

2011 ANNUAL REPORT



ANNUAL REPORT

الكيميائية السعودية

Saudi Chemical

Saudi Joint Stock Co



شركة مساهمة سعودية

SAUDI CHEMICAL COMPANY

(A Saudi Joint Stock Company)

Annual Report 2011

Consolidated Financial Statements for
the Year Ended December 31, 2011
and Independent Auditor's Report



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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 & Managing Director

Mr. Abdulrahman A. Al Yemni
Board Member

Mr. Abdulaziz A. Abussud
Board Member

Mr. Mohamed O. Al Sanousi
Board Member

Mr. Sultan Mohamed Al Hidaithy
Board Member

Mr. Abdulrahman S. Al Yemni
Board Member

Dr. Mohammed S. Al Badr
Board Member (General Manager)

ANNUAL REPORT 2011



**The Board of Director's Report to
the General Assembly
To the Shareholders of the Saudi
Chemical Company**

**On its business results for the year ended
on 31/12/2011**



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

The Board of Directors of the 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 2011 A.D. The report reflects the management's efforts towards attaining constant development that the Company has been witnessing during the past years. The Saudi Chemicals Company and its subsidiary companies attained a standard level of consolidated sales (SR 1.867.573.000) with an increase of 13% in comparison to the sales of last year.

Moreover, the annual summary includes the audited consolidated financial statements for the fiscal year ended on 31/12/2011 AD, the financial positions statements, cash flows, and the independent auditors report.

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



- The Saudi Chemical Company—Saudi Joint Stock Company with a paid capital of SR 632,400,000—was established in 1972 as a pioneering Company in the field of manufacturing explosives for civil and military 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 3 factories which 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 in 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 the Saudi Chemicals Company includes the latest and safest generation of the explosives products for the internationally used civil purposes 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 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 Company began during the first quarter of 2010 A.D. The company's authorized capital is USD 50 million and the issued capital is USD 5 million distributed to 5000 shares at USD 1000 per one share. The company is closed and not listed in the Egyptian stock market.



Second: The Financial Results:

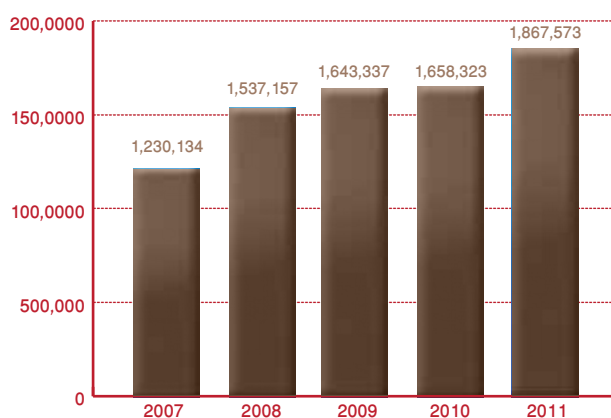
The consolidated sales:

The consolidated net sales of the Saudi Chemical Company and the subsidiary companies reached SR 1,868 billion (one billion and eight hundred sixty eight million Riyals) in the fiscal year ended on 31 December 2011 A.D in comparison to the amount of 1,658 Riyals (one billion six hundred fifty eight million) for 2010 A.D. with an increase of (13%). The sales level in 2011 AD confirms the continuity of the Company's efforts to maintain the development rates of the sales that were achieved during the past years.

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

(Value in Thousands Riyals)

2011	2010	2009	2008	2007
1.867.573	1.658.323	1.643.337	1.537.157	1.230.134



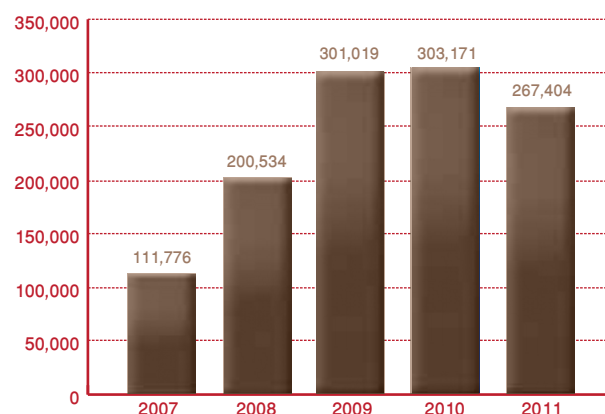
The above table shows the achievement of record growth rates in sales, and also attaining cumulative growth rate in sales of (10%) during the last five years.

The consolidated net profits:

The consolidated net profits for 2011 A.D. amounted to (SR 267 million) compared to (SR 303 million) for 2010 A.D. which is a decrease of 12%. The reason of the decrease of the net profits, in comparison to the last year, is due to the increase of the operational costs and the allocations. This is in addition to the reduction of the profit margin of some products in the detergents sector which negatively affected the period's consolidated net profit.

Net Profit (Value in Thousands Riyals)

2011	2010	2009	2008	2007
267.404	303.171	301.019	200.534	111.776



Third: Earnings per share in Saudi Riyals:

Department of Zakat and Income Tax	2011	2010
compared to the amount SR 4.79	SR 4.23 /Share	SR 4.79 /Share

Fourthly: 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 31/12/2011 A.D. amounted to SR 363 million compared to SR 359 million for 2010 A.D. The attained sales levels of explosives for civil uses in 2011 confirms the Company's ability to provide for all the Kingdom's needs of civil explosives whose demand increased due to the infrastructure projects, roads building, mining sector, quarries, and the explosives necessary to detect the petroleum and gas reservoirs. The Chemical Company was distinguished in its capacity to produce all the civil explosives necessary for these multiple fields with the highest standards of international quality supported by the strategic technical agreements with the leading major international companies in this industry.

The Drugs Activities:

SITCO Pharma maintained the sales levels. The sales for 2011 A.D. amounted to SR 1,504 billion (one billion five hundreds four million) compared to SR 1,299 billion for 2010 A.D. The levels of the Company's sales during the last five years confirms the Company's ability to maintain a standard market share in the drugs distribution market thanks to its 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 storing 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 gave the Company a special position as it became the top supplier for this type of medicines in the local market which confirms the Company has maintained the pioneering position as the major drugs distributor in the Kingdom.

During 2010 AD, SITCO Pharma added the detergents distribution activity by signing a distribution contract with Henkel company for distributing the industrial lotions and detergents 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(in thousands SR)	
		2011	2010
1	Central Region	1.123.871	983.763
2	Western Region	413.088	381.911
3	Eastern Region	217.751	202.885
4	Southern Region	99.594	73.823
5	Foreign Sales(Export)	13.269	15.941
Total		1.867.573	1.658.323

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 aluminum nitrates. The sector of producing the porous aluminum nitrates is considered integral to the sector of producing explosives, noting that the sector of producing aluminum nitrates started commercial production during the first quarter of 2010 A.D.

