



SAUDI CHEMICAL COMPANY

(A Saudi Joint Stock Company)

Annual Report 2010

Consolidated Financial Statements for
the Year Ended December 31, 2010
and Independent Auditor's Report



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BOARD OF DIRECTORS

HH Prince Ahmad Bin Khalid

Board Chairman

Mr. Samir M. Abdulhadi

Board Vice Chairman

Engr. Fahad S. Al Jarbou

Board Member & Managing Director

Mr. Abdulrahman A. Al Yemni

Board Member

Mr. Abdulaziz A. Abussud

Board Member

Mr. Mohamed O. Al Sanousi

Board Member

Mr. Sultan Mohamed Al Hidaithy

Board Member

Dr. Mohammed S. Al Badr

Board Member (General Manager)

Mr. Abdulrahman S. Al Yemni

Board Member



The Board of Director's Report to the General Assembly
To the shareholders of the Saudi Chemical Company
On its business results of the year ended 31/12/2010



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

The Board of Directors of Saudi Chemical Company is pleased to welcome you in the General Assembly meeting and thank you for accepting the invitation to attend. It is also pleased to submit to you hereinafter the annual financial report of the Company's business outcomes and the most significant accomplishments for the year ended on 31 December 2010, which reflects the management's efforts towards attaining the continuous development that the Company has been witnessing during the past years as the Saudi Chemicals Company and its subsidiary companies a record level of consolidated sales (1.687 Billion SAR) with an increase of 3% in comparison to the sales of the last year.

The following is a summary of the most significant business results, the independent auditor's report, and the recommendations of the Board of Directors of your esteemed assembly.



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



The Saudi Chemical Company was established in 1972 as a pioneering Company in the field of manufacturing explosives for the civil purposes. The Company owns 3 factories in Riyadh, the Eastern Region, and the Western Region, and as well distribution depots in the Southern Region in Abha and Makkah Al Mukaramah Region. The Company was able, during the last thirty eight years, to supply the local and foreign markets with the essential and supporting materials for all operations of civil explosion, and infrastructure and construction works in the Kingdom.

The activity of the subsidiary Company, the Saudi International Trading Company Ltd. (Sitco Pharma) is centered on distributing the drugs in the Kingdom. Sitco Pharma is considered as one of the major pharmaceutical distribution companies, and it holds the pioneering position in this field as it is the agent of thirteen major international pharmaceutical companies, and it works on providing a large part of the international drugs that all the health sectors in the Kingdom need, and this is thanks to the distribution network spread across all the regions.



The subsidiary Company, Suez International Nitrates Company (SINCO) is based in the Arab Republic of Egypt. Its activity is focused on producing the porous aluminum nitrate substance, and it is the primary substance that the factories of the Saudi Chemical Company in the Kingdom of Saudi Arabia depend on to produce the civil explosives. Its production capacity is 80,000 MTPY of porous ammonium nitrates substance, noting that the commercial production of SINCO Company began during the first quarter of 2010 A.D.



Second : The sales and profits :

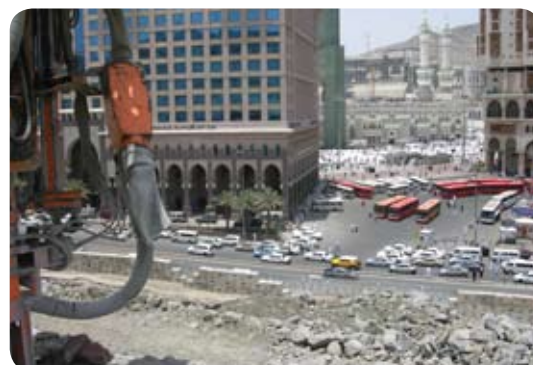
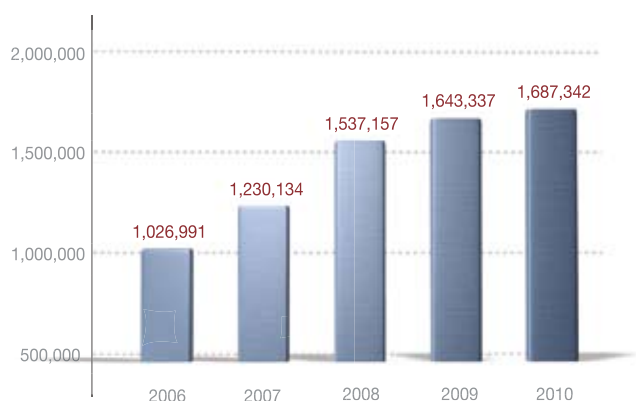
The consolidated sales:

The consolidated net sales of the Saudi Chemical Company and the subsidiary companies reached 1.687 billion (one billion and six hundred and eighty seven million Riyals) in the fiscal year ended on 31 December 2010 A.D in comparison to the amount of 1.643 billion (one billion and six hundred and forty three million) for 2009 A.D. registering an increase of (3%). The sales level in 2010 AD confirms the continuity of the Company's efforts to maintain the development rates in the sales that were achieved during the past years, in spite of the negative effects of the international financial crisis on most business sectors in the Kingdom and the Gulf countries.

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

(Value in Thousands Riyals)

2010	2009	2008	2007	2006
1,687,342	1,643,337	1,537,157	1,230,134	1,026,991



The above table shows the achievement of record growth rates in sales, and also attaining average growth rate in sales of (13%) during the last five years.

Third : The effect of each activity on the Company's business volume and the consolidated sales :



Civil Activities :

The sales of the civil explosives during the year ended 31/12/2010 A.D. amounted to 359 million Riyals compared to 288 million Riyals for 2009 A.D. with an increase of (25%). The levels of the civil explosives sales attained in 2010 confirms the Company's ability to provide for all the Kingdom's needs of civil explosives whose demand increased due to the infrastructure projects and roads building, the mining sector, quarries, and explosives necessary to detect the petroleum and gas reservoirs. Saudi Chemical Company was distinguished in its capacity to produce all the civil explosives necessary for these multiple fields with the highest standards of international quality which is supported by the strategic technical agreements with the leading major international companies in this industry.



Drug Activities :

Sitco Pharma Company maintained the sales levels in spite of losing some drugs agencies during 2010 A.D. The sales for 2010 A.D. amounted to 1,328 billion Riyals (one billion three hundred and twenty eight million) compared to 1,356 billion for 2009 A.D. The levels of the Company's sale during the last five years confirms the Company's ability to maintain a standard market share in the drugs distribution market thanks to it's capability to meet the local demand for the international drugs and its availability in the Kingdom's market in compliance as an agent for the major international drugs Company and managing the best network for distribution and storage spread across all the regions of the Kingdom which is designed and based on the most sophisticated equipment and the international systems to distribute all types of drugs round the clock. Moreover, the Company gained a record share of the market in the sale of vaccine and the cooled drugs which requires special conditions for transportation and storage. This gave the Company a special position as it became the first supplier for this type of medicines in the local market which confirms the Company has maintained the pioneering position as the major drugs distributors in the Kingdom.



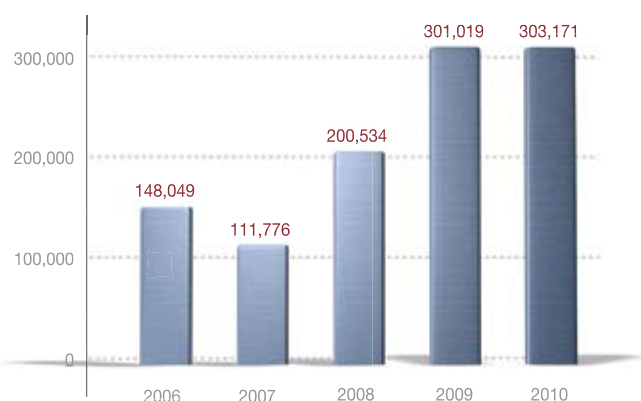
Fourth : The consolidated net profits :

The consolidated net profits for 2010 A.D. amounted to (303 million Riyals) compared to (301 million Riyals) for 2009 A.D. with an increase of 1%. The reason for the rise in the consolidated net profits is due to the increase of the rates of the operational profits and reduction of expenses (noting that the results of 2009 A.D. included registering the sum of 49 million as non-operational profits as a result of the settlement of ending Panadol drug agency for the subsidiary Company Sitco Pharma).



(Value in Thousands Riyals)

2010	2009	2008	2007	2006
303,171	301,019	200,534	111,776	148,049



Fifth : Profit (Loss) of the share in Saudi Riyals :

The share profit of 2010 amounted to 4.79 Riyals / share, compared to the amount 4.76 Riyals / share in 2009 with an increase of 1%.

2010

2009

SR4.79 / Share

SAR 4.76 / Share



Sixth : The Geographical Analysis of the consolidated income :

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

The sales inside the Kingdom

98%

The sales outside the Kingdom

2%



Seventh : The sectoral information :

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

Eighth : Statement of the statutory payments :

The following is a statement of some statutory payments for the Chemical Company and its subsidiary companies which were completed during 2010 comparable to 2009 A.D.

(Thousand Saudi Riyals)

	2010	2009
Department of Zakat and Income Tax	22,724	12,378
General Organization of Social Insurance	6,242	5,500

Ninth : The Safety Record :

The Company pays great attention to the security and the safety of the employees therein and subsidiary establishments thereto and the substances it produces, by applying the latest standards relevant to safety, and providing the training courses for its employees whether in the field of security, safety, or the protective and periodical maintenance. As a result of this and by the grace of Allah, during 2010, no major work injury was recorded and no major incident occurred in spite of the seriousness and the sensitivity of the products that the Company produces and handles.



