

**SAUDI ARABIAN FERTILIZERS COMPANY (SAFCO)**  
**(SAUDI JOINT STOCK COMPANY)**

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2019**

**SAUDI ARABIAN FERTILIZERS COMPANY (SAFCO)**  
**(SAUDI JOINT STOCK COMPANY)**

**FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

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## INDEPENDENT AUDITOR'S REPORT

To the Shareholders  
Saudi Arabian Fertilizers Company (SAFCO)  
Al-Jubail, Kingdom of Saudi Arabia

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Saudi Arabian Fertilizers Company (SAFCO), a Saudi Joint Stock Company ("the Company"), which comprise the statement of financial position as of December 31, 2019, and the statement of income and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

#### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the Company's financial statements and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the current period. These matters were addressed in the context of our audit of the financial statements as whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SAUDI ARABIAN FERTILIZERS COMPANY (SAFCO) (CONTINUED)**
**Key Audit Matters (continued)**

Key Audit Matters	How our audit addressed the key audit matter
<p><b>Allowance for slow moving and obsolete inventories</b></p> <p>Inventories are stated at the lower of cost and net realizable value and an allowance for slow moving inventories is made by the Company's management, where necessary. Management estimates the level of obsolescence of inventories considering its nature and reviews the valuation for the purpose of writing-off the cost of inventories which are in excess of their expected net realizable value.</p> <p>The nature of operations of the Company requires holding spare parts to support continuous operations of the plant. The Company's inventory of spare parts amounting to SR 421.85 million (2018: SR 455.17 million) is net of an allowance for slow moving and obsolete inventories amounting to SR 40.54 million (2018: SR 27.05 million).</p> <p>Since significant judgement and estimation uncertainty is involved in assessing the required allowance, we have identified this as a key audit matter.</p> <p><i>Refer to Note 13 for details relating to the allowance for slow moving and obsolete inventories in the accompanying financial statements.</i></p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> <li>• obtained an understanding of the process, methods and assumptions used to develop the allowance for slow moving and obsolete inventories and evaluated the design and implementation of key controls;</li> <li>• evaluated the Company's policies for slow moving inventories by comparing historical estimations to actual results, assessing the consistency of the policy with prior years and considered our knowledge of industry practice;</li> <li>• assessed whether there was any indication of management bias such as manual override of the established methodology;</li> <li>• tested the accuracy and completeness of the inventory reports used by management in the assessment of the allowance for slow moving inventories and arithmetical accuracy of the computations;</li> <li>• inquired about the existence of any obsolete or slow moving inventories during our attendance at physical inventory counts;</li> <li>• physically verified a sample of spare parts, noting their condition;</li> <li>• re-performed the calculation of the allowance; and</li> <li>• assessed the disclosures in the financial statements relating to this matter against the requirements of IFRSs.</li> </ul>

# **INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SAUDI ARABIAN FERTILIZERS COMPANY (SAFCO) (CONTINUED)**

## **Key Audit Matters (continued)**

Key Audit Matters	How our audit addressed the key audit matter
<p><b>Implementation of IFRS 16 Leases</b></p> <p>The Company adopted IFRS 16 Leases with effect from January 1, 2019, which resulted in changes to the accounting policies. The Company has elected not to restate comparative information as permitted by the transitional provisions contained within IFRS 16.</p> <p>The impact of IFRS 16 is a change in the accounting policy for operating leases. This change in accounting policy results in right-of-use assets of SR 124.20 million and lease liabilities of SR 110.81 million being recognized in the statement of financial position. The incremental borrowing rate ("IBR") method has been applied where the implicit rate in a lease is not readily determinable.</p> <p>Because of the judgements which have been applied and the estimates made in determining the impact of IFRS 16, this area is considered as a key audit matter.</p> <p><i>Refer to Note 4 for the impact of the adoption of the new standard, Note 3 for the accounting policy and Note 8 for related disclosures in the accompanying financial statements.</i></p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> <li>obtained an understanding of the Company's adoption of IFRS 16 and identified the internal controls including entity level controls adopted by the Company for the accounting, processes and systems under the new accounting standard;</li> <li>assessed the discount rates applied in determining lease liabilities;</li> <li>verified the accuracy of the underlying lease data by agreeing a representative sample of leases to original contracts or other supporting information and assessed the integrity and mechanical accuracy of the IFRS 16 calculations for each lease sampled through recalculation of the expected IFRS 16 adjustment;</li> <li>considered the completeness of the lease data by testing the reconciliation of the Company's lease liability to operating lease commitments disclosed in the 2018 financial statements and by considering if we had knowledge of any other contracts which may contain a lease; and</li> <li>determined if the disclosures made in the financial statements pertaining to leases, including disclosures relating to the transition to IFRS 16, were in compliance with IFRSs.</li> </ul>

## **Other Information**

Other information consist of the information included in the Company's 2019 annual report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information in its annual report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SAUDI ARABIAN FERTILIZERS COMPANY (SAFCO) (CONTINUED)****Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA and Regulations for Companies and the Company's By-laws and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, i.e. the Board of Directors, are responsible for overseeing the Company's financial reporting process.

**Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosure are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SAUDI ARABIAN  
FERTILIZERS COMPANY (SAFCO) (CONTINUED)****Auditor's Responsibilities for the Audit of the Financial Statements (continued)**

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matter. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that the matter should not be communicated in our report because the adverse consequence of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Deloitte and Touche & Co.  
Chartered Accountants



Abdul Rahman S. Al-Suwayegh  
License No. 461  
29 Jumada II, 1441H  
February 23, 2020



**SAUDI ARABIAN FERTILIZERS COMPANY (SAFCO)**  
**(SAUDI JOINT STOCK COMPANY)**

**STATEMENT OF FINANCIAL POSITION**

**AS AT DECEMBER 31, 2019**

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	December 31, 2019	December 31, 2018
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	6	5,897,990	5,734,078
Intangible assets	7	63,701	51,849
Right-of-use assets	8	123,781	-
Investment in an associate	9	744,176	692,641
Financial assets at fair value through other comprehensive income	10	530,519	605,494
Other non-current assets	11	134,377	170,424
<b>Total non-current assets</b>		<b>7,494,544</b>	<b>7,254,486</b>
<b>Current assets</b>			
Inventories	13	434,019	485,665
Trade and other receivables	14	630,421	598,204
Prepayments and other current assets	15	199,815	123,177
Cash and cash equivalents	16	753,743	692,694
Short term investments	17	150,000	350,000
		<b>2,167,998</b>	<b>2,249,740</b>
Non-current asset classified as held for sale		-	241
<b>Total current assets</b>		<b>2,167,998</b>	<b>2,249,981</b>
<b>TOTAL ASSETS</b>		<b>9,662,542</b>	<b>9,504,467</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	18	4,166,667	4,166,667
Statutory reserve	35	1,250,000	1,250,000
Retained earnings		2,221,373	2,056,156
Fair value reserve of financial assets at fair value through other comprehensive income	10	358,251	433,226
<b>Total equity</b>		<b>7,996,291</b>	<b>7,906,049</b>
<b>Non-current liabilities</b>			
Employees' benefits obligations	19	879,217	732,963
Lease liabilities	8	105,649	10,191
<b>Total non-current liabilities</b>		<b>984,866</b>	<b>743,154</b>



**SAUDI ARABIAN FERTILIZERS COMPANY (SAFCO)**  
**(SAUDI JOINT STOCK COMPANY)**

**STATEMENT OF FINANCIAL POSITION (CONTINUED)**  
**AS AT DECEMBER 31, 2019**

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	December 31, 2019	December 31, 2018
<b>Current liabilities</b>			
Lease liabilities	8	13,878	452
Trade payables	20	186,703	241,023
Accrued and other current liabilities	21	304,098	369,534
Dividends payable	34	137,412	176,007
Zakat provision	27	39,294	68,248
<b>Total current liabilities</b>		<b>681,385</b>	<b>855,264</b>
<b>Total liabilities</b>		<b>1,666,251</b>	<b>1,598,418</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>9,662,542</b>	<b>9,504,467</b>

**Chairman of  
the Board**

Yousuf A. Al-Benyan



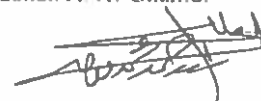
**Company's  
President**

Ahmed M. Al-Jabr



**Director Finance and  
Planning**

Abdullah A. Al-Ghamdi



The accompanying notes form an integral part of these financial statements

**SAUDI ARABIAN FERTILIZERS COMPANY (SAFCO)**  
**(SAUDI JOINT STOCK COMPANY)**

**STATEMENT OF INCOME AND OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	December 31, 2019	December 31, 2018
Sales		3,287,582	3,859,836
Cost of sales	22	(1,593,557 )	(1,728,590 )
<b>Gross profit</b>		<b>1,694,025</b>	<b>2,131,246</b>
Selling and distribution expenses	23	(89,435 )	(134,971 )
General and administration expenses	24	(276,320 )	(300,072 )
<b>Operating profit</b>		<b>1,328,270</b>	<b>1,696,203</b>
Other expenses	25	(18,544 )	(42,121 )
Other income	26	65,265	43,607
Share of results of an associate	9	126,535	115,897
Finance cost		(26,705 )	(22,588 )
<b>Income before Zakat</b>		<b>1,474,821</b>	<b>1,790,998</b>
Zakat	27	(902 )	(52,560 )
<b>Net income for the year</b>		<b>1,473,919</b>	<b>1,738,438</b>
<b>Other comprehensive (loss) income for the year</b>			
<i>Other comprehensive (loss) income not to be reclassified to income in subsequent period:</i>			
Net (loss) gain on financial assets at fair value through other comprehensive income	10	(74,975 )	47,073
Re-measurement (loss) gain on defined benefits plans	19	(58,702 )	93,247
<b>Other comprehensive (loss) income for the year</b>		<b>(133,677 )</b>	<b>140,320</b>
<b>Total comprehensive income for the year</b>		<b>1,340,242</b>	<b>1,878,758</b>
<b>Earnings per share (Saudi Riyals)</b>			
Basic and diluted earnings per share	28	3.54	4.17

**Chairman of  
the Board**  
Yousuf A. Al-Benyan

**Company's  
President**  
Ahmed M. Al-Jabr

**Director Finance and  
Planning**  
Abdullah A. Al-Ghamdi

The accompanying notes form an integral part of these financial statements

**SAUDI ARABIAN FERTILIZERS COMPANY (SAFCO)  
(SAUDI JOINT STOCK COMPANY)**

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED DECEMBER 31, 2019**

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Share Capital	Statutory reserve	Retained earnings	Fair value reserve of financial assets at fair value through other comprehensive income	Total
Balance as at January 1, 2018	4,166,667	1,250,000	1,057,805	386,153	6,860,625
Net income for the year	-	-	1,738,438	-	1,738,438
Other comprehensive income for the year	-	-	93,247	47,073	140,320
Total comprehensive income for the year	-	-	1,831,685	47,073	1,878,758
Dividends (note 34)	-	-	(833,334)	-	(833,334)
Balance as at December 31, 2018	4,166,667	1,250,000	2,056,156	433,226	7,906,049
Net income for the year	-	-	1,473,919	-	1,473,919
Other comprehensive loss for the year	-	-	(58,702)	(74,975)	(133,677)
Total comprehensive income (loss) for the year	-	-	1,415,217	(74,975)	1,340,242
Dividends (note 34)	-	-	(1,250,000)	-	(1,250,000)
Balance as at December 31, 2019	4,166,667	1,250,000	2,221,373	358,251	7,996,291

