

الكيميائية السعودية

Saudi Chemical

شركة مساهمة سعودية Saudi Joint Stock Co



Annual Report

2014





- » The Saudi Chemical Company is a Saudi joint stock company with a paid up share capital of SR 632,400,000 listed in the Saudi Capital Market and it was established in 1972 as a pioneering Company in the field of manufacturing explosives for civil purposes in the Kingdom of Saudi Arabia. Since its inception, it has become a major local and regional provider of explosives for civil purposes in the different applications of rock displacement such as building roads, tunnels, mines, plusmining, and oil excavation.



Head Office: Kingdom of Saudi Arabia
P. O. Box 2665 Riyadh 11461
Phone: + 966 11 476 7432
Phone: + 966 11 206 6351
Fax: + 966 11 476 1275



www.saudichemical.com
Unified Number 92 00 00 698





Board of Directors' Report

Saudi Chemical Company
To the General Assembly for the Performance
and Activities of the Company for the
year 2014



INDEX

Board of Directors	5
Board of Directors' Report	7
Auditor's Report	45
Consolidated Balance Sheet	46
Consolidated Statement of Income	47
Consolidated Statement of Cash Flows	48
Consolidated Statement of Changes in Equity	49
Notes to the Consolidated Financial Statements	50-68

BOARD OF DIRECTORS

H.H.	Prince Ahmad Bin Khalid Bin Abdullah Bin Abdulrahman Al Saud	Board Chairman
Mr.	Samir Mahmoud Abdulhadi	Deputy Board Chairman
Mr.	Abdulaziz Ali Hassan Abussuud	Board Member
Mr.	Abdulrahman Abdulaziz Alyemni	Board Member
Mr.	Abdulrahman Said Alyemni	Board Member
Engr.	Fahad Saleh Al-Jarbou	Board Member
Mr.	Obaid Abdullah Alrasheed	Board Member
Mr.	Mohamed Omar Al-Sanousi	Board Member
Dr.	Mohammed Saud Al-Badr	Board Member and Managing Director



**First:**

Introduction:

Respected Shareholders of

Saudi Chemical Company

Assalamu Alaikum Warahmatu Allah Wabarakatuh

The Board of Directors of Saudi Chemical Company (the “Company”) is pleased to present to you its annual report for the year ended 31 December 2014, which covers the Company’s performance, activities and its most significant accomplishments. The report reflects the management’s efforts towards attaining the Company’s continuous growth and development. The Saudi Chemical Company and its subsidiaries achieved a record level of consolidated sales in the amount of SR 2.48 billion, with an increase of 9% in comparison to the previous year’s sales. Moreover, the annual report includes the audited consolidated financial statements for the fiscal year ended 31 December 2014 and the auditors’ report.





Second: Company's activities and its subsidiaries:

» Saudi Chemical Company (Saudi Joint Stock Company):

The Saudi Chemical Company was established in 1972 as a pioneering Company in the field of manufacturing of explosives for civil purposes in the Kingdom of Saudi Arabia. Since its inception, it has become a major local and regional provider of explosives for civil purposes in the different applications of rock displacement such as building roads, tunnels, mines, plus mining, and oil excavation. The Company owns three large factories in the Central, Eastern and Western Regions, as well as central distribution depots in the Southern and Eastern Regions. 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 explosives which are required for infrastructure and construction work.

The products introduced by the Saudi Chemical Company include the latest and safest generation of the explosive products for civil use, which is also used internationally.

» Saudi International Trading Company Ltd. (SITCO Pharma):

SITCO Pharma was established in 1982. The activity of the subsidiary is concentrated in the distribution of Pharmaceutical products in the Kingdom of Saudi Arabia. SITCO Pharma is considered one of the major pharmaceutical distributors in the Kingdom and occupies a leadership position in this area. It is the description agent for a number of major global companies specializing in the pharmaceutical industry. Also, it provides a large part of the global pharmaceutical needs for all health sectors in the Kingdom through its distribution network deployed in all areas. SITCO Pharma's capital totals five million Saudi Riyals. It is considered one of the largest national distributors of vaccines and refrigerated medications (such as insulin and hormones enrichment), which requires special conditions in transportation and storage.

» **Suez International Nitrate Company (SINCO):**

SINCO was established during the second half of 2006 in the Arab Republic of Egypt. The activity of the subsidiary is the production of ammonium nitrate, which is the main material used by the factories of Saudi Chemical Company in the Kingdom of Saudi Arabia in the production of explosives for civilian use. The annual production capacity is 80,000 tons of ammonium nitrate porosity (Noting that the commercial production of SINCO commenced during the first quarter of 2010). SINCO's authorized capital totals fifty million U.S. dollars, while the issued and paid capital is five million U.S. dollars, distributed into 5,000 shares with a par value of US\$ 1,000 per share. SINCO is a closed joint stock company and is not listed in the Egyptian Stock Market.

» **Chemical Company for Commercial Investment Ltd. (CCCIL):**

CCCIL was established in 2008 with a capital of one million Saudi Riyals. The principal activity of the subsidiary is in the wholesale and retail trade of medicines and medical materials, machinery, medical equipment, management and operation of community pharmacy and governmental organizations in the Kingdom of Saudi Arabia. CCCIL began its business activities in 2013.

» **AJA Pharmaceutical Industries Company Ltd. (AJA Pharma):**

AJA Pharma was established in 2012, as a limited liability company in the Kingdom of Saudi Arabia, with a capital of five million Saudi Riyals. The Saudi Chemical Company owns 95% and CCCIL owns 5% of AJA Pharma. AJA Pharma is engaged in the manufacturing of pharmaceuticals and is expected to commence its trial production of 40 types of medications in 2015 with the highest standards of quality, via four factory production lines. AJA's facilities are located in the city of Hail.

» **Saudi Chemical Company Ltd. (SCCL):**

SCCL was established at the end of 2011 with a capital of one million Saudi Riyals. Its commercial registration was issued on 6 Safar 1433 (corresponding to 31 December 2011). The activity of the subsidiary is concentrated in manufacturing, sales, and purchasing of explosives for civilian and military use and their related products, in addition to importing materials and equipment necessary for manufacturing.



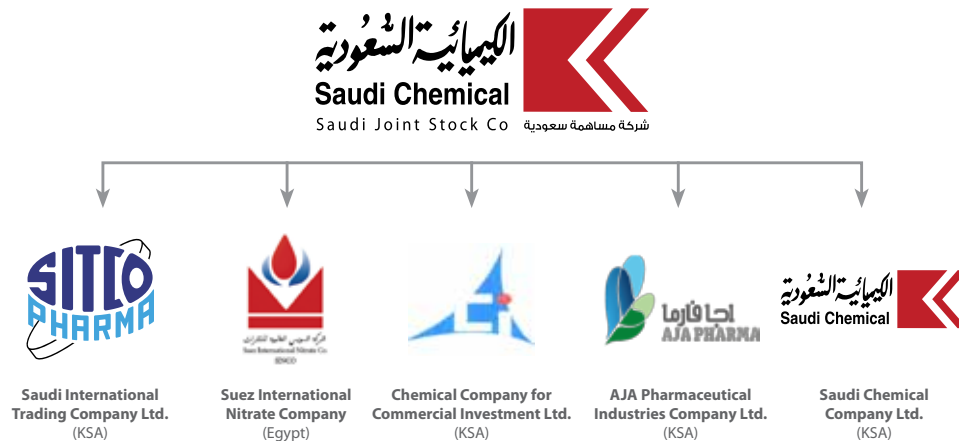


Third: Ownership percentages of Saudi Chemical Company in its Subsidiaries:

Saudi Chemical Company's percentages of ownership in its subsidiaries, directly and indirectly, are summarized as follows:

Company Name	Legal Form	Country of Incorporation	Ownership%
Saudi International Trading Company Ltd. (SITCO Pharma)	Limited liability	K. S. A.	99%
Suez International Nitrate Company (SINCO)	Closed Joint Stock Co.	Egypt	100%
Chemical Company for Commercial Investment Ltd.	Limited liability	K. S. A.	100%
AJA Pharmaceutical Industries Company Ltd.	Limited liability	K. S. A.	100%
Saudi Chemical Company Ltd.	Limited liability	K. S. A.	100%

The followings are the subsidiaries of Saudi Chemical Company:

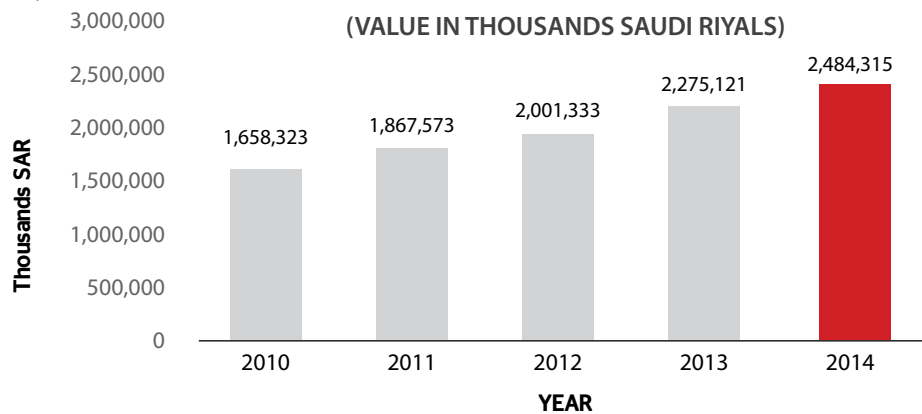


Fourth: Financial Results:

» Consolidated sales:

The consolidated net sales of the Saudi Chemical Company and its subsidiaries reached SR 2.48 Billion in the fiscal year ended 31 December 2014, compared to SR 2.27 Billion in 2013, with an increase of (9%). The sales level in 2014 confirms the continuation of the Company's efforts to maintain the growth in sales.

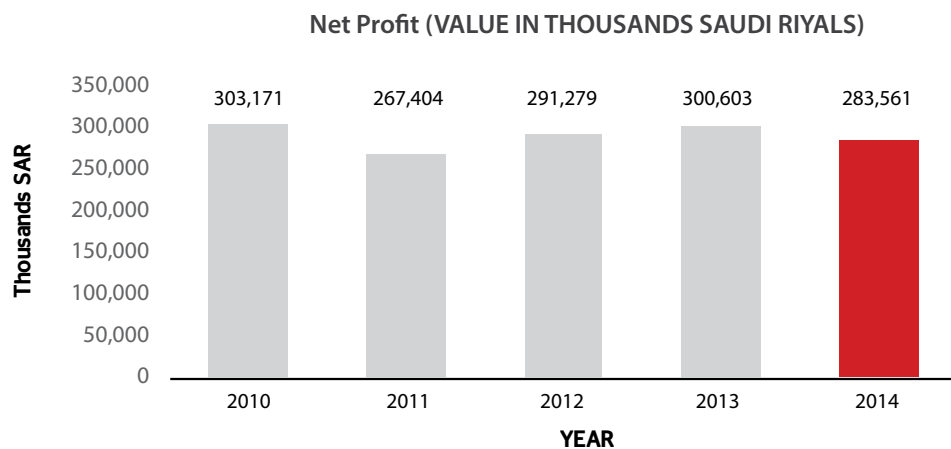
The following table shows the growth of the consolidated sales during the last five years:



The above table shows the achievement of a record rate of growth in sales, attaining a cumulative growth rate in sales of (22.4 %) during the last five years.

» Consolidated net profits:

The consolidated net profits of 2014 amounted to (SR 284 Million) compared to (SR 301 Million) in 2013, with a decrease of 6%. The reason for the decrease of the net profits compared to last year is mainly due to recognizing a gain of SR 15.4 million resulting from the sale of the old Company's administrative building included in 2013 profits, in addition to an increase in Zakat provision during 2014.