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 2011 comparable to 2010 A.D.

(Thousand Saudi Riyals)		
	2011	2010
Department of Zakat and Income Tax	18.591	22.724
Social Insurance	7.239	6.500





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 2011, no major work injury was recorded 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 2011 A.D., 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:

The Board of Directors of the Saudi Chemical Company and the subsidiary companies thereto agreed to:

- Disburse a basic salary of two months for the Saudi employees in the company.
- Stipulate SR 3000 as the minimum salary of the Saudi employees.

This is in response to the Honorable Royal Decrees, in belief of the private sector's duty in supporting the public sector's orientations, and in confirmation of the Saudi Chemical company's awareness of its social responsibility.

On 19/10/2011 A.D., the company held the annual festival to honor the employees of the company.

The Company paid attention to train the employees therein to develop its business and upgrade the efficiency of work and its quality, and to develop the skills of the employees and the trainees. The Company undertook a group 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 the 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 states policies it adopts. This can affect the company's profitability in the future.
- As for the close business relations with the main suppliers during the life time 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 Nitrates Company (Sinco)	Partnership	The Arab Republic of Egypt	98%
The Chemical Company for Commercial Investment Ltd.	Limited Liability	The Kingdom of Saudi Arabia	95%

Thirteenth: Summary of Financial Results

(A) The Financial Position (Thousands SAR)

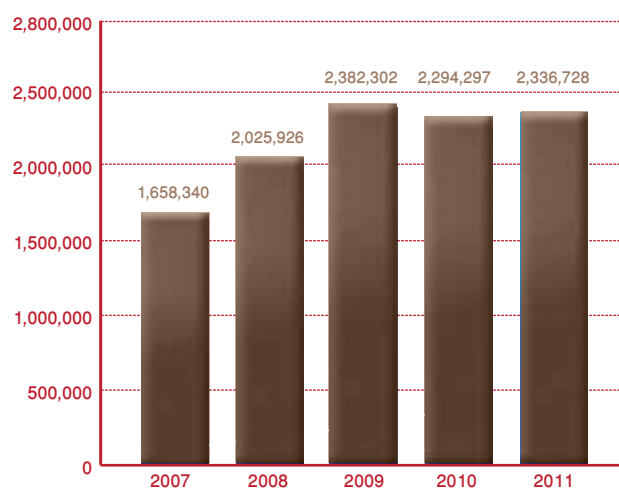
The financial position:	2011	2010	2009	2008	2007
Current assets(net)	1,549,614	1,430,192	1,716,301	1,238,969	1,054,015
Non-current assets(net)	787,114	864,105	666,001	786,957	604,325
Total assets	2,336,728	2,294,297	2,382,302	2,025,926	1,658,340
Current liabilities	932,139	907,815	1,113,386	902,904	669,781
Long-term loans	-----	-----	-----	-----	69,013
Provision of End of Service indemnity	31,425	29,131	26,346	23,925	21,682
Total liabilities	963,564	936,946	1,139,732	926,829	760,476
The shareholders Equity:					
Capital	632,400	632,400	632,400	632,400	632,400
Statutory reserve	183,303	156,563	126,246	96,144	76,091
General reserve	140,000	100,000	80,000	40,000	20,000
Retained Earnings	411,544	463,840	400,706	327,889	167,408
Total shareholders' Equity	1,367,247	1,352,803	1,239,352	1,096,433	895,899
Minority interest	5,917	4,548	3,218	2,664	1,965
Total of liabilities and shareholders' rights	2,336,728	2,294,297	2,382,302	2,025,926	1,658,340

(B) The Income Statement (Thousands SAR)

Description	2011	2010	2009	2008	2007
Consolidated sales (net)	1,867,573	1,658,323	1,643,337	1,537,157	1,230,134
Cost of Sales	(1,434,160)	(1,233,068)	(1,297,051)	(1,271,310)	(1,023,796)
Gross Profit	433,413	425,255	346,286	265,847	206,338
Selling and marketing	(65,264)	(54,402)			
General and administrative expenses	(68,668)	(54,941)	(65,471)	(51,420)	(50,786)
Operating profit	299,481	315,912	280,815	214,427	155,552
Financial expenses -net	(4,648)	(3,191)	(6,469)	(12,814)	(3,227)
Goodwill amortization and deferred expenses	-----	-----	(1,600)	(3,200)	(3,200)
Other income (net)	915	7,182	48,826	4,752	2,241
Zakat	(26,975)	(15,402)	(22,639)	(11,406)	(11,390)
Minority interest	(1,369)	(1,330)	(1,654)	(1,027)	(316)
Net profit	267,404	303,171	301,019	200,534	111,776

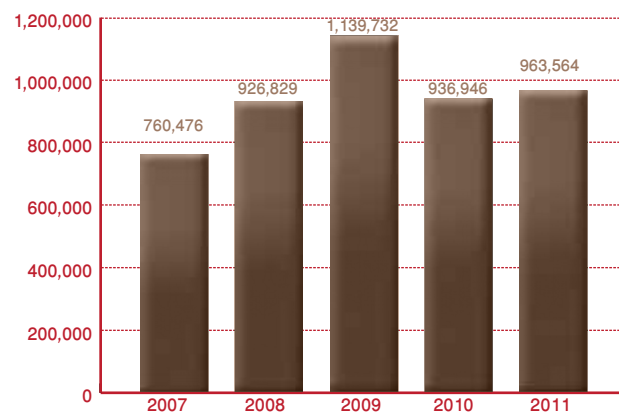
(C) Total assets (Value in Thousands Saudi Riyals)

2011	2010	2009	2008	2007
2.336.728	2.294.297	2.382.302	2.025.926	1.658.340



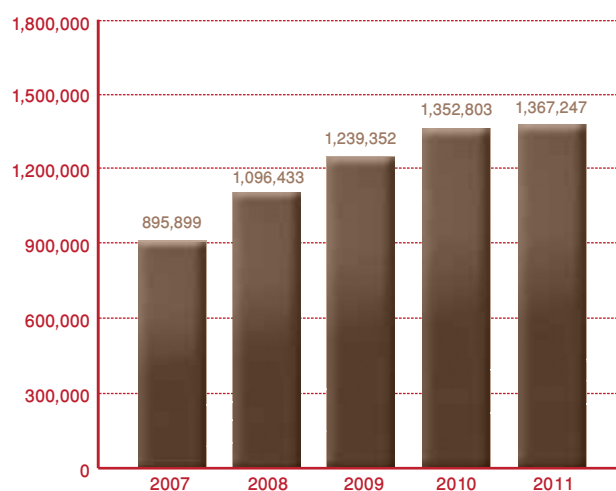
(D) Liabilities Total (Value in Thousands Saudi Riyals)

