

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

SAUDI CHEMICAL COMPANY

(A Saudi Joint Stock Company)

ANNUAL REPORT 2008

Consolidated Financial Statements for
The Year Ended December 31, 2008
and Independent Auditors' Report



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BOARD OF DIRECTORS

HH Prince Khaled Bin Abdullah Bin Abdulrahman Al-Saud
Board Chairman

HH Prince Ahmad Bin Khaled Bin Abdullah Al-Saud
Board Member & Chairman of Executive Committee

Mr. Samir M. Abdul Hadi
Board Member

Mr. Ahmed Al-Twajjri
Board Member

Mr. Mohammad S. Al-Hammadi
Board Member

Mr. Mohammad O. Al-Sanousi
Board Member

Engineer Fahad Saleh Al-Jarbou
Managing Director-Board Member



Report of the Board of Directors of Saudi Chemical Company
presented to shareholders on the company's business results
for the year ended 31/12/2008.



Dear shareholders,

Prelude:

The Saudi Chemical Company Board of Directors is pleased to welcome you to the annual general meeting (AGM) of the company, and the board would like to thank you for your kind attendance. Herein is the annual financial report on corporate business results and most prominent achievements for the fiscal year (FY) ended December 31, 2008, reflecting management's efforts to maintain the company's strong record of growth and development. SCC and its subsidiary SITCO Pharma achieved the highest consolidated sales in their history (approx. SR 1.5 billion), growing 25% from last year figures.

The following is a brief of the business results, auditor's report and board's recommendations for your honored meeting.

First : Operations of SCC and SITCO Pharma :



The Saudi Chemical Company, established in 1972, is a leading company in manufacturing explosives for civilian purposes. It owns three factories in Riyadh, Eastern and Western Provinces, in addition to distribution storehouses in Abha, Southern Province. Over the last 36 years, the company has provided the Saudi Arabian domestic market with all the basic and supporting materials for civilian explosives for use in infrastructure and construction works.



The Saudi International Trading Co. Ltd. (SITCO Pharma), a subsidiary of SCC, focuses on pharmaceutical distribution in the Saudi Arabian domestic market. It is one of the major companies in the industry. SITCO Pharma serves as the local agent for 13 global pharmaceutical companies and supplies medical sectors with a wide range of international drugs through its national distribution network.



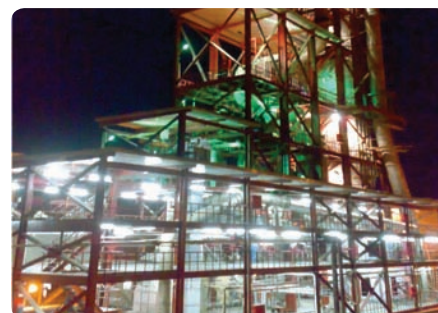
Second : Sales and Profit :

Consolidated sales

SCC and SITCO Pharma consolidated sales netted SR 1,537 million in FY 2008, compared to SAR 1,230 million in FY 2007, a growth rate of 25%.

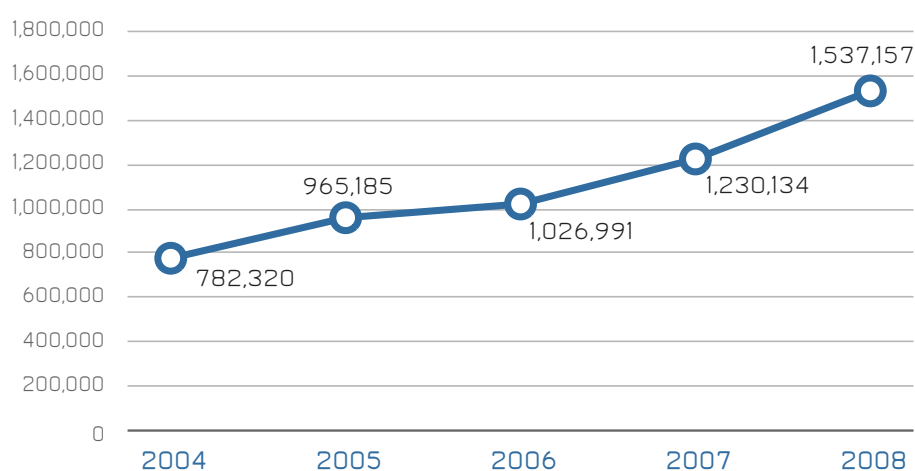
These figures show that the company is working hard to maintain or exceed previous growth rates in sales.

The following table illustrates 5-year consolidated sales growth:



[Value In Saudi Riyals]

2004	2005	2006	2007	2008
782,320	965,185	1,026,991	1,230,134	1,537,157



The table reflects a 96% cumulative growth rate in sales in the last 5 years.

Third : The impact of corporate activities on the company's business portfolio and consolidated sales :



Civilian explosives:

Civilian explosive sales in FY 2008 amounted to SR 243 million, an increase of 18% from SR 206 million in the prior year period. These levels confirm the company's efficiency in meeting the increasing demand for civilian explosives for use in infrastructural projects, including road construction, mining, and oil and gas exploration. The company's products are world-class, backed up by strategic technological alliances with international civilian explosive providers.



Pharmaceuticals:

SITCO Pharma FY 2008 sales totaled SR 1.294 billion, adding 26% to FY 2007 SR 1.024 billion sales. This excellent sales growth rate is attributable to the company's ability to meet domestic demand for quality pharmaceutical products, as agent of the biggest global pharmaceutical manufacturers and manager of the strongest national distribution and storage systems, using high-end technologies and presenting 24-hour-a-day services.

SITCO is the largest national distributor of serums, vaccines and refrigerated drugs (e.g. insulin and fertilization hormones) which have special transportation and storage requirements.