Tenth : The Social Responsibility Program :

During 2010 A.D., the Saudi Chemical Company, through the program of (Chemistry in the service of Community), supported the social and health activities in addition to sponsoring some national awareness campaigns in its efforts related to the social responsibilities. The Company adopted a group of activities, notably executing a campaign for combating smoking and blood donation campaign, and the employees' participation in the monthly donation for the charitable society for the care of orphans (Insan).



Eleventh : Manpower and Training :

The Company paid attention to train the employees therein to develop its business and upgrade the efficiency of work and its quality, and to develop the skills of the employees and the trainees. The Company undertook a group of training courses in the diverse specializations in the training headquarter in the Company in addition to training programs inside and outside the Kingdom. Furthermore, the ratio of Saudization increased due to the recruitment of the qualified national cadres and developing the programs of performance measurement and the evaluation according to job description and the attained objectives.



Twelfth : The potential risks :

By Allah's help and guidance, the Company is proceeding towards development and expansion in all its operational activities. According to the available information there are no expected risks God willing to the operational activities for the Company in the future. The Company is exerting its maximum efforts to identify the significant risks it faces. To attain this, the Company uses the questionnaires and holds meetings with the officials responsible for identifying the risks, in addition to using the evaluations undertaken by experts from outside the Company, as well as the results of the internal and external auditors and any other method to specify the risks.

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

Company Name	Legal Entity	Incorporation Country	Ownership Ratio
Saudi International Trading Company (Sitco pharma)	Limited Liability	The Kingdom of Saudi Arabia	99%
Suez International Nitrates Company (Sinco)	Partnership	The Arab Republic of Egypt	98%
Chemical Company for Commercial Investment Limited	Limited Liability	The Kingdom of Saudi Arabia	95%

Fourteenth : Summary of Financial Results

(A) The Financial Position (Thousands SAR)

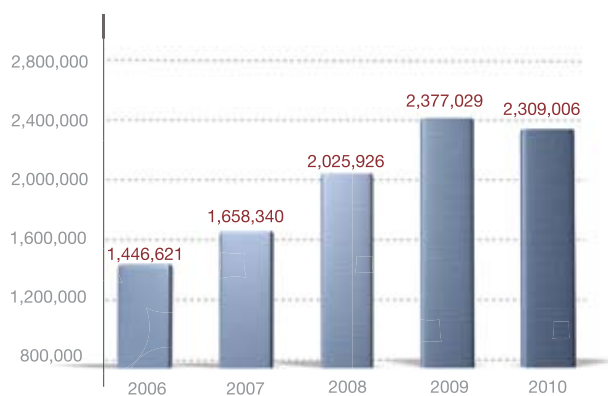
The financial position :	2010	2009	2008	2007	2006
Current assets (net)	1,636,568	1,711,028	1,238,969	1,054,015	897,483
Non-current assets (net)	672,438	666,001	786,957	604,325	549,138
Total assets	2,309,006	2,377,029	2,025,926	1,658,340	1,446,621
Current liabilities	922,524	1,108,113	902,904	669,781	577,682
Long-term loans	-	-	-	69,013	-
Provision of End of Service indemnity	29,131	26,346	23,925	21,682	19,027
Total liabilities	951,655	1,134,459	926,829	760,476	596,709
The shareholders equity :					
Capital	632,400	632,400	632,400	632,400	632,400
Statutory reserve	156,763	126,246	96,144	76,091	64,913
General reserve	100,000	80,000	40,000	20,000	-
Retained Earnings	436,840	400,706	327,889	167,408	150,050
Total shareholders' equity	1,352,803	1,239,352	1,096,433	895,899	847,363
Minorities rights	4,548	3,218	2,664	1,965	2,549
Total of liabilities and shareholders' equity	2,309,006	2,377,029	2,025,926	1,658,340	1,446,621

(B) The Income Statement (Thousands SAR)

Description	2010	2009	2008	2007	2006
Consolidated sales (net)	1,687,342	1,643,337	1,537,157	1,230,134	1,026,991
Cost of Sales	(1,313,244)	(1,297,051)	(1,271,310)	(1,023,796)	(813,697)
Gross Profit	374,098	346,286	265,847	206,338	213,294
General and administrative expenses	(61,367)	(67,230)	(51,420)	(50,786)	(49,370)
Operating profit	312,731	278,966	214,427	155,552	163,924
Financial expenses -net	(3,191)	(6,469)	(12,814)	(3,227)	(6,482)
Goodwill and deferred changes Amortization	--	(1,600)	(3,200)	(3,200)	(3,200)
Other income (net)	10,363	54,415	4,752	2,241	21,724
Zakat	(15,402)	(22,639)	(11,406)	(11,390)	(8,200)
Minority interests	(1,330)	(1,654)	(1,027)	(316)	(843)
Net profit	303,171	301,019	200,534	111,776	148,049

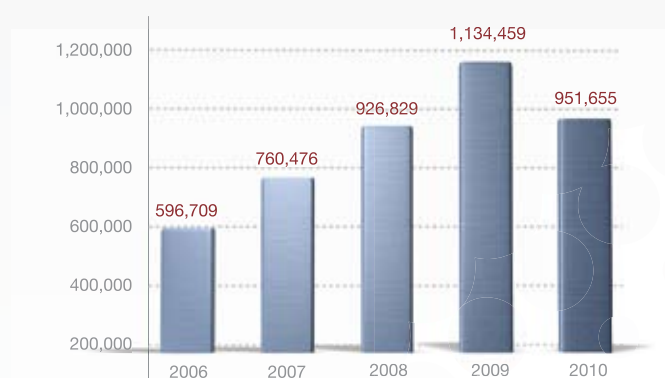
(C) Total assets (Value in Thousands Riyals)

2010	2009	2008	2007	2006
2,309,006	2,377,029	2,025,926	1,658,340	1,446,621



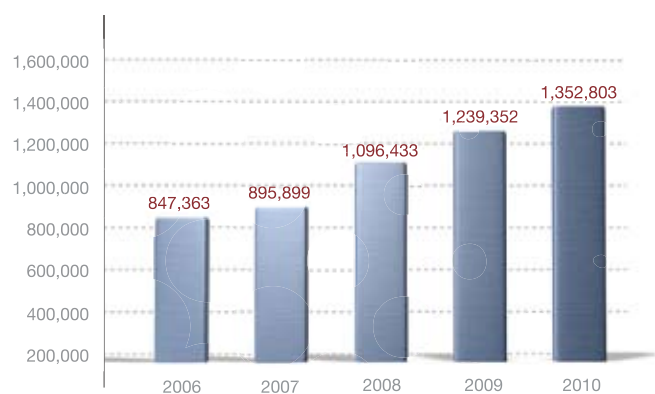
(D) Liabilities Total (Value in Thousands Riyals)

2010	2009	2008	2007	2006
951,655	1,134,459	926,829	760,476	596,709



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

2010	2009	2008	2007	2006
1,352,803	1,239,352	1,096,433	895,899	847,363



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

In execution of the strategic plans formulated by the Board of Directors with the aim of expanding the activity and the diversification of the income sources of the Company, the year 2010 witnessed the achievement of various practical steps including:

1) The explosives activity for the civil purposes:

1. Start expanding the production lines in order to add the production line of Kemulex and Sanel products to the Company's production lines in Dahaban factory in Jeddah region.
2. In continuation of the geographic expansion for the distribution regions, the Saudi Chemical Company has succeeded in completing the construction of sub-depots in Al Saman area in the way to the Eastern region, 180 km far from Riyadh for the service of crushers' and the numerous quarries in the area. Besides, the necessary licenses have been obtained, and land has been acquired on which an industrial zone will be established in the region of Hazm Al Jalameed (north the Kingdom) which is 80 km from ArAr city. This is for the service of mining projects, particularly phosphate mines in this area.
3. Long-term contracts were signed with a large number of the most important clients to ensure the capture of a larger share in the Saudi market.
4. The completion of filming a documentary reflecting the activity and the history of the Saudi Chemical Company and the subsidiary companies.
5. The new services have started being offered to the Company's customers for the first time in the Middle East. It is the service of unloading the bulk of Prillex directly in the holes (D.T.H). This is special service for the cement companies and the mining sectors.
6. Developing the computer programs : The program applications of (ORACLE ERP) were operated in all the departments, sections, and branches of the Company and the subsidiary companies. The final project has not received up till now. Full operation of the program is expected to start during 2011.



2) The Drugs Activities (Sitco Pharma Company) :

- During the year 2010, the new central drugs depot was inaugurated and operated in the city of Riyadh.
- Within the framework of the program of permanent expansion program of Sitco Pharma in the field of supplying, distribution, and joint marketing for all the consumer, medical, and pharmaceutical commodities, an agreement was signed between Sitco Pharma and Oman Pharmaceutical Products Co. L.L.C for five years starting from 7/11/2010 A.D., by virtue of which the Company shall undertake the distribution of some of the products of the Omani Company in all the regions of the Kingdom of Saudi Arabia.

- On 13/4/2010 A.D., an agreement was signed between Sitco Pharma Company and Henkel Arabia Company for the home and personal care products for three years as of 1/6/2010 A.D., by virtue of which the Company shall distribute all the products of Henkel Company in the Central and Southern regions of the Kingdom. It is well known that Henkel Company is regarded as one of the major international leading companies in the field of producing and marketing the consumer commodities in the Kingdom.
- Sitco Pharma Company's contract with Glaxo Saudi Company was renewed for five years as of 20/7/2010 A.D., by virtue of which Sitco Pharma shall provide the distribution services of the pharmaceutical products of Glaxo Company to the sale points with which it deals all over the Kingdom of Saudi Arabia.