2011	2010	2009	2008	2007
963.564	936.946	1.139.732	926.829	760.476



(E) The Total Shareholders Equity (Value in Thousands Saudi Riyals)

2011	2010	2009	2008	2007
1,367,247	1,352,803	1,239,352	1,096,433	895,899



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 2011 witnessed the achievement of various practical steps including:

(1) The explosives activity for the civil purposes:

- 1- 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 .It is worth mentioning that the company completed the design works and started purchasing the factory's equipment to produce PRILLEX substance and the construction works are expected to be finished by mid-2013 A.D.
- 2- On 11/11/1432 A.H., corresponding to 9/10/2011 A.D., an agreement contract was signed with the Czech Co., 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 augment its present production capacity by 50% for the same product with a total cost of SR 6.3 million. The expansion is expected to be finished and the production to start during the second quarter of the coming year 2012 A.D. God Willing. The production lines related to adding the Sanel product (Non-electric fuses) to the company's production lines in Dahban factory in the Jeddah Region have been purchased.

3- 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 (Sitco Pharma Company):

Within the framework of the program of the permanent expansion program of SITCO Pharma in the field of supplying, distribution, and joint marketing for all the consumer, medical, and pharmaceutical commodities, it renewed its contract with Eli Lilli company for five years as of Tuesday 26/7/1432 A.H., corresponding to 28/6/2011 A.D., by virtue of which SITCO Pharma shall provide distribution services for the pharmaceutical products for Eli Lilli on the sale points with which it exclusively deal in all parts of the Kingdom of Saudi Arabia.

(3)The Porous Nitrates Sector:

Suez International Nitrates Company (SINCO) was established in the Arab Republic of Egypt during the second half of 2006 A.D. During 2010 A.D., 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 A.D. 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 the 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.

A memorandum of understanding was signed with the Swedish Yara Company on 25/8/2010 A.D. due to the desire of the latter to enter as a partner in the Suez International Nitrates Company (SINCO) (The subsidiary Company in the Arab Republic of Egypt) with a share of not more than 47% of the total share of Saudi Chemical Company in SINCO, noting that the Swedish Yara is the leading international Company in the field of fertilizers and the porous aluminum nitrates. Due to what Yara Company's vast experience and technical expertise in this field, the Saudi Chemical Company believes that this shall create new opportunities to enhance the performance and the products of SINCO Company.

(4)The Chemical Company for the Commercial Investment:

During the fourth quarter of the year 2008 A.D., the Company completed the establishment of the Chemical Company for Commercial Investment Ltd. 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, and managing and operating the civil, governmental pharmacies. The said Company is still under organization and did not start operation yet.



Fifteenth: The commercial loans:

During the third quarter of the year 2011 A.D., the subsidiary Company SITCO Pharma received a short-term loan from one of the local banks amounting to SR 133.726 million to finance its operational requirements. The loan corrosion be agreed commission as per the loan agreement. An amount of SR 13.326 million has been settled during the fourth quarter of 2011 A.D.

Sixteenth: Transactions with Relevant Parties

Due from related parties in the interim consolidated balance sheet as of December 31, 2011 and 2010. Includes Saudi Riyals 230 million due from Al-Mawarid Trading Company Limited ("MTL") resulted from acquiring a 15% equity share of MTL during 2008 for Saudi Riyals 135 million by SITCO Pharma. MTL is owned by Mawarid Holding Company and Mawarid Investment Company, in which the previous Chairman of Saudi Chemical Co. is a Majority shareholder (a related party). During 2009, SITCO Pharma entered into an agreement with MTL to enabled 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 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).

On 3 May 2011 A.D., an agreement was signed with Mawarid Trading Co. Ltd. To repay the due amount of Saudi Riyals 230 million in six equal semiannual installments at Saudi Riyals 38.333.333 for each installment, where the first installment is to be paid on August 1, 2011, after sight of this agreement by the Company's General assembly in their meeting held on May 15, 2011 accordingly Saudi Riyals 115 million was classified as current assets as of December 31, 2011 and the rest of the balance as non-current assets. In addition, the chech received from MTL, representing the first installment, was not yet deposited till the date of preparation of this annual report as a result of non-completion of the requied authorization to complete the legal requirement to waive SITCO Pharma's share in the MTL ownership.

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 A.D., and dated 7/7/1430 H., corresponding to 30/6/2009 A.D. 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 | (8) The internal control system regulation |
| (2) The shareholders' General Assembly regulation | (9) The guide on the ethical business and the relation with the shareholders |
| (3) The Board of Director regulations | (10) The policy of managing risks regulation |
| (4) The disclosure and the transparency policy regulation | (11) The policy of conflict of interest |
| (5) Distribution of profits policy regulation | (12) The executive committee regulation |
| (6) Auditing committee regulation | |
| (7) The nominations and remunerations committee regulation | |

The Company generally applies all the provisions of the abovementioned governance regulation noting that the Company did not apply the clause (b) of the model regulation of the corporate governance on following the cumulative voting method when voting to choose the members of the Board of Directors in the General Assembly, as this was not included in the Company's articles of association, the Companies' regulation, or any other binding regulation.

The Company's Compliance 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:

- A- The internal rules of the Company guarantee the procedures and measures necessary for all shareholders to exercise their statutory rights.
- B- 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.
- C- The Company is keen on providing information to the shareholders without discrimination among 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:
First: (The fourteenth ordinary General Assembly)	15/5/2011	<ol style="list-style-type: none"> 1- Approving the contents of the report of the Board of Directors for the year 2010. 2- Ratifying the balance sheet of the Company for the year ended on 31/12/2010, 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 31/12/2010. 4- Approving the recommendation of the Board of Directors to distribute profits for the first quarter of the fiscal year 2010 of an amount of 2 Riyals per 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 2010 of an amount of SR1.5 per share so that the total distributed profit for the fiscal year 2010. becomes SR (2.5) per 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 2011. and the quarterly statements.

- B) The Company affirms that it did not receive from the external auditors any request to convene the General Assembly during the year ended on 31/12/2011, so there was no meeting held. The Company further affirms that it did not receive, from shareholders owning 5% or more of the Company's share capital, a request to convene the General Assembly during the fiscal year ended on 31/12/2011.
- 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 assembly meeting was published in Tadawul and in the daily newspaper (Al Riyadh) in its edition no.15648 issued on 28/4/2011 in an 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 owning 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 chartered accountant.
- H) All the subjects reviewed to 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 headquarter, 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 after it ends.

