

SAUDI CHEMICAL COMPANY (A Saudi Joint Stock Company)

ANNUAL REPORT 2007

CONSOLIDATED FINANCIAL STATEMENTS FOR
THE YEARS ENDED DECEMBER 31, 2007
AND INDEPENDENT AUDITORS' REPORT





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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

Dr. Ahmed Al-Twaijri Board Member

Mr. Mohammad S. Al Hammadi

Board Member

Mr. Mohammad O. Al Sanousi Board Member

Eng. Fahad Saleh Al-Jarbou

Managing Director-Board Member





To The Shareholders of Saudi Chemical Company Financial Result of 2007

Saudi Chemical Company Board of directors is pleased to welcome you at the annual general Assembly meeting and would like to thank you for your attendance, and we are pleased to submit the company's annual financial reports and main achievements for the year ending 31 December 2007, which reflects management efforts to achieve a continuous development company witnessed for the last years.

Here is a summary of the main results, account supervisor report and Board recommendations for your honored meeting.



Saudi Chemical Company was established in 1972, as a leading company in the field of manufacturing explosives for civil uses. The Company owns three factories located in Central, Eastern and Western regions, in addition to storehouses in Abha, southern region. During the last thirty five years the company is able to provide the local market with all necessary and supporting material for all civil explosives uses for the use of infrastructure and construction, Prior to 1972 the Kingdom used to import all its needs in this field, Although this kind of earlier practice involved high security risks and higher cost associated with it.

The activity of the affiliate company, Saudi International Trading Company Ltd (SITCO Pharma), is in the field of medicine distribution in the Kingdom, SITCO Pharma is considered one of the leading companies in the field of medicines distribution, as it is an agent for thirteen international pharmaceutical companies, and it provides a substantial part of international medicine needed for all kinds of health sectors in the Kingdom thanks to its distribution network that covers all regions of the Kingdom.





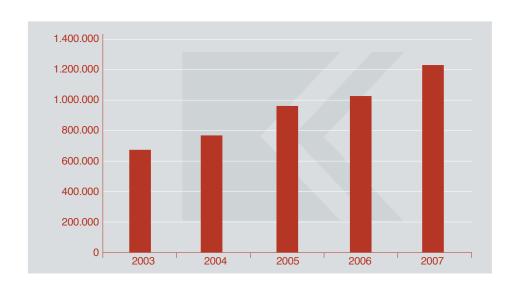
Consolidated Sales:

Net Consolidated sales for Saudi Chemical Company and its affiliate SITCO Pharma reached SR.1.230 billion (one billion two hundred thirty million riyals) for the year ended 31 December 2007, compared to about SR.1.027 billion (one billion twenty seven million riyals) during 2006, a total increase of 20%. Level of sales during 2007, confirms the continuous efforts exerted by the company to keep the pace of its growth in the sales level that had been achieved during the last years.

Following table details sales development during the last five years

Value in Saudi riyals

2003	2004	2005	2006	2007
694,982	782,320	965,185	1,026,991	1.230.134



It is clear from the table and chart that high levels of growth had been achieved in sales, in addition to a high level of cumulated growth of (15%) for the last five years.



Civil Explosives Activity:

Total sales of civil explosives during the year that ended 31/12/2007, reached a total figure of SR.206 million compared to about SR.165 million during 2006, that is an increase of (25%). Level of sales of civil explosives achieved during 2007, confirms the company's ability to match all kinds of needs for civil explosives in the Kingdom though there was an increase in demand for explosives during the last years to meet the needs of the growing infrastructure, roads, and tunnel, in addition to railway tracks and mining sector, and oil and gas explorations. Saudi Chemical Company is known for its ability to provide all kinds of explosives for civil fields, with its international high quality supported by its strategic partnerships with international known companies specialized in the field of civil explosives.

Medicines Activity:

Total sales of SITCO Pharma reached about SR.1.024 (one billion twenty four million riyals) during 2007, compared to about SR862 million for 2006, that is a total increase of about (19%). Levels of sales of medicine for SITCO Pharma during 2007 confirms the company's ability to achieve high levels of sales, the ability to match increasing demand for international medicine in the local market, and meeting its obligations as an agent for international companies in the field of medicine and to the network of distribution and storage covering all the Kingdom, which had been designed on the best and advanced international system for medicine distribution over the whole day, which would lead to enhancing the position of SITCO Pharma as a leading company for medicine distribution in the Kingdom.

