

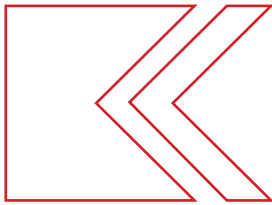
- Saudi Chemical company was founded (Saudi joint stock company with a paid up capital of 632,400,000 SAR) in 1972 as the first company in the industry of explosives for civilian use in the Kingdom of Saudi Arabia and has become a major supplier locally and regionally explosives for civilian use in various applications like rocks displacement, roads, tunnels and mines, mining and oil exploration.

الكيميائية السعودية
Saudi Chemical
Saudi Joint Stock Co شركة مساهمة سعودية



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The Board of Director's Report

**The Board of Director's Report to the General Assembly
To the Shareholders of Saudi Chemical Company
On Its Business Results for the Year Ended on
31/12/2012**

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BOARD OF DIRECTORS

HH Prince Ahmad Bin Khalid
Board Chairman

Mr. Samir M. Abdulhadi
Board Vice Chairman

Engr. Fahad S. Al Jarbou
Board Member

Mr. Abdulrahman A. Al Yemni
Board Member

Mr. Sultan Mohamed Al Hidaithy
Board Member

Mr. Mohamed O. Al Sanousi
Board Member

Mr. Abdulaziz A. Abu Alsaud
Board Member

Mr. Abdulrahman S. Al Yemni
Board Member

Dr. Mohammed S. Al Badr
Board Member (Managing Director)





Introduction:



Esteemed shareholders, Peace and Blessings of Allah be upon you,

The Board of Directors of Saudi Chemical Company is pleased to submit its report on the company's activities and the most significant accomplishments for the year ended on 31 December 2012. The report reflects the management's efforts towards attaining constant development that the Company has been witnessing during the past years. Saudi Chemical Company and its subsidiary companies attained a record level of consolidated sales reaching SR 2,001,333, which increase by 7 % in comparison to the sales of the previous year.

Moreover, the annual report includes the audited consolidated financial statements for the fiscal year ended 31/12/2012, and the auditors' report.



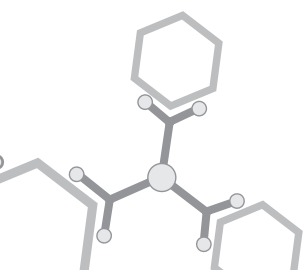
First: Information about the activities of the Company and its subsidiary companies:

- ▶ The Saudi Chemical Company - a Saudi Joint Stock Company with a paid up capital of SR 632,400,000 - was established in 1972 as a pioneering Company in the field of manufacturing explosives for civil purposes. It became a local and regional provider for explosives for civil purposes in the different applications of rocks displacement such as building of roads, tunnels, and mines, mining, and oil excavation. The Company owns three factories that are located in Riyadh, the Eastern Region, and the Western Region, as well as central distribution depots in the Southern Region. The Company was able, during the last four decades, to supply the local and foreign markets with the essential and supporting materials for all operations of civil explosion, and infrastructure and construction works. It is worth mentioning that the company's works are not confined to the explosives production for the civil works only as it has expanded its activities to include explosives for military purposes, ammunition dismantling operations, and other military activities. The products introduced by Saudi Chemicals Company include the latest and safest generation of the explosives products for the internationally used civil explosives which are KEMULEX, PRILLEX, SANEL, and ENVIROSEIS.

- 1. KEMULEX** is an emulsion type explosive characterized by its high detonation velocity and good waterproof properties and is packaged in special plastic cartridges of different sizes that meet the clients' needs.
- 2. PRILLEX** is a dry blasting agent which is composed of Ammonium Nitrates and Fuel Oil (ANFO).
- 3. SANEL** (Non-electric capsule) which provides precise control accuracy for the explosion to reduce the level of the vibrations accompanying the blasting and improves the rocks friability rate. The company manufactures the sanel product with delay periods and diverse types and lengths to meet the different uses and needs.
- 4. ENVIROSEIS** It is the latest type of the seismic explosives designed particularly for the oil excavations. Also, the company provides seismic capsules designed particularly to provide accuracy in the control necessary to obtain accurate seismic reading.

Besides, the company provides diverse products of the electric capsules, detonating cords, and all the accessories necessary in the rocks explosion works and the explosion used in the oil excavations.

- ▶ The activity of the subsidiary Company, the Saudi International Trading Company Ltd. (Sitco Pharma) is centered on distributing the medicines in the Kingdom. Sitco Pharma is considered as one of the major pharmaceutical distribution companies. It holds the pioneering position in this field. It is the agent of thirteen major international pharmaceutical companies. It works on providing a large part of the international drugs that all the health sectors in the Kingdom need thanks to the distribution network which spreads across all the regions. Sitco Pharma is regarded as the largest national distributor of cooled vaccines and medicines (e.g. Insulin and enrichment hormones) which require special conditions in transport and storage.



- The activity of the subsidiary Company, Suez International Nitrates Company (SINCO) in the Arab Republic of Egypt is focused on producing the porous aluminum nitrate substance, and it is the primary substance that the factories of the Saudi Chemical Company in the Kingdom of Saudi Arabia depend on to produce the civil explosives. Its production capacity is 80,000 MTPY of the porous aluminum nitrates substance, noting that the commercial production of SINCO began during the first quarter of 2010. The company's authorized capital is USD 50 million and the issued capital is USD 5 million distributed into 5,000 shares at USD 1000 per share. The company is closed and not listed in the Egyptian stock market.

Second: The Financial Results:

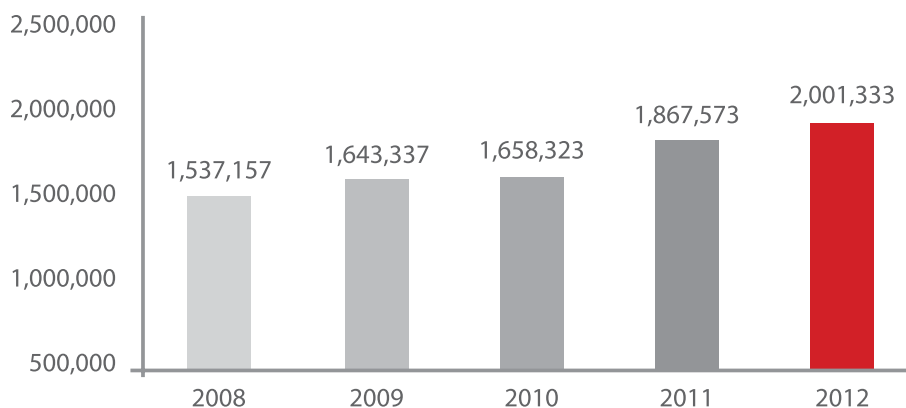
The consolidated sales:

The consolidated net sales of the Saudi Chemical Company and the subsidiary companies reached SR 2,001 billions (two billions and one million Riyals) in the fiscal year ended on 31 December 2012 in comparison to the amount of 1,868 Riyals (one billion and eight hundred and sixty eight millions) for 2011 with an increase of (7%). The sales level in 2012 confirms the continuity of the Company's efforts to maintain the sales growth rates that were achieved during the previous years.

The following table shows the progress of the consolidated sales during the past five years:

(Value in Thousands Saudi Riyals)

2008	2009	2010	2011	2012
1,537,157	1,643,337	1,658,323	1,867,573	2,001,333



The above table shows the achievement of record growth rates in sales, and also attaining cumulative growth rate in sales of (30 %) during the last five years.



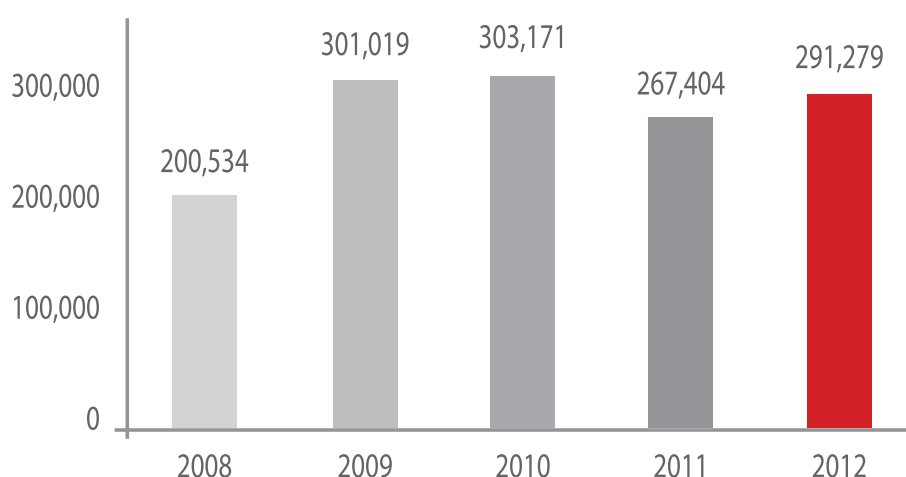


The consolidated net profits:

The consolidated net profits for 2012 amounted to (SR 291 million) compared to (SR 267 million) for 2011 which is a increased by 9 %. The reason for the increase in net profits, in comparison to the previous year, is due to the increase of the sales rate at 7%.

Net Profit(Value in Thousands Riyals)

2008	2009	2010	2011	2012
200.534	301.019	303.171	267.404	291.279



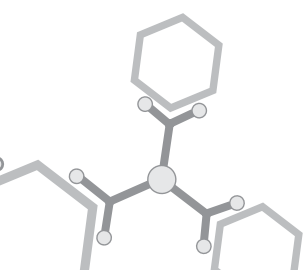
Third: Earnings per share in Saudi Riyals:

The earnings per share profit of 2012 amounted to SR 4.61 /share	2012	2011
compared to the amount SR 4.23	SR 4.61 /Share	SR 4.23 /Share

Fourth: The Effect of Each Activity on the Company's Business Volume and the Consolidated Sales:

The Activity of Explosives for the Civil Uses:

The sales of the civil explosives during the year ended on 31/12/2012 amounted to SR 401 million compared to SR 363 million for 2011, which increased by 10 %. The attained sales levels of explosives for civil uses in 2012 confirms the Company's ability to provide for all the Kingdom's needs in terms of supplying civil explosives whose demand increased due to the infrastructure projects, road construction, mining sector, quarries, and the explosives necessary to detect the petroleum and gas reservoirs. Saudi Chemical Company was distinguished in its capacity to produce all the civil explosives necessary for these multiple fields with the highest quality of international standards supported by the strategic technical agreements with the leading major international companies in this industry.



The Pharmaceutical Activities:

SITCO Pharma maintained the sales levels. The sales for 2012 amounted to SR 1,600 billion (one billion six hundreds millions) compared to SR 1,504 billion for 2011. The levels of the Company's sales during the last five years confirms the Company's ability to maintain a record market share in the drugs distribution market thanks to its continuous capability to meet the local demand for the international drugs and its availability in the Kingdom's market in compliance as an agent for the major international drugs companies and managing the best network for distribution and storage spread across all the regions of the Kingdom which is designed and based on the most sophisticated equipment and the international systems to distribute all types of drugs round the clock. Moreover, the Company gained a record share of the market in the sale of vaccine and the cooled drugs which requires special conditions for transportation and storage. This confirmed the Company's position as a top supplier for this type of medicines in the local market and affirms, the Company has maintained the pioneering position as the major drugs distributors in the Kingdom.

Fifth: The Geographical Analysis of the Consolidated Revenues:

The Company's revenues are mainly attained from its activities inside the Kingdom of Saudi Arabia as follows:

Region	Sales(one thousand SR)	
	2012	2011
Central Region	1,136,354	1,123,871
Western Region	493,376	413,088
Eastern Region	236,991	217,751
Southern Region	119,073	99,594
Foreign Sales(Export)	15,539	13,269
Total	2,001,333	1,867,573

Sixth: Sectoral Information:

The Company's sectors are represented in producing the explosives and the services relevant thereto and the drugs trade in addition to producing porous ammonium nitrates. The sector of producing the porous aluminum nitrates is considered integral to the sector of producing explosives, noting that the sector of producing Ammonium nitrates started the commercial production during the first quarter of 2010.

Seventh: Statement of the statutory payments:

The following is a statement of some statutory payments for the Chemical Company and its subsidiary companies which were completed during 2012 comparable to 2011.

	(Thousand Saudi Riyals)	
	2012	2011
Department of Zakat and Income Tax	25,250	18,591
Social Insurance	7,339	7,239





Eighth: The Safety Record

The Company pays great attention to the security and the safety of the employees therein and subsidiary installations thereto and the substances it produces , by applying the latest standards relevant to safety, and providing the training courses for its employees whether in the field of security, safety, or the protective and periodical maintenance. As a result of this and by the grace of Allah, during 2012, no major work injury was reported and no major accident occurred in spite of the seriousness and the sensitivity of the products that the Company produces and handles.

