Saudi Arabian Fertilizers Company
(Saudi Joint Stock Company)

FINANCIAL STATEMENTS

31 DECEMBER 2009

ERNST & YOUNG

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AUDITORS' REPORT TO THE SHAREHOLDERS OF SAUDI ARABIAN FERTILIZERS COMPANY SAUDI JOINT STOCK COMPANY

Scope of audit:

We have audited the accompanying balance sheet of Saudi Arabian Fertilizers Company (SAFCO), a Saudi Joint Stock Company as at 31 December 2009 and the related statements of income, cash flows and changes in shareholders' equity for the year then ended. These financial statements are the responsibility of the company and have been prepared by them in accordance with the provisions of Article 123 of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit. 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 degree of assurance to enable us to express an opinion on the financial statements.

Audit opinion:

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

i) present fairly, in all material respects, the financial position of the company as at 31 December 2009 and the results of its operations and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.

ii) comply with the requirements of the Regulations for Companies and the company's articles of association in so far as they affect the preparation and presentation of the financial statements.

for Ernst & Young

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ترخيص مهني رقم ٤٥
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15 Safar 1431H
30 January 2010

Alkhobar

Saudi Arabian Fertilizers Company
(Saudi Joint Stock Company)

BALANCE SHEET
As At 31 December 2009

	Note	*2009 SR"000"*	*2008 SR"000"*
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	3	**2,964,497**	3,918,061
Accounts receivable, other receivables and prepayments	4	**779,909**	892,741
Inventories	5	**311,929**	321,323
Home ownership receivable – current portion	9	**18,641**	22,053
Available for sale investment	6	**-**	6,570
TOTAL CURRENT ASSETS		**4,074,976**	5,160,748
NON-CURRENT ASSETS			
Investment in an associate	7	**729,308**	900,383
Available for sale investments	6	**379,897**	234,825
Property, plant and equipment	8	**3,452,426**	3,457,564
Home ownership receivable	9	**72,459**	92,248
Other long term assets	11	**98,763**	4,269
TOTAL NON CURRENT ASSETS		**4,732,853**	4,689,289
TOTAL ASSETS		**8,807,829**	9,850,037
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable and accruals	12	**654,478**	321,723
Current portion of term loans	14	**236,786**	236,786
Zakat provision	13	**138,318**	180,031
TOTAL CURRENT LIABILITIES		**1,029,582**	738,540
NON-CURRENT LIABILITIES			
Term loans	14	**352,857**	589,643
Other non current libilities	15	**410,620**	487,895
TOTAL NON CURRENT LIABILITIES		**763,477**	1,077,538
TOTAL LIABILITIES		**1,793,059**	1,816,078
SHAREHOLDERS' EQUITY			
Share capital	16	**2,500,000**	2,500,000
Statutory reserve	17	**1,250,000**	1,250,000
General reserve	18	**45,105**	45,105
Retained earnings		**2,997,587**	2,443,300
Proposed dividends	19	**-**	1,750,000
Unrealized gain from available for sale investments	6	**222,078**	45,554
TOTAL SHAREHOLDERS' EQUITY		**7,014,770**	8,033,959
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**8,807,829**	9,850,037

The attached notes 1 to 28 form part of these financial statements.

Saudi Arabian Fertilizers Company
(Saudi Joint Stock Company)

STATEMENT OF INCOME
Year ended 31 December 2009

	Note	*2009* *SR"000"*	*2008* *SR"000"*
Sales		**2,740,708**	5,235,760
Cost of sales		**(1,030,962)**	(895,103)
GROSS PROFIT		**1,709,746**	4,340,657
General and administration expenses	20	**(52,124)**	(91,110)
INCOME FROM MAIN OPERATIONS		**1,657,622**	4,249,547
Financial income		**49,918**	113,164
Financial charges		**(11,890)**	(37,464)
Other income/ (expenses)	21	**4,333**	(37,152)
INCOME BEFORE SHARE IN RESULTS OF AN ASSOCIATE		**1,699,983**	4,288,095
Share in results of an associate	7	**128,926**	351,656
INCOME FROM CONTINUING OPERATIONS		**1,828,909**	4,639,751
Discontinued operations:			
Profit/ (loss) from operations of discontinued plant		**49,011**	(2,006)
Provision for impairment of plant assets		**-**	(248,554)
Gain on disposal of discontinued plant		**22,048**	-
INCOME /(LOSS) FROM DISCONTINUED OPERATIONS	22	**71,059**	(250,560)
INCOME BEFORE ZAKAT		**1,899,968**	4,389,191
Zakat	13	**(95,681)**	(109,403)
NET INCOME FOR THE YEAR		**1,804,287**	4,279,788
Earnings per share (from net income)		**7.22**	17.12
Earnings per share (from main operations)		**6.63**	17.00
Number of shares outstanding		**250,000,000**	250,000,000

The attached notes 1 to 28 form part of these financial statements.

