943,370	2,177,450
TOTAL	4,724,011	4,491,584

Others mainly include advances to contractors, dividend receivables, accrued income on time deposits, loans to certain equity-accounted investees amounting to SR 0.2 billion (December 31, 2015: SR 0.2 billion) at normal market rates and miscellaneous items.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

For the year ended December 31, 2016

9. INVESTMENTS	Shareholding %	Shareholding in equity	
		2016 (SR '000)	2016 (SR '000)
Associated companies			
Gulf Petrochemical Industries Co. (GPIC)	33.33	478,150	485,369
Gulf Aluminum Rolling Mills Co. (GARMCO)	30.4	106,300	124,677
Ma'aden Phosphate Co. (MPC)	30	1,885,815	2,372,873
Saudi Arabian Industrial Investment Company (SAIIC)	25	96,240	125,000
Power and Water Utilities Co. (MARAFIQ)	24.81	1,643,288	1,468,847
Aluminum Bahrain BSC. (ALBA)	20.62	2,017,284	1,943,334
National Chemical Carrier Co. (NCC)	20	319,768	294,912
Ma'aden Wa'ad Al Shamal Phosphate Co. (MWSPC)	15	1,587,540	1,364,394
Others		939,945	902,935
		9,074,330	9,082,341
Joint venture			
SINOPEC / SABIC Tianjin Petrochemical Co. Ltd. (SSTPC)	50	3,508,677	3,221,555
SABIC SK Nexlene Company Pte. Ltd. (SSNC)	50	396,998	454,073
		12,980,005	12,757,969
Held to maturity			
Sukuk and bonds		3,485,965	3,377,847
Available for sale			
Investments in quoted and un-quoted securities		485,829	542,974
TOTAL		16,951,799	16,678,790

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

For the year ended December 31, 2016

9. INVESTMENTS continued

Movement in equity-accounted investees is as follows:

	2016 (SR '000)	2016 (SR '000)
At the beginning of the year	12,757,969	11,384,971
Share in results of equity-accounted investees	875,935	1,192,026
Additions and adjustments	59,787	979,455
Dividends received	(713,686)	(798,483)
AT THE END OF THE YEAR	12,980,005	12,757,969

ASSOCIATED COMPANIES

NCC, MARAFIQ, MWSP, MPC and SAIIC are incorporated in 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

SABIC SK Nexlene Company Pte. Ltd. (SSNC)

During 2015, SIIC (a wholly owned subsidiary of SABIC) and SK Global Chemical, Korean Petrochemical Company, established jointly SABIC SK Nexlene Company Pte. Ltd ("SSNC"), a joint venture. The objectives of SSNC are to acquire the Nexlene™ solution technology and the plants that manufacture a range of high-performance Ethylene/Alpha-Olefin copolymers products in Ulsan, Republic of South Korea.

AVAILABLE FOR SALE

Investments in quoted and un-quoted securities represent equity interests in entities, in which the Group has no significant influence.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

For the year ended December 31, 2016

10. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings (SR '000)	Plant and equipment (SR '000)	Furniture, fixtures and vehicles (SR '000)	Construction work in progress (SR '000)	Total 2016 (SR '000)	Total 2015 (SR '000)
Cost						
At the beginning of the year	30,847,960	249,795,632	5,433,489	32,465,857	318,542,938	303,764,406
Additions	261,064	4,198,528	125,343	11,545,261	16,130,196	21,036,921
Transfers / disposals	1,191,377	12,761,824	263,071	(18,122,155)	(3,905,883)	(3,392,286)
Currency translation adjustment	(193,377)	(1,773,109)	(40,209)	(338,618)	(2,345,313)	(2,866,103)
At the end of the year	32,107,024	264,982,875	5,781,694	25,550,345	328,421,938	318,542,938
Depreciation and impairment						
At the beginning of the year	13,348,642	128,855,585	3,180,994	-	145,385,221	134,893,358
Charge for the year	1,036,217	12,343,348	476,571	-	13,856,136	13,758,244
Impairment for the year	-	1,467,506	-	-	1,467,506	780,615
Transfers / disposals	533,596	(1,645,946)	(93,740)	-	(1,206,090)	(2,494,954)
Currency translation adjustment	(104,001)	(960,441)	(24,849)	-	(1,089,291)	(1,552,042)
At the end of the year	14,814,454	140,060,052	3,538,976	-	158,413,482	145,385,221
Net book amounts						
At December 31, 2016	17,292,570	124,922,823	2,242,718	25,550,345	170,008,456	
At December 31, 2015	17,499,318	120,940,047	2,252,495	32,465,857		173,157,717

Construction work in progress mainly represents the expansion of the existing plants and the new projects. The financial charges capitalized during the year ended December 31, 2016 amounted to SR 0.3 billion (December 31, 2015: SR 0.2 billion).