Ninth: The Social Responsibility Program:

During 2012, the Saudi Chemical Company, through the program of (Chemistry in the service of Community), supported the social and health activities in addition to sponsoring some national awareness campaigns in its efforts related to the social responsibilities. The Company adopted a group of activities, notably executing a campaign for combating smoking and blood donation campaign, and the employees' participation in the monthly donation for the charitable society for the care of orphans (Insan).

Tenth: Manpower and Training:

During 2012, efforts were dedicated by the HR Department in the company to the project of organizational development of HR and administrative affairs in cooperation with a teamwork from one of the companies specialized in this field. Hence, the organizational structure and job descriptions have been developed and the validities table has been prepared. As well, an operation guide of HR another one for administrative affairs have been prepared. The salaries and benefits scale have been updated and the labor law has been updated and the Enterprise Resource Planning System (ERP) has been applied and executed. On the other hand, the HR Department attracts new qualified applicants.

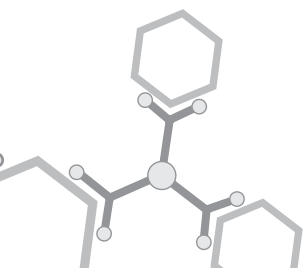
The Company gives priority to train the employees therein to develop its business and upgrade the quality of a efficient work, and to develop the skills of the employees and the trainees. The Company undertook a gamut of training courses in the diverse specializations in the training headquarter in the Company in addition to training programs inside and outside the Kingdom.

Furthermore, the ratio of Saudization increased due to the recruitment of the qualified national cadres and developing the programs of performance measurement and the evaluation according to job description and the attained objectives.

Eleventh: The Expected Risks:

The company exerts its utmost efforts to specify the significant risks it faces. To attain this, the company uses the questionnaires and holds meetings with the officials responsible for specifying the risks. This is in addition to using evaluations conducted by experts from outside the company. Also, the results of these external and internal auditors and any other approach to specify the risks are taken into consideration. The potential risk factors relevant to the company include the information below. It must be taken into careful consideration by the investors, noting that the company's administration exerts all necessary professional efforts to reduce these risks relevant to the company or the risks factors relevant to the market generally as possible.

- The company works in a sector characterized by tough competition from the companies competing for the same client base. The company will continue to monitor the market dynamics to remain in the forefront. However, the company does not guarantee remaining in the forefront, maintaining its leadership in the market.



- ▶ The company exerts efforts to mitigate the impacts of the exchange rates fluctuations as the exchange rates fluctuations between the Saudi Riyal and the foreign currencies may affect the costs and the company's profits.
- ▶ The company's business abroad exposes it to some political risks such as imposition of conditions or a change in the adoption of state's policies. This can affect the company's profitability in the future.
- ▶ As for maintaining close business relations with the main suppliers during the life span of the company, the company does not guarantee their continuity in providing the same advantages for the company in the future and this may affect the company's profitability.

Twelfth: The ownership ratio of the Saudi Chemical Company in its subsidiary companies:

Company Name	Legal Entity	Incorporation Country	Ownership Ratio
Saudi International Trading Company (SITCO Pharma)	Limited Liability	The Kingdom of Saudi Arabia	99%
Suez International Nitrate Company (Sinco)	Partnership	The Arab Republic of Egypt	98%
Chemical Company for Commercial Investment Ltd.	Limited Liability	The Kingdom of Saudi Arabia	100%
AJA Pharma Co. Ltd.	Limited Liability	The Kingdom of Saudi Arabia	100%
Saudi Chemical Co. Ltd.	Limited Liability	The Kingdom of Saudi Arabia	100%

AJA Pharma Co. Ltd. and Saudi Chemical Co. Ltd. have been incorporated in 2012 as limited liability companies in the Kingdom of Saudi Arabia. These subsidiaries company are 100% owned by the group as the Company owns 95% in AJA Pharma Co. Ltd. and the Saudi Chemical Company for the Commercial Investment Ltd. owns 5% therein, while the Company owns 99% in the Saudi Chemical Co. Ltd. and Sitco Pharma owns 1% therein. These subsidiaries have started their business activities till the end of December 2012.

In addition to the above mentioned companies, the group has subsidiary companies which are: the Advanced Instruments Group Company Ltd. which is a registered company in the Kingdom of Saudi Arabia and it is 95% owned by Sitco Pharma. All the mentioned companies' accounts have been consolidated in the primary consolidated financial statements for the two years ended on 13 December 2011 and 2012 where the company does not practice now any operational activities. In addition, the investments of the group in these companies are not substantial. Also, the partners in Advanced Instruments Group Company Ltd. decided in their meeting held on 23 December 2012 to liquidate the company and distribute the partners' shares as the company is no longer operating.





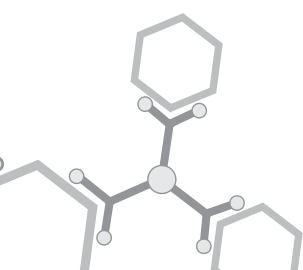
Thirteenth: Summary of Financial Results

(A) The Financial Position (Thousands SAR)

The financial position:	2012	2011	2010	2009	2008
Current assets(net)	1,845,873	1,549,614	1,430,192	1,716,301	1,238,969
Non-current assets(net)	712,958	787,114	864,105	666,001	786,957
Total assets	2,558,831	2,336,728	2,294,297	2,382,302	2,025,926
Current liabilities	1,078,068	932,139	907,815	1,113,386	902,904
Long-term loans	-----	-----	-----	-----	-----
Provision of End of Service indemnity	37,102	31,425	29,131	26,346	23,925
Total liabilities	1,115,170	963,564	936,946	1,139,732	926,829
The shareholders rights:					
Capital	632,400	632,400	632,400	632,400	632,400
Statutory reserve	212,430	183,303	156,563	126,246	96,144
General reserve	180,000	140,000	100,000	80,000	40,000
Remaining profits	412,356	411,544	463,840	400,706	327,889
Total shareholders' rights	1,437,186	1,367,247	1,352,803	1,239,352	1,096,433
Minorities rights	6,475	5,917	4,548	3,218	2,664
Total of liabilities and shareholders' rights	2,558,831	2,336,728	2,294,297	2,382,302	2,025,926

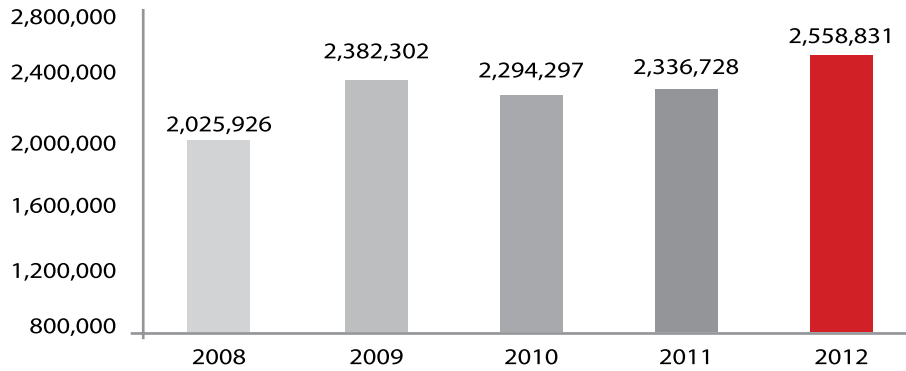
(B) The Income Statement (Thousands SAR)

Description	2012	2011	2010	2009	2008
(Consolidated sales (net	2,001,333	1,867,573	1,658,323	1,643,337	1,537,157
Sales cost	(1,526,819)	(1,434,160)	(1,233,068)	(1,297,051)	(1,271,310)
Total profit	474,514	433,413	425,255	346,286	265,847
Sale and marketing	(67,155)	(65,264)	(54,402)		
General and administrative expenses	(84,417)	(68,668)	(54,941)	(65,471)	(51,420)
Profit on business	322,942	229,481	315,912	280,815	214,427
Financial expenses -net	(5,805)	(4,468)	(3,191)	(6,469)	(12,814)
Goodwill amortization and deferred expenses	-	-----	--	(1,600)	(3,200)
Profits(losses) foreign currency conversion	---	---	--	3,740	16,184
Investments losses allocation	----	----	--	--	(6,382)
(Other incomes (net	1,481	915	7,182	48,826	4,752
Zakat	(25,780)	(26,975)	(15,402)	(22,639)	(11,406)
Minority rights	(1,559)	(1,369)	(1,330)	(1,654)	(1,027)
Net profit	291,279	267,404	303,171	301,019	200,534



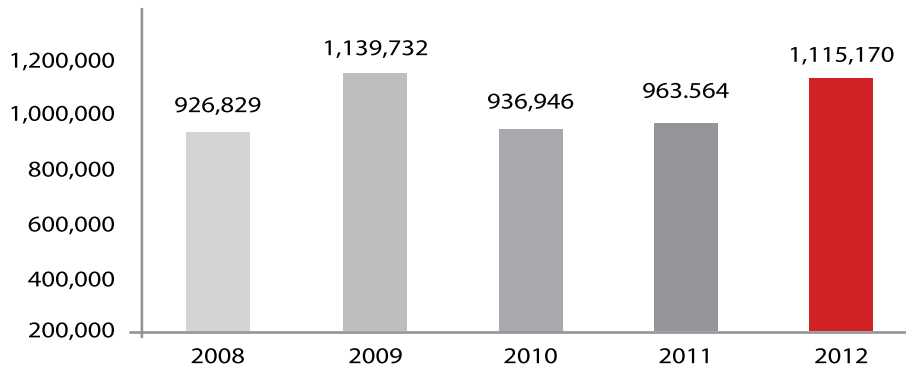
(C) Total assets (Value in Thousands Riyals)

2008	2009	2010	2011	2012
2,025,926	2,382,302	2,294,297	2,336,728	2,558,831



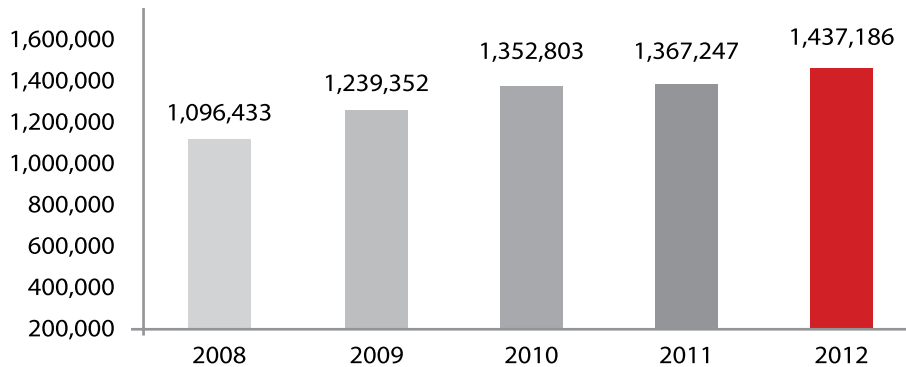
(D) Liabilities Total (Value in Thousands Riyals)

2008	2009	2010	2011	2012
926,829	1,139,732	936,946	963,564	1,115,170



(E) The Total Shareholders Rights (Value in Thousands Riyals)

2008	2009	2010	2011	2012
1,096,433	1,239,352	1,352,803	1,367,247	1,437,186





Fourteenth: The strategic plans and the expansion of activity and investment in other companies

In execution of the strategic plans formulated by the Board of Directors with the aim of expanding the activity and the diversification of the income sources of the Company, the year 2012 witnessed the achievement of various practical steps including:

1. The explosives activity for the civil purposes:

- ▶ In continuation of the geographic expansion for the manufacturing and distributing regions in the kingdom, the company, during the years, obtained approval of the Vice Presidency of the Ministry of Petroleum and Mineral Resources and the relevant resources to obtain a plot of land in Al Jomoum Governorate in the north of the Holy Capital in addition to its nearness to highways.
- ▶ In continuation of the geographic expansion for the manufacturing and distributing regions in the kingdom, the company, during the years, obtained approval of the official authorities to increase the space of the site allocated for building manufacturing installations in Hazm Al Jalameed in the Northern Borders region. The company, by setting-up this factory, aims at serving the mining projects, particularly the phosphate mine.
- ▶ On 11/11/1432 A.H., corresponding to 9/10/2011, an agreement was signed with the Czech Austin Powder company to expand the production line of one of the products (Non-electric fuses) in the company's factory in the Western Region to add a productive capacity of 50% of the current capacity of the same product with a total cost of SR 6.3 million. On 7/10 / 2012, the commercial operation of the above production line started, noting that the expected production quantity after adding the new line will contribute in the relative reduction in the cost of explosives transportation from the main factory in Riyadh to the clients of the company in the Western province.
- ▶ Also, the company's administration is currently studying the addition of a new production line for KEMULEX product in the Western Region to cover the increasing demand for this product in the local and the Gulf market .The cost of this expansion is estimated at about SR 20 million.