Geographical Analysis of Consolidated Revenue:

Local sales of civil explosives represents about 90% of total sales of Saudi Chemical company, 10% of which is exported to GCC countries, and to some African Countries, while for SITCO Pharma local sales are 100% of its activity, as it is an agent for 13 international pharmaceutical Companies and distributes the products inside the Kingdom only.

Net consolidated profits for 2007, reached about (SR.112) million compared to (SR.148) million during 2006, that is a decrease of about (24%). Main reason for this decrease in net profit for this year are the losses in currency exchange for 2007, which is estimated (SR.79) million. Main reason for this loss in currency exchange is that Ministry of Health fixed rate of exchange for international currencies, while exchange rates of some international currencies to the dollar and Saudi riyal hiked to unmatched levels during 2007, which caused this high rate of loss. Noting that the Ministry at the end of 2007, changed its medicine pricing system, to be linked to Saudi riyal instead of international foreign currencies. Application of this decision to take effect in February 2008, might affect positively the company position and would lead it to achieve higher profits and would minimize this forex loss which affected negatively the consolidated financial results achieved by Saudi Chemical Company during the last years.

Table detailing loss on currency exchange rates: (SR '000)

Description	2007	2006	2005	2004	2003
Net profit before currency loss	191.325	155.327	126.900	91.458	88.725
Currency loss	(79.549)	(7.278)	(16.884)	(89.798)	(55.292)
Net profit after currency loss	111.776	148.049	110.016	1.660	33.433

From the above table, it is clear that total loss of SITCO Pharma resulting from currency exchange during the last five years (from 2003 to 2007) is estimated of SR.248.8 million





Description	2007	2006	2005	2004	2003
Net Consolidated Sales	1,230,134	1,026,991	965,185	782,320	694,982
Cost of Sales	(1,024,059)	(815,486)	(779,932)	(687,583)	(585,056)
Gross Profit	206,075	211,505	185,253	94,737	109,926
Administrative & General Expenses	(49,795)	(47,763)	(36,575)	(32,380)	(27,266)
Operating Profits	156,280	163,742	148.678	62,357	82,660
Financial Expenses (net)	(3,043)	(6,301)	(10,494)	(7,859)	(9,045)
Good will and Deferred Expenses	(3,200)	(3,200)	(34,520)	(32,920)	(31,320)
Gain (loss) on currency exchange	(28,480)	(19,516)	12,285	(15,472)	(18,473)
Other Revenue (net)	1,916	22,367	1,716	812	19,037
Zakat	(11,390)	(8,200)	(6,823)	(5,296)	(18,925)
Minority Rights	(307)	(843)	(826)	38	(501)
Net Profit	111,776	148,049	110,016	1,660*	33,433*

^{*}It is observed that 2007 results is negatively affected by currency exchange losses, which is the same negative effect on 2003 and 2004 profits.



(SR '000)

Financial Position	2007	2006	2005	2004	2003
Current assets (net)	1,054,015	897,483	799,301	697,972	601,263
Fixed assets (net)	604,325	549,138	547,429	569,062	588,672
Total assets	1,658,340	1,446,621	1,346,730	1,267,034	1,189,935
Current liabilities	669,781	577,682	578,744	600,939	438,655
Long term loans	69,013		50,000	60,000	150,000
ESB fund	21,682	19,027	16,461	15,062	11,869
Total Liabilities	760,476	596,709	645,205	676,001	600,524
Shareholders Equity					
Capital	632,400	632,400	527,000	527,000	465,000
Legal Reserve	76,091	64,913	50,108	39,106	38,940
General Reserve	20,000	-	-	-	-
Retained Earnings	167,408	150,050,	122,206	23,192	83,698
Total Shareholders Equity	895,899	847,363	699,314	589,298	587,638
Minority Interest	1,965	2,549	2,211	1,735	1,773
Total Liability and Shareholders Equity	1,658,340	1,446,621	1,346,730	1,267,034	1,189,935

Financial data above confirms that the company enjoys high levels of liquidity, which assures the company ability to face all its financial obligations in both short and long terms, as total liability to shareholders equity is 0.85:1, and the ratio of total liability to total assets is about 0.46:1, and ratio of current asset to current liabilities is 1.57:1, noting that the affiliate company, SITCO Pharma, is still negatively affected by level of collection from government hospitals specially that of Ministry of Defense, as total credit on this sector is about SR.250 millions, the company hopes that concerned parties would be able to respond to company efforts and settle their credit in the near future which would enable the company to settle its obligations toward its suppliers.