As of December 31, 2016, land and buildings include an amount of SR 2 billion (December 31, 2015: SR 2 billion) representing the cost of freehold land. The land, on which the plant and the related facilities of certain subsidiaries in Saudi Arabia are constructed, are leased from the Royal Commission for Jubail and Yanbu under renewable lease agreements for a period up to 25–30 years. Property, plant and equipment of certain subsidiaries in Saudi Arabia are pledged to the Saudi Industrial Development Fund (SIDF) as securities against the long-term debt.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

For the year ended December 31, 2016

10. PROPERTY, PLANT AND EQUIPMENT continued

The impairment represents the write-down of certain plant and equipment of Ibn Rushd (a subsidiary) to its recoverable amount due to oversupply in the market pushing profitability down.

This impairment is attributable to the following:

	For the year ended December 31, 2016 (SR '000)	For the year ended December 31, 2015 (SR '000)
SABIC	705,362	375,206
Non-controlling interests	762,144	405,409
TOTAL	1,467,506	780,615

The recoverable amount of SR 6,368 million as at December 31, 2016 was based on "value-in-use" method and was determined at the level of cash generating unit ("CGU") as identified by Ibn Rushd's management and consists of the net operating assets of Ibn Rushd. In determining value in use for the CGU, the cash flows – determined using approved 5-year business plan and budget – were discounted at a rate of 9.49% on a pre-zakat basis and were projected up to the year 2035 in line with the estimated useful life of the concerned plant and equipment. The calculation of value-in-use is most sensitive to the following key assumptions used:

- Future performance improvements
- Discount rate applied to cash flows projections
- Sale prices and quantities

11. INTANGIBLE ASSETS

	2016 (SR '000)	2015 (SR '000)
Goodwill	11,807,566	11,977,291
Patents, trademarks, customer lists and other intangibles	3,955,978	3,559,786
Pre-operating costs	470,620	1,008,941
TOTAL	16,234,164	16,546,018

GOODWILL

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

	2016 (SR '000)	2015 (SR '000)
At the beginning of the year	11,977,291	12,524,220
Currency translation adjustments	(169,725)	(546,929)
AT THE END OF THE YEAR	11,807,566	11,977,291

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

For the year ended December 31, 2016

11. INTANGIBLE ASSETS continued

IMPAIRMENT ASSESSMENT

Based on the annual goodwill impairment test performed at the Group level during the year ended December 31, 2016, no impairment loss was identified.

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, working capital and capital expenditure assumptions in the terminal period.

12. OTHER NON-CURRENT ASSETS

	2016 (SR '000)	2015 (SR '000)
Home ownership receivables	1,660,162	1,502,829
Deferred taxes	1,497,801	662,303
Employee advances	562,743	502,188
Re-imburement of tax payments	204,844	513,731
Others	1,265,671	1,593,569
TOTAL	5,191,221	4,774,620

HOME OWNERSHIP RECEIVABLES

SABIC and certain subsidiaries have established employee home ownership programs that offer eligible employees the opportunity to buy residential units constructed by SABIC and certain 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 outside Saudi Arabia.

RE-IMBURSEMENT OF TAX PAYMENTS

Reimbursement of tax payments relates to the recovery of the 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, pre-paid mining fees, loans to certain equity-accounted investees amounting to SR 0.6 billion (December 31, 2015: SR 0.6 billion) at normal market rates and miscellaneous items.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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For the year ended December 31, 2016

13. LONG-TERM DEBT

	2016 (SR '000)	2015 (SR '000)
Term loans:		
– Commercial debt	42,060,391	49,007,609
– Public Investment Fund (PIF)	3,561,000	4,441,219
– Saudi Industrial Development Fund (SIDF)	2,375,950	2,790,683
	47,997,341	56,239,511
Debt notes	8,000,000	10,000,000
Bonds	6,706,781	6,823,781
TOTAL LONG-TERM DEBT	62,704,122	73,063,292
Less: Current portion of long-term debt	(13,226,895)	(13,306,056)
Transaction costs	(376,395)	(477,859)
TOTAL	49,100,832	59,279,377

TERM LOANS

The Group obtained term loans in order to finance its investments, which are repayable in conformity with the applicable loan agreements, at varying interest rates. Certain subsidiaries' property, plant and equipment have been pledged against their respective loans.