Saudi Arabian Fertilizers Company
(Saudi Joint Stock Company)

STATEMENT OF CASH FLOWS
Year ended 31 December 2009

	Note	*2009* *SR"000"*	*2008* *SR"000"*
OPERATING ACTIVITIES			
Income before zakat		**1,899,968**	4,389,191
Adjustments for:			
Depreciation		**230,307**	255,272
Amortisation		**1,161**	70,929
Impairment of investment available for sale		**31,452**	31,452
Share in results of an associate		**(128,926)**	(351,656)
Financial income		**(49,918)**	(113,164)
Financial charges		**11,890**	37,464
(Gain)/ loss on disposal of property plant and equipment		**(16,406)**	1,218
Provision for impairment of plant assets		**-**	248,554
		1,979,528	4,569,260
Changes in operating assets and liabilities			
Receivable		**112,832**	(26,795)
Inventories		**9,394**	1,547
Payables		**232,756**	(320,201)
Other non current liabilities		**22,725**	54,822
Employees home ownership program		**23,201**	38,005
Cash from operations		**2,380,436**	4,316,638
Financial charges paid		**(11,890)**	(37,464)
Zakat paid		**(137,394)**	(47,880)
Net cash from operating activities		**2,231,152**	4,231,294
INVESTING ACTIVITIES			
Additions to property, plant and equipment		**(243,231)**	(51,011)
Proceeds from sale property plant and equipment		**34,468**	-
Dividends received		**300,000**	100,000
Other long term assets		**(95,655)**	-
Financial income received		**49,918**	113,164
Disposal of investment available for sale		**6,570**	-
Net cash from investing activities		**52,070**	162,153
FINANCING ACTIVITIES			
Dividends paid		**(3,000,000)**	(1,900,000)
Repayment of term loans		**(236,786)**	(148,392)
Net cash used in financing activities		**(3,236,786)**	(2,048,392)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(953,564)**	2,345,055
Cash and cash equivalents at the beginning of the year		**3,918,061**	1,573,006
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	3	**2,964,497**	3,918,061

The attached notes 1 to 28 form part of these financial statements.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
Year ended 31 December 2009

	Share capital SR"000"	*Statutory reserve SR"000"*	*General reserve SR"000"*	*Retained earnings SR"000"*	*Proposed dividends SR"000"*	*Unrealized gain from available for sale investments SR"000"*	*Total SR"000"*
Balance at 31 December 2007	2,000,000	1,000,000	545,105	1,663,512	400,000	405,719	6,014,336
Net income for the year	-	-	-	4,279,788	-	-	4,279,788
Transferred to capital	500,000	-	(500,000)	-	-	-	-
Transfer to statutory reserve (note 17)	-	250,000	-	(250,000)	-	-	-
Proposed dividends (note 19)	-	-	-	(1,750,000)	1,750,000	-	-
Dividends paid (note 19)	-	-	-	(1,500,000)	(400,000)	-	(1,900,000)
Movement during the year	-	-	-	-	-	(360,165)	(360,165)
Balance at 31 December 2008	2,500,000	1,250,000	45,105	2,443,300	1,750,000	45,554	8,033,959
Net income for the year	-	-	-	1,804,287	-	-	1,804,287
Dividends paid (note 19)	-	-	-	(1,250,000)	(1,750,000)	-	(3,000,000)
Movement during the year	-	-	-	-	-	176,524	176,524
Balance at 31 December 2009	**2,500,000**	**1,250,000**	**45,105**	**2,997,587**	-	**222,078**	**7,014,770**

The attached notes 1 to 28 form part of these financial statements.

