

**Saudi Arabian Fertilizers Company (SAFCO)**  
**(Saudi Joint Stock Company)**

**INTERIM FINANCIAL STATEMENTS AND**  
**AUDITORS' LIMITED REVIEW REPORT**

**FOR THE THREE MONTHS PERIOD AND YEAR ENDED**  
**31 DECEMBER 2013**

**LIMITED REVIEW REPORT TO THE SHAREHOLDERS  
OF SAUDI ARABIAN FERTILIZERS COMPANY (SAFCO)  
SAUDI JOINT STOCK COMPANY**

**Scope of limited review:**

We have reviewed the accompanying interim balance sheet of Saudi Arabian Fertilizers Company (SAFCO) - a Saudi Joint Stock Company (the "Company") as at 31 December 2013 and the related interim statements of income for the three months period and the year then ended and the interim statements of cash flows for the year then ended. These interim financial statements have been prepared by the Company and submitted to us together with the information and explanations which we required. We conducted our limited review in accordance with the Standard on Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants (SOCPA). The limited review consists principally of applying analytical procedures to financial data and information and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with Generally Accepted Auditing Standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

**Conclusion of limited review:**

Based on our limited review, we are not aware of any material modifications that should be made to the accompanying interim financial statements for them to be in conformity with accounting standards generally accepted in the Kingdom of Saudi Arabia.

for Ernst & Young

  
Abdulaziz Saud Alshubaibi  
Certified Public Accountant  
Registration No. 339



11 Rabi I 1435H  
12 January 2014

Alkhobar

Saudi Arabian Fertilizers Company (SAFCO)  
(Saudi Joint Stock Company)

INTERIM BALANCE SHEET (UN-AUDITED)

As at 31 December 2013

	Note	2013 SR "000"	2012 SR "000"
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		2,139,668	3,594,025
Trade accounts receivable		656,060	917,699
Prepayments and other receivables		219,888	144,622
Inventories		342,274	423,166
Home ownership receivables – current portion		10,193	12,532
<b>TOTAL CURRENT ASSETS</b>		<b>3,368,083</b>	<b>5,092,044</b>
<b>NON-CURRENT ASSETS</b>			
Available for sale investments		699,924	448,901
Investment in an associate		827,775	813,721
Property, plant and equipment		4,320,496	3,500,446
Intangible assets		217,090	144,256
Home ownership receivables		26,489	32,974
<b>TOTAL NON-CURRENT ASSETS</b>		<b>6,091,774</b>	<b>4,940,298</b>
<b>TOTAL ASSETS</b>		<b>9,459,857</b>	<b>10,032,342</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable, other payables and provisions		431,012	398,740
Dividends payable		155,677	130,718
Current portion of term loan		-	40,000
Zakat provision		100,914	124,026
<b>TOTAL CURRENT LIABILITIES</b>		<b>687,603</b>	<b>693,484</b>
<b>NON-CURRENT LIABILITY</b>			
Employee's terminal benefits and saving plans		503,468	481,572
<b>TOTAL LIABILITIES</b>		<b>1,191,071</b>	<b>1,175,056</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital		3,333,333	3,333,333
Statutory reserve		1,666,667	1,666,667
General reserve		45,105	45,105
Retained earnings		618,662	1,458,185
Proposed dividends distributions	3	2,000,000	2,000,000
Unrealized gain from available for sale investments		605,019	353,996
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>8,268,786</b>	<b>8,857,286</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>9,459,857</b>	<b>10,032,342</b>

Designate member

Ibrahim Mohammed Al Saif

General Manager

Abdullah Ali Al Bakr

Finance Director

Abdullah Ahmed Al Ghamdi

The attached notes form an integral part of these interim financial statements.