2. The Drugs Activities

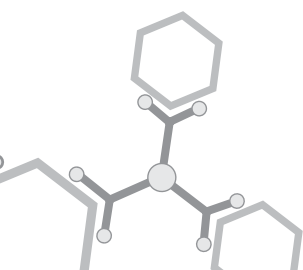
(A) Sitco Pharma Company:

Within the framework of the program of the permanent expansion program of SITCO Pharma in the field of supplying, distributing, and joint marketing for all the consumer, medical, and pharmaceutical commodities, and in continuation of the efforts of the company administration by searching for agencies of new international pharmaceutical companies to introduce them in the pharmaceutical market in the Kingdom of Saudi Arabia and seriously maintaining of the current agencies of pharmaceutical companies.

(B) AJA Pharma Co. Ltd.:

The Board of Directors of the Saudi Chemicals Company, on Sunday evening 23 Jumada Al Ula 1433 A.H., corresponding to 15 April 2012, agreed to invest an amount of SR 230 million to establish a factory for pharmaceuticals and medical products which will be established in the Industrial Zone in Hail; it will have four production lines:

1	Tablets and capsules	3	Creams
2	Syrup	4	Injection



It will start by producing 40 items at the highest specifications of specific quality. Also, this factory is characterized by integration with the international pharmaceutical manufacturing companies to obtain licenses therefrom to manufacture their products and take advantage of their own technology.

AJA Pharma Co. Ltd.(subsidiary company) signed a lease contract with the Saudi Industrial Property Authority (Modon) on 14/11/1433 A.H., corresponding to 30/9/ 2012 to rent a plot of land at the Industrial City in Hail for 20 years as of 13/9/1433, corresponding to 1/8/2012 to erect the factory of AJA Pharma Co. Ltd. The area of the plot of land is 119,687 square meters and the cost of annual rent amounts to SR 119,686 (One hundred and nineteen thousands and six hundreds and eighty six Saudi Riyals).

3. The Porous Nitrates Sector:

Suez International Nitrate Company (SINCO) was established in the Arab Republic of Egypt during the second half of 2006. During 2010, SINCO Company completed all the constructions relevant to its factory. It passed the primary operation tests and received the licenses necessary for operation. The business operation of the project started during the first quarter of 2010. The production capacity of SINCO reaches approximately 80,000 MTPY of porous aluminum nitrates substance which is the basic substance on which the factories of the Saudi Chemical Company in the Kingdom of Saudi Arabia depend in producing explosives for the civil purposes.

This project aims at producing the basic substance essential to produce the civil explosives in Saudi Chemical Company which used to be imported from the European countries. It is expected that this project shall enhance the Company's chemical capacity to meet all its needs of the primary raw materials to produce the civil explosives whose demand is expected to increase during the coming years in order to complete the infrastructure projects in the Kingdom such as the railway and mining projects which is expected to require increasing quantities of the civil explosives during the coming years.

4. The Chemical Company for Commercial Investment:

During the fourth quarter of the year 2008, the Company completed the establishment of Chemical Company for Commercial Investment as a limited liability Company with a capital of SR 1 million owned by Saudi Chemical Company and the subsidiary Company (Sitco Pharma) in the ratio of 95% and 5%, respectively. The Company's activity is mainly represented in the wholesale and retail trade in drugs, machinery, and medical equipment, as well as managing and operating the civil, governmental pharmacies. The said Company is still under organization and has yet to start any activity.

Fifteenth: Commercial Loans:

During the third quarter of the year 2012, the subsidiary Company SITCO Pharma received a short-term loan as banking facilities from one of the local banks and the additions to these facilities amounted to SR 233,939,969 million to finance its operational requirements. The company settled SR 233,939,107, so that the balance of short term loans at the end of the period is at SR 175,726,604 . The loan shall be added up with the agreed commission in the loan agreement.





Sixteenth: Transactions with Relevant Parties

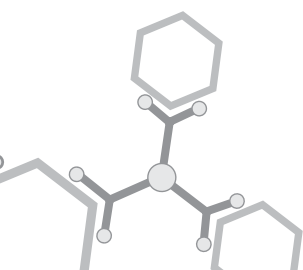
The amount due from Mawarid Trading Co. Ltd (MTL) on 31 December 2012 resulted from the acquisition of the subsidiary company (Sitco Pharma) during 2008 of the MTL's capital share of 15% of the ownership rights of MTL in return for SR 135 million. MTL is owned by the Mawarid Holding Company and Mawarid Investment Company for investment in which the former chairman of the Board of Directors of Saudi Chemical company, is a majority shareholder(relevant party). During 2009, SITCO Pharma entered into an agreement with MTL to enable SITCO to acquire 50% of equity share in Al-Dawaa for Medical Services Company by paying Saudi Riyals 235 millions and to withdraw the 15% of its ownership into partner shares in MTL. Sitco Pharma settled the difference between these two deeds by paying SR 95 million to the sellers. When submitting these two deeds to the Ordinary General Assembly of the company's shareholders held on 30 June 2009 for approval, the General Assembly resolved not to issue the approval of those two transactions. There upon, SITCO Pharma's management notified the sellers of the abrogation of the two transactions and claimed the return of the paid amounts in execution of the memorandum of understanding which requires the approval of the relevant parties to complete the transaction. Thereupon, the total paid amount SR 230 million has been recorded in due from related parties (MTL).

On 3 May 2011, an agreement was signed with MTL to repay the due amount of SR 230 million in 6 semiannual installments at SR 38,333,333, and that the first installment is to be paid on 1 August 2011. The company's General Assembly was informed of the agreement in the meeting held on 15 May 2011, noting that the check, representing the first installment, submitted by the MTL was not deposited. This is due to the non-completion of the required documentation to complete the regulatory requirements of SITCO Pharma's renunciation of its share in the ownership of the MTL, and the necessary procedures are currently being concluded.

The shareholders, in their meeting in the ordinary General Assembly held on 4/7/2012, decided to file a law suit against the MTL to claim return of SR 230 million and deputizing the Board of Directors to take statutory and legal actions after giving a deadline till the end of 2012.

Seventeenth: The governance and the applications related thereto:

The Board of Directors and the General Assembly approved the following governance regulations dated Monday 14/2/1430 H., corresponding to 9/2/2009, and dated 7/7/1430 H., corresponding to 30/6/2009 respectively. These regulations include rules and criteria regulating the Company performance, the most important of which are transparency, equality, and the exercise by the shareholders of their rights in obtaining the information affecting their investment decisions.



1	The Corporate governance regulation	2	The shareholders' General Assembly regulation
3	The Board of Director regulations	4	The disclosure and the transparency policy regulation
5	Distribution of profits policy regulation	6	Auditing committee regulation
7	The nominations and remunerations committee regulation	8	The internal control system regulation
9	The guide on the ethical business and the relation with the stakeholders	10	The policy of managing risks regulation
11	The policy of conflict of interest	12	The executive committee regulation

The Company generally applies all the provisions of the above mentioned governance regulation noting that the Company did not apply the clause (b) of the model regulation of the corporate governance by following the cumulative voting method when voting to choose the members of the Board of Directors in the General Assembly as this was not been included in the Company's articles of association, the Companies' regulation, or any other binding regulation. On 15/12/2012, the company's Board of Directors acknowledged the addition of the following text to the second article (Powers of the Nominations and Remunerations Committee) of the Nominations and Remunerations regulation of the Saudi Chemical Company (recommending the Board of Directors to nominate for the membership of the Board according to the adopted policies and criteria taking into account the non- nomination of any person who was previously convicted of a crime involving moral breach and honesty) provided this item will be reviewed by the General Assembly of Shareholders to be held during the second quarter of 2013 to be adopted and added to the Company's governance law and the internal governance regulation in the company adopted by the Board of Directors on 14/2/1430 A.H, corresponding to 9/2/2009.

The Compliance of the Company with the Governance Regulation:-

1. The rights of the shareholders and the General Assembly:

The Company's articles of association and its regulations ensure the general rights of the shareholders including all the rights relevant to the share, particularly the right to acquire share of the profits to be distributed, the right to acquire a share of the Company's assets in case of liquidation, the right to attend the shareholders' assemblies and participate in the deliberations, and vote on its resolutions, the right to monitor the works of the Board of Directors and to file liability cases against the members of the Board of Directors, as well as the right to enquire and request for information in a manner not harming the Company's interests and not contradicting with the stock market law and its executive regulations.

2. Facilitating the exercise by shareholders of their rights and the accessing information:

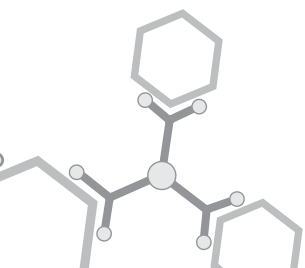
- The internal rules of the Company guarantee the procedures and measures necessary for all shareholders to exercise their statutory rights.
- All information were fully provided to all shareholders enabling them to fully exercise their rights in a manner that the information provided were sufficient, accurate, and regularly updated and in specified time.
- The Company is keen on providing information to the shareholders without discrimination between them.





3. The shareholders rights pertaining to the meeting of the General Assembly:

A. The Meeting	(Date of holding the meeting)	Reasons of holding the meeting:
The First (fifteen Ordinary General Assembly)	4/7/2012	1- Approving the contents of the report of the Board of Directors for the year 2011.
		2- Ratifying the balance sheet of the Company for the year ended on 31/12/2011, and the income statement for the same period and the auditor's report.
		3- Quittance and discharge of the members of the Board of Directors for the fiscal year ended on 31/12/2011.
		4- Approving the recommendation of the Board of Directors to distribute profits for the first quarter of the fiscal year 2011 of an amount of 2 Riyals for the share and the eligibility to have the profits for the fourth quarter for the shareholders registered in the Company records in the Saudi Stock Market (Tadawul) the deposit center by the end of the trading on the day of holding the ordinary General Assembly, in addition to what was distributed for the third quarter of the year 2011 of an amount of SR 2 per share so that the total distributed profit for the fiscal year 2011 becomes SR (4) for the one share.
		5- Approving the transfer of (an amount of SR 40 million) forty million Riyals of the profits to be added to the general reserve of the Company to face any future negative impacts and transferring the remaining profits to retained earnings Account.
		6- The approval to select an auditor from among the nominees proposed by the auditing committee as well as the audit fees involve for the review of the financial statements for the fiscal year 2012 and the quarterly statements.
		7- Resolved to file a case against MTL to claim returns of SR 230 million and deputize the Board of Directors to take regulatory and legal actions on concerning this transaction.
The Second (Sixteenth Ordinary General Assembly)	26/12/2012	1- Nominating (9) members for the membership of the Company's Board of Directors for the coming session starting from 1/1/2013 till 31/12/2015 (3 years).



- B. The Company affirms that it did not receive from the external auditory any request to convene the General Assembly during the year ended on 31/12/2012 so there was no meeting held. The Company further affirms that it did not receive, from shareholders owning 5% of the Company capital or more, a request to convene the General Assembly during the fiscal year ended on 31/12/2012.
- C. (1) The Company announced the time of holding the General Assembly, its place, and its agenda 25 days prior to the date according to the regulation.
 (2) The invitation to the fifteenth assembly meeting (second meeting) was published in Tadawul on 30/6/2012 and in the daily newspaper (Al Jazeera) in its edition no. 14521 issued on 1/7/2012. an in Um Al Qura newspaper.
 (3) The invitation to the fifteenth assembly meeting (second meeting) was published in Tadawul on 22/12/2012 and in the daily newspaper (Al Jazeera) in its edition no. 14696 issued on 23/12/2012 an in Um Al Qura newspaper.
- D. The shareholders were informed of the rules governing the meetings of the General Assembly and the voting procedures through the invitation to the General Assembly and through distributing written procedures during the meeting. The shareholders have the opportunity to participate effectively in the assembly's meeting.
- E. The participation of the largest number of shareholders in the meetings of the General Assembly was facilitated by selecting the place which is the Company headquarter in Riyadh, and the time as it was held at 4 o'clock p.m.
- F. The shareholders acquiring 5% or more in the Company shares were not requested to add a subject or more to the agenda of the General Assembly during its preparation.
- G. The Company enables the shareholders to exercise their rights in discussing the included subjects in the General Assembly agenda and to pose questions to the members of Board of Directors members and to the external auditory.
- H. All the agenda reviewed at the General Assembly shall be accompanied with sufficient information enabling the shareholders to take decisions.
- I. The Company enables the shareholders to peruse the minutes of meeting in the Company headquarters, and the meeting's results are announced on Tadawul site as soon as the assembly ends, and the deputy of the authority of the stock market and deputy of the general administration of the companies in the Ministry of Industry and Commerce were provided with a copy of the minutes of meeting of the General Assembly according to the system.