1 ACTIVITIES

Saudi Arabian Fertilizers Company (SAFCO) is a Saudi joint stock company incorporated under Royal Decree Number M/13 dated 11 Jumada I 1385H , which also included its by-laws. The company was initially registered in the city of Dammam with commercial registration number 2050001841 dated 1 Dhu al-Hijjah 1385H corresponding to 24 March 1966, and later on the company's head office was shifted to Jubail Industrial City with commercial registration number 2055002359 dated 29 Shawwal 1411H corresponding to 14 May 1991. The previous commercial registration was converted to a branch.

The company's principal business activity is to manufacture, convert and market Urea, Ammonia, Melamine and Sulphuric Acid.

SAFCO holds a 50% equity interest in National Chemical Fertilizers Company (Ibn Al Baytar) and 3.7% equity interest in Arabian Industrial Fibers Company (Ibn Rushd) and 1.69% equity interest in Yanbu National Petrochemicals Company (Yansab).

2 SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia. The significant accounting policies adopted are as follows:

Accounting convention
The financial statements are prepared under the historical cost convention except for the measurement of available for sale investments at fair value.

Use of estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year.

Cash and cash equivalents
Cash and cash equivalents consist of bank balances, cash on hand, short term Murabahat and short term investments that are readily convertible into known amounts of cash and have original maturities of three months or less.

Accounts receivable
Accounts receivable are stated at the original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debt is made when the collection of the account receivable amount is considered doubtful. Bad debts are written off as incurred.

Inventories
Inventories are stated at the lower of cost and market value, with due allowance for obsolete or slow moving items. Cost is determined as follows:

Raw materials, consumables and spare parts	- purchase cost on a weighted average basis.
Production in progress and finished products	- cost of direct materials and labour plus attributable overheads based on a normal level of activity.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments
After initial recognition, investments purchased neither with the intention of being held to maturity nor for trading purposes are classified as available for sale investments and are measured at fair value. Unrealized gains and losses are reported as a separate component of shareholders' equity until the investment is derecognized or the investment is determined to be impaired. On derecognition or impairment the cumulative gain or loss previously reported in shareholders' equity is included in the income statement for the year.

Investment in companies where the company effectively participates in the financial and operational decisions of that investee companies, normally when the company acquire share between 20% to 50%, are accounted for using the equity method.

Revenues from available for sales investments are recognized when dividends are declared.

Property, plant and equipment
Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Freehold land is not depreciated. The cost of other property, plant and equipment is depreciated on a straight line basis over the estimated useful lives of the assets.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

Improvements on assets are amortized on a straight-line basis over the shorter of the useful life of the improvement or the related assets.

Expenditure for repair and maintenance are charged to income. Betterments that increase the value or materially extend the life of the related assets are capitalized.

Capital spare parts
Capital spare-parts which considered essential to ensure continuous plant operation, are classified under tangible assets, and are depreciated using the straight-line method in accordance with the applicable depreciation rates. The following two conditions must apply to all capitalized spare-parts:

- They are not readily available in the market, or unavailable.
- Their manufacturing requires an extended time to complete.

Deferred costs
Planned turnaround costs are deferred and amortized over the period until the date of next planned turnaround. Should unexpected turnaround occur prior to the previously envisaged date of planned turnaround, then the previously unamortized deferred costs are immediately expensed and the new turnaround costs are deferred and amortized over the period likely to benefit from such costs.

The amortization expenses are included under cost of sales in the statement of income.

Employees' home ownership program
The company has a Home Ownership Program that offers eligible Saudi employees home ownership opportunities. Unsold housing units constructed for eventual sale to eligible Saudi employees are included under property, plant and equipment and depreciated over 33 years. Upon signing the sale contract, the cost and accumulated depreciation are derecognized and the loans receivable from the employees in respect of the purchase of the housing units are classified under long term assets and are recovered over a period not exceeding twenty years. Installments recoverable within twelve months period from the balance sheet are classified under current assets.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Employees' home ownership program (continued)
Costs incurred in connection with the construction of employees' housing units, such as administrative costs, infrastructure and financing costs are capitalized with the related assets. Such costs are amortized over a maximum period of five years.

Accounts payable and accruals
Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Zakat
Zakat is provided in accordance with Saudi Arabian fiscal regulations. The provision is charged to the statement of income. Additional amounts, if any, that may become due on the finalization of an assessment are accounted for in the year in which the assessment is finalized.