The PIF and SIDF term loans are repayable in semi-annual instalments. PIF loans carry financing charges at varying rates and SIDF loans have an up front and annual administrative fees charged under their loans agreements.

DEBT NOTES

On December 29, 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 tranches are fully drawn and have a bullet maturity after 7 years of their respective issuance. As at December 31, 2016, three tranches amounting to SR 3 billion have been reclassified under current portion of long-term debt.

BONDS

The following bonds were outstanding as of December 31, 2016:

- On October 3, 2013, SABIC Capital II B.V., a subsidiary of SLUX, issued a 5 year \$1 billion bond with a coupon of 2.625%. The proceeds were used to repay external debt.
- On November 20, 2013, SABIC Capital I B.V. issued a 7 year € 750 million bond with a coupon of 2.75%. The proceeds were used to redeem Eurobond € 750 million, upon its maturity on November 28, 2013.

SABIC has provided guarantees for bonds and certain term loans for certain subsidiaries amounted to SR 28.7 billion as of December 31, 2016 (December 31, 2015: SR 29.2 billion).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

For the year ended December 31, 2016

13. LONG-TERM DEBT continued

LONG-TERM DEBT REPAYMENT SCHEDULE

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

	2016 (SR '000)	2015 (SR '000)
2016	-	13,306,056
2017	13,253,723	15,919,862
2018	15,344,576	13,904,297
2019	5,810,580	3,530,920
2020	6,541,782	8,388,657
Thereafter	21,753,461	18,013,500
TOTAL	62,704,122	73,063,292

14. ACCOUNTS PAYABLE

	NOTE	2016 (SR '000)	2015 (SR '000)
Trade accounts payable		16,329,911	16,475,376
Amounts due to foreign partners of subsidiaries	27	29,794	39,810
TOTAL		16,359,705	16,515,186

15. ACCRUALS AND OTHER LIABILITIES

	NOTE	2016 (SR '000)	2015 (SR '000)
Accrued liabilities		4,108,637	4,231,078
Employees accruals		1,712,450	1,972,962
Dividends payable		1,225,636	1,139,394
Taxes payable		820,266	882,903
Contract retentions		374,559	425,710
Short-term bank borrowings		-	428,201
Finance leases - current portion	31	78,022	154,758
Others		818,288	1,915,004
TOTAL		9,137,858	11,150,010

Taxes payable include the taxes payable by the foreign partners and certain foreign entities. Others mainly include accrued financial charges on borrowings and miscellaneous payables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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For the year ended December 31, 2016

16. ZAKAT PAYABLE

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

	2016 (SR '000)	2015 (SR '000)
At the beginning of the year	1,633,473	2,201,651
Provided during the year	3,000,000	2,100,000
Paid during the year	(2,247,137)	(2,668,178)
AT THE END OF THE YEAR	2,386,336	1,633,473

Zakat returns of SABIC and its wholly owned subsidiaries are submitted to the General Authority of Zakat and Tax (GAZT) 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 with the GAZT, received the zakat certificates, settled the zakat dues and cleared its zakat assessments with GAZT up to the year ended December 31, 2015.

17. OTHER NON-CURRENT LIABILITIES

	NOTE	2016 (SR '000)	2015 (SR '000)
Obligations under finance leases	31	794,960	856,964
Deferred tax		997,850	993,826
Others		1,392,326	1,884,749
TOTAL		3,185,136	3,735,539

Deferred tax represents the deferred taxes recorded in the foreign subsidiaries. Others mainly include tax payments payable on behalf of GE (reimbursable by GE, note 12), tax provisions related to foreign subsidiaries and other long-term payables.