**Chairman of  
the Board**

Yousuf A. Al-Benban

**Company's  
President**

Ahmed M. Al-Jahr

**Director  
Finance and Planning**

Abdullah A. Al-Ghamdi

The accompanying notes form an integral part of these financial statements

**SAUDI ARABIAN FERTILIZERS COMPANY (SAFCO)**  
**(SAUDI JOINT STOCK COMPANY)**

**STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED DECEMBER 31, 2019**

**(All amounts in Saudi Riyals thousands unless otherwise stated)**

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Income before Zakat	1,474,821	1,790,998
<b>Adjustments for:</b>		
Share of the results of an associate	(126,535)	(115,897)
Interest income from time deposits	(19,748)	(7,497)
Finance cost	26,705	22,588
Depreciation of property, plant and equipment	547,838	513,696
Amortization of intangible assets	7,168	5,968
Depreciation of right-of-use assets	19,914	-
Loss on disposal of property, plant and equipment	921	750
Non-cash post-employment benefits expense	51,617	60,456
Operating cash flows before movement in working capital	1,982,701	2,271,062
<b>Movement in working capital:</b>		
Inventories	51,646	(72,040)
Trade and other receivables	(20,434)	(37,393)
Prepayments and other current assets	(76,638)	45,249
Trade payables	(54,320)	56,395
Accrued and other current liabilities	(37,566)	(33,716)
Cash generated by operations	1,845,389	2,229,557
Finance cost paid	(1,703)	(4,788)
Employees' benefits paid	(28,719)	(135,205)
Zakat paid	(29,856)	(5,986)
<b>Net cash from operating activities</b>	<b>1,785,111</b>	<b>2,083,578</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	19,748	7,497
Dividends received from an associate	75,000	100,000
Proceeds from disposal of property, plant and equipment	58	1,490
Purchases of property, plant and equipment	(722,084)	(570,666)
Purchases of intangible assets	(18,293)	(3,730)
Net movement in other non-current assets	36,047	12,821
Short term investments	200,000	(350,000)
<b>Net cash used in investing activities</b>	<b>(409,524)</b>	<b>(802,588)</b>

**SAUDI ARABIAN FERTILIZERS COMPANY (SAFCO)**  
**(SAUDI JOINT STOCK COMPANY)**

**STATEMENT OF CASH FLOWS (CONTINUED)**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

(All amounts in Saudi Riyals thousands unless otherwise stated)

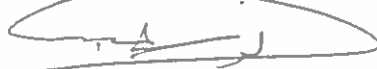
	December 31, 2019	December 31, 2018
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividends paid	(1,288,595)	(832,678)
Lease liabilities paid	(25,943)	(402)
<b>Net cash used in financing activities</b>	<b>(1,314,538)</b>	<b>(833,080)</b>
Net change in cash and cash equivalents	61,049	447,910
Cash and cash equivalents at the beginning of the year	692,694	244,784
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (NOTE 16)</b>	<b>753,743</b>	<b>692,694</b>

**Non-cash items transactions**

Other employment benefits transferred from related parties, net	-	11,511
Adjustment of intangible assets against other receivables	-	2,501
Transfers from property, plant and equipment to intangible assets	727	3,250
Asset classified as held for sale from property plant and equipment	-	241
Recognition of right-of-use assets	134,826	-
Transfer to right-of-use assets from property, plant and equipment	8,869	-

**Chairman of  
the Board**

Yousuf A. Al-Benyan



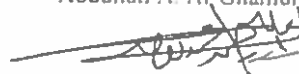
**Company's  
President**

Ahmed M. Al-Jahr



**Director Finance and  
Planning**

Abdullah A. Al-Ghamdi



The accompanying notes form an integral part of these financial statements

**SAUDI ARABIAN FERTILIZERS COMPANY (SAFCO)**  
**(SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

(All amounts in Saudi Riyals thousands unless otherwise stated)

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**1. CORPORATE INFORMATION**

Saudi Arabian Fertilizers Company is a Saudi Joint Stock Company (the "Company" or "SAFCO") incorporated under Royal Decree Number M/13 dated 11 Jumada' I 1385H (corresponding to September 7, 1965). The Company was initially registered in the city of Dammam with Commercial Registration number 2050001841 dated 1 Dhul-al-Hijjah 1385H (corresponding to March 24, 1966), and later on the Company's head office was moved to Al-Jubail Industrial City with commercial registration number 2055002359 dated 29 Shawwal 1411 H (corresponding to May 14, 1991). The previous commercial registration was initially converted to a branch. In 2013, the Board decided to cancel the branch's commercial registration.

The Company's principal activities are production and manufacturing of fertilizers mainly "Urea and Ammonia" for trade inside and outside the Kingdom of Saudi Arabia.

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

The financial statements of SAFCO for the year ended December 31, 2019 were authorised for issue on February 23, 2020.

**2. BASIS OF PREPARATION**

**Statement of compliance**

The financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRSs") as promulgated by the International Accounting Standards Board ("IASB"), interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") as endorsed and notified by Saudi Organization for Certified Public Accountants ("SOCPA") and the requirements of the laws and regulations in the Kingdom of Saudi Arabia.

**Basis of preparation**

The financial statements are prepared under the historical cost convention except for certain financial assets that are measured at fair values, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 Inventories or value in use in IAS 36 Impairment of Assets.

All values are rounded to the nearest thousand (SR '000), except when otherwise indicated.

**SAUDI ARABIAN FERTILIZERS COMPANY (SAFCO)**  
**(SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

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**3. SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS**

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

These estimates and assumptions are based upon experience and various other factors that are believed to be reasonable under the circumstances and are used to judge the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised or in the revision period and future periods if the changed estimates affect both current and future periods.

**Key sources of estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material differences in the carrying amounts of assets and liabilities within the next financial period, are presented below. The Company used these assumptions and estimates on the basis available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

***Allowance for slow moving and obsolete inventories***

Allowances for inventory are recorded where events or changes in circumstances indicate that the carrying cost of inventories will not be fully realised. The quantification of allowances for inventories requires the use of estimates and judgements. Where the outcomes are different from the original estimates, such differences will impact the carrying value of inventories and allowance for inventory in the years in which such estimates have been changed.

***Long-term assumptions for employees' benefits***

Post-employment defined benefits, end-of-service benefits and indemnity payments represent obligations that will be settled in the future and require assumptions to project obligations and fair values of plan assets, if any. Management is required to make further assumptions regarding variables such as discount rates, rate of salary increase and return on assets, mortality rates, employment turnover and future healthcare costs. Periodically, management of the Company consults with external actuaries regarding these assumptions. Changes in key assumptions can have a significant impact on the projected benefit obligations and/or periodic employee defined benefit costs incurred.

**Critical judgments in applying accounting standards**

The following critical judgments have the most significant effect on the amounts recognized in the financial statements:

***Component parts of property, plant and equipment***

The Company's assets, classified within property, plant and equipment, are depreciated on a straight-line basis over their economic useful lives. When determining the economic useful life of an asset, it is broken down into significant component parts such that each significant component part is depreciated separately. Judgement is required in ascertaining the significant components of a larger asset, and while defining the significance of a component, management considers quantitative materiality of the component part as well as qualitative factors such as difference in useful life as compared to mother asset, its pattern of consumption, and its replacement cycle/maintenance schedule.

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**4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)**

**New and amended IFRSs that are effective for the current year**

***Impact of initial application of IFRS 16 Leases***

The Company has adopted IFRS 16 from its mandatory adoption date January 1, 2019 using the modified simplified transition approach as permitted under the specific transition provisions in the standard. As a result, comparatives for the 2018 financial year have not been restated.

The Company has not used the practical expedient of applying IFRS 16 to only those contracts that were previously identified as leases under IAS 17 and IFRIC 4. In adopting IFRS 16, the Company has applied the following practical expedients:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- accounting for operating leases in accordance with IAS 17 as short-term leases with a remaining lease term of less than 12 months as at January 1, 2019;
- exclusion of initial direct costs for the measurement of right-of-use assets at the date of initial application;
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease; and
- the election, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

On adoption of IFRS 16, the Company has recognized lease liabilities and associated right-of-use assets in relation to contracts that have been concluded as leases under the principles of IFRS 16. The liabilities were measured at the present value of the remaining lease payments, discounted using the interest rate implicit to the lease or the Company's incremental borrowing rate as of January 1, 2019, adjusted by the amount of prepayments relating to that lease recognized in the statement of financial position as at December 31, 2018. The associated right-of-use assets are measured at the amount equal to the lease liability.

The off-balance sheet lease obligations as of December 31, 2018 are reconciled as follows to the recognized lease liabilities as of January 1, 2019.

	January 1, 2019
<b>Operating lease commitments disclosed as of December 31, 2018</b>	208,120
Discounted using the lessee's incremental borrowing rate at the date of initial application	(89,195)
Add: finance lease liabilities recognized as at December 31, 2018	10,643
Less: short term leases recognized on a straight line basis as expense	(8,256)
Add: contracts reassessed as lease agreements	143
<b>Lease liability recognized as at January 1, 2019</b>	<b>121,455</b>

Lease liabilities include, if applicable, the net present value of:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable
- Variable lease payments that are based on an index or a rate
- Amounts expected to be payable by the lessee under residual value guarantees
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit to the lease or the Company's incremental borrowing rate



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**4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (CONTINUED)**

**New and amended IFRSs that are effective for the current year (continued)**

***Impact of initial application of IFRS 16 Leases (continued)***

Leases are recognized as right-of-use assets along with their corresponding liabilities at the date of which the leased assets are available for use by the Company. Each lease payment is allocated between the liability and finance cost. The finance cost is recognized in the statement of income and other comprehensive income over the lease term. The right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Right-of-use assets are initially measured at cost comprising the following:

- The amount of the initial measurement of lease liability
- Any lease payments made at or before the commencement date less any lease incentives received
- Any initial direct costs, and
- Restoration costs; if applicable.

	January 1, 2019	December 31, 2019
Land	36,868	35,731
Housing	74,274	70,977
Vehicles	12,623	8,479
Pipeline	-	7,975
Others	430	619
	124,195	123,781

The Company's leasing activities and how these are accounted for:

The Company leases various housing units, equipment, vehicles, land and other assets. Rental contracts are typically made for fixed periods from 1 to 5 years except for the land that is negotiated for 30 years and may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases were charged to the statement of income and other comprehensive income on a straight-line basis over the period of the lease.