(3) The Porous Nitrates Sector:

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

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

A memorandum of understanding was signed with Swedish Yara Company on 25/8/2010 A.D. due to the desire of the latter to enter as a partner in Suez International Nitrates Company (SINCO) (The subsidiary Company in the Arab Republic of Egypt) with a share of not more than 47% of the total share of the Saudi Chemical Company in SINCO, noting that the Swedish Yara is the international pioneering Company in the field of fertilizers and the porous

ammonium nitrates. Yara Company has wide experience and efficiency in this field, Saudi Chemical Company believes that this will open new opportunities to develop the performance and the products of SINCO Company.

4) Al Mawarid Trading Co. Ltd.

The subsidiary Company (Sitco Company), during the second quarter of 2008, acquired a share in the capital of Mawarid Trading Co. Ltd. equaling 15% of the equity of the mentioned Company, in return for a sum of SAR 135 million. Al Mawarid Trading Co. Ltd is owned by the Al Mawarid Holding Co. and Al Mawarid Investment Company in which the previous chairman of the Board of Directors of Saudi Chemical Company owns majority shares (Related Party). During the second quarter of 2009, the Company entered into another agreement with the Al Mawarid Trading Co. requiring Sitco Pharma to purchase 50% of the Company's shares in Al Dawa Medical Services Company at an amount of SAR 230million in return of its exit from the ownership of 15% of the partners shares in the Al Mawarid Trading Co. The Company has settled an amount of SAR 95million of the total difference between the two transactions value to the sellers. When reviewing the above referred to transactions to the ordinary general assembly of the Company's shareholders held on 30/6/2009 A.D. to be adopted, the resolution of the general assembly was issued not to approve those two transactions. Accordingly, the Company's administration notified the sellers of the nullification of the two transactions and claimed the recovery of the paid amounts in implementation of the articles of the memorandum of understanding which requires the approval of the relevant authorities to complete the transaction. Accordingly, the total paid amounts registered was SAR 230 million at the expense of maturities of relevant parties (Al Mawarid Trading Company Ltd.) in the statement of consolidated financial position of the Company, and during the year 2010 A.D., the Company's administration demanded from the Al Mawarid Trading Company that it settle the amount. An agreement is ongoing on the procedures and the timing of settlement of this amount.



5) The Chemical Company for Commercial Investment :

During the fourth quarter of the year 2008 A.D. the Company completed the establishment of the Chemical Company for Commercial Investment as a limited liability Company with a capital of 1 million SAR owned by Saudi Chemical Co. and the subsidiary Company (Sitco Pharma) in the ratio of 95% and 5%, respectively. The Company's activity is mainly represented in the wholesale and retail trade in drugs, machinery, and medical equipment, and managing and operating the civil, governmental pharmacies. The said Company is still under organization and did not start the operations yet.

Sixteenth : The commercial loans :

During the third quarter of the year 2010 A.D., the subsidiary Company Sitco Pharma received a short-term loan from one of the local banks amounting to SAR 9.93 million to finance its operational requirements. The loan carries an interest rate as per the loan agreement, noting that the loan is guaranteed by virtue of a bond in favor of the bank.



Seventeenth : The governance and the applications related thereto :

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

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

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

The Company's Compliance with the Governance Regulation :

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

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

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

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

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

A. The Meeting	Meeting Date	Activity
First (The seventh extra ordinary General Assembly)	21/3/2010 A.D.	Approval of the amendment of the Article 17 of the Company's articles of association pertaining to the number of the members of the Board of Directors
Second (The thirteenth ordinary General Assembly)	11/5/2010 A.D.	1 Approving the contents of the report of the Board of Directors for the year 2009 A.D
		2 Ratifying the balance sheet of the Company for the year ended on 31/12/2009 A.D. and the income list for the same period and the auditor's report.
		3 Quittance and discharge of the members of the Board of Directors for the fiscal year ended on 31/12/2009.
		4 Approving the recommendation of the Board of Directors to distribute profits for the first quarter of the fiscal year 2009 in the amount of 1.50 Riyals for the share and the eligibility to have the profits for the fourth quarter for the shareholders registered in the Company records in the Saudi Stock Market (Tadawul)—the deposit center—by the end of the trading on the day of holding the ordinary General Assembly, in addition to what was distributed for the third quarter of the year 2009 in the amount of 2.5 Riyals per share so that the total distributed profit for the fiscal year 2009 A.D. becomes (4) Riyals for the share.
		5 Approving the transference of (an amount of 20 million Riyals) twenty million Riyals of the profits to be added to the general reserve of the Company to face any future negative impacts and transferring the remaining profits to the account of the retained profits.
		6 The approval to select an auditor from among the nominees proposed by the auditing committee to review the financial statements for the fiscal year 2010 A.D. and the quarterly statements, and specifying his fees.
		7 Electing two members in the two vacant chairs for the membership of the Board of Directors for the current session of 1/1/2010 A.D. to 31/12/2012 A.D.

- B) The Company affirms that it did not receive from the chartered accountant any request to convene the General Assembly during the year ended on 31/12/2010 A.D. and was not held. The Company further affirms that it did not receive, from shareholders owning 5% of the Company capital or more, a request to convene the General Assembly during the fiscal year ended on 31/12/2010 A.D. and it was not held.
- C) 1. The Company announced the time of the holding of the General Assembly, its place, and its agenda 25 days prior to the date according to the regulation.

2. The invitation to the assembly meeting was published in Tadawul and in the daily newspaper (Al Riyadh) in its edition no.15263 issued on 8/4/2010 A.D. and the daily newspaper (Al Watan) in its edition no. 3478 issued on 8/4/2010 A.D., and in Um Al Qura gazette.

- D) The shareholders were informed of the rules governing the meetings of the General Assembly and the voting procedures through the invitation to the General Assembly and through distributing written procedures during the meeting. The shareholders have the opportunity to participate effectively in the assembly's meeting.
- E) The participation of the largest number of shareholders in the meetings of the General Assembly was facilitated by selecting the place which is the Company headquarter in Riyadh, and the time as it was held at 4 o'clock p.m.
- F) The shareholders owning 5% or more in the Company shares were not requested to add a subject or more to the agenda of the General Assembly during its preparation.
- G) The Company enables the shareholders to exercise their rights in discussing the included subjects in the General Assembly agenda and to pose questions to the members of Board of Directors members and to the chartered accountant.
- H) All the subjects reviewed to the General Assembly shall be accompanied with sufficient information enabling the shareholders to take decisions.
- I) The Company enables the shareholders to peruse the minutes of meeting in the Company headquarter, and the meeting's results are announced on Tadawul site as soon as the assembly ends, and the deputy of the authority of the stock market and deputy of the general administration of the companies in the Ministry of Industry and Commerce were provided with a copy of the minutes of meeting after it ends.

4) The Right to Vote :

- A) The Company affirms that there are no hindrances before the shareholder to exercise his voting right, and the Company seeks to facilitate this.
- B) The Company did not use the method of cumulative voting as the Company's articles of association do not stipulate it.
- C) The Company is bound to verify that the shareholders' powers of attorney to attend the General Assembly (which should be in writing) if it were for shareholders other than the members of the Board of Directors and the Company's employees.
- D) It is not part of the Company procedures to access the annual reports of the investors of the persons of corporate capacity who act on behalf of the other—such as the investment funds—hence, the Company believes that this procedure concerns the investors themselves and it is not in the scope of the Company's responsibilities. Moreover, the Company is regarded as one of the largest companies whose shares are free.

5. The Shareholders' Rights in the Dividends :

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

6. The Company Policy and the Disclosure Procedures :

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

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

	Name	The Chemical Company	Other Companies
1	Prince Ahmad Bin Khalid Bin Abdullah Bin Abdul Rahman Al Saud	Chairman of the Board of Directors	Saudi Arabian Amiantit Co. / Saudi Arabian Insurance Co. (SAICO)
2	Mr. Samir Mahmoud Abdulhadi	Vice Chairman of the Board of Directors	Meed Holding Company
3	Mr. Abdul Aziz Bin Ali Hassan Abussud	Member of the Board of Directors	Saudi Arabian Amiantit Co. / Saudi Arabian Insurance Co. (SAICO) / Meed Holding Company
4	Mr. Abdul Rahman Bin Abdul Aziz Al Yemni	Member of the Board of Directors	Saudi Company for the Vehicles and Equipments Services / Al Jouf Agricultural Co.
5	Mr. Abdul Rahman Bin Said Al Yemni	Member of the Board of Directors	Nama Chemicals Co. / Al Jouf Agricultural Co.
6	Eng. Fahad Saleh Al-Jarbou	Member of the Board of Directors	Meed Holding Company
7	Mr. Sultan Mohammad Al Hidaithy	Member of the Board of Directors	Saudi Company for the Vehicles and Equipments Services