4. The Voting Rights:

- A. The Company affirms that there are no impediments before the shareholder to exercise his voting right, and the Company seeks to facilitate this.
- B. The Company did not use the method of cumulative voting as the Company's articles of association do not stipulate it.
- C. The Company is bound to verify that the shareholders' powers of attorney to attend the General Assembly (which should be in writing) if it were for shareholders other than the members of the Board of Directors and the Company's employees.





D. It is not part of the Company procedures to access the annual reports of the investors of the persons of corporate capacity who act on behalf of the other such as the investment funds-hence, the Company believes that this procedure concerns the investors themselves and it is not in the scope of the Company's responsibilities. Moreover, the Company is regarded as one of the largest companies whose shares are free.

5. The Shareholders ' Rights in the Dividends:

The Company's policy of distributing the dividends was reviewed by the Board of Directors, which approved it. It is referred to annually in the Board's report.

6. The Policy of the Company on the Disclosure Procedures:

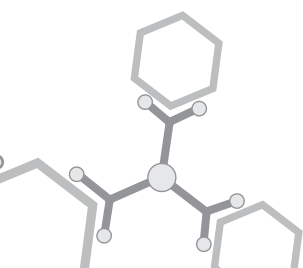
The Company formulated a policy for disclosure and the extent of its procedures and its supervisory rules by the virtue of the governance system adopted by the General Assembly:

Eighteenth: The Participation of the members of the Board of Directors in the Boards of the Directors of other shareholding companies

	Name	The Chemical Company	Other Companies
1	Prince Ahmad bin Khaled bin Abdullah bin Abdul Rahman Al Saud	Chairman of the Board of Directors	Saudi Arabian Amiantit Co. Saudi Arabian Insurance Co.(SAICO)
2	Mr. Sameer Mahmoud Abdul Hady	Deputy Chairman of the Board of Directors	
3	Mr. Abdul Aziz bin Ali Hassan Abu Alsaud	Member of the Board of Directors	Saudi Arabian Amiantit Co. Saudi Arabian Insurance Co.(SAICO) Meed Holding Company
4	Mr. Abdul Rahman bin Abdul Aziz Al Yamany	Member of the Board of Directors	Al Jouf Agricultural Co. The Investor for Securities
5	Mr. Abdul Rahman bin Said Al Yamany	Member of the Board of Directors	Al Jouf Agricultural Co.
6	Eng. Fahd Saleh Al Jarbou	Member of the Board of Directors	
7	Mr. Sultan Mohammad Al Hadeethy	Member of the Board of Directors	Saudi Company for the Vehicles and Equipment Services Zawaya Real Estate Company
8	Mr.Muhammad Omar Al Sonousi	Member of the Board of Directors	Saudi Company for Integral Communications
9	Dr. Mohammed Saud Al Badr (Managing Director)	Member of the Board of Directors	Saudi Company for Integral Communications

The Formation of the Board of Directors and the Members Classification:

	Name	Position	Executive Non-Executive Independent
1	Prince Ahmad bin Khaled bin Abdullah bin Abdul Rahman Al Saud	Chairman of the Board of Directors	Non-Executive
2	Mr. Sameer Mahmoud Abdul Hady	Deputy Chairman of the Board of Directors	Non-Executive
3	Eng. Fahd Saleh Al Jarbou	Member of the Board of Directors	Non-Executive
4	Mr. Abdul Rahman bin Abdul Aziz Al Yamany	Member of the Board of Directors	Independent
5	Mr. Sultan Mohammad Al Hadeethy	Member of the Board of Directors	Independent
6	Mr.Muhammad Omar Al Sonousi	Member of the Board of Directors	Independent
7	Mr. Abdul Aziz bin Ali Abu Alsaud	Member of the Board of Directors	Independent
8	Mr. Abdul Rahman bin Said Al Yamany	Member of the Board of Directors	Independent
9	Dr.Mohammed Saud Al Badr (Managing Director)	Member of the Board of Directors	Executive



A Description of any interest related to the members of the Board of Directors, their wives, their minor children in shares, the Company debt instruments, or any of its subsidiary companies:

	The Name of the Person to whom the Interest is destined	The Beginning of the year 2012		The End of the year 2012		Net Change	Ratio Change
		Shares Number	Debt Instruments	Number of shares	Debt Instrument		
1	Prince Ahmad bin Khaled bin Abdullah bin Abdul Rahman Al Saud	1.000	--	1.000	--	--	--
2	Mr. Sameer Mahmoud Abdul Hady	131.742	--	131.742	--	--	--
3	Mr. Abdul Rahman Abdul Aziz Al Yamani	10.000	--	200.000	--	190.000	1900%
4	Mr. Sultan Muhammad Al Hadeethy	1.000	--	1.000	--	--	--
5	Mr. Muhammad Omar Al Sonousi	1.300	--	1.300	--	--	--
6	Mr. Abdul Aziz bin Ali Hassan Abu Alsaud	131.748	--	131.748	--	--	--
7	Eng. Fahd Saleh Al Jarbou	1000	--	1.000	--	-	-
8	Dr. Mohammed Saud Al Badr (Managing Director)	1.020	--	1.020	--	-	-
9	Mr. Abdul Rahman Saud Al Yamani	659.200	--	659.200	--	-	-

A description for any interest related to the senior executives ,their wives, and their minor children in the shares and the instruments of the Company's debt or any of its subsidiary companies:

	The Name of the Person of the Interest	The Beginning of the year 2012		The End of the year 2012		Net Change	Ratio Change
		Shares Number	Debt Instruments	Number of shares	Debt Instrument		
1	Muhammad Hamad Al Sogaih (Deputy General Manager)	--	--		--	--	--
2	Adel Abdul Fattah Al Sayed (Director of Finance)	50	--	50	--	--	--
3	Abdul Aziz Muhammad Abdul Latif (Director of Purchasing)	--	--	--	--	-	-
4	Abdul Rahman Muhammad Al Musa'ed (Director of Training & Technical Support)	--	--	--	--	--	--
5	Salah Bateh Al Enzi (Director of Production)	1.000	--	1.000	--	--	--
6	Muhammad Abdullah Al Mazeny (Director of Marketing & Sales)	--	--	--	--	--	--





The Meetings of the Board of Directors During the Year 2012:

- ▶ The Board of Directors met (4) times during the year 2012, and the following table shows the attendance times of each member:

	Name	The first meeting 23/1/2012	The second meeting 24/4/2012	The third meeting 18/12/2012	Total	Total
1	Prince Ahmad bin Khaled bin Abdullah bin Abdul Rahman Al Saud (Chairman)	✓	✓	✓	4	100%
2	Mr. Sameer Mahmoud Abdul Hady	✓	✓	✓	4	100%
3	Mr. Abdul Rahman bin Abdul Aziz Al Yamani	✓	✓	✓	4	100%
4	Mr. Sultan Muhammad Al Hadeethy	✓	✓	✓	4	100%
5	Mr. Muhammad Omar Al Sonousi	✓	✓	✓	4	100%
6	Mr. Abdul Aziz bin Ali bin Hassan Abu Alsaud	✓	✓	✓	4	100%
7	Eng. Fahd Saleh Al Jarbou	✓	✓	✓	4	100%
8	Dr. Mohammed Saud Al Badr	✓	✓	✓	4	100%
9	Mr. Abdul Rahman Saeed Al Yamani	✓	✓	✓	4	100%

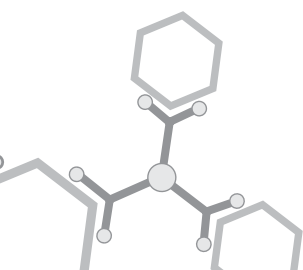
A Concise Description of the Subcommittees of the Board of Directors:

During 2009, the general assembly approved the corporate governance regulation of the Saudi Chemical Company; the internal governance regulations. The following rules and mechanisms have been established in order to constitute the main committees of the board of directors and their tasks as follows:

First: The Executive Committee:-

Duties & Responsibilities:

- ▶ The committee shall exercise all the authorities and assume the duties of the board of directors during the period between the meetings of the board of directors.
- ▶ The committee shall discuss and make decisions concerning the subjects that need instant decision making during emergencies.
- ▶ Responsibilities of the committee include taking routine decisions required for the ordinary work of the Company.
- ▶ Regarding the strategy and objectives of the Company, the committee shall do the following:
 1. Review the procedures and processes of the strategic plan of the Company in co-operation with the managing director (MD) or the chief executive officer (CEO).
 2. Ascertain that the strategy of the Company has been translated into practical actions which aim at achieving Company objectives.
 3. Review the recommendations of the MD or CEO in relation to distribution of Company resources which aim at achieving consistency between the Company's strategies and the long-term operating objectives.
 4. Perform periodic review of the strategies and the operating objectives of the Company and its subsidiary companies in order to make sure that they are consistent with the mission and objectives of the Company.



- ▶ Concerning the operating priorities of the Company, the committee shall review and prepare recommendations for the board of directors in respect of strategic decisions of the operating priorities; including expansion in new markets and countries or exit from current markets and countries.
- ▶ As for financial planning of the Company and the allocation of profits policy, the committee shall do the following:
 1. Prepare and review the board of directors' recommendations concerning the annual and long-term financial objectives, strategies, and the related performance indexes.
 2. Revise the important financial matters of the Company and its affiliate companies in co-operation with the executive management of the Company and the audit committee; for instance, the matters concerning the capital of the Company, Company's credit rating, Company's cash flow, loan activities and investment deposits.
 3. Prepare and review recommendations submitted to the board of directors which are related to the policy and profit allocations of the Company and the manner of implementing it.
 4. Period Auditing of the actual capital outlays and audit them with the previously approved balances.
- ▶ Concerning evaluation of Company productivity and effectiveness of its operating processes, the committee shall review and prepare recommendations for the board of directors regarding the strategic decisions of the Company's opportunities which aim at improving products quality and services provided by the Company and rationing their related costs.

Responsibilities:-

- ▶ Requesting the other suitable documents, reports and recommendations from officials, executives and employees of the Company.
- ▶ Inviting officials, executives and employees of the Company to its meetings in order to question them and hear their explanations.
- ▶ Seeking services from experts and consultants from outside the Company.
- ▶ Performing the other services requested by the board of directors and are included within the authority of the committee.
- ▶ The committee shall annually audit and evaluate its regulation in order to ensure that it has done its duties and to submit recommendations to the board of directors about its amendments.
- ▶ The committee shall submit a periodical report about its works to the board of directors at least once every six months.
- ▶ In addition to that, members of the committee shall do the following:
 1. Participating in the activities and works of the committee and attend all the meetings.
 2. Be fully aware of all the updates in the works environment of Company.
 3. Consider all the information known to them due to their work for the committee as confidential information.





4. Informing the board of directors in case of interest conflict that may arise as a result of decisions taken by the committee.
5. Preparing annual review and evaluation of the activities and members of the committee including checking the adherence degree of the committee to its regulation.

Name of Members:

	Name	Position	Total times of attendance
1	Prince Ahmad bin Khaled bin Abdullah bin Abdul Rahman Al Saud	Chairman of the committee	3
2	Mr. Sameer Mahmoud Abdul Hady	Member	3
3	Eng. Fahd Saleh Al- Jarbou	Member	3
4	Mr. Mohammad Omar Al Sonousi	Member	3

Work Duration:

3 years started from 2010 ending by the end of the period of the current board of directors on December 31, 2012.

Number of meetings:

The executive committee held three meetings during 2012.

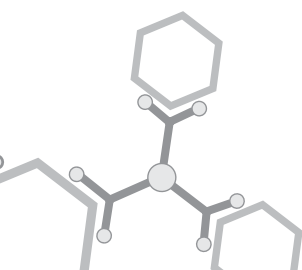
Second: Auditing Committee:-

Duties & Responsibilities:

- ▶ Ensure the authenticity of preparing the financial accounts and reports according to the approved accounting standards and policies adopted by the Company so as to achieve transparency of financial information recorded by the Company.
- ▶ Specify and check the accounting problems affecting the process of preparing financial reports and to understand the extent of their effect on such reports.
- ▶ Study, express opinion and offer recommendations if required about the primary quarterly financial statements before presenting them to the board of directors.
- ▶ Study, express opinion and offer recommendations about the annual financial statements before submitting them to the board of directors.
- ▶ Prepare recommendations for the board of directors as to what extent the accounting policies applied are suitable for the nature of the Company and regarding its evaluation of financial reports issued by the Company and the nature of their auditing.
- ▶ Prepare recommendations for the board of directors concerning the annual report of the Company before the approval of it by the board of directors.

Regarding internal control and risk management:

1. Study the main risks confronted by the Company which include financial, operating and legal risks, and to review the policies applied by the administration concerning processes of determination, evaluation and treatment of such risks.
2. Prepare the recommendations concerning establishment, improvement and adherence to internal control adopted by the company.
3. Undertake the evaluation of both systems of control and internal risk management so as to contain its evaluation of balances allocated for them and for individuals in charge of them and of the degree of administration response for the notes by internal and external auditors.





