



UNGC *Communication on Progress (COP)*



United Nations Global Compact

Communication on Progress (COP)

June 2014

This document represents PIC's first Communication on Progress (COP) and will continue to be produced on a yearly basis. It is to be read alongside PIC's 2013–2014 Sustainability Report, and we welcome any feedback to help us improve our communication in the future.

About PIC

PIC is a global manufacturer and marketer of petrochemicals. It is the petrochemical arm of Kuwait Petroleum Corporation (KPC). For 50 years, PIC has focused on making essential materials to support a growing world. We manufacture and supply petrochemical building blocks to leading companies globally. In doing this, we bring together world-scale assets in strategic locations, a strong heritage of operational excellence, a passion for working collaboratively and an unwavering commitment to sustainability.

Established by an Amiri decree in 1963, PIC was the first chemical complex in Kuwait and in the Middle East. Our establishment was an important step toward diversification of Kuwait's economy. Maximizing the value of Kuwait's hydrocarbon resources remains an important part of our mission today. From products that increase crop yields to feed a growing world, to insulation that increases the energy efficiency of a household, our materials are helping to improve the quality of life around the world.

As PIC has grown, the Company has diversified its portfolio and has become a significant player in petrochemicals, with both local and international investments. We participate in nearly a dozen joint ventures. Through these joint ventures, we continue to invest in growth projects both within and outside Kuwait. As we look forward, we are committed to diversifying into new markets to grow our business as well as the country's economy. We are well positioned to contribute to the global growth of the chemical industry.



This is our **Communication on Progress** in implementing the principles of the **United Nations Global Compact** and supporting broader UN goals.

We welcome feedback on its contents.

Chairman's statement of support

We are proud to issue our first COP to the United Nations Global Compact (UNGC). At PIC, we are committed to the UNGC and its 10 principles on human rights, labor rights, environment and anti-corruption. The UNGC is one of the most widely acknowledged frameworks for corporate sustainability, and we look forward to utilizing it in our quest to explore “possibilities without limits.”

I signed the UNGC declaration in September 2013 at the UN General Assembly, which was also attended by other senior members of PIC management. This was a natural step along the sustainability journey we are undertaking. We developed our sustainability strategy in 2012, and embedded environmental, social and economic targets in our overall strategy. The targets were assigned to their corresponding departments and incorporated into departmental scorecards to ensure implementation. In July 2013, after a year of implementing initiatives outlined in our sustainability strategy, we published our first corporate sustainability report using the Global Reporting Initiative (GRI) 3.1 guidelines.

One of the areas for improvement that we highlighted while trying to embed sustainability within the entire organization was to identify and join a global framework and benefit from the experience we gain from working with other companies. Our search quickly led us to UNGC and its fast-growing group of leading companies. Our primary motive for joining UNGC was to become part of the large stakeholder group of leading organizations that share our values. We strongly believe we should be proactive and operate in an environmentally friendly manner while ensuring that human rights and labor rights are respected throughout our operations.

Our world is becoming smaller and more interconnected each year. We recognize that the principles address issues that are relevant in all countries and regions. Corruption, human rights, labor rights, resource scarcity and climate change are issues that know no boundaries and affect all of us equally. We believe that while these issues might seem too big for any one entity to tackle, be it public or private, they can and should be addressed collectively. We, at PIC, are a global citizen and will do our best to be part of the solution.

Our investment in sustainability, both financial and man power, is increasing year over year. Our organizational understanding of the benefits and impacts of a sustainable business model is also growing. We look at the UNGC principles as a partner on our journey, guiding us toward continuous improvement of our processes and operations. The progress we achieved on the ten principles of UNGC is outlined in this COP, supported by detailed explanation in our 2013–14 sustainability report.



Mr. Asaad Ahmad Al-Saad
Chief Executive Officer

Human rights

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights.

Principle 2: Businesses should make sure they are not complicit in human rights abuses.

Commitment

In addition to complying with Kuwaiti law, which has provisions mandating observance and respect of internationally proclaimed human rights, PIC has gone a step further by signing the UNGC agreement. By doing so, PIC publicly recognizes that there is always room for improvement in the existing policies and procedures.

PIC has always acknowledged the sanctity and value of human rights. Throughout our history, we have been engaged in several community development programs to ensure the well-being of adjoining communities. We give the highest priority to the safety of our employees and have a separate health and safety (HSE) policy governing and guiding our operations. As a subsidiary of KPC, we share the same code of conduct. It addresses topics such as respect of religious beliefs, safe working environment, employee indemnification, equal opportunity, fair treatment and freedom of expression.