Fifth: Earnings per Share:

	2014	2013
Earnings per share in Saudi Riyals	SR 4.48 /Share	SR 4.75 /Share

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

» Activity of Explosives for the Civil Uses:

The sales of the civil explosives during the year ended 31 December 2014 amounted to SR 454 Million, compared to SR 414 million in 2013, with an increase of (10%). The attained sales level of explosives for civil use in 2014 confirms the Company's ability to provide the Kingdom with all its needs of civil explosives. The demand increased due to infrastructure projects, road construction, projects in the mining sector, quarries, and the need for explosives to detect petroleum and gas reservoirs. The Saudi Chemical Company was distinguished in its capacity to produce all the civil explosives necessary for these projects with the highest quality of international standards supported by the strategic technical agreements with the leading major international companies in this industry.

» Pharmaceutical and Detergent Activities:

SITCO Pharma maintained the growth in its annual sales of pharmaceuticals. The sales of 2014 amounted to SR 1.90 Billion, compared to SR 1.74 Billion in 2013, with an increase of (9%). The level of SITCO Pharma's sales during the last five years confirms its ability to maintain a record market share in the pharmaceutical distribution market, confirming its capability to meet the local demand for international pharmaceuticals and maintaining their availability in the Kingdom. SITCO-Pharma is committed to becoming the agent for many major international drugs companies by managing the best network for distribution and storage throughout all regions in the Kingdom. The networking of logistics and distribution is designed and based on the most sophisticated international systems to distribute all types of drugs round the clock with top line equipment. Moreover, SITCO Pharma gained a record share of the market sales for vaccines and refrigerated pharmaceuticals, which require special conditions for transportation and storage. This confirms that SITCO Pharma has become the top supplier for this type of medicine in the local market which also confirms that it now maintains the pioneering position as a major pharmaceuticals distributor in the Kingdom.

Sales of detergents and other substances amounted to SR 124 million in 2014 compared to SR 121 million in 2013, with an increase of 2%.

» Ammonium Nitrate Activities:

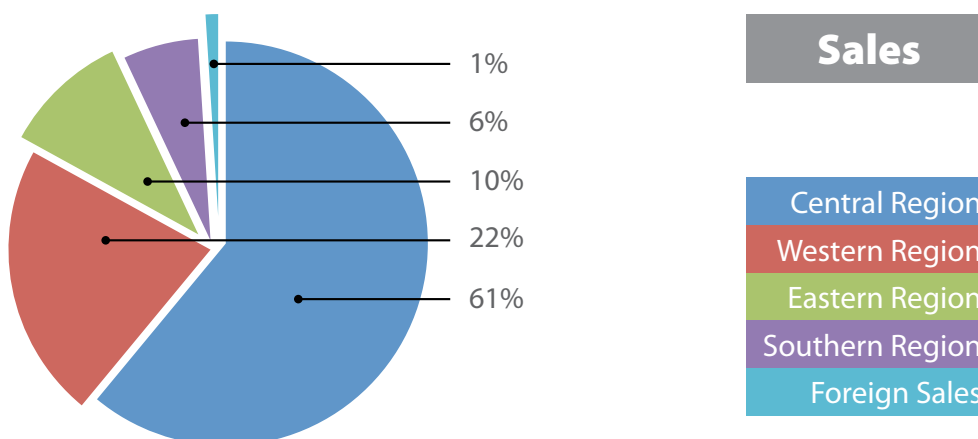
Suez International Nitrate Company (SINCO) managed to increase the level of ammonium nitrate sales during the year ended 31 December 2014, to SR 60 million compared to SR 35 million in 2013, with an increase of 71%. The sales of SINCO to Saudi Chemical Company during 2014 amounted to SR 56 million (2013- SR 33 million), which intercompany transaction eliminated when preparing the consolidated financial statements.

Seventh: Geographical Analysis of the Consolidated Sales:

The sales of the Company and its subsidiaries are mainly realized from their respective activities inside the Kingdom of Saudi Arabia as follows:

Region	Sales (thousand SR)	
	2014	2013
Central Region	1,514,841	1,392,488
Western Region	544,627	470,053
Eastern Region	234,495	246,569
Southern Region	157,472	133,715
Foreign Sales (Export)	32,880	32,296
Total	2,484,315	2,275,121

The following graph illustrates the geographical analysis of the consolidated sales achieved within Saudi Arabia and abroad for the year 2014:



Eighth: Segmental Information:

The Company's sectors are represented by the production of explosives for civil uses and services relevant thereto, the pharmaceutical and detergents trade, and the production of Ammonium Nitrates. The sector of producing the Ammonium Nitrates is considered an integral part of the sector of producing explosives, noting that the sector producing Ammonium Nitrates started the commercial production during the first quarter of 2010.



Ninth: Statement of Statutory Payments:

The following is a statement of certain statutory payments of Saudi Chemical Company and its subsidiaries which were made during 2014 compared to 2013:

(Thousand Saudi Riyals)

Description	2014	2013
Department of Zakat and Income Tax	24,405	23,279
General Organization for Social Insurance	13,283	10,824

Tenth: Safety Record

The Company pays great attention to the security and safety of its employees and their related facilities as well as protection of all their products by applying the latest safety standards. Relevant training courses are provided for its employees in the field of security, safety, including protective and periodical maintenance. As a result, and by the grace of Allah, during 2014 no major work injuries were reported and no major accidents occurred in spite of the seriousness and sensitivity of the products that the Company produces and handles. The Company has obtained the quality and the environment, health and safety quality system certification (ISO 9001: 2008) and (ISO 14001: 2004) and (Alawchass 18001: 2007) after the successes achieved by the ISO 9001 system and this demonstrates the Company's commitment to the application of quality standards in all its facilities and the highest standards

Eleventh: Social Responsibility Program:

The Company's management continues its efforts to emphasize the importance of national community service. The goal is to participate in social service from the perspective of a national duty which is imperative due to the importance of the relationship between the Company and its interaction with the community. The Company participated in many social activities directly, such as blood donation campaigns, care for cancer patients, and printing books of health awareness, which the Company believes are important and should to be highlighted.

During 2014, the Company sponsored, in cooperation with the Charity Committee for Orphans Care "Committee" (Insan), activities and programs that served as social responsibility toward these precious children. Also the Company urged its employees to offer part of their monthly salaries as donations, to be paid to the "Committee" as monthly payments during the year.

The Productive Families Charity has also received the Company's usual support, in its efforts to continue its national duty towards this organization by helping them in displaying and marketing their products.

Injaz Saudi Arabia Organization has also attracted the Company's interest in harnessing the expertise of its staff to carry out the field work in workshops used to develop and refine the talents of high school students and prepare them for the labor market by offering experiences and explaining methods for future work.

Twelfth: Manpower and Training:

Saudi Chemical Company is an important industrial organization and is one of the leading Companies specializing in areas that are forward-looking and is preparing a nationally qualified workforce with readiness and ability to manage different processes.

That is why diversified training and development programs are ongoing according to the needs of the Company, including short-term and long-term training, which is dictated by the nature of the programs and education. In addition, on-the-job training of the employee has achieved several successes in this context.

The Company's management devoted efforts to an organizational development project of Human Resources and Administration. Work was done in collaboration with a team from a specialized company which excels in the area of developing organizational structures and the preparation and drafting of job descriptions for each profession in the Company. The consultant set up an authority matrix and operating manual for HR and other manuals for administrative affairs including the updates of pay scales, benefits and work regulations. HR didn't overlook attracting qualified Saudis and others who have a useful and positive impact on the development of the Company's business from the expertise and staff the Company needs in the various departments and branches.

The Company's ongoing goal remains to increase the efficiency of the Company's management and support staff by encouraging the continuation of their general and higher education. Several members of the staff obtained a bachelor's and master's degree through distant learning while they were on- the-job. The Company also supports training and facilitates holding training sessions inside and outside the Company for all employees, including involvement of its employees in training programs conducted by the Chambers of Commerce and Industry through courses that are held in training centers outside the Kingdom in all different areas. The Company's management has an understanding of the need for current and future training programs, which will contribute to raising the efficiency of the staff in general.

Thirteenth: Expected Risks:

The Company exerts its utmost efforts to specify the significant risks it faces. To attain this, the Company uses questionnaires and holds meetings with the individuals responsible for specifying the risks. This is in addition to using surveys conducted by experts from outside the Company. Also, the results and recommendations 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 are stated below, which must be taken into careful consideration by the investors, noting that the Company's management exerts all necessary professional efforts to mitigate these risks relevant to the Company or the risks factors relevant to the market in general as much 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 monitoring the market dynamics to remain in the forefront. However, the Company does not guarantee remaining in the forefront and 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 country's policies in which it is operating. This may affect negatively the Company's profitability in the future.



- As for maintaining close business relations with the main suppliers during the life span of the Company, the Company does not guarantee their continuity in providing the same advantages to the Company in the future and this may affect the Company's profitability.

Fourteenth: Summary of Consolidated Financial Results

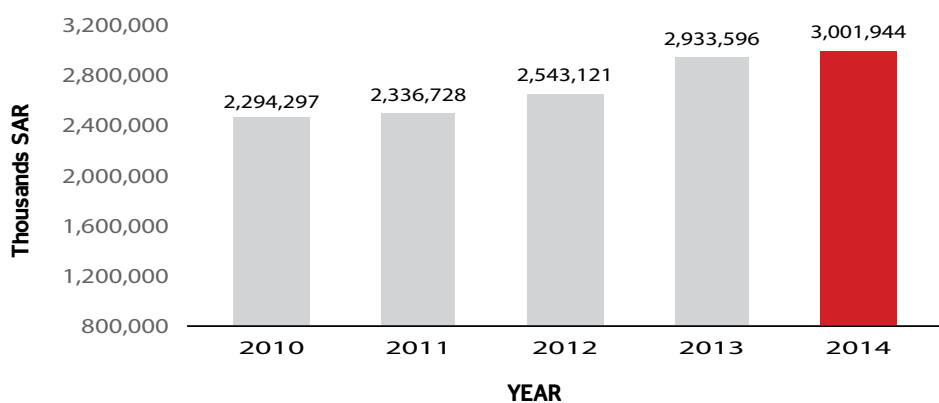
1- Consolidated Balance Sheet (Thousands SAR)

Description:	2014	2013	2012	2011	2010
Assets:					
Current assets (net)	2,236,360	2,244,454	1,830,163	1,549,614	1,430,192
Non-current assets (net)	765,584	689,142	712,958	787,114	864,105
Total assets	3,001,944	2,933,596	2,543,121	2,336,728	2,294,297
Liabilities and equity:					
Current liabilities	1,403,906	1,385,508	1,078,068	932,139	907,815
Long-term loans	-----	-----	-----	-----	-----
Provision of end of service indemnity	47,195	41,847	37,102	31,425	29,131
Total liabilities	1,451,101	1,427,355	1,115,170	963,564	936,946
The shareholders' equity:					
Capital	632,400	632,400	632,400	632,400	632,400
Statutory reserve	270,846	242,490	212,430	183,303	156,563
General reserve	260,000	220,000	180,000	140,000	100,000
Retained earnings	382,104	405,849	396,646	411,544	463,840
Total shareholders' equity	1,545,350	1,500,739	1,421,476	1,367,247	1,352,803
Non-controlling interests	5,493	5,502	6,475	5,917	4,548
Total equity	1,550,843	1,506,241	1,427,951	1,373,164	1,357,351
Total liabilities and equity	3,001,944	2,933,596	2,543,121	2,336,728	2,294,297

2- Consolidated Income Statement (Thousands SAR)