As for the External Auditors:

1. To put forward recommendations concerning the selection of the chartered accountant which include the review by the committee of its professionalism, its independence, expected risks due to interest conflict, and also the fees it shall obtain.
2. To check annually the performance of the external auditors, put forward recommendations related to its appointment, and to reappoint it or end the Company's contract with it.
3. To work with external auditors for coordinating to prepare plan and procedures of auditing of the fiscal year; taking into consideration the current circumstances of the Company and any modifications to the conditions demanded by the legal supervisory authorities.
4. To solve the problems which the external auditors may face during performing the process of auditing including any difficulties he may face regarding the aims of auditing process or difficulty in acquiring information.
5. To discuss the important results and recommendations achieved by the external auditors, the response degree of the administration to them, and also the corrective actions that have been done based on such recommendations.
6. Hold meetings singly with the external auditors to discuss important subjects which may be tackled by the committee or the external auditors and to make sure the external auditors can contact the chairman of the committee at any time.
7. Prepare recommendations for the Company policy concerning services performed by the external auditors represented in the regular audit services and non-auditing services which include consultancies, training programs and the like which may affect his independence of performing regular audit services.
8. To prepare recommendations for the Company's policy concerning determining the period required for changing the external auditors.

As for the internal auditing:

1. To prepare recommendations for establishment of internal auditing administration in the Company and its own budget, for selection of the head of the department and also for the independence degree of the internal auditors.
2. To prepare evaluation of the internal auditing administration and its auditors so as to include evaluation of the aims and powers of the department, the reports prepared by it, its auditing plan for the next year, results reached during the current year, and preparing the required recommendations to improve its effectiveness.
3. To discuss deflections and errors included in the monthly reports prepared by the internal auditing department and to ensure the administration had taken the suitable corrective procedures.

As for the degree of commitment to the regulations and systems:

1. To make sure of the existence of reviewing complaints procedures concerning the procedures of internal control and financial reports preparation.
2. To make sure of the existence of procedures which make employees capable of submitting complaints so as to ensure strict confidentiality, and reviewing the process of revealing any deflections or infractions related to the administration or any of the employees of the Company.





Its Responsibilities

- ▶ To request for documents, reports, notes and other relevant information of the Company's executives, officials and employees.
- ▶ Inviting the executives, officials and Company staff for meetings of the Committee to question them and to claim clarifications and interpretations from them in what the interest of the work requires.
- ▶ Resorting to experts, advisers and specialists from outside the Company.
- ▶ To perform any duties assigned to them by the Governing Council within the powers of the Commission.
- ▶ The Committee shall review and annually evaluate its regulation and to prepare recommendations, if necessary, for the Board of Director with respect to amending any part thereof.
- ▶ The Committee shall prepare its reports to the Board of Directors periodically according to the requirements of the business interest.
- ▶ Members of the Audit Committee shall undertake the following:
 1. Participate in all the activities of the Committee and regularly all meetings.
 2. Deal with the information available for them as a result of assuming the Committee's work in total confidentiality.
 3. The Board shall be informed of new developments affecting their independence or the conflict of interest relating to the decisions taken by the Committee.
 4. Prepare annual assessment and review of the activities of the Committee and its members, including the degree of commitment of the Committee to its regulations.
 5. Study the internal control system and prepare a written report on its views and recommendations in this regard.
 6. Follow-up the works of the external auditors and the adoption of any work outside the scope of auditing work assigned to them during undertaking their audit work.

Name of Members:

	Name	Position	Total times of attendance
1	Dr. Khalil Abdul-Fattah Kurdi	Chairman of the committee	4
2	Mr. Sultan Mohammad Al-Hadeethy	Member	4
3	Mr. Abdul Aziz Ali Hassan Abu Al Saud	Member	4

Duration of work- :

3 (Three) years started from 2010 and ending with the end of the current session of the Board on 31/12/2012.

Number of meetings:

The Audit Committee held four meetings during 2012.

Thirdly: the Nominations and Remuneration Committee:

- A. The Board of Directors shall form the Nominations and Remuneration Committee:
- B. The tasks and responsibilities of the Nominations and Remuneration Committee includes the following:

The following topics shall be considered within the powers of the Nomination and

Remuneration Committee:

1. Recommendation for the Board of Directors to nominate for the membership of the Board as per the accredited policies and standards, taking into account not to nominate any person who was previously convicted of a crime involving breach of honor and honesty.
2. The annual review of the needs of the appropriate skills required for the membership of the Board and prepare a description of the capabilities and qualifications required for membership of the Board, including the specification of time that member should commit for the Board.
3. Reviewing the structure of the Board of Directors and to make recommendations regarding the changes that can be made.
4. Identifying the weaknesses and strengths in the Board of Directors and suggesting its treatment in accordance with the interests of the Company.
5. Making sure of the independence of the independent members annually that there is no conflict of interest if the member occupies membership of a Board of Directors of another Company.
6. Developing clear policies for the compensations and the remunerations of the members of the Board of Directors and the top executives ,and when developing such policies, using performance related criteria should be taken into account.

The Names of the members:

	Name	Position	Total times of attendance
1	Mr. Sameer Mahmoud Abdul Hadi	Chairman of the committee	3
2	Mr. Abdul Rahman Abdul Aziz Al-Yamani	Member	3
3	Eng. Fahd Saleh Al Jarbou	Member	3

The Duration of work:

3 years starting from 2010 and ends at the end of any current session of the Board in 31/12/2012.

The Number of meetings:

Nominations and Remunerations Committee held three meetings during 2012.

The remunerations and Compensations:

- ▶ None of the members of the Board of Directors or any of the senior executives in the Company waived any salary or compensation.
- ▶ There are no arrangements or agreements under which the shareholders of the Company may waive of any rights in the profits.
- ▶ There are no other investments or reserves that have been made in favor of the employees of the Company.

The Compensation and the Remuneration for the Members of the Board of Directors and the Senior Executives

Description	Executive Board Members	Non-executive / independent members.	Five of the senior executives who received the highest remunerations and compensation plus managing Director and Chief Financial Officer.
Salaries and Compensation	3,290,868
Allowances	328,691
Periodic bonuses and annual allowance to attend meetings	212,000	1,783,000	2,650,111
Incentive plans
Any compensations or other in kind benefits payable on a monthly or yearly.





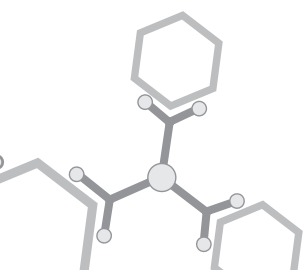
The Conflict of the Interests of the Members of the Board of Directors and the Senior Executives:

- ▶ The Company does not have any contracts or any substantial interest for any of the members of the Board of Directors or the managing director or the financial manager or the senior executives of the Company or for any person with a relationship with any of them.
- ▶ No member of the Board took part in a work that would compete with the Company business, or trafficked in one of the branches of activity it practiced.
- ▶ The Company did not offer a cash loan of any kind to the members of the Board or guarantee any loan held by one of them with others.

Nineteenth: The Adoption of the internal controls and the other representations:

The Board of Directors and the administration of the Company certifies that:

- ▶ The accounting records for the year ended properly on 31/12/2012 have been properly prepared.
- ▶ The internal control system was prepared on a sound basis and was carried out effectively and that internal control within the Company is working effectively and the accounting records are kept with appropriate documentation associated with them. The development of policies and procedures for the performance of the Company have been prepared and documented in accordance to international quality standards as the Company has received recently a certificate of system quality, environment and health and safety (ISO 9001: 2008) and (ISO 14001: 2004), (OHSAS 18001: 2007) after the successes achieved in the system of ISO 9001 as the proof of the Company's commitment to the application of quality standards in all facilities with highest standards. These policies and procedures are reviewed during the year on a regular basis by specialized offices to make necessary amendments.
- ▶ There is no doubt in the Company's ability to continue their activities.
- ▶ There are no significant differences in the operating results from the prior years' results or any declared expectations by the Company.
- ▶ There is no difference in the accounting standards issued by the Saudi Organization for Certified Public Accountants.
- ▶ There are no shares or debt instruments issued for the subsidiary companies.
- ▶ There is no any interest in the category of the shares eligible to vote belonging to persons (except the members of the Board of Directors and senior executives, their wives and their minor children) informed the Company of those rights under article thirty of the Listing Rules and any change in those rights during the last fiscal year.
- ▶ There is no interest, option rights, and subscription rights belonging to the members of the Board of Directors and senior executives, their wives, and their minor children in shares or instruments of the Company or any of its subsidiaries, and any change in that interest or those rights during the last fiscal year.
- ▶ The Company has no convertible instruments into shares and any option rights or subscription right warrants or similar rights issued or granted by the Company for which the Company did not get compensation in return for that during the fiscal year.



- ▶ There are no conversion or subscription rights by virtue of debt instruments convertible into shares or option rights or subscription right warrants or similar rights issued or granted by the Company.
- ▶ There is no recovery, purchase or cancellation by the Company of any recoverable debt or any securities purchased by the Company or its subsidiaries.

The Penalties and Sanctions and Reserve Restriction:

On 17/6/2012, the Capital Market Authority fined the company at SR 100.000 for contradicting the paragraph (C) of the 45 of the Capital Market law. The fine was paid to the Capital Market Authority on 9/7/2012 and no punishment, penalty, or standby registration was imposed by any other supervisory, organizational, or legal entity.

The Results of the Annual Auditing of the effectiveness of the internal control:

The Annual Report outlines the results of internal audit as follows:

1. The internal auditor has taken all measures to tackle observations included in the audit reports.
2. The work of internal audit has been directed to activities and high risk jobs and to raise the effectiveness, efficiency and profitability of the Company's operations.
3. The internal auditor has fully coordinated with the External Auditor satisfactorily and effectively.

The internal auditor does not have of any reservations or restrictions to access any information, documents or records, or assets of the company.

The Independence, the Powers and Responsibilities:

The internal audit provides independent and objective services to assist the Board of Directors , and the audit committee, and executive management in carrying out their responsibilities to a high degree of efficiency and effectiveness as the internal audit department is not subject to any influence by executive management, and has full powers to have unrestricted access to any records (manually or electronically), properties and affiliates of the Company and in accordance with what is required by performance of its work .

The Responsibilities of Internal Audit:

1. Preparing the strategic plan for the work of internal audit.
2. Executing the inspection operations according to the annual plan.
3. Submitting the reports on the results of the examination.
4. Identifying the financial and operational risks and cooperation with the management to provide effective statutory tools, and cost-effectiveness to reduce the effects of these risks and to detect them soon after their occurrence.
5. The coordination between different departments within the Company and the external supervisory bodies, including the external auditor.
6. Developing the policies and procedures for the implementation of the review so that it conforms to the best professional practices.

The Scope of Work:

The internal auditor adopted, in the implementation of his works, a systematic approach to evaluate and improve the effectiveness of internal control so as to achieve the Company goals and protect its assets.





The scope of work of internal audit includes examining the extent of the efficiency and the effectiveness of the internal control system of the Company and the quality of the administration in order to verify whether the Company's internal systems provide reasonable assurance to attain the objectives of the Company. The scope of the internal auditor includes:

1. The auditing and the periodic examination of all the departments working in the Company during appropriate intervals.
2. Informing the officials in the various departments that have been examined of the results of the examination done by the internal auditor and that for the purposes of the investigation to take action to address identified vulnerabilities.
3. Evaluating the plans and procedures submitted by the officials in the various departments to address the relevant observations and recommendations contained in the audit report. In case of insufficiency of the procedures that have been taken, the matter shall be discussed with the officials to ensure the efficiency and adequacy of actions taken.

Twentieth: The Policy of the Company in Distributing the Profits:

The Company's annual consolidated net profits shall be distributed after deducting all general expenses and other costs and allocations, including Zakat, allowances and other reserves as follows:

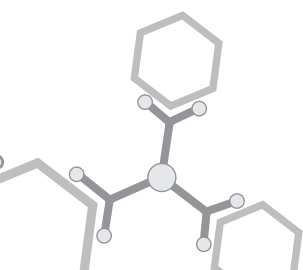
1. 10% of the net profit to be set aside to form a statutory reserve.
2. An initial payment for the shareholders equivalent to 5% of the paid-up capital either in cash or free shares shall be distributed from the remaining (If approved by the General Assembly).
3. Allocating a ratio of 10% of the remainder after that of the profits for the remuneration of the members of the Board and in a way not inconsistent with the instructions and regulations in force.
4. Allocating a part of the annual net profits to form a general reserve to face any negative impacts on the Company in the future.
5. The Assembly shall decide, based on the recommendation of the Board of Directors, to distribute part of the rest of the profits thereafter to the shareholders (whether distributed in cash) or additional bonus shares as a share of the profits.