18. EMPLOYEE BENEFITS

	2016 (SR '000)	2015 (SR '000)
End of service benefits	12,082,129	11,484,549
Employee savings plan	1,020,864	931,944
Early retirement plan	66,480	325,834
TOTAL	13,169,473	12,742,327

19. SHARE CAPITAL

The share capital amounting to SR 30 billion is divided into 3 billion shares of SR 10 each as of December 31, 2016 and 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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For the year ended December 31, 2016

20. RESERVES

STATUTORY RESERVE

In accordance with the Saudi Arabian Regulations for Companies, SABIC must transfer 10% of its annual consolidated net income to the statutory reserve until it reaches 50% of the share capital; this having been achieved, SABIC decided to discontinue such transfer. 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 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 was as follows:

	2016 (SR '000)	2015 (SR '000)
At the beginning of the year	47,933,137	48,886,011
Share of non-controlling interests during the year	7,210,041	8,645,118
Dividends paid and others	(7,864,450)	(9,597,992)
AT THE END OF THE YEAR	47,278,728	47,933,137

22. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	2016 (SR '000)	2015 (SR '000)
Selling and distribution	4,982,399	5,329,117
Employee costs	3,236,677	3,434,768
General and administrative	2,080,710	2,350,309
Technology and innovation	1,996,914	2,257,268
Depreciation and amortization	367,543	356,362
TOTAL	12,664,243	13,727,824

23. OTHER INCOME, NET

	2016 (SR '000)	2015 (SR '000)
Earnings on time deposits	1,569,037	654,499
Miscellaneous	516,020	656,976
TOTAL	2,085,057	1,311,475

Miscellaneous includes insurance claims, net results of disposals of property, plant and equipment, exchange rate differences and other items.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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For the year ended December 31, 2016

24. EARNINGS PER SHARE

The earnings per share is calculated based on the weighted average number of outstanding shares at December 31, 2016 and 2015.

25. SEGMENT INFORMATION

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

- **The chemicals segment** includes chemicals, polymers and innovative plastic products.
- **The agri-nutrients segment** consists of fertilizer products.
- **The metals segment** consists of steel products.
- **The corporate segment** includes the corporate operations, technology and innovation centres, investment activities and SABIC Industrial Investments Company (SIIC).

	Chemicals (SR '000)	Agri-Nutrients (SR '000)	Metals (SR '000)	Corporate (SR '000)	Consolidation adjustments & eliminations (SR '000)	Total (SR '000)
Year ended December 31, 2016						
Sales	156,315,840	4,701,312	9,009,322	7,623,462	(44,823,331)	132,826,605
Gross profit (loss)	34,995,428	1,192,590	(754,359)	3,786,910	1,689,502	40,910,071
Net income (loss)	22,791,623	1,137,094	(1,346,177)	18,979,059	(23,722,756)	17,838,843
Total assets	228,489,047	12,895,691	19,490,930	220,373,578	(164,356,388)	316,892,858
Total liabilities	148,416,565	2,002,841	4,451,557	50,854,720	(99,159,448)	106,566,235

Year ended December 31, 2015

Sales	170,718,132	5,965,509	10,668,468	8,609,287	(47,875,655)	148,085,741
Gross profit (loss)	33,993,508	2,712,279	(738,343)	3,704,011	3,356,305	43,027,760
Net income (loss)	21,288,913	2,544,673	(1,457,645)	21,531,096	(25,138,347)	18,768,690
Total assets	230,068,629	13,797,172	21,032,990	227,972,503	(164,652,140)	328,219,154
Total liabilities	152,669,108	2,308,376	4,647,441	57,117,195	(98,380,152)	118,361,968

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

For the year ended December 31, 2016

26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments principally include cash and cash equivalents, short-term investments, 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 of sound credit ratings. Accounts receivable are carried net of 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 December 31, 2016. 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 and the floating contract rates, 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 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 transactions are principally in Saudi Riyals, Euros and US Dollars. The Group monitors the fluctuations in currency exchange rates and manages its effect on the consolidated financial statements accordingly.

Fair Value Risk is the value 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 their foreign partners in accordance with the marketing and off-take agreements. Sales to the aforementioned foreign partners during the year ended December 31, 2016 amounted to SR 9.1 billion (December 31, 2015: SR 10.5 billion). Certain foreign partners also provide technology and innovation, and other services to certain SABIC affiliates in conformity with the executed agreements. Balances due from / to the foreign partners are shown in notes 6 and 14, respectively.