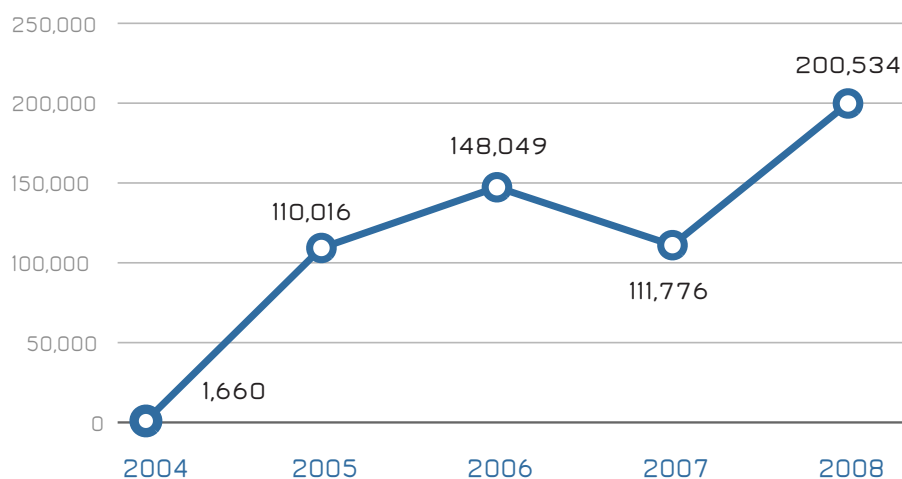
Fourth : Net consolidated profit :

Net consolidated profits grew 79% from SR 112 million in FY 2007 to SR 201 million in FY 2008, driven by a 25% increase in sales and lower currency losses for SITCO Pharma.



Net Profit
(Value In Saudi Riyals)

2004	2005	2006	2007	2008
1,660	110,016	148,049	111,776	200,534



Fifth : EPS (LPS) in SR :

FY 2008 earnings per share (EPS) are valued at SR 3.17 a share, from SR 1.77 a share, an increase of 79%.

2008	2007
SR 3,17 per share	SR 1,77 per share



Sixth: Geographical analysis of consolidated revenue :

The company's revenues come essentially from its activities inside the Kingdom of Saudi Arabia.

Seventh : Sector information :

The company works in explosives production and related services, ammonium nitrate manufacturing, and pharmaceutical distribution. The first and second sectors are correlated, and the second had not begun operation as at 31/12/2008.



Eighth : Statement of regulatory payments:

Hereunder is a statement of regulatory payments of SCC and SITCO Pharma in FY 2008 compared to FY 2007:

(Values in SR Thousand)

	2008	2007
Department of Zakat and Income Tax	11,406	11,390
Social Securities	2,010	1,938

Ninth : Potential risks :

The company, by the grace of God, is on the right track to develop and expand its operations, and no risks are forecast according to the available information.



Tenth : SCC stakes in its subsidiaries :

Company name	Stake	Legal Entity	Place of Foundation
Saudi International Trading Co. (SITCO - Pharma)	99%	Ltd.	KSA
Suez International Nitrate Co. (SINCO)	98%	JSC	A.R.E.
ExploTrack Inc.	20%	Ltd.	USA
Chemical Co. for Commercial Investment Ltd.	95%	Ltd.	KSA

Eleventh : Summary of financial results :

a) Income Statement (SR thousand)

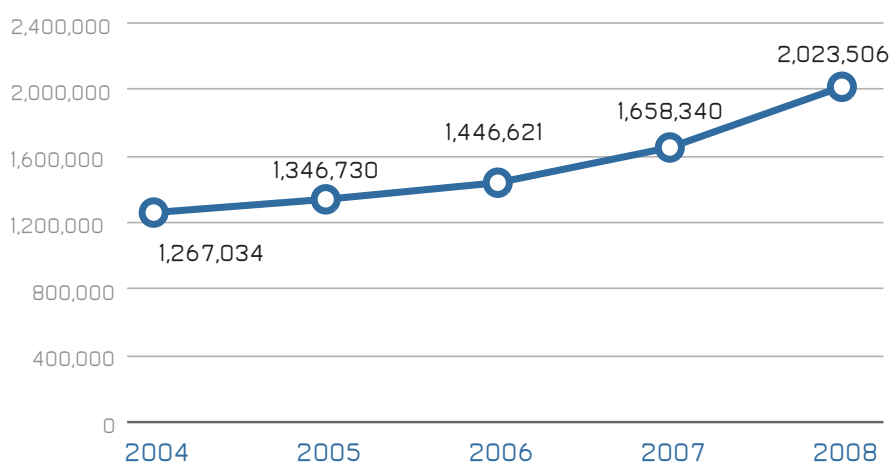
Statement	2008	2007	2006	2005	2004
Consolidated sales (NEet)	1,537,157	1,230,134	1,026,991	965,185	782,320
Cost of sales	(1,271,310)	(1,023,796)	(815,486)	(779,932)	(687,583)
Gross profit	265,847	206,338	211,505	185,253	94,737
General and Administrative expenses	(51,420)	(50,786)	(27,763)	(36,575)	(32,380)
Operating Profit	214,427	155,552	163,742	148,678	62,357
Financial expenses - net	(12,814)	(3,227)	(6,301)	(10,494)	(7,859)
Goodwill amortization & deferred expenses	(3,200)	(3,200)	(3,200)	(34,520)	(32,920)
Profit (loss) from foreign exchange	16,184	(27,884)	(19,516)	12,285	(15,472)
Investment loss provisions	(6,382)	-----	-----	-----	-----
Other revenue (Net)	4,752	2,241	22,367	1,716	812
Zakat	(11,406)	(11,390)	(8,200)	(6,823)	(5,296)
Minority Interest	(1,027)	(316)	(843)	(826)	38
Net Profit	200,534	111,776	148,049	110,016	1,660*

b) Balance Sheet (SR thousand)