Twenty First :Auditor

The Ordinary General Assembly held on 4/7/2012 agreed to appoint Messrs / Price WaterHouse as an external auditor for the company for the fiscal year ended on 31/12/2013 Also, examining the quarterly statements for the periods ended on 30 September 2012, 31 December 2012, 31 March 2013, and 30 June 2013.

Distributions of Profits Payable to the Shareholders: -

1. The fifteenth ordinary general assembly (second meeting) approved in its annual meeting held on 4/7/2012 based on the recommendation of the Board of Directors to distribute the fourth quarter's profits of the fiscal year 2011 of SR 94,860,000 for the company's shareholders as SR 1.5 for the one share and the eligibility of the shareholders registered at the company records at the circulation of the day of holding the ordinary General Assembly to have such profits. The profits of the fourth quarter of the fiscal year 2011 were disbursed on Tuesday 27/8/1433 A.H., corresponding to 17/7/2012, and this is done by direct transfer to the bank shareholders' accounts linked to their investment portfolios.



- The Board of Directors in its meeting held on 15/2/1434 A.H., corresponding to 28/12/2012 approved the distribution of profits of the third quarter ending on 30/9/2012 of 126,480,000 as SR 2 for the one share, and the eligibility of the shareholders recorded in the circulation records of Wednesday 11/3/1434 A.H., corresponding to 23/1/2013, noting that such profits have been disbursed as of 18/3/1434 A.H., corresponding to 30/1/2013 and this is done by direct transfer to the bank shareholders' accounts linked to their investment portfolios.

Twenty Second: Electing a New Board of Directors for the Coming Session for Three Years For the period from 1/1/2013 to 31/12/2015 AD.:

The Saudi Chemical Company held the sixteenth meeting of the ordinary General Assembly (second meeting) at 4 pm on Wednesday 13/2/1434 A.H. , corresponding to 26/12/2012 at the headquarter of the **General Department** of the Saudi Chemical Company at Al Hasa street, Riyadh to elect the company's new Board of Directors for its coming session for three years as of 1/1/ 2013 to 31/12/2015. The elections resulted in the winning of the following candidates:

- Prince Ahmad bin Khaled bin Abdullah bin Abdul Rahman Al Saud
- Dr. Mohammed Saud Al Badr
- Eng. Fahd Saleh Al Jarbou
- Mr. Abdul Aziz Ali Hassan Abu Al saud
- Mr. Abdul Rahman Bin Saeed Al Yamani
- Mr. Muhammad Omar Al Sonousi
- Mr. Sameer Mahmoud Abdulhadi
- Mr. Obaid Bin Abdullah Al Rashid
- Mr. Abdul Rahman Abdul Aziz Abdul Salam Al Yamany

Conclusion:

The Board of Directors concludes its report by expressing thanks and gratitude to the esteemed shareholders for accepting the invitation, and for the confidence which you reposed in the Board of Directors. The year of 2012 was a special year for Saudi Chemical Company and its subsidiaries. We would like also to thank all the customers of the Company, and the governmental and local departments and institutions for their constant cooperation. Also, we would like to thank all the Company's staff for their sincere efforts in favor of the Company, as well as their keenness on continuing the development and the prosperity of the Saudi Chemical Company and its subsidiaries

Allah is the Grantor of Success

The Board of Directors





الكيماويات السعودية
Saudi Chemical
Saudi Joint Stock Co





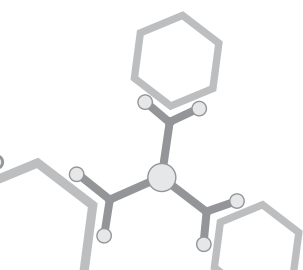


SAUDI CHEMICAL COMPANY
(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

SAUDI CHEMICAL COMPANY
(A Saudi Joint Stock Company)
Consolidated financial statements
For The Year Ended December 31, 2012

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INDEPENDENT AUDITORS' REPORT

February 23, 2013

To the Shareholders of Saudi Chemical Company:
(A Saudi Joint Stock Company)

Scope of audit

We have audited the accompanying consolidated balance sheet of Saudi Chemical Company (the "Company") and its subsidiaries (collectively the "Group") as of December 31, 2012 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended, and the notes which form an integral part of the financial statements. These consolidated financial statements, which were prepared by the Company in accordance with Article 123 of the Regulations for Companies and presented to us with all information and explanations which we required, are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting 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 basis for our opinion.

Unqualified opinion

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

- Present fairly, in all material respects, the financial position of the Group as of December 31, 2012 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in Saudi Arabia appropriate to the circumstances of the Group; and
- Comply, in all material respects, with the requirements of the Regulations for Companies and the Company's By-laws with respect to the preparation and presentation of consolidated financial statements.

Price water house Coopers

By:

Khalid A. Mahdhar
License Number 368



برايس واتر هاوس كوبرز، برج المملكة، ص.ب. ٨٢٨٢، الرياض ١١٤٨٢، المملكة العربية السعودية
هاتف: ٤٦٥-٤٦٥ (١) ٤٦٦ (١) فاكس: ١٦٦٣-٤٦٥ (١) ٤٦٦ (+٩٦٦) www.pwc.com/middle-east

ترخيص رقم (٣٥)، الشركاء المرخصون: عمر محمد السقا (٣٦٩)، خالد أحمد محضر (٣٦٨)، محمد عبدالعزيز العبدوي (٣٦٧)، إبراهيم رضا حبيب (٣٨٣)، ياسين عبدالله أبو الخير (٣٧٥)، علي عبدالرحمن العتيبي (٣٧٩)

SAUDI CHEMICAL COMPANY
(A Saudi Joint Stock Company)
Consolidated balance sheet

(All amounts in thousands of Saudi Riyals unless otherwise stated)

		As at December 31,	
	Note	2012	2011
Assets			
Current assets			
Cash and cash equivalents	5	103,299	98,976
Accounts receivable, net	6	981,594	850,680
Inventories, net	7	534,746	459,899
Prepayments and other assets		32,980	23,126
Due from related parties	13	193,254	116,933
Total current assets		1,845,873	1,549,614
Non-current assets			
Investments in unconsolidated subsidiaries		-	1,000
Property, plant and equipment, net	8	204,818	201,307
Goodwill	9	469,807	469,807
Due from a related party	13	38,333	115,000
Total non-current assets		712,958	787,114
Total assets		2,558,831	2,336,728
Liabilities			
Current liabilities			
Short-term borrowings	10	175,727	133,726
Accounts payable		842,461	736,646
Accrued and other liabilities	11	58,646	58,908
Due to related parties	13	1,234	2,859
Total current liabilities		1,078,068	932,139
Non-current liabilities			
Employees' termination benefits	14	37,102	31,425
Total liabilities		1,115,170	963,564
Equity			
:Equity attributable to shareholders of the Company			
Share capital	15	632,400	632,400
Statutory reserve	16	212,430	183,303
General Reserve	17	180,000	140,000
Retained earnings		412,356	411,544
Total equity attributable to shareholders' of the Company		1,437,186	1,367,247
Minority interest		6,475	5,917
Total equity		1,443,661	1,373,164
Total liabilities and equity		2,558,831	2,336,728
Contingent liabilities and income	23		

The notes on pages 44 to 60 form an integral part of these consolidated financial statements.

SAUDI CHEMICAL COMPANY
(A Saudi Joint Stock Company)
Consolidated income statement

(All amounts in thousands of Saudi Riyals unless otherwise stated)

For the year ended December 31,			
Note	2012	2011	
Sales	6	2,001,333	1,867,573
Cost of sales		(1,526,819)	(1,434,160)
Gross profit		474,514	433,413
Operating expenses			
Selling and marketing	18	(67,155)	(65,264)
General and administrative	19	(84,417)	(68,668)
Income from main operations		322,942	299,481
Other income (expenses)			
Financial charges		(5,805)	(4,648)
Other income, net		1,481	915
Income before zakat and minority interest		318,618	295,748
Zakat for subsidiaries		(19,780)	(13,143)
Zakat for the Company	12	(6,000)	(13,832)
Income before minority interest		292,838	268,773
Minority interest		(1,559)	(1,369)
Net income for the year		291,279	267,404
Earnings per share in Saudi Riyals:			
Income from main operations	21	5.11	4.74
Net income for the year	21	4.61	4.23

The notes on pages 44 to 60 form an integral part of these consolidated financial statements.



SAUDI CHEMICAL COMPANY
(A Saudi Joint Stock Company)
Consolidated Statement of Cash Flows

(All amounts in thousands of Saudi Riyals unless otherwise stated)

	Note	For the year ended December 31,	
		2012	2011
Cash flows from operating activities			
Net income for the year		291,279	267,404
Adjustments for non-cash items			
Depreciation	8	19,609	18,628
(Gains) losses on sale of property, plant and equipment		(382)	263
Provision for doubtful debts	6	6,032	3,686
Provision for slow-moving inventories	7	953	583
Income attributable to minority interest		558	1,369
Changes in working capital			
Accounts receivable		(136,946)	(107,882)
Inventories		(75,800)	42,096
Prepayments and other current assets		(9,854)	(4,525)
Accounts payable		105,815	(103,074)
Accrued and other current liabilities		(262)	9,661
Due from / to related parties		(1,279)	830
Employees' termination benefits		5,677	2,294
Net cash generated from operating activities		205,400	131,333
Cash flows from investing activities			
Change in investments		1,000	-
Purchase of property, plant and equipment	8	(23,214)	(18,809)
Proceeds from sale of property, plant and equipment		476	242
Net cash utilized in investing activities		(23,738)	(18,567)
Cash flows from financing activities			
Change in short-term borrowings		42,001	116,748
Dividends paid		(221,340)	(252,960)
Net cash utilized in financing activities		(179,339)	(136,212)
Net change in cash and cash equivalents		4,323	(23,446)
Cash and cash equivalents at beginning of the year		98,976	122,422
Cash and cash equivalents at end of the year	5	103,299	98,976
Supplemental non-cash financing activities			
Transfer from retained earnings to general reserve	17	40,000	40,000

The notes on pages 44 to 60 form an integral part of these consolidated financial statements.

SAUDI CHEMICAL COMPANY
(A Saudi Joint Stock Company)

Consolidated Statement of changes in Shareholders' Equity
(All amounts in thousands of Saudi Riyals unless otherwise stated)

	Note	Share capital	Statutory reserve	General reserve	Retained earnings	Total
January 1, 2011		632,400	156,563	100,000	463,840	1,352,803
Net income for the year		-	-	-	267,404	267,404
Transfer to statutory reserve	16	-	26,740	-	(26,740)	-
Transfer to general reserve	17	-	-	40,000	(40,000)	-
Dividends	22	-	-	-	(252,960)	(252,960)
December 31, 2011		632,400	183,303	140,000	411,544	1,367,247

Net income for the year		-	-	-	291,279	291,279
Transfer to statutory reserve	16	-	29,127	-	(29,127)	-
Transfer to general reserve	17	-	-	40,000	(40,000)	-
Dividends	22	-	-	-	(221,340)	(221,340)
December 31, 2012		632,400	212,430	180,000	412,356	1,437,186

The notes on pages 44 to 60 form an integral part of these consolidated financial statements.



Saudi Chemical Company
(Saudi Joint Stock Company)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

(All amounts in thousands of Saudi Riyals unless otherwise stated)

1. General information

Saudi Chemical Company (the "Company") is a Saudi joint stock company registered in Riyadh, Kingdom of Saudi Arabia, under Commercial Registration No. 1010006161 issued in Riyadh on 10 Safar 1392H (March 26, 1972). The Company's main address is PO Box 2665, Malaz district, Ehsaa Street, Riyadh 11461, Kingdom of Saudi Arabia.

The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in manufacturing and selling of explosives and its derivatives for civil or military uses and provide technical support services in explosions. Whole sale and retail trading in medicines, medical materials and syrups, pharmaceutical preparations, medical and surgical tools and equipment, supplies of hospitals and medical centers and its related spare parts. Manufacturing and production of ammonium nitrate.

The accompanying consolidated financial statements include the accounts of the Company and its following subsidiaries:

Effective ownership at December 31,			
Subsidiary	Country of incorporation	2012	2011
Saudi International Trading Company ("SITCO Pharma")	Saudi Arabia	99%	99%
Suez International Nitrate Company ("SINCO")	Arab Republic of Egypt	98%	98%
AJA Pharmaceutical Industries Company Limited	Saudi Arabia	100%	-
Saudi Chemical Company Limited	Saudi Arabia	100%	-
Chemical Company for Commercial Investment Ltd.	Saudi Arabia	100%	-

During the year ended December 31, 2012, AJA Pharma Industries Company Limited and Saudi Chemical Company Limited were established as limited liability companies in Kingdom of Saudi Arabia. These companies are 100% owned by the Group. AJA Pharma Industries Company Limited is 95% owned by the Company and 5% owned by Chemical Company for Commercial Investment Limited, while Saudi Chemical Company Limited is 99% owned by the Company and 1% owned by SITCO Pharma. Both subsidiaries did not commence their commercial activities as of the date of the accompanying consolidated financial statements.