Commercial Loans:

During the fourth quarter of 2007, SITCO company received a commercial medium term loan from one local bank by about 25 million euro (about SR.138 million), to cover funding foreign suppliers accounts. This loan is to be repaid on eight equal installments starting April 2008.

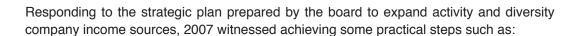
Details of Government Payments:

Here is a description of Saudi Chemical Company and Affiliate company payments of official amounts during 2007 compared to 2006:

	2006	2007
Zakat and Income Dept	7,324,204	10,975,178







1 - Suez International Nitrate Company (SINCO):

Suez International Nitrate Company had been established during the second half of 2006, and during 2007 most of the civil constructions had been completed, and most equipment had been purchased, and currently the project is in its final stages, and it is expected to begin operation at the end of the of mid 2008. The project targets production of the basic element for production of civil explosives for Saudi Chemical Company, which is imported currently from the EU Countries and it is expected that this project will supply Saudi Chemical Company all its needs for the main raw materials in the production of explosives, which is expected to witness an increase in demand during the next few years, to enable completion of infrastructures in KSA such as railway project, and mining which would need more quantities of explosives for civil works during the next years.

2 - Investment in Explo Track American Company:

During the last quarter of 2007, Saudi Chemical Company signed an agreement to purchase 20% of ownership shares of Explo Track, of Philadelphia, USA, a company specialized in the field of advanced electronic transport and storage of all kinds of civil and military explosives, in addition to other main raw material used in explosive manufacture. Company which had been established later for the commercial application of security systems to be followed in transport and storage of explosives, one of the first and pioneer companies in this field, and it is expected that investment in this company would have a positive effect on the net Profit of Saudi Chemical Company in the future. This investment is considered a positive step toward implementation of strategic plan which had been adopted by the Company Board of Directors for the objective of diversification of income sources.





Saudi Stock Market Organization in the Kingdom of Saudi Arabia issued on 21/10/1427 the leading rule for corporate governance of participant companies, and this rule includes regulations and organizing criteria for the performance of participant companies, such as transparency, equalization, and shareholders right to have full information which might affect their investment decisions. Board assigned the executive committee and company management to contact a consultancy office to prepare the policy of corporate governance. During 2007, the company contracted with a consultancy office to prepare the following policies for the company:

- Company Governance System
- 2 Shareholders General Meeting Regulation
- 3 Board of Directors Regulation.
- 4 Transparency and Disclosure Policies.
- 5 Profit Distribution Policy Regulation.
- 6 Auditing Committee Regulation.
- 7 Nomination and Remuneration Policy
- 8 Internal Control Regulation.
- 9 Rule of Conduct and Relation with Shareholders.
- 10 Risk Management Rule
- 11 Conflict of Interest Policy.
- 12 Executive Committee Regulation.

These policies are to be reviewed and final text of such regulations are to be approved by the Board of directors to enable Saudi Chemical Company to be among the first companies that implement the Corporate Governance Regulations for participant companies in the Kingdom according to international criteria.

As for rules that are not applied by the leading regulation of corporate governance, they are cumulative voting to select Company board in the general meeting, but company is applying the regulations issued by the Ministry of Commerce built on Saudi Companies Law as to the subject of voting in general meetings.



Board formation and members classification:

Name	Title	Independent / not Independent	Executive / non Executive
Prince Khaled bin Abdullah bin Abdul Rahman Al-Saud	Board Director	Not Independent	Non Executive
Prince Ahmad bin Khaled bin Abdullah bin Abdul Rahman Al Saud	Board Member	Not Independent	Non Executive
Dr. Ahmed Saleh Al-Twaijri	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 Omar Al-Sanousi	Board Member	Independent	Non Executive
Eng. Fahad Saleh Al-Jarbou	Board Member	Not Independent	Executive

Noting that in December 2007 Board member Prince Saud bin Khaled bin Abdullah Al-Saud resigned for personal reasons, and Board of Directors accepted his resignation, and appointed Mr. Mohammad Omar Al-Sanousi in his place as of December 30 2007, and agreed to present this appointment to the Shareholders General Meeting on its next meeting for final approval.