Employees' terminal benefits
Provision is made for amounts payable under the company's policies applicable to employees accumulated periods of service at the balance sheet date.

Employees' saving plan
The company maintains an employees' saving plan for Saudi employees. The contributions from the participants are deposited in separate bank account and liability is established for these contributions. The company's contribution under the saving plan is charged to the statement of income.

Dividends
Dividends are recognized as a liability at the time of their approval by the General Assembly. Interim dividends are recorded as and when approved by the Board of Directors.

Revenue recognition
In general most of the company's sales are made to SABIC (the "Marketer"). Upon delivery of products to the Marketer, sales are recorded at provisional selling prices net of selling, distribution and marketing expenses paid directly by the Marketer. These selling prices are later adjusted based upon actual selling prices received by the Marketer from third parties. Adjustments are recorded as they become known to the company.

Foreign currency transactions
Transactions in foreign currencies are recorded in Saudi Riyals at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the statement income .

Expenses
Expenses related to executive management are classified as general and administration expenses. All other costs other than financial charges are considered as production cost.

Research and technology cost
Research and technology cost are expensed when incurred.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs
Borrowing costs that are directly attributable to the acquisition, construction for a long period or production of a qualifying asset, are capitalized as part of the cost of that asset.

Capitalization of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed.

Earnings per share
Basic earning per share from net income is calculated by dividing the net income for the year by the number of shares outstanding at year end.

Basic earnings per share from main operations is calculated by dividing income from main operations for the year by the number of shares outstanding at year end.

Segmental Analysis
A segment is a distinguishable component of the company that is engaged in providing products or services (a business segment) or in providing products or services within a particular economic environment (a geographic segment), which is subject to risks and rewards that are different from those of other segments.

Fair values
For investments traded in organised markets, fair value is determined by reference to quoted market bid prices.

For unquoted equity investments, fair value is determined by reference to the market value of a similar investment; in case such value is not reliably determinable the cost is considered the fair value.

3 CASH AND CASH EQUIVALENTS

	2009 ***SR"000"***	*2008* *SR"000"*
Bank balances	**24,246**	45,561
Short term Murabahat	**2,940,251**	3,872,500
	2,964,497	3,918,061

The short term Murabahat are kept with local commercial banks and are maintained in Saudi Riyals and US Dollars. The short term deposits and Murabahat have original maturity dates of less than 3 months.

4 ACCOUNTS RECEIVABLE, OTHER RECEIVABLES AND PREPAYMENTS

	2009 *SR"000"*	*2008* *SR"000"*
Due from affiliates (note 10)	**671,465**	751,486
Prepayments	**15,420**	14,412
Other trade receivables	**8,012**	13,081
Others	**85,012**	113,762
	779,909	892,741

5 INVENTORIES

	2009 *SR"000"*	*2008* *SR"000"*
Goods in transit	**32,561**	14,632
Raw materials	**16,587**	10,347
Finished goods	**52,734**	70,570
Spares and consumables	**272,584**	372,691
Provision for slow moving inventories	**(62,537)**	(146,917)
	311,929	321,323

Spare parts inventories, are primarily related to plant and equipment and are accordingly expected to be utilized over more than one year.

6 AVAILABLE FOR SALE INVESTMENTS

	Quoted *SR"000"*	*Unquoted* *SR"000"*	***Total*** ***SR"000"***
Cost:			
At 1 January 2009	94,905	328,400	**423,305**
Sold during the year	-	(13,870)	**(13,870)**
At 31 December 2009	94,905	314,530	**409,435**
Valuation adjustment:			
At 1 January 2009	45,554	-	**45,554**
Movement during the year	176,524	-	**176,524**
At 31 December 2009	222,078	-	**222,078**
Impairment adjustment:			
At 1 January 2009	-	(227,464)	**(227,464)**
Provided during the year	-	(31,452)	**(31,452)**
Related to investments sold	-	7,300	**7,300**
At 31 December 2009	-	(251,616)	**(251,616)**
Carrying amounts:			
At 31 December 2009	**316,983**	**62,914**	**379,897**
At 31 December 2008	140,459	100,936	241,395

During the year the company sold its share in Gulf Ferro Alloys Company (Sabayek) for cash of approximately SR 4.9 million and 1,464,986 shares in Arabian Industrial Fibers Company (Ibn Rushd) . The legal formalities in respect of the transfer of title of the additional shares to the company are still in progress.