4- The Voting Rights:

- A) The Company affirms that there are no hindrances 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 Company Policy and 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	Meed Holding Company
3	Mr. Abdul Aziz bin Ali Hassan Abu Al-Saud	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 Yemni	Member of the Board of Directors	Saudi Company for the Vehicles and Equipment Services / Al Jouf Agricultural co.
5	Mr. Abdul Rahman bin Said Al Yemni	Member of the Board of Directors	Nama Chemicals Co. / Al Jouf Agricultural co.
6	Eng. Fahd Saleh Al Jarbou	Member of the Board of Directors	Meed Holding Company
7	Mr. Sultan Mohammed Al Hadeethy	Member of the Board of Directors	Saudi Company for the Vehicles and Equipments Services
8	Mr.Mohammed Omar Al Sonousi	Member of the Board of Directors	Saudi Company for Integral Communications
9	Dr. Mohammed Saud Al Badr (General Manager)	Member of the Board of Directors	Saudi Company for Integral Communications

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

	Name	Position	Non-Executive
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'(Managing Director)	Member of the Board of Directors	Non-Executive
4	Mr. Abdul Rahman bin Abdul Aziz Al Yemni	Member of the Board of Directors	Independent
5	Mr. Sultan Mohammed Al Hadeethy	Member of the Board of Directors	Independent
6	Mr.Mohammed Omar Al Sonousi	Member of the Board of Directors	Independent
7	Mr. Abdul Aziz bin Ali Abu Al-Saud	Member of the Board of Directors	Independent
8	Mr. Abdul Rahman bin Said Al Yemni	Member of the Board of Directors	Independent
9	Dr.Mohammed Saud Al Badr (General Manager)	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 2011		The End of the year 2011		Net Change	Change
		Shares Number	Debt Instruments	Numbe of Shares	Debt Instruments		
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 bin Abdul Aziz Al Yemni	100.000	---	10.000	---	(90.000)	(90%)
4	Mr. Sultan Mohammed Al Hadeethy	1.000	---	1.000	---	---	---
5	Mr.Mohammed Omar Al Sonousi	1.300	---	1.300	---	---	---
6	Mr. Abdul Aziz bin Ali Abu Al-Saud	131.748	---	131.748	---	---	---
7	Eng. Fahd Saleh Al Jarbou'	1.000	---	1.000	---	---	---
8	Dr.Mohammed Saud Al Badr (General Manager)	5.720	---	1.020	---	(4.700)	(82%)
9	Mr. Abdul Rahman bin Said Al Yemni	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 to whom the Interest is destined	The Beginning of the year 2011		The End of the year 2011		Net Change	Change
		Shares Number	Debt Instruments	Numbe of Shares	Debt Instruments		
1	Muhammad Hamad Al Sogaih (Deputy General Manager)	---	---	---	---	---	---
2	Adel Abdel Fattah Al- Sayed (Director of Finance)	50	---	50	---	---	---
3	Abdul Aziz Mohammed Abdul Latif (Director of Purchasing)	---	---	--	---	---	---
4	Abdul Rahman Mohammed Al Musaed (Director of Training & Technical Support)	---	---	--	---	---	---
5	Salah Bateh Al Enzi (Director of Production)	1.000	---	1.000	--	---	---
6	Mohammed Abdullah Al Mazeny (Director of Marketing and Sales)	---	---	---	---	---	---

The Meetings of the Board of Directors During the Year 2011:

The Board of Directors met 3 times during the year 2011, and the following table shows the attendance times of each members:

	Name	The first meeting 23/1/2011	The second meeting 24/4/2011	The third meeting 18/12/2011	Total	Total
1	Prince Ahmad bin Khaled bin Abdullah bin Abdul Rahman Al Saud (Chairman)	✓	✓	✓	3	100%
2	Mr. Sameer Mahmoud Abdul Hady	✓	✓	✓	3	100%
3	Mr. Abdul Rahman bin Abdul Aziz Al Yemni	✓	✓	✓	3	100%
4	Mr. Sultan Muhammad Al Hadeethy	✓	✓	✓	3	100%
5	Mr. Muhammad Omar Al Sonosy	✓	✓	✓	3	100%
6	Mr. Abdul Aziz bin Ali bin Hassan Abul Saud	✓	✓	✓	3	100%
7	Eng. Fahd Saleh Al Jarbou	✓	✓	✓	3	100%
8	Dr. Muhammad Saud Al Badr (General Manager)	✓	✓	✓	3	100%
9	Mr. Abdul Rahman Said Al Yemni	✓	✓	✓	3	100%

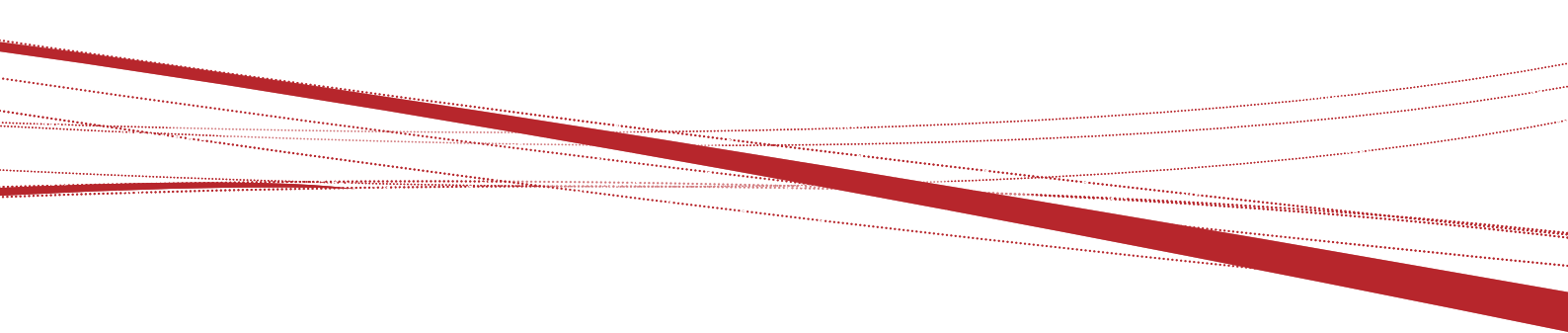
A Concise Description of the Subcommittees of the Board of Directors:

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:-

Its 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 strategy of the Company has been translated into real 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; like, 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 verify 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 that 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. Participate 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 in nature.
 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			Total times of attendance
1	Prince Ahmad bin Khaled bin Abdullah bin Abdul Rahman Al Saud	Chairman of the committee	4
2	Mr. Sameer Mahmoud Abdul Hady	Member	4
3	Eng. Fahd Saleh Al- Jarbou	Member	4
4	Mr. Mohammad Omar Al Sonosy	Member	4

Work Duration:

3 years starting from 2010 A.D. ending by the end of the term of the current board of directors, on December 31, 2012.