In addition to the above subsidiaries, the Group has another subsidiary named Advanced Instruments Group Company Limited which is 95% owned by the Group. The accounts of this subsidiary were not consolidated in the accompanying consolidated financial statements as of and for the two years ended December 31, 2012 and 2011 as this subsidiary does not have any operating activities. In addition, the Group's investment in such subsidiary is insignificant. In their meeting held on December 23, 2012, the shareholders of Advanced Instruments Group Company Limited decided to liquidate the Company and distribute the shareholders' equity among them proportionately as the subsidiary does not have any operating activity. The Group's investment in such a subsidiary is accounted for using the equity method and included under investments in unconsolidated subsidiaries in the accompanying consolidated balance sheet.

The accompanying consolidated financial statements were approved on Rabi'II 13, 1434H (February 23, 2013).

Saudi Chemical Company
(Saudi Joint Stock Company)
Notes to the Consolidated Financial Statements
For the year ended December 31, 2012
(All amounts in thousands of Saudi Riyals unless otherwise stated)

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

2-1 Basis of preparation

The accompanying consolidated financial statements have been prepared under the historical cost convention on the accrual basis of accounting and in compliance with the accounting standards promulgated by Saudi Organization for Certified Public Accountants ("SOCPA").

2-2 Consolidation

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies to obtain economic benefit generally accompanying a shareholding of more than half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given or liabilities incurred or assumed at the date of acquisition, plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. Goodwill arising from acquisition of subsidiaries is reported under "non-current assets" in the accompanying consolidated balance sheet. Goodwill is tested annually for impairment and carried at cost, net of any accumulated amortization and impairment losses, if any.

The accompanying consolidated financial statements include the accounts of the Company and consolidated subsidiaries. The financial statements of subsidiaries are prepared for the same reporting period as for the Company. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Inter-company transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated.

2-3 Critical accounting estimates and judgments

The preparation of consolidated financial statements in conformity with generally accepted accounting principles in Saudi Arabia requires the use of certain critical estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting period. 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's management makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

2-4 Foreign currency translations

(a) Reporting currency

These consolidated financial statements are presented in Saudi Riyals which is the reporting currency of the Company.

Saudi Chemical Company
(Saudi Joint Stock Company)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

(All amounts in thousands of Saudi Riyals unless otherwise stated)

(b) Transactions and balances

Foreign currency transactions are translated into Saudi Riyals using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated income statement.

(c) Group companies

The results and financial position of foreign subsidiaries having reporting currency other than Saudi Riyals are translated into Saudi Riyals as follows:

1. Assets and liabilities for the balance sheet presented are translated at the closing exchange rate at the date of that consolidated balance sheet;
2. Income and expenses for each income statement are translated at average exchange rates; and
3. Components of the equity accounts are translated at the foreign exchange rates in effect at the dates of the related items originated.

Cumulative adjustments resulting from the translations of the financial statements of the foreign subsidiary into Saudi Riyals are reported as a separate component of equity.

Dividends received from the foreign subsidiary are translated at the exchange rate in effect at the transaction date and related currency translation differences are realized in the consolidated income statement.

When investment in foreign subsidiaries is disposed off or sold, foreign currency translation differences that were recorded in equity are recognized in the consolidated income statement as part of gain or loss on disposal or sale.

2-5 Investments in unconsolidated subsidiaries

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies to obtain economic benefit generally accompanying a shareholding of more than one half of the voting rights.

Investments in unconsolidated subsidiaries are accounted for using the equity method of accounting and are initially recognized at cost. The Group's share in net income (loss) of unconsolidated subsidiary at post-acquisition date is reported in income statement. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in unconsolidated subsidiary equals or exceeds its interest in the unconsolidated subsidiary, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the unconsolidated subsidiary. Dividends received from investees' entities are adjusted against investment cost.

Saudi Chemical Company
(Saudi Joint Stock Company)
Notes to the Consolidated Financial Statements
 For the year ended December 31, 2012
 (All amounts in thousands of Saudi Riyals unless otherwise stated)

Unrealized gains on transactions between the Company and its subsidiaries are eliminated to the extent of the Group's interest in the unconsolidated subsidiary. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Gains and losses resulted from decrease of ownership of investment in unconsolidated subsidiary are recognized in the income statement.

2-6 Cash and cash equivalents

Cash and cash equivalents include cash in hand and with banks and other short-term highly liquid investments with original maturities of three months or less from the purchase date.

2-7 Accounts receivable

Accounts receivable are carried at original invoice amount less provision for doubtful debts. A provision against doubtful debts is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Such provision is charged to the consolidated income statement and reported under "general and administrative expenses". When account receivable is uncollectible, it is written-off against the provision for doubtful debts. Any subsequent recoveries of amounts previously written-off are credited against "general and administrative expenses" in the consolidated income statement.

2-8 Inventories

Inventories are carried at the lower of cost or net realizable value. Cost is determined using weighted average method. The cost of finished products include the cost of raw materials, labor and production overheads.

Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

2-9 Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation, except capital work in progress which is carried at cost. Land is not depreciated. Depreciation is charged to the consolidated income statement, using the straight-line method, to allocate the costs of the related assets to their residual values over the following estimated useful lives:

	Number of years
Buildings	33
Leasehold improvements	10 - 33
Machinery and equipment	7 - 10
Furniture, fixtures and tools	7 - 10
Vehicles	4

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the consolidated income statement.

Maintenance and normal repairs which do not materially extend the estimated useful life of an asset are charged to the consolidated income statement as and when incurred. Major renewals and improvements, if any, are capitalized and the assets so replaced are retired.

Saudi Chemical Company
(Saudi Joint Stock Company)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

(All amounts in thousands of Saudi Riyals unless otherwise stated)

2-10 Impairment of non-current assets

Non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-current assets other than intangible assets, if any, that suffered impairment are reviewed for possible reversal of impairment at each reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the consolidated income statement. Impairment losses recognized on intangible assets, if any, are not reversible.

2-11 Borrowings

Borrowings are recognized at the proceeds received, net of transaction costs incurred, if any.

2-12 Accounts payable and accruals

Liabilities are recognized for amounts to be paid for goods and services received, whether or not billed to the Group.

2-13 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 will be required to settle the obligation; and the amount can be reliably estimated.

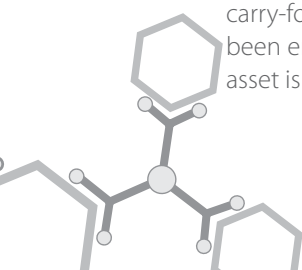
2-14 Zakat and taxes

In accordance with the regulations of the Department of Zakat and Income Tax ("DZIT"), the Company is subject to zakat. Provision for zakat for the Company and zakat related to the Company's ownership in subsidiaries are charged to the consolidated income statement. The subsidiaries file separately their zakat declaration. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

The Company and its Saudi subsidiaries withhold required taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia, including dividends payments to ultimate foreign shareholders as required under Saudi Arabian Income Tax Law.

The foreign subsidiary is subject to income taxes in its respective country of domicile. Such income taxes are charged to the income statement.

Deferred income taxes are recognized on all major temporary differences between financial income and taxable income and recognized during the period in which such differences arise, and are adjusted when related temporary differences are reversed. Deferred income tax assets on carry forward losses are recognized to the extent that it is probable that future taxable income will be available against which such carry-forward tax losses can be utilized. Deferred income taxes are determined using tax rates which have been enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.



Saudi Chemical Company

(Saudi Joint Stock Company)

Notes to the Consolidated Financial Statements

 For the year ended December 31, 2012

 (All amounts in thousands of Saudi Riyals unless otherwise stated)

2-15 Employee termination benefits

Employee termination benefits required by Saudi Labor and Workman Law are accrued by the Company and charged to the consolidated income statement. The liability is calculated; as the current value of the vested benefits to which the employee is entitled, should the employee leave at the consolidated balance sheet date. Termination payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the laws of Saudi Arabia.

The foreign subsidiary provide currently for employee termination and other benefits as required under the laws of its country of domicile.

2-16 Revenue recognition

Sales of explosives are recognized upon delivery of goods to customers under the provisions and prices stated in the sales agreements. Revenue of the explosion services is recognized based on services rendered for the respective sales agreements. Sales of medicines are recognized upon delivery of goods to customers and are shown net of discounts. Medicines prices are set by the Ministry of Health.

2-17 Costs and expenses

Cost of Sales

Represent the cost of goods sold and costs that are part of the production cost, and include direct materials, direct labor and manufacturing overheads. Cost of sales includes direct and indirect costs.

Selling and marketing expenses

Represent expenses resulting from the Group's management efforts with regard to the marketing function or the selling and distribution function. Selling and marketing expenses include direct and indirect costs not specifically part of cost of sales. Allocations between selling and marketing expenses and cost of sales, when required, are made on a consistent basis.

General and administrative expenses

Represent expenses relating to the administration and not to the production function or the selling and distribution functions. General and administrative expenses include direct and indirect costs not specifically part of cost of sales. Allocations between general and administrative expenses and cost of sales, when required, are made on a consistent basis.

2-18 Dividends

Dividends are recorded in the consolidated financial statements in the period in which they are approved.

2-19 Operating leases

Rental expenses under operating lease are charged to the consolidated income statement over the period of the respective lease.

Saudi Chemical Company
(Saudi Joint Stock Company)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

(All amounts in thousands of Saudi Riyals unless otherwise stated)

2-20 Earnings per share

Earnings per share represent the ordinary share's share in income attributable to ordinary shares. Earnings per share from main operations income and net income for the presented years are computed on the basis of the weighted average number of ordinary shares.

2-21 Segment reporting

a) Business segment

A business segment is group of assets, operations or entities:

- Engaged in revenue producing activities;
- Results of its operations are continuously analyzed by management in order to make decisions related to resource allocation and performance assessment; and
- Financial information is separately available.

b) Geographical segment

A geographical segment is group of assets, operations or entities engaged in revenue producing activities within a particular economic environment that are subject to risks and returns different from those operating in other economic environments.

3. Financial instruments and risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value and cash flow interest rate risks and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

Financial instruments carried on the balance sheet including cash and cash equivalents, accounts receivable, due from related parties, investments in unconsolidated subsidiaries, short-term borrowings, accounts payable and due to related parties. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

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

3-1 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Group operates locally and internationally and has a limited exposure to foreign currency exchange risk as the Group's transactions are principally in Saudi Riyals, as the Group signs its contracts with most of the foreign companies in Saudi Riyals, some of the Group transactions are in US Dollars and Euro. The Group's management monitors the foreign currency fluctuations and believes that Group's exposure to currency risk is not significant.

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3-2 Fair value and cash flows interest rate risks

Fair value and cash flows interest rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Group's financial position and cash flows. The Group's interest rate risks arise mainly from bank short-term borrowings (see Note 11), which are at floating rate of interest and are subject to re-pricing on a regular basis. The Group's management monitors the interest rate fluctuations and believes that the Group's exposure to fair value and cash flows interest rate risks is not significant.

3-3 Price risk

The risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Group's does not have financial instruments exposed to significant price risks.

3-4 Credit risk

Credit risk is the risk that one party will fail to discharge an obligation and cause the other party to incur a financial loss. The Group's credit risk results mainly from its transactions with Ministry of Health and other ministries. These ministries are fully owned by government of the Kingdom of Saudi Arabia which has strong credit rating in the Saudi market. In addition, the Group's management follows-up outstanding balances. Cash is placed at banks with sound credit ratings. Accounts receivable are carried net of provision for doubtful debts.

3-5 Liquidity risk

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

3-6 Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. As the Group's financial instruments are compiled under the historical cost convention, except for the investments which are carried at fair value, differences can arise between the book values and fair value estimates. Management believes that the fair values of the Group's financial assets and liabilities are not materially different from their carrying values.

4. Segment information

The Group's operations are principally in the following business segments:

- ▶ Explosives
- ▶ Trading of medicines and detergents
- ▶ Production of ammonium nitrate

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5. Cash and cash equivalents

	2012	2011
Cash at bank	103,008	98,687
Cash in hand	291	289
	103,299	98,976

6. Accounts receivable, net

	2012	2011
Trade Receivables	1,005,885	868,939
Provision for doubtful debts	(24,291)	(18,259)
	981,594	850,680

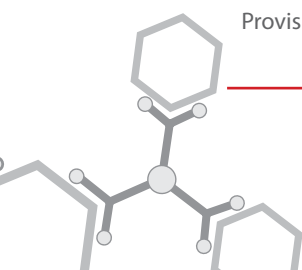
About 65% of the trade receivables as at December 31, 2012 (2011: 70%) are due from Saudi government parties; such parties have strong credit rating in the Saudi market. Also about 20% of sales were made to one customer for the year ended December 31, 2012 (2011: 29% to two customers).