7 INVESTMENT IN AN ASSOCIATE

This represents 50% equity interest in National Chemicals Fertilizers Company (Ibn Al Baytar), a limited liability company registered in Saudi Arabia. The associate is engaged in producing ammonia, urea, phosphate compound and liquid fertilizers.

NOTES TO THE FINANCIAL STATEMENTS (continued)
31 December 2009

8 PROPERTY, PLANT AND EQUIPMENT

The estimated useful lives of the assets for the calculation of depreciation are as follows:

Buildings	33 years
Plant and equipment	20 years
Others	4-10 years

	Land and buildings SR"000"	*Plant and equipment SR"000"*	*Others SR"000"*	*Construction work in progress SR"000"*	***Total 2009 SR"000"***	*Total 2008 SR"000"*
Cost:						
At the beginning of the year	802,680	5,038,151	90,031	181,986	**6,112,848**	6,221,823
Additions	-	18,459	148	224,624	**243,231**	51,011
Transfers	709	20,104	570	(21,383)	-	-
Disposals	-	(1,836)	(993)	(15,943)	**(18,772)**	(11,432)
Written off (note 22)	(68,855)	(506,885)	(27,083)	-	**(602,823)**	-
Impairment related to discontinued operations (note 22)	-	-	-	-	-	(148,554)
At the end of the year	734,534	4,567,993	62,673	369,284	**5,734,484**	6,112,848
Depreciation:						
At the beginning of the year	395,876	2,174,843	84,565	-	**2,655,284**	2,410,226
Charge for the year	18,731	208,793	2,783	-	**230,307**	255,272
Disposals	-	-	(710)	-	**(710)**	(10,214)
Written off (note 22)	(68,855)	(506,885)	(27,083)	-	**(602,823)**	-
At the end of the year	345,752	1,876,751	59,555	-	**2,282,058**	2,655,284
Net book amounts:						
At 31 December **2009**	**388,782**	**2,691,242**	**3,118**	**369,284**	**3,452,426**	
At 31 December 2008	406,804	2,863,308	5,466	181,986		3,457,564

The buildings, plant and equipment are constructed on land leased from Royal Commission for Jubail and Yanbu at nominal rent for 30 years, which commenced on 1 Shawwal 1411H corresponding to 15 April 1991. The leases can be renewed by mutual agreement of both parties.

Portion of the company's property, plant and equipment are pledged as collateral under the loan agreement with Saudi Industrial Development Fund (see note 14).

Construction work in progress is mainly related to the construction of new housing units under the home ownership program and other projects related to the plant.

9 HOME OWNERSHIP RECEIVABLE

These represent mainly amounts due from eligible Saudi employees under the home ownership program. Amounts are repayable over a period not exceeding twenty years and no borrowing costs are charged on the balances.

10 TRANSACTIONS WITH RELATED PARTIES

The majority of SAFCO products are sold through SABIC in accordance with long term marketing agreements. During the year, sales through affiliated companies represented 99% (2008: 99%) of the total sales.

SAFCO has a service level agreement with SABIC (Shared Services Organization – SSO) for the provision of accounting, human resources, information technology (ERP/SAP), engineering, procurement and related services, also the company has an agreement for research and technology services with SABIC. During 2009, SAFCO's transactions with SABIC in this regard amounted to SR 121.3 million (2008: SR 95.2 million).

The management and operational activities of SAFCO and Ibn Al Baytar were consolidated in 1994 and this has no impact on the legal structure of either company. All of the employees and their related balances were transferred to SAFCO. Charges by SAFCO during the year to Ibn Al Baytar amounted SR 124.4 million (2008: SR 120.6 million).

In 2009 SAFCO signed memorandum of understanding with Saudi Methanol Company (AR-RAZI) in which SAFCO assigns the natural gas allocation to its closed factory to AR-RAZI in order to be used for the production of Methanol in AR-RAZI V plant. In return SAFCO will be entitled to a pro-rat share in the production of AR-RAZI V plant. Total cost incurred in respect of this agreement up to 31 December 2009 amounted to SR 284 million where total SAFCO share of the production of AR-RAZI V amounted to SR 318 million.(note 21)

Amounts due from affiliates are disclosed in note 4 , where amounts due to affiliates are disclosed in note 12 .