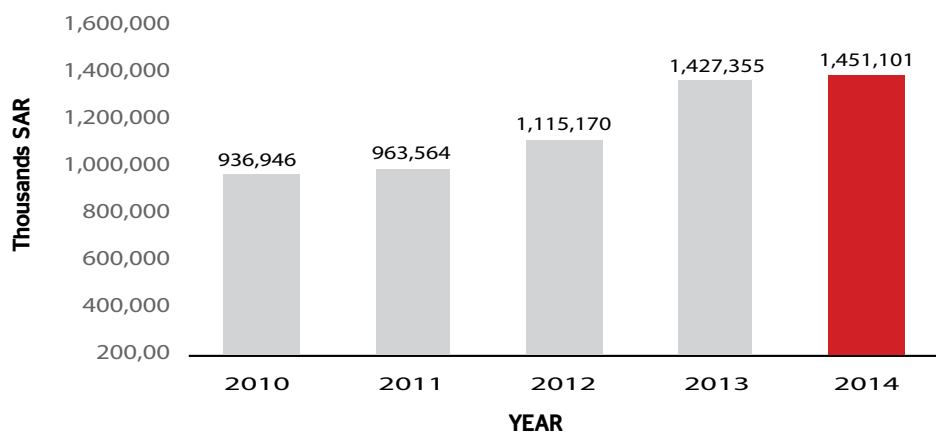
Description	2014	2013	2012	2011	2010
Sales (net)	2,484,315	2,275,121	2,001,333	1,867,573	1,658,323
Cost of sales	(1,981,519)	(1,795,635)	(1,526,819)	(1,434,160)	(1,233,068)
Gross profit	502,796	479,486	474,514	433,413	425,255
Sale and marketing expense	(92,119)	(78,392)	(71,364)	(65,264)	(54,402)
General and administrative expenses	(96,177)	(85,621)	(80,208)	(68,668)	(54,941)
Income from main operations	314,500	315,473	322,942	299,481	315,912
Financial charges –net	(6,910)	(6,382)	(5,805)	(4,468)	(3,191)
Other income (net)	5,258	16,828	1,481	915	7,182
Zakat	(27,996)	(24,028)	(25,780)	(26,975)	(15,402)
Non-controlling interests	(1,291)	(1,288)	(1,559)	(1,369)	(1,330)
Net profit	283,561	300,603	291,279	267,404	303,171

3- Total assets (Thousands SAR)

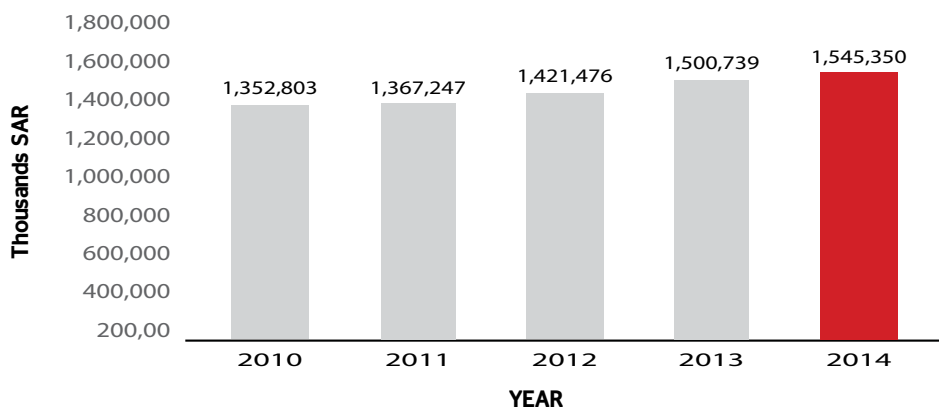




4- Total Liabilities (Thousands SAR)



5- Total Shareholders' Equity (Thousands SAR)



Fifteenth: Strategic Plans and 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 2014 witnessed the achievement of various practical steps including:

1- Explosives activities for the civil purposes:

- 1- In continuation of the geographic expansion of the manufacturing and distribution regions in the Kingdom, the Company commenced the designs and installations, which include warehouses and plant of explosives for civil use in Aljmom province, north of Holy Makkah City because of its proximity to vital projects in Holy Makkah area.
- 2- In continuation of the geographic expansion of the manufacturing and distribution regions in the Kingdom, the Company is about to finish the construction of manufacturing facilities in the Northern Region in order to serve the mining projects and phosphate mines in Huzm Al Jalamid Site and Promise to the North "Wa'ad Al Shamal" City.
- 3- The Company is currently completing final approval by the government and security agencies with jurisdiction for the land of the Eastern Region in order to establish a new production line for explosives for civil use.
- 4- The Company obtained the approval of the security authorities to add a factory for the production of explosives for civil use in the Asir Region in order to cover the increasing demand for the Company's products in the Southern Region.
- 5- The Company aims to improve the overall performance and productivity in all departments and sections of the Company, and therefore the Company has reconsidered the organizational structure and development tasks in pursuit of the Company's management's desire to raise the performance of the employees of the Company and increase the effectiveness of operations capabilities.
- 6- The Company supplied the explosives for civil use to the State of Qatar with the completion of the project of Qatar Port using the Company's products for the completion of the excavation work at the project.

2- Pharmaceutical Activities

A) SITCO Pharma:

Within the framework of the ongoing expansion of SITCO Pharma in the field of logistics, distribution and the joint marketing of consumer goods and pharmaceuticals, the Company in 2014 continued its efforts to search for new agencies. Global Pharmaceutical Companies are the target in the local pharmaceutical market in Saudi Arabia while maintaining the current pharmaceutical agencies.

B) AJA Pharma:

The Board of Directors of Saudi Chemical Company approved on 23 Jumada Alula 1433H, corresponding to 15 April 2012, to invest an amount of SR 230 million to establish a factory for pharmaceuticals and medical products to be established in the Industrial Zone in Hail. The factory will have four production lines:

Tablets and capsules	Creams
Syrup	Injection

AJA Pharma signed a lease agreement with the Saudi Industrial Property Authority (Modon) on 14/11/1433H, corresponding to 30/9/2012 to rent a plot of land at the Industrial City in Hail for 20 years effective 13/9/1433, corresponding to 1/8/2012 to construct the factory of AJA Pharma. The area of the plot of land is 119,687 square meters.

AJA Pharma signed a contract with one of the national construction Companies on 18/6/2013 to construct the buildings of the pharmaceutical factory in the industrial city in Hail, which represents "phase 1" of the construction of the project. During 2014 several other contracts were signed for other work in the factory, in addition to purchasing machinery and equipment and others. The civil construction was completed during the third quarter of 2014.

It is expected to begin the trial production of 40 varieties of medication during 2015 with highest specifications and quality. Also, this factory is characterized by its integration with the Global Pharmaceutical Manufacturing Companies to obtain licenses from them to manufacture their products and to take advantage of their own technology.

3- The Porous Nitrates Sector:

Suez International Nitrates Company (SINCO) was established in the Arab Republic of Egypt during the second half of 2006. During 2010, SINCO completed all construction relevant to its factory and passed the primary operation tests and received the license necessary for operation. The commercial operation of the project commenced during the first quarter of 2010. The annual production capacity of SINCO is approximately 80,000 MT of porous ammonium nitrates substance, which is the basic substance on which the factories of the Saudi Chemical Company in Kingdom of Saudi Arabia depend for producing explosives for the civil purposes.

This project aims to produce the basic substance essential to the production of civil explosives at Saudi Chemical Company, instead of importing it from the European countries. This project has enhanced the Company's capacity to meet the majority of its needs of the primary raw materials to produce the civil explosives. The 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 that are expected to require more quantities of the civil explosives in the future.

4- Chemical Company for Commercial Investment:

In 2008, the Company completed the establishment of the Chemical Company for Commercial Investment ("CCCIL") as a limited liability Company with a capital of SR 1 million. CCCIL's activity is mainly represented in the wholesale and retail trade in drugs, medical supplies, machinery, and medical equipment, as well as managing and operating the civil, governmental pharmacies. CCCIL commenced its commercial activities during the year 2013.

Sixteenth: Commercial Loans:

The Company and its subsidiary (SITCO Pharma) obtained short-term loans as banking facilities from local banks which are in accordance with the formulas accepted in the Islamic financing process. These loans bear financial charges as agreed upon in the loan agreement. These short-term loans are summarized as follows:-

Description	(Thousand SR)	
	2014	2013
Beginning balance	269,559	175,727
Additions	648,413	513,124
Repayments	(550,593)	(419,292)
Balance, end of year	367,379	269,559

Seventeenth: Transactions with Related Parties:

Due from related parties in the consolidated balance sheet as of December 31, 2014 and 2013, includes SR 230 million due from Mawarid Trading Ltd. ("MTL"), which resulted from SITCO Pharma acquiring a 15% equity share of MTL during 2008 for SR 135 million. In 2009, SITCO Pharma entered into an agreement with MTL to enable SITCO Pharma to acquire 50% of the equity shares in Al-Dawaa for Medical Services Company by paying SR 235 million and to withdraw the 15% ownership in the partners' shares in MTL. SITCO Pharma settled the difference between these two deals by paying SR 95 million to the sellers. Upon the presentation of these two deals mentioned above to the General Assembly of the shareholders held in June 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 concerned authorities to finalize the deal. Therefore, the total paid amount of SR 230 million was recorded as due from related parties.

On May 3, 2011 an agreement was signed with MTL to repay the due amount of SR 230 million in six equal semi-annual installments of SR 38,333,333 each, whereby the first installment was to be paid on August 1, 2011 and the final one on February 1, 2014. Accordingly the full balance of the agreement amounting to SR 230 million was re-classified as current assets. The due installments from MTL have not yet been collected as at the date of preparation of these accompanying consolidated financial statements, as a result of non-completion of the required authorization to complete the legal requirement to waive SITCO Pharma's share in the MTL ownership.

The shareholders in their General Assembly held on July 4, 2012, resolved to raise a case against MTL to claim the return of SR 230 million and authorized the Board of Directors to take statutory and legal action if not settled before the end of 2012. Accordingly, after the

passage of that time limit, SITCO Pharma appointed a lawyer in March 2013 to represent it in front of the judicial and governmental parties with respect to the case against MTL to claim return of the due amount. A case against MTL was filed with the Bureau of Grievances ("BOG"). No final decision has yet been reached, however, Management is of the opinion that all monies will be recovered in due course.

Eighteenth: Corporate Governance and the Applications Related Thereto:

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

- | | |
|--|--|
| (1) Corporate Governance Regulation | (7) Disclosure and Transparency Policy Regulation |
| (2) Board of Director Regulation | (8) Shareholders' General Assembly Regulation |
| (3) Executive Committee Regulation | (9) Dividends Distribution Policy Regulation |
| (4) Nomination & Rem. Committee Regulation | (10) Conflict of Interest Policy |
| (5) Audit Committee Regulation | (11) Risk Management Policy Regulation |
| (6) Internal Control Regulation | (12) Ethics & Relations with Stakeholders Regulation |

The Company generally applies all the provisions of the abovementioned Corporate Governance Regulations, noting that the Company did not apply clause (B) of the recommended Corporate Governance regulation relating to the cumulative voting method when voting to choose the members of the Board of Directors ("BOD" or "Board") in the General Assembly, because this is not included in the Company's By-Laws, Companies' Regulations, or any other mandatory regulation.

The BOD of Saudi Chemical Company resolved on 20/5/2013 to add the following texts to the Conflict of Interest Policy of the Company's Corporate Governance to be in compliance with the Listing Rules issued by the Capital Market Authority ("CMA"):

1- Article Three (the disclosure of Conflict of Interests): -

3/5 (to inform the CMA and the public about any deal between the Company and a related party or any arrangement that the Company and the related party invest in any project or in an asset or providing finance to it).