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

	Name	Position	Executive / Non-Executive / Independent
1	Prince Ahmad Bin Khalid Bin Abdullah Bin Abdul Rahman Al Saud	Chairman of the Board of Directors	Non-Executive
2	Mr. Samir Mahmoud Abdulhadi	Vice Chairman of the Board of Directors	Non-Executive
3	Eng. Fahad Saleh Al Jarbou (Managing Director)	Member of the Board of Directors	Non-Executive
4	Mr. Abdul Rahman Bin Abdul Aziz Al Yemni	Member of the Board of Directors	Independent
5	Mr. Sultan Mohammad Al Hidaithy	Member of the Board of Directors	Independent
6	Mr. Mohammad Omar Al-Sanousi	Member of the Board of Directors	Independent
7	Abdul Aziz Bin Ali Abussud	Member of the Board of Directors	Independent
8	Mr. Abdul Rahman Bin Said Al Yemni (from 11/5/2010 A.D.)	Member of the Board of Directors	Independent
9	Dr. Mohammad Said Al Badr (from 11/5/2010 A.D.) (General Manager)	Member of the Board of Directors	Executive

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

	The Name of the Person to whom the Interest is destined	The Beginning of the year 2010 A.D.		The End of the year 2010 A.D.		Net	Ratio
		Number of shares	Debt Instruments	Number of shares	Debt Instrument	Change	Change
1	Prince Ahmad Bin Khalid Bin Abdullah Bin Abdul Rahman Al Saud	1,000	-	1,000	-	--	-
2	Mr. Samir M. Abdulhadi	131,742	-	131,742	-	--	-
3	Mr. Abdul Rahman Adul Aziz Al Yemni	670,589	-	100,000	-	570,589	85%
4	Mr. Sultan Muhammad Al Hidaithy	1,000	-	1,000	-	--	-
5	Mr. Mohammad Omar Al Sanousi	1,300	-	1,300	-	--	-
6	Mr. Abdul Aziz bin Ali Hassan Abussud	131,748	-	131,748	-	--	-
7	Eng. Fahad Saleh Al Jarbou	2,122	-	1,000	-	1,122-	53% -
8	Dr. Mohammad Saud Al Badr (General Manager)	1,100	-	5,720	-	4,620	420%
9	Mr. Abdul Rahman Said Al Yemni	340,000	-	659,200	-	319,200	94%

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

	The Name of the Person of the Interest	The Beginning of the year 2010 A.D.		The End of the year 2010 A.D.		Net	Ratio
		Number of Shares	Debt Instruments	Number of Shares	Debt Instrument	Change	Change
1	Mohammad Hamad Al Sogaih (Deputy General Manager)	--	--		--	--	--
2	Adel Abdul Fattah Al Sayed (Director of Finance)	50	--	50	--	--	--
3	Abdul Aziz Mohammad Abdul Latif (Director of Purchase)	--	--	--	--	-	-
4	Abdul Rahman Mohammad Al Musaeed (Director of Training and Support)	--	--	--	--	--	--
5	Salah Bateh Al Enzi (Director of Production)	1,000	--	1,000	--	--	--
6	Mohammad Abdullah Al Mazeny (Director of Marketing and Sales)	--	--	--	--	--	--

The Meetings of the Board of Directors During the Year 2010 :

The Board of Directors met 5 times during the year 2010, and the following table shows the attendance times of each member :

	Name	The first meeting 12/1/2010	The second meeting 19/2/2010	The third meeting 2/5/2010	The fourth meeting 31/5/2010	The fifth meeting 2/11/2010	Total
1	Prince Ahmad Bin Khalid Bin Abdullah Bin Abdul Rahman Al Saud (Chairman)	✓	✓	✓	✓	✓	5
2	Mr. Samir Mahoud Abdulhadi	✗	✓	✓	✓	✓	4
3	Mr. Abdul Rahman Bin Abdul Aziz Al Yemni	✓	✓	✓	✓	✓	5
4	Mr. Sultan Mohammad Al Hidaithy	✓	✓	✓	✓	✓	5
5	Mr. Mohammad Omar Al Sanousi	✓	✓	✓	✓	✓	5
6	Mr. Abdul Aziz Bin Ali Bin Hassan Abussud	✓	✓	✓	✓	✓	5
7	Eng. Fahad Saleh Al Jarbou	✓	✓	✓	✓	✓	5
8	Dr. Mohammad Saud Al Badr from (11/5/2010 A.D)	✗	✗	✗	✓	✓	2
9	Mr. Abdul Rahman Said Al Yemni from (11/5/2010 A.D.)	✗	✗	✗	✓	✓	2

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

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

First : The Executive Committee :

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 (MD) or the chief executive officer (CEO).
 2. Ascertain that strategy of the Company has been translated into real actions which aim at achieving Company objectives.
 3. Review the recommendations of the MD or CEO in relation to distribution of Company resources which aim at achieving consistency between the Company's strategies and the long-term operating objectives.
 4. Perform periodic review of the strategies and the operating objectives of the Company and its subsidiary companies in order to make sure that they are consistent with the mission and objectives of the Company.

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

Its Tasks:

- Request the other suitable documents, reports and recommendations from officials, executives and employees of the Company.
- Invite officials, executives and employees of the Company to its meetings in order to question them and hear their explanations.
- Seek services from experts and consultants from outside the Company.
- Perform the other services requested by the board of directors and are included within the authority of the committee.
- The committee shall annually audit and evaluate its regulation in order to ensure that it has done its duties and to submit recommendations to the board of directors about its amendments.
- The committee shall submit a periodical report about its works to the board of directors at least once every six months.
- In addition to that, members of the committee shall do the following:
 1. Participate in the activities and works of the committee and attend all the meetings.
 2. Be fully aware of all the updates in the works environment of Company.
 3. Consider all the information known to them due to their work for the committee as secret information.
 4. Inform the board of directors in case of interest conflict that may arise as a result of decisions taken by the committee.
 5. Prepare annual review and evaluation of the activities and members of the committee including checking the adherence degree of the committee to its regulation.

Name of Members:

	Name		Total times of attendance
1	Prince Ahmad Bin Khalid bin Abdullah Bin Abdul Rahman Al Saud	Chairman of Executive Committee	5
2	Mr. Samir M. Abdulhadi	Member	4
3	Eng. Fahad Saleh Al-Jarbou	Member	5
4	Mr. Mohammad Omar Al Sanousi	Member	5

Work Duration:

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

Number of meetings:

The executive committee held five meetings during 2010.

Second : Auditing Committee :

Its Competencies:

- Ensure the authenticity of preparing the financial accounts and reports according to the approved accounting standards and policies adopted by the Company so as to achieve transparency of financial information revealed by the Company.
- Specify and check the accounting problems affecting the process of preparing financial reports and to understand the extent of their effect on such reports.
- Study, express opinion and offer recommendations if required about the primary quarterly financial statements before presenting them to the board of directors.
- Study, express opinion and offer recommendations about the annually financial statements before submitting them to the board of directors.
- Prepare recommendations for the board of directors as to what extent the accounting policies applied are suitable for the nature of the Company and regarding its evaluation of financial reports issued by the Company and the nature of their auditing.
- Prepare recommendations for the board of directors concerning the annual report of the Company before the approval of it by the board of directors.
- Regarding internal control and risk management :
 1. Study the main risks confronted by the Company which include financial, operating and legal risks, and to review the policies applied by the administration concerning processes of determination, evaluation and treatment of such risks.
 2. Prepare the recommendations concerning establishment, improvement and spread of environment of control inside the Company.

3. Prepare the evaluation of both systems of control and internal risk management so as to contain its evaluation of balances allocated for them and for individuals in charge of them and of the degree of administration response for the notes by internal and external auditors.

As for the Chartered accountant:

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

Concerning internal auditing :

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

Regarding the degree of commitment to the regulations and systems:

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

Its tasks :

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

Name of Members :

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

Duration of work :

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

Number of meetings :

The Audit Committee held four meetings during 2010.

Third : the Nominations and Remuneration Committee :

Its Competencies :

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

- As for the nominations for the members of the Board of Directors and the executive managers, the committee shall undertake the following:
 1. The annual review of the needs of the appropriate skills required for the membership of the Board and prepare a description of the capabilities and qualifications required for membership of the Board, including the specification of time that member should commit for the Board.
 2. Reviewing the structure of the Board of Directors and to make recommendations regarding the changes that can be made.
 3. Identifying the weaknesses and strengths in the Board of Directors and suggesting its treatment in accordance with the interests of the Company.
 4. Setting criteria for determining the independence of the member of the Board of Directors, ensuring the independence of the member on an annual basis, developing an appropriate mechanism to inform the shareholders of any variables that may lead to the loss independence of the member, and making sure that there is no conflict of interest if the member occupies membership of a Board of Directors of another Company.
 5. Preparing the directives and the introductory programs for the new independent and non-executives members of the Board of Directors on the nature of the business and a detailed description of their duties as members of the Board of Directors.
 6. Preparing recommendations for the Board that are concerned with determining the specific criteria for the selection of persons to occupy the position of managing director or chief executive and heads of major departments of the Company.
 7. Preparing a preliminary assessment of the candidates for the post of managing director or chief executive and heads of departments and units of the Company.