Number of meetings:

The executive committee held four meetings during 2011 A.D.

Second: Auditing Committee:-

Its 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 annually 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 spread of environment of control inside the Company.
3. Prepare 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 Chartered accountant:

1. To put forward recommendations concerning the selection of the external auditors which include the review by the committee of its professionalism, independence, expected risks due to interest conflict, and also the audit fees .
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. To 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. To 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 finding & recommendations 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 violations or infractions related to the administration or any of the employees of the Company.

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 the best interest of the company.
- 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 seeking to attend 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. Following-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.

The Names of the members:

Name			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 starting from 2010 and ending with the end of the current session of the Board on 31/12/2012 A.D.

Number of meetings:

The Audit Committee held four meetings during 2011 A.D.

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. Setting clear policies for the compensations and the remunerations of the members of the Board of Directors and the top executives ,and when setting such policies, using performance related criteria should be taken into account.

The Names of the members:

Name			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	Engineer: Fahd Saleh Al Jarbou	Member	3

The Duration of work:

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

The Number of meetings:

Nominations and Remunerations Committee held three meetings during 2011 A.D.

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	---	---	3.157.567
Allowances	---	---	316.348
Periodic bonuses and annual allowance to attend meetings	209.000	1.783.000	2.765.850
Incentive plans	---	---	---
Any compensations or other in kind benefits payable on a monthly or yearly.	---	---	---

The Conflict of the Interests of 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 director of finance 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 31/12/2011 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 the 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 its operations.

- There are no significant differences in the operating results from the prior year's 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 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:

During the financial year ended 31/12/2011 A.D., no punishment, penalty or reserve restrictions were imposed by the Capital Market Authority or any other supervisory or statutory or other judicial authority.

The Results of the Annual Auditing of the effectiveness of the internal control: The Annual Report shows 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 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 adopts, 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 control systems provide reasonable assurance to attain the objectives of the Company. The scope of work 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 amount (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-one: Auditor:

Approved by the Ordinary General Assembly held on 15/5/2011 on the appointment of M/s PriceWaterhouse as external auditor to the company for the financial year ended 12/31/2011 AD, as well as check lists quarterly periods ended September 30, 2011 and December 31, 2011 and 31 March of 2012 and 30 June 2012.

Distributions of Profits Payable to the Shareholders: -

- 1- The fourteenth ordinary general assembly (second meeting) approved in its annual meeting held on 15/5/2011 A.D. based on the recommendation of the Board of Directors to distribute the fourth quarter's profits of the fiscal year 2010 of SR 126.480.000 for the company's shareholders equivalent to SR 2 per 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 Monday 27/5/1432 A.H., corresponding to 30/5/2011 A.D., and this is by direct transfer to the bank shareholders' accounts linked to their investment portfolios.
- 2- The Board of Directors in its meeting held on 23/1/1433 A.H., corresponding to 18/12/2011 A.D. approved the distribution of profits of the third quarter ending on 30/9/2011 A.D. of 126.480.000 as (SR 2 per share), and as per the eligibility of the shareholders recorded in the circulation records of Sunday 30/1/1433 A.H., corresponding to 25/12/2011 A.D., noting that such profits have been disbursed as of Wednesday 3/2/1433 A.H., corresponding to 28/12/2011 A.D. and this is by direct transference to the bank shareholders' accounts linked to their investment portfolios.



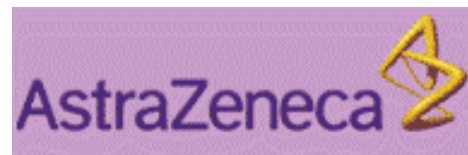
Conclusion:

The Board of Directors concludes its report by expressing thanks and gratitude to the esteemed shareholders for accepting the invitation, and for the confidence and trust accorded to the Board of Directors. The year of 2011 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





ANNUAL REPORT 2011



**SAUDI CHEMICAL COMPANY
(A Saudi Joint Stock Company)**

**CONSOLIDATED FINANCIAL
STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2011**

INDEPENDENT AUDITORS' REPORT

February 25, 2012

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 (collectively the "Group") and its subsidiaries as of December 31, 2011 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 Articles 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. The consolidated financial statements of the Group for the year ended December 31, 2010 were audited by other auditors whose unqualified report was dated 17 Rabie I 1432H (February 20, 2011).

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, 2011 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.

PricewaterhouseCoopers

By:

Khalid A. Mahdhar
License Number 368



Consolidated Balance Sheet

(All amounts in Saudi Riyals thousands unless otherwise stated)

As at December 31,			
Assets	Note	2011	2010
Current assets			
Cash and cash equivalents	5	98,976	122,422
Accounts receivable, net	6	850,680	746,484
Inventories, net	7	459,899	502,578
Prepayments and other assets		23,126	18,601
Due from related parties	14	116,933	40,107
Total current assets		1,549,614	1,430,192
Non-current assets			
Investments in unconsolidated subsidiaries	8	1,000	1,000
Property, plant and equipment, net	9	201,307	201,631
Goodwill	10	469,807	469,807
Due from related parties	14	115,000	191,667
Total non-current assets		787,114	864,105
Total assets		2,336,728	2,294,297
Liabilities			
Current liabilities			
Short-term borrowings	11	133,726	16,978
Accounts payable		736,646	839,720
Accrued and other liabilities	12	58,908	49,247
Due to related parties	14	2,859	1,870
Total current liabilities		932,139	907,815
Non-current liabilities			
Employees' termination benefits	15	31,425	29,131
Total liabilities		963,564	936,946
Equity			
Equity attributable to shareholders of the Company:			
Share capital	16	632,400	632,400
Statutory reserve	17	183,303	156,563
General Reserve	18	140,000	100,000
Retained earnings		411,544	463,840
Total equity attributable to shareholders' of the Company		1,367,247	1,352,803
Minority interest		5,917	4,548
Total equity		1,373,164	1,357,351
Total liabilities and equity		2,336,728	2,294,297
Contingent liabilities and income	24		

The notes on pages 42 to 60 form an integral part of these consolidated financial statements.