28. DERIVATIVES FINANCIAL INSTRUMENTS

The Group has executed derivative financial instruments transactions including commission rate swaps. The remaining notional amount outstanding as of December 31, 2016 under such transactions was SR 2.5 billion (December 31, 2015: SR 3.9 billion).

29. APPROPRIATION OF NET INCOME

The Annual General Assembly, in its meeting held on 4 Rajab 1437H (corresponding to 11 April 2016), approved the appropriation of the net income for the year ended December 31, 2015 as follows:

- distribution of cash dividends of SR 16.5 billion (SR 5.5 per share), this includes the interim cash dividends amounting to SR 7.5 billion (SR 2.5 per share) for the first half of 2015;
- payment of SR 1.8 million as Board of Directors' remuneration.

On 22 Shawwal 1437H (corresponding to 27 of July 2016), SABIC declared interim cash dividends for the first half of the year 2016 amounting to SR 6 billion (at SR 2 per share).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

For the year ended December 31, 2016

29. APPROPRIATION OF NET INCOME continued

On 19 Rabi Awal 1438H (corresponding to 18 December 2016), the Board of Directors proposed a distribution of cash dividends for the second half of the year ended December 31, 2016 amounting to SR 6 billion (SR 2 per share). The proposed dividends are subject to the approval of the shareholders at their Annual General Assembly Meeting. The total proposed cash dividends for the year ended December 31, 2016 would amount to SR 12 billion (SR 4 per share).

30. CONTINGENCIES

The Group is involved in litigation matters in the ordinary course of business, which are being defended. While the ultimate results of these matters cannot be determined with certainty, the 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 2.8 billion as of December 31, 2016 (December 31, 2015: SR 2.3 billion) in the normal course of business.

31. COMMITMENTS

The Group has capital expenditures commitments as of December 31, 2016 amounting to SR 9.5 billion (December 31, 2015: SR 10.3 billion).

SABIC has an equity contribution commitment towards its 15% interest in Ma'adan Wa'ad Al Shamal Phosphate Company ("MWSPC"). As of December 31, 2016, the outstanding commitment towards this investment amounts to SR 0.21 billion (December 31, 2015: SR 0.44 billion). Pursuant to the terms of the agreements with the other shareholders of MWSPC and its external lenders, SABIC has agreed to contribute additional funds to MWSPC, under certain circumstances and to the extent required, in the event of cost over-runs.

SABIC also has an equity contribution commitment towards its 25% interest in Saudi Arabian Industrial Investments Company ("SAIIC"). As of December 31, 2016, the outstanding commitment towards this investment amounts to SR 0.38 billion (December 31, 2015: SR 0.38 billion).

OPERATING LEASE COMMITMENTS

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

	2016 (SR '000)	2015 (SR '000)
2016	-	1,440,363
2017	1,374,338	1,279,990
2018	1,160,549	1,050,068
2019	918,728	889,847
2020	847,605	836,084
Thereafter	2,316,813	2,446,027
TOTAL	6,618,033	7,942,379

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

For the year ended December 31, 2016

31. COMMITMENTS continued

OBLIGATIONS UNDER FINANCE LEASES

Commitments under finance leases with initial terms of more than one year are as follows:

	NOTE	2016 (SR '000)	2015 (SR '000)
2016		–	180,185
2017		139,982	143,005
2018		140,728	141,424
2019		140,593	141,244
2020		117,966	117,684
Thereafter		709,909	712,311
Minimum lease payments		1,249,178	1,435,853
Less:			
Finance charges		(376,196)	(464,646)
Current portion	15	(78,022)	(114,243)
NON-CURRENT PORTION	17	794,960	856,964

32. SUBSEQUENT EVENTS

On 22 January 2017, SABIC and Shell Chemicals Arabia LLC (Shell), SABIC's Partner in the Saudi Petrochemical Company (Sadaf), entered into an agreement pursuant to which SABIC agreed to purchase the entire stake of Shell in Sadaf for US\$820 million. Completion of the proposed transaction is subject to regulatory approval.

The management believe that there have been no further significant subsequent events since the year ended December 31, 2016 that would have a material impact on the consolidated 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 24 Jumad Awal 1438H corresponding to (February 21, 2017).

34. COMPARATIVE FIGURES

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

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