8. Preparing job descriptions and conditions of retirement for each of the job of the Chairman of the Executive departments and the directors of the Company.
 9. Setting appropriate criteria and procedures for evaluating the performance of the Chief Executive and the directors of departments of the Company.
 10. Performing a periodic evaluation of the activities of the Chief Executive and the directors of departments of the Company.
 11. Organizing training programs for the executives related to the subjects of corporate governance and ethical conduct of them, and formulating policies related to the continuous improvement in the performance of staff in the top-management levels.
- As for the remunerations of the Members of the Board of Directors and executive managers, it shall undertake following:
 1. Formulating a policy of the remunerations and the incentives for the Members of the Board of Directors and the executives. The Company aims at increasing the value of the Company and it is based on the personal efforts of each member of the Board of Directors and Executive Director in the implementation of the strategic objectives of the Company. Also it is based on the Committee's assessment of their personal performance against the goals set by the Board of Directors.
 2. As for the remunerations of the members and Chairman of the Board of Directors, the Committee shall develop criteria for the remunerations enabling the Company to get distinguished performance without affecting the independence of the members.
 3. As for the remunerations of the managing director or the chief executive and the directors of the departments of the Company, the committee shall set standards to be reviewed periodically related to the annual fixed salaries and the changing bonuses based on a system of financial and non-financial evaluation for the performance, and also to develop criteria for a special system of long-term incentives to link the interests of managers to the interests of shareholders of the Company.
 4. The continuous review of the extent of the appropriateness of the remunerations standards and this is based on the Company performance and its financial position and the basic trends in the labor market.
 5. Monitoring of the implementation of the decisions taken by the General Assembly of the shareholders on topics related to remuneration of the members of the Board and senior executives from the Company by how the disclosure of the remuneration of the annual report of the Company.

Its tasks :

- Requesting the documents, reports, clarifications and other suitable information from the officials, executives, and the employees in the Company.
- Inviting the officials, the executives, and the employees in the Company for its meetings of the Committee to question them and to hear their explanations.
- Resorting to experts, advisers and specialists from outside the Company.
- Performing the other services required by the Board of Directors within the powers of the Committee.
- The Committee shall annually review and assess its regulations in order to ascertain undertaking its duties and to present the recommendations to the Board of Directors concerning the amendments.

Names of the members:

	Name		Total times of attendance
1	Mr. Samir M. Abulhadi	Chairman of the committee	3
2	Mr. Abdul Rahman Abdul Aziz Al Yemni	Member	3
3	Eng. Fahad Saleh Al Jarbou	Member	3

The Duration of work:

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

The Number of meetings:

Nominations Committee held three meetings during 2010.

The remunerations and Compensations:

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

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

Description	Executive Board Members	Non-executive / independent members	Five of the senior executives who received the highest remunerations and compensation plus managing Director and Chief Financial Officer
Salaries and Compensation	---	---	2,934,422
Allowances	---	---	362,513
Periodic bonuses and annual allowance to attend meetings	86,000	1,665,000	2,630,600
Incentive plans	---	---	---
Any compensations or other in kind benefits payable on a monthly or yearly.	---	---	---

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

- The Company does not have any contracts or any substantial interest for any of the members of the Board of Directors or the managing director or the Director of Finance or the Senior Executives of the Company or for any person with a relationship with any of them.

- No member of the Board took part in a work that would compete with the Company business, or trafficked in one of the branches of activity it practiced.
- The Company did not offer a cash loan of any kind to the members of the Board or guarantee any loan held by one of them with others.

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

The Board of Directors and the Company administration certifies that :

- The accounting records for the year ended properly on 31/12/2010 have been properly prepared.
- The internal control system was prepared on a sound basis and was carried out effectively and that internal control within the Company is working effectively and the accounting records are kept with appropriate documentation associated with them. The development of policies and procedures for the performance of the Company have been prepared and documented in accordance to international quality standards as the Company has received recently a certificate of system quality, environment and health and safety (ISO 9001: 2008) and (ISO 14001: 2004), (OHSAS 18001: 2007) after the successes achieved in the system of ISO 9001 as the proof of the Company's commitment to the application of quality standards in all facilities with highest standards. These policies and procedures are reviewed during the year on a regular basis by specialized offices to make necessary amendments.
 - There is no doubt in the Company's ability to continue their activities.
 - There are no significant differences in the operating results from the prior year's results or any declared expectations by the Company.
 - There is no difference in the accounting standards issued by the Saudi Organization for Certified Public Accountants.
 - There are no shares or debt instruments issued for the subsidiary companies.
 - There is no an interest in the category of the shares eligible to vote belonging to persons (except the members of the Board of Directors and senior executives , their wives and their minor children) informed the Company of those rights under article thirty of the Listing Rules and any change in those rights during the last fiscal year.
 - There is no interest, option rights, and subscription rights belonging to the members of the Board of Directors and senior executives, their wives, and their minor children in shares or instruments of the Company or any of its subsidiaries, and any change in that interest or those rights during the last fiscal year.
 - The Company has no convertible instruments into shares and any option rights or subscription right warrants or similar rights issued or granted by the Company for which the Company did not get compensation in return for that during the fiscal year.
 - There are no conversion or subscription rights by virtue of debt instruments convertible into shares or option rights or subscription right warrants or similar rights issued or granted by the Company.
 - There is no recovery, purchase or cancellation by the Company of any recoverable debt or any securities purchased by the Company or its subsidiaries.

The Penalties and Sanctions and Reserve Restriction :

During the financial year ended on 31/12/2010, no punishment, penalty or reserve restrictions were imposed by the Capital Market Authority or any other supervisory or statutory or other judicial authority.

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

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

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

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

The Independence, the Powers and Responsibilities :

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

The Responsibilities of Internal Audit:

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

The Scope of Work :

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

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

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

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

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

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

Distributions of Profits Payable to the Shareholders :

1. The board of Directors approved, in its meeting held on 15/12/2009, the distribution of profits of 158,100 million SAR to the Company shareholders by 2.5 SAR per share for the third quarter of 2009, and the shareholders who are registered in the Company shareholder's registers are entitled to have these profits by the end of trading on Wednesday 30/12/2009, noting that these profits have been paid as of 9/1/2010, by transferring directly to the bank accounts of the shareholders which are associated with their investment portfolios.
2. The 13th ordinary general assembly (the second meeting) held on 11/5/2010 has agreed upon the recommendations of the Board of Directors to distribute the profits of the fourth quarter for the fiscal year 2009 amounting to 94,860,000 SAR for the Company shareholders by 1.5 SAR per share, and the shareholders who are registered in the Company shareholder's registers are entitled to have these profits by the end of the trading on the day of holding the ordinary general assembly, in addition to what has been distributed for the third quarter of 2009 by 2.5 SAR per share, so that the total distributed profit of the fiscal year 2009 shall be 4 SAR per share. The fourth quarter profits of the year 2009 have been paid on Sunday 16/6/1431H, corresponding to 30/5/2010 by transferring directly to the bank accounts of the shareholders which are associated with their investment portfolios.
3. The Board of directors, in its meeting held on 25/11/1431H, corresponding to 2/11/2010, has decided distributing profits of the third quarter which ends by 30/9/2010 with a sum of 94,860,000 SAR by 1.5 SAR per a share, and that the shareholders who are registered in the circulation registers of the Company are entitled to these profits by the end of the circulation on Monday 2/12/1431H, corresponding to 8/11/2010, noting that these profits have been paid as of Tuesday 24/12/1431H, corresponding to 30/11/2010 by transferring directly to the bank accounts of shareholders which are linked to their investment portfolios.

Recommendations of the Board of Directors Concerning Distribution of Profits :

The Board of Directors of the Saudi Chemical Company recommends the distribution of the cash profits of the fourth quarter of the fiscal year 2010, by 2 SAR per share which represents 20% of the Company's capital amounting to 126,480,000 SAR, and the entitlement of profits for the fourth quarter will be for the shareholders who are registered in the circulation registers of the Company in the Saudi Stock market (Tadawul) - the depositing center - by the end of circulation on the day of holding the ordinary general assembly. Taking into account that it is 1.5 SAR per share has been distributed previously for the third quarter of the fiscal year 2010 with a total sum of 94,860,000 Riyal which equals a percentage of 15% of the Company capital. Hence; profits that have been distributed for the fiscal year 2010 (3.5) SAR represent a percentage of 35% of the capital of the Company, so that the distribution of profits for the fiscal year 2010 shall be of 221,340,000 Riyals.

Twenty One : the New Board of Directors of the Session 1/1/2010 to 31/12/2012 :

1. The 12th regular general society of Saudi Chemical Company has held its meeting on Tuesday 12/1/1431 H, corresponding to 29/12/2009, for electing the new members of board of directors for its next session for three years as from 1/1/2010 to 31/12/2012, and the election has resulted in the winning of the candidates whose names are as follows:
 - 1) Prince Ahmad Bin Khalid Bin Abdullah Bin Abdul Rahman Al Saud
 - 2) Eng. Fahad Saleh Al Jarbou
 - 3) Mr. Samir M. Abdulhadi
 - 4) Mr. Abdul Rahman Abdul Aziz Abdul Salam Al Yemni
 - 5) Mr. Abdul Aziz Ali Hassan Abussud
 - 6) Mr. Mohammad Omar Al Sanousi
 - 7) Mr. Sultan Mohammad Ibrahim Al Hidaithy

2. The 13th ordinary General Assembly (The second meeting) of the Saudi Chemical Company held its meeting on Tuesday 12/1/1431 H, corresponding to 29/12/2009, for electing two members for two vacant seats of the Board of directors membership for the current session from 1/1/2010 to 31/12/2012, from the list of candidates of the Board of Directors membership, and all following names have been selected :
 - 1) Dr. Mohammad Saud Al Badr
 - 2) Mr. Abdul Rahman Saeed Abdul Rahman Al Yemni

Twenty two : Appointing the Company's General Manager :

- The Board of Directors has decided on 26/1/1431, corresponding to 12/1/2010, to appoint Dr. Mohammad Saud Al Badr as a general manager for the Company, starting from 1 February 2010 as a successor to the Engr. Fahad Saleh Al Jarbou.