2- Article Five (Guidelines of Conflict of Interests to the executive management and Company's employees): -

Board of Directors' report shall include the following: -

5/1/8 (A description of any deal between the Company and a related party).

5/1/9 (Information relating to any business or contracts, in which the Company is a party, or if there is an interest to any members of the Company's BOD to the Managing Director or the Director of Finance or any person with a relationship to any of them, and if there are no such works or contracts, the Company has make a declaration to this effect).

The Shareholders' General Assembly held on June 25, 2014, approved to add the above texts to the Corporate Governance and the Internal Governance Regulation which were previously recommended by the BOD on Monday 14/02/1430 H, corresponding to 9/2/2009 and approved by the Ordinary General Assembly on 30/6/2009.

Company's Compliance with the Corporate Governance Regulations:-

1- Shareholders' Rights and General Assembly:

The Company's By-Laws and its Regulation guaranteed the general rights of the shareholders, including all the rights relevant to the share, particularly the right to obtain the share of the dividends distributed, the right to obtain share of the Company's assets in case of liquidation, the right to attend the shareholders' assemblies and to participate in the deliberations, and vote on its resolutions, the right to monitor the works of the BOD and to file liability cases against the BOD's members, as well as the right to inquire and request information in a manner not harming the Company's interests and not contradicting with the Capital Market Law and its Implementing Regulations.

2- Facilitate Exercising the Shareholders' Rights and Obtaining Information:

- A) The Company's Internal Regulations guaranteed the procedures and the necessary matters to enable all shareholders to exercise their statutory rights.
- B) All information was fully provided to all shareholders to enable them to fully exercise their rights in a manner that the information provided is sufficient, accurate, and regularly updated and timely.
- C) The Company is keen to provide the information to the shareholders without any discrimination between them.



3- Shareholders' Rights Relating to the General Assembly's Meeting:

A) Meeting: (Date for holding the meeting):	Reasons of holding the meeting:
(Eighteenth Ordinary General Assembly) 25/6/2014	<ol style="list-style-type: none"> 1- Approval of the contents of BOD Report of 2013. 2- Approval of the Company's Consolidated Financial Statement, and the auditor's report for the year ended 31/12/2013. 3- Clearance of BOD members in respect of their work during fiscal year ended 31/12/2013. 4- Approval of the BOD's recommendation to distribute dividends for the fourth quarter of the fiscal year 2013 in the amount of SR 110,670,000, equal to SR (1.75) per share, representing 17.5% to the shareholders registered in the Company records in (Tadawul) by the end of trading on the day of the Annual General Meeting, and to approve what has been distributed from the profits for the Third Quarter of 2013 in the amount of SR 126,480,000 equal to SR (2) per share, representing 20% of capital. The total dividends distributed for the fiscal year 2013 equal to SR (3.75) per share, representing 37.5% of the Company's capital and amounted to SR 237,150,000. 5- Approval of the transfer of (SR 40) forty million Riyals of profits to the Company's general reserve for any future negative impacts, in addition to transferring the remaining profits to the retained earnings account. 6- Approval of the appointment of an external auditor from among the candidates recommended by the Audit Committee to audit the financial statements for the fiscal year 2014 and the quarterly financial statements, in addition to determining its fees. 7- Approval to pay SR 1,800,000 as a remuneration to the BOD's members (SR 200,000 per member for the financial year ended 31/12/2013). 8- Approval to add the following text to the Company's Corporate Governance of Saudi Chemical Co. to conform to the Listing Rules issued by Capital Market Authority ("CMA"): <p>Article Three (Disclosure of conflicts of interest):-</p> <p>3/5 (Reporting to the CMA and the Public any deal between the Company and a related party or any arrangement under which the Company or a related party invests in any project or asset or provides funding to the project or the asset).</p> <p>Article Five (Conflict of interest guidelines for the Company's executive management and employees):-</p> <p>The BOD's report must include the following: -</p> <p>5/1/8 (Description of any deal between the Company and a related party).</p> <p>5/1/9 (Information relating to any acts or contracts, of which the Company is a party, or where the interests of one of the members of the BOD or the General Manager or Director of Finance or any person having a relationship with any of them, and if there is no work or such contracts the Company must submit a confirmation to this effect).</p>

- B) The Company affirms that it did not receive from the External Auditor any request to convene the General Assembly during the year ended 31/12/2014 and such meeting was not held. The Company further affirms that it did not receive, from shareholders owning 5% of the Company's share capital or more, a request to convene the General Assembly during the fiscal year ended 31/12/2014, and such meeting was not held.
- C) 1) The Company announced the time of holding the General Assembly, its location, and its agenda 25 days prior to the date according to the regulations.

2) The invitation to the Eighteenth General Assembly's (second meeting) was published on Tadawul on 19/6/2014 and in the daily newspaper (Al-Jazirah's) edition no. 15242 issued on 22/6/2014, in (Iqtisadia) newspaper edition no. 7559 issued on 22/6/2014 and in Um Al Qura newspaper.
- D) The shareholders were informed of the rules governing the conducting 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 General Assembly's.
- E) The participation of the largest number of shareholders in the General Assembly was facilitated through selecting the location, which is the Company headquarter in Riyadh, and the time as it was held at 4 pm.
- F) The shareholders owning 5% or more in the Company's shares have 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 subjects listed in the General Assembly agenda and to direct any question to the BOD members and to the external auditor.
- H) All subjects presented to the General Assembly are accompanied with sufficient information to enable the shareholders to take decisions.
- I) The Company enables the shareholders to read the minutes of the meeting in the Company's headquarters. Also, the meeting's results are announced on Tadawul site as soon as the General Assembly ends. The department of Companies in the Ministry of Commerce and Industry and the CMA were provided with a copy of the minutes of the General Assembly's as required by regulations.



4- Voting Rights:

- A) The Company affirms that there are no barriers to the shareholder's exercising their voting right, and the Company seeks to facilitate this process.
- B) The Company did not use the method of cumulative voting as this is not included in the Company's By-Laws.
- C) The Company is committed to verifying the shareholders' proxies for attending the General Assembly (which should be written) to ensure that they are for other shareholders and not for BOD members or the Company's employees.
- D) It is not part of the Company's procedures to examine the annual reports of the investors of the persons of corporate capacity who act on behalf of the other –such as the investment funds. The Company believes that this procedure concerns the investors themselves and it is not within the scope of the Company's responsibilities . Moreover, the Company is considered as one of the largest companies whose shares are free.

5- Shareholders' Rights in Dividends:

The Company's policy of distributing dividends was reviewed and approved by the BOD and the General Assembly and a reference is made to this subject annually in the BOD's report.

6- Company's Policy of Disclosure Procedures:

The Company formulated a policy for disclosure and the extent of its procedures and its supervisory rules by the virtue of the Corporate Governance Regulations adopted by the General Assembly.

Nineteenth: Members of BOD and its Committees:-

	Name	Saudi Chemical Company	Other Companies
1-	H.H. Prince Ahmad Bin Khalid Bin Abdullah Bin Abdulrahman Al Saud	Chairman of the Board	Saudi Arabian Amiantit Co. / Saudi Arabian Cooperative Insurance Co. (SAICO)
2-	Mr. Samir Mahmoud Abdulhadi	Deputy Chairman of the Board	None
3-	Mr. Abdulaziz Ali Hassan Abussuud	Member of the Board	Saudi Arabian Amiantit Co. / Saudi Arabian Cooperative Insurance Co. (SAICO)
4-	Mr. Abdulrahman Abdulaziz Alyemni	Member of the Board	Al-Jouf Agriculture Development Co. / The Investor for Securities
5-	Mr. Abdulrahman Said Alyemni	Member of the Board	Al-Jouf Agriculture Development Co.
6-	Eng. Fahad Saleh Al-Jarbou	Member of the Board	None
7-	Mr. Obaid Abdullah Alrasheed	Member of the Board	Malath Cooperative Insurance Co. / Saudi Home Loans Al-Arabi Heavy Equipment Lease Co. (AHEL)
8-	Mr. Mohamed Omar Al-Sanousi	Member of the Board	Saudi Integrated Telecom Co.
9-	Dr. Mohammed Saud Al-Badr (General Manager and Managing Director)	Member of the Board	Saudi Integrated Telecom Co.

» Formation of BOD and the Classification of Members are as follows:

	Name	Position	Executive / Non-Executive / Independent
1-	H.H. Prince Ahmad Bin Khalid Bin Abdullah Bin Abdulrahman Al Saud	Chairman of the Board	Non-Executive
2-	Mr. Samir Mahmoud Abdulhadi	Deputy Chairman of the Board	Non-Executive
3-	Mr. Abdulaziz Ali Hassan Abussuud	Member of the Board	Non-Executive
4-	Mr. Abdulrahman Abdulaziz Alyemni	Member of the Board	Independent
5-	Mr. Abdulrahman Said Alyemni	Member of the Board	Independent
6-	Eng. Fahad Saleh Al-Jarbou	Member of the Board	Non-Executive
7-	Mr. Obaid Abdullah Alrasheed	Member of the Board	Independent
8-	Mr. Mohamed Omar Al-Sanousi	Member of the Board	Non-Executive
9-	Dr. Mohammed Saud Al-Badr (General Manager and Managing Director)	Member of the Board	Executive

Description of any interest related to the members of the Board of Directors, their spouses and minor children in the Company's shares or debt instruments, or in any of its subsidiaries, is as follows:

The Name of the Person who has Interest	Beginning of the year 2014		End of the year 2014		Net Change	Change Ratio
	No. of Shares	Debt Instruments	No. of Shares	Debt Instruments		
1- H.H. Prince Ahmad Bin Khalid Bin Abdullah Bin Abdulrahman Al Saud	1,000	--	1,000	--	--	--
2- Mr. Samir Mahmoud Abdulhadi	131,742	--	131,742	--	--	--
3- Mr. Abdulaziz Ali Hassan Abussuud	131,748	--	131,748	--	--	--
4- Mr. Abdulrahman Abdulaziz Alyemni	10,000	--	10,000	--	--	--
5- Mr. Abdulrahman Said Alyemni	659,200	--	659,200	--	-	-
6- Eng. Fahad Saleh Al-Jarbou	1,000	--	1,000	--	-	-
7- Mr. Obaid Abdullah Alrasheed	1,000	--	1,000	--	--	--
8- Mr. Mohamed Omar Al-Sanousi	1,300	--	1,300	--	--	--
9- Dr. Mohammed Saud Al-Badr (GM and Managing Director)	1,020	--	1,020	--	-	-

- » **Description of any interest related to the senior executives, their spouses and minor children in the Company's shares or debt instruments, or in any of its subsidiaries, is as follows:**

	The Name of the Person of the Interest	Beginning of the year 2014		End of the year 2014		Net Change	Change Ratio
		No. of Shares	Debt Instruments	No. of Shares	Debt Instruments		
1-	Mohammed Hamad Al-Sogaih (Deputy General Manager)	--	--	--	--	--	--
2-	Majed Ahmed Qwaider (Director of Finance)	--	--	--	--	--	--
3-	Abdulaziz Mohammed Al-Abdullatif (Manufacturing Director)	--	--	--	--	-	-
4-	Abdulrahman Mohammad Al-Moseed (Marketing & Technical Training Director)	--	--	--	--	--	--
5-	Salah Bateh Al-Anazi (Supply Chain Director)	1.000	--	1.000	--	--	--
6-	Mohammed Abdullah Al-Mezini (Sales & Customer Service Director)	--	--	--	--	--	--

» **Meetings of BOD during the Year of 2014:**

Board of Directors met (3) times during the year of 2014. The following table shows the attendance of each member:

	Name	First meeting 12/2/2014	Second meeting 15/5/2014	Third meeting 17/12/2014	Total	% of attendance
1-	H.H. Prince Ahmad Bin Khalid Bin Abdullah Bin Abdulrahman Al Saud	✓	✓	✓	3	100%
2-	Mr. Samir Mahmoud Abdulhadi	✓	✓	✓	3	100%
3-	Mr. Abdulaziz Ali Hassan Abussuud	✓	✓	✓	3	100%
4-	Mr. Abdulrahman Abdulaziz Alyemni	✓	✓	✓	3	100%
5-	Mr. Abdulrahman Said Alyemni	✓	✓	✓	3	100%
6-	Eng. Fahad Saleh Al-Jarbou	✓	✓	✓	3	100%
7-	Mr. Obaid Abdullah Alrasheed	✓	✓	✓	3	100%
8-	Mr. Mohamed Omar Al-Sanousi	✓	✓	✓	3	100%
9-	Dr. Mohammed Saud Al-Badr	✓	✓	✓	3	100%

» **A Concise Description of the Sub-committees of the Board of Directors:**

During 2009, the General Assembly approved the Corporate Governance Regulations of Saudi Chemical Company, including the Internal Governance Regulations. The following rules and mechanisms have been established in order to form the main committees of the Board of Directors and their tasks:

First: Executive Committee:-**» Committee's Competencies:**

- 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 or the Chief Executive Officer.
 - 2- Ascertain that the strategy of the Company has been translated into practical actions, which aim to achieve Company's objectives.
 - 3- Review the recommendations of the Managing Director or Chief Executive Officer in relation to distribution of Company resources, which aim to achieve 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 subsidiaries 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 dividends distribution 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 indicators.
 - 2- Revise the important financial matters of the Company and its subsidiaries in co-operation with the executive management of the Company and the Audit Committee; for instance, the matters concerning the capital of the Company, Company's credit rating, Company's cash flow, borrowing activities and investment deposits.
 - 3- Prepare and review recommendations submitted to the Board of Directors related to the Company's dividends distribution policy and its execution.
 - 4- Periodic review of actual capital expenditures to be reviewed with pre-approved budgets.
- Concerning the evaluation of Company's 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 to improve the products' quality and services provided by the Company and rationalize their related costs.



» **Committee's Tasks:**

- Requesting the documents, reports and other suitable recommendations from the Company's officers, executives and employees.
- Inviting the Company's officers, executives and employees 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, which are within the authority of the committee.
- The committee shall annually review and evaluate its Regulation in order to ensure that it has performed its duties. Recommendations should be presented to the Board of Directors for any 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 the above, the members of the committee shall do the following:
 - 1- Participate in the activities and works of the committee and attend all meetings.
 - 2- Be fully aware of all the updates in the works environment of the Company.
 - 3- Consider all the information known to them because of their work for the committee as confidential.
 - 4- Inform the Board of Directors in case of conflict of interest that may arise as a result of decisions taken by the committee.
 - 5- Prepar annual review and evaluation of the activities and members of the committee including checking the adherence degree of the committee to its Regulations.

» **Names of Members:**

	Name	Position	Total of attendance
1-	H.H. Prince Ahmad Bin Khalid Bin Abdullah Bin Abdulrahman Al Saud	Chairman	4
2-	Mr. Samir Mahmoud Abdulhadi	Member	4
3-	Eng. Fahad Saleh Al-Jarbou	Member	4
4-	Mr. Mohamed Omar Al-Sanousi	Member	4
5-	Dr. Mohammed Saud Al-Badr	Member	4

» **Work Duration:**

Three years started from 1/1/2013 and ending by the end of the current tenure of the Board on 31/12/2015.

» **Number of meetings:**

The Executive Committee held four meetings during 2014.

Second: Audit Committee:-**» Committee's Competencies:**

- Ensure the accurate preparation of the financial accounts and reports in accordance with the generally accepted accounting standards and the accounting policies adopted by the Company, so as to achieve transparency of the financial information disclosed by the Company.
- Specify and check the accounting issues affecting the process of preparing the financial reports and understand the extent of their effect on such reports.
- Review the interim quarterly financial statements before publication and to be presented to the Board of Directors with recommendations, if required.
- Review the annual financial statements before submission to the Board of Directors by expressing an opinion and recommendations.
- Prepare recommendations to 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 the financial reports issued by the Company and the nature of their review process.
- Prepare recommendations to the Board of Directors concerning the Company's annual report before the Board of Directors approval.
- Regarding the internal controls 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 management concerning processes of determination, evaluation and treatment of such risks.
 - 2- Prepare the recommendations concerning establishment, improvement and spreading the internal controls' environment inside the Company.
 - 3- Perform evaluation of both the internal control system and the internal risk management system, so as to include its evaluation of the budgets allocated for these two systems and of the individuals in-charge, in addition to the degree of management's response to the observations recommended by internal and external auditors.

» About the External Auditor:

- 1- Provide recommendations concerning the appointment of the external auditor which include the review by the committee of his professionalism, his independence, expected risks due to conflict of interest, and also the fees he shall obtain.
- 2- Check annually the performance of the external auditor, in addition to providing recommendations related to its appointment, and reappointment or termination of his contract with the Company.
- 3- Work with the external auditor to coordinate the preparation of the audit plan and procedures of the fiscal year; taking into consideration the current circumstances of the Company and any modifications to the conditions requested by the Regulatory Authorities.
- 4- Solve the problems which the external auditors may face during the audit work, including any difficulties it may face regarding the objectives of audit process or difficulty in acquiring information.
- 5- Discuss the important results and recommendations achieved by the external auditor, the response degree of the management to these recommendations, and also the corrective actions that have been taken based on such recommendations.

- 6- Hold separate meetings with the external auditor to discuss the important subjects which may be raised by the committee or the external auditor, in addition to ensuring that the external auditor may contact the Chairman of the Audit Committee at any time.
- 7- Prepare recommendations for the Company's policy concerning services performed by the external auditor represented in the regular audit services and non-regular audit services which include consultation, training programs ... etc., which may affect his independence in performing regular audit services.
- 8- Prepare recommendations for the Company's policy concerning determining the period required for changing the external auditor.

■ About the Internal Audit Function:

- 1- To prepare recommendations for the establishment of Internal Audit Department in the Company with its own budget, in addition to hiring the head of the department and for the independence of the internal auditors.
- 2- To prepare evaluation of the performance of the Internal Audit Department and its auditors, including its objectives, authorities, reports, audit plan for the next year, results reached during the current year, and preparing the required recommendations to improve its effectiveness.
- 3- To discuss variances and errors included in the monthly reports prepared by the Internal Audit Department and to ensure that management had taken the suitable corrective actions.

■ About the degree of compliance with the regulations and policies:

- 1- To make sure of the existence of procedures to review the complaints concerning the internal control's procedures and financial reports preparation.
- 2- To make sure of the existence of procedures which enable the employees to submit their complaints, so as to ensure strict confidentiality, and to review the disclosure process of any variance or violations by the Company's management or by one of the its employees.

» **Committee's Tasks:-**

- Requesting the documents, reports and other suitable recommendations from the Company's officers, executives and employees.
- Inviting the Company's officers, executives and employees 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 duties requested by the Board of Directors, which are within the authority of the committee.
- The committee shall annually review and evaluate its Regulation and prepare recommendation, if needed, to be presented to the Board of Directors for any amendments.
- The committee shall submit a periodical report about its works to the Board of Directors, as required.

- In addition to the above, the members of the committee shall do the following:
- 1- Participate in the activities and works of the committee and attending all meetings.
 - 2- Consider all the information known to them because of their work for the committee as confidential information.
 - 3- Inform the Board of Directors of any new developments that may impact their independence or have conflict of interest as a result of decisions taken by the committee.
 - 4- Prepare annual review and evaluation of the activities and members of the committee including checking the adherence degree of the committee to its Regulation.
 - 5- Review the internal control system and prepare a written report regarding their views and recommendations.
 - 6- Follow-up on the works of the external auditor and to approve any work outside the audit scope assigned to it during the performance of its audit work.

►► **Names of the Members:**

	Name	Position	Total of attendance
1-	Dr. Khalil Abdulfattah Kordi	Chairman	3
2-	Mr. Abdulrahman Said Alyemni	Member	3
3-	Mr. Abdulaziz Ali Hassan Abussuud	Member	3

►► **Work Duration:**

Three years started from 1/1/2013 and ending by the end of the current tenure of the Board on 31/12/2015.

►► **Number of meetings:**

The Audit Committee held three meetings during 2014.





Third: Nomination and Remuneration Committee:

- A) The Board of Directors shall form the Nomination and Remuneration Committee.
- B) The tasks and responsibilities of the Nomination and Remuneration Committee include the following:
- 1- Recommending to the Board of Directors the nomination of the membership of the Board as per the approved policies and criteria.
 - 2- Reviewing the annual 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 making recommendations regarding the changes that can be made.
 - 4- Identifying the weaknesses and strengths in the Board of Directors and suggesting the remedies in accordance with the interests of the Company.
 - 5- Ensuring the independence of the independent members annually and the absence of conflict of interest in case the member is a member of Board of Directors of another Company.
 - 6- Developing clear policies for the compensation and the remuneration of the members of the Board of Directors and the senior executives, using performance related criteria.

» Names of the members:

	Name	Position	Total of attendance
1-	Mr. Samir Mahmoud Abdulhadi	Chairman	1
2-	Mr. Abdulrahman Abdulaziz Alyemni	Member	1
3-	Eng. Fahad Saleh Al-Jarbou	Member	1
4-	Mr. Obaid Abdullah Alrasheed	Member	0

» Work Duration:

Three years started from 1/1/2013 and ending by the end of the current tenure of the Board on 31/12/2015.

» Number of meetings:

Nomination and Remuneration Committee held one meetings during 2014.

» **Remunerations and Compensations:**

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

» **Compensation and bonuses for board members and senior executives:**

Below are details of expenses and bonuses paid to the members of the Board of Directors in addition to the salaries and bonuses paid to the top five senior executives of the Company, including the General Manager and the Director of Finance during 2014:

(Thousand Saudi Riyals)

Description	Executive Board members	Non-executive / independent members.	Five of the senior executives who received the highest remunerations and compensation, including General Manager and Director of Finance
Salaries and Compensation	3.767
Allowances	1.576
Periodic and annual bonuses	221	1,747	2,475
Incentive plans
Any compensations or other in kind benefits payable on a monthly or yearly basis

» **Conflict of Interests of the Members of Board of Directors and Senior Executives:**

- The Company does not have any contracts or any substantial interest with any of the members of the Board of Directors or the managing director or the financial manager or the senior executives of the Company or with any person related to any of them.
- None of the members of the Board has engaged in any work that would compete with the Company's business, or traded in the Company's activities.
- The Company did not offer any cash loan of any kind to the members of the Board or guarantee any loan held by one of them with others.

Twentieth: Adoption of Internal Controls and Other Representations:

The Board of Directors and the Company's management acknowledge that:

- The accounting records were set up properly.
- The internal controls system was prepared on proper basis and was executed effectively.
- There is no doubt in the Company's ability to continue its activities.
- There is no deviation from the accounting standards issued by the Saudi Organization for Certified Public Accountants.
- There are no shares or debt instruments issued for the subsidiaries.



- There isn't any interest in the category of the shares eligible to vote belonging to persons (except the members of the Board of Directors and senior executives, their spouses and 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 spouses and 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 instruments convertible 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.

» **Penalties and Sanctions and Reserve Restriction:**

No penalty or sanction or reserve restriction by any supervisory or regulatory or other jurisdictions, imposed on the Company during the year 2014.

» **Results of the Annual Review of the effectiveness of the Internal Control Procedures:**

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

- 1- Internal Audit Department in cooperation with the Advisory Office of PriceWaterhouseCoopers (PWC) have carried out the risk assessment process for the Saudi Chemical Company and its subsidiaries to prepare the audit plan for the next three years.
- 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 encounter any reservations or restrictions to access any information, documents or records, or assets of the company and there are no substantive comments to the process of internal audit.