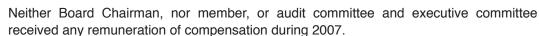
Board Meetings During 2007:

During 2007, The Board of Directors met four times. Below is a summary of attendance of all members:

Name	Attendance
Prince Khaled bin Abdullah bin Abdul Rahman Al-Saud	4
Prince Ahmad bin Khaled bin Abdullah bin Abdul Rahman Al Saud	4
Dr. Ahmed Saleh Al-Tuwaijri	3
Mr. Samir Mahmoud Abdul Hadi	4
Mr. Mohammad Saleh Al- Hammadi	3
Mr. Mohammad Al-Sanousi	-
Eng. Fahad Saleh Al-Jarbou	4

Board Committee Meetings During 2007

Committee	Members	Meetings	Main Tasks
Executive Committee	Prince Ahmad bin Khaled bin Abdullah Al-Saud (Chairman) Mr. Samir Mahmoud Abdul Hadi Dr. Saleh Ahmad Al-Tuwaijri Eng. Fahad Saleh Al-Jarbou	(4)	Submit periodical reports for the Board to help in drawing, developing and executing strategic objectives, and approve and recommend decisions for company investment projects as per Board directives
Audit Committee	Dr. Khalil Abdul Fattah Kurdi (Chairman) Mr. Mohammad Saleh Al-Hammadi Mr. Samir Mahmoud Abdul Hadi	(3)	Supervise internal auditing procedures, check its validity, recommend appointment of account auditor, assure accuracy of approved financial lists, and follow up of internal auditing policies, and check their soundness.



There isn't any preparations or agreement with one company shareholder to abandon his share in company profits.

Benefits of Board Members and Leading Executives:

There are no contracts or substantial benefit for any of the Board members, nominated member, financial manager, or leading executives or any person who is related to them.

Approval of Internal Controls:

The Board of Directors and Company management agree that internal controls in the company are working effectively, and that suitable account records are maintained in addition to all related documents, and that polices and procedures of company performance had been authenticated according to international quality criteria and according to (ISO9001, 2000) certificate, and that such polices, and procedures are reviewed periodically during the year through specialized agents to do any necessary amendments. An administrative and personnel guide had been prepared and approved by the Board, and from the Ministry of Labor, and there are no pending subjects that prevents company from continuing its activity.

Company Policy of Profit Distribution:

The Company annual consolidated net profits, after deducting all general expenses, and other cost including Legal Zakat fund, benefits and other reserves are distributed as follows:

- 1. 10% of net profit is reserved for formation of the legal reserve.
- 2. First payment of 5% is distributed for shareholders of paid capital, either cash or as free shares (if approved on the general meeting).
- 3. 10% of the balance is to be reserved for Board members benefits, in conformance with regulations and valid systems.
- 4. part of annual net profit is reserved to form a general reserve to face any negative effects on company in the future.
- General Meeting through a recommendation of the Board is to decide distribution of the balance profits over all shareholders (either cash or as free shares), as an additional part of profits.

Board of Directors recommend on your esteemed meeting to agree not to distribute any cash profits for 2007, to assist the company to utilize the available cash in funding investment plans which shall have a positive effect on company profitability during the next years, If Allah Wishes..

Board of Directors Suggestions:

Board of Directors suggest to your esteemed meeting to agree to the following articles:

First : Approve what had been stated in the Board report for 2007.

Second : Approve the Company general budget for the year that ended 31/12/2007,

income statement for the same period and the auditor's report

Third : Absolve Board Members on the activity for the year that ended 31/12/2007.

Fourth: Agree to transfer the amount of SR.20 million (twenty million Saudi riyals) to be added to general reserve of the company to face any negative future

effects.

Fifth : Agree not to distribute any cash profits for 2007, to help company to employ

available cash in funding investment plans, which shall have a positive effect

on company profitability during the next years.

Sixth : Agree to the appointment of an account supervisor from the list prepared by

the auditi committee to audit the financial lists for 2007, and quarterly

financial lists, and to agree to his remuneration.

Seventh : Approve appointment of Mr. Mohammad Omar Al-Sanousi as Board Member

in place of the resigned member.