Twenty Three : Board of directors Recommendations to the general assembly :

The Board of directors proposes the approval of the following terms to your respectable assembly :

- First** : Approval of the the contents of the Board of Director's 2010 report.
- Second** : Adopting the general budget of the Company for the year ended on 31/12/2010, and the revenue statement for the same period, as well as the report of the auditor.
- Third** : Discharge and quittance of the members of the board of directors for their work in the period ended 31/12/2010.
- Fourth** : Approval of the recommendations of the Board of Directors of the Saudi Chemical Company to distribute cash profits for the fourth quarter of the fiscal year 2010, by 2 SAR per share, which represents 20% of the Company capital with a total sum of 126,480,000 SAR. The entitlement of profits for the fourth quarter shall be for the shareholders registered in the Company registers in the Saudi Stock market (Tadawul), depositing centre, by the end of the day of holding the ordinary General Assembly, noting that 1.5 SAR per a year has been distributed previously for the third quarter of the 2010 fiscal year, with a total sum of 94,860,000 SAR, which equals a percentage of 15% of the Company capital. Thus, what has been distributed for the fiscal year 2010 is 3.5 Riyal per a share, which represents 35% of the Company Capital. So, the total of the profit distributions for the 2010 fiscal year is 221,340,000 SAR.
- Fifth** : Approval the transfer of (40 million Riyals) Forty million Riyal only to be added to the general reserve of the Company, in order to face any negative effects in the future, as well as transferring the remaining profits to the remaining profits account.
- Sixth** : Approving to select an auditor from among those nominated by the audit committee in order to revise the financial statements for the fiscal year of 2011 as well as the quarterly financial statements, and to determine his fees.

Conclusion:

The Board of Directors concludes its report by expressing thanks and gratitude to the esteemed shareholders for accepting the invitation, and for the confidence which you reposed in the Board of Directors. The year of 2010 was a special year for Saudi Chemical Company and its subsidiaries. We would like also to thank all the customers of the Company, and the governmental and local departments and institutions for their constant cooperation. Also, we would like to thank all the Company's staff for their sincere efforts in favor of the Company, as well as their keenness on continuing the development and the prosperity of the Saudi Chemical Company and its subsidiaries

Allah grants success

The Board of Directors



شركة السويس العالمية للنترات
Suez International Nitrate Co.
SINCO





SAUDI CHEMICAL COMPANY

(A Saudi Joint Stock Company)



**Consolidated Financial Statements
For the year ended December 31, 2010
and Independent Auditor's Report**





INDEPENDENT AUDITORS' REPORT

**To: THE SHAREHOLDERS OF
SAUDI CHEMICAL COMPANY**

Riyadh, Saudi Arabia

We have audited the accompanying consolidated balance sheet of Saudi Chemical Company (A Saudi Joint Stock Company) and its subsidiaries as of December 31, 2010 and the related consolidated statements of income, cash flows and changes in shareholders' 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 in accordance with the provisions of the Regulations for Companies and presented to us together with all the information and explanations which we required.

We conducted our audit in accordance with auditing standards generally accepted 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 statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

- present fairly, in all material respects, the consolidated financial position of Saudi Chemical Company and its subsidiaries as of December 31, 2010 and the consolidated results of its operations, cash flows and changes in shareholders' equity for the year then ended in conformity with accounting principles generally accepted in the Kingdom of Saudi Arabia.
- comply with the requirements of the Regulations for Companies and the Company's Articles of Association with respect to the preparation and presentation of consolidated financial statements.

For Dr. Mohamed Al-Amri & Co.



Gihad Al-Amri
Certified Public Accountant
Registration No. 362

Rabi Awal 17, 1432 H
February 20, 2011 G

Consolidated Balance Sheet

As of December 31,			
ASSETS	Note	2010 SR'000	2009 SR'000
Current assets			
Cash and cash equivalents	3	122,422	374,649
Accounts receivable	4	866,118	756,663
Inventories	5	398,411	336,347
Prepaid expenses and other assets	6	18,601	10,777
Due from related parties	7	231,016	232,592
Total current assets		1,636,568	1,711,028
Non-current assets			
Investments and financial assets	8	1,000	1,000
Construction-in-progress	9	2,668	105,383
Property, plant and equipment	10	198,963	89,811
Goodwill (SITCO)		469,807	469,807
Total non-current assets		672,438	666,001
TOTAL ASSETS		2,309,006	2,377,029
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable		855,186	838,622
Short term loan	11	16,978	50,000
Accrued expenses and other liabilities	12	49,201	216,342
Due to related parties	7	1,159	3,149
Total current liabilities		922,524	1,108,113
Non-current liabilities			
Employees' end of service benefits		29,131	26,346
Total non-current liabilities		29,131	26,346
Total liabilities		951,655	1,134,459
Equity			
Share capital	1	632,400	632,400
Statutory reserve		156,563	126,246
General reserve		100,000	80,000
Retained earnings		463,840	400,706
Total shareholders' equity		1,352,803	1,239,352
Non-controlling interests		4,548	3,218
Total equity		1,357,351	1,242,570
TOTAL LIABILITIES AND EQUITY		2,309,006	2,377,029

The accompanying notes from 1 through 22 form an integral part of these consolidated financial statements.

Consolidated Statement Of Income

For the year ended December 31,			
	Notes	2010 SR'000	2009 SR'000
Sales		1,687,342	1,643,337
Cost of sales		(1,313,244)	(1,297,051)
Gross income		374,098	346,286
General and administrative expenses	14	(61,367)	(67,320)
Income from main operations		312,731	278,966
Finance charges, net		(3,191)	(6,469)
Amortization		-	(1,600)
Other income	15	10,363	54,415
Income before zakat and non-controlling interests		319,903	325,312
Provision for zakat	13	(15,402)	(22,639)
Income before non-controlling interests		304,501	302,673
Non-controlling interests		(1,330)	(1,654)
NET INCOME		303,171	301,019
Earnings (Loss) per Share in Saudi Riyals from:			
Main operations		4.95	4.41
Other operations		(0.16)	0.35
Net income		4.79	4.76

The accompanying notes from 1 through 22 form an integral part of these consolidated financial statements.

Consolidated Statement Of Cash Flows

	For the year ended December 31,	
	2010 SR'000	2009 SR'000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Income before zakat and non-controlling interests	319,903	325,312
Adjustments to reconcile net income before zakat and non-controlling interests to net cash provided by operating activities:		
Provision for doubtful accounts	1,918	5,213
Provision for slow moving inventory	1,373	1,421
Depreciation	16,763	11,934
Gains on sale of property, plant and equipment	(175)	(4)
Amortization	-	1,600
Employees' end of service benefits	5,434	3,547
(Increase) decrease in operating assets:		
Accounts receivable	(111,373)	(33,138)
Inventories	(63,437)	(2,871)
Prepaid expenses and other assets	(7,824)	(3,492)
Due from related parties	1,576	(445)
Increase (decrease) in operating liabilities:		
Accounts payable	16,564	105,236
Accrued expenses and other liabilities	(2,073)	2,144
Due to related parties	(1,990)	4,432
Cash from operations	176,659	420,889
Employees' end of service benefits paid	(2,649)	(1,126)
Zakat paid	(22,724)	(12,378)
Net cash provided by operating activities	151,286	407,385
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investments and financial assets	-	(100,000)
Additions to construction-in-progress	-	(14,483)
Purchase of property, plant and equipment	(23,321)	(13,284)
Proceeds from sale of property, plant and equipment	296	193
Net cash used in investing activities	(23,025)	(127,574)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid	(346,366)	(1,778)
Dividends paid to non-controlling interests	(1,100)	-
Proceeds from short-term loan	(33,022)	-
Repayment of medium-term loan	-	(69,013)
Net cash used in financing activities	(380,488)	(70,791)
Net (decrease) increase in cash and cash equivalents	(252,227)	209,020
Cash and cash equivalents at the beginning of the year	374,649	165,629
Cash and cash equivalents at the end of the year	122,422	374,649
Material non-cash transaction		
Cancellation of investments in Al-Mawarid Trading Company and El-dwa, recording value within related parties (Note 7)	-	235,000

The accompanying notes from 1 through 22 form an integral part of these consolidated financial statements.

Consolidated Statements of Changes In Shareholders' Equity

	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, 2010							
Balance as at January 1, 2010	632,400	126,246	80,000	400,706	1,239,352	3,218	1,242,570
Transfer to general reserve (Note 19)	-	-	20,000	(20,000)	-	-	-
Net income for the year	-	-	-	303,171	303,171	1,330	304,501
Dividends (Note 19)	-	-	-	(189,720)	(189,720)	-	(189,720)
Transfer to statutory reserve	-	30,317	-	(30,317)	-	-	-
Balance as at December 31, 2010	632,400	156,563	100,000	463,840	1,352,803	4,548	1,357,351
For the year ended December 31, 2009							
Balance as at January 1, 2009	632,400	96,144	40,000	327,889	1,096,433	2,664	1,099,097
Transfer to general reserve (Note 19)	-	-	40,000	(40,000)	-	-	-
Net income for the year	-	-	-	301,019	301,019	1,654	302,673
Dividends (Note 19)	-	-	-	(158,100)	(158,100)	-	(158,100)
Non-controlling interests dividends	-	-	-	-	-	(1,100)	(1,100)
Transfer to statutory reserve	-	30,102	-	(30,102)	-	-	-
Balance as at December 31, 2009	632,400	126,246	80,000	400,706	1,239,352	3,218	1,242,570

The accompanying notes from 1 through 22 form an integral part of these consolidated financial statements.