***Short-term leases***

Short-term leases are leases with a lease term of 12 months or less. Low-value assets are items that do not meet the Company's capitalization threshold and are considered to be insignificant for the statement of financial position for the Company as a whole. Payments for short-term leases and leases of low-value assets are recognized on a straight-line basis in the statement of income and other comprehensive income.

***Extension and termination options***

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The Company assesses at lease commencement whether it is reasonably certain to exercise the extension options. The Company reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within control.

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**4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (CONTINUED)**

**New and amended IFRSs that are effective from the current year but have no effect on the Company's financial statements**

<b>New and revised IFRSs</b>	<b>Effective for annual periods beginning on or after</b>
<p><i>Amendments to IFRS 9 Prepayment Features with Negative Compensation and Modification of financial liabilities</i></p> <p>The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI.</p> <p>The amendment applies to annual periods beginning on or after January 1, 2019, with earlier application permitted. There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of IFRS 9.</p>	January 1, 2019
<p><i>Amendments to IAS 28 Investment in Associates and Joint Ventures: Relating to long-term interests in associates and joint ventures.</i></p> <p>These amendments clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.</p>	January 1, 2019
<p><i>Annual Improvements to IFRSs 2015-2017 Cycle Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs</i></p> <p>The Annual Improvements include amendments to four Standards.</p>	January 1, 2019
<p><i>IFRS 3 Business Combinations</i></p> <p>The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including re-measuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be re-measured includes any unrecognised assets, liabilities and goodwill relating to the joint operation.</p>	January 1, 2019

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**4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (CONTINUED)**

**New and amended IFRSs that are effective from the current year but have no effect on the Company's financial statements (continued)**

<b>New and revised IFRSs</b>	<b>Effective for annual periods beginning on or after</b>
<i>IFRS 11 Joint Arrangements</i> The amendments to IFRS 11 clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the entity does not re-measure its PHI in the joint operation.	January 1, 2019
<i>IAS 12 Income Taxes</i> The amendments clarify that an entity should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.	January 1, 2019
<i>IAS 23 Borrowing costs</i> The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.	January 1, 2019
<i>Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement</i>  The amendments to IAS 19 Employee Benefits clarify the accounting for defined benefit plan amendments, curtailments and settlements.	January 1, 2019
<i>IFRIC 23 Uncertainty over Income Tax Treatments</i> The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: <ul style="list-style-type: none"><li>• Whether tax treatments should be considered collectively;</li><li>• Assumptions for taxation authorities' examinations;</li><li>• The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and</li><li>• The effect of changes in facts and circumstances.</li></ul>	January 1, 2019

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**4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (CONTINUED)**

**New and revised IFRSs in issue but not yet effective**

<b>New and revised IFRSs</b>	<b>Effective for annual periods beginning on or after</b>
<p><i>Definition of Material - Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors</i></p> <p>The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'</p>	January 1, 2020
<p><i>Definition of a Business – Amendments to IFRS 3 Business Combinations</i></p> <p>The amendments clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. IASB also clarify that a business can exist without including all of the inputs and processes needed to create outputs. That is, the inputs and processes applied to those inputs must have 'the ability to contribute to the creation of outputs' rather than 'the ability to create outputs'.</p>	January 1, 2020
<p><i>Amendments to References to the Conceptual Framework in IFRS Standards</i></p> <p>Amendments to References to the Conceptual Framework in IFRS Standards related IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework.</p>	January 1, 2020
<p><i>IFRS 7 Financial Instruments: Disclosures and IFRS 9 - Financial Instruments</i></p> <p>Amendments regarding pre-replacement issues in the context of the IBOR reform.</p>	January 1, 2020
<p><i>IFRS 17 Insurance Contracts</i></p> <p>IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as at January 1, 2022.</p>	January 1, 2022
<p><i>Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures</i></p> <p>Amendments relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.</p>	Effective date deferred indefinitely. Adoption is still permitted.

Management anticipates that these new standards, interpretations and amendments will be adopted in the Company's financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments may have no material impact on the financial statements of the Company in the period of initial application.

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**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies adopted are set out below:

**Investments in associates**

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting.

Under the equity method, an investment in an associate is recognised initially in the statement of financial position at cost and adjusted thereafter to recognise the Company's share of the profit or loss and other comprehensive income of the associate. When the Company's share of losses of an associate exceeds the Company's interest in that associate (which includes any long-term interests that, in substance, form part of the Company's net investment in the associate), the Company discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Company's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in statement of income in the period in which the investment is acquired.

The requirements of IAS 36 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Company's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use or fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Company discontinues the use of the equity method from the date when the investment ceases to be an associate. When the Company retains an interest in the former associate and the retained interest is a financial asset, the Company measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IFRS 9. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Company accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to statement of income on the disposal of the related assets or liabilities, the Company reclassifies the gain or loss from equity to statement of income (as a reclassification adjustment) when the associate is disposed of.

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**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Investments in associates (continued)**

When the Company reduces its ownership interest in an associate but the Company continues to use the equity method, the Company reclassifies to statement of income the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to statement of income on the disposal of the related assets or liabilities.

**Property, plant and equipment**

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such costs includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects (qualifying assets), if the recognition criteria are met. Where such assets are constructed in-house, their cost includes all amounts necessary to bring the asset to the present condition and location to be ready for intended use by management and excludes all costs such as general and administrative expenses and training costs. Any feasibility study costs are expensed as incurred unless they relate to specifically identifiable asset being constructed in-house and are directly attributable to it. Pre-operating costs during startup period net of proceeds from sale of trial production, are included as part of cost of the relevant item of property, plant and equipment, provided it is a directly attributable cost which meet the recognition criteria, and only up to the point the asset is in a condition ready for intended use.

When parts of property, plant and equipment are significant in cost in comparison to the total cost of the item, and where such parts/components have a useful life different than other parts and are required to be replaced at different intervals, the Company shall recognize such parts as individual assets with specific useful lives and depreciate them accordingly. Likewise, when a major inspection (turnaround/shutdown, planned) is performed, its directly attributable cost is recognized in the carrying amount of the plant and equipment if the recognition criteria are satisfied. This is recorded as a separate component with a useful life generally equal to the time period up to the next scheduled major inspection (turnaround). If the next turnaround occurs prior to the planned date, any existing book value of the previous turnaround is expensed immediately. All other repair and maintenance costs are recognized in the statement of income as incurred.

The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met. The Company will periodically assess the expectation and estimation for the decommissioning liability.

Depreciation is calculated from the date the item of property, plant and equipment are available for its intended use or in respect of self-constructed assets from the date such assets are ready for the intended use.

Depreciation is calculated on a straight-line basis over the useful life of the asset as follows:

<b>Assets</b>	<b><u>Useful life</u></b>
Buildings	13 - 40 years
Plant and equipment	4 - 50 years
Major maintenance parts	3 years
Others	4 -10 years

The assets residual values, useful lives and methods of depreciation are reviewed, and adjusted prospectively if appropriate, at each financial year-end.

Assets under construction, which are not ready for its intended use, are not depreciated.

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**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Property, plant and equipment (continued)**

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognised.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

**Intangible assets**

Intangible assets acquired separately are measured at cost upon initial recognition. Intangible assets acquired in a business combination are measured at fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset, are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of income in the expense category consistent with the function of the intangible asset.

The amortization period for intangible assets with a finite useful life is as follows:

<b>Assets</b>	<b><u>Useful life</u></b>
Software and license	7 years

Gains or losses arising from derecognizing an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of income when the asset is derecognized.

***Software***

Costs associated with maintaining software programs are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognized as intangible assets when the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use
- management intends to complete the software and use or sell it
- there is an ability to use or sell the software
- it can be demonstrated how the software will generate probable future economic benefits
- adequate technical, financial and other resources to complete the development and to use or sell the software are available, and
- the expenditure attributable to the software during its development can be reliably measured.

Directly attributable costs that are capitalized as part of the software include employee costs and an appropriate portion of relevant overheads.

Capitalized development costs are recorded as intangible assets and amortized from the point at which the asset is ready for use.

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**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Impairment of tangible and intangible assets**

At each reporting date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with an indefinite useful life are tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate (pre-Zakat) that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in statement of income, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

**Inventories**

Inventories, including raw materials, finished goods and consumables (spares) are valued at the lower of cost i.e. historical purchase prices based on the weighted average principle plus directly attributable costs (primarily duty and transportation), or the net realizable value.

Inventories of finished goods include cost of materials, labor and an appropriate proportion of variable and fixed direct overheads.

Abnormal inventory losses due to quality or other issues and overheads incurred during unplanned maintenance and shut down period are excluded from inventory costs. The allocation of overheads at period end for the purpose of inventory valuation are based on the higher of normal capacity or actual production for the period. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to complete a sale.



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**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Inventories (continued)**

***Scrap inventory, co-product and by-product***

Production process in the Company sometimes results in production of co-product simultaneously, or may result in some by-products or scraps (either non-usable or recyclable). When the costs of conversion of such co/by-product and/or scrap are not separately identifiable from the main product cost, they are allocated on a rational and consistent basis to such products and co/by-product and scrap. The allocation is based on the relative sales value of each product either at the stage in the production process when the products become separately identifiable, or at the completion of production.

Where by-products and scrap are immaterial and where costs cannot be allocated to them or it is inefficient to do so, these items are measured under inventory at net realizable value and this value is deducted from the cost of the main product. As a result, the carrying amount of the main product inventory is not materially different from its cost.

In the statement of income, the net realizable value for the by-products and scrap reduces the cost of sales for the period. Upon subsequent sale of such by-product, the proceeds is recorded as revenue with a corresponding cost of sale being recorded based on earlier recorded net realizable value, while for scrap, the proceeds, net of cost is recorded as other income.

***Consumable spare parts***

Consumables are ancillary materials which are consumed in the production of semi-finished and finished products. Consumables may include engineering materials, one-time packaging materials and certain catalysts.

***Capital spare parts***

Spare parts are the interchangeable parts of plant and equipment which are considered to be essential to support routine maintenance, repair and overhaul of plant and equipment or to be used in emergency situations for repairs. The Company maintains the following different types of spare parts:

- Stand-by equipment items acquired together with the plant/production line or purchased subsequently but related to a particular plant or production line and will rarely be required are critical to plant operation and must be available at stand-by at all times. These are capitalized as part of property, plant and equipment and depreciated from purchase date over a period which is shorter of the component's useful life or the remaining useful life of the plant in which it is to be utilized. These do not form part of inventory provided capitalization criteria under property, plant and equipment is met.
- Repairable items that are plant/production line specific with long lead times and will be replaced and refurbished frequently (mostly during turnarounds). These are capitalized as part of property, plant and equipment where the capitalization criteria are met. Depreciation is started from day of installation of these items in the plant, and the depreciation period is the shorter of the useful life of the component and the remaining useful life of the plant and equipment in which it is installed. These do not form part of inventory.
- General capital spares and other consumables items which are not of a critical nature and are of a general nature, i.e., not plant specific and can be used in multiple plants or production lines and any other items which may be required at any time for facilitating plant operations. They are generally classified as 'consumables and spare parts' under inventory, unless they exceed the threshold and have a useful life of more than one year, under which case they are recorded under property, plant and equipment. Items recorded under inventory are subject to assessment for obsolescence provision and are charged to the statement of income upon their installation or use. Where such items meet criteria for capitalization, their depreciation method is similar to repairable items as noted above.