Prices and terms of these transactions are approved by the management.

11 OTHER LONG TERM ASSETS

	Deferred cost SR"000"	*Others SR"000"*	***Total SR"000"***
Cost:			
At 1 January 2009	-	4,269	**4,269**
Additions	95,655	-	**95,655**
At 31 December 2009	95,655	4,269	99,924
Amortization:			
At 1 January 2009	-	-	-
Charge for the year	-	1,161	**1,161**
At 31 December 2009	-	1,161	**1,161**
At 31 December 2009	**95,655**	**3,108**	**98,763**
At 31 December 2008	-	4,269	**4,269**

12 ACCOUNTS PAYABLE AND ACCRUALS

	2009 SR"000"	2008 SR"000"
Trade accounts payable and accruals	**172,322**	202,645
Amounts due to affiliates (note 10)	**394,182**	118,138
Dividends payable	**87,974**	940
	654,478	321,723

13 ZAKAT

Charge for the year

The zakat charge consists of:

	2009 SR"000"	2008 SR"000"
Current year provision	**95,681**	109,403
Charge for the year	**95,681**	109,403

Zakat base is calculated as follows:

	2009 SR"000"	2008 SR"000"
Equity	**4,968,816**	3,707,027
Opening provisions and other adjustments	**608,068**	535,751
Book value of long term assets (net of related financing)	**(3,502,333)**	(3,663,272)
	2,074,551	579,506
Zakatable profit for the year	**1,752,659**	3,927,397
Zakat base	**3,827,210**	4,506,903

The differences between the financial and the zakatable income are mainly due to provisions which are not allowed in the calculation of zakatable income.

Movements in provision

The movement in the zakat provision was as follows:

	2009 SR"000"	2008 SR"000"
At the beginning of the year	**180,031**	118,508
Provided during the year	**95,681**	109,403
Payments during the year	**(137,394)**	(47,880)
At the end of the year	**138,318**	180,031

Status of assessments

The zakat assessments have been finalised for all years up to 2000. The assessments for the years from 2001 to 2008 have not yet been raised by the Department of Zakat and Income Tax (DZIT).

14 TERM LOANS

	2009 SR"000"	2008 SR"000"
Saudi Industrial Development Fund "see (a) below"	**280,000**	340,000
Syndicated commercial loan "see (b) below"	**309,643**	486,429
	589,643	826,429
Less: current portion	**(236,786)**	(236,786)
Non current portion	**352,857**	589,643

a) On 20 June 2004, the company agreed with Saudi Industrial Development Fund (SIDF) to obtain an additional loan amounting to SR 400 million and consolidate it with the remaining balance of the facility previously obtained amounting to SR 85 million. Accordingly the total outstanding balance became SR 485 million. The loan was obtained to finance the expansion of project of (SAFCO IV). The balance is payable in 15 semi-annual installments of different amounts. The repayment of the loan started on October 2004. The last installment is due on June 2013. The loan carries appraisal and follow up fees and is secured by mortgage on the plant and equipment related to the expansion project (SAFCO IV). The agreement also requires the maintenance of certain financial ratios.

b) On 11 August 2004, the company entered into a term loan facility agreement with a syndicate of financial institutions to provide SAFCO with a loan amounting to USD 330 million (SR 1,238 million) to finance the expansion project of SAFCO IV. The whole facility was utilized subsequently. The facility is payable over 14 equal semi-annual installments, with last installment due on 2 July 2011. The facility carries financial charges at London Inter-Bank Offer Rate (LIBOR) plus a fixed margin applicable to US dollar. The facility agreement requires the maintenance of certain financial ratios.

15 OTHER NON CURRENT LIABILITIES

	2009 SR"000"	2008 SR"000"
Employees' terminal benefits	**367,443**	433,588
Employees' saving plan	**43,177**	54,307
	410,620	487,895

16 SHARE CAPITAL

On 1 Rabi' II 1429H corresponding to 7 April 2008 and based on the extraordinary general assembly resolution, the company has increased its capital from SR 2,000 million to SR 2,500 million by a transfer from the general reserve to the share capital by issuing 50 million shares as stock dividends. Shareholders as of 7 April 2008 were granted one free share for every four shares owned. Accordingly, the share capital of the company has increased to SR 2,500 million divided into 250 million shares with a par value of SR 10 for each share.