Member of Directors concludes its report by conveying its many thanks to the shareholders for their attendance, and to the trust they awarded the Board. 2007 had been a distinguished year for Saudi Chemical Company and its affiliate SITCO Pharma, save the effect of currency exchange of SITCO Pharma which affected negatively the consolidated net profits results. Board of Directors hopes to overcome the effect of such loss during the few coming years, after the Ministry of Health changed its medicine pricing tool. We are on our adherence to continue development of your esteemed company to achieve objectives you selected, and prays for Allah, Lord of All Creations, to lead us to the benefits of this country and Reward all of us His Blessing and Treasures, and would like to seize this opportunity to convey its thanks to all Company customers, public and private entitles for their continuous cooperation and support, and to all company staff for their sincere efforts and care for continuous prosperity and development of Saudi Chemical Company and its Affiliates.

Board of Directors

(Saudi Chemical Company - Member of the National Committee of Saudi Participants Companies)







































CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006





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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, 2007 and 2006 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 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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, 2007 and 2006 and the consolidated results of its operations, cash flows and its changes in shareholder's 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 10, 1429 H February 17, 2008 G





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		As of DECEMBER 31,		
ASSETS	Note	2007 SR'000	2006 SR'000	
Current assets				
Cash and cash equivalent		165,840	89,700	
Accounts receivable, net	3	573,157	523,546	
Inventories, net	4	308,056	276,644	
Prepaid expenses and other assets	5	6,962	7,593	
Total current assets		1,054,015	897,483	
Non-current assets				
Property, plant and equipment, net	6	86,130	64,092	
Construction-in-progress	7	43,588	7,091	
Intangible assets, net	8	474,607	477,955	
Total non-current assets		604,325	549,138	
TOTAL ASSETS		1,658,340	1,446,621	
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Accounts payable		572,004	527,633	
Current portion of medium-term loan	9	69,013	-	
Current portion of long-term loan		-	25,000	
Accrued expenses and other liabilities	10	26,578	23,098	
Due to related parties	12	2,186	1,951	
Total current liabilities		669,781	577,682	
Non-current liabilities				
Medium-term loan	9	69,013	-	
Employees' end of service benefits		21,682	19,027	
Total non-current liabilities		90,695	19,027	
Total liabilities		760,476	596,709	
Shareholders' equity				
Share capital	13	632,400	632,400	
Statutory reserve		76,091	64,913	
General Reserve		20,000	-	
Retained earnings		167,408	150,050	
Total		895,899	847,363	
Minority interest		1,965	2,549	
Total shareholders' equity		897,864	849,912	
TOTAL LIABILITIES AND SHAREHOLDERS' E	QUITY	1,658,340	1,446,621	

For the Years Ended December 31,

	Note	2007 SR'000	2006 SR'000
Sales		1,230,134	1,026,991
Cost of sales	15	(1,023,796)	(813,697)
Gross income		206,338	213,294
General & Administrative Expenses	14	(50,786)	(49,370)
Operating income		155,552	163,924
Finance charges, net		(3,227)	(6,482)
Amortization		(3,200)	(3,200)
Loss from foreign currencies exchange	15	(27,884)	(18,874)
Other income and expenses, net	16	2,241	21,724
Income before zakat and minority interest		123,482	157,092
Provision for zakat		(11,390)	(8,200)
Income before minority interest		112,092	148,892
Minority interest		(316)	(843)
NET INCOME		111,776	148,049
Earnings Per Share in Saudi Riyals		1.77	2.34





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	For the Years Ended December 31,	
CASH FLOWS FROM OPERATING ACTIVITIES:	2007 SR'000	2006 SR'000
Income before zakat and minority interest	123,482	157,092
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for doubtful accounts	5,592	6,964
Provision for slow moving inventory	471	500
Depreciation	9,894	9,155
Gains on sale of property and equipment	(2)	(133)
Amortization	3,348	3,416
Employees' end of service benefits	3,042	3,376
Reversal of allowance and accrual	-	(15,563)
(Increase) decrease in operating assets:		
Accounts receivable	(55,203)	(46,469)
Inventories	(31,883)	(19,469)
Prepaid expenses and other assets	631	(372)
Increase (decrease) in operating liabilities:		
Accounts payable	43,771	34,850
Accrued expenses and other liabilities	3,537	1,985
Due to related parties	235	1,790
Cash from operations	106,915	137,122
Zakat paid	(10,974)	(7,324)
Employees' end of service benefits paid	(387)	(810)
Net cash provided by operating activities:	95,554	128,988
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to construction-in-progress	(36,497)	(7,091)
Purchase of property and equipment	(31,936)	(7,523)
Proceeds from sale of property and equipment	6	467
Net cash used in investing activities	(68,427)	(14,147)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment to minority interest of subsidiaries	(900)	(599)
Repayment of long term loan	(25,000)	(75,000)
Proceeds from medium-term loan	138,026	-
Payment of Dividend	(63,113)	-
Net cash provided by (used in) financing activities	49,013	(75,599)
Net increase in cash and cash equivalent	76,140	39,242
Cash and cash equivalent at beginning of the year	89,700	50,458
Cash and cash equivalent at end of the year Non Cash Items:	165,840	89,700
Increase share capital by a transfer from retained earnings (note 13)	-	105,400