» **Independence, Authorities and Responsibilities:**

The internal audit provides independent and objective services to assist the Board of Directors, 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 authorities to have unrestricted access to any records (manual or electronic), of the Company's properties and personnel, as required to perform its tasks.

» **Responsibilities of Internal Audit:**

- 1- Preparing the strategic plan for the work of internal audit.
- 2- Executing the examination according to the annual plan.
- 3- Submitting the reports for the results of the examination.
- 4- Identifying the financial and operational risks and cooperating with management to provide effective statutory tools, and cost-effectiveness to mitigate the effects of these risks and to detect them soon upon 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.

» **Scope of Work:**

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

The scope of work of internal audit has included examining the extent of the efficiency and the effectiveness of the internal control system of the Company and the quality of the management in order to verify whether or not the Company's internal control systems provide reasonable assurance to attain the objectives of the Company. The scope of the internal auditor included the followings:



- 1- Auditing and periodic examination of all the departments working in the Company during appropriate intervals.
- 2- Informing the officers 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 the identified deficiencies.
- 3- Evaluating the plans and procedures submitted by the officers 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 officers to ensure the efficiency and adequacy of actions taken.

Twenty First: Communication with Shareholders and Investors:

Saudi Chemical Company gives paramount importance to shareholders and investors, and keep them informed its performance and activities during the year through the annual report of the BOD, as well as updating them continuously on any important developments that may have arisen and have an impact on its financial position and its business, without affecting its competitiveness. This is achieved through (Tadawul's) and the Company's websites and other communication, according to the policy of disclosure that the Company is keen to follow in compliance with the instructions of CMA and the regulations of the Kingdom of Saudi Arabia.

Twenty Second: Company's Policy of Dividends Distribution:

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

- 1- 10% of the net profit to be set aside to form a statutory reserve.
- 2- From the remaining net profits, an initial payment shall be distributed to the shareholders equivalent to 5% of the paid-up capital either in cash or bonus shares, if approved by the General Assembly.
- 3- Allocating 10% of the remaining profits for the remuneration of the members of the Board of Directors, subject to there being no conflict with the instructions and regulations in force.
- 4- Allocating a part of the annual net profits to form a general reserve for any negative impacts on the Company in the future.
- 5- The General Assembly shall decide, based on the recommendation of the Board of Directors, to distribute part of the balance of the profits thereafter to the shareholders, either in cash or bonus shares as an additional share of profits.

» Distributions of Profits to the Shareholders: -

- 1- The Eighteenth Ordinary General Assembly (second meeting) held on 25/6/2014, approved the recommendation of the Board of Directors to distribute from the fourth quarter's profits of the fiscal year 2013 an amount of SR 110,670,000 equal to SR 1.75 per share, to the Company's shareholders registered in the Company's records with the Saudi Stock Market (Tadawul) at the close of the trading day of the Ordinary General Assembly. The profits of the fourth quarter of the fiscal year 2013 were disbursed on 14/7/2014, by a direct transfer to the shareholders' bank accounts linked to their investment portfolios.

- 2- The Board of Directors in its meeting held on 17/12/2014, approved the distribution of profits of the first half of the year 2014 in the amount of SR 126,480,000 equal to SR 2 per share to the Company's shareholders registered in the Company's records at the close of the trading of Thursday 15/1/2015. The payment was effected on Sunday 01/02/2015 by direct transfer to the shareholders' bank accounts linked to their investment portfolios.

Twenty Third – External Auditor:

The Ordinary General Assembly that was convened on 25/6/2014 agreed to appoint Dr. Mohamed Al-Amri & Co. as an external auditor for the Company for the fiscal year ended 31/12/2014, the work includes reviewing the quarterly financial statements for the periods ended 30 September 2014, 31 December 2014, 31 March 2015, and 30 June 2015.

» Conclusion:

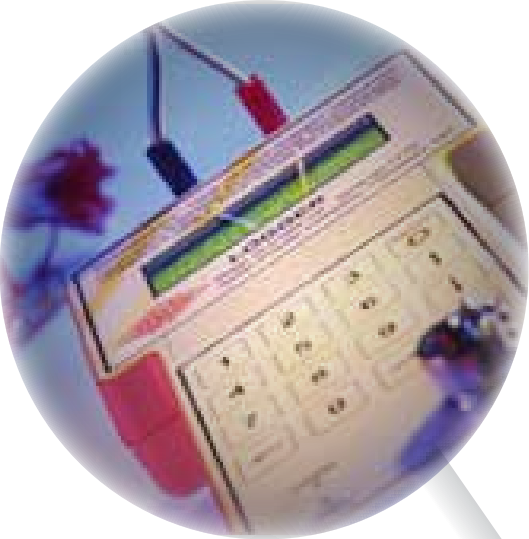
Before closing the Board of Directors wishes to thank the Shareholders for accepting the invitation to attend the meeting and for their confidence accorded to the Board, noting that 2014 was a special year for Saudi Chemical Company and its subsidiaries. We also thank all the Company's customers, suppliers, governmental parties and the private sector for their continuous cooperation, encouragement and support. We also wish to thanks all the Company's employees for their sincere efforts towards the well being of Company and for their keen interest to continue the progress and prosperity of the Saudi Chemical Company and its subsidiaries.

Board of Directors











SAUDI CHEMICAL COMPANY

(A Saudi Joint Stock Company)

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014
AND INDEPENDENT AUDITOR'S REPORT**

SAUDI CHEMICAL COMPANY

(A Saudi Joint Stock Company)

Index to the consolidated financial statements for the year ended december 31, 2014

	PAGE
Independent auditor's report	45
Consolidated balance sheet	46
Consolidated statement of income	47
Consolidated statement of cash flows	48
Consolidated statement of changes in equity	49
Notes to the consolidated financial statements	50-68



INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF SAUDI CHEMICAL COMPANY

Riyadh, Saudi Arabia

Scope of Audit

We have audited the accompanying balance sheet of Saudi Chemical Company ("the Company") and its subsidiaries (collectively "the Group") as of December 31, 2014 and the related consolidated statements of income, cash flows and changes in equity for the year then ended, including the related notes from 1 to 22. These consolidated financial statements are the responsibility of the Company's management and have been prepared by them in accordance with the provisions of the Regulations for Companies and presented to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these consolidated financial statements, based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of 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 consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

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

- present fairly, in all material respects, the financial position of the Group as of December 31, 2014 and the results of its operations, cash flows and changes in equity for the year then ended in conformity with generally accepted accounting principles in the Kingdom of Saudi Arabia; and
- comply with the requirements of the Regulations for Companies with respect to preparation and presentation of consolidated financial statements.

For Dr. Mohammed Al-Amri & Co.



Gihad Al-Amri
Certified Public Accountant
Registration No. 362



February 18, 2015 (G)
Rabi Al-Thani 29, 1436 (H)

SAUDI CHEMICAL COMPANY

(A Saudi Joint Stock Company)

CONSOLIDATED BALANCE SHEET

As at December 31,			
Assets	Note	2014 SR'000	2013 SR'000
Current assets			
Cash and cash equivalents	3	149,097	67,860
Accounts receivable	4	1,257,089	1,247,499
Inventories	5	549,641	657,357
Prepayments and other receivables	6	48,860	36,110
Due from related parties	7	231,673	231,629
Total current assets		2,236,360	2,240,455
Non-current assets			
Property, plant and equipment	8	190,173	192,613
Capital work in progress	8	97,730	20,643
Goodwill	9	469,807	469,807
Intangible assets		7,874	6,079
Total non-current assets		765,584	689,142
Total assets	17	3,001,944	2,929,597
Liabilities			
Current liabilities			
Short-term borrowings	10	367,379	269,559
Accounts payable		978,708	1,055,466
Accruals and other liabilities	11	56,468	55,156
Due to related parties	7	1,351	1,328
Total current liabilities		1,403,906	1,381,509
Non-current liabilities			
Employee termination benefits	13	47,195	41,847
Total liabilities	17	1,451,101	1,423,356
Equity			
Equity attributable to shareholders of the Company:			
Share capital	1	632,400	632,400
Statutory reserve		270,846	242,490
General reserve		260,000	220,000
Retained earnings		382,104	405,849
Total equity attributable to shareholders of the Company		1,545,350	1,500,739
Non-controlling interests		5,493	5,502
Total equity		1,550,843	1,506,241
Total liabilities and equity		3,001,944	2,929,597

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

SAUDI CHEMICAL COMPANY

(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF INCOME

		For the year ended December 31,	
	Note	2014 SR'000	2013 SR'000
Sales	17	2,484,315	2,275,121
Cost of sales		(1,981,519)	(1,795,635)
Gross profit		502,796	479,486
Operating expenses			
Selling and marketing expenses	14	(92,119)	(78,392)
General and administrative expenses	15	(96,177)	(85,621)
Income from main operations		314,500	315,473
Other income/(expenses)			
Finance charges		(6,910)	(6,382)
Gain on disposal of property, plant and equipment		2,092	15,344
Other income, net		3,166	1,484
Income before zakat and non-controlling interests		312,848	325,919
Zakat for subsidiaries		(13,996)	(14,936)
Zakat for the Company	12	(14,000)	(9,092)
Income before non-controlling interests		284,852	301,891
Non-controlling interests		(1,291)	(1,288)
Net income	17	283,561	300,603
Earnings per share in Saudi Riyals:			
Income from main operations		4.97	4.99
Loss from other activities		(0.49)	(0.24)
Net income for the year		4.48	4.75

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



SAUDI CHEMICAL COMPANY
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS

	For the year ended December 31,	
	2014 SR'000	2013 SR'000
Cash flows from operating activities		
Income before zakat and non-controlling interests	312,848	325,919
Adjustments to reconcile income before zakat and non-controlling interests to net cash provided by operating activities:		
Depreciation	17,734	18,793
Gain on sale of property, plant and equipment	(2,092)	(15,344)
Provision for doubtful debts	2,715	3,470
Provision for slow-moving inventories, net of adjustments	1,749	954
Adjustments to non-controlling-interests	-	(1,161)
Changes in working capital:		
Accounts receivable	(12,305)	(269,375)
Inventories	105,967	(139,275)
Prepayments and other receivables	(12,750)	(3,130)
Due from/to related parties	(21)	52
Accounts payable	(76,758)	213,005
Accruals and other liabilities	(2,892)	(3,667)
Employee termination benefits, net	5,348	4,745
Cash from operations	339,543	134,986
Zakat paid	(24,177)	(23,620)
Net cash provided by operating activities	315,366	111,366
Cash flows from investing activities		
Purchase of property, plant and equipment, capital work in progress, and intangible assets	(94,224)	(35,466)
Proceeds from sale of property, plant and equipment	2,140	17,500
Net cash used in investing activities	(92,084)	(17,966)
Cash flows from financing activities		
Change in short-term borrowings	97,820	93,832
Dividends paid	(236,765)	(221,571)
Board of Directors' remuneration paid	(1,800)	-
Dividends paid to non-controlling interests	(1,300)	(1,100)
Net cash used in financing activities	(142,045)	(128,839)
Net change in cash and cash equivalents	81,237	(35,439)
Cash and cash equivalents at the beginning of the year	67,860	103,299
Cash and cash equivalents at the end of the year	149,097	67,860

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

SAUDI CHEMICAL COMPANY
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Share capital SR'000	Statutory reserve SR'000	General reserve SR'000	Retained earnings SR'000	Total shareholders' equity SR'000	Non- controlling interests SR'000	Total equity SR'000
For the year ended December 31, 2014								
January 1, 2014		632,400	242,490	220,000	405,849	1,500,739	5,502	1,506,241
Net income for the year		-	-	-	283,561	283,561	1,291	284,852
Transfer to statutory reserve		-	28,356	-	(28,356)	-	-	-
Transfer to general reserve	18	-	-	40,000	(40,000)	-	-	-
Dividends	18	-	-	-	(237,150)	(237,150)	-	(237,150)
Board of Directors' remuneration		-	-	-	(1,800)	(1,800)	-	(1,800)
Dividends paid to non-controlling interests		-	-	-	-	-	(1,300)	(1,300)
December 31, 2014		632,400	270,846	260,000	382,104	1,545,350	5,493	1,550,843
For the year ended December 31, 2013								
January 1, 2013		632,400	212,430	180,000	396,646	1,421,476	6,475	1,427,951
Net income for the year		-	-	-	300,603	300,603	1,288	301,891
Adjustment to non-controlling interests		-	-	-	-	-	(1,161)	(1,161)
Transfer to statutory reserve		-	30,060	-	(30,060)	-	-	-
Transfer to general reserve	18	-	-	40,000	(40,000)	-	-	-
Dividends	18	-	-	-	(221,340)	(221,340)	-	(221,340)
Dividends paid to non-controlling interests		-	-	-	-	-	(1,100)	(1,100)
December 31, 2013		632,400	242,490	220,000	405,849	1,500,739	5,502	1,506,241

The accompanying form an integral part of these consolidated financial statements.