Management approach

At PIC, the majority of our labor is outsourced to third-party contractors. All contracts with third parties contain a provision that mandates third parties observe all human rights clauses outlined by Kuwaiti law. In addition, we have “contract supervisors” whose sole responsibility is to monitor the performance of third-party contractors and to ensure that they adhere to the human rights principles.

Current initiatives and future actions

Although our current standing with regard to human rights is considered a common practice in our region, our research has revealed that our region lags behind when it comes to understanding and respecting the internationally proclaimed principles on human rights as outlined in the United Nations Declaration on Human Rights (UNDHR). As a global citizen, and as a signatory to the UNGC, we identified this as an opportunity for improvement. We have recently signed an agreement with an external party to provide specific human rights training for all PIC employees. This online course will provide general training on human rights and specific instruction for how the contract supervisors should deal with contractors. We intend to build awareness of material human rights issues among our employees and enable them to identify any violations they may encounter. In addition, we will establish a separate and specific human rights policy in the future.

This year, as part of our sustainability strategy, we undertook an initiative to partner with and support NGOs that share our values. We have shortlisted a number of NGOs that focus on our Responsible Corporate Citizenship goals of protecting the environment, championing healthy living and lifestyle, and developing young talents and future leaders. One initiative underway in the healthy living goal area involves partnering with the Kuwait Chest Diseases Hospital. In collaboration with the hospital, we increased awareness of heart diseases and organized a walkathon. To nurture future talents, we collaborated with Kuwait University and organized a competition for high school students from 255 schools. The theme of the competition was “Waste management for better environment.”

Labor rights

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.

Principle 6: Businesses should eliminate discrimination in respect of employment or occupation.

Commitment

PIC code of conduct explicitly states employees' rights to fair treatment (advancement, development, discipline) and participation. In addition, by signing the UNGC, we voluntarily and publicly commit that we will constantly search for areas of improvement.

Current initiatives and future actions

Out of 613 employees at PIC, 89 percent of them are members of the PIC union and have the right to collective bargaining. Although the percentage of employees who are members in the union is a substantial one, our review of current practices identified opportunities for improvement:

- » First, official communication released by the union should be translated into different languages so that it can be understood by non-Arabic speakers.
- » Second, the eligibility tenure criteria for non-Kuwaiti employees to join the union could be reduced.

It should be noted that PIC does not have full control of the union, and there are some regulatory and procedural steps to be followed to amend the union charter. However, PIC's sustainability team will raise these recommendations to the PIC Union General Assembly. The two proposed initiatives will be up for a vote. If the motion passes all regulatory checks and the vote, it is then taken up to the "General Union," which is the regulatory arm of the government in matters related to labor rights.

Principle 4: Businesses should eliminate all forms of forced or compulsory labor.

Principle 5: Businesses should effectively abolish child labor.

Commitment

PIC's third-party contracts, which are applicable to every vendor and third party with whom PIC does business, have several clauses to safeguard against abuses. The clauses are in direct alignment with the International Labor Organization's standards, such as:

- » Working hours should not be more than 8 hours per day or 48 hours per week.
- » Contract supervisor's responsibility is to ensure the contractor pays wages on time and no later than the seventh day of every month.
- » PIC representative (contract supervisor) can perform periodic checks to ensure that workers' quarters are clean and up to the approved living standard.
- » Contractor must ensure all its employees have official employment documentation (working visas).
- » Overtime work is paid as per employee wages, without factoring overhead and administrative costs.
- » Contractor is responsible for ensuring that all its workers have medical insurance as part of their benefits.

Future actions

PIC has identified areas for improvement with regard to third-party contracts, and is studying the feasibility of introducing an independent grievance mechanism for third-party contractors to contact PIC management directly rather than go through an intermediary.

Child labor is illegal under Kuwaiti law, and PIC can guarantee that there are no minors under its direct employment.

Environment

Principle 7: Businesses should support a precautionary approach to environmental challenges.

Principle 8: Undertake initiatives to promote greater environmental responsibility.

Principle 9: Encourage the development and diffusion of environmentally friendly technologies.

Kuwait is one of the largest oil exporting countries in the world, and consequently, the economy relies heavily on the oil and gas sector. The State of Kuwait has seen unprecedented economic prosperity due to the historically high price of oil, coupled with its relatively small population, making it one of the most affluent societies in the world. While this is a blessing for Kuwait and its people, this reliance on a finite resource poses a long-term risk for the sustainability of its economy. KPC, our parent company, has recognized this risk and has set targets to diversify the economy, and has highlighted petrochemicals as one of the primary agents of this change.