Movement in provision for doubtful debts account is as follows:

	2012	2011
January 1	18,259	28,713
Additions	6,032	3,686
Adjustments/write-off	-	(14,140)
December 31	24,291	18,259

7. Inventories, net

	2012	2011
Medicines	428,776	367,102
Raw materials	43,505	51,728
Detergents	26,546	26,036
Finished goods	17,974	12,874
Goods in transit	16,550	1,621
Spare parts, not held for sale	2,562	2,162
Other	1,856	713
	537,769	462,236
Provision for slow-moving inventories	(3,023)	(2,337)
	534,746	459,899



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Movement in provision for inventory obsolescence is as follows:

	2012	2011
January 1	2,337	1,754
Additions	953	583
Adjustments/write-off	(267)	-
December 31	3,023	2,337

8. Property, plant and equipment, net

	January 1, 2012	Additions	Disposals	December 31, 2012
Cost				
Land	8,163	-	-	8,163
Buildings	221,133	6,422	-	227,555
Leasehold improvements	14,124	1,147	-	15,271
Machinery and equipment	162,315	6,955	-	169,270
Furniture, fixture and tools	12,848	919	-	13,767
Vehicles	35,176	5,567	(2,034)	38,709
Capital work in progress	13,187	2,204	-	15,391
	466,946	23,214	(2,034)	488,126

Accumulated depreciation

Buildings	(150,254)	(6,405)	-	(156,659)
Leasehold improvements	(9,026)	(536)	-	(9,562)
Machinery and equipment	(73,680)	(7,289)	-	(80,969)
Furniture, fixture and tools	(7,924)	(957)	-	(8,881)
Vehicles	(24,755)	(4,422)	1,940	(27,237)
	(265,639)	(19,609)	1,940	(283,308)
	201,307			204,818

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	January 1, 2011	Additions	Disposals	December 31, 2011
Cost				
Land	8,163	-	-	8,163
Buildings	218,596	2,537	-	221,133
Leasehold improvements	20,352	1,156	(7,384)	14,124
Machinery and equipment	159,886	2,754	(325)	162,315
Furniture, fixture and tools	11,854	1,515	(521)	12,848
Vehicles	31,631	4,171	(626)	35,176
Capital work in progress	6,511	6,676	-	13,187
	456,993	18,809	(8,856)	466,946

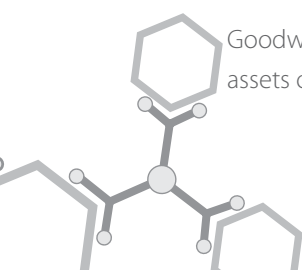
Accumulated depreciation				
Buildings	(143,913)	(6,341)	-	(150,254)
Leasehold improvements	(15,950)	(456)	7,380	(9,026)
Machinery and equipment	(66,910)	(6,986)	216	(73,680)
Furniture, fixture and tools	(7,191)	(893)	160	(7,924)
Vehicles	(21,398)	(3,952)	595	(24,755)
	(255,362)	(18,628)	8,351	(265,639)
	201,631			201,307

Capital work-in-progress at December 31, 2012 and 2011 represent, principally, costs incurred for establishing SINCO's factory and accounting and administrative software.

The Company's factories are set up on leased lands from Ministry of Municipal and Rural Affairs having term ranging between 10 to 20 years. Lease contracts are renewable for additional periods.

9. Goodwill

Goodwill represents the excess amount paid over the fair value of the Company's share in the purchased net assets of SITCO Pharma.



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10. Short-term borrowings

SITCO Pharma has a credit facilities with local banks amounting SR 425 million (2011: SR 425 million) to finance its operations. The facilities contain overdrafts, short-term bank loans, letters of guarantee and letters of credit. The amount of SR 328.7 million was already used from those facilities as of December 31, 2012 (2011: SR 211 million). These facilities bear financial charges at prevailing market rates. Such facilities are collateralized by order notes issued by SITCO Pharma. These credit facilities included covenants that require SITCO Pharma to maintain certain level of financial ratios and other matters. The carrying value of the short-term loans is in Saudi Riyals.

11. Accrued and other current liabilities

	Note	2012	2011
Zakat provision for subsidiaries		14,871	12,687
Salaries and other employee benefits		14,622	8,764
Accrued dividends		12,255	10,458
Zakat provision for the Company	12	5,817	8,477
Advance payments from customers		3,573	5,320
Accrued marketing expenses		1,756	8,026
Accrued rent		1,554	1,312
Other		4,198	3,864
		58,646	58,908

12. Zakat matters

12-1 Adjusted net income for the year for the Company

	2012	2011
Income before zakat	297,279	281,236
Provisions	10,127	6,134
Company's share in net income of subsidiaries	(134,458)	(117,193)
Depreciation	(8,605)	(12,700)
Adjusted net income for the year	164,343	157,477

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12-2 Components of zakat base for the Company

The significant components of the zakat base for the Company under zakat and income tax regulation are principally comprised as follows:

	Note	2012	2011
Shareholders' equity at beginning of year, as adjusted		1,117,163	1,110,302
Provisions at beginning of year		11,736	17,346
Adjusted net income for the year	12.1	164,343	157,477
Investments		(1,012,369)	(899,428)
Spare parts, not held for sale		(2,562)	(2,162)
Property, plant and equipment, as adjusted		(65,066)	(56,428)
Approximate zakat base		213,245	327,107

Zakat is payable at 2.5 percent of higher of the approximate zakat base and adjusted net income.

12.3 Provision for zakat for the Company

Movement in provision for zakat for the Company is as follows:

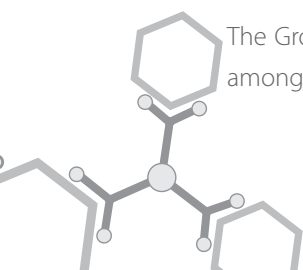
	2012	2011
January 1	8,477	2,780
Provisions for:		
Current year	6,000	8,477
Prior years	-	5,355
Total provisions charged during the year	6,000	13,832
Payments	(8,660)	(8,135)
Balance as of December 31	5,817	8,477

12.4 Status of final assessments

The DZIT has finalized the assessments for the company and SITCO Pharma through 2004 and 2003 respectively. The Company and SITCO Pharma obtained zakat certificates for the years through 2011.

13. Related parties' transactions

The Group has transactions with related parties which include insignificant payments, expenses and cost amongst the Group's companies.



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13.1 Related party balances

Significant year-end balances arising from transactions with related parties are as follows:

a) Due from related parties

	2012	2011
Al-Mawarid Trading Company Limited	230,164	230,077
Other	1,423	1,856
Total	231,587	231,933
Non current portion of Al-Mawarid Trading Company Limited	(38,333)	(115,000)
Current portion of due from related parties	193,254	116,933

Due from related parties does not bear any financial income at December 31, 2012 and 2011.

b) Due to related parties

	2012	2011
Advanced Instruments Group Company	879	999
Other	355	1,860
	1,234	2,859

Due to related parties does not bear any financial charges at December 31, 2012 and 2011.

Due from related parties in the consolidated balance sheet as of December 31, 2012 and 2011, includes Saudi Riyals 230 million due from Al-Mawarid Trading Company Limited ("MTL") resulted from acquiring a 15% equity share of MTL by SITCO Pharma during 2008 for Saudi Riyals 135 million. MTL is owned by Mawarid Holding Company and Mawarid Investment Company, in which the previous Chairman of Saudi Chemical Company is a majority shareholder (a related party).

During 2009, SITCO Pharma entered into an agreement with MTL to enable SITCO Pharma to acquire 50% of equity share in Al-Dawaa for Medical Services Company by paying Saudi Riyals 235 million and to withdraw the 15% of its ownership in the partners shares in MTL. SITCO Pharma settled the difference between these two deals by paying Saudi Riyals 95 million to the sellers.

Upon the presentation of these two deals mentioned above to the General Assembly meeting of the shareholders held on June 30, 2009 for approval, the shareholders disapproved these two deals. Consequently, the Company's management sent a cancellation notice to the sellers, requesting the return of amounts paid in accordance with the terms of the memorandum of understanding, which required approval of the related authorities to finalize the deal. Therefore, the total paid amount of Saudi Riyals 230 million was recorded on due from related parties (MTL).

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On May 3, 2011 an agreement was signed with MTL to repay the due amount of Saudi Riyals 230 million in six equal semiannual installments at Saudi Riyals 38,333,333, where the first installment is to be paid on August 1, 2011. This agreement was presented to the Company's General assembly in their meeting held on May 15, 2011. Accordingly, Saudi Riyals 193 million was classified as current assets as of December 31, 2012 and the rest of the balance as non-current assets. In addition, the first, second and third installments due from MTL were not yet collected till the date of preparation of these accompanying consolidated financial statements as a result of non-completion of the required authorization to complete the legal requirement to waive SITCO Pharma's share in MTL ownership.

The shareholders in their General Assembly meeting held on July 4, 2012, resolved to file a case against MTL to claim return of Saudi Riyals 230 million and authorize the Board of Directors to take statutory and legal actions after a time limit given till the end of 2012.

14. Employee termination benefits

	2012	2011
January 1	31,425	29,131
Additions	6,819	4,091
Payments	(1,142)	(1,797)
December 31	37,102	31,425

15. Share capital

The share capital of the Company as of December 31, 2012 and 2011 was comprised of 63,240,000 shares stated at Saudi Riyals 10 per share.

16. Statutory reserve

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia, the Company is required to transfer 10% of net income for the year to a statutory reserve until such reserve equals 50% of its share capital. This reserve currently is not available for distribution to the shareholders.

17. General reserve

General reserve is appropriated according to shareholders' approval in their general assembly meeting based on the Board of Directors' recommendation. The shareholders in their general assembly meeting held on July 4, 2012 resolved to transfer of Saudi Riyals 40 million (2011: Saudi Riyals 40 million) from retained earnings to a general reserve account.

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18. Selling and marketing expenses

	2012	2011
Salaries, wages and other benefits	35,845	37,568
Rent	11,652	9,661
Depreciation	4,216	3,792
Travel	2,604	2,815
Insurance	1,852	1,875
Advertising and marketing	1,824	1,917
Electricity, water and telephone	1,634	1,305
Maintenance	1,053	929
Other	6,475	5,402
	67,155	65,264

19. General and administrative expenses

	2012	2011
Salaries, wages and other benefits	45,966	36,231
Cash discount	10,683	9,177
Provision for doubtful debts	6,032	3,686
Professional and legal fees	4,461	6,920
Electricity, water and telephone	3,319	2,615
Depreciation	2,937	2,801
Travel	1,094	863
Rent	626	457
Other	9,299	5,918
	84,417	68,668

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20. Operating leases

The Group has various operating leases for its buildings, offices, factories and warehouses generally having terms ranging between 1 to 20 years. Rental expenses for the year ended December 31, 2012 amounted to approximately Saudi Riyals 5.9 million (2011: approximately Saudi Riyals 7.6 million). Future rental commitments at December 31, 2012, under these operating leases are as follows:

Years ending December 31:	Saudi Riyals thousands
2013	3,469
2014	2,584
2015	1,900
2016	1,800
Thereafter	20,119
	29,872

21. Earnings per share

Earnings per share of income from main operations and net income for the years ended December 31, 2012 and 2011 are computed on the basis of the weighted average number of ordinary shares totaling 63,240,000 shares for the years then ended.

22. Dividends

The Company's board of directors in their meeting held on May 8, 2012, approved cash dividends amounting to Saudi Riyals 94.86 million (Saudi Riyals 1.5 per share). Also the Company's board of directors in their meeting held on December 28, 2012, approved cash dividends amounting to Saudi Riyals 126.48 million (Saudi Riyals 2 per share) which have been deposited in the dividends account at a certain bank on December 30, 2012. The priority for dividends distribution to shareholders were those registered in the Company's records by the end of trading on Wednesday, January 23, 2013. The Company commenced dividends distribution to shareholders starting on January 30, 2013. Consequently, the total cash dividends during 2012 are amounted to Saudi Riyals 221.34 million (Saudi Riyals 3.5 per share).

23. Contingent liabilities and income

At December 31, 2012, the Group has outstanding letters of credit and letters of bank guarantees amounting to Saudi Riyals 117.58 million and Saudi Riyals 693.66 million, respectively (2011: Saudi Riyals 128.6 million and Saudi Riyals 67.5 million, respectively) issued in the normal course of business.

During 2004, STICO Pharma filed a claim with the Board of Grievances against the Ministry of Health for approximately Saudi Riyals 144 million for the foreign currency losses incurred during 2003 and 2004, as a result of the MOH resolution to fix the conversion rates of certain foreign currencies for the purchase of medicines from foreign companies by the Ministry of Health. The claim remains outstanding as at December 31, 2012.



Bayer HealthCare