SAUDI CHEMICAL COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

1- ORGANIZATION AND ACTIVITIES

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 Safar 12, 1392H (March 28, 1972G).

The share capital of the Company (SR 632,400,000) comprises 63,240,000 shares of SR 10 each.

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 providing technical support services in explosions.
- wholesale 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, detergents and food items.
- manufacture of ammonium nitrate

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

Subsidiary	Country of incorporation	Effective ownership at December 31,	
		2014	2013
Saudi International Trading Company ("SITCO Pharma")	Kingdom of Saudi Arabia	99%	99%
Suez International Nitrate Company ("SINCO")	Arab Republic of Egypt	100%	100%
Chemical Company for Commercial Investment Limited ("CCCIL")	Kingdom of Saudi Arabia	100%	100%
AJA Pharmaceutical Industries Company Limited ("AJA Pharma")	Kingdom of Saudi Arabia	100%	100%
Saudi Chemical Company Limited	Kingdom of Saudi Arabia	100%	100%

In June 2013, AJA Pharma signed a contract with a national construction company to have built pharmaceutical factory buildings in Ha'il Industrial City. During 2014, several other contracts were signed for other work for the factory, in addition to purchasing machines and equipment. The civil construction was completed in the third quarter of 2014 and commercial production is expected to commence in 2015. Chemical Limited has yet to commence commercial operations.

2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

SAUDI CHEMICAL COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014**2-1 Basis of preparation**

The accompanying consolidated financial statements have been prepared under the historical cost convention on the accruals basis of accounting and in compliance with the accounting standards promulgated by the 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 one 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 as for the Company. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

Intra-group transactions and 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 the Kingdom of 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.

Estimates which are considered to be significant to the consolidated financial statements include:

- Provisions for doubtful debts
- Provisions for slow moving inventory
- Expected useful lives and residual values of property, plant and equipment
- Accruals and provisions for costs and expenses

SAUDI CHEMICAL COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

2-4 Foreign currency translation

A) Reporting currency

These consolidated financial statements are presented in Saudi Riyals, which is the reporting currency of the Company. All subsidiaries, other than SINCO (which uses the United States Dollar as its reporting currency, which currency is pegged to the Saudi Riyal) also use the Saudi Riyal as their reporting currency.

B) Transactions and balances

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

C) Group companies

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

- Assets and liabilities for the balance sheet presented are translated at the closing exchange rate at the date of that consolidated balance sheet;
- Incomes and expenses are translated at average exchange rates for the year; and
- Components of the equity accounts are translated using the exchange rates in effect at the dates that the related items originated.

Cumulative adjustments, if any, resulting from the translation of the financial statements of foreign subsidiaries into Saudi Riyals are reported as a separate component of equity. As the only foreign subsidiary (SINCO) has the United States Dollar as its reporting currency (which currency is pegged to the Saudi Riyal), no such adjustments currently arise.

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 statement of income.

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

2-5 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 their purchase date.

SAUDI CHEMICAL COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014**2-6 Accounts receivable and other receivables**

Accounts receivable are carried at original invoice amount less provision for doubtful debts. Other receivables are carried at amounts deemed to be recoverable or paid in advance. 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 statement of income and reported under "general and administrative expenses". When an 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 statement of income.

2-7 Inventories

Inventories are carried at the lower of cost or net realizable value. Cost is determined using the weighted average method. The cost of finished products includes the cost of raw materials, direct 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.

2-8 Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation, except land and capital work in progress, which are carried at cost. Maintenance and normal repairs which do not materially extend the estimated useful life of an asset are charged to the consolidated statement of income as and when incurred. Major renewals and improvements, if any, are capitalized and the assets so replaced are retired. Depreciation is charged to the consolidated statement of income, using the straight-line method, so as to depreciate the costs of the related assets to their residual values over the following estimated useful lives:

	Years
Buildings	33
Infrastructure costs	20
Leasehold improvements	10 - 33
Machinery and equipment	7 - 10
Furniture, fixtures and tools	7 - 10
Vehicles and transportation equipment	4

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

SAUDI CHEMICAL COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

2-9 Intangible assets

Intangible assets comprise pre-operating costs of newly established subsidiaries. These costs will be amortized over a period of up to 7 years as and when the relevant subsidiaries commence commercial operations.

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 costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-current assets other than intangible assets 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 does not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the consolidated statement of income. Impairment losses recognized on intangible assets, if any, are not reversible.

2-11 Borrowings

Borrowings are recognized at the gross proceeds received.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2-12 Accounts payable and accruals

Liabilities are recognized for amounts to be paid for goods and services received, whether or not claimed by the supplier or billed to the Group at the year end.

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. Provisions for zakat for the Company and related subsidiaries are charged to the consolidated statement of income. The subsidiaries separately file their zakat declarations. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

SAUDI CHEMICAL COMPANY
(A Saudi Joint Stock Company)**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014**

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

Foreign subsidiaries may be subject to income taxes in their respective countries of domicile. Such income taxes, if any, are charged to the consolidated statement of income.

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

2-15 Employee termination benefits

Employee termination benefits required by Saudi Labor and Workman Law are accrued by the Company and its Saudi Arabian subsidiaries and charged to the consolidated statement of income. 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 the Kingdom of Saudi Arabia.

Foreign subsidiaries provide for employee termination and other benefits as required under the laws of their countries of domicile.

2-16 Statutory reserve

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

2-17 General reserve

The general reserve is appropriated according to the shareholders' approval in their general assembly meeting and the Board of Directors' recommendation.

2-18 Revenue recognition

Sales of explosives are recognized upon delivery of goods to customers under the provisions and prices in the sales agreements. Revenues of explosives services are recognized based on rendered services for the respective sales agreements. Sales of medicines, foods and detergents are recognized upon delivery of goods to customers, net of discounts. Medicines prices are set by the Saudi Food and Drug Authority ("SFDA").

SAUDI CHEMICAL COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

2-19 Costs and expenses

Cost of sales

Cost of sales includes all production costs attributable to sales of products and services, namely direct materials, direct labor and production overheads.

Expenses

Selling and marketing expenses include direct and indirect costs related to the selling and marketing of products. General and administrative expenses include all other direct and indirect costs not included as part of cost of sales or selling and marketing expenses.

2-20 Dividends

Dividends are recorded in the consolidated financial statements in the period in which they are approved and funds have been transferred to a specifically designated bank account not under the control of the Company.

2-21 Operating leases

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

2-22 Earnings per share

Earnings per share are computed on the basis of the weighted average number of ordinary shares outstanding (63,240,000).

2-23 Segment reporting

A) Business segment

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

- engaged in revenue producing activities;
- whose results of operations are continuously analyzed by management in order to make decisions related to resource allocation and performance assessment; and
- whose financial information is separately available.

B) Geographical segment

A geographical segment is a 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.

SAUDI CHEMICAL COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014**3- CASH AND CASH EQUIVALENTS**

	2014 SR'000	2013 SR'000
Cash at bank	148,346	67,218
Cash in hand	751	642
	149,097	67,860

4- ACCOUNTS RECEIVABLE

	2014 SR'000	2013 SR'000
Trade receivables	1,287,424	1,275,260
Provision for doubtful debts	(30,335)	(27,761)
	1,257,089	1,247,499

Approximately 68 % of the trade receivables as at December 31, 2014 (2013: 70 %) are due from Saudi Arabian government organizations; such organizations have strong credit ratings in the Saudi Arabian market. Approximately 31% of sales were made to one customer during the year ended December 31, 2014 (2013: 31%).

Movements in the provision for doubtful debts account are as follows:

	2014 SR'000	2013 SR'000
January 1	27,761	24,291
Additions	2,715	3,470
Written off	(151)	-
December 31	30,335	27,761



SAUDI CHEMICAL COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

5- INVENTORIES

	2014 SR'000	2013 SR'000
Raw materials (ammonium nitrate and other chemicals)	54,645	49,884
Finished goods (explosives and accessories)	20,756	25,698
Medicines	449,661	550,939
Detergents	25,094	31,189
Spare parts, not held for sale	5,211	3,624
	555,367	661,334
Provision for slow-moving inventories	(5,726)	(3,977)
	549,641	657,357

Movements in the provision for slow moving inventories are as follows:

	2014 SR'000	2013 SR'000
January 1	3,977	3,023
Additions	2,614	1,200
Written off	(865)	(246)
December 31	5,726	3,977

6- PREPAYMENTS AND OTHER RECEIVABLES

	2014 SR'000	2013 SR'000
Prepaid expenses and other receivables	20,177	17,402
Advances to suppliers	20,300	12,242
Others, including employee advances	8,383	6,466
	48,860	36,110

SAUDI CHEMICAL COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014**7- RELATED PARTIES TRANSACTIONS AND BALANCES**

The Group has transactions with related parties which include insignificant payments, expenses and cost amongst the Group's companies. Related party transactions in the year ended December 31, 2014 include directors' remuneration amounting to SR 1.8 million and expenses amounting to SR 298,000 in respect of the year ended December 31, 2014 (2013: SR 1.8 million and SR 207,000 respectively, in respect of the year ended December 31, 2013).

Related parties balances relate to the Mawarid Group (including primarily Mawarid Trading Limited ("MTL")). MTL is owned by Mawarid Holding Company and Mawarid Investment Company, in which the previous Chairman of the Board of Directors of the Company, who is related to the current Chairman of the Board of Directors of the Company, is a majority shareholder. Year-end balances arising from transactions with related parties are as follows:

	2014 SR'000	2013 SR'000
a) Due from related parties		
Mawarid Trading Company Limited ("MTL")	230,197	230,231
Other Mawarid Group companies	1,476	1,398
	231,673	231,629
b) Due to related parties		
Mawarid Group companies	1,351	1,328



SAUDI CHEMICAL COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

Dues from and to related parties did not bear any financial charges at December 31, 2014 and 2013.

Due from related parties in the consolidated balance sheet as of December 31, 2014 and 2013, includes SR 230 million due from MTL which resulted from SITCO Pharma acquiring a 15% equity share of MTL during 2008 for SR 135 million. In 2009, SITCO Pharma entered into an agreement with MTL to enable SITCO Pharma to acquire 50% of the equity shares in Al-Dawaa for Medical Services Company by paying SR 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 SR 95 million to the sellers. Upon the presentation of these two deals mentioned above to the General Assembly Meeting of the shareholders held in June 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 SR 230 million was recorded as due from related parties.