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**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Non-current assets held for sale**

Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

**Provisions**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

**Financial instruments**

Financial assets and financial liabilities are recognised in the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in statement of income.

**Financial assets**

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

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**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Financial instruments (continued)**

***Financial assets (continued)***

*Classification of financial assets*

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Company may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Company may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met (see (iii) below); and
- the Company may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (see (iv) below).

**(i) Amortised cost and effective interest method**

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

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**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Financial instruments (continued)**

**Financial assets (continued)**

*Classification of financial assets (continued)*

(i) Amortised cost and effective interest method (continued)

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Company recognises interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Interest income is recognised in statement of income.

(ii) Debt instruments classified as at FVTOCI

These instruments are initially measured at fair value plus transaction costs. Subsequently, changes in the carrying amount of these instruments as a result of foreign exchange gains and losses, impairment gains or losses, and interest income calculated using the effective interest method are recognised in statement of income. The amounts that are recognised in statement of income are the same as the amounts that would have been recognised in statement of income if these instruments had been measured at amortised cost.

All other changes in the carrying amount of these instruments are recognised in other comprehensive income. When these instruments are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to statement of income.

As at reporting date, the Company do not possess any debt instrument classified as at FVTOCI.

(iii) Equity instruments designated as at FVTOCI

On initial recognition, the Company may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

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**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Financial instruments (continued)**

*Financial assets (continued)*

*Classification of financial assets (continued)*

(iii) Equity instruments designated as at FVTOCI (continued)

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investments revaluation reserve. The cumulative gain or loss is not be reclassified to statement of income on disposal of the equity investments, instead, it is transferred to retained earnings.

Dividends on these investments in equity instruments are recognised in statement of income in accordance with IFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment.

The Company has designated all investments in equity instruments that are not held for trading as at FVTOCI on initial application of IFRS 9.

(iv) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Company designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition.
- Debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria are classified as at FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency (so called 'accounting mismatch') that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The Company has not designated any debt instruments as at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in statement of income to the extent they are not part of a designated hedging relationship (see hedge accounting policy). The net gain or loss recognised in statement of income includes any dividend or interest earned on the financial asset and is included in the other income.

*Foreign exchange gains and losses*

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically;

- for financial assets measured at amortised cost that are not part of a designated hedging relationship, exchange differences are recognised in statement of income;
- for debt instruments measured at FVTOCI that are not part of a designated hedging relationship, exchange differences on the amortised cost of the debt instrument are recognised in statement of income. Other exchange differences are recognised in other comprehensive income in the investments revaluation reserve;
- for financial assets measured at FVTPL that are not part of a designated hedging relationship, exchange differences are recognised in statement of income; and
- for equity instruments measured at FVTOCI, exchange differences are recognised in other comprehensive income.

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**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Financial instruments (continued)**

***Financial assets (continued)***

***Impairment of financial assets***

The Company recognises a loss allowance for expected credit losses on investments at FVTOCI, trade and other receivables and. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Company always recognises lifetime ECL for trade receivables and other receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Company recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

**(i) Significant increase in credit risk**

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Company's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organizations, as well as consideration of various external sources of actual and forecast economic information that relate to the Company's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;

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**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Financial instruments (continued)**

*Financial assets (continued)*

*Impairment of financial assets (continued)*

(i) Significant increase in credit risk (continued)

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Company presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 90 days past due, unless the Company has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Company assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

- The financial instrument has a low risk of default,
- The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
- Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Company considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

For financial guarantee contracts, the date that the Company becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a financial guarantee contracts, the Company considers the changes in the risk that the specified debtor will default on the contract.

The Company regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

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**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Financial instruments (continued)**

***Financial assets (continued)***

***Impairment of financial assets (continued)***

**(ii) Definition of default**

The Company considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Company, in full (without taking into account any collateral held by the Company).

Irrespective of the above analysis, the Company considers that default has occurred when a financial asset is more than 90 days past due unless the Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

**(iii) Credit-impaired financial assets**

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

**(iv) Write-off policy**

The Company writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

**(v) Measurement and recognition of expected credit losses**

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Company's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.



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**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Financial instruments (continued)**

***Financial assets (continued)***

***Impairment of financial assets (continued)***

**(v) Measurement and recognition of expected credit losses (continued)**

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the expected credit losses is consistent with the cash flows used in measuring the lease receivable in accordance with IAS 17 Leases.

For a financial guarantee contract, as the Company is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed, the expected loss allowance is the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Company expects to receive from the holder, the debtor or any other party.

If the Company has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Company measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Company recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognised in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

***Derecognition of financial assets***

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and recognises a collateralized borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in statement of income. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to statement of income. In contrast, on derecognition of an investment in equity instrument which the Company has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to statement of income, but is transferred to retained earnings.

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**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Financial instruments (continued)**

***Financial liabilities and equity***

***Classification as debt or equity***

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

***Equity instruments***

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in statement of income on the purchase, sale, issue or cancellation of the Company's own equity instruments.

***Financial liabilities***

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL.

However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Company, are measured in accordance with the specific accounting policies set out below.

**Financial liabilities at FVTPL**

Financial liabilities are classified as at FVTPL when the financial liability is:

- contingent consideration of an acquirer in a business combination,
- held for trading or
- it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

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**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Financial instruments (continued)**

***Financial liabilities and equity (continued)***

**Financial liabilities at FVTPL (continued)**

- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the statement of income.

However, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are not subsequently reclassified to statement of income; instead, they are transferred to retained earnings upon derecognition of the financial liability.

Gains or losses on financial guarantee contracts issued by the Company that are designated by the Company as at FVTPL are recognised in statement of income.

Financial liabilities measured subsequently at amortised cost.

Financial liabilities that are not:

- contingent consideration of an acquirer in a business combination,
- held-for-trading, or
- designated as at FVTPL, are measured subsequently at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

**Financial guarantee contract liabilities**

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contract liabilities are measured initially at their fair values and, if not designated as at FVTPL and do not arise from a transfer of an asset, are measured subsequently at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9 (see financial assets above); and
- the amount recognised initially less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies set out above.

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**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Financial instruments (continued)**

***Financial liabilities and equity (continued)***

Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments. These foreign exchange gains and losses are recognised in statement of income for financial liabilities that are not part of a designated hedging relationship. For those which are designated as a hedging instrument for a hedge of foreign currency risk foreign exchange gains and losses are recognised in other comprehensive income and accumulated in a separate component of equity.

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. For financial liabilities that are measured as at FVTPL, the foreign exchange component forms part of the fair value gains or losses and is recognised in statement of income for financial liabilities that are not part of a designated hedging relationship.

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in statement of income.

When the Company exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Company accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between:

- the carrying amount of the liability before the modification; and
- the present value of the cash flows after modification should be recognised in statement of income as the modification gain or loss within other gains and losses.

**Revenue recognition**

The Company recognises revenue from the sale of goods. Revenue is measured based on the consideration to which the Company expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Company recognises revenue when it transfers control of the goods to a customer. For sale of goods, revenue is recognized at the point of delivery to the customer. A receivable is recognized at this point of delivery to customers. A receivable is recognized at this point in time as only the passage of time is required before payment is due.

No refund liability is raised as the Company's historical experience indicates that the level of returns are insignificant.

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**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Leases**

The details of accounting policies under both IAS 17 and IFRS 16 are presented separately below.

***Policies applicable prior to January 1, 2019***

**The Company as lessee**

Assets held under finance leases are recognised as assets of the Company at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in statement of income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Company's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Rentals payable under operating leases are charged to statement of income on a straight-line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

***Policies applicable from January 1, 2019***

**The Company as lessee**

The Company assesses whether contract is or contains a lease, at inception of the contract. The Company recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Company recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line item in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using effective interest method) and by reducing the carrying amount to reflect the lease payments made.

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**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Leases (continued)**

*Policies applicable from January 1, 2019 (continued)*

The Company as lessee (continued)

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Company did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Company incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

The right-of-use assets are depreciated over the shorter period of lease term or useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use of asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the statement of financial position.

The Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Impairment of tangible and intangible assets' policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in profit or loss.

The Company has applied the following practical expedients:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- accounting for operating leases in accordance with IAS 17 as short-term leases with a remaining lease term of less than 12 months as at January 1, 2019;
- exclusion of initial direct costs for the measurement of right-of-use assets at the date of initial application;
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease; and
- the election, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

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**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Employee benefits**

*Short-term employee benefits*

Liabilities for wages and salaries, including accumulating leaves, air fare, child education allowance, furniture allowance that are expected to be settled wholly within twelve months after the end of the period in which the employees render the related service are recognized in respect of employees' services up to the end of the reporting period and are measured at amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the statement of financial position.

*Other long-term employee benefits*

Other long-term employee benefit obligations (including continuous service awards, long service leave and annual leave which are not expected to be settled wholly within twelve months after the end of the period in which the employees render the related service) are measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method and recorded as non-current liabilities. Consideration is given to expect future wage and salary levels, experience of employee departures, historic attrition rates and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of high-quality corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. Re-measurements as a result of experience adjustments and changes in actuarial assumptions are recognized in the statement of income.

The obligations are presented as current liabilities in the statement of financial position if the Company does not have an unconditional right to defer settlement for at least 12 months after the reporting period, regardless of when the actual settlement is expected to occur.

*Post-employment obligation*

The Company operates various post-employment schemes, including both defined benefit and defined contribution plans and post-employment medical for eligible employees and their dependents.

*Defined contribution plans*

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions in to a separate entity and will have no legal or constructive obligation to pay amounts. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available. Eligible employees who participate in defined contribution plan may also invest a portion of their earnings in various program funds.

The Company operates a saving plan to encourage its Saudi employees to make savings in a manner that will warrant an increase in their income and contribute to securing their future according to the established plan. The saving contributions from the participants are deposited in a separate bank account other than the Company's normal operating bank accounts (but not in any separate legal entity). This cash is a restricted balance and for purpose of presentation in the financial statements, it is offset with the related liability under the savings plan and net liability to employees is reported under the employee benefits liability.

*Defined benefits plans*

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company primarily has end of service benefits and post-retirement medical which qualify as defined benefit plans.