Notes to the Consolidated Statements For the Year Ended December 31, 2010

1. Organization And Activities

Saudi Chemical Company (the Company) is a Saudi Joint Stock Company registered in Riyadh in the Kingdom of Saudi Arabia under commercial registration number 1010006161 dated 10 Safar 1392H corresponding to 26 March 1972.

The Company's share capital is SR 632,400,000 consisting of 63,240,000 equity shares of SR 10 each.

The accompanying consolidated financial statements include the financial position, results of operations and cash flows of the Company and its subsidiaries. The consolidated subsidiaries are as follows:

Name of the Subsidiary Company	Legal Form	Country of Incorporation	Shareholding Percentage
Saudi International Trading Company (SITCO Pharma)	Limited Liability	Saudi Arabia	99%
Suez International Nitrate Company (SINCO)	Closed Joint Stock	Egypt	98%

The main business activities of Saudi Chemical Company are the manufacture and sale of explosives and related products for civil and military use and the rendering of blasting services.

The activities of SITCO Pharma are the retail and wholesale trading of medicines, medical materials and syrups, pharmaceutical preparations, and medical and surgical tools and equipment, supplies to hospitals and medical centers and the provision of related spare parts.

The activity of SINCO is to produce the ammonium nitrate which represents one of the major raw materials for the explosive products produced by the Company. SINCO started its manufacturing operations during 2010.

The financial year of the Company and its subsidiaries commences on January 1 and ends on December 31 of each calendar year.

2. Summary Of Significant Accounting Policies

The accompanying consolidated financial statements have been prepared under the historical cost convention on the accruals basis of accounting in accordance with generally accepted accounting principles applicable in the Kingdom of Saudi Arabia. Significant accounting policies adopted in the preparation of these consolidated financial statements are summarized below.

Basis of Consolidation

Intra-group transactions and balances are eliminated in the consolidation process. Non-controlling interests are accounted for based on the subsidiaries' net assets and income.

Accounting Estimates

The preparation of consolidated financial statements in accordance with generally accepted accounting principles requires the use of estimates and judgments which might affect the valuation of recorded assets, liabilities and the disclosure of contingencies in the notes to the consolidated financial statements at the balance sheet date. Although these estimates are based on the best information available to management at the date of issuing the consolidated financial statements, the actual end results might differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, balances and deposits with banks, and all highly liquid investments with maturity of 90 days or less from the acquisition date.

Accounts Receivable

Accounts receivable is stated net of provisions. Provision is made for accounts receivable where recovery is considered doubtful by the management.

Inventories

Inventories are stated at the lower of cost or net realizable value. Net realizable value is the selling price less costs of selling. Cost is determined on a weighted average cost basis. Cost of finished goods includes cost of materials, labor and an appropriate proportion of direct overheads. It also includes goods purchased for resale. Intra group inventory profits are eliminated on consolidation.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Expenditure on maintenance and repairs is expensed, while expenditure for betterment is capitalized. Depreciation is provided over the estimated useful lives of the applicable assets using the straight line method. Leasehold improvements are amortized over the shorter of the estimated useful life or the remaining term of the lease. Assets sold or otherwise disposed of and related accumulated depreciation are removed from the accounts at the time of disposal and the related gain or loss is recognized in the statement of income. The estimated operational useful lives are as follows:

	YEARS
Buildings	33
Machinery and equipment	7 - 10
Furniture, fixture and office equipment	7 - 10
Vehicles and transportation equipment	4
Leasehold improvements	10 - 33

Notes to the Consolidated Statements For the Year Ended December 31, 2010

Goodwill

Goodwill represents the amount paid in excess of the related book values on acquisition of Saudi International Trading Company Limited as of the acquisition date. Adjustments were made to reflect fair values evaluated at the acquisition date. At each balance sheet date, the goodwill value is measured to determine the extent of impairment loss (if any).

Deferred Charges

Deferred charges mainly represent fees paid by SITCO-Pharma to acquire the distribution rights of a new pharmaceutical agency. Deferred charges are amortized on a straight line method over a period of five years.

Employees' End of Service Benefits

Employees' end of service benefits, required by Saudi Arabian Labor Law, are provided in the consolidated financial statements based on the employees' length of service.

Revenue Recognition

Sales of explosives are recognized upon delivery of goods to customers in accordance with the terms and sales prices specified in the sales agreements, and for blasting services are recognized based on the actual services performed in accordance with the provision of the related contracts.

Sales of pharmaceuticals are recognized when goods are delivered to customers. Pharmaceutical sales prices are regulated by the Ministry of Health.

Expenses

General and administrative expenses include indirect costs not specifically part of cost of sales as required under generally accepted accounting standards.

Zakat and Income Tax Provision

Zakat is accrued in accordance with the regulations of the Department of Zakat and Income Tax in the Kingdom of Saudi Arabia. Adjustments arising from final zakat assessments, if any, are recorded in the statement of income in the year in which such assessments are received.

Income tax is calculated for SINCO in accordance with the regulations in the Arab Republic of Egypt.

Statutory Reserve

In accordance with Regulations for Companies in Saudi Arabia, the Company has established a statutory reserve by the appropriation of 10% of net income until the reserve equals 50% of the share capital. This reserve is not available for dividend distribution.

General Reserve

The general reserve has been established for the purpose of covering any unexpected negative events in the future. The general reserve is established on the basis of the approval of the General Assembly of the Shareholders upon the suggestion of the Board of Directors for the distribution of annual net income.

Impairment of non-current assets

At each balance sheet date, the carrying amounts of non-current assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment loss is recognized as an expense in the statement of income immediately.

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 statement of income.

Foreign Currency Translation

Transactions

The Company maintains its accounts in Saudi Riyals. Foreign currency transactions are translated into Saudi Riyals at the rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the exchange rates prevailing at that date. Gains and losses from settlement and translation of foreign currency transactions are included in the consolidated statement of income.

Translation of Foreign Subsidiary Financial Statements

Financial statements of foreign subsidiaries' operations are translated into Saudi Riyals using the exchange rate at each balance sheet date, for assets and liabilities, and the average exchange rates for each period for revenues, expenses, gains and losses. Components of equity, other than retained earnings, are translated at the rate ruling at the date of occurrence of each component. Translation adjustments are recorded as a separate component of shareholders' equity.

Earnings per Share

Earnings per share are calculated by using the weighted average number of shares outstanding during the year. The Company's share capital consists of common shares only.

Notes to the Consolidated Statements For the Year Ended December 31, 2010

3. Cash And Cash Equivalents

	As of December 31,	
	2010 SR'000	2009 SR'000
Cash in hand	259	209
Cash at bank	122,163	374,440
	122,422	374,649

4. Accounts Receivable

	As of December 31,	
	2010 SR'000	2009 SR'000
Accounts receivable, trade	790,664	708,327
Unbilled revenue	104,167	75,149
	894,831	783,476
Provision for doubtful accounts	(28,713)	(26,813)
	866,118	756,663

Included in accounts receivable, trade are amounts totaling SR 537 million due from Government and quasi Government institutions as of December 31, 2010 (2009: SR 539 million), of which approximately SR 153 million is more than one year old (2009: SR 148 million).

5. Inventories

	As of December 31,	
	2010 SR'000	2009 SR'000
Pharmaceuticals	346,189	286,388
Raw materials - explosives	32,383	30,106
Finished goods - explosives	14,787	14,805
Spare parts	1,560	1,748
Other	5,246	4,546
	400,165	337,593
Provision for slow moving items	(1,754)	(1,246)
	398,411	336,347

6. Prepaid Expenses and Other Assets

	As of December 31,	
	2010 SR'000	2009 SR'000
Prepaid expenses	4,618	3,172
Advances to suppliers	6,948	5,248
Employee receivables	3,640	1,648
Other	3,395	709
	18,601	10,777

7. Related Parties Transactions

	As of December 31,	
	2010 SR'000	2009 SR'000
Due from related parties :		
Mawarid Trading Company	229,930	229,727
Eastern Catering Company	-	200
Mawarid Holding Company	757	803
Meed Company	3	1,768
Other	326	94
	231,016	232,592
Due to related parties :		
Advanced Instruments Group	1,038	1,045
Other	121	2,104
	1,159	3,149

The Company, in the ordinary course of its business, transacts with related parties at arm's length. The total amount of sales and purchases with related parties during the year amounted to SR Nil and SR 4.8 million respectively (2009: SR 2.2 million and SR 5.1 million respectively).

Al-Mawarid Trading Company

During 2008 SITCO Pharma purchased 15% of the total equity share capital of Al-Mawarid Trading Company for SR135 million. Al-Mawarid Trading Company is owned by Mawarid Holding Company and Mawarid Investment Company, which are owned by the Chairman of Saudi Chemical Company (related party) by virtue of majority of shares. During 2009, SITCO Pharma entered into an agreement with Al-Mawarid Trading Company that enabled SITCO Pharma to purchase 50% of the partners' shares of Al-Dawaa for Medical Services Company by paying SR235 million and to withdraw the 15% of its ownership in the partners shares in Al-Mawarid Trading Company. SITCO Pharma settled the difference between these two agreements by paying SR100 million to the sellers. Upon the presentation of these two agreements to the General Assembly of the Shareholders which was held on September 30, 2009 for approval, the General Assembly disapproved of both agreements. Consequently, the Company's management sent a cancellation notice to the sellers, requesting the return of amounts paid according to the understanding document, which required approval of the related authorities for agreements settlement. Therefore, the amount paid totaling SR235 million was recorded in due from related parties (Al-Mawarid Trading Company).