Saudi Arabian Fertilizers Company (SAFCO)  
(Saudi Joint Stock Company)

INTERIM STATEMENT OF INCOME (UN-AUDITED)

For the three months period and year ended 31 December 2013

		<i>For the three months period ended 31 December</i>		<i>For the year ended 31 December</i>	
	Note	2013 SR"000"	2012 SR"000"	2013 SR"000"	2012 SR"000"
Sales		1,007,883	1,404,844	4,240,399	4,980,402
Cost of sales		(329,414)	(357,447)	(1,361,784)	(1,372,094)
<b>GROSS PROFIT</b>		<b>678,469</b>	<b>1,047,397</b>	<b>2,878,615</b>	<b>3,608,308</b>
General and administration expenses		(20,142)	(26,478)	(81,140)	(86,741)
<b>INCOME FROM MAIN OPERATIONS</b>		<b>658,327</b>	<b>1,020,919</b>	<b>2,797,475</b>	<b>3,521,567</b>
Other income, net		35,706	38,211	79,407	138,901
<b>INCOME BEFORE SHARE IN RESULTS OF AN ASSOCIATE</b>		<b>694,033</b>	<b>1,059,130</b>	<b>2,876,882</b>	<b>3,660,468</b>
Share in results of an associate		98,425	121,787	364,054	312,282
<b>INCOME BEFORE ZAKAT</b>		<b>792,458</b>	<b>1,180,917</b>	<b>3,240,936</b>	<b>3,972,750</b>
Zakat		9,541	(34,535)	(80,459)	(106,535)
<b>NET INCOME FOR THE PERIOD/YEAR</b>		<b>801,999</b>	<b>1,146,382</b>	<b>3,160,477</b>	<b>3,866,215</b>
 Earnings per share (from net income)		 2.41	 3.44	 9.48	 11.60
Earnings per share (from main operations)		1.97	3.06	8.39	10.56
Weighted average number of shares outstanding (in thousands)	1	333,333	333,333	333,333	333,333

Designate member  
Ibrahim Mohammed Al Saif

General Manager  
Abdullah Ali Al Bakr

Finance Director  
Abdullah Ahmed Al Ghamdi

The attached notes form an integral part of these interim financial statements.



Saudi Arabian Fertilizers Company (SAFCO)  
(Saudi Joint Stock Company)

INTERIM STATEMENT OF CASH FLOWS (UN-AUDITED)

Year ended 31 December 2013

	<i>Period from the beginning of the year to 31 December</i>	
	<i>2013</i>	<i>2012</i>
	<i>SR"000"</i>	<i>SR"000"</i>
<b>OPERATING ACTIVITIES</b>		
Income before zakat	3,240,936	3,972,750
Adjustments for:		
Depreciation and amortization	373,528	347,858
Share in results of an associate	(364,054)	(312,282)
(Gain)/loss from disposal of property, plant and equipment	(436)	270
Net financial income	(28,131)	(32,878)
Financial charges	3,436	3,561
	<u>3,225,279</u>	<u>3,979,279</u>
Changes in operating assets and liabilities		
Accounts receivable	256,788	58,899
Prepayments and other receivables	(75,266)	(57,814)
Inventories	80,892	(51,064)
Accounts payable	32,272	138,507
Cash from operations	<u>3,519,965</u>	<u>4,067,807</u>
Employees' terminal benefits and saving plan, net	21,896	(33,570)
Employees' home ownership program	8,824	25,089
Zakat paid	(103,571)	(99,247)
Financial charges paid	(3,436)	(3,561)
Net cash from operating activities	<u>3,443,678</u>	<u>3,956,518</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(1,091,188)	(573,236)
Proceeds from disposal of property, plant and equipment	878	-
Intangible assets, net	(175,666)	(141,399)
Dividends received	350,000	400,000
Net financial income	32,982	28,027
Net cash used in investing activities	<u>(882,994)</u>	<u>(286,608)</u>
<b>FINANCING ACTIVITIES</b>		
Dividends paid	(3,975,041)	(3,235,535)
Term loan, net	(40,000)	(120,000)
Net cash used in financing activities	<u>(4,015,041)</u>	<u>(3,355,535)</u>
<b>(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>	<u>(1,454,357)</u>	<u>314,375</u>
Cash and cash equivalents at the beginning of the year	<u>3,594,025</u>	<u>3,279,650</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<u>2,139,668</u>	<u>3,594,025</u>
<b>Designate member</b>	<b>General Manager</b>	<b>Finance Director</b>
<b>Ibrahim Mohammed Al Saif</b>	<b>Abdullah Ali Al-Bakr</b>	<b>Abdullah Ahmed Al Ghamdi</b>

The attached notes form an integral part of these interim financial statements.