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**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Employee benefits (continued)**

*Post-employment obligation (continued)*

*Defined benefits plans (continued)*

(a) End of service pension awards

The net pension asset or liability recognized in the statement of financial position in respect of defined benefit post-employment plans is the present value of the projected defined benefit obligation (DBO) less fair value of plan assets, if any, at the reporting date. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used. The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the statement of income.

Re-measurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the period in which they occur in other comprehensive income (OCI).

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognized immediately in the statement of income as past service costs.

Valuations of the obligations under these plans are carried out by independent actuaries based on the projected unit credit method. The costs relating to such plans primarily consist of the present value of the benefits attributed on an equal basis to each year of service and the interest on this obligation in respect of employee service in previous years.

Current and past service costs related to post-employment benefits are recognized immediately in the statement of income while unwinding of the liability at discount rates used are recorded as financial cost. Any changes in net liability due to actuarial valuations and changes in assumptions are taken as re-measurement in other comprehensive income.

The actuarial valuation process takes into account the provisions of the Saudi Arabian Labor and Workmen law as well as Company policy.

b) Post-retirement medical care

The Company provides post-retirement healthcare to its eligible retirees and their dependents. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit plans. Re-measurement gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. These obligations are valued annually by independent qualified actuaries.



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**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Employee benefits (continued)**

*Post-employment obligation (continued)*

*Defined benefits plans (continued)*

b) Post-retirement medical care (continued)

The accounting for these plans requires that management makes certain assumptions relating to discount rates used to measure future obligations and expenses, salary scale inflation rates, health care cost trend rates, mortality and other assumptions. These estimates are highly susceptible to change from period to period based on the performance of plan assets (if any), actuarial valuations, market conditions and contracted benefit changes. The selection of assumptions is based on historical trends, future estimates based on economic and market conditions at the time of valuation. However, actual results may differ substantially from the estimates that were based on the critical assumptions used.

*Termination benefits (early retirement program)*

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits at the earlier of the following dates: (a) when the Company can no longer withdraw the offer of those benefits; and (b) when the Company recognizes costs for a restructuring that involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than twelve months after the end of the reporting period are discounted to present value.

*Employee Home Ownership Program (HOP)*

The Company has established employee's home ownership programs (HOP) that offer eligible employees the opportunity to buy residential units constructed by the Company through a series of payments over a particular number of years. Ownership of the houses is transferred upon completion of full payment.

Under the HOP, the amounts paid by the employee towards the house are repayable back to the employee in case the employee discontinues employment and the house is returned back to the Company. The requirements relating to financial instruments do not apply to such accumulated balance as paragraph 2(c) of IAS 39 specifically excludes employers' rights and obligations under employee benefit plans. Repayment of such amount in the event that an employee leaves before entitlement to the house has vested represents a potential employer's obligation to which IAS 19 applies. IAS 19 requires measuring such an obligation on an expected outcome basis.

*Employee Home Loan Program (HLP)*

The Company provides interest free home loan to its eligible employees for one time only during the period of the service for purposes related to purchase or building of a house or apartment. The loan is repaid in monthly instalment by deduction of employee's housing allowances.

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**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Employee benefits (continued)**

*Post-employment obligation (continued)*

*Employee Home Loan Program (HLP) (Continued)*

HLP is recognized as a non-current financial asset at fair value and measured at amortized cost using the effective interest rate method. The difference between the fair value and the actual amount of cash given to the employee is recognized as a "non-current prepaid employee benefits" and is amortized as an expense equally over the period of service. The same amount is also amortized as interest income against the receivable from employees.

*Executive vehicles*

The Company grants eligible employees a company owned vehicle up to a specific value. The benefit is provided to employees against their services for a fixed period of years. The employee also has an option to opt for a higher value vehicle and the difference in value is contributed by the employee. The vehicle shall remain the property of the Company. The Company's Human Resource policy governs the arrangement with the employee and may define conditions under which such vehicle can be transferred to employee.

**Zakat**

The Company is subject to the regulations of the General Authority of Zakat and Income Tax ("GAZT") in the Kingdom of Saudi Arabia. Zakat is charged to the statement of comprehensive income and other comprehensive income on an accruals basis. The Zakat charge is computed on higher of the Zakat base or adjusted income and charged to the statement of income. Any difference in the estimate is recorded when the final assessment is approved, at which time the provision is cleared.

**Foreign currencies**

At each reporting date, monetary assets and liabilities that are denominated in currencies other than the entity's functional currency (foreign currencies) are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Differences arising on settlement or translation of monetary items are recognized in the statement of income.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

To the extent that variable rate borrowings are used to finance a qualifying asset and are hedged in an effective cash flow hedge of interest rate risk, the effective portion of the derivative is recognised in other comprehensive income and reclassified to profit or loss when the qualifying asset impacts profit or loss. To the extent that fixed rate borrowings are used to finance a qualifying asset and are hedged in an effective fair value hedge of interest rate risk, the capitalised borrowing costs reflect the hedged interest rate.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in statement of income in the period in which they are incurred.

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**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Earnings per share**

The Company presents basic, and diluted (if any), earnings per shares (EPS) data for its ordinary shares. Basic EPS is calculated by dividing net income for the year of the Company by the weighted average number of ordinary shares outstanding during the year, adjusted for own shares held, if any. Diluted EPS, if any, is determined by adjusting the net income for the year and the weighted average number of ordinary shares outstanding during the year, adjusted for the own shares held, for the effects of all dilutive potential ordinary shares.

**Dividend**

Dividends are recorded in the financial statement in the period in which these are approved.

**Cash and cash equivalents**

Cash and cash equivalents include bank balances, short-term deposits, demand deposits and highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purpose of the statement of cash flow, the cash and cash equivalents comprise deposits held with banks all of which are available for use by the Company unless otherwise stated and have maturities of three months or less.

**6. PROPERTY, PLANT AND EQUIPMENT**

	Land and buildings	Plant and equipment	Furniture and fixture	Vehicles	Others	Assets under construction	Total
<b>Cost</b>							
January 1, 2019	267,539	9,542,148	8,883	17,342	13,238	878,101	10,727,251
Additions	762	585,665	-	-	-	135,657	722,084
Transfers	1,791	607,796	-	-	-	(609,587)	-
Transfer to intangible assets	-	-	-	-	-	(727)	(727)
Transfer to right-of-use assets	-	-	-	-	(13,238)	-	(13,238)
Disposals	-	(186,097)	-	-	-	-	(186,097)
<b>December 31, 2019</b>	<b>270,092</b>	<b>10,549,512</b>	<b>8,883</b>	<b>17,342</b>	<b>-</b>	<b>403,444</b>	<b>11,249,273</b>
<b>Accumulated depreciation</b>							
January 1, 2019	153,934	4,822,338	5,023	7,509	4,369	-	4,993,173
Charge for the year	6,673	538,059	633	2,473	-	-	547,838
Transfer to right-of-use assets	-	-	-	-	(4,369)	-	(4,369)
Disposals	-	(185,359)	-	-	-	-	(185,359)
<b>December 31, 2019</b>	<b>160,607</b>	<b>5,175,038</b>	<b>5,656</b>	<b>9,982</b>	<b>-</b>	<b>-</b>	<b>5,351,283</b>
<b>Net book value</b>							
<b>December 31, 2019</b>	<b>109,485</b>	<b>5,374,474</b>	<b>3,227</b>	<b>7,360</b>	<b>-</b>	<b>403,444</b>	<b>5,897,990</b>

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**6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

	Land and buildings	Plant and equipment	Furniture and fixture	Vehicles	Others	Assets under construction	Total
<b>Cost</b>							
January 1, 2018	247,485	8,327,686	4,891	10,032	13,238	1,595,303	10,198,635
Additions	1,862	148,969	1,767	9,492	-	408,576	570,666
Transfers	18,192	1,101,819	2,225	292	-	(1,122,528)	-
Transfer to intangible assets	-	-	-	-	-	(3,250)	(3,250)
Transfer to asset held for sale	-	(543)	-	-	-	-	(543)
Disposals	-	(35,783)	-	(2,474)	-	-	(38,257)
December 31, 2018	267,539	9,542,148	8,883	17,342	13,238	878,101	10,727,251
<b>Accumulated depreciation</b>							
January 1, 2018	147,275	4,351,334	4,458	9,247	3,482	-	4,515,796
Charge for the year	6,659	504,849	565	736	887	-	513,696
Transfer to asset held for sale	-	(302)	-	-	-	-	(302)
Disposals	-	(33,543)	-	(2,474)	-	-	(36,017)
December 31, 2018	153,934	4,822,338	5,023	7,509	4,369	-	4,993,173
<b>Net book value</b>							
December 31, 2018	113,605	4,719,810	3,860	9,833	8,869	878,101	5,734,078

	December 31, 2019	December 31, 2018
<b>Allocation of depreciation charge</b>		
Total depreciation	547,838	513,696
Charged from (to) affiliates	558	(7,131)
	<b>548,396</b>	<b>506,565</b>
<b>Allocation</b>		
Cost of sales (note 22)	537,750	498,694
Selling and distribution expenses (note 23)	893	-
General and administrative expenses (note 24)	9,753	7,871
	<b>548,396</b>	<b>506,565</b>

**Land and building**

The land on which plant and related facilities of certain subsidiaries in the Kingdom of Saudi Arabia are constructed are leased from the Royal Commission for Jubail and Yanbu at nominal rent for 30 years, which commenced on 1 Shawwal 1411H (corresponding to April 15, 1991). The lease is renewable by mutual agreements of both parties.

**Assets under construction**

Construction work in progress related to various capital projects. The related capital commitments are reported in note 33.

**Finance lease**

As at January 1, 2019, the mandatory adoption date of IFRS 16 "Leases", all finance lease assets for gas supply pipelines contracts having total cost and accumulated depreciation of SR 13.2 million and SR 4.3 million respectively have been transferred to right-of-use assets.

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**7. INTANGIBLE ASSETS**

	Software and licenses	Intangible assets under development	December 31, 2019
<b>Cost</b>			
January 1	48,834	11,853	60,687
Additions	7,203	11,090	18,293
Transfer from property, plant and equipment	727	-	727
December 31	56,764	22,943	79,707
<b>Amortisation</b>			
January 1	8,838	-	8,838
Charge for the year	7,168	-	7,168
December 31	16,006	-	16,006
<b>Net book value</b>	<b>40,758</b>	<b>22,943</b>	<b>63,701</b>

	Software and licenses	Intangible assets under development	December 31, 2018
<b>Cost</b>			
January 1	41,277	14,931	56,208
Additions	363	3,367	3,730
Transfer from property, plant and equipment	3,250	-	3,250
Transfers	3,944	(3,944)	-
Adjustments	-	(2,501)	(2,501)
December 31	48,834	11,853	60,687
<b>Amortisation</b>			
January 1	2,870	-	2,870
Charge for the year	5,968	-	5,968
December 31	8,838	-	8,838
<b>Net book value</b>	<b>39,996</b>	<b>11,853</b>	<b>51,849</b>

	December 31, 2019	December 31, 2018
<b>Allocation of amortisation charge</b>		
Total amortisation	7,168	5,968
Charged to affiliates	(2,313)	-
	<b>4,855</b>	<b>5,968</b>
<b>Allocation</b>		
Cost of sales (note 22)	1,093	702
General and administrative expenses (note 24)	3,762	5,266
	<b>4,855</b>	<b>5,968</b>

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**8. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES**

**Company as a lessee**

The company leases various housing units, equipment, vehicles, land and other assets. Rental contracts are typically made for fixed periods from 1 to 5 years except for the land that is negotiated for 30 years and may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but lease assets may not be used as security for borrowing purposes.