17 STATUTORY RESERVE

In accordance with Saudi Arabian Regulations for Companies, the company must set aside 10% of its net income in each year until it has built up a reserve equal to one half of the capital. This have been achieved, the company has resolved to discontinue such transfers. The reserve is not available for distribution.

18 GENERAL RESERVE

The shareholders have established a general reserve by appropriation from the retained earrings. This reserve can be increased or decreased through shareholders' resolution and can be used as required in the ordinary course of conducting the business of the company.

19 PROPOSED DIVIDENDS

During the year, and based on board of directors proposal, the company distributed interim cash dividends of SR 5/share totaling SR 1,250 million for the first half of the year for the shareholders as of 15 July 2009 (2008: SR 1,500 million).

The board of directors have also proposed on 20 February 2010 to distribute cash dividends of SR 7/share totaling SR 1,750 million (2008: SR 1,750 million) being 70 % of the share capital, after its approval by the general assembly.

20 GENERAL AND ADMINISTRATION EXPENSES

	2009 SR"000"	*2008 SR"000"*
Employee costs	**7,114**	6,227
Research and technology cost	**40,349**	76,245
Other	**4,661**	8,638
	52,124	91,110

21 OTHER INCOME/ (EXPENSES)

	2009 SR"000"	*2008 SR"000"*
Profit from AR-Razi operations (note10)	**33,845**	-
Profit/(loss) on inventory adjustment	**490**	(21,638)
Impairment of investment	**(31,452)**	(31,452)
Others	**1,450**	15,938
	4,333	(37,152)

22 DISCONTINUED OPERATIONS

The board of directors of the company has resolved on 23 Sha'ban 1429H corresponding to 24 August 2008. to discontinue the operations of Urea, Ammonia, Melamine and Sulphuric Acid plants in Dammam.

In 2008, the company's management made a provision for the residual net book value of the above plants amounting to SR 148.6 million and also provided for the estimated cost relating to the closure of the factory amounting to SR 100 million based on preliminary internal study.

In 2009, the company has written off the cost and accumulated depreciation related to the discontinued plants, and recognised gain on the sale of the scrap of the plants amounting to SR 22 million and also recognised gain from an insurance claim related to period prior to the closure of Dammam factories amounting to SR 21 million. These gains have been disclosed under discontinued operations in the statement of income.

Management has not taken into consideration the revenues that may result from the sale of the remaining company's assets in Dammam.

23 SEGMENTAL ANALYSIS

Due to the cessation of the production of Melamine in 2008, substantially all of the company's operations are now related to one segment which is fertilizers including the production of Urea and Ammonia.

Substantional portion of the company's sales are made to one customer i.e SABIC.

24 COMMITMENTS

The company's commitment for capital expenditures at year end amounted to SR 150 million (2008: SR 72 million).

The company has signed an initial memorandum of understanding with Hadeed SABIC to construct a steel factory, which will be owned equally by the two companies.

25 CONTINGENT LIABILITIES

The company's bankers have issued, on its behalf, bank guarantees amounting to SR 34.1 million (2008: SR 34.2 million) in the normal course of business.

26 RISK MANAGEMENT

Credit risk
Credit risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. In general most of the company's sales are made to SABIC (the "Marketer").

Commission rate risk
Commission rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market commission rates. The company is subject to commission rate risk on its commission bearing assets including bank deposits and commission bearing liabilities, including term loans.

Liquidity risk
Liquidity risk is the risk that the company will encounter difficulty in raising funds to meet commitments associated with financial instruments. The company controls its liquidity risk by ensuring that bank facilities are available. The company's sales invoices are usually settled within 45 to 120 days of the date of the invoices. Payables are normally settled within 45 to 120 days of the date of the invoices.

Currency risk
Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The company is subject to fluctuations in foreign exchange rates in the normal course of its business. The company did not undertake significant transactions in currencies other than Saudi Riyals, US Dollars and Euros during the year.

27 FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. The company's financial assets consist of cash and cash equivalents, receivables, prepayments, home ownership loans and available for sale investments; its financial liabilities consist of term loans, payables and accruals.

Management believes that fair values of the company's financial instruments are not materially different from their carrying values at year end.

28 COMPARATIVE FIGURES

Certain of the prior year amounts have been reclassified to conform to the presentation in the current year.