# Saudi Arabian Fertilizers Company (SAFCO) (Saudi Joint Stock Company)

---

## NOTES TO THE INTERIM FINANCIAL STATEMENTS (UN-AUDITED)

At 31 December 2013

### 1 ACTIVITIES

Saudi Arabian Fertilizers Company ("SAFCO" or the "Company") 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 present principal business activity is the manufacture and conversion of Urea and Ammonia.

SAFCO holds a 50% equity interest in National Chemical Fertilizers Company ("Ibn Al Baytar") and 3.87% equity interest in Arabian Industrial Fibers Company ("Ibn Rushd") and 1.69% equity interest in Yanbu National Petrochemicals Company ("Yansab").

On 21 Muharram 1434H corresponding to 5 December 2012 and based on the Extraordinary General Assembly resolution, the Company has increased its share capital from SR 2,500 million to SR 3,333 million by a transfer from retained earnings to the share capital through issuing one bonus share for every three shares to the shareholders registered in the stock exchange as of 5 December 2012. Accordingly, the share capital of the Company after the increase is SR 3,333 million divided into 333 million shares with a par value of SR 10 each. Consequently, the earning per share has been adjusted for the comparative period as required by the relevant accounting standards.

### 2 SIGNIFICANT ACCOUNTING POLICIES

These interim 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 interim 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 period. These estimates are considered reasonable and appropriate in the Company's given circumstances.

#### Cash and cash equivalents

Cash and cash equivalents consist of bank balances, cash on hand, short term Murabahat that is 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 net realisable 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.

Saudi Arabian Fertilizers Company (SAFCO)  
(Saudi Joint Stock Company)

---

NOTES TO THE INTERIM FINANCIAL STATEMENTS (UN-AUDITED)-continued  
At 31 December 2013

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Available for sale 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 interim statement of income for the period.

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

**Investment in an associate**

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

**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 interim 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 date are classified under current assets.

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.

Saudi Arabian Fertilizers Company (SAFCO)  
(Saudi Joint Stock Company)

---

NOTES TO THE INTERIM FINANCIAL STATEMENTS (UN-AUDITED)-continued  
At 31 December 2013

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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 interim 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 interim 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 under shareholders equity.

**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.

**Expenses**

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

**Technology and innovation cost**

Technology and innovation cost are expensed when incurred.

**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 earnings per share from net income are calculated by dividing the net income for the period by the number of shares outstanding at period end.

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

**Foreign currencies 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 interim statement of income.



Saudi Arabian Fertilizers Company (SAFCO)  
(Saudi Joint Stock Company)

---

NOTES TO THE INTERIM FINANCIAL STATEMENTS (UN-AUDITED)-continued  
At 31 December 2013

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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.

As substantial portion of the Company's sales are made to one customer and due to the cessation of the production of Melamine and Sulphuric Acid, substantially all of the Company's operations are related to one operating segment which is fertilizers including the production of Urea and Ammonia. Accordingly, segmental analysis by geographical and operating segment has not been presented.

**Fair values**

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

**3 DIVIDENDS**

On 21 Muharram 1434H corresponding 5 December 2012, the board of directors proposed to distribute cash dividends to the shareholders for the second half of 2012 amounting to SR 6 per share. This was approved by the General Assembly on their meeting held on 20 Jumada I 1434H correspondence to 1 April 2013.

On 28 Shabaan 1434H corresponding to 7 July 2013, the board of directors proposed to distribute interim cash dividends for the six month period ended 30 June 2013 amounting to SR 6 per share (SR 2,000 million in total).

On 13 Safar 1435H corresponding to 16 December 2013, the board of directors proposed to distribute cash dividends for second half of 2013 amounting to SR 6 per share (SR 2,000 million in total) for the approval of the General Assembly in their next meeting.

**4 CAPITAL COMMITMENTS**

The Board of directors approved in their meeting held on 11 Muharram 1433H corresponding to 6 December 2011 the capital expansion project for the new plant (SAFCO V) at the Company's complex in Jubail Industrial City for the manufacturing of Urea at an estimated cost of SR 2,000 million, with an annual capacity of 1.1 million metric tons. Total expenditures incurred up till 31 December 2013 amounted to SR 1,010 million in relation to this project (2012: SR 409 million).

Also the directors approved future capital expenditure in relation to other projects with an amount of SR 204.4 million (2012: SR 296.6 million).

**5 COMPARATIVE FIGURES**

Certain of the prior period figures have been reclassified to conform with the presentation in the current period.