**Right-of-use assets**

	Land	Housing	Plant and equipment	Vehicles	Pipelines	Others	Total
<b>Cost</b>							
January 1, 2019	36,868	74,274	-	12,623	-	430	124,195
Transfers from property, plant and equipment	-	-	-	-	13,238	-	13,238
Additions	-	9,750	881	-	-	-	10,631
<b>December 31, 2019</b>	<b>36,868</b>	<b>84,024</b>	<b>881</b>	<b>12,623</b>	<b>13,238</b>	<b>430</b>	<b>148,064</b>
<b>Accumulated Depreciation</b>							
January 1, 2019	-	-	-	-	-	-	-
Transfers from property, plant and equipment	-	-	-	-	4,369	-	4,369
Charge for the year	1,137	13,047	550	4,144	894	142	19,914
<b>December 31, 2019</b>	<b>1,137</b>	<b>13,047</b>	<b>550</b>	<b>4,144</b>	<b>5,263</b>	<b>142</b>	<b>24,283</b>
<b>Net book value</b>							
<b>December 31, 2019</b>	<b>35,731</b>	<b>70,977</b>	<b>331</b>	<b>8,479</b>	<b>7,975</b>	<b>288</b>	<b>123,781</b>

**Allocation of depreciation charge**

	December 31, 2019
Total depreciation	19,914
Charged to affiliates	(3,052)
	<b>16,862</b>
Allocation	
Cost of sales (note 22)	2,482
Selling and distribution expenses (note 23)	135
General and administrative expenses (note 24)	14,245
	<b>16,862</b>

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**8. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (CONTINUED)**

**Company as a lessee (continued)**

*Lease liabilities*

	<b>December 31, 2019</b>
January 1, 2019	121,455
Additions	10,631
Accretion of interest	7,409
Payments	<u>(19,968)</u>
December 31, 2019	<u>119,527</u>
Current	13,878
Non-current	<u>105,649</u>
	<u>119,527</u>

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Maturity analysis		
Not later than 1 year	13,878	452
Later than 1 year and not later than 5 years	49,667	2,121
Later than 5 years	<u>55,982</u>	<u>8,070</u>
	<u>119,527</u>	<u>10,643</u>

*Amounts recognized in statement of income*

	<b>December 31, 2019</b>
Depreciation charge on right-of-use assets	16,862
Interest expense on lease liabilities	7,409
Expense relating to short-term leases (note 24)	<u>2,703</u>
	<u>26,974</u>

**9. INVESTMENT IN AN ASSOCIATE**

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
National Chemical Fertilizer Company (Ibn Al Baytar)	<u>744,176</u>	<u>692,641</u>
Ownership percentage	<u>50%</u>	<u>50%</u>

Ibn Al Baytar is incorporated in Kingdom of Saudi Arabia. Ibn Al Baytar is engaged in the production of ammonia, urea, phosphate and compound fertilizers, and various types of chemical fertilizers and marketing of its production inside and outside the Kingdom.

Investment in associate is accounted for using the equity method in these financial statements as set out in the accounting policies in note 5.

The Company does not exercise control over the associate.

During the year the Company received dividends amounting to SR 75 million (2018: SR 100 million). Dividends from associates represent the actual amounts attributable and hence received by the Company.

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**9. INVESTMENT IN AN ASSOCIATE (CONTINUED)**

Summarized financial information of Ibn Al Baytar based on latest available management accounts as of December 31, 2019 is set out below:

	December 31, 2019	December 31, 2018
Current assets	494,958	640,883
Non-current assets	1,211,921	990,029
Current liabilities	189,034	244,574
Non-current liabilities	29,493	1,055
Equity attributable to owners of the Company	1,488,352	1,385,283
Revenue	978,306	1,039,525
Net income for the year	253,069	231,797
Other comprehensive income for the year	-	-
Total comprehensive income	253,069	231,797

Reconciliation of the above summarized financial information to the carrying amount of the interest in Ibn Al Baytar recognized in the financial statements is presented below:

	December 31, 2019	December 31, 2018
Net assets of Ibn Al Baytar	1,488,352	1,385,283
Ownership percentage	50%	50%
Carrying amount of the Company's interest in Ibn Al Baytar	744,176	692,641

**10. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME**

	Local- quoted	Local- unquoted	December 31, 2019	December 31, 2018
Cost				
December 31	94,905	77,363	172,268	172,268
<b>Fair value reserve of financial assets at fair value through other comprehensive</b>				
January 1	510,589	(77,363)	433,226	386,153
Net (loss) gain during the year	(74,975)	-	(74,975)	47,073
December 31	435,614	(77,363)	358,251	433,226
<b>Carrying amounts</b>	<b>530,519</b>	<b>-</b>	<b>530,519</b>	<b>605,494</b>

Quoted investments represents 1.69% (2018: 1.69%) shares held in Yansab, a listed entity in Tadawul.

Unquoted investments represents 3.87% (2018: 3.87%) shares held in Ibn Rushd, an affiliated company of SABIC.



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**11. OTHER NON-CURRENT ASSETS**

	December 31, 2019	December 31, 2018
Employee advances	104,632	129,975
Others	29,745	40,449
	<b>134,377</b>	<b>170,424</b>

**12. FINANCIAL ASSETS AND FINANCIAL LIABILITIES**

	Financial assets		
	Total	At amortised cost	At fair value through other comprehensive income
<b>December 31, 2019</b>			
Cash and cash equivalents	753,743	753,743	-
Short term investments	150,000	150,000	-
Financial assets at fair value through other comprehensive income	530,519	-	530,519
Trade and other receivables	630,421	630,421	-
Other financial assets	41,865	41,865	-
	<b>2,106,548</b>	<b>1,576,029</b>	<b>530,519</b>
<b>December 31, 2018</b>			
Cash and cash equivalents	692,694	692,694	-
Short term investments	350,000	350,000	-
Financial assets at fair value through other comprehensive income	605,494	-	605,494
Trade and other receivables	598,204	598,204	-
Other financial assets	65,185	65,185	-
	<b>2,311,577</b>	<b>1,706,083</b>	<b>605,494</b>
	Financial liabilities		
	Total	At amortised cost	At fair value through income statement
<b>December 31, 2019</b>			
Trade payables	186,703	186,703	-
Lease liabilities	119,527	119,527	-
Dividends payable	137,412	137,412	-
Other financial liabilities	68,296	68,296	-
	<b>511,938</b>	<b>511,938</b>	<b>-</b>
<b>December 31, 2018</b>			
Trade payables	241,023	241,023	-
Lease liabilities	10,643	10,643	-
Dividends payable	176,007	176,007	-
Other financial liabilities	101,407	101,407	-
	<b>529,080</b>	<b>529,080</b>	<b>-</b>

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**13. INVENTORIES**

	December 31, 2019	December 31, 2018
Finished goods	43,552	43,400
Raw materials	2,697	3,214
Spare parts	421,847	455,171
Goods in transit	6,463	10,926
	474,559	512,711
Less: allowance for slow moving and obsolete inventories	(40,540)	(27,046)
	434,019	485,665

Movements in the allowance for slow moving and obsolete inventories were as follows:

	December 31, 2019	December 31, 2018
January 1	27,046	24,430
Charge for the year	13,494	2,616
December 31	40,540	27,046

**14. TRADE AND OTHER RECEIVABLES**

	December 31, 2019	December 31, 2018
Due from related parties (note 30)		
- Trade	597,585	555,810
- Other	31,125	42,028
	628,710	597,838
Other trade receivables	1,711	366
	630,421	598,204

Trade and other receivables are non-interest bearing and are generally on 30 - 60 days terms. As of December 31, the ageing analysis of trade and other receivables is as follows:

	Past due but not impaired						
	Total	Neither past due nor impaired	Less than 60 days	61-90 days	91-180 days	181-365 days	More than one year
December 31, 2019	630,421	629,448	973	-	-	-	-
December 31, 2018	598,204	597,911	44	55	64	87	43

The Company measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The Company has not recognized any allowances as impact of ECL was immaterial as at reporting date.

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**15. PREPAYMENTS AND OTHER CURRENT ASSETS**

	December 31, 2019	December 31, 2018
Advanced to related parties	105,222	34,190
Prepaid expenses	50,300	60,809
Others	44,293	28,178
	<u>199,815</u>	<u>123,177</u>

**16. CASH AND CASH EQUIVALENTS**

	December 31, 2019	December 31, 2018
Bank balances	141,223	237,694
Time deposits	612,520	455,000
	<u>753,743</u>	<u>692,694</u>

Bank balances include restricted cash maintained by the Company amounting to SR 137 million (2018: SR 176 million) for dividend payable and this balance is not available for general use of the Company.

The time deposits represent Islamic Murabaha deposits with banks of original maturities of less than three months. These carry interest ranging from 1.0% to 2.5 % (2018: 1.2% to 3.35 %) per annum.

The table below provides details of amounts placed in various currencies.

	December 31, 2019	December 31, 2018
Saudi Riyals	308,770	395,000
US Dollars	303,750	60,000
	<u>612,520</u>	<u>455,000</u>

**17. SHORT TERM INVESTMENTS**

Short term investments comprise Islamic Murabaha deposits with banks in Saudi Riyals having original maturities of more than three months and less than one year. These carry interest ranging from 2.4% to 2.7% (2018: 2.8% to 3.4%) per annum.

**18. SHARE CAPITAL**

The share capital amounting to SR 4,166,666,660 is divided into 416,666,666 shares of SR 10 each as of December 31, 2019 and 2018.

**19. EMPLOYEES' BENEFITS OBLIGATIONS**

	December 31, 2019	December 31, 2018
Defined benefit obligations (DBO)	840,375	699,005
Others	38,842	33,958
	<u>879,217</u>	<u>732,963</u>

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**19. EMPLOYEES' BENEFITS OBLIGATIONS (CONTINUED)**

**Defined benefit obligations (DBO)**

In accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its defined benefit obligations at December 31, 2019 and December 31, 2018 in respect of employees' end-of-service benefits payable under relevant local regulations and contractual arrangements.