On May 3, 2011 an agreement was signed with MTL to repay the due amount of SR 230 million in six equal semi-annual installments of SR 38,333,333 each, whereby the first installment was to be paid on August 1, 2011 and the final one on February 1, 2014. Accordingly the full balance of the agreement amounting to SR 230 million was re-classified as current assets. The due installments from MTL have not yet been collected as at the date of preparation of these accompanying consolidated financial statements, as a result of non-completion of the required authorization to complete the legal requirement to waive SITCO Pharma's share in the MTL ownership.

The shareholders in their General Assembly Meeting held on July 4, 2012, resolved to raise a case against MTL to claim the return of SR 230 million and authorize the Board of Directors to take statutory and legal action if not settled before the end of 2012. Accordingly, after the passage of that time limit, SITCO Pharma appointed a lawyer in March 2013 to represent it in front of the judicial and governmental parties with respect to the case against MTL to claim return of the due amount. A case against MTL was filed with the Bureau of Grievances ("BOG"). No final decision has yet been reached, however, Management are of the opinion that all monies will be recovered in due course.

SAUDI CHEMICAL COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

8- PROPERTY, PLANT AND EQUIPMENT

	Land SR'000	Buildings & Infrastructure Costs SR'000	Leasehold Improvements SR'000	Machinery and Equipment SR'000	Furniture, Fixtures and Tools SR'000	Vehicles & Transportation Equipment SR'000	Total SR'000
Cost							
January 1, 2014	6,083	222,199	15,226	181,275	13,116	41,793	479,692
Additions	-	1,541	1,707	2,309	2,748	7,037	15,342
Disposals	-	-	-	(2,496)	(133)	(3,770)	(6,399)
Reclassification (see below)	10,717	(10,717)	-	-	-	-	-
December 31, 2014	16,800	213,023	16,933	181,088	15,731	45,060	488,635
Accumulated Depreciation							
January 1, 2014	-	(148,143)	(9,862)	(87,768)	(10,170)	(31,136)	(287,079)
Charge for the year	-	(511)	(637)	(7,258)	(4,620)	(4,708)	(17,734)
Disposals	-	-	-	2,496	133	3,722	6,351
December 31, 2014	-	148,654	10,499	92,530	14,657	32,122	298,462
Net Book Value							
December 31, 2014	16,800	64,369	6,434	88,558	1,074	12,938	190,173
Reclassifications relates to certain lands which were originally included in buildings							
Cost							
January 1, 2013	8,163	234,645	15,271	163,188	12,920	38,709	472,896
Additions	-	1,373	270	18,087	196	4,049	23,975
Disposals	(2,080)	(13,819)	(315)	-	-	(965)	(17,179)
December 31, 2013	6,083	222,199	15,226	181,275	13,116	41,793	479,692
Accumulated Depreciation							
January 1, 2013	-	(157,761)	(9,562)	(79,867)	(8,881)	(27,237)	(283,308)
Charge for the year	-	(4,177)	(615)	(7,901)	(1,289)	(4,811)	(18,793)
Disposals	-	13,795	315	-	-	912	15,022
December 31, 2013	-	(148,143)	(9,862)	(87,768)	(10,170)	(31,136)	(287,079)
Net Book Value							
December 31, 2013	6,083	74,056	5,364	93,507	2,946	10,657	192,613

SAUDI CHEMICAL COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

Capital work-in-progress at December 31, 2014 of SR 97.73 million (2013: SR 20.64 million), primarily represents costs incurred in respect of the construction of buildings and machinery for AJA Pharma (see note 1).

The Company's factories are based on leased lands from the Ministry of Municipal and Rural Affairs and have terms ranging between 10 to 20 years. Lease contracts are renewable for additional periods.

9- GOODWILL

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

10- SHORT-TERM BORROWINGS

The Company has total credit facilities with local banks of SR 119 million (2013: SR 40 million), of which SR 50 million was drawn-down as at December 31, 2014 (2013: SR nil), and SR 56 million was utilized by letters of credit and guarantee (2013: SR 23 million).

SITCO Pharma had total credit facilities with local banks amounting to SR 940 million (2013: SR 720 million) to finance its operations. The facilities contain short-term bank loans, letters of guarantee and letters of credit. An amount of SR 682 million has already been drawn-down from these facilities as of December 31, 2014 (2013: SR 581 million). These facilities bear financial charges at prevailing market rates. Such facilities are collateralized by order notes issued by SITCO Pharma. Credit facilities covenants include maintaining certain levels of financial ratios and other matters.

11- ACCRUALS AND OTHER LIABILITIES

	2014 SR'000	2013 SR'000
Accrued employee benefits	7,733	11,370
Unpaid dividends	12,409	12,024
Zakat provision for the Company (note 12)	10,277	6,085
Zakat provision for subsidiaries	14,638	15,011
Accrued rents	2,537	2,026
Accrued marketing costs	2,722	3,700
Accrued expenses and other liabilities	6,152	4,940
	56,468	55,156

SAUDI CHEMICAL COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014**12- ZAKAT****12-1 Adjusted net income for the year for the Company**

	2014 SR'000	2013 SR'000
Company's share of income before zakat	297,561	309,695
Provisions	4,707	4,930
Company's share in net income of subsidiaries	(131,925)	(127,357)
Depreciation	-	(14,950)
Adjusted net income for the year	170,343	172,318

12-2 Components of zakat base for the Company

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

	2014 SR'000	2013 SR'000
Adjusted Shareholders' equity at the beginning of the year	1,263,586	1,215,615
Provisions at the beginning of the year	30,189	25,259
Adjusted net income for the year (note 12.1)	170,343	172,318
Deductions	(1,053,038)	(1,009,364)
Approximate zakat base	411,080	403,828

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



SAUDI CHEMICAL COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

12-3 Provision for zakat for the Company

	2014 SR'000	2013 SR'000
January 1	6,085	5,817
Provision – current year	10,277	9,092
Under-provision in prior years	3,723	-
Payments	(9,808)	(8,824)
December 31	10,277	6,085

12-4 Status of final assessments

The Company, SITCO Pharma, CCCIL, and Aja Pharma have filed their zakat declarations for the years up to 2013, and, with the exception of the Company, have obtained zakat certificates for the years up to 2013. The Company has obtained zakat certificates up to the year 2012. No zakat declarations have been filed by Chemical Limited since inception.

13- EMPLOYEE TERMINATION BENEFITS

	2014 SR'000	2013 SR'000
January 1	41,847	37,102
Provisions	7,170	7,976
Payments	(1,822)	(3,231)
December 31	47,195	41,847

14- SELLING AND MARKETING EXPENSES

	2014 SR'000	2013 SR'000
Salaries, wages and other benefits	48,575	42,491
Transportation	22,702	15,849
Rent	5,317	5,062
Depreciation	4,188	4,338
Utilities	4,003	3,278
Business travel	2,003	2,230
Others	5,331	4,518
	92,119	78,392

SAUDI CHEMICAL COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

15- GENERAL AND ADMINISTRATIVE EXPENSES

	2014 SR'000	2013 SR'000
Salaries, wages and other benefits	61,331	56,075
Cash discounts	11,232	11,829
Provision for doubtful debts	2,715	3,470
Professional and legal fees	5,488	3,321
Utilities	3,435	2,987
Depreciation	3,474	3,992
Business travel and related costs	2,535	1,656
Repair and maintenance	2,018	1,238
Rents	825	707
Others	3,124	346
	96,177	85,621

16- 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, 2014 amounted to approximately Saudi Riyals 6.1 million (2013: approximately Saudi Riyals 6.2 million), some of which are on annual renewable leases. Future rental commitments under these operating leases are SR 17.5 million.

17- SEGMENTAL INFORMATION

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

- Explosives
- Medicines and detergents
- Production of ammonium nitrate



SAUDI CHEMICAL COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

18- DIVIDENDS AND TRANSFERS FROM RETAINED EARNINGS

In its meeting held on May 15, 2014, the Board of Directors approved cash dividends amounting to SR 110.67 million, equal to SR 1.75 per share (2013: SR 94.86 million, equal to 1.5 per share). This was approved by the shareholders at the Annual General Meeting held on June 25, 2014. Payment of such dividend was made on July 14, 2014. The shareholders also approved the transfer of SR 40 million (2013: SR 40 million) to the General Reserve account.

In its meeting held on December 17, 2014, the Board of Directors recommended interim cash dividends amounting to SR 126.48 million (SR 2 per share) which was deposited in a specifically designated dividends bank account (not under the control of the Company) on December 30, 2014. The priority for dividends distribution to shareholders were those registered in the Company's records at the end of trading on January 15, 2015 (2013: SR 126.48 million, equal to SR 2 per share).

19- 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 include cash and cash equivalents, accounts receivable and certain other receivables, due from related parties, 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 assets and liabilities are 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.

19-1 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; the Group signs its contracts with most of the foreign companies in Saudi Riyals, although some of the Group's transactions are in US Dollars and Euros. The Group's management monitors the foreign currency fluctuations and believes that the Group's exposure to currency risk is not significant.

SAUDI CHEMICAL COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

19-2 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 10), which are at floating rates 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.

19-3 Price risk

Price risk is 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 does not have any financial instruments that are exposed to significant price risks.

19-4 Credit risk

Credit risk is the risk that one party will fail to discharge an obligation and cause the other party to incur a financial loss. The Group's credit risk results mainly from its transactions with the Ministry of Health and other ministries, and certain high profile Saudi Arabian companies. The ministries are part of the Government of the Kingdom of Saudi Arabia, which has a strong credit rating in the Saudi market. The high profile Saudi Arabian companies also have a high credit rating in the Saudi market. The Group's management follows-up outstanding balances, and where appropriate, accounts receivable are carried net of provision for doubtful debts. Cash is placed at banks with sound credit ratings.

19-5 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 also result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by the Group's management by monitoring on a regular basis that sufficient funds are available through committed credit facilities to meet any future commitments.

19-6 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, differences can arise between the book values and fair value estimates. Management believes that the fair values of the Group's financial assets and liabilities are not materially different from their carrying values.

SAUDI CHEMICAL COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

20- CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

At December 31, 2014, the Group had outstanding letters of credit and letters of guarantee amounting to SR 268 million and SR 153 million (December 31, 2013: SR 205 million and SR 129 million), respectively, issued in the normal course of business of the Group.

As at December 31, 2014, the Group had an outstanding capital commitment in respect of capital work in progress projects of approximately SR 10.1 million.

21- COMPARATIVES

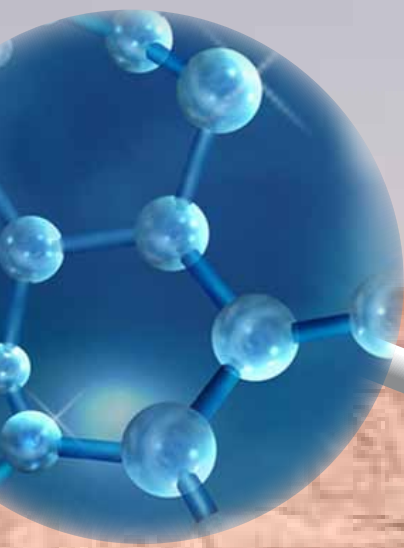
Certain comparatives have been changed to conform to the current year presentation.

22- APPROVAL OF FINANCIAL STATEMENTS

The accompanying consolidated financial statements were approved by the Board of Directors of the Company on Rabi Al-Thani 29, 1436H (February 18, 2015G).









الكيميائية السعودية
Saudi Chemical
Saudi Joint Stock Co شركة مساهمة سعودية

التقرير السنوي
2014