Balance Sheet	2008	2007	2006	2005	2004
Current assets (Net)	1,236,549	1,054,015	897,483	799,301	697,972
Non-current assets (Net)	786,957	604,325	549,138	547,429	569,062
Total assets	2,023,506	1,658,340	1,446,621	1,346,730	1,267,034
Current liabilities	900,484	669,781	577,682	578,744	600,939
Long-term loans	----	69,013	----	50,000	60,000
Employee end of services provisions	23,925	21,682	19,027	16,461	15,062
Total liabilities	924,409	760,476	596,709	645,205	676,001
Shareholders' equity					
Capital	632,400	632,400	632,400	527,000	527,000
Statutory reserve	96,144	76,091	64,913	50,108	39,106
General reserve	40,000	20,000	-----	-----	-----
Retained Earnings	327,889	167,408	150,050	122,206	23,192
Total shareholders' Equity	1,096,433	895,899	847,363	699,314	589,298
Minority Interest	2,664	1,965	2,549	2,211	1,735
Total liabilities & shareholders' equity	2,023,506	1,658,340	1,446,621	1,346,730	1,267,034

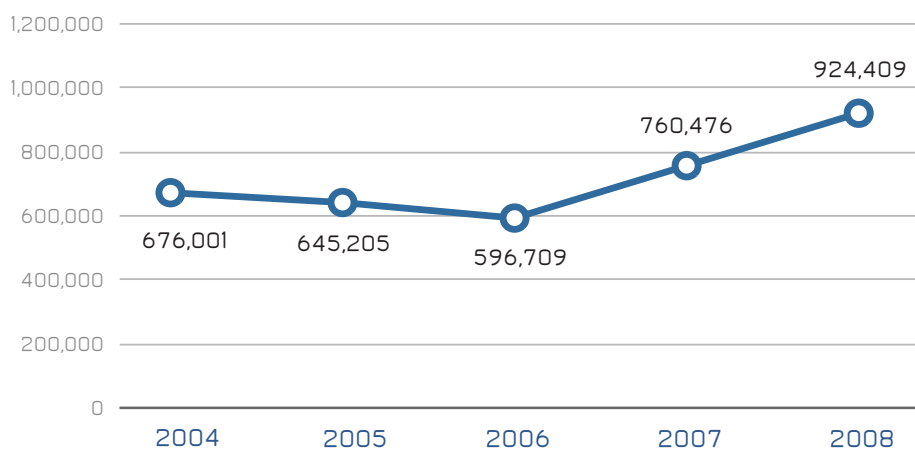
c) Total Assets (SR thousand)

2008	2007	2006	2005	2004
2,023,506	1,658,340	1,446,321	1,346,730	1,267,034



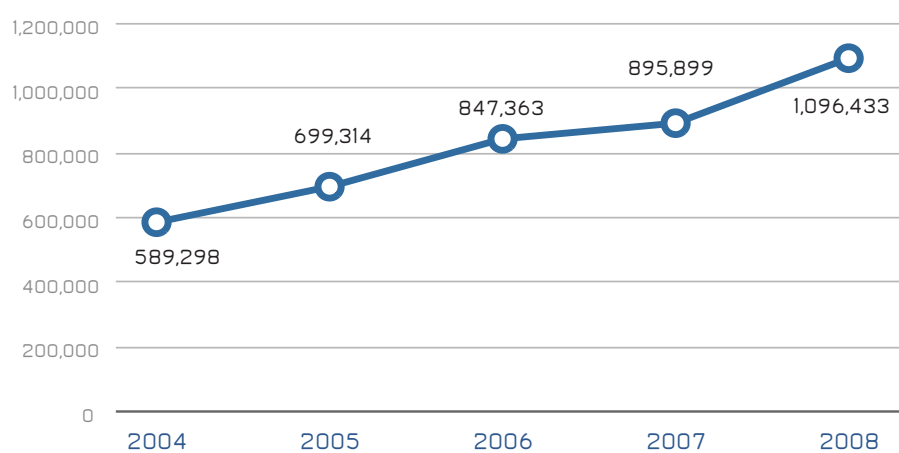
d) Total Liabilities (SR thousand)

2008	2007	2006	2005	2004
924,409	760,476	596,709	645,205	676,001



e) Total Shareholders' Equity (SR thousand)

2008	2007	2006	2005	2004
1,096,433	895,899	847,363	699,314	589,298



Twelfth : Strategic plans and business expansions :



According to the board's strategic plans to expand activities and diversify sources of income, several practical milestones were achieved in FY 2008.

1. Suez International Nitrate Co. (SINCO) :

The Suez International Nitrate Co. (SINCO) was established in the second-half of FY 2006. During FY 2007 and FY 2008, most civil construction was finalized and most machinery was purchased. The final phases of the project are now carried out and the company is expected to begin operations during first quarter of FY 2009. The company will produce the core element, currently imported from Europe, used in manufacturing civilian explosives by SCC. The project will bolster SCC's ability to cover all its raw material needs so as to meet the increasing demand for civilian explosives in the coming years for infrastructure projects such as building railroads and developing mines.



2. Mawarid Trading Co. Ltd. (MTL) :

In second quarter of FY 2008, SITCO Pharma, a SCC subsidiary, acquired a 15% stake in Mawarid Trading Co. Ltd. for SR 135 million. Mawarid Trading Co. Ltd. holds 50% shares of Al-Dawaa Co. which owns more than 170 pharmacies in Eastern and Western Provinces in Saudi Arabia. The SITCO Pharma board is currently studying the possible acquisition of the remaining equity in Mawarid Trading Co. Ltd. to secure and strengthen its market position in the retail and pharmacy markets.

3. The ExploTrack Inc. :

In the first quarter of FY 2008, the company purchased a 20% (preferred) shareholding in ExploTrack Inc. at a value of \$1.5 million (SAR 5.6 million). ExploTrack Inc. is a Philadelphia-based limited liability company which provides electronic systems for monitoring the shipment and storage of civilian / military explosives and explosive-making raw materials. Hit by the global financial crisis, the company failed to secure sufficient funds to continue its operations and fulfill its financial obligations. The SCC board put aside SAR 6.4 million as provisions (investments and financial injection for the ExploTrack Inc.) to meet any future financial losses incurred by the ExploTrack Inc. As of 31/12/2008, ExploTrack Inc. remained active, and the company is working to reduce its operating expenses.