*The principal actuarial assumptions used at the reporting date were as follows:*

	December 31, 2019	December 31, 2018
Discount rate	3.10%	4.40%
Expected rate of salary increase		
- Executive	4.50%	4.50%
- Non-Executive	6.00%	6.00%
	RP 2000 mortality table projected to 2019	RP 2000 mortality table projected to 2018
Mortality rates		
- Rates of employee turnover (Saudi and Non Saudi)	3-20%	3-20%

*Amounts recognized in statement of income in respect of these defined benefit plans are as follows:*

	December 31, 2019	December 31, 2018
Current service cost	51,617	49,068
Interest cost	29,375	22,684
Settlement loss	-	11,388
	80,992	83,140

*Amounts recognized in other comprehensive income are as follows:*

	December 31, 2019	December 31, 2018
Actuarial losses (gains) due to change in:		
- Demographic assumptions	194	(89)
- Financial assumptions	63,492	(77,297)
- Experience adjustment	(4,984)	(15,861)
	58,702	(93,247)

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**19. EMPLOYEES' BENEFITS OBLIGATIONS (CONTINUED)**

*Movements in the defined benefit obligation:*

	December 31, 2019	December 31, 2018
Defined benefit obligation at beginning of the year	699,005	662,964
Charged to statement of income and other comprehensive income	80,992	83,140
Payments during the year	(28,719)	(135,205)
Re-measurement losses (gains) on employees' end-of-service benefits	58,702	(93,247)
Transfer of benefit obligations from a related party	30,395	181,353
	<b>840,375</b>	<b>699,005</b>

*Sensitivity analysis*

The sensitivity analysis below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant:

	December 31, 2019	December 31, 2018
<b>Increase</b>		
Discount rate (+25 bps)	(19,489)	(14,741)
Salary (+25 bps)	18,088	14,140
Health care costs (+25 bps)	1,707	1,282
<b>Decrease</b>		
Discount rate (-25 bps)	20,322	15,334
Salary (-25 bps)	(17,462)	(13,671)
Health care costs (-25 bps)	(1,631)	(1,229)

In presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period.

*The employee benefit plans exposes the Company to the following risks:*

*Mortality risk*

The risk that the actual mortality rate is different. The effect depends on the beneficiaries' service / age distribution and the benefit.

*Final salary risk*

The risk that the final salary at the time of cessation of service is greater than what is assumed. Since the benefit is calculated on the final salary, the benefit amount increases similarly.

*Discount risk*

A decrease in the discount rate will increase the plan liability.

*Withdrawal risk*

Benefits are paid when an employee leaves employment either through resignation or retirement. The rate of withdrawal therefore affects the timing of the payment.

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**19. EMPLOYEES' BENEFITS OBLIGATIONS (CONTINUED)**

*Undiscounted expected total benefit payments*

	December 31, 2019	December 31, 2018
Within one year	61,072	52,963
1-2 years	62,741	56,852
2-3 years	71,090	59,280
3-4 years	64,970	66,676
4-5 years	66,561	63,843
5 years and more	338,238	330,091
	<b>664,672</b>	<b>629,705</b>

The weighted average duration of the defined benefit obligation is 9.2 years (2018: 8.4 years).

**20. TRADE PAYABLES**

	December 31, 2019	December 31, 2018
Amounts due to related parties (note 30)	137,668	174,682
Trade payable	49,035	66,341
	<b>186,703</b>	<b>241,023</b>

The company's exposure to currency and liquidity risk related to trade payables is disclosed in note 31 to these financial statements.

**21. ACCRUED AND OTHER CURRENT LIABILITIES**

	December 31, 2019	December 31, 2018
Accrued liabilities	268,784	308,327
Employees related liabilities	34,930	60,669
Others	384	538
	<b>304,098</b>	<b>369,534</b>

**22. COST OF SALES**

	December 31, 2019	December 31, 2018
Raw materials and consumables	817,232	875,030
Utilities	566,656	630,305
Employee costs	278,194	351,537
Depreciation of property, plant and equipment (note 6)	537,750	498,694
Amortization of intangible assets (note 7)	1,093	702
Depreciation of right-to-use assets (note 8)	2,482	-
Change in finished products	(771,818)	(788,101)
Others	161,968	160,423
	<b>1,593,557</b>	<b>1,728,590</b>

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**23. SELLING AND DISTRIBUTION EXPENSES**

	December 31, 2019	December 31, 2018
Freight and storage	84,504	134,895
Depreciation of property, plant and equipment (note 6)	893	-
Depreciation of right-to-use assets (note 8)	135	-
Others	3,903	76
	<b>89,435</b>	<b>134,971</b>

**24. GENERAL AND ADMINISTRATION EXPENSES**

	December 31, 2019	December 31, 2018
Employees' costs	84,702	119,023
Technology and innovation cost	48,973	57,698
Shared services charges	39,209	49,552
Depreciation of property, plant and equipment (note 6)	9,753	7,871
Amortization of intangible assets (note 7)	3,762	5,266
Depreciation of right-to-use assets (note 8)	14,245	-
Amortization of site development cost	7,868	7,165
Maintenance and manpower supply	9,876	8,956
Board members allowances	3,079	3,526
Leases (note 8)	2,703	4,971
Others	52,150	36,044
	<b>276,320</b>	<b>300,072</b>

**25. OTHER EXPENSES**

	December 31, 2019	December 31, 2018
Donation	17,000	32,052
Others	1,544	10,069
	<b>18,544</b>	<b>42,121</b>

**26. OTHER INCOME**

	December 31, 2019	December 31, 2018
Dividend income	35,589	33,217
Interest on deposits and short term investments	19,748	7,497
Others	9,928	2,893
	<b>65,265</b>	<b>43,607</b>

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**27. ZAKAT**

The principal elements of the Zakat base are as follows:

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Non-current assets	7,494,544	7,254,486
Non-current liabilities	984,866	743,154
Opening shareholders' equity	7,906,049	6,860,625
Income before Zakat	1,474,821	1,790,998
Dividends	1,250,000	833,334

Some of these amounts have been adjusted in arriving at the Zakat charge for the year. Further, unclaimed dividends are not considered for calculating Zakat liability of the Company.

The movement in the Zakat provision is as follows:

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
January 1	68,248	21,674
Provision for the year	37,902	52,560
Reversal during the year	(37,000)	-
Payments during the year	(29,856)	(5,986)
December 31	39,294	68,248

The charge for the year for Zakat is as follows:

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Provision for the year	37,902	52,560
Reversal during the year	(37,000)	-
December 31	902	52,560

The Company submitted its Zakat returns up to the year 2018 and obtained the required Zakat certificates and official receipts. Zakat assessments have been finalized and settled with the GAZT up to year 2017. Zakat assessment for the year 2018 is still under review by the GAZT.

During the year, the Company has received the Zakat assessments for the years 2016 and 2017 with additional Zakat liability amounting to SR 43.58 million. The Company filed an objection with the GAZT against these assessments. GAZT approved the objections and issued revised Zakat assessments for the years 2016 and 2017 with Zakat liability amounting to SR 5.9 million and the same was paid by the Company during the year. The excess provision amounting to SR 37 million was reversed during the year.



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**28. EARNINGS PER SHARE**

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Operating profit for the year	<b>1,328,270</b>	1,696,203
Net income attributable to equity holders of the Company	<b>1,473,919</b>	1,738,438
Weighted average number of ordinary shares (000's)	<b>416,667</b>	416,667
Basic and diluted earnings per share from operating profit attributable to equity holders of the Company (SR)	<b>3.19</b>	4.07
Basic and diluted earnings per share from net income attributable to equity holders of the Company (SR)	<b>3.54</b>	4.17

There has been no item of dilution affecting the weighted average number of ordinary shares.

**29. FAIR VALUE MEASUREMENT**

The Company measures financial instruments such as financial assets at fair value through other comprehensive income at each statement of financial position date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability or;
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset's highest and best use or by selling it to another market participant that would utilize the asset in its highest and best use.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and.
- Level 3 - fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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**29. FAIR VALUE MEASUREMENT (CONTINUED)**

Set out below is a comparison, by class, of the carrying amounts and fair value of the Company's financial instruments, other than those with carrying amounts that are reasonable approximations of fair values:

December 31, 2019					
	Carrying value	Fair value	Level 1	Level 2	Level 3
<b>Assets measured at fair value</b>					
Financial assets at fair value through other comprehensive income	530,519	530,519	530,519	-	-
	530,519	530,519	530,519	-	-
December 31, 2018					
	Carrying value	Fair value	Level 1	Level 2	Level 3
<b>Assets measured at fair value</b>					
Financial assets at fair value through other comprehensive income	605,494	605,494	605,494	-	-
	605,494	605,494	605,494	-	-

The management assessed the fair values of cash and cash equivalents, short term investments, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

Fair value of financial assets at fair value through other comprehensive income is derived from quoted market prices in active markets.

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**30. RELATED PARTIES TRANSACTIONS AND BALANCES**

Related parties represent parent company, associated companies, key personnel of the Company and entities controlled, jointly controlled or significantly influenced by such parties. Following is the list of the major related parties of the Company:

Name of related party	Nature of relationship
SABIC	Shareholder (parent company)
Ibn Al Baytar	Associate

The parent company and ultimate controlling party of SAFCO are SABIC and the Government of the Kingdom of Saudi Arabia respectively.

The following table provides the total amount of transactions that have been entered into with related parties during the year ended December 31, 2019 and 2018, as well as balances with related parties as at December 31, 2019 and 2018:

	Sales to related parties	Purchases from related parties	Advance payments	Technology and innovation charged	Shared services charged	Management and services charges to an associate	Services	Amounts owed by related parties (note 14)	Amounts owed to related parties (note 20)
<b>2019</b>									
SABIC	3,266,158	832,289	105,222	48,973	39,209	-	128,437	561,843	93,525
Ibn Al Baytar	12,399	15,851	-	-	-	124,955	89,921	35,742	12,712
Al Bayroni	9,025	1,094	-	-	-	187,070	60,729	29,538	17,114
SABIC affiliates	-	5,084	-	-	-	-	53,621	1,587	14,317
<b>2018</b>									
SABIC	3,846,545	624,956	34,190	57,698	49,552	-	208,943	506,117	64,276
Ibn Al Baytar	9,817	14,076	-	-	-	139,132	107,318	44,576	58,485
Al Bayroni	3,474	386	3,374	-	-	110,463	74,792	46,741	51,306
SABIC affiliates	-	502	-	-	-	-	80,486	404	615

- The Company 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.

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**30. RELATED PARTIES TRANSACTIONS AND BALANCES (CONTINUED)**

- The Company's annual contribution to SABIC for technology and innovation is 1.5 % of total sales which is charged currently to the statement of income and other comprehensive income.
- Substantially, all of the Company's sales are made to SABIC under marketing and off take agreements.
- 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.
- The Company had entered into an Operations and Maintenance Agreement with an affiliate of SABIC in order to integrate the administrative, operational and maintenance activities of both companies. SAFCO will supervise and manage the activities of the affiliate in accordance with agreement terms. This agreement has no impact on the legal structure of either company. The agreement was effective from April 1, 2018.