Consolidated Income Statement

(All amounts in Saudi Riyals thousands unless otherwise stated)

For the year ended December 31,			
	Notes	2011	2010
Sales	6	1,867,573	1,658,323
Cost of sales		(1,434,160)	(1,233,068)
Gross profit		433,413	425,255
Operating expenses			
Selling and marketing	19	(65,264)	(54,402)
General and administrative	20	(68,668)	(54,941)
Income from main operations		299,481	315,912
Other income (expenses)			
Financial charges		(4,648)	(3,191)
Other income, net		915	7,182
Income before zakat and minority interest		295,748	319,903
Zakat for a subsidiary		(13,143)	(9,977)
Zakat for the Company	13	(13,832)	(5,425)
Income before minority interest		268,773	304,501
Minority interest		(1,369)	(1,330)
Net income for the year		267,404	303,171
Earnings per share in Saudi Riyals:			
Income from main operations	22	4.74	5.00
Net income for the year	22	4.23	4.79

The notes on pages 42 to 60 form an integral part of these consolidated financial statements.

Consolidated Statement Of Cash Flows
(All amounts in Saudi Riyals thousands unless otherwise stated)

For the year ended December 31,			
	Note	2011	2010
Cash flows from operating activities			
Net income for the period		267,404	303,171
Adjustments for non-cash items			
Depreciation	9	18,628	16,761
Loss (gains) on sale of property, plant and equipment		263	(175)
Provision for doubtful debts	6	3,686	1,918
Provision for slow-moving inventories	7	583	1,373
Income attributable to minority interest		1,369	1,330
Changes in working capital			
Accounts receivable		(107,882)	(111,373)
Inventories		42,096	(63,437)
Prepayments and other current assets		(4,525)	(7,824)
Accounts payable		(103,074)	16,564
Accrued and other current liabilities		9,661	(9,395)
Due from / to related parties		830	(414)
Employees' termination benefits		2,294	2,785
Net cash generated from operating activities		131,333	151,284
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(18,809)	(23,319)
Proceeds from sale of property, plant and equipment		242	296
Net cash utilized in investing activities		(18,567)	(23,023)
Cash flows from financing activities			
Change in short-term borrowings		116,748	(33,022)
Dividends paid		(252,960)	(347,466)
Net cash utilized in financing activities		(136,212)	(380,488)
Net change in cash and cash equivalents		(23,446)	(252,227)
Cash and cash equivalents at beginning of the year		122,422	374,649
Cash and cash equivalents at end of the year	5	98,976	122,422
Supplemental non-cash financing activities			
Transfer from retained earnings to general reserve	18	40,000	20,000

The notes on pages 42 to 60 form an integral part of these consolidated financial statements.

Consolidated Statement Of Changes In Shareholders' Equity
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	Share capital	Statutory reserve	General reserve	Retained earnings	Total
January 1, 2010		632,400	126,246	80,000	400,706	1,239,352
Net income for the year		-	-	-	303,171	303,171
Transfer to statutory reserve	17	-	30,317	-	(30,317)	-
Transfer to general reserve	18	-	-	20,000	(20,000)	-
Dividends	23	-	-	-	(189,720)	(189,720)
December 31, 2010		632,400	156,563	100,000	463,840	1,352,803
Net income for the year		-	-	-	267,404	267,404
Transfer to statutory reserve	17	-	26,740	-	(26,740)	-
Transfer to general reserve	18	-	-	40,000	(40,000)	-
Dividends	23	-	-	-	(252,960)	(252,960)
December 31, 2011		632,400	183,303	140,000	411,544	1,367,247

The notes on pages 42 to 60 form an integral part of these consolidated financial statements.

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 registered address of the Company is:

PO Box 2665, Malaz, Al Ahsa 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 provides 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 and food items.

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

Subsidiary	Country of incorporation	Effective ownership at December 31,	
		2011	2010
Saudi International Trading Company (“SITCO Pharma”)	Saudi Arabia	99%	99%
Suez International Nitrate Company (“SINCO”)	Republic Arab of Egypt	98%	98%

In addition to the above subsidiaries, the Group has two subsidiaries: Chemical Company for Commercial Investment, which is registered in the Kingdom of Saudi Arabia and is 100% owned by the Group; and Advance Instruments Group Company, which is registered in the Kingdom of Saudi Arabia and is 95% owned by SITCO Pharma. The accounts of the said two subsidiaries were not consolidated in the accompanying consolidated financial statements as of and for the years ended December, 2011 and 2010 as these subsidiaries do not have any operating activities. In addition, the Group’s investment in such subsidiaries is insignificant. The Group’s investment in such subsidiaries is accounted for using the equity method and included under investments in unconsolidated subsidiaries in the accompanying consolidated balance sheet (See Note 8).

The accompanying consolidated financial statements were approved on 3 Rabie II, 1433H (February 25, 2012).

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. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. 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. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group. See also Note 10.

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.

(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 and 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:

- (i) Assets and liabilities for the balance sheet presented are translated at the closing exchange rate at the date of that consolidated balance sheet;
- (ii) Income and expenses for each income statement are translated at average exchange rates; and
- (iii) 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 subsidiaries into Saudi Riyals are reported as a separate component of equity.

Dividends received from foreign subsidiaries 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 a foreign subsidiaries is disposed off or sold, 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 is accounted for using the equity method of accounting and is 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.

Notes To the consolidated Statements for the years ended december 31,2011

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:

Property, machines and equipment	Number of years
Buildings	33
Leasehold improvements	10 - 33
Machinery and equipment	7 - 10
Furniture and fixtures and office equipment	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.

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.

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 received and services rendered, 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 Group is 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 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.

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 the sales agreements. Revenue of the explosions services recognized based on rendered services 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 include direct and indirect costs.

Selling and marketing expenses

Represent expenses resulting from the Company'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 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.

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 is computed on the basis of the weighted average number of ordinary shares during the year amounting to 63,240,000 shares for the fiscal years ended December 31, 2011 and 2010.

2.21 Segment reporting

a) Business segment

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

- (i) engaged in revenue producing activities;
- (ii) results of its operations are continuously analyzed by management in order to make decisions related to resource allocation and performance assessment; and
- (iii) 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.

2.22 Reclassification comparative figures

Reclassification of comparative figure has been made in the consolidated financial statement to comply with the presentation for the current year ended December 31, 2011.

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 Company 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.

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 to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group's credit risk result 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 have 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. See Note 6.

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. See Note 11.

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, see Note 8. 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

5. Cash and cash equivalents

	2011	2010
Cash at bank	98,687	122,163
Cash in hand	289	259
	98,976	122,422

6. Accounts receivable

	2011	2010
Trade Receivables	868,939	775,197
Provision for doubtful debts	(18,259)	(28,713)
	850,680	746,484

About 70% of the trade receivables as at December 31, 2011 (2010: 71%) are due from government parties, such parties have strong credit rating in the Saudi market. Also about 29% of sales were to two customers for the years ended December 31, 2011 and 2010.