4. Chemical Co. for Commercial Investment Ltd. :

SCC incorporated Chemical Company for Commercial Investment Ltd. in the fourth quarter of FY 2008. Chemical Company for Commercial Investment Ltd. is a limited liability company capitalized at SR 1 million. SCC holds 95% of the shares in Chemical Co. for Commercial Investment Ltd., and SCC's subsidiary SITCO Pharma owns the remaining 5% of the shares. Chemical Co. for Commercial Investment Ltd. will operate wholesale and retail businesses trading in pharmaceuticals, medical materials and medical equipment. Chemical Co. for Commercial Investment Ltd. also will operate and manage proprietary and licensed pharmacies. This venture is in formation, and it has not yet commenced operations.



Thirteenth : The commercial loans :



SCC obtained a short-term SR 50 million loan from a local commercial bank to finance part of the purchase of equity stake in Mawarid Trading Co. Ltd.

SITCO Pharma obtained a medium-term SR 138 million loan from a local commercial bank to finance its operations.



Fourteenth : Corporate governance and its related applications :

On 21/10/1427 A.H., the Capital Market Authority (CMA) published guidelines on corporate governance regulations. These governance regulations include performance rules and regulations for joint stock companies, particularly with respect to transparency and shareholder information rights. SCC approved the following policy items in view of these new rules and regulations:

1. A corporate governance system
2. Shareholder general meeting regulations
3. Board regulations
4. Disclosure and transparency policy regulations
5. Dividend payout policy regulations
6. Audit committee regulations
7. Nomination and remuneration committee regulations
8. Internal control system regulations
9. Rules of conduct and relations with shareholders
10. Risk management regulations
11. Conflict of interests policy
12. Executive committee regulations

The afore-mentioned regulations have been reviewed by management, and the final form of some regulations will be presented to the shareholders meeting for consideration and possible approval. Should the company shareholders approve these corporate governance policies, SCC would be among the first Saudi companies to adopt corporate governance rules in accordance with international standards.



The company proposes not to adopt the cumulative voting system for board elections, and instead proposes to adopt the regulation of the Ministry of Commerce and Industry (MOCI) regarding elections to the board of directors .

Fifteenth : Board members participation in other JSC boards :



Name	SCC	Other companies
HH Prince Khaled Bin Abdullah Bin Abdulrahman Al-Saud	Board Chairman	Saudi Arabian Amiantit, Saudi Arabian Cooperative Insurance Co. (SAICO)
HH Prince Ahmad Bin Khaled Bin Abdullah Al-Saud	Board Member	Saudi Arabian Amiantit, Saudi Arabian Cooperative Insurance Co. (SAICO)
Mr. Mohamed Saleh Al-Hammadi	Chairman	Saudi Automotive Services Co. (SASCO)

Board structure and members classification :

Name	Title	Independant/Non-independent	Executive/non-executive
HH Prince Khaled Bin Abdullah Bin Abdulrahman Al-Saud	Board Chairman	Non-independent	Non-executive
HH Prince Ahmad Bin Khaled Bin Abdullah Al-Saud	Board Member	Non-independent	Non-executive
Dr. Ahmed Saleh Al-Twajiri	Board Member	Independent	Non-executive
Mr. Samir Mahmoud Abdul Hadi	Board Member	Independent	Non-executive
Mr. Mohammad Saleh Al-Hammadi	Board Member	Independent	Non-executive
Mr. Mohammad Omas Al-Sanousi	Board Member	Independent	Non-executive
Eng. Fahad Saleh Al-Jarbou	Board Member	Non-independent	Executive (General Manager & Managing Director)

Board members' equity in SCC :

Member	Number of shares held on	
	31/12/2008	31/12/2007
HH Prince Khaled Bin Abdullah Bin Abdulrahman Al-Saud	2,314,500	2,314,500
HH Prince Ahmad Bin Khaled Bin Abdullah Bin Abdulrahman Al-Saud	1,000	253,600
Dr. Ahmed Saleh Al-Twajiri	1,356	1,356
Mr. Samir Mahmoud Abdul Hadi	131,742	131,742
Mr. Mohammad Saleh Al-Hammadi	3,500	3,500
Mr. Mohammad Omar Al-Sanousi	1,300	1,300
Eng. Fahad Saleh Al-Jarbou	1,000	1,000

Board meetings during FY 2008 :

The board of directors held three meetings in 2008. The following table shows the attendance record of each board member.

Name	Number of attendance
HH Prince Khalid Bin Abdullah Bin Abdulrahman Al-Saud	3
HH Prince Ahmed Bin Khaled Bin Abdullah Al-Saud	3
Dr. Ahmed Saleh Al-Twajri	3
Mr. Samir Mahmoud Abdul Hadi	3
Mr. Mohammad Saleh Al-Hammadi	3
Mr. Mohammad Omar Al-Sanousi	3
Eng. Fahad Saleh Al-Jarbou	3



Meetings of Board committees for FY 2008 :

Executive Committee :



The Executive Committee consists of four members selected from the board of directors. The Executive Committee monitors the day-to-day operations of the company, and reports periodically to the general membership of the board of directors of the company. The Executive Committee suggests strategic goals, investment projects and other significant matters to the board for its decision. The Executive Committee held four meetings during 2008.

N A M E	Number of Attendance
HH Prince Ahmad Bin Khaled Bin Abdullah Al-Saud	4
Dr. Ahmed Saleh Al-Twajiri (up to Committee re-formation on 8/9/2008)	2
Mr. Samir Mahmoud Abdul Hadi	4
Eng. Fahad Saleh Al-Jarbou	4
Mr. Mohammad Omar Al-Sanousi (as of Committee re-formation on 8/9/2008)	2



Auditing Committee :

The Audit Committee consists of three members. The Audit Committee's principal tasks include supervising internal auditing measures, making sure standards are met, nominating the company's independent auditor, auditing and verifying the financial statements approved by board of directors, and monitoring internal controls, procedures and policies. The Committee met three times during 2008.

N A M E	Number of Attendance
Dr. Khalil AbdulFatah Kurdi (Chairman)	3
Mr. Mohammad Saleh Al-Hammadi	3
Mr. Samir Mahmoud Abdul Hadi (up to Committee re-formation on 8/9/2008)	2
Mr. Mohammad Omar Al-Sanousi (up to Committee re-formation on 8/9/2008)	1

Nomination and Remuneration Committee :

The Nomination and Remuneration Committee consists of three members, who serve to help the board of directors perform its guiding and supervisory missions effectively, thus helping achieve the company's goals and financial development.