Prices and terms of payments for the above transactions are approved by the management.

The sales to and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances of December 31, 2019 and 2018 are unsecured, interest free and settled in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended December 31, 2019 and 2018, the Company has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

**Key management personnel compensation**

In addition to their remunerations to key management personnel, the Company also provides non-cash benefits to directors and executive officers, and contributes to a post-employment defined benefit plan on their behalf. Remuneration for the year ended December 31, 2019 and 2018 of key management can be detailed as follows:

	<b>For the year ended December 31, 2019</b>	<b>For the year ended December 31, 2018</b>
Short-term employee benefits	7,886	7,072
Post-employment benefits	2,460	1,162
Other long-term benefits	-	665
	<b>10,346</b>	<b>8,899</b>

**31. FINANCIAL RISK MANAGEMENT**

**Overview**

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

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**31. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**Risk management framework**

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company's Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Company Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee. Financial instruments principally include cash and cash equivalents, short term investments, trade and other receivables, investments in securities, advances, trade payables, lease liabilities, accrued expenses, and other liabilities.

**Credit risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investment securities. The Company is not significantly exposed to credit risk. Cash and cash equivalents are generally placed with banks with sound credit ratings and, in general, most of the Company's sales are made to SABIC, which is a related party and has a strong market reputation.

**Credit risk quality \***

December 31, 2019								Carrying value
External Rating	AA+	AA	AA-	A	A+	A-	Others	
Cash and cash equivalents	-	-	205,000	-	-	137,526	411,217	753,743
Short term investments	-	-	-	-	-	10,000	140,000	150,000
Trade and other receivables	-	-	-	-	-	-	630,421	630,421
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	530,519	530,519
	-	-	205,000	-	-	147,526	1,712,157	2,064,683

December 31, 2018								Carrying value
External Rating	AA+	AA	AA-	A	A+	A-	Others	
Cash and cash equivalents	-	-	-	-	-	427,694	265,000	692,694
Short term investments	-	-	-	-	-	350,000	-	350,000
Trade and other receivables	-	-	-	-	-	-	598,204	598,204
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	605,494	605,494
	-	-	-	-	-	777,694	1,468,698	2,246,392

\* Source: Fitch ratings

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**31. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company ensures that it has sufficient cash on demand to meet expected operational expenses; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Company's performance to developments affecting a particular industry.

In order to avoid excessive concentrations of risk, the Company's policies and procedures include specific guidelines to focus on the maintenance of a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments.

December 31, 2019				
	Within 1 year	Between 1 to 5 years	More than 5 years	Total
<b>Interest bearing</b>				
Lease liabilities	13,878	46,647	59,002	119,527
	13,878	46,647	59,002	119,527
<b>Non-interest bearing</b>				
Trade payables	186,703	-	-	186,703
Dividends payable	137,412	-	-	137,412
Other liabilities	20,371	-	-	20,371
	344,486	-	-	344,486
December 31, 2018				
	Within 1 year	Between 1 to 5 years	More than 5 years	Total
<b>Interest bearing</b>				
Lease liabilities	452	2,121	8,070	10,643
	452	2,121	8,070	10,643
<b>Non-interest bearing</b>				
Trade payables	241,023	-	-	241,023
Dividends payable	176,007	-	-	176,007
Other liabilities	24,702	-	-	24,702
	441,732	-	-	441,732

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**31. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. There has been no change to the Company's exposure to market risks or the manner in which these risks are managed and measured.

**Price risk**

The Company's exposure to equity securities price risk arises from investments held by the Company and classified as financial assets at fair value through other comprehensive income. The effect on financial assets at fair value through other comprehensive income due to change in price, with all other variables held consistent, is as follows:

	<b>December 31, 2019</b>	
	<b>Impact on net income</b>	<b>Impact on other components of equity</b>
Change in prices (10%)	-	53,052
	<b>December 31, 2018</b>	
	<b>Impact on net income</b>	<b>Impact on other components of equity</b>
Change in prices (10%)	-	60,549

Other components of equity would increase/decrease as a result of gains/losses on equity securities classified as financial assets at fair value through other comprehensive income.

**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 not significantly subject to fluctuations in foreign exchange rates in the normal course of its business as the Company did not undertake significant transactions during the year in currencies other than Saudi Riyals and US Dollars which are pegged.

**Commodity risk**

The Company is exposed to the impact of market fluctuations of the price of various inputs to production including Natural Gas, Sulfuric Acid and Phosphoric Acid. From time to time, the Company manages some elements of commodity price risk through the use of fixed price contracts.

**Capital management**

Capital is equity attributable to the equity holders of the Company. The primary objective to the Company's capital management is to support its business and maximize shareholder value.

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**31. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**Capital management (continued)**

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Company manages its capital structure and makes adjustments to it, in light of change in economic conditions. The Board of Directors monitors the return on capital, which the Company defines as result from operating activities divided by total shareholders' equity. There were no changes in the Company's approach to capital management during the year. The Board of Directors also monitors the level of dividends to ordinary shareholders and capital management. Neither the Company nor any of its associates are subject to externally imposed capital requirements.

The Company's debt to adjusted capital ratio at the end of the reporting year was as follows:

	<b>December 31, 2019</b>	December 31, 2018
Total liabilities	<b>1,666,251</b>	1,598,418
Less: cash and cash equivalents	<b>(753,743)</b>	(692,694)
Net debt	<b>912,508</b>	905,724
Total equity	<b>7,996,291</b>	7,906,049
Less: amount directly accumulated in equity relating to fair value adjustments	<b>(358,251)</b>	(433,226)
Adjusted capital	<b>7,638,040</b>	7,472,823
Debt to adjusted capital ratio as of December 31	<b>12%</b>	12%

**32. SEGMENT INFORMATION**

All of the Company's operations are related to one operating segment which is fertilizers and sells its products to one customer. Accordingly, segmental analysis by operating and geographic segment has not been presented.

**33. COMMITMENTS AND CONTINGENCIES**

**Capital commitments**

The Board of Directors approved in their meeting held on 6 Rabi Alawwal 1438H (corresponding to December 5, 2016) a reliability project for SAFCO III at the Company's complex in Al-Jubail Industrial City with an estimated procurement and construction cost of SR 461 million. Additional funds were approved by the Board of Directors amounting to SR 51 million in the meeting held on 14 Muharram 1439H (corresponding to October 4, 2017). Total expenditures incurred up till December 31, 2019 amounted to SR 448 million (2018: SR 396.1 million) in relation to this project. The project is mechanically completed in 2019.

Moreover, the Board of Directors approved future capital expenditure in relation to other projects amounting to SR 359.9 million (2018: SR 339.23 million).

**Letter of guarantee**

The Company issued bank guarantees of amounting to SR 5.5 million (2018: SR 1.7 million) in favour of Customs authorities.



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**33. COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**Leases**

As at December 31, 2018, the Company had following outstanding commitments for future minimum lease payments under non-cancellable operating leases:

	December 31, 2018
Within one year	28,733
After one year but not more than five years	68,973
More than five years	110,414
	<u>208,120</u>

The Company has adopted IFRS 16 'Leases' ("IFRS 16") from its mandatory adoption date of January 1, 2019 by applying the modified simplified transition approach as permitted under the specific transition provisions in the standard. The Company has not used the practical expedient of applying IFRS 16 to only those contracts that were previously identified as leases under IAS 17 'Leases'. As a result of this adoption, all leases with tenure of more than a year or which were clearly not immaterial, have been moved to right of use assets and lease liabilities.

**34. APPROPRIATION OF NET INCOME AND DIVIDENDS DISTRIBUTIONS**

On 18 Rabi II 1441H (corresponding to December 15, 2019), the Board of Directors proposed an interim cash dividend amounting to SR 1.5 per share (SR 625 million in total) for the second half of 2019. The proposed dividends are subject to approval and have not been included as liability in these financial statements.

On 14 Ramadan 1440H (corresponding to May 19, 2019), the Board of Directors approved to distribute an interim cash dividend amounting to SR 1.5 per share (SR 625 million in total) for the first half of 2019. Dividends were available for distribution to shareholders on 27 Dhu al-Qa'dah 1440H (corresponding to July 30, 2019).

On 9 Rabi II 1440H (corresponding to December 16, 2018), the Board of Directors proposed an interim cash dividend amounting to SR 1.5 per share (SR 625 million in total) for the second half of 2018. The proposed dividends were approved on 2 Sha'ban 1440H (corresponding to April 7, 2019) in annual general meeting and available for distribution to shareholders on 16 Sha'ban 1440H (corresponding to April 21, 2019).

On 25 Ramadan 1439H (corresponding to June 9, 2018), the Board of Directors approved to distribute an interim cash dividend amounting to SR 1 per share (SR 416.67 million in total) for the first half of 2018. Dividends were available for distribution to shareholders on 26 Dhu al-Qa'dah 1439H (corresponding to August 8, 2018).

Restricted cash amounting to SR 137.million (2018: SR 176 million) is maintained in separate bank accounts for unclaimed dividend and is not available for general use of the Company.

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**35. STATUTORY RESERVE**

In accordance with the Regulations for Companies in Saudi Arabia, the Company has established a statutory reserve by appropriation of 10% of net income until the reserve equaled to 50% of the capital. This reserve is not available for distribution. Following a recent change to the Regulations for Companies, appropriations can cease when the reserve equals 30% instead of 50% of the share capital.

On 1 Rajab 1438H (corresponding to March 29, 2017), the General Assembly approved to modify the Company's by-laws to comply with the new Regulations for Companies in Saudi Arabia and reduce statutory reserve from 50% to 30% by transferring amount from statutory reserve to retained earnings. The legal formalities to modify the Company's by-laws were completed during 2017.

**36. OTHER INFORMATION**

During 2018, the management signed a non-binding Memorandum of Understanding with Saudi Basic Industries Corporation ("SABIC") for the purchase of the share capital of SABIC Agri-Nutrients Investment Company, which will own 50% of the issued share capital of both the National Chemical Fertilizers Company ("Ibn Al Baytar") and Al Jubail Fertilizer Company ("Al Bayroni") and 33.33% of the issued share capital of Gulf Petrochemical Industries Company ("GPIC").

During the year on 28 Rabi II 1441 H (corresponding to December 25, 2019) the management announced the signing of a binding Share Purchase Agreement (SPA) with SABIC, pursuant to which the Company will acquire a 100% shareholding in SABIC Agri-Nutrients Investment Company by the way of an increase in share capital and issuance of new shares to SABIC.

**37. SUBSEQUENT EVENTS**

In the opinion of management, there have been no significant subsequent events since the year ended December 31, 2019 that would have a material impact on the financial position of the Company as reflected in these financial statements.