Movement in provision for doubtful debts account is as follows:

	2011	2010
January 1	28,713	26,713
Additions	3,686	1,918
Adjustments/write-off	(14,140)	82
December 31	18,259	28,713

7. Inventories

	2011	2010
Medicines	367,102	440,922
Raw materials	53,349	32,383
Detergents	26,036	9,434
Finished goods	12,874	14,787
Spare parts, not held for sale	2,162	1,560
Other	713	5,246
	462,236	504,332
Provision for slow-moving inventories	(2,337)	(1,754)
	459,899	502,578

Movement in provision for inventory obsolescence is as follows:

	2011	2010
January 1	1,754	1,346
Additions	583	1,373
Adjustments/write-off	-	(965)
December 31	2,337	1,754

8. Investments in unconsolidated subsidiaries

Investments in unconsolidated subsidiaries at December 31 are summarized as follows:

	Note	2011	2010
Chemical Company for Commercial Investments	8-1	1,000	1,000
Advance Instruments Group Company	8-2	-	-
		1,000	1,000

8.1 Chemical Company for Commercial Investments

Chemical Company for Commercial Investment is a limited liability company registered in the Kingdom of Saudi Arabia, and is owned 5% by the SITCO Pharma and 95% by the Company. Chemical Company for Commercial Investment is engaged in wholesale and retail trading of medicines and medical material, medical machinery and equipment, management and operating of the private and government pharmacies. Such company has not yet commence its commercial operations. Accordingly, the financial statements of such company have not been consolidated in the accompanying financial statements.

8.2 Advanced Instrument Group Company

Advanced Instruments Group Company is a limited liability company registered in the Kingdom of Saudi Arabia, and is owned 95% by SITCO Pharma. The above-mentioned company is engaged in wholesale and retail of medical devices, machinery and equipment, electronic and scientific equipment, computers and software settings, installation and operating the mentioned equipment and import its spare parts and supplies. Currently, the above-mentioned company has no operations and could be liquidated and its carrying value is not significant and has recorded at Saudi Riyals 1. Accordingly, the financial statements of such company have not been consolidated in the accompanying financial statements.

9. Property, plant and equipment, net

	January 1, 2011	Additions	Disposals	December 31, 2011
Cost				
Land	8,163	-	-	8,163
Buildings	218,596	2,537	-	221,133
Leasehold improvement	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	6511	6,676	-	13,187
	456,993	18,809	(8,856)	466,946
Accumulated depreciation				
Buildings	(143,913)	(6,341)	-	(150,254)
Leasehold improvement	(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

Notes To the consolidated Statements
for the years ended december 31,2011

Transferred From					
	January 1, 2010	Additions	Transfer to (from) capital work-in- progress	Disposals	December 31, 2010
Cost					
Land	5,764	-	2,399	-	8,163
Buildings	192,186	7,295	19,115	-	218,596
Leasehold improvement	19,440	912	-	-	20,352
Machinery and equipment	77,633	1,136	81,201	(84)	159,886
Furniture, fixture and tools	9,667	2,246	-	(59)	11,854
Vehicles	25,997	7,887	-	(2,253)	31,631
Capital work-in-progress	105,383	3,843	(102,715)	-	6,511
	436,070	23,319	-	(2,396)	456,993
Accumulated depreciation					
Buildings	(138,049)	(5,864)	-	-	(143,913)
Leasehold improvement	(15,221)	(729)	-	-	(15,950)
Machinery and equipment	(60,017)	(6,968)	-	75	(66,910)
Furniture, fixture and tools	(6,960)	(276)	-	45	(7,191)
Vehicles	(20,629)	(2,924)	-	2,155	(21,398)
	(240,876)	(16,761)	-	2,275	(255,362)
	195,194				201,631

Capital work-in-progress at December 31, 2011 and 2010 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.

10. Goodwill

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

11. Short-term borrowings

SITCO Pharma has a credit facilities with local banks amounting SR 425 million (2010: SR 450 million) to finance its operations. The facilities contain overdrafts, short-term bank loans, foreign currency exchange agreements, letter of guarantee and letter of credits. The amount of SR 328.7 million was already used from those facilities as of December 31, 2011 (2010: 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 conditions and other matters. The carrying value of the short-term loans are in Saudi Riyals.

12. Accrued and other current liabilities

	Note	2011	2010
Salaries and other employee benefits		8,764	7,662
Zakat provision for a subsidiary		12,687	10,000
Accrued dividends		10,458	11,182
Accrued marketing expenses		8,026	9,306
Advance payments from customers		5,320	4,012
Zakat provision for the Company	13	8,477	2,780
Other		5,176	4,305
		58,908	49,247

13. Zakat matters

13.1 Adjusted net income for the year

	2011	2010
Income before Zakat	276,236	308,596
Provisions	6,833	3,217
Company's share in net income of subsidiaries	(112,892)	(121,752)
Depreciation	(12,700)	(16,072)
Adjusted net income for the year	157,477	173,989

Notes To the consolidated Statements
for the years ended december 31,2011

13.2 Components of Zakat base

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

	Note	2011	2010
Shareholders' equity at beginning of year		1,110,302	1,060,814
Provisions at beginning of year		17,346	13,019
Adjusted net income for the year	13-1	157,477	173,989
Investments		(899,428)	(871,432)
Spare parts, net held for sale		(2,162)	(1,560)
Property, plant and equipment, as adjusted		(56,428)	(49,437)
Approximate zakat base		327,107	325,393

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

13.3 Provision for zakat

	2011	2010
January 1	2,780	10,872
Provisions for:		
Current year	8,477	2,780
Prior years	5,355	2,645
Total provisions charged during the year	13,832	5,425
Payments	(8,135)	(13,517)
Balance as of December 31	8,477	2,780

13.4 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 2010.

14. Related parties' transactions

14.1 Related party transactions

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

14.2 Related party balances

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

a) Due from related parties

	2011	2010
Al Mawarid Trading Company Limited	230,077	229,930
Other	1,856	1,844
Total	231,933	231,774
Non current portion of Al-Mawarid Trading Company Limited	(115,000)	(191,667)
Current portion of due from related parties	116,933	40,107

Due from related parties does not bear any financial income at December 31, 2011 and 2010.

b) Due to related parties

	2011	2010
Advanced Instruments Group Company	999	1,038
Other	1,860	832
	2,859	1,870

Due to related parties does not bear any financial charges at December 31, 2011 and 2010.