NAME	Position
HH Prince Khaled Bin Abdullah Bin Abdulrahman Al-Saud	Chairman
HH Prince Ahmad Bin Khaled Bin Abdullah Al-Saud	Member
Mr. Samir Mahmoud Abdul Hadi	Member

Remuneration :

- The board chairman and members, as well as members of Audit and Executive Committees, did not receive any remunerations in 2008.
- None of the chief executives waived any salaries or remuneration.
- There are no arrangements or agreements for any shareholders to waive any dividend rights.
- There are no other investments or reserves established for the benefit of the company's employees.



Remunerations of Board Members and Chief Executive officers :

Item	Executive directors	Non-executive / Independent directors	5 chief officers who received remunerations + Managing Director & Chief Financial Officer (If not included)
Salaries & remunerations	---	---	2,285,520
Allowances	---	---	641,380
Periodic & annual bonuses	---	---	1,406,947
Incentive plans	---	---	---
Any other monthly or annual in-kind compensations or remunerations	---	---	---



Conflict of interests among board members and chief executive officers :

The company has no substantial contracts with or other interests of any kind with any board member, the Managing Director, Chief Financial Officer, the chief executives of subsidiaries or any person that relates to them (except for the acquisition of 15% stake in Mawarid Trading Co. Ltd. (MTL) owned by the board chairman, who did not vote on the acquisition in the relevant board meeting).



Sixteenth : Penalties and substitute membership :

On 11/8/2008, the CMA imposed a fine of SR 100,000 on the company for not adhering to Article 45/c of the Capital Market regulations. The fine was paid. The company is appealing the fine.

Seventeenth : Internal control regulations :

The board of directors and management certify that the company's internal regulations are effectively applied and that sound accounting records are kept with appropriate supporting documents. The policies and assessments of corporate performance were prepared and documented according to the international standards and in line with ISO 9001, 2000 certification. The administrative and employee affairs regulations were prepared and approved by the board of directors, and there are no pending matters that may impede the continuation of operations successfully.



Eighteenth : Company dividend distribution policy :

The company's annual net consolidated earnings are distributed after deducting all general expenses and other costs and provisions, including Zakat and other allocations and reserves as follows :

1. 10% of the net earnings are put aside as regulatory reserve.
2. From the rest, an initial payment is to be made to shareholders equaling 5% of paid-in capital, whether as cash dividend or bonus shares (if approved by the shareholders meeting).
3. 10% of the remaining profit is to be allotted for the board members bonus in line with the effective instructions and regulations.
4. A portion of the annual net profit is to be assigned for general reserve to offset any future negative effects on the company.
5. The shareholders consider and may approve the board recommendation on distributing an additional percentage of the remaining profit, whether as cash dividend or bonus shares.



Board recommendations :

The board of directors recommends making no dividend payment for FY 2008 and directing cash to finance business expansion projects, given the unpredictable effects of the global financial crisis on the company's cash flows during 2009.

Nineteenth : Board proposals :

The board of directors offers the following proposals for the consideration and possible approval of the shareholders:

1. To approve the board report for FY 2008.
2. To endorse the company's balance sheet, income statement and auditor's report for the year ended 31/12/2008.
3. To discharge the board members from liability for the year ended 31/12/2008.
4. To approve the board proposal of not distributing any cash dividend for FY 2008 to provide liquidity for business expansion projects.
5. To approve adding SR40 million to the general reserve for any future negative effects and adding the remaining income to retained earnings.
6. To approve selecting an auditor from among the candidates nominated by the Audit Committee to undertake the audit of FY 2009 financial statements and interim financial statements, and setting the auditor's fees.
7. To review the resolution of subsidiary SITCO Pharma acquiring over 15% of Mawarid Trading Co. Ltd., owned by Mawarid Holding Co. (relative counterparties).
8. To approve the following corporate governance :
 - a) Corporate governance system.
 - b) Shareholder general meeting regulations.
 - c) Board regulations.
 - d) Auditing Committee regulations.
 - e) Nomination and Remuneration Committee regulations.
 - f) Transparency and disclosure policy regulations.

Conclusion :

Finally, the board of directors would like to thank the company's honored shareholders for attending the general meeting and for their trust in the board of directors. The year 2008 was a special year for SCC and its subsidiary SITCO Pharma. The board would like to thank all of our clients for their honest cooperation and their contributions to SCC's successes and prosperity.

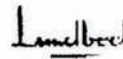
We hope our honored shareholders will continue their support for the management during 2009 to overcome the upcoming challenges amid the current global financial turmoil.

God bless
 Board of Directors





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SITIO
PHARMA





Consolidated Financial Statements
For the Years Ended December 31, 2008 and 2007
and Independent Auditors' Report



Dr. M. Al-Amri & Co.

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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, 2008 and 2007 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the years then ended including the related notes from 1 to 20. 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, 2008 and 2007 and the consolidated results of its operations, cash flows and its changes in shareholders' equity for the years then ended in conformity with accounting principles generally accepted in 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. M. Al-Amri & Co.

Gihad Al-Amri
Certified Public Accountant
Registration No. 362



Safar 26, 1430 H
February 21, 2009 G

Consolidated Balance Sheet

As Of December 31

ASSETS	Note	2008 SR'000	2007 SR'000
Current assets			
Cash and cash at banks		165,629	165,840
Accounts receivable, net	3	728,738	573,157
Inventories, net	4	334,897	308,056
Prepaid expenses and other assets	5	7,285	6,962
Total current assets		1,236,549	1,054,015
Non-current assets			
Investments and financial assets	6	136,000	-
Construction-in-progress	7	90,208	43,588
Property, plant and equipment, net	8	89,342	86,130
Intangible assets, net	9	471,407	474,607
Total non-current assets		786,957	604,325
TOTAL ASSETS		2,023,506	1,658,340
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable		733,386	565,471
Short term loan	10	50,000	-
Current portion of medium-term loan	11	69,013	69,013
Accrued expenses and other liabilities	12	48,085	35,297
Total current liabilities		900,484	669, 781
Non-current liabilities			
Medium-term loan	11	-	69,013
Employees' end of service benefits		23,925	21,682
Total non-current liabilities		23,925	90,695
Total liabilities		924,409	760,476
Equity			
Share capital	1	632,400	632,400
Statutory reserve		96,144	76,091
General Reserve		40,000	20,000
Retained earnings		327,889	167,408
Total shareholders' equity		1,096,433	895,899
Minority interest		2,664	1,965
Total Equity		1,099,097	897,864
TOTAL LIABILITIES AND EQUITY		2,023,506	1,658,340

The accompanying notes from 1 through 20 form an integral part of these consolidated financial statements.