8. Investment In Subsidiary

During 2008, the Company participated with SITCO Pharma, to establish Chemical Company for Commercial Investments Ltd., as a limited liability company, with share capital of SR 1 million, which is owned by the two parties 95% and 5% respectively. The main activity of the investee company is to be the retail and wholesale trading of medicines, medical materials and syrups, medical tools and equipment, management and operations of the private and governmental pharmacies. This company is still under organization and has not yet started its business, hence it is not consolidated.

9. Construction-in-progress

	As of December 31,	
	2010 SR'000	2009 SR'000
Plants, equipment and installations for SINCO	-	92,914
Warehouses for SITCO Pharma	2,668	12,469
	2,668	105,383
Balance as of January 1,	105,383	90,208
Reclassified to/from property, plant and equipment	(102,715)	692
Additions	-	14,483
	2,668	105,383

10. Property, Plant And Equipment

	Land SR'000	Buildings SR'000	Machinery and Equipment SR'000	Furniture and Office Equipment SR'000	Vehicles & Transportation Equipment SR'000	Leasehold Improvements SR'000	Total SR'000
Cost							
January 1, 2010	5,764	192,186	77,633	9,667	25,997	19,440	330,687
Additions	-	6,353	8,595	978	6,263	1,132	23,321
Reclassification from CIP	2,399	19,117	81,201	-	-	(2)	102,715
Disposals	-	-	(84)	(59)	(2,253)	-	(2,396)
December 31, 2010	8,163	217,656	167,345	10,586	30,007	20,570	454,327
Accumulated Depreciation							
January 1, 2010	-	(138,049)	(60,017)	(6,960)	(20,629)	(15,221)	(240,876)
Reclassification	-	-	(173)	528	-	(355)	-
Depreciation for the year	-	(5,864)	(6,796)	(803)	(2,926)	(374)	(16,763)
Disposals	-	-	75	45	2,155	-	2,275
December 31, 2010	-	(143,913)	(66,911)	(7,190)	(21,400)	(15,950)	(255,364)
Net Book Value							
December 31, 2010	8,163	73,743	100,434	3,396	8,607	4,620	198,963
December 31, 2009	5,764	54,137	17,616	2,707	5,368	4,219	89,811

As of December 31, 2010 property, plant and equipment included fully depreciated items that are in service with a total cost of SR 108 million (2009 : SR 105 million).

11. Short-Term Loan

During 2010 SITCO Pharma obtained a short-term loan from a local commercial bank for SR 16.98 million to finance its operational requirements. The loan carries commission at SIBOR plus 1.75%. This loan is guaranteed by a promissory note provided by SITCO in favor of the bank for the loan value.

12. Accrued Expenses and Other Liabilities

	As of December 31,	
	2010 SR'000	2009 SR'000
Accrued employees' related benefits	6,026	6,857
Accrued marketing expenses	9,306	11,115
Accrued other expenses	1,267	3,029
Advances from customers	4,012	3,442
Dividends payable	11,182	168,928
Other	4,628	2,869
Provision for Zakat (Note 13)	12,780	20,102
	49,201	216,342

13. Provision For Zakat And Income Tax

Zakat

Zakat is calculated on a stand-alone basis for the Company and its subsidiaries. Set out below are the movements in provisions on a consolidated basis:

	As of December 31,	
	2010 SR'000	2009 SR'000
As of January 1	20,102	9,859
Payments during the year	(22,724)	(12,396)
Prior year adjustment	2,622	2,537
Provision for the year	12,780	20,102
As of December 31,	12,780	20,102

The Company and SITCO Pharma have finalized their zakat assessments up to the year ended December 31, 2004 and they have obtained the zakat certificates for the year 2009. At the date of issuing these financial statements the final zakat assessments for the years 2005 up to 2009 have not yet been received from the DZIT.

Income Tax

No provision is made for income tax at SINCO during 2010 and 2009, where the Company follows a system of consumption tax assets by tax regulations in the Arab Republic of Egypt.

14. General and Administrative Expenses

	As of December 31,	
	2010 SR'000	2009 SR'000
Salaries, wages and other benefits	33,889	29,224
Utilities and insurance	2,369	1,811
Rent	337	319
Consultancy and Professional fees	4,170	4,576
Cash discount	8,287	12,741
Bank charges	1,563	1,849
Provision for doubtful debts	1,918	5,213
Depreciation	2,864	2,645
Other	5,970	8,942
	61,367	67,320

In 2010, there was a surplus of SR 5.88 million on settlement of Organon, following one of the principals concluding the agency agreement with SITCO. This amount is included in other revenue.

During 2009, SITCO Pharma collected US\$ 13 million (equivalent to SR 48.75 million) as compensation from GSK-OTC for terminating the agency distribution agreement of "Panadol" medication.

15. Other Income

	As of December 31,	
	2010 SR'000	2009 SR'000
Bank commission	378	3,740
Gain on sale of property, plant and equipment	174	4
Rental income	-	100
Other revenue	9,811	50,571
	10,363	54,415

In 2010, there was a surplus of SR5.88 million on settlement of Organon, following one of the principals concluding the agency agreement with SITCO. This amount is included in other revenue.

During 2009, SITCO Pharma collected US\$ 13 million (equivalent to SR 48.75 million) as compensation from GSK-OTC for terminating the agency distribution agreement of "Panadol" medication.

16. Operating Leases

The land on which the Company's plants are located has been leased from the Government of the Kingdom of Saudi Arabia under renewable lease agreements with equal fixed payments, generally having a term of 10 to 20 years and renewable in the ordinary course of business. These lease agreements are subject to renewal in 1432H (2011G).

During the year ended December 31, 2010 rental expenses of SR 1.02 million were incurred on leased land and heavy duty equipment (2009: SR 1.02 million).

17. Contingencies and Commitments

The Company and its subsidiaries are contingently liable under letters of credit and letters of guarantee amounting to SR 142 million and SR 55.686 million as of December 31, 2010 respectively. (2009: SR 167 million and 48 million, respectively).

During 2004, SITCO Pharma filed a claim with the Board of Grievances in the amount of approximately SR144 million requesting one of the government parties to compensate it for the foreign currency losses incurred during 2003 and 2004, as a result of the decision to install the conversion rates of foreign currencies for the purchase of drugs from foreign companies by the Ministry of Health. The claim remains outstanding as at December 31, 2010.

18. Segment Information

A segment is a major component of a business that sells/provides certain services (business segment) or sells/provides services in a particular economic environment (geographical segment) and its profits and losses are different from those of other business segments. The Company follows the business segment as a base for reporting its segment information.

Segments of the Company are explosives production and related services, trading in pharmaceuticals and production of ammonium nitrate. The ammonium nitrate segment is considered to be the part of the explosives segment, but it is reported as a separate segment to be consistent with the Company's internal reporting purposes. The ammonium nitrate segment started its commercial production activities during the first quarter of 2010.

19. Dividends

	As of December 31,	
	2010 SR'000	2009 SR'000
Dividends or 3 rd quarter 2009	-	158,100
Additional dividends for 2009	94,860	-
Dividends for 3 rd quarter 2010	94,860	-
As at December 31,	189,720	158,100

The General Assembly approved in its meeting held on 11 May 2010 the distribution of dividends for the year ended 2009 amounting to SR 252.96 million to the Company's shareholders, representing SR 4 per share (including SR 158.10 million for the third quarter of 2009 which was paid to shareholders within the year, and the remaining amount of SR 94.86 million paid during the year 2010) in addition to the approval to transfer SR 20 million to the legal reserve.

The General Assembly approved in the meeting held on 30 June 2009 the transfer of SR 40 million from the profit of the year ended 2008 to the legal reserve.

The Board of Directors approved in their meeting held on 2 November 2010 the distribution of dividends to the shareholders for the third quarter of 2010 representing SR 1.5 per share with total amount of SR 94.86 million.

The Board of Directors recommended in their meeting held on 23 January 2011 the distribution of additional cash dividends for the year ended 2010 amounting to SR 126.48 million representing SR 2 per share which will be presented the next general assembly meeting, making total dividends for the year ended 2010 SR 252.96 million, representing SR 3.5 per share, equal to 35% of capital (year 2009 amounted to SR 252.96 million representing SR 4 per share equal to 40% of capital).

20. Financial Instruments

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. Management does not believe that the fair values of the Group's financial assets and liabilities differ materially from their carrying values.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity is managed by periodically ensuring its availability in amounts sufficient to meet any future commitments. The Group does not consider itself exposed to significant risks in relation to liquidity.

Credit risk

Credit risk is the risk that other parties will fail to discharge their obligations and cause the Group to incur a financial loss. Financial instruments that subject the Group to concentrations of credit risk consist primarily of cash balances and accounts receivable. The Group deposits its cash balances with a number of major high credit-rated financial institutions and has a policy of limiting its balances deposited with each institution. The Group does not believe that there is a significant risk of non-performance by these financial institutions. The Group does not consider itself exposed to a concentration of credit risk with respect to accounts receivable due to its diverse customer base operating in various industries and located in many regions.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Management monitors fluctuations in foreign currency exchange rates and records its effects in the consolidated financial statements, and believes that the Group is not vulnerable to exchange rate changes significantly because the official currency of the Group is Saudi Riyal, the base currency dealing by the Group and its price is currently fixed with a minor margin against the U.S. dollar.

21. Approval Of Financial Statements

The Company's Board of Directors approved the accompanying consolidated financial statements in their meeting held on Rabi Awal 17, 1432H corresponding to February 20, 2011.

22. Comparative Figures

Certain amounts in the comparative statements have been reclassified to conform to the current year presentation.



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