FitchRatings
KNOW YOUR RISK

FITCH AFFIRMS RATINGS OF SABIC / SABIC EUROPE AT 'A'; SABIC EUROPE OUTLOOK REVISED TO NEGATIVE

Fitch Ratings-London-23 May 2007: Fitch Ratings has today affirmed the Issuer Default Rating (IDR) of Saudi Basic Industries Corporation (SABIC) at 'A' and Short-term rating at 'F1'. The Outlook on the IDR is Stable. Simultaneously, Fitch has affirmed the IDR of SABIC Europe B.V. (SABIC Europe) at 'A' and Short-term rating at 'F1' and changed the Outlook on the IDR to Negative from Stable. Its senior unsecured rating is also affirmed at 'A'. The rating action follows the 21 May announcement that SABIC is acquiring the plastics business of General Electric of the US for a total consideration of USD11.6bn.

The Negative Outlook on SABIC Europe indicates a potential downward adjustment of the rating due to the risk of dilution of the available parental support in the light of this sizeable acquisition. The ratings of SABIC Europe continue to reflect assumed support from parent company SABIC, based on strong commercial integration and its high strategic importance for its parent.

The affirmation of SABIC's ratings reflect the fact that while the GE Plastics acquisition is material and by far the largest SABIC has ever undertaken, it represents only a moderate increase of its overall capex plan. Total capex expenditure of USD29bn for the period up to 2009/2010 had been factored into the ratings. SABIC's credit ratios for 2006 were very strong, with net debt/EBITDAR of 0.1x and total adjusted debt/EBITDAR of 1.2x. Cash from operations covered more than 80% of total adjusted debt and EBITDAR interest cover was in excess of 22x. As of Q107, SABIC had cash and cash-equivalents of SAR44bn (USD11.7bn) on the balance-sheet, while debt stood at SAR44.1bn (USD11.8bn), making the company essentially a debt free group. Viewed as a group, net debt is going to increase to approximately SAR44bn (USD11.6bn), corresponding to a net debt/EBITDAR ratio of 1.2x. For the next 2-3 years, Fitch expects SABIC to be FCF-negative, based on its significant capex programme and the GE Plastics acquisition. However, the strong pre-capex cash generation as well as the solid capital structure provide sufficient headroom for the ratings to be maintained, even in a less favourable economic environment.

While the margin of GE Plastics business is lower than that of SABIC, the acquisition will improve the latter's business profile materially. SABIC will become a significant player in the attractive growth market of high-performance/engineering plastics and gain access to important technology. Moreover, the acquisition will further improve SABIC's geographic diversification, providing enhanced geographical footprint in the Americas, an area where its presence has historically been limited. Closing of the transaction is expected to take place by the end of Q307, subject to standard regulatory clearances.

SABIC is the largest non-oil company in the Middle East. The group is organised into seven business divisions: basic chemicals, intermediates, polymers, specialty products, fertilizers, metals and SABIC Europe. SABIC in FY06 achieved sales of SAR86bn (USD23bn) and generated an EBITDAR of SAR36bn (USD9.6bn), corresponding to a margin of 42%.

Contacts: Karsten Frankfurth, London, +44 20 7664 0085, Monica Klingberg Insoll, London, +44 20 7417 4281.

Media Relations: Peter Fitzpatrick, London, Tel: + 44 (0)20 7417 4364.