Consolidated Statement of Income For The Years Ended December 31

	Notes	2008 SR'000	2007 SR'000
Sales		1,537,157	1,230,134
Cost of sales	15	(1,271,310)	(1,023,796)
Gross income		265,847	206,338
General and Administrative Expenses	14	(51,420)	(50,786)
Income from main operations		214,427	155,552
Finance charges, net		(12,814)	(3,227)
Amortization		(3,200)	(3,200)
Gain (loss) from foreign currencies exchange	15	16,184	(27,884)
Provision for impairment of investment		(6,382)	-
Other income and expenses, net	16	4,752	2,241
Income before zakat and minority interest		212,967	123,482
Provision for zakat		(11,406)	(11,390)
Income before minority interest		201,561	112,092
Minority interest		(1,027)	(316)
NET INCOME		200,534	111,776
Earning (Loss) Per Share in Saudi Riyal from:			
Main operations		3.39	2.46
Other operations		(0.22)	(0.69)
Net income		3.17	1.77

The accompanying notes from 1 through 20 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For The Years Ended December 31

CASH FLOWS FROM OPERATING ACTIVITIES:	2008 SR'000	2007 SR'000
Income before zakat and minority interest	212,967	123,482
Adjustments to reconcile net income before zakat and minority interest to net cash provided by operating activities:		
Provision for doubtful accounts	200	5,592
Provision for slow moving inventory	(500)	471
provision for impairment of investment	6,382	-
Depreciation	10,683	9,894
Gains on sale of property and equipment	(1,177)	(2)
Amortization	3,200	3,348
Employees' end of service benefits	3,913	3,042
(Increase) decrease in operating assets:		
Accounts receivable	(155,781)	(55,203)
Inventories	(26,341)	(31,883)
Prepaid expenses and other assets	(323)	631
Increase (decrease) in operating liabilities:		
Accounts payable	167,915	43,771
Accrued expenses and other liabilities	7,584	3,772
Cash from operations	228,722	106,915
Zakat paid	(11,174)	(10,974)
Employees' end of service benefits paid	(1,670)	(387)
Net cash provided by operating activities:	215,878	95,554
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investments and financial assets	(142,382)	-
Additions to construction-in-progress	(46,620)	(36,497)
Purchase of property and equipment	(13,989)	(31,936)
Proceeds from sale of property and equipment	1,271	6
Net cash used in investing activities	(201,720)	(68,427)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividend returned (paid)	4,973	(63,113)
Payment to minority interest of subsidiaries	(327)	(900)
Proceeds from short-term loan	50,000	-
(Payment) proceeds from medium-term loan	(69,013)	138,026
Payment of long term loan	-	(25,000)
Net cash (used in) provided by financing activities	(14,367)	49,013
Net (decrease) increase in cash and cash at banks	(211)	76,140
Cash and cash at banks at beginning of the year	165,840	89,700
Cash and cash at banks at end of the year	165,629	165,840

The accompanying notes from 1 through 20 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 SR'000
For the Year Ended December 31, 2008					
Balance as at January 1, 2008	632,400	76,091	20,000	167,408	895,899
Transfer to General Reserve	-	-	20,000	(20,000)	-
Net income for the year	-	-	-	200,534	200,534
Transfer to statutory Reserve	-	20,053	-	(20,053)	-
Balance as at December 31, 2008	632,400	96,144	40,000	327,889	1,096,433
For the Year Ended December 31, 2007					
Balance as at January 1, 2007	632,400	64,913	-	150,050	847,363
Transfer to General Reserve	-	-	20,000	(20,000)	-
Dividend for the year 2006	-	-	-	(63,240)	(63,240)
Net income for the year	-	-	-	111,776	111,776
Transfer to statutory reserve	-	11,178	-	(11,178)	-
Balance as at December 31, 2007	632,400	76,091	20,000	167,408	895,899

The accompanying notes from 1 through 20 form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2008 and 2007

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 amounting to 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 operation and cash flows of the Company and its subsidiaries, which owns the majority of its share capital and has full control of them. 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)	Joint Stock	Egypt	98%

The authorized share capital of Suez International Nitrate Company (SINCO) is of US\$ 50 million, and issued share capital of US\$ 5 million (SR 18,750,000). SINCO is still under construction phase and it has plans to begin operations during the first quarter of 2009.

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, and 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 activities of SINCO are to produce the Ammonium Nitrate which represents one of the major raw materials for the explosive products.

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

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2008 and 2007

2. Summary of Significant Accounting Policies

The accompanying consolidated financial statements have been prepared under the historical cost convention (except for Investments in affiliates and investments in financial instrument as referred below) on the accrual basis of accounting in accordance with generally accepted accounting principle applicable in Saudi Arabia. Significant accounting policies adopted in the preparation of these consolidated financial statements are summarized below:

Basis of Consolidation

For the purpose of consolidating accounts, the Inter-company transactions and balances are eliminated in the consolidation process. Minority interest of the third party (other partners of the Company in the Subsidiaries) has also been accounted for in 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 effect 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 provision. 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. 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.