For the Year Ended December 31, 2007	Share Capital SR'000	Statutory Reserve SR'000	General Reserve SR'000	Retained Earnings SR'000	Total SR'000
Balance as at January 1, 2007	632,400	64,913	-	150,050	847,363
Dividend for the year 2006	-	-	-	(63,240)	(63,240)
Transfer to General Reserve	-	-	20,000	(20,000)	-
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
For the Year Ended December 31, 20	006				
Balance as at January 1, 2006	527,000	50,108	-	122,206	699,314
Transfer to Share Capital (Note 13)	105,400	-	-	(105,400)	-
Net income for the year	-	-	-	148,049	148,049
Transfer to statutory reserve	-	14,805	-	(14,805)	-
Balance as at December 31, 2006	632,400	64,913	-	150,050	847,363





FOR THE YEARS Ended DECEMBER 31, 2007 AND 2006

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 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 Incorporatiion	Shareholding Percentage
Saudi International Trading Company (SITCO Pharma)	Limited Liability	Saudi Arabia	99%
Suez International Nitrate Company (SINCO)	Joint Stock	Egypt	98%

In 2006 the company began the process of establishing Suez International Nitrate Company (SINCO) in Arab Republic of Egypt as a joint stock company with authorized capital of US\$ 50 million, and issued share capital of US\$ 5 million (SR 18,750,000). Saudi Chemical Company held 98% of SINCO's share capital. SINCO has not started operations, and planned only to begin during the second quarter of 2008.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements have been prepared under the historical cost convention 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 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 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 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.

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:

Buildings Machinery and equipment Furniture, fixture and office equipment Vehicles Leasehold improvements

Years
33
7 - 10
7 - 10
4
10 - 33

Intangible Assets

Intangible assets include goodwill and deferred charges. 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 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.

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

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 Company General Assembly Meeting on April 4, 2007 approved to provide SR 20 million from the net income of 2006 to established a general reserve for the purpose of covering any unexpected negative events in the future.

Earnings Per Share

Earnings per share is calculated by using the weighted average number of shares outstanding during the period.

Foreign Currency Translation

Transactions

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 interim 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 interim consolidated statement of income.

Foreign Currency Translations

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.

3. ACCOUNTS RECEIVABLE, NET

As of December 31, 2007 2006 SR'000 SR'000 Accounts receivable, trade 547,837 493,707 Unbilled revenue 46,720 45,647 594,557 539,354 Provision for doubtful accounts (21,400)(15,808)573,157 523,546

Included in accounts receivable trade, are amounts to totaling SR 398 million due from Government and quasi Government institutions as of December 31, 2007 (2006: SR 341 million), of which approximately SR 138 million is more than one year old (2006: SR 143 million).

4. INVENTORIES, NET

Pharmaceuticals

Raw materials - explosives

Finished goods - explosives

Spare parts

Goods in transit

Provision for slow moving items

As of December 31,		
2007 SR'000	2006 SR'000	
271,425	241,643	
19,429	20,892	
15,817	12,727	
1,396	1,324	
1,320	918	
309,387	277,504	
(1,331)	(860)	
308,056	276,644	

5. PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses

Margin on letters of credit

Other

As of December 31,		
2007 SR'000	2006 SR'000	
3,010	2,803	
535	555	
3,417	4,235	
6,962	7,593	