Notes To the consolidated Statements for the years ended december 31,2011

Due from Al-Mawarid Trading Company Limited ("MTL") resulted from acquiring a 15% equity share of MTL during 2008 for Saudi Riyals 135 million by SITCO Pharma. 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 to the General Assembly meeting of the shareholders held on June 30, 2009 for approval the shareholders disapproved these two deals. Consequently, SITCO Pharma'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).

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 for each installment, where the first installment is to be paid on August 1, 2011, after sight of this agreement by the Company's General assembly in their meeting held on May 15, 2011, accordingly Saudi Riyals 115 million was classified as current assets as of December 31, 2011 and the rest of the balance as non-current assets. In addition, the check received from MTL, representing the first installment, was not yet deposited 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 MTL ownership.

15. Employee termination benefits

	2011	2010
January 1	29,131	26,346
Additions	13,822	13,018
Payments	(11,528)	(10,233)
December 31	31,425	29,131

16. Share capital

The share capital of the Company as of December 31, 2011 and 2010 was comprised of 63,240,000 shares stated at Saudi Riyals 10 per share.

17. 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.

18. General reserve

General reserve is appropriated to meet any future negative financial circumstances according to shareholders' approval in their general assembly meeting based on the Board of Directors' recommendation. The general reserve in the accompanying consolidated financial statements is the general reserve of the Company. The shareholders in their general assembly meeting held on May 5, 2011 resolved to transfer of Saudi Riyals 40 million from retained earnings to a general reserve account.

19. Selling and marketing expenses

	2011	2010
Salaries, wages and other benefits	37,568	31,023
Rent	9,661	6,957
Depreciation	3,792	2,618
Travel	2,815	2,113
Advertising and marketing	1,917	2,042
Insurance	1,875	1,530
Electricity, water and telephone	1,305	1,194
Maintenance	929	1,075
Other	5,402	5,850
	65,264	54,402

20. General and administrative expenses

	2011	2010
Salaries, wages and other benefits	36,231	29,332
Cash discount	9,177	8,287
Professional fees	6,920	4,170
Provision for doubtful debts	3,686	1,918
Depreciation	2,801	2,533
Electricity, water and telephone	2,615	2,230
Rent	457	337
Other	6,781	6,134
	68,668	54,941

Notes To the consolidated Statements for the years ended december 31,2011

21. 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, 2011 amounted to approximately Saudi Riyals 7.6 million (2010: approximately Saudi Riyals 7.2 million). Future rental commitments at December 31, 2011, under these operating leases are as follows:

Years ending December 31	Saudi Riyals thousands
2012	4,422
2013	3,469
2014	2,584
2015	1,900
2016	1,800
Thereafter	20,119
	34,294

22. Earnings per share

Earnings per share from main operations income and net income for the years ended December 31, 2011 and 2010 are computed on the basis of the weighted average number of ordinary shares amounting to 63,240,000 shares for the years the ended.

23. Dividends

The shareholders in their annual general assembly meeting held on May 15, 2011, declared cash dividends amounting to Saudi Riyals 126.48 (Saudi Riyals 2 per share).

Also the Company's board of directors on December 18, 2011, recommended cash dividends amounting to Saudi Riyals 126.48 million (Saudi Riyals 2 per share) which were paid on December 25, 2011. Consequently, the total cash dividends during 2011 amounting to Saudi Riyals 252.96 million (Saudi Riyals 4 per share).

24. Contingent liabilities and income

At December 31, 2011, the Group has outstanding letters of credit and letters of bank guarantees amounting to Saudi Riyals 128.6 million and Saudi Riyals 67.5 million, respectively (2010: Saudi Riyals 141 million and Saudi Riyals 54 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, 2011.



CERTIFICATE OF APPROVAL

This is to certify that the Occupational Health & Safety Management System
of:

**Saudi Chemical Co.
PO Box 2665, Riyadh 11461
Kingdom of Saudi Arabia**

has been approved by Lloyd's Register Quality Assurance
to the following Standard:

BS OHSAS 18001:2007

The Occupational Health & Safety Management System is applicable to:

**Manufacturing, Handling and Trading of Civil Explosives &
Accessories and Provision of Related Services**

Approval
Certificate No: MEA6007765/b

Original Approval: 17 September 2009

Current Certificate: 17 September 2009

Certificate Expiry: 16 September 2012

K. Hidayat

Issued by: Lloyd's Register EMEA - Jordan for and on
behalf of Lloyd's Register Quality Assurance Limited



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This document is subject to the provision on the reverse

71 Fenchurch Street, London EC3M 4BS United Kingdom. Registration number 1879370

This approval is carried out in accordance with the LRQA assessment and certification procedures and monitored by LRQA.
The use of the UKAS Accreditation Mark indicates Accreditation in respect of those activities covered by the Accreditation Certificate Number 001
Mark Revision 12



CERTIFICATE OF APPROVAL

This is to certify that the Environmental Management System of:

**Saudi Chemical Co.
PO Box 2665, Riyadh 11461
Kingdom of Saudi Arabia**

has been approved by Lloyd's Register Quality Assurance
to the following Environmental Management System Standard:

ISO 14001:2004

The Environmental Management System is applicable to:

**Manufacturing, Handling and Trading of Civil Explosives &
Accessories and Provision of Related Services**

Approval
Certificate No: MEA6007765/a

Original Approval: 17 September 2009

Current Certificate: 17 September 2009

Certificate Expiry: 16 September 2012

K. Hidayah

Issued by: ~~Lloyd's Register EMFA - Jordan~~ for and on
behalf of Lloyd's Register Quality Assurance Limited



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71 Fenchurch Street, London EC3M 4BS United Kingdom. Registration number 1879370

This approval is carried out in accordance with the LRQA assessment and certification procedures and monitored by LRQA.

The use of the UKAS Accreditation Mark indicates Accreditation in respect of those activities covered by the Accreditation Certificate Number 001.

March 2009 (1)



CERTIFICATE OF APPROVAL

This is to certify that the Quality Management System of:

**Saudi Chemical Co.
PO Box 2665, Riyadh 11461
Kingdom of Saudi Arabia**

has been approved by Lloyd's Register Quality Assurance
to the following Quality Management System Standards:

ISO 9001:2008

The Quality Management System is applicable to:

**Manufacturing, Handling and Trading of Civil Explosives &
Accessories and Provision of Related Services**

This certificate is valid only in association with the certificate schedule bearing the same
number on which the locations applicable to this approval are listed.

Approval
Certificate No: MEA6007765

Original Approval: 17 September 2009

Current Certificate: 17 September 2009

Certificate Expiry: 16 September 2012

K. Hidayah

Issued by: Lloyd's Register EMEA - Jordan for and on
behalf of Lloyd's Register Quality Assurance Limited



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Issue Number 13



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