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2008 and 2007

Investments and Financial Assets

a) Investments in Affiliates

Investment in affiliate where the Company has significant influence over the investee's financial and operation policies, or where the Company has a long-term investment between 20% and 50% of the equity, is accounted for using the equity method. Under the equity method, the investment is stated initially at cost and adjusted thereafter for the post acquisition changes in the net assets of the affiliate. The Company's share of profit in the affiliate company is recognized in the income statement.

b) Investments in Available-for-Sale Financial Instruments

Investments in available-for-sale financial instruments, which are held with the intention of not to hold it to maturity nor for trading (Representing ownership holding in other companies) are valued at fair value and are classified as non-current assets, unless the intention is to sell it in the following year. Changes in fair value of available-for-sale securities are taken to equity as a separate item. Fair value is determined by reference to the market value when an active trading market is available; else, if no active market is available, cost is considered the best substitute to fair value. Permanent impairment, if any, of such investment is recognized directly in the income statement. Gain or loss from the sale of such investments is recognized in the period in which the sale occurs and the related unrealized gain or loss previously stated is eliminated. Cash dividends from such investments are recognized in income when declared.

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 off and related accumulated depreciation is removed from the accounts at the time of disposal and the related gain or loss is recognized in the income statement. The estimated operational useful lives are as follows:

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2008 and 2007

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

Goodwill

Goodwill represents the amounts paid in excess of the related book value of an acquired interest in Saudi International Trading Company Limited, the subsidiary, as of acquisition date. The purchase prices were determined on fair values evaluated at the acquisition dates. At each balance sheet date, the goodwill value is measured to determine the extent of impairment loss (if any).

Deferred Charges

Deferred charges represent fees paid by the Subsidiary (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 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.

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2008 and 2007

Expenses

General and administrative expenses include direct and indirect costs not specifically part of cost of sales as required under generally accepted accounting standards. Allocation between general and administrative expenses and cost of sales, when required, are made on a consistent basis.

Zakat Provision

Zakat is accrued in accordance with the regulations of the Department of Zakat and Income Tax in KSA. Adjustments arising from final Zakat assessments, if any, are recorded in the year in which such assessments are made.

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. Consequently upon suggestion of Board of Directors, General Assembly of the shareholders has enabled the company management to transfer SR 20 million for the year 2006 and 2007 from net profits towards general reserve. Such transfers have been accumulated in general reserve to the tune of SR 40 million as on 31/12/2008.

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 assets 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

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2008 and 2007

belongs. If the recoverable amount of an assets or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the assets 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 should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the statement of Income.

Foreign Currency Translation Transactions

The Company has 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 consolidated 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 Overseas Financial Statement

Financial statements of overseas subsidiary's 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. Component 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.

Earning Per Share

Earning per share is calculated by using the weighted average number of shares outstanding during the period. The Company's share capital consist of common shares only.

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2008 and 2007

3. Accounts Receivable, Net

	As of December 31,	
	2008 SR'000	2007 SR'000
Accounts receivable, trade	664,238	547,837
Unbilled revenue	86,100	46,720
	750,338	594,557
Provision for doubtful accounts	(21,600)	(21,400)
	728,738	573,157

Included in accounts receivable trade are amounts totaling SR 496 million due from Government and quasi Government institutions as of December 31, 2008 (2007: SR 392 million), of which approximately SR 135 million is more than one year old (2007: SR 138 million).

4. Inventories, Net

	As of December 31,	
	2008 SR'000	2007 SR'000
Pharmaceuticals	285,396	271,425
Raw Materials - explosives	20,803	19,429
Finished Goods - explosives	13,043	15,817
Spare parts	1,631	1,396
Goods in transit	14,036	1,320
Other	551	-
	335,460	309,387
Provision for slow moving items	(563)	(1,331)
	334,897	308,056

Notes to the Consolidated Financial Statements
 For the Years Ended December 31, 2008 and 2007

5. Prepaid Expenses And Other Assets

	As of December 31,	
	2008 SR'000	2007 SR'000
Prepaid expenses	3,047	3,010
Margin on letters of credit	401	535
Other	3,837	3,417
	7,285	6,962

6. Investments and Financial Assets

	As of December 31,	
	2008 SR'000	2007 SR'000
Investment in subsidiary and affiliate Chemical Co. for Commercial Investment Ltd. (Note 6a)	1,000	-
Explotrack Company (Note 6b)	6,382	-
Provision for Explotrack Investment	(6,382)	-
	-	-
Total	1,000	-
Investment in other company (Al-Mawarid Trading Company Ltd. (Note 6c)	135,000	-
Grand Total	136,000	-

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2008 and 2007

6a) Chemical Company for Commercial Investment Ltd. :

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

6b) Explotrack Company :

During the first quarter of the year 2008, the company had completed the purchase transaction of preference share capital to be extent of 20% of share capital of Explotrack Inc. amounting to US\$ 1.5 million (equivalent to SR 5.6 million), a limited liability company registered in Delaware in United States of America. The main activity of the affiliate is to provide explosives supply-chain and real-time explosives security solutions worldwide to manufacturers, distributors, and users of explosive, propellant, and pyrotechnic materials.

However, due to effect of the global financial crises on the investee company financing and ability to continue its business and also due to some indications of inability of the investee company to pay its liabilities, the Company's management has decided to provide a provision against total investment in Explotrack amounted to SR 6.4 million (represents to investment value plus additional financing to investee) for the purpose of covering any losses which may incur from this investment in the future.

6c) Al-Mawarid Trading Company Limited (MTL) :

During the second quarter of the year 2008, the subsidiary company (SITCO Pharma), had purchased 15% of the Al-Mawarid Trading Company's total equity share capital for an amount of SR 135 million. MTL is owned by Mawarid Holding Company and Mawarid Investment Company, which are further owned by the Chairman of Saudi Chemical Company (related party) by virtue of majority of shares.

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2008 and 2007

7. Construction-In-Progress

Construction-in-progress as at December 31, 2008 amounting to SR 90.21 million represents plant construction and facilities of the subsidiary company "SINCO" (2007: SR 43.59 million).