6. PROPERTY, PLANT AND EQUIPMENT, NET

	Land	Buildings	Machinery and Equipment	Furniture and Office Equipment	Vehicles	Leasehold Improvements	Total
	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000
Cost							
January 1, 2007	5,764	163,129	80,290	9,145	20,673	15,912	294,913
Additions	-	24,393	3,357	574	1,566	2,047	31,937
Disposals	-	-	(5,114)	(2,363)	(81)	-	(7,558)
December 31, 2007	5,764	187,522	78,533	7,356	22,158	17,959	319,292
Accumulated Deprecia	tion						
January 1, 2007	-	(122,511)	(69,936)	(7,625)	(16,306)	(14,443)	(230,821)
Charge for the year	-	(5,012)	(2,166)	(365)	(2,117)	(234)	(9,894)
Disposals	-	-	5,111	2,361	81	-	7,553
December 31, 2007	-	(127,523)	(66,991)	(5,629)	(18,342)	(14,677)	(233,162)
Net Book Value							
December 31, 2007	5,764	59,999	11,542	1,727	3,816	3,282	86,130
December 31, 2006	5,764	40,618	10,094	1,520	4,367	1,729	64,092

As of December 31, 2007 property and equipment includes fully depreciated items that are in service with a total cost of SR 106.16 million (2006: SR 110.47 million).

7. CONSTRUCTION-IN-PROGRESS

Construction-in-progress as at December 31, 2007 amounting to SR 43.59 million represents plant construction and facilities of the subsidiary company "SINCO" (2006: SR 7.1 million).

8. INTANGIBLE ASSETS, NET

As of December 31,

2007 2006
SR'000 SR'000

469,807 469,807

4,800 8,148

474,607 477,955

Goodwill

Deferred charges, net

9. MEDIUM-TERM LOAN

SITCO Pharma "a subsidiary company" has obtained medium-term loan from one of the local commercial banks amounted to EURO 25 million (equivalent to SR 138 million) to finance the payments for its foreign suppliers. The loan carries a commission at EURO LIBOR plus 1.5% and is repayable on 8 equal quarterly installments starting from April 1, 2008. This loan is guaranteed by promissary note in favor of the bank for the loan value.

10. ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued employees' related benefits
Accrued marketing expenses
Accrued rent
Other
Provision for Zakat (Note 11)

As of December 31,		
2007 SR'000	2006 SR'000	
6,027	4,248	
6,055	5,050	
977	1,129	
3,864	3,432	
9,655	9,239	
26,578	23,098	

11. PROVISION FOR ZAKAT

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

	As of December 31,		
	2007 SR'000	2006 SR'000	
January 1	9,239	8,363	
Payments during the year	(10,974)	(7,324)	
Provision for the year	11,390	8,200	
December 31,	9,655	9,239	

The Company and its subsidiary (SITCO Pharma) have finalized its Zakat assessments for year 2005, and they have obtained the final certificate for the year 2006. At the date of issuing these financial statements the final zakat assessment for the year 2006 was not yet received from the DZIT.

12. RELATED PARTY TRANSACTIONS

The Company and its subsidiaries, in the ordinary course of their business, transacts with related parties. The following are the details of major related parties transactions during the years ended December 31, 2007 and 2006.

	2007 SR'000	2006 SR'000
rance policies	(3,555)	(4,800)
	132	318

13. SHARE CAPITAL

The share capital of the Company amounting to SR 632.4 million is divided into 63.24 million shares of SR 10 each as of December 31, 2007 and 2006.

The shareholders at their Extraordinary General Assembly Meeting on May 5, 2006, approved the increase in share capital from SR 527 million to SR 632.4 million by transferring SR 105.4 million from retained earnings for the issuance of 10.54 million bonus shares (1 bonus share for every 5 outstanding shares).

14. GENERAL AND ADMINISTRATIVE EXPENSES

	For the Years Ended December 31,	
	2007 SR'000	2006 SR'000
Salaries, wages and other benefits	22,127	21,429
Utilities and insurance	880	941
Rent	85	238
Professional fees	2,426	1,336
Sales discount	14,230	12,473
Provision for doubtful debts	5,133	6,964
Depreciation	1,798	2,886
Other	4,107	3,103
	50,786	49,370

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, 2007 represents Foreign Exchange Loss of SR 51.07 million (2006: Gain of SR 12.2 million). Such foreign exchange impact is included in cost of sales.