Kuwait is a signatory to the United Nations' Millennium Development Goals. The eight UN Millennium Development Goals relate to several areas, including the environment. Kuwait is on track to meet most of the targets; however, it is lagging behind on the environmental targets. As petrochemicals position themselves to play a larger role in Kuwait's economy, we at PIC feel that it is our duty to be proactive and to operate in an environmentally friendly manner.

Commitment

Our 2017 PIC Sustainability Goals have several environmental targets, such as reducing energy and water intensity, and greenhouse gas (GHG) emissions in our operations. Through the 2017 PIC Sustainability Goals, we will pursue strong economic growth, sound environmental performance and good corporate citizenship. The 2017 PIC Sustainability Goals will lead to safer, more efficient and productive operations; minimize the impact on the planet, develop current and future leaders in sustainability; and improve the lives of people for generations to come.



Our 2017 sustainability goals consist of both responsible corporate citizenship goals and operational excellence goals.

Current initiatives

Last year we published targets in our first sustainability report and will continue to monitor, measure and report our progress against our stated reduction targets in the coming years.

Over the year, we achieved total energy intensity savings of 5 percent in our operations, water intensity savings of 23 percent and managed to reduce our GHG intensity by 19 percent. We were able to achieve these reductions by implementing the following projects:

Direct energy consumption



To reduce steam consumption and heat loss

- » Purchase of a new high-efficiency turbine rotor for DK3302
- » Replacement of most of the conventional traps with venturi type traps
- » Replacement of insulation of all auxiliary steam boilers and super heaters
- » Initiation of a reliability team to identify all steam leaks in the steam drive turbines

To improve equipment efficiency and reduce energy intensity

- » Replacement of low-pressure membranes of the hydrogen recovery unit to increase hydrogen recovery and reuse, reduce flaring and thereby produce more ammonia
- » New oil filter for fuel gas to ammonia II primary reformer
- » Initiation of manual vibration monitoring program for all rotor equipment that are not equipped with online vibration monitoring
- » Replacement of the old oxygen analyzers with new, more reliable analyzers for all furnaces

To reduce venting or loss of synthesis gas

- » Replacement of the ammonia condensers E1409A/B with modified titanium base type
- » Preventive inspection (for Eddie current) for all main heat exchangers to reduce the venting of synthesis gas caused by partial shutdown of the plants due to heat exchanger leakage repairs
- » Modification of the second stage thrust collar at K1303 (synthesis gas compressor)

Indirect energy consumption



Replacement of all low-performance, high-tension power cables

- » It was detected that high-tension (HT) cables and motors had an insulation resistance (IR) of 23.63 percent. Due to the defective cables, average yearly production loss of 2392 MT of ammonia and 3745 MT of urea was recorded. The initiative helped to reduce the defects in high-tension cables and electrical equipment by 70 percent and is estimated to save \$0.7 million annually.

Initiatives to reduce electricity usage in transformers

Water usage



Reuse of water from hydrolyser unit for irrigation

- » The unit accounts for almost one-third of PIC's water demand and the effluent is discharged into the sea. The water discharge is now reused within the fertilizer plant for irrigation and in the toilets. This has reduced the monthly average fresh water consumption in the plant by more than 28 percent and is estimated to save almost \$170,000 annually.

Greenhouse gas emissions



- » Recovery of CO₂ from the interstage separator of the CO₂ compressor to reduce CO₂ emissions and to produce more urea

Although we have not monitored the contribution of each of the above mentioned initiatives to reduce our energy, water and GHG intensities, they have helped us to improve our overall operational efficiency in 2013-14, resulting in a 10 increase in production in 2013-14 when compared to the same in 2012-13. We would like to state that an additional reason for the significant improvement in environmental performance in 2013-14 when compared to 2012-13 was due to a turnaround in April 2012, resulting in higher-than-normal energy, water and GHG intensities for the month, which led to higher intensities for 2012-13.

Anti-corruption

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

Commitment

PIC's code of conduct addresses "Ethical Business Conduct" covering these topics:

- » Business ethics
- » Conflict of interest
- » Bribery and corruption
- » Gifts and entertainment
- » Outside employment
- » Fraud and theft

Current initiative

In addition, PIC employees must attend anti-corruption training sessions held every year. In third-party contracts, a provision states that bidders cannot be board members, be a part of the committee or be employees of PIC.

Future actions

As with the other focus areas addressed by the UNGC principles, PIC is looking for ways to improve and strengthen our position when it comes to anti-corruption. A KPC committee was formed containing members from several subsidiaries, including PIC. The committee's mandate is to review and recommend improvements to the code of conduct. PIC will be proposing at least one recommendation to strengthen the anti-corruption policy through its representative.

For further details and for feedback, please contact Mr. Hashim Hashim (Head Corporate Engineering and HSE) at sustainability@pic.com.kw.