8. Property, Plant And Equipment, Net

	Land SR'000	Buildings SR'000	Machinery and Equip- ment SR'000	Furniture and Office Equipment SR'000	Vehicles & Trans- portation Equipment SR'000	Leasehold Improve- ments SR'000	Total SR'000
Cost							
January 1, 2008	5,764	187,522	78,533	7,356	22,158	17,959	319,292
Additions		3,803	6,218	628	2,898	442	13,989
Disposals	-	-	(11,900)	(17)	(2,944)	-	(14,861)
December 31, 2008	5,764	191,325	72,851	7,967	22,112	18,401	318,420
Accumulated Depreciation							
January 1, 2008	-	(127,523)	(66,991)	(5,629)	(18,342)	(14,677)	(233,162)
Charge for the year	-	(5,201)	(2,300)	(478)	(2,442)	(262)	(10,683)
Disposals	-		11,854	3	2,910		14,767
December 31, 2008	-	(132,724)	(57,437)	(6,104)	(17,874)	(14,939)	(229,078)
Net Book Value							
December 31, 2008	5,764	58,601	15,414	1,863	4,238	3,462	89,342
December 31, 2007	5,764	59,999	11,542	1,727	3,816	3,282	86,130

As of December 31, 2008 property and equipment includes fully depreciated items that are in service with a total cost of SR 93.20 million (2007: SR 106.16 million).

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2008 and 2007

9. Intangible Assets, Net

	As of December 31,	
	2008 SR'000	2007 SR'000
Goodwill	469,807	469,807
Deferred charges, net	1,600	4,800
	471,407	474,607

10. Short-Term Loan

The company has obtained a short-term loan from local commercial bank of SR 50 million to finance the equity purchased in Al-Mawarid Trading Company (Note 6c). The loan carries a commission at SIBOR plus 1.25%. This loan is guaranteed by promissory note in favor of the bank for the loan value.

11. Medium-Term Loan

SITCO Pharma "a subsidiary company" has obtained medium-term loan from one of the local commercial banks amounting to EURO 25 million (equivalent to SR 138 million) to finance its working capital requirements. The loan carries a commission at EURO LIBOR plus 1.5% and is repayable on 8 equal quarterly installments starting from March 31, 2008. This loan is guaranteed by promissary note in favor of the bank for the loan value.

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2008 and 2007

12. Accrued Expenses and Other Liabilities

	As of December 31,	
	2008 SR'000	2007 SR'000
Accrued employee's related benefits	5,916	6,027
Accrued marketing expenses	8,716	6,055
Accrued other expenses	3,414	1,131
Advances from customer	4,539	1,772
Dividends payable	11,506	6,533
Other	4,135	4,124
Provision for Zakat (Note 13)	9,859	9,655
	48,085	35,297

13. Provision For Zakat

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

	As of December 31,	
	2008 SR'000	2007 SR'000
January 1	9,655	9,239
Payments during the year	(11,202)	(10,974)
Prior year adjustment	1,547	1,735
Provision for the year	9,859	9,655
December 31,	9,859	9,655

The Company and its subsidiary (SITCO Pharma) have finalized its Zakat assessments up to the year ended December 31, 2004, and they have obtained the final zakat certificate for the year 2007. At the date of issuing these financial statements the final zakat assessments for the years 2005 up to 2007 has not yet been received from the DZIT.

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2008 and 2007

14. General And Administrative Expenses

	As of December 31,	
	2008 SR'000	2007 SR'000
Salaries, wages and other benefits	23,624	22,127
Utilities and Insurance	1,545	880
Rent	384	85
Consultancy and professional fees	3,272	2,426
Sales discount	16,417	14,230
Provision for doubtful debts	200	5,133
Depreciation	2,114	1,798
Other	3,864	4,107
	51,420	50,786

15. Impact Of Foreign Currency Exchange

Due to the nature of pharmaceuticals business, the Ministry of Health periodically fixes the foreign exchange rates pertaining to the purchases of pharmaceutical products. The impact of foreign exchange applicable to cost of sales during the year ended December 31, 2008 represents a loss of SR 50.37 million (2007: loss of 51.07 million). Such foreign exchange impact is included in cost of sales in consolidated income statement.

In addition, the Company and its subsidiaries incurred gain amounting to SR 16.18 million for the year ended December 31, 2008 (2007: loss amounting to 27.88 million) on translation of foreign currency payables relating to the settlement and translation of unpaid foreign suppliers' purchases. Such foreign currencies gain / losses are included under the gain (loss) from foreign currencies exchange caption in the consolidated statement of income.

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2008 and 2007

Accordingly, the Company's results of operations for the year ended December 31, 2008 have been impacted by the effects of foreign currencies net losses in the combined aggregate amounts of SR 34.19 million (2007: SR 78.95 million) which are the totals of amounts included in the consolidated financial statement classification of cost of sales and gain (loss) on translation of foreign currencies.

During 2004, the Subsidiary (SITCO Pharma) filed a claim with the Board of Grievances in the amount of approximately SR 144 million requesting the one of the government parties to compensate it for the foreign currency losses incurred during 2003 and 2004. The claim remains outstanding as at December 31, 2008.

16. Other Income and Expenses, Net

	As of December 31,	
	2008 SR'000	2007 SR'000
Bank commission	1,851	1,457
Gain on sale of property and equipment	1,177	2
Other, Net	1,724	782
	4,752	2,241

17. 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 through 1432H (2011G).

During the year ended December 31, 2008 rental expenses of SR 1.02 million were incurred on leased land and heavy duty equipment (2007: SR 1.11 million).

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2008 and 2007

18. Contingencies And Commitments

The Company is contingently liable under letters of credit and letters of guarantee amounting to SR 145 million and SR 27 million as of December 31, 2008, respectively. (2007: SR 164 million and SR 21 million, respectively).

In order to protect its operations from fluctuation in interest rates, the company entered into contracts with local bank to fix its interest rate for a period of 5 years starting April 1, 2005, for a total amount of SR 100 million at the rate of 4.69% (SIBOR every three months).

19. Approval Of Financial Statements

The Company's Board of Directors has approved the accompanying consolidated financial statements in their meeting held on Safar 26, 1430 H corresponding to February 21, 2009.

20. Comparative Figures

Certain amounts in the previous year financial statements have been reclassified to conform with the current year presentation.