In addition, the Company and its subsidiaries incurred losses amounting to SR 27.88 million for the year ended December 31, 2007, (2006: Loss of SR 18.87 million) on translation of foreign currency payables relating to the settlement and translation of unpaid foreign suppliers' purchases. Such foreign currencies losses / gains are included under the (loss) gain from foreign currencies exchange caption in the consolidated statement of income.

Accordingly, the Company's results of operations for the year ended December 31, 2007 have been impacted by the effects of foreign currencies net losses in the combined aggregate amounts of SR 78.95 million (2006: net loss of SR 6.67 million) which are the totals of amounts included in the consolidated financial statement classification of cost of sales and (loss) gain 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, 2007.

16. OTHER INCOME AND EXPENSES, NET

Reversal of allowance and accrual

Gain on sale of property and equipment

Other

For the Years Ended December 31,		
2007 SR'000	2006 SR'000	
-	15,563	
2	133	
2,239	6,028	
2,241	21,724	

17. OPERATING LEASES

The land on which the Company's factories 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, 2007 rental expenses of SR 1.11 million were incurred on leased land and heavy duty equipment (2006: SR 1.12 million).

18. CONTINGENCIES AND COMMITMENTS

The Company is contingently liable under letters of credit and letters of guarantee amounting to SR 163.6 million and SR 20.6 million as of December 31, 2007, respectively (2006: SR 96 million and SR 17 million, respectively).

At December 31, 2007, the Company and its subsidiaries had outstanding forward purchase contracts for foreign currencies equivalent to SR 36 million (2006: SR 32 million).

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. 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.

Segments of the Company represent that of explosives production and related services, trading in Pharmaceuticals and production of Ammonium Nitrate. The segment of Ammonium Nitrate production signifies as a part of explosive segment, but it is reporting as a separate segment to be consistent with the Company's internal reporting purposes. The Ammonium Nitrate segment has not started its production activities as mentioned in Note 1.

20. APPROVAL OF FINANCIAL STATEMENTS

The Company's Board of Directors has approved the accompanying consolidated financial statements in their meeting held on Safar 11, 1429H corresponding to February 18, 2008.

21. PROPOSED DIVIDENDS

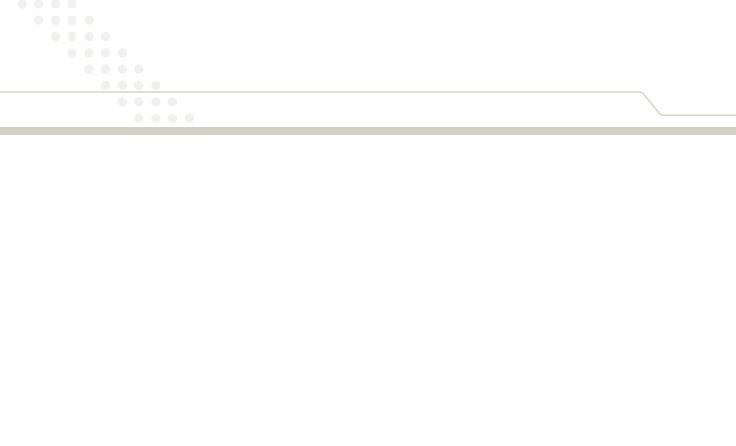
The board of directors, in their above mentioned meeting dated 18/2/2008, proposed additional transfer of SR 20 million to general reserve and the remaining net income of 2007 to retained earnings (2006: General reserve SR 20 million and cash dividend SR 63.24 million which is SR 1 for each share).

22. COMPARATIVE FIGURES

The company has included SINCO's financial data in the consolidated financial statements starting from December 31, 2007, so certain amounts in the previous year financial statements have been reclassified to conform with the current year presentation.







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The Comm Controller will automatically generate a MagTrack® system alert if it detects an attempt to tamper with or removed the MagTrack Sensor Unit from the container.

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The embedded sensor in the Monitor continuously measure MagTrack® battery levels, battery levels, temperature, signal strength, shock and vibration.

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MagTrack® users can be alerted by email, pager, phone or hand-held device. Upon answering, the user will be prompted to authenticate with a PIN number.

What is recorded?

The MagTrack® system logs all events, including authorized and unauthorized access, regularly scheduled activities and system alerts. The Central Monitoring System reports: user ID, time of event, location, and event information that can be accessed through a secure website. The system can be set up with parameters of what specific data or access locations to by employee or user.

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